

CHAPTER VI

PRICES

The average price level in 1958 was 2 to 3 per cent higher than in 1957, reflecting the weighted increase in the prices of available resources at their final domestic uses, i.e., private consumption, public consumption and investment. The rate of increase of prices was less steep during 1958 than in any year since 1950 (see Tables VI-1 and VI-2 and Diagram VI-1).

TABLE VI-1
*The Increase in the Prices of Resources Available to the Economy,
 According to their Final Use, 1956-1958
 (percentages)*

Component	Increase from 1956 to 1957	Weight ^a	Increase from 1957 to 1958	Weight ^a
Private consumption	9.0	60	2.5 ^b	61
Public consumption ^c	7.5	17	4.5	17
Investment ^d	6.0	23	1.5	22
<i>Weighted total</i>	<i>8.0</i>	<i>100</i>	<i>2.5</i>	<i>100</i>

Note: Figures have been rounded.

^a According to the share of each item in the use of resources during the relevant year.

^b The index is implied and is obtained by dividing nominal consumption indices by real consumption indices, as calculated in Chapter IV—"Consumption". A similar result is arrived at by weighting the rise in the prices of the various components of consumption on the basis of 1957 values. Data on prices were received from the Central Bureau of Statistics, the Ministry of Agriculture, the Ministry of Commerce and Industry and other sources. The consumer price index rose by 3.4 per cent.

^c The prices of public consumption commodities do not reflect the demand and supply for public services, as they are measured by the average change in Government wages.

^d Based mainly on the prices of structures, earth works, imported and locally manufactured equipment (including installation charges) and the prices of plantations and livestock.

1. FACTORS CAUSING CHANGES IN PRICES

The small rate of increase of prices in 1958 was the result of several factors, affecting demand as well as production costs.

During the year under review, the Government refrained from creating an

excessive demand at current prices, in contrast to previous years, though it obtained credit from the banking system and from suppliers to finance some of its outlays. Bank credit to the public was considerably expanded, but the money supply increased more slowly than in previous years.

TABLE VI-2
Various Indicators of Price Increases, 1950-1958

	Consumer price index		Index of building costs		Investment prices	
	average annual index	percentage increase over preceding year	average annual index	percentage increase over preceding year	average annual index	percentage increase over preceding year
1950	88	—	100.0 ^a	—	100.0	—
1951	97	10.2	125.1	25.1	136.1	36.1
1952	153	57.7	211.3	68.9	243.3	78.9
1953	196	28.1	275.8	30.5	327.6	34.6
1954	220	12.2	353.6	28.2	422.2	28.9
1955	233	5.9	393.4	11.2	464.7	10.1
1956	248	6.4	451.7	14.8	514.0	10.6
1957	264	6.5	474.2	4.9	546.6	6.3
1958	273	3.4	479.4	1.1	554.8	1.5

^a Index on 1st July, 1950=100.

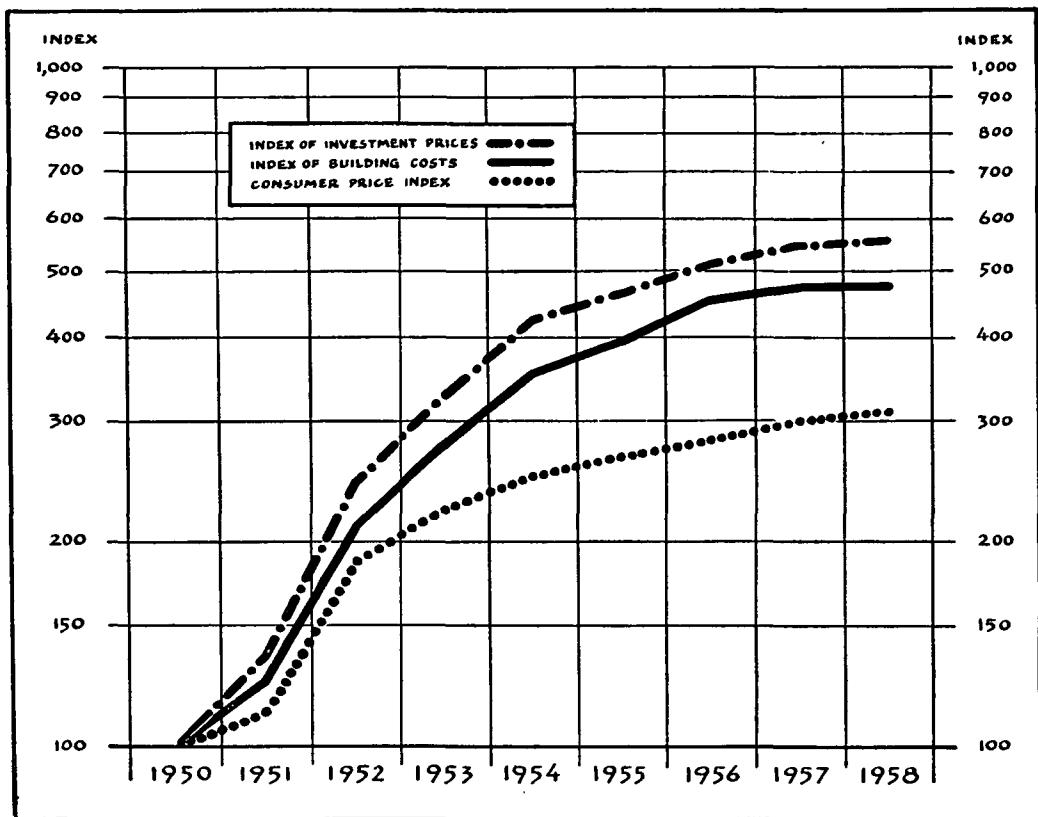
SOURCE: Central Bureau of Statistics and Bank of Israel.

The major factor preventing the rise of domestic prices—indeed exerting a downward pressure on them—was the considerable fall in import prices in 1958, in contrast to their consistent rise during previous years. This fall was partly reflected by the lower prices of raw materials for producers, also enabling the Government to increase its revenues from imposts and from larger collections of indirect taxes without this affecting the prices paid by local buyers. This factor likewise helped to reduce excess Government demand, at current prices.

Average nominal wages¹ rose by 6 per cent in 1958. However, this apparently did not contribute to the rise in prices during 1958, being probably largely offset by the bigger real output per worker and the longer average hours worked. It would thus seem that virtually no changes occurred in the wage component per unit of production.

¹ Wages must also be considered a factor affecting demand, as in previous years wage increases were accompanied by a monetary expansion, which enabled the maintenance of employment at its previous level.

DIAGRAM VI-1
Indicators of Prices Increases, 1950-1958
(indices)



An upward pressure was exerted on the prices of certain commodities (excluding liberalized commodities) by the higher rates of imposts on imports and other indirect taxes. It was, however, outweighed by the downward pressure exerted on prices by the substantial decline in import prices.

It would seem, therefore, that the inflationary trends generated by the expansion of credit to Government and public, as well as by the comparatively moderate wage increase, were largely offset by lower import prices and higher productivity. On the whole, there was no wide gap between the increase in the demand of the Government and the public in monetary terms and the increase in real output.

The 2 to 3 per cent rise in prices was more or less uniform, affecting consumer prices as well as capital goods.

The consumer price index rose by an annual average of 3.4 per cent. This

figure, however, probably exaggerates the increase, as the general rise in consumer prices was only 2-3 per cent. The discrepancy is due to the fact that the index which was in effect in 1958 is based on the "consumption basket" of 1951, in which the composition of certain categories of agricultural products was different from actual consumption in 1958 (see Table VI-3), as some of these agricultural products, whose prices have risen, were weighted too heavily in the consumer price index, whilst other commodities, whose prices have remained stable, were under-weighted in the index, as compared with actual consumption in 1957.

TABLE VI-3

*Changes in the Prices of Agricultural Products, 1957-1958
(according to the consumer price index)*
(percentages)*

	Price increase or decrease (-) from 1957 to 1958	Weight	
		in the consumer price index	in total 1957 consumption
Fruit and vegetables	8.9	47.3	38.8
Milk and dairy products	- 0.3	23.4	17.1
Poultry meat	-16.4	10.2	10.5
Eggs	- 5.3	11.7	12.7
Mutton and beef	0.7	1.5	16.1
Fish	0.4	5.9	4.8
<i>Total</i>	^b	100.0	100.0

* Weighted according to the Central Bureau of Statistics and consumption in 1957.

^b The average price of agricultural products, according to consumer price index weights, rose by 1.9 per cent; according to Bank of Israel weights, the increase amounted to only 1.1 per cent.

In view of the link between wages and the consumer price index, it may be that the over-estimation of the latter may have affected the wage level in 1958, when prices rose moderately.

2. PRIVATE CONSUMPTION PRICES

The prices of commodities for private consumption rose by 2.5 per cent. Though certain categories in the consumer price index were over-weighted, this index does reflect the price fluctuations of the various items, and will therefore serve as a basis for our analysis of consumer prices.¹

¹ The limitations of the consumer price index were discussed in the chapters on prices in the Bank of Israel Annual Reports for 1956 (p. 108) and 1957 (p. 64). With the introduction in 1959 of a new index based on the consumption expenditure of urban wage earners in 1956/57 (according to a survey covering this period) instead of in 1950/51, the measurement of price changes has become more accurate.

(a) *The effect of subsidies on the consumer price index*

In the first half of 1958, the consumer price index, here used as an indicator of consumer prices, developed on lines similar to those of the two preceding years, Government subsidies considerably affecting its level. Its steep decline from a peak of 276 points in May 1958 to 267 points in June was the result of subsidies granted on fruit and vegetables as part of a deliberate Government policy of stabilizing the index (see Table VI-4).

TABLE VI-4
The Consumer Price Index, 1956-1958
(September 1951=100)

Period	Index		
	fruit and vegetables only*	including fruit and vegetables	excluding fruit and vegetables
1956 average	267	248	246
Percentage increase or decrease (-) from 1956 to 1957	- 11.6	6.5	8.5
1957 average	236	264	267
Percentage increase from 1957 to 1958	8.5	3.4	3.0
1958 average	256	273	275
1957 December	204	263	270
1958 January	212	267	273
February	224	269	274
March	225	268	273
April	259	272	273
May	290	276	274
June	216	267	273
July	270	274	275
August	262	274	275
September	311	280	276
October	307	280	277
November	241	273	277
December	256	274	276

* Excluding potatoes.

SOURCE: Central Bureau of Statistics.

In the second half of the year, the index was less affected by direct Government subsidies, which were granted only in certain months—and mainly on fruit and vegetables. However, during this period the effect of the agreements concluded with agricultural producers concerning fruit, vegetables, poultry and dairy products was more marked. These agreements ensured larger supplies through Government support of the producer prices of these commodities (see Chapter IX—"Agriculture").

This new method, which replaced the system of temporarily granting subsidies on fruit and vegetables, was adopted in view of the ever increasing expenditure involved in the maintenance of such subsidies and the opposition they aroused among wage earners.¹

As no severe inflationary pressures existed during this period, the shift was not accompanied by any serious fluctuations in the index.

(b) *Changes in the components of the index*

With the abolition of temporary subsidies previously accorded in "determining months" for cost-of-living allowance purposes,² fruit and vegetable prices rose considerably in 1958 in comparison with the preceding year.

TABLE VI-5

*Average Annual Increase in the Items of the Consumer Price Index,
1955-1958*

	Percentage increase or decrease (-)			Increase or decrease in points			Weight of the item in the index
	1955 to 1956	1956 to 1957	1957 to 1958	1955 to 1956	1956 to 1957	1957 to 1958	
Foodstuffs	7.4	4.6	2.7	7.4	5.0	3.0	410
of which: Fruit and vegetables ^a	10.8	-11.5	8.3	2.4	-2.8	1.8	91
Other foodstuffs	6.2	10.4	1.2	5.0	7.8	1.2	319
Clothing and footwear	2.2	6.5	3.3	0.7	2.1	1.1	130
Furniture and household goods	2.3	4.1	2.8	0.3	0.6	0.3	73
Rent and electricity	4.1	10.2	3.8	0.7	1.7	0.7	76
Taxes ^b	13.4	7.5	4.1	1.8	1.1	0.7	65
Education and culture	9.0	8.8	7.3	0.9	1.0	0.9	40
Miscellaneous ^c	6.7	9.1	4.1	3.2	4.7	2.3	206
<i>All items</i>	6.4	6.5	3.4	15.0	16.0	9.0	1,000

^a Excluding potatoes.

^b Including municipal taxes, water rates and union dues.

^c Including medical care and medicines, house maintenance, various household items, personal services, entertainment, cigarettes, travel and gifts.

SOURCE: Central Bureau of Statistics.

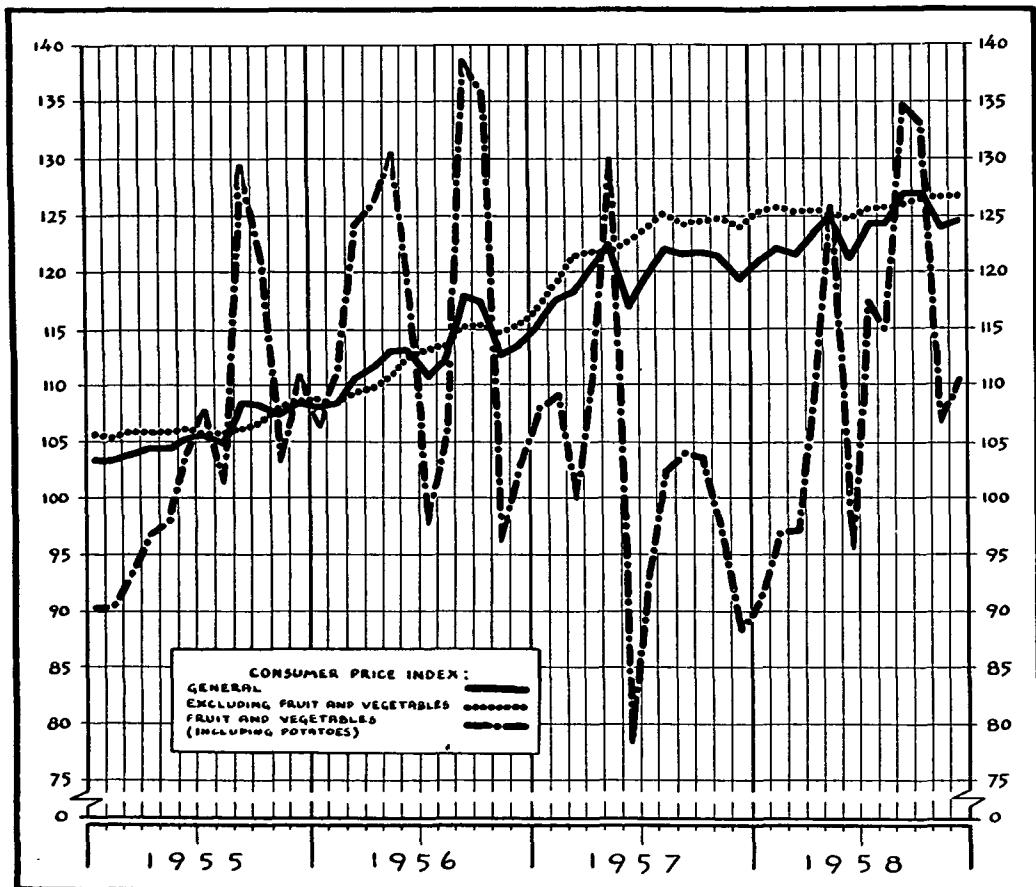
However, the increase appears to have been due to the fact that during the period when subsidies were granted, prices were considerably below the

¹ Subsidies were granted by the Government, mainly on fruit and vegetables, not because this was the cheapest way of preventing a rise in the consumer price index, but in view of the policy of lowering the prices of widely consumed commodities.

² See Chapter VII—"Wages".

equilibrium level.¹ In the second half of 1958, the average free market prices of fruit and vegetables were lower than in 1956—and probably than in 1957. Fruit and vegetables prices thus had a moderating effect on the general price level (see Diagram VI-2).

DIAGRAM VI-2
The Consumer Price Index, 1957-1958
(1954 average=100)



¹ The temporary subsidies granted in certain months of 1957 did not cause supplies actually to rise. Consequently, the price included in the consumer price index did not constitute an equilibrium price, the quantities available in shops at official prices being inadequate. Certain shops raised prices up to the equilibrium level, while others adhered to the official price and were unable to supply the resultant increased demand, having to ration the commodities concerned on the basis of "first come first served". The price included in the index reflected both prices.

As in 1957, the prices of foodstuffs, furniture and other household goods had a decelerating effect on the index, their average increase being smaller than that of the index as a whole. The rise in the prices of clothing and footwear equalled that of the index average, while the prices of other items rose more rapidly (see Table VI-6).

TABLE VI-6

Components of the Consumer Price Index, by Sources of Supply, 1955-1958

Source	Average annual percentage increase or decrease (-)			Weight
	from 1955 ^a to 1956	from 1956 ^a to 1957	from 1957 to 1958	
<i>Agricultural products</i>	6.1	- 0.3	1.9	157
Fruit and vegetables ^b	11.8	-12.1	8.9	97
Other agricultural products	-3.7	23.4	-8.2	60
<i>Industrial products</i>	5.4	7.2	2.9	449
Foodstuffs	8.4	8.4	2.5	234
Textiles	-0.1	6.5	3.9	92
Footwear	5.3	7.8	2.5	27
Other commodities	3.7	4.7	2.9	96
<i>Finished imported commodities</i>	4.6	11.4	5.6	41
of which: Foodstuffs	5.3	9.1	6.8	35
<i>Personal services</i>	8.3	9.4	3.8	184
<i>Items not elsewhere specified</i>	7.7	7.7	5.2	169
<i>All items</i>	6.4	6.5	3.4	1,000

^a Revised figures.

^b Including potatoes.

SOURCE: Bank of Israel (based on data of the Central Bureau of Statistics).

(c) *The components of the consumer price index, by sources of supply*

Table VI-6 illustrates developments in the prices of commodities and services, classified according to branches of production.¹

(a) *Foodstuffs.* The average prices of foodstuffs rose to the moderate extent of 2.6 per cent. Fruit and vegetable prices, as well as the prices of imported and locally processed foodstuffs, were higher, while the prices of other agricultural products declined. In 1957, prices of foodstuffs had risen by 5.3 per cent.

However, if the 1958 calculations are made on the basis of actual consump-

¹ This classification corresponds to that used in the 1957 Report (p. 67), except for a few figures which have been revised. As regards the structure of each item and the method of classification used in the text and in Table VI-6, see pp. 66 to 68 in the 1957 Annual Report and p. 69 of its Appendix (Hebrew edition).

tion in 1957¹ and not according to the index, the price rise would amount to only 1.2 per cent.

(b) *Textiles and Footwear.* The prices of textiles and footwear were 3.6 per cent higher in 1958, as against an increase of 6.8 per cent between 1956 and 1957. The higher prices of textiles were probably influenced by the raising of the effective rates of imposts on raw materials, and by the higher duties imposed on rayon yarn.

(c) *Other industrial products.* The prices of commodities included in this category rose by 3 per cent in 1958, after having risen by 4.7 per cent in 1957. The increase affected mainly glass and ceramics, metals and furniture, the prices of which rose by approximately 4.5 per cent.

(d) *Personal services.* The prices of personal services rose by 3.8 per cent, as against an increase of 9.4 per cent in 1957. The main items registering increases were: Meals in restaurants, education, private doctors' fees, laundries, sanatoriums, concert tickets and watch repairs, whose average price rose by 6.6 per cent.

(e) *Other goods and services.* Prices in this category (which includes items not elsewhere specified) rose by an average of 5.2 per cent, as compared with 7.7 per cent in 1957. The main increase—6 per cent—occurred in the prices of textbooks, rent, municipal taxes and union dues.

TABLE VI-7
Price Indices in the Transport Sector, by Branches, 1957-1958
(1956=100)

Branch	1957	1958	Percentage increase or decrease (-) from 1957 to 1958	Weight*
Inter-urban buses	105.3	105.3	—	58.0
Urban buses	116.9	117.4	0.4	30.0
Trains	108.2	114.7	6.0	4.5
Taxis	116.7	117.8	0.9	6.5
Aircraft ^b	95.5	93.0	-2.6	1.0
<i>Weighted index</i>	109.6	110.0	0.4	100.0

* Based on turnover percentage in 1957.

^b "Arkia" Airways only.

¹ This is only given to comparison in general terms, as the definitions of the various items are not always identical.

(f) *Inland passenger transport.* This item (which in the consumer price index refers only to fares on urban and inter-urban buses)¹ showed an increase of 0.4 per cent. If other forms of passenger transport be included,² the price rise will be found to be identical (see Table VI-7). The average annual price increase was due to the raising of passenger transport prices in the second half of 1957, except for railway fares, which were raised at the beginning of 1958. The stability of fares was the result of the subsidies granted by the Government to transport co-operatives, which in return undertook not to raise their fares, despite rising costs. In the fiscal year 1958/59, these subsidies totalled IL 4.2 million (as against IL 2.9 million in 1957/58). In 1957, transport prices had risen by 9.6 per cent.

3. DOMESTIC INVESTMENT PRICES

The rise in domestic investment prices is estimated at 1 to 2 per cent,³ as against 6 per cent in 1957.

Building prices. The index of building costs, which serves as an indicator of price changes in this branch, rose by approximately 1 per cent in 1958, as against a rise of 5 per cent in 1957.

The prices of building construction (excluding land⁴) are also affected by fluctuations in the costs of site development and in the profits of contractors, which are excluded from the index of building costs. No data are available with regard to these components and it has been assumed that their level has remained unchanged.

Prices of earth works. The cost of this item, which is mainly affected by changes in wages, is estimated to have risen by 3.5 per cent, as against a rise of 10 per cent in 1957.

Prices of imported equipment and machinery. These prices are based on the price indices of industrial commodities imported from West Germany, weighted according to import categories, and usually reflect the price level prevailing in Western Europe—Israel's major source of imports of such equipment.

Prices abroad are estimated to have risen by 2 per cent.⁵

¹ Included under (d) above—with a weight of 16 per cent.

² Buses, trains, taxis and "Arkia" Airways.

³ Based on the weighted estimate of the major components according to their value within total investments in 1957. These components include the cost of structures, the cost of earth works, c.i.f. prices of equipment purchased for foreign currency, the prices of locally manufactured machinery and equipment, installation charges and the costs of investments in plantations and livestock.

⁴ Only new assets placed at the disposal of the economy in 1958 have been measured.

⁵ The price indices of imported equipment, compiled by the Central Bureau of Statistics of West Germany, are weighted by the value of the various types of equipment imported by the Reparations Corporation in 1958.

Transportation prices, which represent some 5 per cent of the c.i.f. value of imported equipment, declined in the year under review by 10 per cent. As local harbour dues and transportation costs remained virtually unchanged, the changes in c.i.f. prices may be assumed to reflect the altered prices of imported equipment.

The weighted increase in the prices of this item is estimated at 1.5 per cent, as compared with 3 per cent in 1957.

Prices of locally manufactured machinery and equipment. These prices remained stable in 1958.

Prices of investments in plantations and livestock. The prices of investments in plantations rose by 4 per cent, as against a rise of 6.5 per cent in the preceding year. Prices of investments in livestock rose by 5.5 per cent, as in 1957.