

## CHAPTER VI

### PRICES

#### 1. MAIN DEVELOPMENTS

In several respects 1964 represented a continuation of the previous year. The consumer price index rose at the same rate in both years—5 percent per annum—and there was a further relatively rapid increase in prices free of Government controls (especially services) as compared with a large degree of stability in areas where price restraints were applied.

Nevertheless, some conspicuous changes took place during the year reviewed as compared with 1963. Demand pressure in the commodity and service markets was intensified, being reflected by a faster increase in the prices of services and the growth of the import surplus. There were cases of steep rises in industrial prices during the last months of 1964; these were not to such an extent as to alter the general picture, but nonetheless constituted a new phenomenon since the institution of the price control policy in 1962. On the other hand, the soaring of housing prices came to a halt at the end of 1963, the rise during 1964 being appreciably slower than in the previous year. Another development, outside the sphere of commodity and service prices, was the sharp turn in the real estate and share markets at the end of 1963 and the beginning of 1964. The end of the boom in these markets was accompanied by a marked contraction in the volume of transactions therein, which apparently contributed to the growth of pressure in the commodity and service markets.

Table VI-1

AVERAGE RISE IN THE PRICES OF FINAL DOMESTIC USES, 1960-64  
(percentages)

	1960	1961	1962	1963	1964	Weight in 1964
Private consumption	3	6	10	8	4	55
Public consumption	3	6	21	5.5	6	19
Investment	4	8	20	6	3.5	26
Total	3	7	14	7	4	100

SOURCE: Central Bureau of Statistics.

These developments were not fully reflected by the measurement of changes in the general level of consumption prices—the advance of the consumer price index was approximately the same in 1964 as in 1963. This was due partly to the fact that contrasting movements offset one another, and partly to the time-lag in measuring changes in housing prices (see Table VI-2).

The average price level of final goods and services from current production was 4 percent higher in 1964 than in the previous year. The increase in

**Table VI-2**  
**RISE IN CONSUMER PRICE INDEX, EXCL. FRUIT AND VEGETABLES**  
**AND AFTER ADJUSTING THE HOUSING ITEM, BY HALF YEARS,**  
**1962-64**

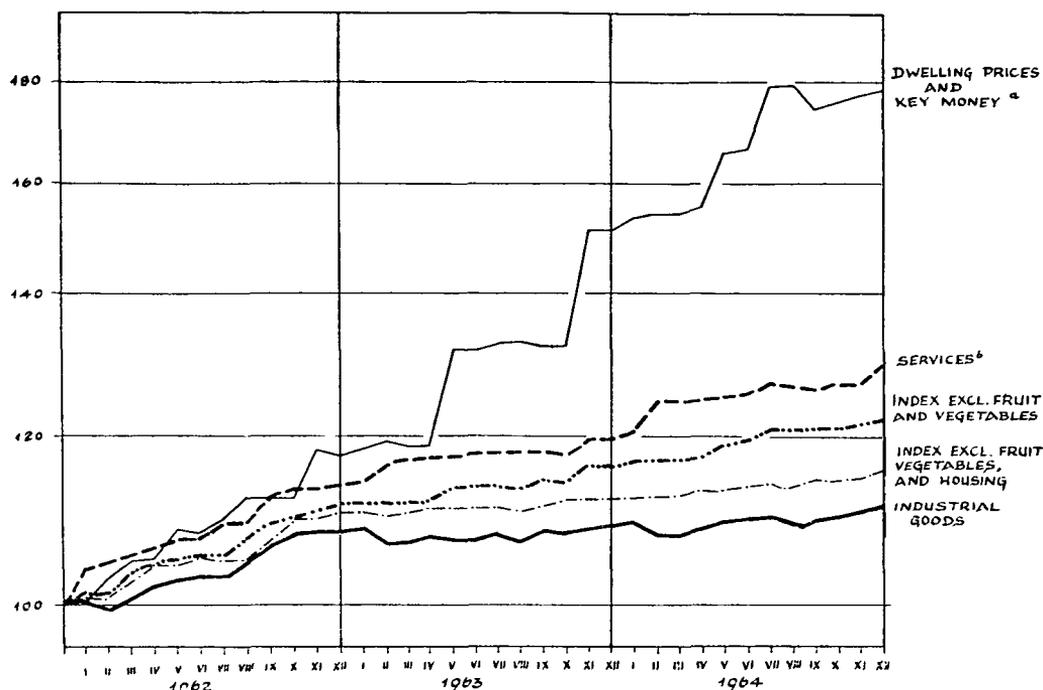
	Percent increase over end of previous period (annual growth rate <sup>a</sup> )					
	1962		1963		1964	
	I	II	I	II	I	II
Index, excl. fruit and vegetables ; and housing	9.2	10.9	0.8	1.2	2.8	3.4
Housing (dwelling prices and key money)						
(a) As ordinarily calcu- lated	17.7	20.8	26.8	30.2	18.2	13.8
(b) Adjusted for time-lag in measurement <sup>b</sup>	24.3	31.1	34.3	8.8	17.3	
Index, excl. fruit and vegetables but incl. housing						
(a) As ordinarily calcu- lated	10.3	11.7	3.8	5.5	5.1	4.9
(b) Adjusted for time-lag in measurement	11.3	13.2	5.5	2.8	4.9	

<sup>a</sup> The percentage increase that would be obtained if the rate for the half-year in question applied to the entire year.

<sup>b</sup> The direct measurement of changes in dwelling prices and key money is made on the strength of a survey of dwellings changing hands, conducted twice a year and covering the previous six-months period. The housing item in the index is adjusted in May and November in accordance with the results of this survey. For the period after the date to which the last direct measurement applies (the middle of the survey period), the housing item is adjusted according to the changes in the index of residential construction costs. The data cited here are derived from direct measurements. The results of the measurements have been attributed to the months in the middle of the survey period—i.e. to December for the survey of the months October–March, and to June for the April–September period.

SOURCE: Central Bureau of Statistics.

**Diagram VI-1**  
**RISE IN CONSUMER PRICE INDEX, BY ITEM, 1962-64**  
 (December 1961=100)



<sup>a</sup> See Table VI-2.

<sup>b</sup> Public and personal services (see Table VI-3).

private consumption prices averaged 4 percent;<sup>1</sup> that in public consumption prices came to 6 percent, primarily reflecting the higher wage rates paid by the public sector. The rise in investment prices was mainly due to the 5 percent increase in building costs, equipment prices edging up by 1 percent approximately.

The consumer price index, excluding fruit and vegetables, went up 5.1 percent during 1964, as against 4.6 percent the year before. The average level of the index, including fruit and vegetables, was 5.2 percent higher than in 1963, whereas in 1963 it stood 6.6 percent above the previous year's level.<sup>2</sup>

<sup>1</sup> This figure differs from the average rise in the consumer price index (see Table VI-3) for two reasons: first, differences between the populations referred to—the measurement here refers to total consumption, and the index to the urban wage-earning population only; and secondly, differences in weighting—the weighting here is according to the composition of consumption in 1964, while the index is based on the composition of expenditure among wage-earning families in 1959/60.

<sup>2</sup> If the retroactive adjustment made in the "fruit and vegetables" item in 1963 is taken into account, the rise in 1963 totalled 6.9 percent. See Bank of Israel Annual Report for 1963, note on p. 76.

(The average rise in the index, excluding fruit and vegetables, totalled 5.3 percent in 1964, as against 6.7 percent in 1963.)

The most striking manifestations of mounting demand pressure in the commodity and service markets were the accelerated rise in the prices of services and the big increase in the import surplus. The service items in the consumer price index (excluding transportation and communications) moved up 8.3 percent during the year, as compared with 5.0 percent in 1963 (see Table XV-3). However, even this rise did not fully reflect the intensified demand pressure: administrative price controls were extended to some services in

Table VI-3

RISE IN THE CONSUMER PRICE INDEX, BY ECONOMIC SECTOR, 1963-64  
(percentages)

Item	Weight in index in Jan. 1962	Increase or decrease (-)				Weight in rise in December levels	
		Annual averages (pro mille)		December levels		1963	1964
		1962-1963	1963-1964	1962-1963	1963-1964		
Industrial products	482.5	3.7	1.3	0.5	2.0	5.1	19.0
Agricultural products (excl. fruit and vegetables)	87.9	4.4	-0.3	-2.5	1.5	-5.1	2.7
Dwelling prices and key money <sup>a</sup>	101.0	20.1	26.5	27.9	16.0	71.9	46.0
Services	165.8	8.2	6.7	5.0	8.3	18.3	30.3
Personal	85.7	8.3	7.8	4.8	9.7	9.6	18.2
Public	53.6	7.7	5.0	5.4	7.2	5.4	8.3
Other housing services <sup>b</sup>	26.5	14.0	5.7	4.8	5.8	3.3	3.8
Transportation, communications, and posts	36.1	9.3	1.3	9.1	0.7	7.8	0.6
Electricity and water	20.7	5.9	—	0.2	—	0.0	—
Insurance and taxes	28.1	3.1	1.9	1.2	2.4	0.8	1.4
<b>Total index excl. fruit and vegetables</b>	<b>922.1</b>	<b>6.7</b>	<b>5.3</b>	<b>4.6</b>	<b>5.1</b>	<b>100.0</b>	<b>100.0</b>
Fruit and vegetables	79.4	10.5 <sup>c</sup>	3.1				
<b>General index</b>	<b>1,000.0</b>	<b>6.6<sup>c</sup></b>	<b>5.2</b>				

<sup>c</sup> See note 2, p. 96.

<sup>b</sup> Rent, painting and whitewashing, plumbing, electrical work, etc.

<sup>c</sup> See note 2, p. 96.

SOURCE: Central Bureau of Statistics.

1964, and not only were certain prices kept in line but in some cases they were even dampened by means of subsidies.

The acceleration of the upward price creep in the services market was most noticeable in items relatively free of Government intervention and seasonal fluctuations. For the most part, their prices rose much more rapidly in 1964, after having risen little or not at all for a period of about a year, extending over most of 1963 (see Diagram VI-4).

The area in which price increases were checked, both in 1963 and in 1964, was that of industrial products. It was on this front that the Government concentrated most of its efforts to keep prices steady by administrative means, and since the adoption of this policy in the latter part of 1962, a considerable measure of stability has been attained.

Nevertheless, here too a certain change was perceptible in 1964, prices not being fully restrained, as they were in 1963. Whereas in 1963 the wholesale price index of industrial production went up by only 0.3 percent, in 1964 it advanced 2.2 percent.<sup>1</sup> Moreover, most of this increase occurred during the last quarter of 1964—1.1 percent, or the same rate as for the first nine months taken together—and a number of prices climbed by as much as 10 percent or more. Such price advances have not been experienced since the introduction of the price stabilization policy. The uptrend carried over into the early months of 1965.

These price increases were due to pressure generated by both cost and demand factors. On the cost side, it arose from the cumulative effect of wage hikes over the last two years and the higher prices of services required by industry, and in some cases also to the higher prices of imported raw materials. The demand pull on prices apparently began to gather strength at the beginning of 1964. However, there appears to have been an additional factor in these increases—the diminishing efficacy of Government price curbs.

The relative importance of the factors driving prices up differed from branch to branch. In the metal industry and branches using its products, the higher prices of metals in the world market was the decisive factor. On the other hand, in the clothing, leather, and wood branches, which consist of a large number of small and medium-sized enterprises competing with one another, demand pressure was of greater importance. In mining and quarrying the steep rise is ascribable to a single company which dominates the branch. The Government's restraining action here was confined to a compromise which reduced the price increase from 20 to 15 percent.

Another striking change occurred in the housing market, where the advance

<sup>1</sup> The reference is to the old wholesale price indices of the Central Bureau of Statistics. These indices covered 18 major industrial branches, with the base period being January 1963, and were weighted according to the contribution of each branch to gross industrial output in 1962. (The new index was introduced only at the beginning of 1964.)

of dwelling prices and key money slowed down considerably, following several years of steep rises which reached a peak in 1963.<sup>1</sup> The turning point occurred in the latter part of 1963 and the beginning of 1964.

The boom in the housing market was largely an indirect result of the devaluation of 1962, and in certain respects can be ascribed to the same factors causing the boom in the share market. These developments partly reflected the influence of the big increase in the money supply and in the liquidity of the economy during the two years following the devaluation. The credit element is of special importance in the housing market, and the increased liquidity of the economy permitted a marked expansion of credit for home purchases.

A large proportion of personal restitution payments has been spent on housing, constituting an important source of demand pressure even during the predevaluation period. After the devaluation the inflow of restitution payments swelled still more, and there was a rise in the Israeli currency value of restitution receipts and of the foreign currency assets held by restitution recipients. This, together with the fact that a not inconsiderable part of these assets can be attributed to the deferment in utilization of restitution receipts because of devaluation expectations, led to a marked increase in housing demand after devaluation and sent prices soaring. Housing thus became an attractive substitute for foreign currency assets, which were now a less profitable investment; this situation was undoubtedly reflected by a growth in speculative demand for housing.

The end of the boom was probably due to a number of reasons. Some of the incremental demand for housing after devaluation on the part of restitution recipients was perforce of a nonrecurrent nature and eased up. Speculative demand was adversely affected by an amendment to the Land Betterment Tax Law. A further factor, which played a crucial part in the turn in the real estate market and indirectly had a bearing on the state of expectations in this market, was the raising of municipal taxes through property re-assessments. It should also be noted that demand was affected by the slower increase in the economy's liquidity during the second half of 1963, although it seems that the impact of this factor was limited in 1963, being felt mainly in 1964.

Side by side with these factors, there was a considerable expansion of construction due to the growth of demand in previous periods. Thus declining demand and expanding supply occurred together, ending the boom in the housing market.

The intensification of demand pressure in the commodity and service markets in 1964 did not occur in a period of rapid monetary expansion. However, the economy had just experienced a rapid growth of the money supply in 1963,

<sup>1</sup> During the half year ending March 1964 the dwelling and key money item, as directly measured, showed a rise of 4.3 percent compared with the six-months period ending September 1963, which in turn was 15.8 percent higher than in the previous period. See pp. 119 ff.

and the liquidity then generated was not fully reflected by increases in commodity and service prices. A factor at least partly explaining the lagged effect of monetary expansion on the demand for goods was the buoyant state of the real estate and share markets in 1963, which was accompanied by a big increase in the volume of such business—and thus also in the balances retained to finance transactions in these markets. The stagnation of the real estate market and the sharp contraction of activity in the share market<sup>1</sup> toward the end of 1963 and the beginning of 1964 apparently led to the withdrawal of most of the funds operating in these markets. Additional sums were withdrawn from existing shares to finance purchases of new share issues, which assumed very large proportions in the last quarter of 1963.<sup>2</sup>

The diminishing of activity in the share market (including trade in existing shares and oversubscription of new issues) coincided with the manifestations of increased demand pressure in the commodity and service markets. This strengthens the impression that the boom in the share market was one of the factors preventing the monetary expansion of 1963 from being more fully reflected that year in the commodity and service markets.

## 2. RELATIVE PRICES

### (a) *Industrial products*

In respect of industrial products, the main feature in 1964 was the continued application of the price restraining measures. Most of the Government's efforts to hold prices in line have been concentrated in this sphere ever since the end 1962, and during the year reviewed a considerable measure of stability was maintained despite the mounting pressure of demand, which found expression by forcing up the prices of services.

Nevertheless, industrial prices also advanced somewhat as compared with their virtually complete stability in 1963. The industrial products item in the consumer price index went up by 2.0 percent in 1964, as against a rise of 0.5 percent the year before. The increase occurred almost entirely in the second half of the year—1.8 percent as compared with less than 0.3 percent in January–June. The average level of industrial prices was 1.3 percent higher than in 1963.

The resumption of price rises was particularly noticeable in the clothing, furniture, and leather branches. On the other hand, in the food industry prices were kept more in check (except for meat products), rises being confined to a

<sup>1</sup> This applies especially to the oversubscription of new share issues, which was one of the major features of the equity market in the second half of 1963, and apparently accounted for a considerable proportion of the liquid balances operating therein. This phenomenon vanished completely at the beginning of 1964.

<sup>2</sup> Of total new share issues in 1963, 42 percent were floated in the last two months of the year; this was equivalent to 68 percent of the figure for all 1964.

Table VI-4

RISE IN INDUSTRIAL PRICES, ACCORDING TO CONSUMER PRICE INDEX,  
1963-64

Item	Weight in index in January 1962 (pro mille)	Percent annual increase in December levels	
		1963	1964
Foodstuffs	215.7	0.6	1.6
Meat	42.4	0.2	5.9
Milk	39.1	0.6	0.4
Others	134.2	0.7	0.7
Clothing and textiles	82.6	0.2	2.5
Furniture	23.7	0.6	2.4
Footwear and leather, rubber, and plastic goods	33.8	-0.2	3.9
Metal products, transport equipment, and electrical products	50.1	0.3	1.1
Chemical and petroleum products	32.3	0.0	0.2
Miscellaneous	20.2	2.3	2.9
Direct imports for final consumption	24.1	0.3	4.4
<b>Total</b>	<b>482.5</b>	<b>0.5</b>	<b>2.0</b>

SOURCE: Central Bureau of Statistics.

few items only. Meat prices were an exception, creeping up steadily throughout the year and all told by 6 percent. However, the underlying factors here were the same as those affecting agriculture, and should be discussed together with the latter.

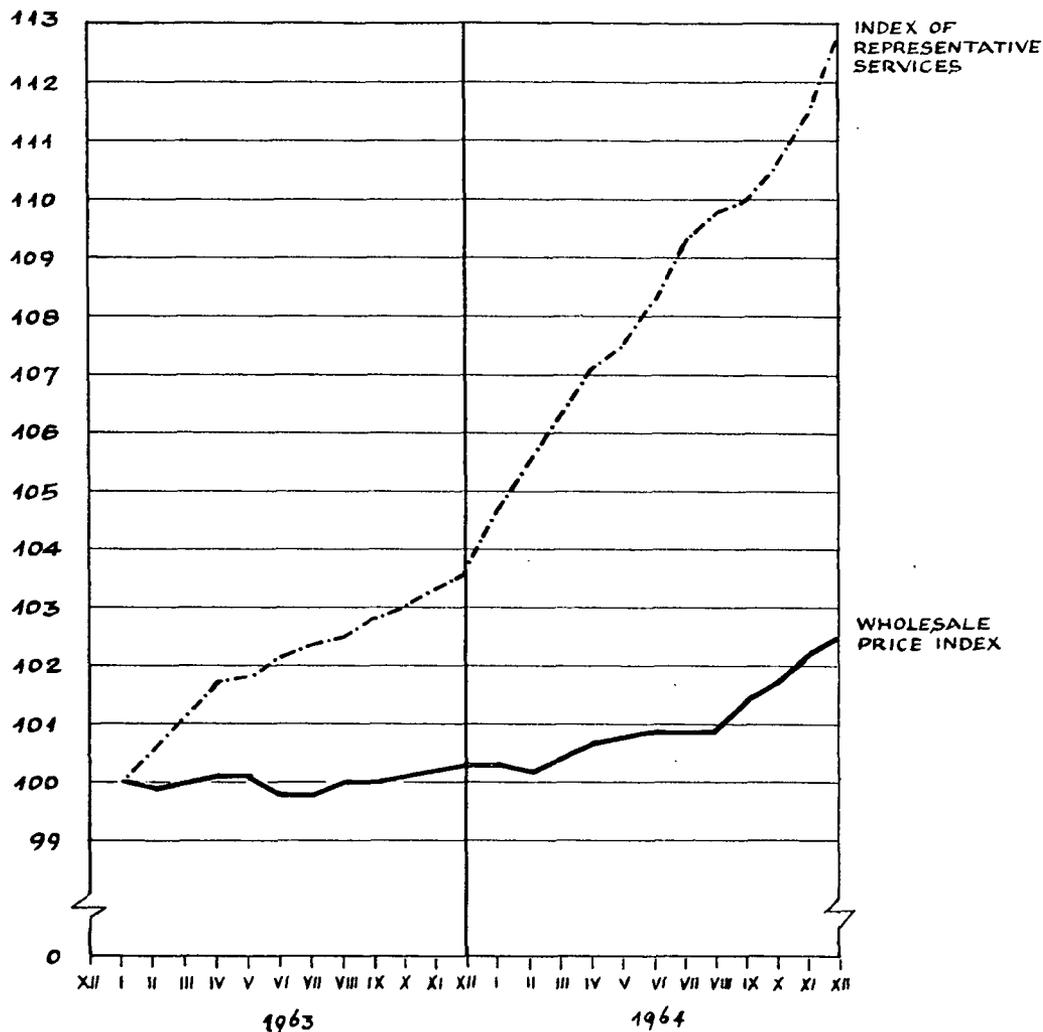
The higher prices of imports for direct consumption mainly reflect the raising of taxes on frozen fillet fish and passenger cars. These tax increases were exceptions to the general pattern of the year, for customs duties were drastically cut on imported consumption items (see Table VI-5) in order to hold down their cost to the Israeli consumer following a rise in their foreign price. As to passenger cars, their weight in the index is relatively small as compared with their weight in total private consumption; accordingly, the decision to raise the tax was influenced to a lesser degree by price stabilization considerations.

Industrial price developments are reflected even more clearly by the wholesale price index of industrial production.<sup>1</sup> For the most part prices were kept

<sup>1</sup> Theoretically, the index of wholesale prices has a shortcoming: it contains an element of double-counting, since it includes, besides final products, intermediate goods, and thus reflects some increases which do not form part of the general price level as conventionally defined. However, this index is far more detailed than the industrial products items in the consumer price index, and during a period when the determinant factor is a policy attempting to ensure price stability in all stages of production, it provides a sharper picture of price trends.

Diagram VI-2

RISE IN WHOLESALE PRICE INDEX<sup>a</sup> AND INDEX OF "REPRESENTATIVE" SERVICE PRICES,<sup>b</sup> 1963-64



<sup>a</sup> See note <sup>1</sup> below.

<sup>b</sup> See note on p. 113.

in line in 1964, but not to the same extent as in the preceding year. The indices for the various branches of industry<sup>1</sup> point to a 2.2 percent advance in 1964, as compared with 0.3 percent in 1963.<sup>2</sup> The rise occurred chiefly in

<sup>1</sup> The Central Bureau of Statistics' indices for the 18 main industrial branches (excluding the printing and diamond industries), weighted according to the contribution of each branch to total gross output in 1962. (The 2.0 percent rise in 1964 according to the CBS is based on the weights of the branches in total gross output in 1961.)

<sup>2</sup> From January to December 1963.

the latter part of the year. Between January 1963 and September 1964 prices went up by only 1.4 percent, while during the last three months of 1964 the increase totalled 1.1 percent. The acceleration of the upward trend carried over into the early months of 1965.

The new index of wholesale prices, introduced in January 1964, shows a similar picture. Between January 1964 and January 1965 it went up 2.3 percent. If we exclude a number of items which strictly speaking are not industrial products or are subject to seasonal price fluctuations,<sup>1</sup> the rise totalled 0.6 percent between January and July 1964, and 1.5 percent between July 1964 and January 1965.

The fact that most industrial items are protected against competing imports and industry is highly dependent on the authorities in numerous other ways endows the Government with an effective means of exerting pressure. To this should be added the structure of many industrial branches, where big enterprises, cartels, and branch marketing organizations predominate.

The price control policy and the efforts to keep the index down so as to prevent further increases in the cost-of-living allowance, which could easily wipe out the slight improvement in the profitability of export after devaluation,<sup>2</sup> have also led to the extensive resort to subsidies and the reduction of customs duties in order to prevent price increases in the Israeli market due to a rise in import prices or to other factors. In some cases subsidies have even been granted in order to dampen prices. The value of subsidies on goods and services totalled IL 225 million in 1964, as compared with IL 180 million in 1963 and IL 115 million in 1962.

During the last two years prices of various foodstuffs rose appreciably in the world markets, but their prices to the Israeli consumer remained unchanged. This was achieved by drastic cuts in import duties, which sometimes amounted to tens of percentage points (see Table VI-5). Commodities imported directly by the Government were sold at their former prices, despite their higher c.i.f. cost. When cuts in import duties did not suffice to offset the higher import prices, deficits arose in the Government accounts, and these were included with other subsidies.

In the final months of 1964, as already mentioned, industrial prices exhibited a certain change in trend, the slight acceleration in the average growth rate reflecting more than a few big increases. It is still too early to determine whether these are exceptional cases or the beginning of a general upward movement. At any rate, this was the first such manifestation since the institution of administrative price controls in 1962.

This development was apparently caused by a number of factors, the im-

<sup>1</sup> Among the items excluded are meat and meat products, poultry, outerwear, sewing and tailoring, and shoe repair. The total weight of the items excluded is 9.3 percent.

<sup>2</sup> See Bank of Israel Annual Report for 1962, p. 32.

Table VI-5

## IMPORTS AND CUSTOMS REVENUE, SELECTED FOODSTUFFS, 1962-64

	Imports (\$ million)			Customs (IL million)			Index of average duty per dollar of imports (1962=100)	
	1962	1963	1964	1962	1963	1964	1963	1964
Sugar	3.4	12.1	14.3	15.8	8.4	6.0	14.9	9.0
Frozen meat	4.0	6.4	12.2	13.6	16.1	17.8	73.9	42.9
Coffee	2.3	3.1	4.0	16.7	18.6	19.6	84.6	67.5
Rice	2.2	2.2	2.6	3.0	1.7	1.0	56.7	28.3
<b>Total</b>	<b>11.9</b>	<b>23.8</b>	<b>33.1</b>	<b>49.1</b>	<b>44.8</b>	<b>44.4</b>	<b>45.6</b>	<b>32.5</b>

SOURCE: Central Bureau of Statistics.

portance of which varied from case to case. There was pressure on both the cost and demand side. On the cost side, industry felt the cumulative effect of the wage increases of the past two years,<sup>1</sup> as well as the rise in the prices of various requisite services. These pressures were reinforced in certain instances by big increases in the prices of imported raw materials (especially of various metals). At the same time, demand pressure began to mount at the beginning of 1964. Clear signs of this were perceptible in the services market and in the trade balance, but it seems that many industrial commodities were also strongly affected. Some of the price increases can be attributed to the existence of cartel arrangements.

All these factors, however, explain only part of the rise in the price level. The remainder was apparently due to the reduced effectiveness of the price restraints, and perhaps also to a growing disinclination to apply them.

Developments in 1964 underline the fact that administrative measures are insufficient to ensure an improvement in the trade balance, so long as demand is not reduced at the same time through monetary curbs. A rise in demand is free to express itself in the services market, and it also leads to the expansion of imports and the absorption of resources which otherwise might be channelled to export. It is also obvious that demand pressure affects the labor market, despite the price restraints, and that keeping the index steady cannot prevent wage increases from detrimentally influencing exports from the cost aspect, while production for the local market, which is anyway more profitable, is less vulnerable. On the other hand, the application of price controls tends to create distortions both in prices and in the structure of domestic investment, increasing the profitability of services and construction at the expense of industry. It is against this background that the weakening of the price restraining measures should be viewed.

<sup>1</sup> See Chapter XII, "Industry".

Table VI-6  
**CHANGES IN WHOLESALE PRICES, ACCORDING TO WHOLESALE  
PRICE INDICES OF INDUSTRIAL PRODUCTION, 1963-64**

Branch <sup>a</sup>	Old indices <sup>b</sup>		New index <sup>b</sup>
	Dec. 1962 to Dec. 1963	Dec. 1963 to Dec. 1964	Jan. 1964 to Jan. 1965
Mining and quarrying	-1.3	8.5	8.4
Transport equipment	0.0	4.3	7.1 <sup>c</sup>
Metal products	0.3	4.5	5.6 <sup>c</sup>
Wood and furniture <sup>a</sup>	1.5	6.3	3.5
Electrical equipment	-0.4	2.8	3.4
Paper	-0.4	2.7	3.1
Basic metals	-0.4	3.1	2.9
Leather	0.1	2.9	2.8
Clothing	-0.2	2.0	2.5
Nonmetallic minerals	1.0	1.1	1.6
Textiles	-1.3	1.0	1.4 <sup>c</sup>
Machinery	0.4	1.1	1.1
Food	1.1	1.0	0.9
Chemicals	-0.1	-0.1	} 0.5 <sup>c</sup>
Oil refining	0.0	0.1	
Rubber goods <sup>a</sup>	-0.9	-0.3	
Plastic goods	-2.1	-1.0	} -1.5
Miscellaneous	-0.3	1.2	
<b>Total</b>	<b>0.3</b>	<b>2.2</b>	<b>2.3</b>

<sup>a</sup> Besides differences in the weighting of subsidiary branches and product groups within each branch due to the changed composition of output, the new index differs from the old also in its classification, and this explains the disparities in the rates of increase between the two. The most striking change was in the wood and furniture branch: in the new index it includes metal furniture, which previously was not included in any of the branches, as well as upholstery and mattresses, part of which was formerly included in the rubber branch and part in none of the branches. Prices of these items rose more slowly than those of other wood products, which explains the smaller increase according to the new index.

<sup>b</sup> Until publication of the new index at the beginning of 1965, the Central Bureau of Statistics published separate indices for 18 industrial branches. These indices were constructed gradually between 1959 and 1964, the classification being based in most cases on the Standard International Trade Classification. Weighting was based on the structure of output in each branch at the time when the index was prepared. The overall rise according to the old indices, which is the one cited here, was based on a set of weights calculated by the Bank of Israel according to the relative share of each branch in gross output in 1962. In the new index the division into main branches is based on the CBS Standard Classification of Economic Sectors. The classification of subsidiary branches and product groups follows that of the CBS, which is based on the SITC. The weights of the main branches have been calculated according to their share of industrial output in 1963, those of subsidiary branches according to the composition of output in 1962, and those of individual products according to the composition of output in 1961. For a description of the index and the methods of its construction, see *Israel Statistical Monthly*, Part II, "Prices", February 1965, p. 157.

<sup>c</sup> This item showed a steep rise in January 1965.

SOURCE: Central Bureau of Statistics.

Most of the authorized price increases were in the metal and metal-using industries, and are attributable to the steep advance in the prices of various metals in the international market, which pushed up costs in the basic metal, metal product, and machinery and electrical equipment industries. The price increases were not uniform, in some cases being quite substantial.

In the clothing, leather, and wood industries the rises averaged 2.5 to 3.5 percent. Here increases were more uniform; they began to be felt at the beginning of 1964 and accelerated rapidly in the last quarter of the year. The decisive factors were apparently demand pressure and the weakening of administrative controls. These branches are inherently less responsive to a price control policy, since they generally consist of a very large number of small and medium-sized enterprises.

Prices moved up rapidly in the mining and quarrying branch, those of quarry products going up by an average of 11.3 percent between January 1964 and January 1965. This can be ascribed to one company which dominates the branch. Government pressure resulted in the moderation of the increase. This rise was reflected in nonmetallic minerals as well. In one item, building sand, demand was augmented following the ban on the quarrying of sea sand. But the price increases embraced all products—gravel, lime, stone, and other materials.

Two branches registering price declines were rubber and plastics. The plastics industry has been undergoing rapid expansion in recent years owing to technological improvements and the introduction of new products. The new items are generally put on the market at a relatively high price, but the subsequent rapid increase in supply forces it down. At the same time, however, there were price rises in 1964 in the traditional products, mainly those for household use. In the rubber industry, competition from plastics was the factor depressing prices.

Price stability was almost fully maintained in the food and most of the textile industry (except for tricot goods), which together account for over one-third of total industrial output. In textiles the stability was apparently due to the existence of considerable excess capacity. The food industry displayed only a few price increases.<sup>1</sup> Controls on food prices were apparently tighter from the outset, perhaps owing to the relatively big weight of this industry in the consumer price index. On the other hand, in view of the large variety of items produced, there seem to be more possibilities in this industry of covertly raising prices by reducing quality, suspending the production of cheap brands, and switching to new products which from the start are put on the market at higher prices. Administrative curbs, as now applied, are ineffective against such expedients. The numerous opportunities of circumventing controls by means of disguised price rises may be one of the reasons for the stability of the index in this branch.

<sup>1</sup> The average increase in food prices was largely due to the rise in the price of meat, but this item should really be considered together with agricultural products.

Disguised price increases are a by-product of suppressed inflation—when prices are restrained by administrative means while demand pressure continues to mount and purchasing power is not reduced through monetary and fiscal policy measures. This trend has been reinforced by pressure generated by wage rises, the growth of excess demand in the commodity market being reflected by increased demand in the labor market (where full employment already exists). Various indicators suggest the existence of such disguised price rises, but it is impossible to estimate their scope. Their prevention would of course necessitate the establishment of a special quality control apparatus.

Covert price increases are most common in products for final consumption. They occur less frequently in the case of intermediate and investment goods, since these tend to be more standardized, and also because the producer finds it easier to raise his prices by such indirect methods when dealing with consumers than with another producer who requires his goods.

Table VI-7

**DISTRIBUTION OF INDUSTRIAL SUBBRANCHES,<sup>a</sup> BY RATE OF PRICE RISE AND WEIGHT IN WHOLESALE PRICE INDEX, JANUARY 1954 TO JANUARY 1965<sup>b</sup>**

Percent rise in prices	Weight in wholesale price index	Weight in rise of index
10+	7.0	36.9
5-10	8.0	22.0
3-5	15.0	29.1
2-3	10.0	12.2
1-2	5.5	3.6
0-1	15.4	3.5
No change	20.4	—
Fall in prices <sup>c</sup>	18.7	-7.2
	100.0	100.0

<sup>a</sup> Excluded from the index are several subsidiary branches which strictly speaking do not belong to the industrial sector (tailoring, sewing, and shoe repair) or are subject to seasonal fluctuations (poultry meat, meat products, canned fruit and vegetables, outerwear), as well as one branch (paper manufacture) where the price change was only an apparent one (a subsidy to the producer was replaced by an equally large one to the consumers). The weight of the branches excluded from the index came to 9.3 percent.

<sup>b</sup> A distribution based not on groups of products but on individual products would of course reveal a sharper picture, since the price increase in a product group represents an average of bigger and smaller increases.

<sup>c</sup> The steepest decline was 2.2 percent.

SOURCE: Central Bureau of Statistics.

A conspicuous feature of the industrial price increases of 1964 was that they were not spread over a large number of items, each moving up at a rate close to the average, but were confined to a limited number of branches which showed fairly steep advances (see Table VI-7).

The polarization of price increases because of the administrative curbs is liable to constitute a source of pressure on the general price level. A policy of partial restraints creates distortions in the price structure, and at a time when many prices are rigid as far as downward movements are concerned, the correction of such distortions usually involves a rise in the general price level, for the rise in prices on which curbs were previously imposed will not be accompanied by a compensatory decline in other prices.

### (b) *Agricultural products*

In those types of farming where arrangements providing for production quotas and subsidy payments were in force (such as milk and egg production), prices remained firm in 1964.

In vegetable farming there are production quotas and minimum price guarantees, but supplies are subject to sharp fluctuations and the market price is largely determined by the activities of marketing bodies, which are allowed considerable freedom in withdrawing surpluses under the minimum price arrangements. The average rise in vegetable prices in 1964 came to 10 percent, and was accompanied by an increase in the volume of surpluses.

In fruit farming the problem of surplus supplies is relatively new, and marketing arrangements guaranteeing minimum prices only cover varieties grown for some time in the country. A considerable expansion of supplies, partly reflecting the larger area planted in past years because of the profitability of such farming, depressed prices by an average of 5 percent.

#### 1. *Fruit and vegetables*

The fruit and vegetables item in the consumer price index<sup>1</sup> showed an average rise of 3 percent in 1964. Prices of vegetables moved up by 10 percent, while fruit prices fell off by 5 percent.

From the aspect of price movements during the year, the most prominent feature was the sharp division between the five winter and spring months (January to May), when fruit and vegetable prices were some 15 to 20 percent higher than in 1963, and the summer and autumn months, when most prices slipped 5-10 percent (see Diagram VI-3).

<sup>1</sup> The measurement of this item is based on a variable monthly basket. In this respect it differs from measurements of other index items, which are based on a constant basket. Comparisons between corresponding months in different years, or between annual averages, thus reflect changes in the index as ordinarily defined, whereas comparisons between different months of the year do not have this simple meaning.

The advance in prices during the winter and spring months was mainly due to the 30 percent jump in vegetable prices as compared with 1963 (see Table VI-8). Fruit prices rose slightly (except in April), reflecting the higher prices of citrus fixed by the Citrus Marketing Board. The increase in April stemmed from the higher prices of bananas following a sharp contraction of supplies because of weather conditions.

Table VI-8  
CHANGES IN FRUIT AND VEGETABLE PRICES, 1964  
(percentages)

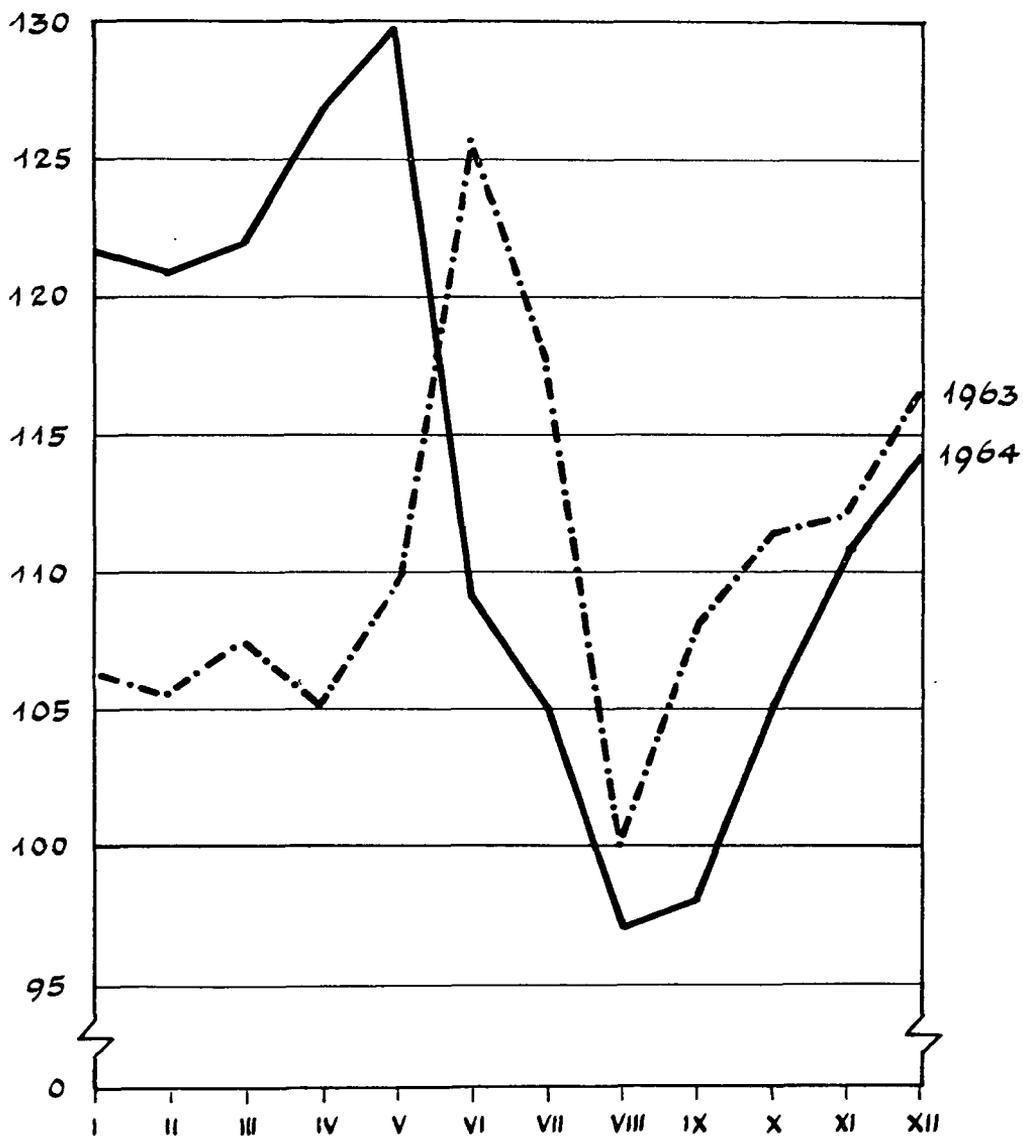
	Increase or decrease (-) as against corresponding month of 1963			
	Fresh vegetables	Fresh fruit	Others <sup>a</sup>	Total
January	30.3	4.3	10.0	14.5
February	33.9	1.9	11.4	14.5
March	29.3	2.6	10.1	13.6
April	27.1	16.2	10.5	19.7
May	29.6	4.9	7.1	18.6
June	8.7	-34.0	6.2	-13.3
July	-8.6	-13.2	5.5	-10.4
August	-4.9	-3.4	6.1	-2.9
September	-2.8	-15.7	5.8	-9.6
October	-5.4	-8.6	6.2	-5.7
November	-4.1	-0.2	5.2	-1.1
December	-15.5	7.2	6.7	-2.1
Annual average	10.0	-5.1	7.3	2.9
Average weight in fruit and vegetables item	36.8	51.6	11.6	100.0

<sup>a</sup> Canned fruit and vegetables, dry beans, groundnuts, etc.  
SOURCE: Central Bureau of Statistics.

Vegetable crops were smaller than in the winter of 1963 owing to the heavy rains, while the potato crop was damaged by spring rains and pests. However, the decline in yields was chiefly reflected by the smaller quantities marketed for consumption, the volume of surpluses withdrawn from the market decreasing only slightly. In certain cases the surplus was even larger despite a smaller crop and an appreciable rise in price (see Table VI-9).

Most of principal vegetables are marketed under agreements providing for acreage quotas and guaranteeing minimum prices to the producer, especially during months of plentiful supplies. These agreements determine the minimum prices paid by the Vegetable Marketing Board for surpluses. The Board, which is composed of representatives of the Government, producers, and marketing organizations, is also responsible for their implementation. The vegetable

Diagram VI-3  
**INDEX OF FRUIT AND VEGETABLE PRICES, 1963-64**  
 (average 1961=100)



agreement, which is signed by the Government and the Vegetable Marketing Board for a period of one year, does not lay down explicit rules for defining surpluses or methods of dealing with them. Thus the Board enjoys considerable freedom of action in this matter. Producers and marketing organizations carry

**Table VI-9**  
**MARKETING, SURPLUSES, AND PRICES OF TOMATOES, 1963-64**  
(tons)

Period	Total marketed	Surplus	Marketed for consumption	Price index <sup>a</sup> (comparisons between corresponding periods)
January				
1963	4,667	177	4,490	100
1964	2,724	62	2,662	174
February				
1963	3,867	445	3,422	100
1964	3,488	629	2,859	162
March				
1963	3,738	158	3,580	100
1964	3,937	1,253	2,684	149
April				
1963	5,502	1,104	4,398	b
1964	481	—	481	
May				
1963	5,760	684	5,076	100
1964	3,848	56	3,792	174
<hr/>				
Total, January to May (excl. April)				
1963	18,032	1,464	16,568	100
1964	13,997	2,000	11,997	164
Total, June to December				
1963	51,399	9,939	41,460	100
1964	72,722	28,414	44,308	93
<hr/>				
Grand total (excl. April)				
1963	69,431	11,403	58,028	100
1964	86,719	30,414	56,305	121 <sup>c</sup>

Percent increase or decrease (-) in 1964 as against 1963

January-May (excl. April)	-22.4	36.6	-27.6
June-December	41.5	185.9	6.9
Total	24.9	166.7	-3.0

<sup>a</sup> According to the consumer price index.

<sup>b</sup> Because of the big decrease in the quantity marketed, this item was excluded from the index in April 1964.

<sup>c</sup> According to the average of the Laspeyres and Paasche indices based on the quantities marketed in 1963 and 1964, the increase averaged 15 percent.

SOURCE: Central Bureau of Statistics.

much weight in the management of the Board's affairs, while Government supervision over its current operations appears to be very loose.

The marketing of vegetables is for the most part concentrated in a small number of organizations, among which Tnuva enjoys a dominant position.<sup>1</sup> This structure gives the major marketing organization an interest in manipulating the quantity marketed in order to maximize its returns. The tendency to withdraw "surpluses" so as to raise the market price is much stronger when the price of such "surpluses" is guaranteed. The marketing structure and the way in which the Vegetable Marketing Board operates—its purchases of "surpluses" apparently are not subject to strict limitations as regards the state of supply and the prices prevailing in the market—have caused the withdrawal of surpluses even at times when the market price far exceeded the guaranteed minimum.

The decline in prices during the summer and autumn was due to a fall of several percent in prices of vegetables as compared with the corresponding months of 1963, and a steep drop in those of deciduous fruit.

Vegetable supplies expanded considerably owing to weather conditions and perhaps also to the high prices fetched during the winter months. But there was a still greater increase in the surpluses withdrawn from the market, with the result that the quantities actually marketed showed a smaller growth.

Deciduous fruit yields expanded by as much as 50 percent or more. As already indicated, this was due to two factors: favorable weather conditions and the

**Table VI-10**  
**MARKETING, SURPLUSES, AND PRICES OF GRAPES AND DECIDUOUS**  
**FRUIT, SUMMER AND AUTUMN, 1963-64**  
(tons)

	Year	Total marketed	Surplus	Marketed for consumption	Price index <sup>a</sup>
Table grapes	1963	23,839	5,300	18,539	100
	1964	32,877	18,000	14,877	81
Plums	1963	5,404	165	5,239	100
	1964	12,441	4,502	7,930	54
Peaches	1963	4,229	333	3,896	100
	1964	8,272	1,163	7,109	79

<sup>a</sup> Average of monthly indices, with the weighting based on the monthly weights in the index.  
SOURCE: Central Bureau of Statistics; Ministry of Agriculture.

<sup>1</sup> The relative importance of the various marketing organizations differs from product to product and from period to period; in certain items, or at certain periods, marketing organizations other than Tnuva may wield considerable influence.

extension of the fruit-bearing area, following intensive planting in previous years when demand for such fruit rose.

Apart from apples, which can be stored, quantities were regulated by the withdrawal of surpluses from the market. There seems to have been a shift in demand from fruit grown in the country for some years (like grapes and plums) to newer varieties. The increased supply of plums was accompanied by a steep decline in their prices, while prices of table grapes edged down together with a drop in supply (see Table VI-10).

## 2. *Beef*

Prices of fresh beef rose in 1964 by an average of 3.5 percent as compared with 1963. The upward movement was steady throughout the year, the price in December being 6 percent higher than in the corresponding month of 1963.

The increase occurred simultaneously with an expansion of supplies of fresh and frozen meat. This item has a high income elasticity of demand, so that the growth of demand was more rapid than that of supply. The marketing of beef cattle is organized under a minimum price guarantee arrangement.

## 3. *Poultry meat*

Prices of poultry meat averaged 0.5 percent less than in 1963. The supply of this item is subject to seasonal fluctuations, and marketing is regulated by the Poultry Board—mainly by freezing and storing surpluses, which are offered for sale at the end of the summer.

## (c) *Services*

Demand pressure in the services market intensified in 1964. Prices not controlled administratively and measured in terms of their market level increased at a much more rapid rate than in 1963. This acceleration, which for some items was quite striking, occurred mainly at the beginning of 1964: it followed a period of nearly a year—extending over most of 1963, the limits varying from case to case—in which the rise had been considerably slower (see Diagrams VI-4 and VI-5).<sup>1</sup>

In 1964 the employment of subsidies and administrative curbs was extended to services, and in certain instances this led to the restraining or even dampening

<sup>1</sup> The index of representative services in Diagram VI-5 is a weighted index of the nine service groups presented in Diagram VI-4. It includes all personal and public service items which are virtually free of administrative controls and institutional influences (unlike Sick Fund services and secondary and higher education, for example), are not subject to seasonal fluctuations (in contrast to hotels and other guest accommodation, for example) or sudden jumps (unlike kindergarten fees, which are normally raised in September), and are measured according to their market level and not an official wage tariff (unlike the household help item, for instance). The weight of these services in the personal and public services item in the index is 36 percent. The index employed here is intended to reflect as accurately as possible the general trend in service prices, and not necessarily the exact change in their level.

of prices. The outstanding example was the subsidy granted to the bus companies; this prevented a further rise in bus fares, which had been upped by 10 percent or more in each of the four preceding years. Subsidies were also granted to factory canteens, forcing their prices down to some degree. As regards cinema tickets, the Government's efforts were more fruitful than in 1963, there being only a slight rise during the year reviewed, in contrast to a steep one the year before.

In services relatively free of Government intervention and institutional influences—personal, public, business, and housing services—prices went up to the considerable extent of 8.3 percent, compared with 5.0 percent in 1963 (see Table VI-3).

The most prominent rise occurred in personal services—9.7 percent as against 4.8 percent in 1963. The prices of almost all components of this item began to advance at a faster rate at the beginning of 1964, but here too the price restraint policy made itself felt in two cases—subsidized canteen meals and cinema tickets.

Prices of public services went up by 7.2 percent in 1964, compared with 5.4 percent in 1963. Institutional factors carry considerable weight in the various component elements. Sick Fund services, for instance, constitute 40 percent of the total, and here prices are largely governed by the level of Histadrut dues, a considerable part of which is earmarked for the General Sick Fund. There was

**Table VI-11**  
**RISE IN PRICES OF MAIN SERVICE GROUPS IN CONSUMER PRICE INDEX,**  
**1961-64**

	Weight in index in January 1962 (pro mille)	Percent annual rise in December levels			
		1961	1962	1963	1964
Personal services	85.7	10.5	12.6	4.8	9.7
Health services	31.4	5.0	18.0	4.3	6.1
Educational services	20.2	9.5	12.1	7.3	9.3
Transportation, com., posts	36.1	10.5	12.0	9.2	0.7
Housing services (excl. . dwelling prices and key money) <sup>a</sup>	23.5	10.0	21.9	4.8	5.8
Insurance and taxes	28.1	11.5	8.9	1.2	2.4
Electricity and water	20.7	1.7	9.0	0.2	0.0
Other public services	2.0	—	—	—	—

<sup>a</sup> See note to Table VI-3.

SOURCE: Central Bureau of Statistics.

Table VI-12

## RISE IN PRICES OF VARIOUS SERVICES, ACCORDING TO CONSUMER PRICE INDEX, 1962-64

	Weight in 1962 (pro mille)	Percent annual rise in December levels		
		1962	1963	1964
<b>Personal services</b>				
Meals away from home				
At work and at school	3.9	12.3	1.8	-0.4
In restaurants and cafes	9.3	12.9	4.8	6.4
Refreshments in kiosks	5.4	8.0	2.8	4.8
Total	18.6	11.4	3.6	4.6
Domestic help	15.1	17.6	4.8	21.1
Sewing and tailoring	4.7	6.2 <sup>a</sup>	9.0	7.6
Drycleaning and laundry	4.8	11.0 <sup>a</sup>	6.7	9.2
Shoe repair	4.9	8.2 <sup>a</sup>	2.1	3.7
Cinema	14.5	10.9	13.3	2.1
Theater, concerts, etc.	5.4	19.9	4.5	18.7
Convalescent and holiday leave	7.3	7.7	0.0	7.5
Haircutting and beauty parlors	5.3	8.7	5.1	7.9
<b>Educational services</b>				
Kindergarten	3.9	13.2	11.2	8.1
Secondary and vocational education <sup>b</sup>	9.1	14.1	-0.7	10.6
Higher education	2.6	7.9	8.6	5.0
Private lessons, advanced courses, etc.	4.6	9.8	20.8	10.8
<b>Health services</b>				
Sick Fund services	21.3	21.3	3.4	3.6
Private doctors	4.5	11.2	5.7	10.4
Dental treatment	5.6	13.2	6.3	11.6
<b>Transportation</b>				
Bus				
Urban	12.5	14.2	10.9	—
Interurban	12.3	13.8	10.8	—
Taxi				
Urban	2.3	13.2	5.5	7.6
Interurban	2.3	7.8	10.7	—
<b>Housing services</b>				
Painting and whitewashing	5.8	22.2	11.0	10.7
Plumbing		17.0 <sup>a</sup>	0.5	7.7
Electrical work	} 7.4	2.9 <sup>a</sup>	2.3	14.6
Glazing		24.0 <sup>a</sup>	2.7	1.6

<sup>a</sup> December 1962 as compared with January 1962.

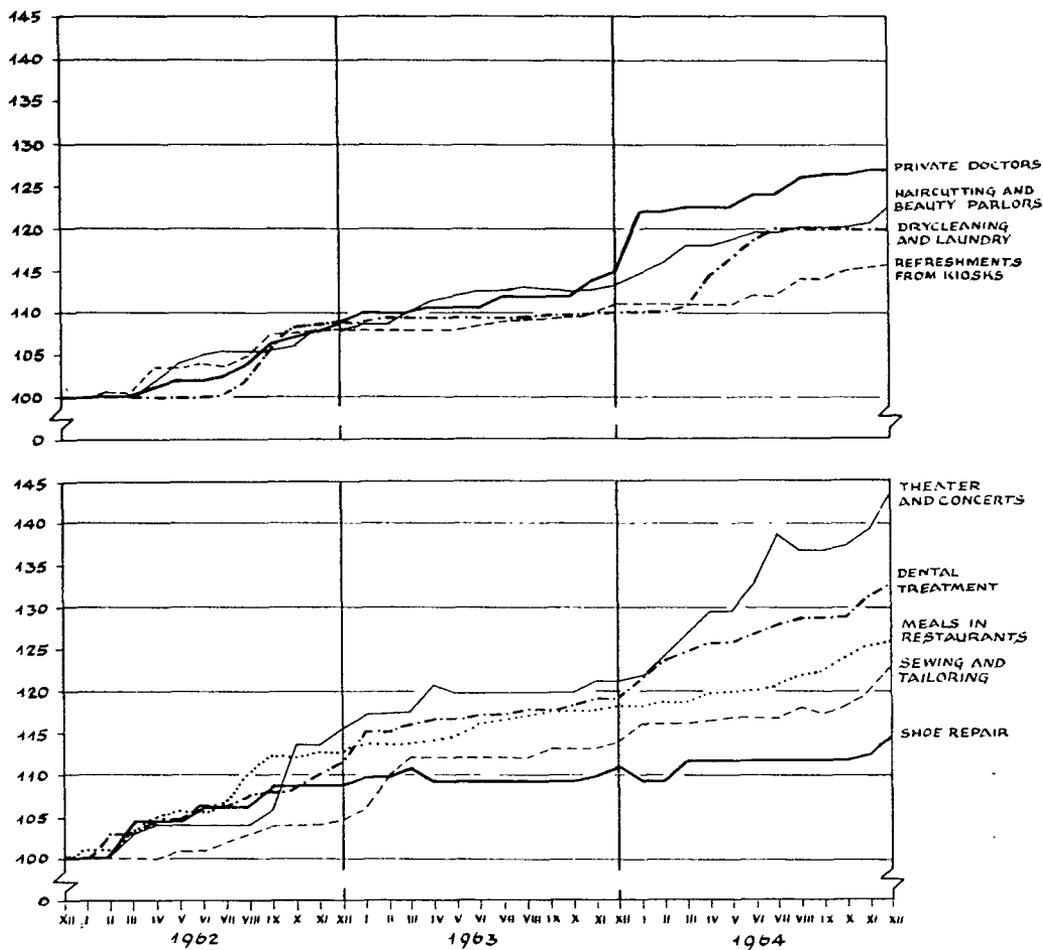
<sup>b</sup> The measurement of this item is affected by many retroactive changes in both school fees and reductions in fees in the various types of schools. Because of these changes, the index gives a distorted picture of price developments.

SOURCE: Central Bureau of Statistics.

Diagrām VI-4

RISE IN VARIOUS SERVICE PRICES ACCORDING TO CONSUMER PRICE INDEX,  
1962-64

(January 1962=100)



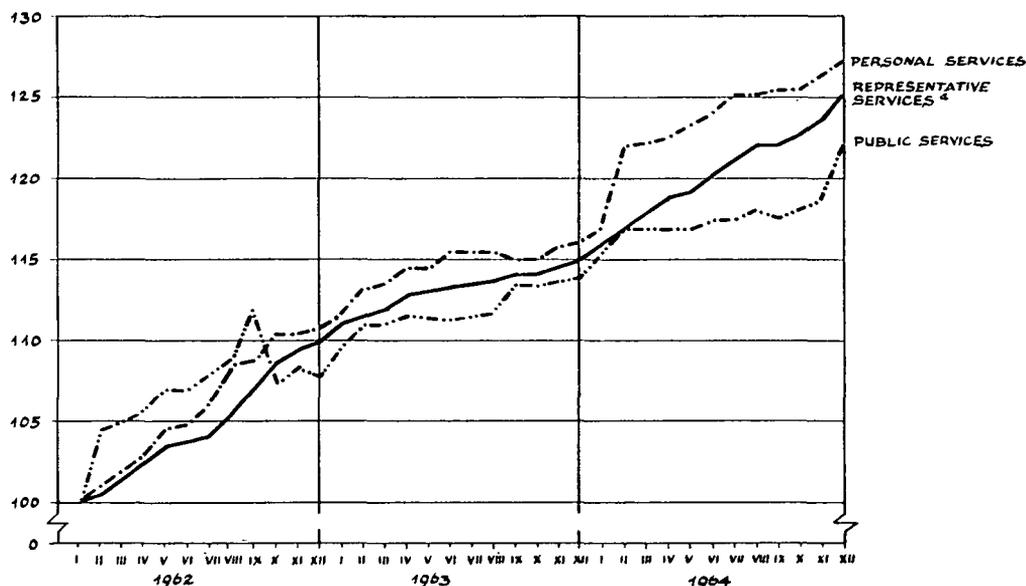
also a considerable increase in the cost of private medical care. The level of fees for secondary and higher education is influenced to a great extent by the reductions granted. Prices here did not rise any faster in 1964, but they had already gone up steeply the year before.

In transportation, communications, and postal services, prices rose by only 0.7 percent in 1964, as contrasted with 9.1 percent in 1963.

Bus fares are fixed by the Tariff Authority of the Ministry of Transport and Communications, while rates for interurban taxis are regulated by the Controller of Road Transport. In both cases decisions are based on estimates of the companies' costs. Increases in bus fares were authorized for all the companies in

Diagram VI-5

**RISE IN PRICES OF PERSONAL AND PUBLIC SERVICES AND GROUP OF REPRESENTATIVE SERVICES, ACCORDING TO C-O-L INDEX, 1962-64**  
(January 1962=100)



<sup>a</sup> See note on p. 113.

Table VI-13

**RISE IN BUS AND TAXI FARES, ACCORDING TO CONSUMER PRICE INDEX, 1960-64**

(End of period)

Year	Bus fares		Interurban taxi fares <sup>a</sup>		Urban taxi fares <sup>a</sup>	
	Index (January 1959 = 100)	Percent increase or decrease (-)	Index (January 1959 = 100)	Percent increase or decrease (-)	Index (January 1959 = 100)	Percent increase or decrease (-)
1959	100.0	—	100.0	—	99.7	-0.3
1960	114.6	14.6	103.1	3.1	99.7	—
1961	128.5	12.1	109.7	6.4	104.6	4.9
1962	146.5	14.0	118.3	7.8	118.4	13.2
1963	162.5	10.9	130.9	10.7	125.0	5.6
1964	162.5	—	130.9	—	134.5	7.6

<sup>a</sup> The weight of special taxi journeys in this item is presumably very small, and the changes in the index mainly reflect changes in fares for group travel.

SOURCE: Central Bureau of Statistics.

1964, but their implementation was delayed, the companies receiving subsidies instead.<sup>1</sup>

Until 1964 there was no control over urban taxi fares, which were competitively determined. During the year reviewed an attempt was made to impose controls.

Developments in transportation prices have been characterized in recent years by a big differential in the growth rates for bus and taxi fares (see Table VI-13). Until the end of 1963 bus fares rose more than twice as fast as taxi fares—in fact, at a faster rate than almost all other prices in the economy and twice as fast as the consumer price index as a whole.

It is difficult to determine what caused this marked disparity, but the differences in the index of transportation prices as between buses and taxis, as well as between urban and interurban taxis, presumably reflect *inter alia* two facts: (a) competition between sellers is normally a more effective way of determining prices than fare commissions;<sup>2</sup> and (b) strong pressure on the part of a large body is an effective weapon in conducting negotiations with fare commissions.

Prices of services are characterized by a far more rapid upward movement than commodity prices (see Table IV-14 and Diagram VI-7). The rise in the relative price of services is a long-term trend typical of all developed economies. It can be attributed to the state of supply in the various service sectors, where increases in productivity are not to be found to the same extent as in industry. In Israel, as in other countries with a similar level of development, there is

Table VI-14

RISE IN PRICES OF PERSONAL SERVICES RELATIVE  
TO INDUSTRIAL PRICES, 1960-64

Year (last quarter)	Index of service prices relative to industrial prices	Percent increase in relative price of services over previous period
1959	100.0	—
1960	103.5	3.5
1961	106.5	2.9
1962	111.1	4.3
1963	115.8	4.3
1964	124.5	7.6

SOURCE: Central Bureau of Statistics.

<sup>1</sup> In January 1965 bus fares were raised by 17 percent, and fares on interurban taxis by 9 percent. Urban taxi fares went up 8 percent.

<sup>2</sup> From the viewpoint of the economy.

also a factor on the demand side—the growing weight of services in total consumption as real incomes go up.

The relative price of services rose very rapidly in 1964 as compared with that of industrial goods. This no doubt reflected the price restraint policy, which was applied mainly to industrial products. But this differential application of price restraints was not peculiar to 1964. It existed in the same degree in 1963 (in fact it may have been even more noticeable then, for in 1964 price curbs were extended to services), but the rise in the relative price of services in 1963 was not conspicuously greater than in previous years. This would seem to confirm the assumption that there was no significant increase in demand pressure in 1963, despite the big monetary expansion of that year, so that the application of controls on industrial goods could not produce a marked change in relative price trends. In contrast, the mounting of demand pressure in 1964—which was free to express itself only in the services market, since prices of industrial commodities were controlled—forced up the relative price of services at an accelerated rate.

#### (d) *Housing*

Prices of dwellings and key money rose much more slowly in 1964 than in the two preceding years. According to the last direct measurement for the consumer price index,<sup>1</sup> this item was some 13 percent higher in the period April–September 1964 than during the same months of 1963, while the corresponding increase in 1963 over 1962 was 32.7 percent. In dwelling prices only, the rise was 14.9 and 30.1 percent respectively, and in key money—8.3 and 37.8 percent.

Housing prices exhibited a distinct change in trend at the end of 1963 and the beginning of 1964. During the six months October 1963–March 1964 they advanced by 4.3 percent as compared with the previous six months, when the rise had totalled 15.8 percent (see Table VI–15).

In the course of 1964 prices began to climb a little faster than at the beginning of the year.<sup>2</sup> The direct measurement of prices during the period April–September

<sup>1</sup> See note to Table VI–2.

<sup>2</sup> Insofar as there is no statistical deficiency here. These measurements sometimes show big changes after being revised in accordance with later surveys, which supply complementary data for earlier periods. The following example shows adjustments made after the publication of the index.

Period	Rise in dwelling prices		Rise in key money	
	Original estimate	Revised estimate	Original estimate	Revised estimate
April–September 1963	13.1	16.3	17.4	14.9
October 1963–May 1964	9.6	6.0	1.2	0.3

Table VI-15  
RISE IN DWELLING PRICES AND KEY MONEY, ACCORDING TO SURVEY  
OF HOUSING PRICES,<sup>a</sup> 1959-64

Period	Dwelling prices		Key money		Total	
	Index	Percent increase over preceding period	Index	Percent increase over preceding period	Index	Percent increase over preceding period
Oct. 1958-March 1959	100.0	—	100.0	—	100.0	—
April-September 1959	102.0	2.0	101.2	1.2	101.7	1.7
Oct. 1959-March 1960	105.0	2.9	102.9	1.7	104.1	2.4
April-September 1960	110.9	5.6	103.4	0.5	107.8	3.6
Oct. 1960-March 1961	117.2	5.7	102.9	-0.5	111.3	3.3
April-September 1961	126.8	8.2	117.9	14.6	123.1	10.6
Oct. 1961-March 1962	141.9	11.9	131.2	11.3	137.5	11.7
April-September 1962	155.8	9.8	152.1	15.9	153.3 <sup>b</sup>	11.5 <sup>b</sup>
Oct. 1962-March 1963	174.3	11.9	182.4	19.9	175.6	14.5
April-September 1963	202.7 <sup>c</sup>	16.3 <sup>c</sup>	209.6 <sup>c</sup>	14.9 <sup>c</sup>	203.5	15.9
Oct. 1963-March 1964	214.9 <sup>c</sup>	6.0 <sup>c</sup>	210.2 <sup>c</sup>	0.3 <sup>c</sup>	212.2	4.3
April-September 1964	233.0	8.4	227.0	8.0	229.8	8.3

<sup>a</sup> See note <sup>b</sup> to Table VI-2.

<sup>b</sup> In January 1962 the weighting was altered, and the index of total housing prices was calculated as from that date on the strength of the new weights, which were chained to the old index.

<sup>c</sup> Revised figures.

1964 indicates a rise of 8.3 percent as compared with the preceding six months, reflecting primarily the more rapid increase in key money.<sup>1</sup>

The turn in the housing market in the latter part of 1963 and the beginning of 1964 apparently did not find full expression in the survey results, for the following reasons:

1. The measurement of housing prices very likely has an upward bias. The measurement is based on a classification of housing according to several criteria (primarily the number of rooms and geographical location), and it seems that these are not sufficiently sensitive to changes in quality. Some of the changes in housing expenditure which actually reflect changes in quality are under this method defined as changes in price. Consequently, when the average quality of housing rises, an upward bias is introduced into the index.

2. The measurement is not based on the date on which the transaction was completed, but on the date on which the buyer occupies the dwelling. In the case of sales by contractors and building companies, there is a considerable time gap between these two dates. Thus the measurement includes dwellings

<sup>1</sup> The rise in key money during this period totalled 8.0 percent, as compared with 0.3 percent during the preceding six months. The rise in dwelling prices was 8.4 and 6.0 percent respectively.

whose price reflects the state of the market in an earlier period, while transactions concluded during the period of the measurement in respect of housing under construction are disregarded. The relative share of homes contracted for in an earlier period may be fairly high in a period of market stagnation, when the volume of current transactions is falling.

3. The time-lag between the actual completion of the transaction and the date attributed to it by the measurement is significant in one other respect. In the case of sales by contractors or housing companies, contracts normally include an index-linkage clause. The prices of these dwellings thus include an increment which does not reflect the market price and may push up the price of the dwelling at a time when market values are falling.<sup>1</sup>

Two other factors should be mentioned in this connection. First, the weakening of the housing market was partly reflected, not by changes in the price trend, but by the accumulation of a stock of completed dwellings by contractors. Secondly, as regards units built by the Ministry of Housing (whose weight in the index is big relative to their weight in total residential construction), changes in price do not reflect market conditions; these prices have actually risen more steeply of late than those of other types of housing. They were generally below the market prices of similar housing, and this resulted in a surplus demand for Ministry of Housing dwellings and the creation of a long waiting list. Under such conditions, price increases are not reflected by cutbacks in the volume of construction.

The turn in the housing market toward the end of 1963 and early 1964 seems to have been caused by a combination of factors on both the supply and demand side.<sup>2</sup>

Some of the additional demand for housing after the devaluation was of a nonrecurrent nature. Its origin can be traced to those foreign currency assets whose utilization was deferred because of devaluation expectations; the increased demand due to this factor was perforce temporary, and was inevitably followed by a decline.

The speculative demand for housing—which arose because of the reduced profitability of holding liquid assets after the devaluation and the soaring of housing prices, which began even before the devaluation but was accentuated by mounting demand—was hit by the amendment to the Land Betterment Tax Law.

The end of the speculative boom in the real estate market led to a change in the state of expectations in the housing market as well. The turn of trend

<sup>1</sup> This factor is particularly important in the case of new homes put up by the Ministry of Housing. The data show that during the six months between October 1963 and March 1964 prices of such dwellings averaged much higher than those of other homes. The latter showed only a slight rise, and it must be remembered that among them were some whose sales contract included an index-link clause.

<sup>2</sup> See also the section "Main Developments".

in the real estate market was apparently due to the much higher property assessments, which increased the tax payable to the municipalities and local authorities. This development was, at least in part, an outgrowth of the Government's stabilization policy, since local governments, forbidden to raise their tax rates, found a convenient substitute by reassessing property values.

A further factor dampening demand was the reduced liquidity of the economy. Credit plays a more important part in the housing market than in others, and the diminished possibility of obtaining credit was accompanied by a decline in demand. However, it seems that the impact of this factor was not yet fully felt in the second half of 1963, becoming more pronounced in 1964.

Concurrently with the easing of demand, the volume of construction was expanded because of the growth of demand in previous periods. The combination of these two factors put an end to the two-year boom in the housing market.

In respect of supply, there was still another factor at work. The price of land, while it does not represent a cost from the standpoint of the economy, nevertheless constitutes part of the price of the housing unit. A decline in land prices because of a change in trend in this market is reflected by a fall in dwelling prices. It is difficult to ascertain to what extent this factor found expression during the period reviewed.

#### (c) *Investment prices*

The level of domestic investment prices was 3.5 percent higher on the average than in 1963 (see Table VI-16). This mainly reflected the higher prices of new construction, those of equipment showing only a slight increase.

Investment prices exhibited a similar trend in both years, the differences in the average annual rates of increase reflecting the rapid upward price movement which occurred in 1962. Since the end of 1962 equipment prices have advanced only moderately, reflecting the stabilization of the effective exchange rate for imported equipment on the one hand, and the price restraint policy, which has kept down the price of local equipment, on the other.

In contrast, prices of construction inputs continued to rise, mainly because of wage increases. The measurement here is not of the value of new construction put in place, but of the prices of purchased inputs (wages and materials), and the two do not always exhibit a similar trend.<sup>1</sup>

The rise in transport equipment prices was mainly due to the higher taxes levied on passenger cars at the end of 1963.

As in 1963, the rise in prices of capital goods from agriculture exceeded that in other investment items. This is attributable to the considerable weight of wages in such investment (orchards, land reclamation, irrigation, etc.).

<sup>1</sup> See Bank of Israel Annual Report for 1963, p. 90.

Table VI-16  
**CHANGES IN DOMESTIC INVESTMENT PRICES, 1962-64**  
 (percentages)

	1962	1963	1964	Weight in 1964 (pro mille)
Construction	14	6	5	570
Equipment (excl. vehicles)	35	7	1	269
Local production	10	5	1	88
Imported	50	8	1	182
Vehicles	17	3	2	68
Ships and aircraft	66	—	—	68
Capital goods from agriculture	10	7	6	25
Total	20	6	3.5	1,000

SOURCE: Central Bureau of Statistics.

(g) *Public consumption prices*

Public consumption prices averaged 6 percent higher than in 1963. The services provided by the public sector, which constitute public consumption, are not sold and therefore have no market price. The estimate of price changes here is an assessment of the rise in the prices of inputs purchased for the provision of these services. The main factor pushing up prices was the 12 percent average increase in wages paid to public sector employees.