CHAPTER XIII

CONSTRUCTION AND HOUSING

1. Main Developments

CONSTRUCTION ACTIVITY in 1965 showed a change in trend as compared with the past few years. After a rapid and steady rise in the value of building and other construction work as of 1961, the growth rate slowed down appreciably in 1965 —a mere 1 percent compared with an average of some 14 percent in the four preceding years (see Table XIII–3). However, an increase in several major inputs —gainful employment, cement, iron, and quarry products—suggests a somewhat higher rise in the level of output between 1964 and 1965 than that reflected by the investment data.[1]

Investment in building and other construction[2] in 1965 went up by 6 percent at current prices, and totalled IL 1,693 million. This was divided almost equally between residential and nonresidential construction.

The value of residential construction put in place amounted to IL 853 million at current prices. At constant prices, this represented a rise of about 3 percent, reflecting a real increase of some 4 percent in private residential construction and no change in the volume of public residential construction as compared with 1964.

Total construction for the productive and service sectors held steady in real terms, although there were considerable changes in individual sectors. For the second year running, expenditure on irrigation and agricultural construction fell off, and for the first time in several years there was also a decline in industrial construction. On the other hand, the figure for transportation and communications and for the public services sector continued upward (see Table XIII–3).

The data on construction starts (see Tables XIII–4 and XIII–5) reveal a sharper change, there being an absolute decline in 1965. Although the annual level of construction activity (in real terms) was similar in 1964 and 1965, the trend in each of these two years was in an opposite direction. 1964 was a year of expansion, the rate of new construction gathering momentum in the course of the year. It reached a peak in the first quarter of 1965 and then

[1] Output of the construction sector includes, in addition to the investment estimates (value of construction put in place), defense construction and maintenance and repair work. However, owing to the lack of data on the latter activities, they have been excluded from this survey.

[2] E.g. roads, ports, water and electric power lines, etc.

started receding. This development is only partially reflected in the data on new construction put in place owing to the duration of the production process in this sector; thus most of the work on buildings begun in 1964 was performed in 1965.

To some extent the curtailment of activity discernible in 1965 may be regarded as a passing phase, part of the fluctuations typical of a sector where the production process is long; and this because the decrease in construction starts measured in 1965 is calculated on the basis of 1964, a year in which the volume of starts was quite large. Expectations of increased immigration, the influence of changes in the land betterment tax and in municipal taxation on vacant plots, and advance knowledge of the building regulation order caused a spurt in building starts in 1964, which exceeded the demand and resulted in a stock of vacant dwellings. In view of this, it is reasonable to find a compensating decline in the volume of starts in 1965. At the same time, one also discerns in 1965 the contractionary influence of other factors which may persist for a longer period—a sharp decline in anticipated immigration and the subsiding of demand for construction for the productive and service sectors—agriculture, water projects, and industry—after the completion of several big projects. The amendment of the Land Betterment Tax Law toward the end of 1963 and the reduction of personal restitution receipts from Germany in 1965 restrained demand for housing after an accelerated growth in 1961–63.

An increased supply of dwellings, whose construction was begun when the boom was still at its height, led to a recession in the market. Prices firmed and then began to dip, leading to the further slackening of demand; instead of potential buyers advancing their purchases for fear of a rapid price rise—a widespread phenomenon in 1962 and 1963—expectations were now engendered of a drop in prices, inducing the postponement of purchases.

The rapid growth of construction activity up to the second quarter of 1965 and the subsequent turnabout should be viewed against the background of the steady expansion of the sector's productive capacity in the last few years. Since 1960 there has been a rapid increase in expenditure on production facilities, including the building materials industry and prefabricated construction. Such investments continued in the early part of 1965, and those in the prefabricated construction enterprises are still going on. A considerable part of the investments (particularly in quarries and in prefabricated construction firms) matured only in the year under review, and the slackening of activity in the latter part of the year led to unemployment, both overt and covert, of the expanded production facilities. The large inventory of vacant buildings at the end of 1965 aggravated the problem.

These fluctuations in construction activity have undesirable effects—reduced factor utilization during periods of slump, and a sharp rise in input prices and again underutilization of capacity owing to bottlenecks during periods of buoyant activity.

Table XIII-1

VALUE OF NEW CONSTRUCTION, BY TYPE, 1964-65[a]

(IL million)

	1964	1965		Percent increase or decrease (–)	
	At 1965 prices	At 1964 prices	At current prices	At 1964 prices	At current prices
Housing					
Private	468	489	513	4	10
Public	322	323	340	—	6
Total	790	812	853	3	8
Productive and service sectors					
Agriculture[b]	33	25	26	–24	–21
Irrigation	73	50	52	–32	–29
Industry	123	106	111	–14	–10
Mining and quarrying	48	29	30	–40	–37
Electric power	32	35	37	10	16
Transportation and communications	161	182	193	13	20
Commercial premises, hotels, etc.	68	74	78	9	15
Public institutions and services	270	298	313	10	16
Thereof:					
Buildings	*229*	*249*	*262*	*9*	*14*
Other construction work	*41*	*49*	*51*	*20*	*24*
Total, productive and service sectors	808	799	840	–1	4
Grand total	1,598	1,611	1,693	1	6
Thereof:					
Buildings	1,243	1,272	1,336	2	7
Other construction work	355	339	357	–5	1

[a] For 1964 revised data; for 1965 preliminary estimate.
[b] Excluding work that does not come under the category of construction, such as afforestation, land reclamation, etc.
SOURCE: Central Bureau of Statistics.

The administrative order regulating building, promulgated in January 1965, and the protracted discussions which preceded it, led to an upsurge in construction starts in the latter part of 1964 and the beginning of 1965. This aggravated the downturn in activity toward the end of 1965 and the beginning of 1966, which was accompanied by a certain amount of idle productive capacity. In this connection it should be recalled that the construction sector is

Table XIII-2

VALUE OF NEW CONSTRUCTION, BY TYPE, 1955–65

(IL million, at 1963 prices)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Housing											
Private	240	216	211	230	266	282	325	365	407	445	465
Public	170	140	225	199	211	184	241	342	275	306	308
Total	410	356	436	429	477	466	566	707	682	751	773
Productive and service sectors											
Agriculture[a] and irrigation	124	104	92	101	103	114	113	139	144	102	72
Industry	17	23	23	52	69	67	83	83	88	116	100
Mining and quarrying	21	12	10	6	11	11	14	33	47	45	27
Electric power	29	37	23	20	27	24	23	27	27	30	33
Transportation and communications	30	25	65	43	63	43	59	71	99	153	173
Commercial premises, hotels, etc.	17	19	22	21	24	38	50	53	54	65	71
Public institutions and services	87	87	117	133	150	151	159	168	218	257	284
Total	325	307	352	376	447	448	501	574	677	768	760
Grand total	735	663	788	805	924	914	1,067	1,281	1,359	1,519	1,533

[a] Excluding work that does not come under the category of construction, such as afforestation, land reclamation, etc.

SOURCE: Central Bureau of Statistics.

characterized by considerable rigidity, both with respect to the possibilities of geographical regulation of building and as regards the demand for special and varied inputs for different stages and types of construction. Thus, for example, one can find unemployment of building workers in one area and a shortage in another, or a surplus of scaffolding erectors and mechanical equipment operators, who are required mainly in the first stages of construction, at the same time that there is a shortage of plasterers, plumbers, and others who are employed in the latter stages. Despite awareness of the need for regulating activity in this sector, extreme fluctuations are particularly conspicuous in public construction.

As already noted, the sector passed from a state of intensified activity at the beginning of the year to one of contraction toward the end. The average number

Table XIII-3

REAL CHANGE IN VALUE OF NEW CONSTRUCTION, BY TYPE, 1956–65[a]

(percentages)

	Increase or decrease (–) as against previous year									
	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Housing										
Private	–10	–2	9	16	6	15	12	12	9	4
Public	–18	61	–12	6	–13	31	42	–20	11	—
Total	–13	22	–2	11	–2	21	25	–4	10	3
Productive and service sectors										
Agriculture and irrigation	–16	–12	10	2	11	–1	23	4	–29	–29
Industry	35	—	126	33	–3	24	—	6	32	–14
Mining and quarrying	–34	–17	–40	83	—	27	136	42	–4	–40
Electric power	28	–38	–13	35	–11	–4	17	—	11	10
Transportation and communications	–17	160	–34	47	–32	37	20	39	55	13
Commercial premises, hotels, etc.	12	16	–5	14	58	32	6	2	20	9
Public institutions and services	—	34	14	13	1	5	6	30	18	10
Total	–6	15	7	19	—	12	15	18	13	–1
Grand total	–10	19	2	15	–1	17	20	6	12	1

[a] Calculated from Table XIII–2.
SOURCE: Central Bureau of Statistics.

of persons engaged in construction in 1965 was 2.5 percent greater than in 1964. Most of the increase occurred at the end of 1964 and the beginning of 1965, the number beginning to decline in the second half of the year.

Among the inputs, there was a relatively strong demand for cement, quarried products and iron; this was apparently connected with changes in the type of construction and with a slightly higher increase in the sector's output than is reflected in the data on construction put in place.[1] On the other hand, demand for many imported and local materials fell off, since builders anticipated a drop in activity and drew on their stocks rather than place new orders.

The index of residential construction input prices went up 7.3 percent in 1965. The rise was somewhat slower than in the previous year, as reflected by the

[1] See p. 280, note 1.

fact that most of the increase stemmed from price rises in the second half of 1964, while during 1965 itself the increase came to only 3.8 percent. Moreover, while the index went up more slowly than in the two preceding years, there is reason to believe that the rise in actual input prices was even lower, since costs that are not included in the index, such as unofficial wage increments and contractors' profits, tended to decline in 1965. Hence an average increase of about 5 percent in input prices would seem to be a more reasonable estimate.

The easing of demand for completed buildings, which began in 1964, continued during the year reviewed. Nevertheless, housing prices did not recede to any noticeable extent,[1] as builders resorted mainly to offering better purchase terms in order to stimulate sales. Despite the Government's decision to limit mortgage loans to IL 10,000 (which was accepted by the mortgage banks), the size of the average loan for privately built dwellings rose from IL 9,000 in 1964 to IL 12,500.

2. Volume of Construction

The value of new construction, as already noted, totalled IL 1,693 million at current prices,[2] as against IL 1,598 million in 1964—an increase of about 6 percent at current prices, and about 1 percent at constant prices.

The area of buildings started was down 19 percent as compared with the previous year. The decline was similar for residential and nonresidential construction, but there were marked disparities between the various subgroups. In public housing construction, for example, there was a drop of 33 percent (see Table XIII–4). On the other hand, there was a 9 percent increase in completions during the year, but this too is a moderate rise considering the growth of building starts in the previous year. The reason for the rather slow rise in completions lay in the further lengthening of average construction time in the year under review, because of the recession in the market for completed buildings and other factors, including the higher proportion of large buildings. The relative share of buildings of five stories or more in the total area of residential construction in 29 major local authorities has moved up steadily (from 13.6 percent in 1963 to 25.4 percent in 1965).

Most of the work in 1965 was on finishing buildings begun in 1964. The marked rise in the volume of starts in 1964 resulted in the accumulation of a record inventory of buildings under construction at the beginning of 1965 (over 6 million square meters). This moderated the decline in the value of construction put in place caused by the reduction of construction starts from the second quarter onward.

[1] See Chapter VI, "Prices", section 3(d).

[2] This does not reflect the market prices of buildings, since it excludes the value of the land and also because it represents the cost of construction, without taking into consideration fluctuations in the market prices of the completed buildings.

Table XIII-4

AREA OF CONSTRUCTION STARTED AND COMPLETED, BY TYPE, 1964–65

(thousands of square meters)

	Construction started		Percent increase or decrease (–)	Construction completed		Percent increase or decrease (–)
	1964	1965		1964	1965	
Housing						
Private	2,082	1,900	–9	1,772	1,926	9
Public	1,670	1,111	–33	1,192	1,230	3
Total	3,752	3,011	–20	2,964	3,156	6
Productive and service sectors						
Agriculture and irrigation	194	94	–52	175	183	5
Industry	720	402	–44	560	592	6
Commercial premises, hotels, etc.	315	330	5	206	284	38
Public buildings	628	697	11	460	535	16
Total	1,857	1,523	–18	1,401	1,594	14
Grand total	5,609	4,534	–19	4,365	4,750	9
Thereof:						
Public building	2,094	1,559	–26	1,531	1,573	3
Private building	3,515	2,975	–15	2,834	3,177	12

SOURCE: Central Bureau of Statistics.

The area of construction started in Arab communities in 1965 was up 31 percent, to 315,000 square meters; of this, 296,000 square meters were in housing.

(a) *Private residential construction*

The volume of private residential starts was smaller in the year reviewed, and its distribution over the year was not uniform: about one-third of the total was recorded in the first quarter, approximately one-quarter in the second, and about one-fifth in each of the last two quarters. If the volume of starts in the first quarter of 1965 (concentrated mainly in January) is deducted, we find that there was a substantial decrease in the remaining three quarters as compared with the corresponding period of 1964 (see Diagram XIII–1). In order to understand developments in this area in 1965, we must examine what happened in the previous year and to some extent developments since 1961.[1] In 1961 demand for private housing began to mount rapidly, accompanied by the soaring of prices and an increase in advance and speculative purchases. This

[1] See Bank of Israel Annual Report for 1964, p. 284.

Table XIII–5

NUMBER OF NEW DWELLINGS, BY INITIATING SECTOR, 1963–65

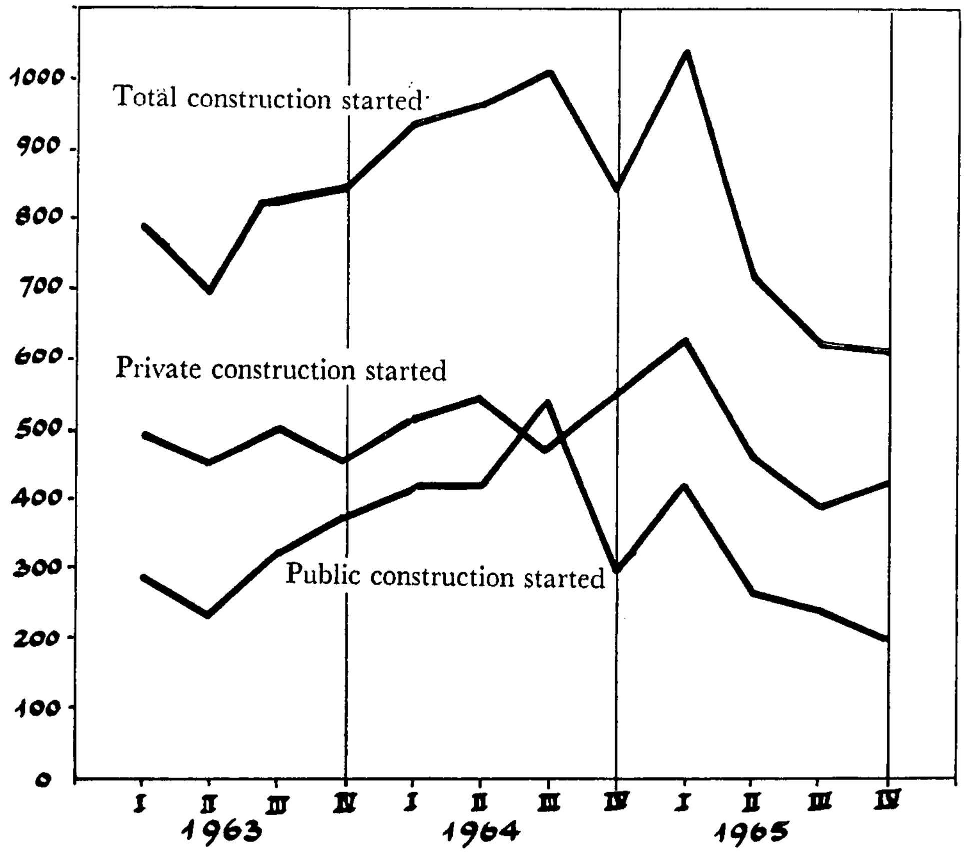
	Starts			Percent increase or decrease (–)		Completions			Percent increase or decrease (–)	
	1963	1964	1965	1963 to 1964	1964 to 1965	1963	1964	1965	1963 to 1964	1964 to 1965
Public building	18,890	27,300	18,120	45	–34	24,130	19,180	19,870	–21	4
Thereof:										
For immigrants etc.[a]	*12,560*	*17,840*	*12,030*	*42*	*–33*	*19,030*	*12,880*	*13,230*	*–32*	*3*
Saving-for-Housing and similar schemes[b]	*6,330*	*9,460*	*6,090*	*49*	*–36*	*5,100*	*6,300*	*6,640*	*24*	*5*
Private building	19,530	21,080	18,870	8	–10	15,560	18,800	18,900	21	1
Total	38,420	48,380	36,990	26	–24	39,690	37,980	38,770	–4	2

[a] Slum-clearance projects, liquidation of transit camps, and housing in agricultural settlements.
[b] Popular Housing, projects in development areas for veteran settlers and young couples, and other residential building including that for the regular commercial market and in Arab communities.
SOURCE: Based on data of the Central Bureau of Statistics.

Diagram XIII-1

RESIDENTIAL CONSTRUCTION STARTED, BY QUARTERS, 1963-65

(thousand sq. meters)



SOURCE: Centrol Bureau of Statistics.

continued until 1964, when demand tapered off. On the other hand, supply continued to expand, resulting in a surplus of completed units. That demand for housing stabilized in 1964 can be concluded from the fact that the stock of unsold dwellings in the hands of builders at the end of 1964 almost matched the total increase in the number of completed units put on the regular market that year. The stabilization of the price level, which engendered expectations of a drop in housing prices, led to the deferment of purchases and to the offer of completed units by those who had previously bought for speculative reasons.

In view of the recession that hit the housing market, it would have been reasonable to expect a decline in private residential starts in 1964; however, this was not the case, the figure going up still further (see Diagram XIII-1).

The continued, and even accelerated, rise can be attributed to several factors.[1] The amendment of the Land Betterment Tax Law spurred owners of plots to start building in order to avoid payment of the betterment tax; strengthening this tendency was the effective increase in municipal taxes on vacant building plots. In the latter part of 1964 a new factor arose, namely, advance reports of the Government's intention to restrict construction. The result was a resumption of the rapid rise in building starts, which carried over into the first quarter of 1965 (mainly in January), when the administrative order limiting construction was gazetted. When it transpired that the quotas fixed in the order did not fall below the demand for building permits, the anticipated decline in the volume of starts set in.

Another interesting development in private housing starts in 1965 was the increased share of two- and four-room units and the decline in that of three-room units (see Table XIII–6). This was accompanied by a rise in the average area of dwellings started during the year. The increase in the proportion of two-room units at the expense of three-room units can be attributed to the fact that it was precisely the latter that had accumulated in the hands of contractors. Apparently the demand for such dwellings did not match the supply, which grew more rapidly than aggregate supply.

The increase in the average area per unit and in the share of units of four rooms or more is consistent with the expectation that a shortage would develop in spacious homes since the order restricting construction discriminated against them with respect to the grant of building permits.

Average construction time continued to increase in 1965. In addition to technological reasons—the erection of multi-story buildings—the surplus supply of completed buildings was apparently a contributory factor, deterring builders from expediting work. This explains why the number of units finished in 1965 was only 100 more than in 1964, despite the fact that nearly 1,500 more units were started in 1964 than in 1963.

(b) *Public residential construction*

The curtailment of public residential construction in 1965 was even sharper than that in private construction (a decline of 33 percent). Examination of the development of public residential construction (building started) over the years 1963–65 shows a substantial increase in construction of all types (except that in agricultural settlements) between 1963 and 1964, and a corresponding reduction in all types (except that for evacuees of slum areas) between 1964 and 1965. For one component factor (although the most important one from the aspect of its magnitude) in these fluctuations, a partial explanation can be offered. The reference is to the appreciable and unexpected reduction in the volume of im-

[1] See Bank of Israel Annual Report for 1964, p. 284.

Table XIII-6

DWELLINGS STARTED, BY NUMBER OF ROOMS, 1963–65

(percentages)

No. of rooms per unit	Private construction			Public construction			Total construction		
	1963	1964	1965	1963	1964	1965	1963	1964	1965
1	4	3	3	0	0	0	2	1	2
2	24	19	22	25	25	31	24	22	26
3	54	60	55	73	73	67	64	68	61
4+	18	18	20	2	2	2	10	9	11
Total	100	100	100	100	100	100	100	100	100
Total units started	19,530	21,080	18,870	18,890	27,300	18,120	38,420	48,380	36,990
Total number of rooms in units started	56,470	62,070	55,930	52,390	75,760	49,150	108,860	137,830	105,080
Average number of rooms per unit	2.9	2.9	3.0	2.8	2.8	2.7	2.8	2.8	2.8
Average area per unit (m^2)	87.7	87.0	90.7	63.3	60.1	60.3	75.7	71.8	75.8

SOURCE: Based on data of the Central Bureau of Statistics.

migration in 1965. But even in new immigrant housing the number of starts was too low in 1963 (a shortage was felt in immigrant housing in 1964) and too high (relative to the immigration anticipated at the time) in 1964. The large volume of starts in 1964 coincided with a shortage of skilled workers (e.g. scaffolding erectors). This created difficulties in the initial stages of construction and led to the inefficient exploitation of the sector's productive capacity because of the dispersion of the limited means of production over too many jobs at one and the same time.

As a result of this development and of the unexpected reduction in the size of immigration in 1965, the temporary shortage in immigrant housing at the end of 1964 turned into a substantial surplus in the course of 1965.

In public construction for the regular housing market,[1] there was a considerable expansion in 1964 as compared with 1963, followed by a decline in 1965. As in the case of private building, the volume of starts in 1963 and the 50 percent increase therein in 1964 resulted in a surplus supply of vacant units toward the end of 1964. Nevertheless, public construction for the regular housing market, anticipating the impending building curbs, continued to expand in 1964, thus aggravating the fluctuations in total construction. The gazetting of the order restricting new building found public construction with a substantial inventory of units under construction, for immigrants and the regular market alike. Thus public construction (for the regular market) could be curtailed in line with the policy of regulating building activity, while maintaining and even increasing its share in the regular housing market. Some of the surplus units, which continued to grow in number during 1965, were made available for other purposes, e.g. young couples.

In view of the reduction of immigration in 1965 and the further decline expected in the years ahead, the emphasis in public construction activity is now shifting to housing for young couples, for evacuees of slum areas, and to improving existing dwellings in public housing projects by expanding floor space, installing additional amenities, etc.

The expansion of public construction for young couples, evacuees of slum areas, and the like should be considered in the light of the Government's mortgage policy: it is virtually impossible to obtain a mortgage loan for buying a used dwelling.

(c) *Administrative restriction of building*

On January 22, 1965 the administrative order controlling construction was published in the *Israel Official Gazette*. The quota for private housing starts

[1] Popular Housing, Saving-for-Housing, housing for veteran residents in development areas, housing for young couples, and "other construction", which includes ordinary commercial construction by the Israel Housing and Development Company and construction in Arab villages.

in 1965 was set at the arithmetic average of construction started in the years 1960–63, with preference given to dwellings with a floor space of under 100 square meters. A quota was also set for commercial and office premises, but at a level 10 percent below the arithmetic average for 1960–63, and with the additional restriction that no permits would be issued for structures of these types during the first six months of 1965.

Exempted from the order were buildings for industry, crafts, agriculture, and, under certain conditions, tourism, as well as those put up in certain development areas, including the city of Jerusalem (the latter with respect to residential construction). The order also stated that limitations were to be imposed on public construction for housing and other purposes, but no quotas were stipulated. Enforcement of the order was entrusted to the town planning committees of the local authorities, and the quotas were initially set for a period of six months only.

Publication of the order culminated a process set in motion at the beginning of 1964, when it was proposed to slow down the expansion of residential construction. The public learned about the Government's intentions, and despite the slackening of demand in 1964, which resulted in the accumulation of a big stock of empty dwellings, the various segments of the construction sector initiated new projects on a large scale before the restrictions took effect.

The protracted discussions which preceded the gazetting of the order led to an artificial increase in public and private construction starts in 1964 and early 1965. This accentuated the fluctuations in construction activity, for it resulted in

Table XIII–7

CHANGE IN AREA OF CONSTRUCTION STARTED, BY TYPE, QUARTERLY, 1964–65

		Percent increase or decrease (–) from previous quarter			
		Commercial and office premises	Public buildings	Industrial premises	Farm buildings
1964	I	–16	80	2	107
	II	—	–32	1	–25
	III	–10	–5	22	19
	IV[a]	30	57	–16	–8
1965	I[b]	94	40	–30	–43
	II	–56	–41	–16	–27
	III	–5	–4	–14	47
	IV	–36	–17	–1	–25

[a] Early reports about the Government's intention to regulate construction.
[b] Publication of the administrative order regulating construction.
SOURCE: Based on Central Bureau of Statistics data.

heavier pressure in the second half of 1964 and the beginning of 1965 on the sector's production facilities in general and on the building materials industry in particular, and consequently aggravated the decline in construction activity. This in turn resulted in the dismissal of workers in the building trades and allied industries and in the unemployment of equipment and machinery toward the end of 1965.

Table XIII–7 reveals that precisely in those types of construction where the administrative curbs were most severe—commercial and office premises—the volume of starts rose considerably before and immediately after publication of the order, while construction for purposes permitted by the order was curtailed in 1965.

This development is explained by the fact that no difficulty was experienced in obtaining building permits from the local authorities, which were charged with implementing the order, and in general no control was exercised in order to prevent infringements.

(d) *Construction for the productive and service sectors*

New construction for the productive and service sectors in 1965 was about the same, in physical terms, as in the previous year, and at current prices totalled IL 840 million. Here too 1965 witnessed a change in trend, for there had been a rapid growth in the four preceding years. As in the case of housing construction, the indicator of the direction of developments in this sphere—data on construction starts—shows an absolute decline (see Table XIII–4).

In transportation and communications the increase in new construction put in place continued—13 percent at constant prices—although at a lower rate than in previous years. The deceleration was due primarily to the completion of the main stage of the country's port development program. On the other hand, development of the interurban road network continued apace—the emphasis shifting to the improvement and widening of existing roads—as did that of the postal and communication services.

The completion of the National Water Carrier and its auxiliary installations led to a further reduction in irrigation construction. But in agriculture too the figure was lower than in 1964, the volume of new farm buildings started dropping to half of that in 1964. Industry and crafts showed a decline of 14 percent, as contrasted with an increase of 32 percent in 1964. To a large extent the decrease during the year reviewed compensated for the marked growth in 1964, which exceeded requirements. The area of industrial premises started in 1965 was 44 percent less than in 1964; the figure actually started to move down at the end of 1964.

Despite the surplus supply of office and commercial premises in 1964, building starts here went up appreciably in the last quarter of 1964 and the first quarter of 1965, but then fell off sharply owing to the big inventory accumulated by builders (see Table XIII–7).

3. Inputs

The boom in construction activity in the past few years led to the steady expansion of productive capacity. This applies to the number of workers and the amount of equipment employed in the construction sector itself, and also to the building materials and prefabricated construction industries. Despite the more sluggish demand for buildings in 1965, there was continued strong demand for inputs, in order to complete the stock of buildings under construction (which reached a peak at the beginning of 1965) and to meet the requirements arising from the large volume of construction started at the beginning of 1965 because of the aforementioned administrative order. As a result, the average level of activity in 1965, as expressed by the total value of construction put in place, was similar to that of the preceding year. However, as was to be expected, operations slowed down at the end of 1965. This was reflected in the dismissal of building workers, in idle equipment (including that in the transportation sector), and in the reduction of the building materials inventory, which also left its mark on several building materials industries.

Consumption of inputs expanded more rapidly than the value of construction put in place; this was apparently due to the increased share of buildings in total new construction. But it is difficult to explain the more rapid rise in quarry products and structural steel shapes. This may have resulted from changes in the character of building, such as the increased relative share of prefabricated construction, public buildings, and multi-story structures, all of which require a relatively larger amount of concrete and concrete products. The more rapid expansion of inputs can apparently be attributed also to a rise in those activities of the sector for which no data are available, such as repair and maintenance work and defense construction.

The number of persons engaged in construction rose by about 2.5 percent on an annual average. Most of the increase occurred in the first half of the year, while in the latter part the trend began to turn downward. The relatively larger growth of gainful employment as compared with the value of construction put in place can be ascribed to the increased share of buildings in total construction, the rising share of completion work (which is labor-intensive), and an improvement in the standard of public housing construction.

Fluctuations in the level of activity between one year and another[1] and in the course of a year can sometimes explain part of the changes in the level of output per worker. Activity in the first months of 1965 ran above the average for 1964, and made it necessary to add workers. The dismissal of redundant workers in the second half of the year, when activity declined, presumably was not as rapid. As a result of the fluctuations during the year, average output per worker did not increase in 1965. This is reflected in the slight drop in the

[1] See Bank Israel Annual Report for 1964, p. 290.

average number of man-hours per gainfully employed, and in some cases even in the creation of hidden unemployment toward the end of the year.

Input prices

Prices of inputs rose moderately in 1965, and even the index of residential construction input prices—which has a slight upward bias this year—advanced by less than 4 percent as contrasted with 7.5 percent during 1964. The efforts invested in expanding the capacity of the quarries bore fruit in the year under review, and the larger output of quarry products was accompanied by a relatively small rise in prices as compared with that of the previous two years. Labor costs per man-hour averaged about 8 percent higher in 1965; the increase stemmed mainly from the revision of the wage scale and the higher cost-of-living allowance in the second half of 1964. For the second year running, unofficial wage increments tended to be smaller, and in the latter part of the year actual wage payments began to more closely reflect the official rates.[1]

The continued growth of building completions permitted the raising of prices for some building accessories (such as plumbing materials, bathtubs, and other sanitary equipment), in line with the general increase in industrial prices during the year reviewed.

In view of the sluggishness of the real estate market, builders and landowners were compelled to absorb the increased cost (moderate though it was) of the other inputs. Because of the small volume of land transactions, it is difficult to give an exact description of the development of land prices, but the general trend was lower, continuing the downward movement which began at the end of 1963.

[1] See also Chapter VI, "Wages" section 2(c).