

CHAPTER VI

PRICES

1. MAIN DEVELOPMENTS

AFTER REMAINING relatively stable in the closing months of 1965, the price level resumed its upward climb in the first half of 1966. The rise was quite steep, exceeding that in the first half of 1965. In mid-1966 the price level again tapered off, a trend which carried over into the early months of 1967.

Despite the similar pattern of price developments in 1965 and 1966, the backdrop and underlying factors differed considerably in these two years. In 1966 prices went up together with the moderation of economic activity—the deceleration of economic growth and a substantial increase in unemployment. On the other hand, the advance of prices in 1965 (especially the first half of the year), as well as in earlier years, occurred during a period of rapid economic expansion and the decline of unemployment to a very low level.

The upward movement of prices, as already indicated, accelerated again in the early months of 1966, after they had firmed in the second half of 1965. It should be noted that direct Government influence—in the form of higher taxes, the raising of prices for public services, etc.¹—was responsible for about half the rise in the consumer price index (exclusive of fruit and vegetables) during January–June 1966, but the prices of goods and services largely free of administrative curbs also mounted appreciably over this period.

It should be mentioned that at the beginning of 1966 wages rose sharply in most sectors of the economy owing to the payment of a cost-of-living allowance increment and the signing of new basic pay agreements, and this pushed up production costs. Moreover, certain imported raw materials also became dearer. Consequently, even if the price increases of early 1966 in part represented a lagged adjustment to economic forces operating in previous periods, they were also largely influenced by the increase in production costs. Data permitting reliable calculations for individual sectors are not available, but industrial prices apparently went up more moderately than the rise in production costs would have warranted. This reflects the weakening of demand in 1966, as a result of which not all of the increase in production costs was passed on to the costumer.

¹ In 1965 as well some prices rose as a result of similar Government measures, but their weight was smaller than in 1966. See Table VI-5.

Table VI-1
AVERAGE RISE IN THE PRICES OF FINAL DOMESTIC
USES, 1959-66
 (percentages)

	Private consumption	Public consumption	Gross domestic investment	Total
1959	3	7	1	3
1960	3	3	4	3
1961	7	6	9	7
1962	9	21	20	14
1963	8	6	6	7
1964	5	7	5	5
1965	8	13	4	8
1966	8	12	1	7
Weight in 1966	61.0	19.6	19.4	100

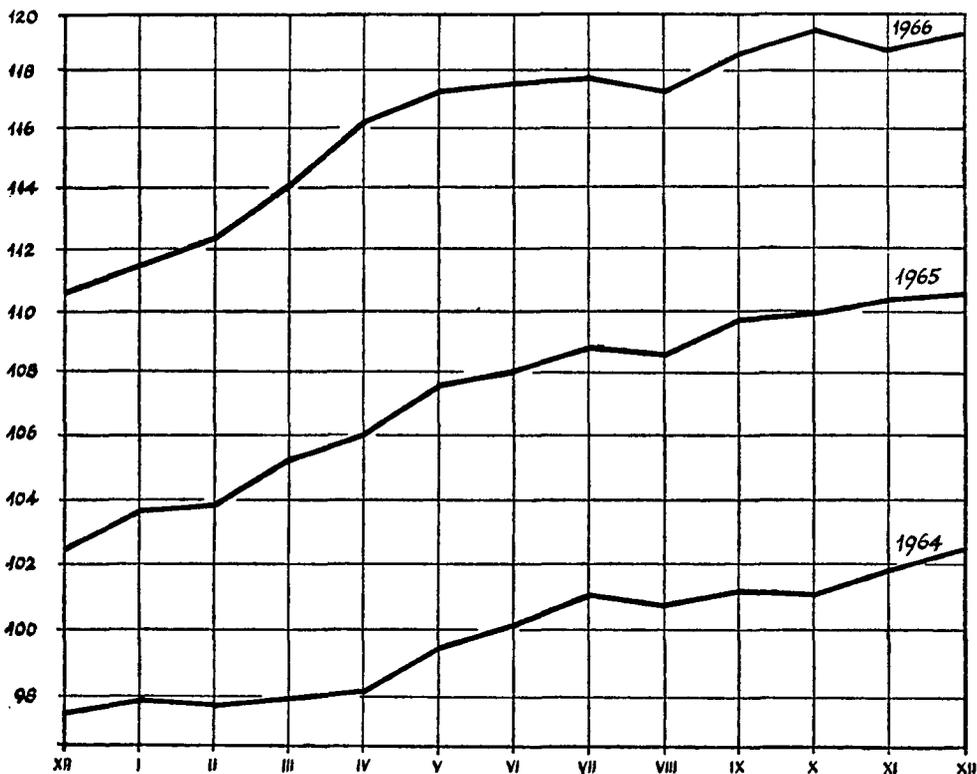
SOURCE: Central Bureau of Statistics.

Table VI-2
RISE IN CONSUMER PRICE INDEX, BY MAIN GROUP, 1964-66

	Percent increase or decrease (-)			
	Annual averages		December levels	
	From 1964 to 1965	From 1965 to 1966	From 1964 to 1965	From 1965 to 1966
Food	8.6	5.7	10.2	5.4
Housing	10.2	7.5	6.3	5.5
Housing services	8.6	13.9	8.9	15.0
Furniture and household equipment	3.0	3.4	3.4	3.3
Clothing and footwear	5.1	8.2	6.8	8.9
Education, culture, entertainment	6.7	9.4	7.5	7.1
Health	6.9	12.9	7.8	13.7
Transportation, communica- tions, posts	10.6	11.0	9.9	12.6
Miscellaneous	4.3	17.9	7.3	15.4
Total index excl. fruit and vegetables	7.6	8.5	7.8	8.1
Fruit and vegetables	8.5	2.7	-1.1	4.5
General index	7.7	8.0	7.1	7.8

SOURCE: Central Bureau of Statistics.

Diagram VI-1
CONSUMER PRICE INDEX, EXCL. FRUIT AND VEGETABLES, 1964-66
 (average 1964=100)



All the above-mentioned developments seem to indicate that mounting production costs was one of the major factors driving up prices at the beginning of 1966.

The general consumer price index rose by 7.8 percent during the course of the year reviewed, while the index exclusive of fruit and vegetables went up slightly more. The average annual increase was 8.0 and 8.5 percent respectively. Both indexes showed a faster rise in 1966 than in the year before.

The derived price index of final domestic uses¹ advanced by some 7 percent—a similar rate as in 1965 but faster than in 1964. Private and public consumption prices went up substantially (about 8 and 12 percent respectively). Public consumption prices are partly influenced by the prices of services provided by non-profit institutions, and the latter mounted steeply owing to the wage increases of the last two years. The marked rise in public consumption prices chiefly reflects the wage increases granted in early 1966 (these included part of the retroactive

¹ See the appendix to Chapter VI (in Hebrew only).

adjustments paid to public sector employees following a job reclassification). Domestic investment prices rose to a very moderate extent, two factors acting as a brake: (a) construction prices held steady, or even fell somewhat, owing to the depression that hit this sector during the year reviewed; and (b) direct imports account for an appreciable share of total investment, and prices of this component hardly changed.

2. BACKGROUND AND CAUSES OF PRICE DEVELOPMENTS

The year 1965 was in a sense a transition period in the economic development of the country. The rapid growth rate characteristic of the economy in previous years slowed down, and toward the end of 1965 the first signs of recession appeared. As regards prices, the early part of 1965 saw a continuation of the trend of the last months of 1964. Demand pressure, at work for some time in the commodity and service markets, caused prices to climb, while the administrative control of industrial prices was relaxed. At the end of 1964 and the early months of 1965, the price advance also encompassed many industrial branches where previously the Government had ensured stability by direct or indirect pressure.

The monetary expansion of 1965 was relatively modest and apparently did not generate further demand pressure. Price increases at the beginning of 1965

Table VI-3

RISE IN CONSUMER PRICE INDEX, EXCL. FRUIT AND VEGETABLES AND AFTER ADJUSTING THE HOUSING ITEM, QUARTERLY, 1965-66

(average 1964 = 100)

	1965				1966			
	I	II	III	IV	I	II	III	IV
Index excl. fruit and vegetables and housing	3.5	2.3	1.2	1.3	3.0	3.0	1.4	1.5
Housing (dwelling prices and key money)								
(a) As measured normally	1.4	4.8	3.0	-2.4	5.4	3.3	-2.2	-5.2
(b) Adjusted for time-lag in measurement	3.6	-0.3	1.9	-0.4	-1.1	-1.0	-3.6	
Index excl. fruit and vegetables								
(a) As measured normally	2.7	2.7	1.5	0.7	3.4	3.1	0.9	0.6
(b) Adjusted for time- lag in measurement	3.5	1.9	1.3	1.0	2.4	2.4	0.7	

SOURCE: Central Bureau of Statistics.

somewhat eased the demand pressure previously existing in the commodity and service markets. In the second half of 1965, as already stated, the price advance slowed down, as did the rate of economic growth.

The accelerated rise of prices in the early part of 1966 must therefore be viewed against the background of the relatively slow economic growth. The increases occurred in most of the service and some of the industrial branches. However, this time the Government was largely responsible for this development. Service charges subject to direct Government decisions were raised with its approval (this applies to postal charges, taxes, and war risk insurance contributions); taxes on various goods and services were revised by the Government itself (e.g. on fuel, cigarettes, and various governmental fees); and increases were approved in Government-controlled prices of certain foodstuffs (milk, eggs, and alcoholic drinks). Moreover, charges for certain public services in which Government influence is decisive (the Sick Funds and public transport) were also revised upward. These items alone accounted for about half the total rise in the consumer price index exclusive of fruit and vegetables, despite the fact that their weight in the index is much smaller (see Table VI-5).

Prices of services largely free of administrative control or seasonal influences also mounted sharply in the early months of 1966. The index of "representative service" prices¹ advanced 6.8 percent during the first half of 1966—only a little slower than during the corresponding period in 1965. One reason for this rise was apparently the general increase in the price level: the raising of service prices subject to Government control provides a good pretext for raising prices of uncontrolled services.

The increases in industrial prices—which were more moderate than those in the prices of services—must be viewed mainly in the light of higher production costs. In the early months of 1966 the Government relaxed its pressure on the various industrial branches to keep prices down, and tended to recognize the rise in production costs as a justifiable reason for changing prices. The big wage increases of early 1966 and the higher prices of certain imported raw materials led to the approval of industrial price rises. In addition, some of the increases presumably had been approved previously but their implementation was deferred until the year reviewed. Moreover, the steep rise in the prices of certain services mentioned above undoubtedly induced industry to put forth similar demands.

Housing prices displayed a different development. Until mid-1965 the housing market experienced a boom, which had lasted for several years and was characterized by soaring prices and speculative demand fed by the public's expectations that the upward trend would continue. Toward the middle of 1965 activity in this market slackened and prices began to firm. In 1965 the rise in housing prices was slightly less steep than that in the index as a

¹ See note ², p. 137.

Table VI-4

RISE IN CONSUMER PRICE INDEX, BY ECONOMIC SECTOR, 1964-66
(percentages)

	Weight in index (average 1964)		Increase or decrease (-)				Weight in rise of index excl. fruit and vegetables	
	Old classification	New classification	Annual averages		December levels		1965	1966
			1964 to 1965	1965 to 1966	1964 to 1965	1965 to 1966		
Industrial products	399.0	404.5	3.9	6.6	4.7	6.8	25.8	35.5
Agricultural products ^a	116.7	124.5	14.4	5.7	16.4	5.3	26.0	9.6
Dwelling prices and key money	132.8	132.8	11.2	7.1	6.9	1.3	12.8	2.5
Services								
Personal	101.8	79.8	9.9	11.3	9.5	10.4	13.4	11.6
Public	71.4	72.1	7.3	12.5	9.2	8.7	8.5	8.7
Other housing services	25.6	25.6	10.0	14.5	12.7	27.7	4.4	10.0
Transportation, communications, posts	35.0	46.9	14.5	10.7	14.5	13.2	6.9	8.4
Electricity and water	20.4	20.4	5.2	7.7	6.7	11.6	1.8	3.1
Insurance and taxes	25.5	26.1	0.9	25.1	1.2	32.5	0.4	10.6
Total index excl. fruit and vegetables	928.2	932.7	7.7	8.5	7.8	8.0	100.0	100.0
Fruit and vegetables	71.8	67.3	8.3	2.0	-1.3	4.7		
General index	1000.0	1000.0	7.7	8.0	7.1	7.8		

^a Agricultural products other than fruit and vegetables are tabulated in the index according to economic sector, with the addition of poultry, meat and meat products, and milk and milk products, which have been transferred from the heading of industrial products to agricultural products.

SOURCE: Central Bureau of Statistics.

whole. In 1966 the slump in the housing market and in the entire construction sector became more acute, depressing the prices of certain categories of housing. Whereas during the boom period some of the incremental demand was due to speculation, there is reason to believe that in 1966 the subsiding of demand was partly caused by the expectation of a further drop in prices.

As of the second quarter of 1966, demand for various durable goods also began to ease, though prices remained relatively more stable. The decreased demand for durable goods and housing, which constituted part of the decline in aggregate demand, was not accompanied by a corresponding growth in demand for other goods and services. Instead, there was a greater demand for financial assets, especially short-term assets such as bills bought through banks (bill brokerage), the Short-Term Loan, and time deposits. The fact that the public was attracted to short-term liquid assets strengthens the assumption that the smaller volume of housing purchases was at least partly of a speculative character. The public, uncertain of future developments, apparently deferred some of its purchases and preferred to invest in highly liquid assets. It is noteworthy that with the stabilization of the price level during the second half of 1966 and the growing belief that prices would remain firm, the real anticipated return on short-term assets rose, increasing their relative profitability.

Table VI-5

**WEIGHT OF SELECTED ITEMS IN THE RISE OF THE CONSUMER
PRICE INDEX EXCL. FRUIT AND VEGETABLES, 1965-66**

	Weight in index	Weight in rise of index excl. fruit and vegetables (change in December levels)	
		1965	1966
Eggs	16.3	3	4
Milk and milk products	31.1	8	4
Alcoholic beverages	11.8	0	2
Rent	12.0	0	9
Municipal taxes	9.7	0	7
Electricity, fuel, and water	30.1	2	3
Sick Fund (health insurance)	21.8	0	5
Private motor vehicles	29.5	2	5
Postal services ^a	5.1	1	3
Cigarettes	14.1	0	5
Legal services	6.6	2	1
Total	188.1^b	18	48

^a Includes telecommunications.

^b The index exclusive of fruit and vegetables accounts for 920.7 out of the 1,000.0 points of the general index.

SOURCE: Central Bureau of Statistics.

As already mentioned, most of the price increases occurred in the early months of 1966, whereas during the second half of the year the price level held steady. This was in line with the general development of the economy during this period: beginning in the second quarter of the year reviewed, the real national product turned downward, whereas previously there had only been a significant deceleration in the growth rate. Simultaneously, unemployment began to assume increasing proportions. The public refrained from buying housing and durable consumer goods, preferring to invest in short-term financial assets—a development that aggravated the decline in incomes and in aggregate domestic demand. The weakening of demand pressure kept prices down in markets relatively free of administrative restraints (it is noteworthy that in the labor market too wage increases were prevented). In fact, under the prevailing conditions prices might have been expected to slip somewhat; however, this did not happen owing to a certain rigidity of the price structure, though it is possible that indirect reductions or similar developments (such as the offer of better payment terms) were not taken into account in the measurement.

During the second half of 1966 (from July to December), the consumer price index, exclusive of fruit, vegetables, and housing (dwelling prices and

Table VI-6

INCREASE IN THE PRICES OF VARIOUS GROUPS OF GOODS AND SERVICES IN THE CONSUMER PRICE INDEX, 1965-66

	Weight in index	Percent change			Weight in rise of index excl. fruit and vegetables
		June 1966 as against Dec. 1965	Dec. 1966 as against June 1966	Dec. 1966 as against Dec. 1965	
"Institutional" items ^a	188.1	13.3	5.4	19.5	48
Education (excl. private tuition and books)	23.6	-0.4	-0.3	-0.6	—
Travel (urban and interurban)	30.0	12.2	0.0	12.2	5
Housing (dwelling prices and key money)	132.8	8.8 ^b	-7.4 ^b	1.3 ^b	3
Representative services ^c	54.0	6.8	2.2	9.1	7
Other items	492.2	3.7	1.9	5.6	37
Total index excl. fruit and vegetables	920.7	6.5	1.4	8.1	100

^a Items where price increases were directly due to Government measures.

^b The increase (or decrease) is that included in the consumer price index and not that measured directly.

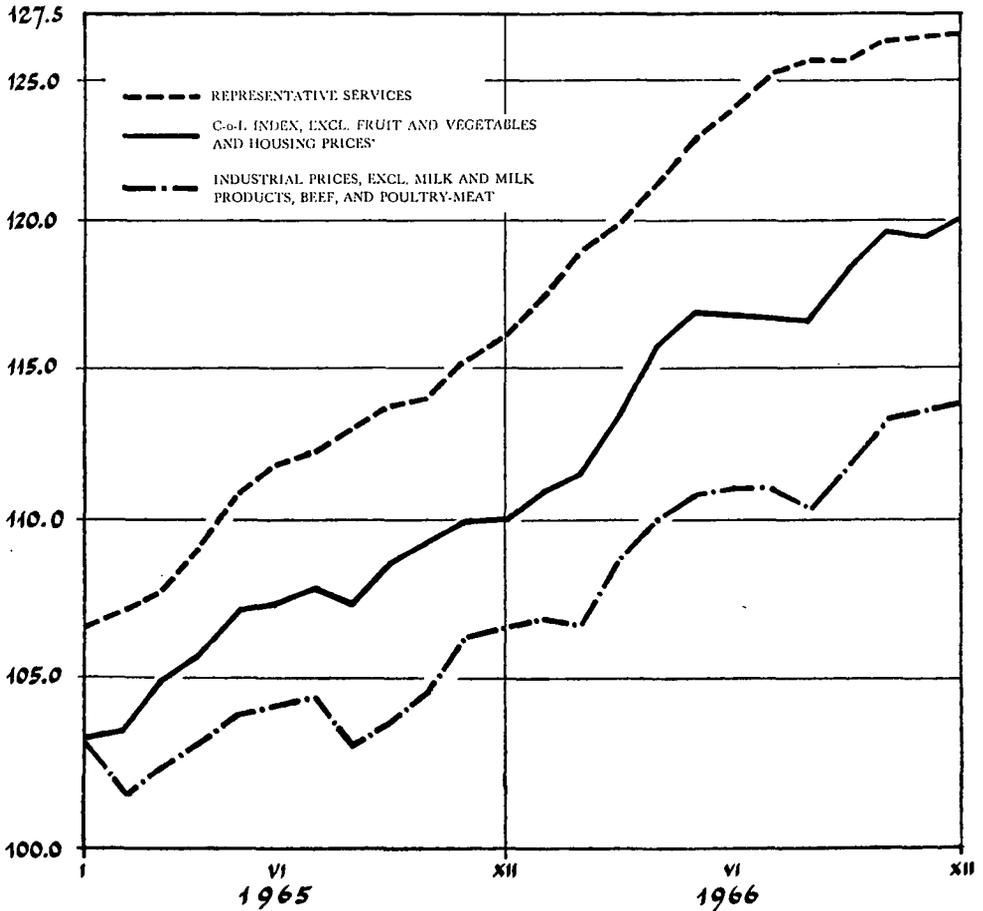
^c See note 2, p. 137.

SOURCE: Based on Central Bureau of Statistics data (see appendix—in Hebrew only).

Diagram VI-2

INDEXES OF CONSUMER, INDUSTRIAL, AND REPRESENTATIVE SERVICE PRICES, 1964-66

(average 1966=100)



* Dwelling prices and key money.

key money), edged up by 2.8 percent, as against 6.1 percent in the first half of the year. Housing prices continued downward in the third quarter.

Examination of the composition of the price increases during the second half of 1966 shows that they were almost entirely due to institutional factors. Approximately half the total rise during this period was accounted for by four items—eggs, milk and milk products, rent, and electricity—and the increase here resulted from institutional decisions. Apart from these items, there was a significant rise in textile and clothing prices, and this too was actually connected with an agreement between producers and the Government under which the latter approved a rise in the price of raw cotton. Prices

of other goods and services remained virtually unchanged during the second half of 1966.

The picture thus emerging shows the second half of 1966 as a period of virtually stable prices, with some even tending to fall. The overall increase in average prices during these six months resulted mainly from institutional decisions. Prices also held steady during the first quarter of 1967.

3. RELATIVE PRICES

(a) *Industrial products*

Prices of industrial products moved upward in 1966, continuing the trend that set in at the beginning of the previous year. Industrial prices included in the consumer price index went up by 6.1 percent during the year reviewed, as compared with 6.9 percent in 1965. If milk and meat are excluded from this index, the rise totalled 6.8 percent in 1966 as against 9.7 percent in the preceding year. The weight of industrial goods in the rise of the consumer price index likewise increased in 1966, but it was still lower than their weight in the index. It emerges, therefore, that the relative price of industrial products as compared with other components of the consumer price index (chiefly services) continued downward in 1966, though to a more moderate degree than in previous years.

The advance of many industrial prices at the beginning of 1965 was due mainly to the increase in production costs, and also to the relaxation of Government pressure previously applied to maintain stability. This occurred after demand pressure in the domestic market had pushed up various service prices steeply at a time when industrial prices had been kept relatively stable. The demand pressure also found expression in substantial wage increases in the labor market, which in turn raised production costs. There are no reliable data on developments in industrial profitability during this period, but it undoubtedly declined relative to that of the service branches.

In the first half of 1966 industrial prices again went up, this being reflected both by the prices of industrial goods included in the consumer price index and by the wholesale price index of industrial production. These increases may in part have been due to a lagged adjustment to changes that had occurred previously. But mention should be made here of the substantial wage hikes granted in the early months of 1966. Earnings per industrial worker were about 17 percent higher in 1966 than in the year before. This increase was the fruit of negotiations conducted when the country was still enjoying virtually full employment, which was expected to continue. The rise in production costs as a result of higher wages undoubtedly created further upward pressure on the industrial price level.

In contrast to the mounting of production costs, various indicators attest

Table VI-7

**RISE IN INDUSTRIAL PRICES, ACCORDING TO CONSUMER
PRICE INDEX, 1965-66**

	Percent annual increase in December levels	
	1965	1966
Food	9.4	5.7
Furniture	2.9	1.6
Clothing and textiles	4.7	9.3
Footwear, leather, rubber, and plastics	9.8	11.6
Metal products, machinery, transport equipment, and electrical products	3.6	2.2
Chemical and refined petroleum products	3.6	8.8
Miscellaneous	7.8	5.8
Total	6.9	6.1

SOURCE: Central Bureau of Statistics.

to the absence of demand pressure in the commodity and service markets. As from the second quarter of 1966, real industrial output fell off in absolute terms, and the average for the year was only some 2 percent greater than in 1965. Thus it will be seen that the rise of production costs in the wake of wage increases and the consequent advance of prices were accompanied by a decline in industrial production. The rise of prices was actually smaller than it would have been had all the increase in costs been passed on to the costumer, and this because of the contraction of aggregate demand in the economy. In some branches—leather and footwear and the metal industries—the price increases stemmed partly from the dearer cost of imported raw materials.

A branch analysis of the price rises shows that relative stability was maintained in a number of foodstuffs (the prices of which are subject to official arrangements and can be revised only with Government authorization) and in certain durable goods. In the case of foodstuffs, this can be explained by the Government's desire to keep down the price of essential items. As to durable goods, the main factor was sagging demand, which prevented price increases despite higher production costs. There may also have been a certain bias in the measurement of durable commodity prices. As the recession deepened, the bargaining power of buyers grew stronger. Presumably a greater proportion of sales than formerly were transacted below the listed price (this decrease may also take the form of easier terms of payment), on which the changes in the index are calculated. It is very difficult to assess the importance of this factor, but as regards prices of durable goods, it is reasonable to assume that under the conditions prevailing in the economy it was of some significance.

Table VI-8

**INCREASE IN THE WHOLESALE PRICE INDEX OF INDUSTRIAL
PRODUCTION, 1965-66**

(percentages; average 1963 = 100)

Branch	Average increase over previous year		June 1965 as against Dec. 1964	Dec. 1965 as against June 1965	June 1966 as against Dec. 1965	Dec. 1966 as against June 1966
	1965	1966				
Mining and quarrying	6.7	1.5	2.1	0.6	0.5	0.1
Food						
Meat, milk, canned fruit and vegetables	13.3	4.0	13.4	5.1	-4.1	2.7
Other foodstuffs	0.7	4.9	0.2	0.8	4.7	1.2
Textiles	1.5	6.3	1.1	0.9	0.9	11.0
Clothing ^a	1.1	4.4	0.3	0.7	2.8	5.2
Wood and furniture	3.4	2.0	1.6	0.7	1.5	0.1
Paper, cardboard, and products thereof	0.8	0.6	0.0	0.1	0.6	0.0
Leather and leather products ^b	4.4	15.7	1.9	6.4	12.1	-1.1
Rubber and plastic products	-1.0	0.8	-0.5	-0.3	1.4	0.2
Chemicals and refined petroleum products	2.8	5.5	2.9	1.1	5.1	0.7
Nonmetallic minerals	3.3	4.2	2.2	1.4	2.6	2.3
Basic metals	2.9	6.2	2.0	1.8	4.0	2.8
Metal products	6.2	5.1	3.4	2.1	3.5	0.4
Machinery	1.5	2.6	0.6	2.0	1.2	-0.2
Electrical equipment	3.8	3.2	1.9	0.5	2.8	0.2
Transport vehicles	9.8	7.8	6.9	3.2	5.8	-0.8
Miscellaneous	5.5	3.9	3.9	1.1	2.6	0.5
Total	3.8	4.8	2.5	1.7	2.7	1.9

^a Minus the sewing and tailoring item.

^b Minus the shoe repair item.

SOURCE: Central Bureau of Statistics.

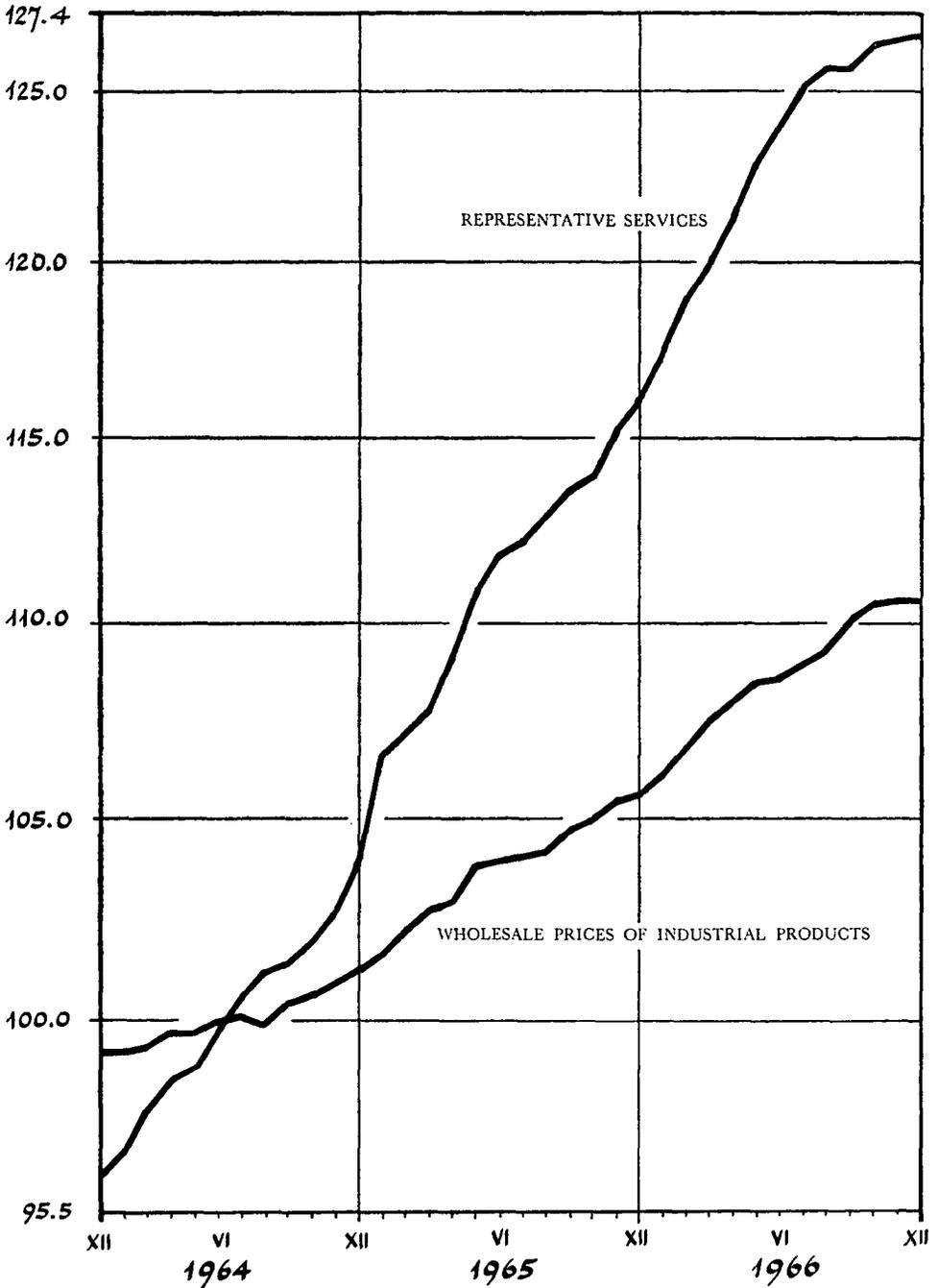
Two branches showing conspicuous increases were clothing and footwear. The rise in clothing prices, which occurred mainly in the second half of 1966, was connected with the Government's decision to allow producers in the textile branch a larger return on their domestic sales as an indirect inducement to export.¹ It is interesting to note that in the early months of 1966, when clothing prices were stable and relative to others even fell, the output of the branch expanded. On the other hand, in the second half of the year,

¹ For details of the agreement which caused a rise in domestic garment prices, see Chapter XII, "Industry".

Diagram VI-3

WHOLESALE PRICE INDEX OF INDUSTRIAL PRODUCTION AND INDEX OF REPRESENTATIVE SERVICE PRICES

(average 1964=100)



when prices went up considerably, production began to fall off. It is plausible to assume that, apart from the effect of price developments, incomes during this period exerted a contractionary influence on demand.

Table VI-9
CHANGES IN SELECTED FRUIT AND VEGETABLE
PRICES, ACCORDING TO CONSUMER
PRICE INDEX, 1965-66

	1965	1966
Tomatoes	8.2	-12.9
Cucumbers	21.1	-7.8
Potatoes	-3.1	14.6
Grapes	14.2	6.3
Plums	28.0	33.0
Apples	-2.9	-1.2
Bananas	23.8	-6.9
Oranges (Shamuti)	15.4	32.4
Grapefruit	9.9	15.2
Lemons	-0.5	11.3
All vegetables	9.2	-2.7
All fruit	7.7	5.1
Total fruit and vegetables	8.3	2.0

SOURCE: Central Bureau of Statistics.

The rise in leather and footwear prices was connected, as already mentioned, with the higher prices of leather in the world market. The revision of prices was accompanied by a marked fall in output.

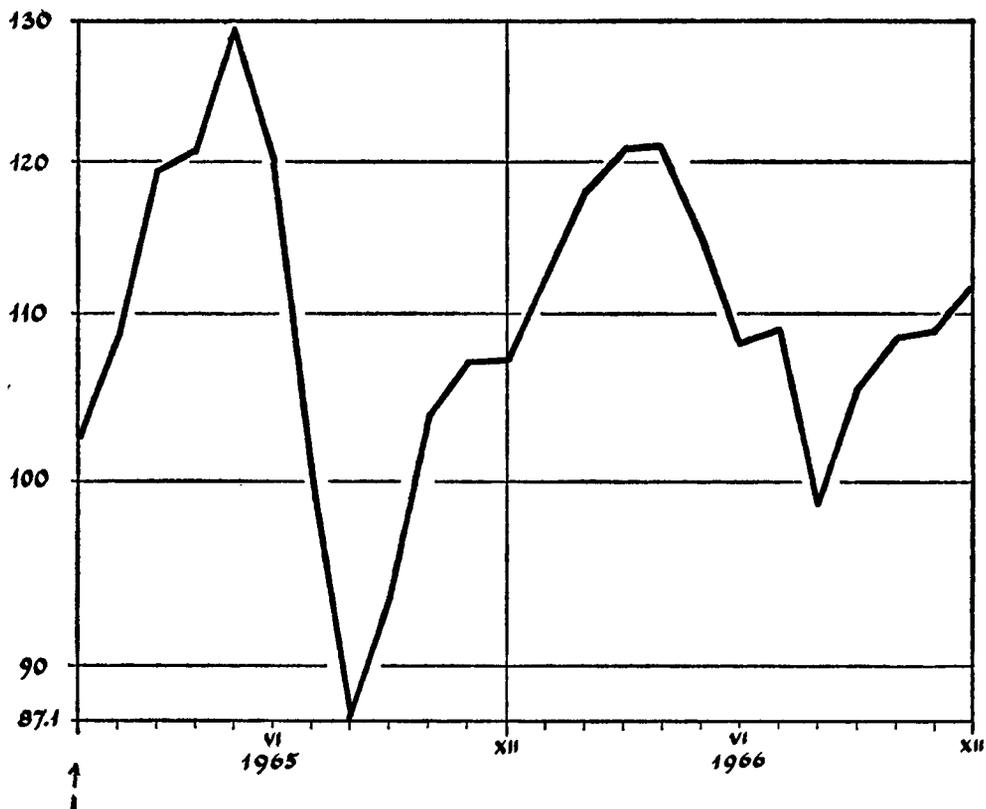
Certain increases in industrial prices—cigarettes and fuel for example—were due directly to higher levies. Many other increases took place with Government approval after producers proved that production costs had gone up.

To sum up, it may be said that the upward movement of industrial prices was mainly the result of higher production costs. The increases were usually accompanied by the contraction of output. In some cases the decline in demand was so marked that, despite much higher production costs, prices did not rise at all and may even have fallen (mainly in respect of durable goods).

(b) *Agricultural products*

Prices of agricultural products included in the consumer price index—milk, milk products, meat, and fresh poultry-meat—rose more slowly in 1966 than did the index as a whole. Changes here were due partly to fluctuations in

Diagram VI-4
 INDEX OF FRUIT AND VEGETABLE PRICES, 1964-66
 (average 1964=100)



supply—especially as regards fruit and vegetables—and partly to Government decisions.

Prices of eggs jumped by some 20 percent in September, the rise being approved by the Government in line with its policy of cutting the subsidies paid to producers. The average increase for the year came to nearly 10 percent. Local consumption of eggs was up about 5 percent, or some 2.5 percent per capita.

Poultry prices averaged approximately 4 percent lower than in 1965, chiefly because of a much larger supply. The sale of poultry in development towns at appreciably lower prices than in the rest of the country was instituted in 1966. The fall in poultry prices was accompanied by a much larger consumption of poultry-meat.

Prices of milk and milk products were about 12 percent higher than in 1965. The price of milk was raised only in the last month of the year, but

prices of milk products rose in January. These increases were approved by the Government with the aim of reducing the subsidies paid to producers. A preliminary examination of milk subsidy payments indicates, however, that these did not contract during the year reviewed.¹ Consumption of milk and milk products went up by less than 2 percent, so that per capita the figure actually declined.

After having mounted sharply in the two preceding years, vegetable prices dipped by an average of 2.7 percent in 1966. This was mainly due to the big growth of supplies, which also resulted in a much larger volume of surpluses. The quantity of fresh vegetables consumed was up approximately 6 percent.

Prices of fresh fruit were 5.1 percent higher than in 1965. The rise was sharpest in citrus, plums, and grapes. Prices of bananas, apples, and pears fell. Fruit consumption expanded by nearly 6 percent in 1966.

(c) *Services*

The service item in the consumer price index went up more rapidly in 1966 than in any of the four preceding years. The factor chiefly responsible for the accelerated rise was the marked increase in certain taxes and in the prices of some governmental and other public services subject to official arrangements.

As in 1965, most of the advance in service prices occurred during the first half of the year, whereas in the second half they virtually levelled off.

It is noteworthy that this pattern of development characterized both the prices of public services determined by institutional factors and the prices of other services, which are largely free of Government control. The latter (the "representative services")² rose much faster in the first half of 1966 than during the last months of 1965, though rather more slowly than in the early months of 1965 (see Table VI-12). This pattern of price increases is typical of most of the services included in the representative services category.

The advance of service prices can be ascribed not only to institutional decisions but also to higher costs, as evidenced by the fact that in several cases at least the higher price led to a much smaller real consumption of the service concerned (e.g. public transportation).

As regards services free of administrative curbs, the higher prices can probably be attributed to the fact that, with the raising of other prices in the economy

¹ This was partly due to the fact that production expanded, so that even if the subsidy rate per unit of output was reduced, it was not fully reflected in total subsidy payments. It may also be that the figure for the agricultural year, which differs from the calendar year, will show some decline.

² This group consists of nine services: meals in restaurants, refreshments at kiosks, dry-cleaning and laundry, sewing and tailoring, shoe repair, private doctors, dental care, theater and concerts, and haircutting and beauty parlors.

Table VI-10

RISE IN PRICES OF MAIN SERVICE GROUPS, ACCORDING
TO CONSUMER PRICE INDEX, 1963-66

	Weight in January 1962	Weight in 1964 (annual average)	Percent annual rise in December levels				1966	
			1963 ^a	1964 ^a	1965 ^b	1966 ^b	First half	Second half
Personal services	85.7	79.8	4.8	9.7	11.0	10.4	9.5	0.9
Health services	31.4	37.0	4.3	6.1	7.0	14.4	13.6	0.6
Educational services	20.2	30.0	7.3	6.3	7.1	2.4	1.7	0.7
Transportation and communications	36.1	46.9	9.2	0.7	11.3	13.2	13.5	-0.3
Insurance and taxes	28.1	26.1	1.2	2.4	1.0	32.5	32.1	0.3
Electricity and water	20.7	20.4	0.2	0.0	6.8	11.6	7.9	3.4
Other public services	2.0	5.1	—	—	24.2	6.8	14.4	-7.2
Total	224.2	245.3	4.7	5.9	8.8	12.8	11.9	0.6

^a Based on weights in January 1962.

^b Based on average weights in 1964.

SOURCE: Central Bureau of Statistics.

(especially of services whose prices are fixed by the Government), the former also tend to go up. For instance, in the case of private health services, the fees charged very likely went up following the raising of Sick Fund membership dues. There may also be an occasional upward bias in the measurement of prices. Housepainting and whitewashing rates, for example, are obtained from a sample of painters and not by direct measurement of prices charged for work actually carried out. It is reasonable to assume that in a year like 1966, when the construction and allied industries were experiencing a slump, the prices reported were higher than those actually paid.

Continuing a trend already noted in 1965, the Government loosened its reins on the prices of various public services, authorizing substantial increases.

Local authorities were permitted to raise water rates by some 18 percent beginning with the new fiscal year—in April; this followed a big increase in the preceding year as well.

Public transportation prices were changed in February 1966. Bus and taxi fares went up to a similar extent (as regards the latter, the rise was greater in inter-urban fares). Increases in bus fares have been approved almost every year, after an examination of the cost calculations of the bus cooperatives. The increase

Table VI-11

RISE IN PRICES OF VARIOUS SERVICES, ACCORDING TO CONSUMER PRICE INDEX, 1963-66

Item	Weight in index (pro mille)		Percent annual rise in December levels			
	January 1962	Average 1964	1963	1964	1965	1966
Personal services						
Meals outside the home						
At work and at school	3.9	2.8	1.8	-0.3	17.5	-0.3
In restaurants	9.3	8.9	4.8	6.4	9.6	6.0
Refreshments at kiosks	5.4	6.3	2.8	4.8	8.5	13.6
Total	18.6	18.0	3.6	4.6	10.6	7.6
Domestic help	15.1	18.4	4.8	21.1	14.5	15.2
Sewing and tailoring	4.7	3.7	9.0	7.6	5.2	3.3
Drycleaning and laundry	4.8	5.1	6.7	9.2	14.3	7.1
Shoe repair	4.9	2.5	2.1	7.1	20.3	16.1
Cinema	14.5	12.9	13.3	2.1	12.3	15.4
Theater and concerts	5.4	5.7	4.5	18.7	9.7	6.2
Convalescent and holiday leave	7.3	14.2	0.0	7.3	7.8	6.4
Haircutting and beauty parlors	5.3	6.3	5.1	7.9	7.0	9.0
Educational services						
Kindergarten	3.9	4.5	11.2	8.1	5.9	8.9
Secondary and vocational education	9.1	13.2	-0.7	10.6	3.5	-9.4
Higher education	2.6	3.1	8.6	4.0	10.9	19.2
Private lessons, advanced courses, etc.	4.6	5.2	20.8	10.8	9.6	15.0
Health services						
Sick Fund services	21.3	21.8	3.4	3.6	0.1	17.2
Private doctors	4.5	5.4	5.7	10.4	11.0	10.0
Dental care	5.6	9.8	6.3	11.6	19.8	11.4

SOURCE: Central Bureau of Statistics.

was bigger in 1965 (about 16 percent), since fares were kept down in the previous year by the grant of a subsidy.

There was a conspicuous rise of some 46 percent in communication charges, particularly in the telephone and telegraph item, where it came to over 54 percent. It should be pointed out that the number of orders for new telephones dropped steeply in 1966, while the number of orders cancelled increased. This was undoubtedly due to the steep rise in installation and maintenance charges.

Two items which went up after holding steady for several years were Sick Fund services and electricity for household use. The Sick Fund of the Histadrut

Table VI-12

**RISE IN PRICES OF REPRESENTATIVE SERVICES, QUARTERLY,
1964-66**

(percentages)

End of quarter	1964	1965	1966
First	3.1	4.1	3.4
Second	1.9	3.3	3.3
Third	1.6	1.7	1.4
Fourth	2.5	2.1	0.8

SOURCE: Based on Central Bureau of Statistics data (see appendix—in Hebrew only).

(General Federation of Labor) raised membership dues by approximately 18 percent at the beginning of 1966. It should be noted that even when dues remained unchanged, there was a price increase of a kind that was not caught in the measurement—that stemming from wage increases of Histadrut members. This resulted in the payment of larger amounts, though there was no change in the dues charged for any given income. Furthermore, it is possible that the growing number of unemployed, who pay a minimum rate, somewhat moderated the effective rise in prices in 1966 without this being reflected by the measurement.

Prices of educational services, which are also largely determined by Government decisions, remained relatively stationary during the year reviewed. Fees charged by institutions of higher education were revised upward, but secondary school fees fell on an average owing to the larger amount of reductions granted under the graded fee system.

Continuing the trend of recent years, prices of services advanced faster than those of commodities, bringing up the relative price of the former. This was chiefly true of the first half of 1966, while during the second half, when prices in general went up more slowly, commodity and service prices rose at almost the same rate.

(d) *Housing*

Housing prices, as reflected by the quarterly surveys of the Central Bureau of Statistics, began to firm in mid-1965 and in 1966 they declined steadily (see Table VI-13). The construction sector was the first to be hit by the recession, and in 1965 the housing market was already suffering from surplus supply, which exerted a downward pressure on prices. The slower growth of the population in 1966 caused by the small volume of immigration, the decline in nonrecurrent personal restitution payments from West Germany (a considerable part of

Diagram VI-5

RISE IN PRICES OF VARIOUS SERVICES, ACCORDING TO CONSUMER PRICE INDEX, 1964-66

(average 1964=100)

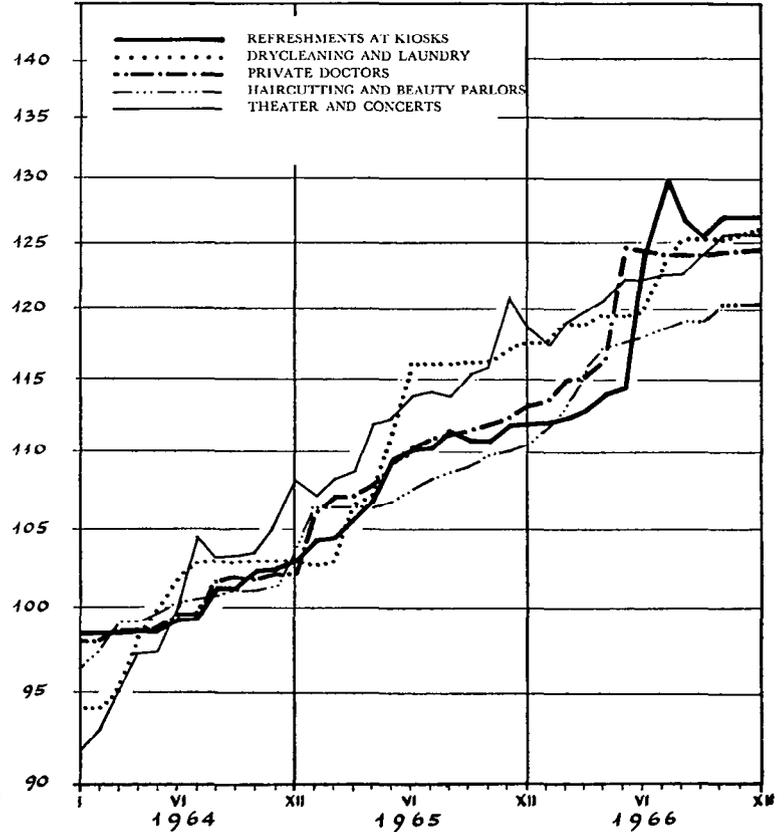
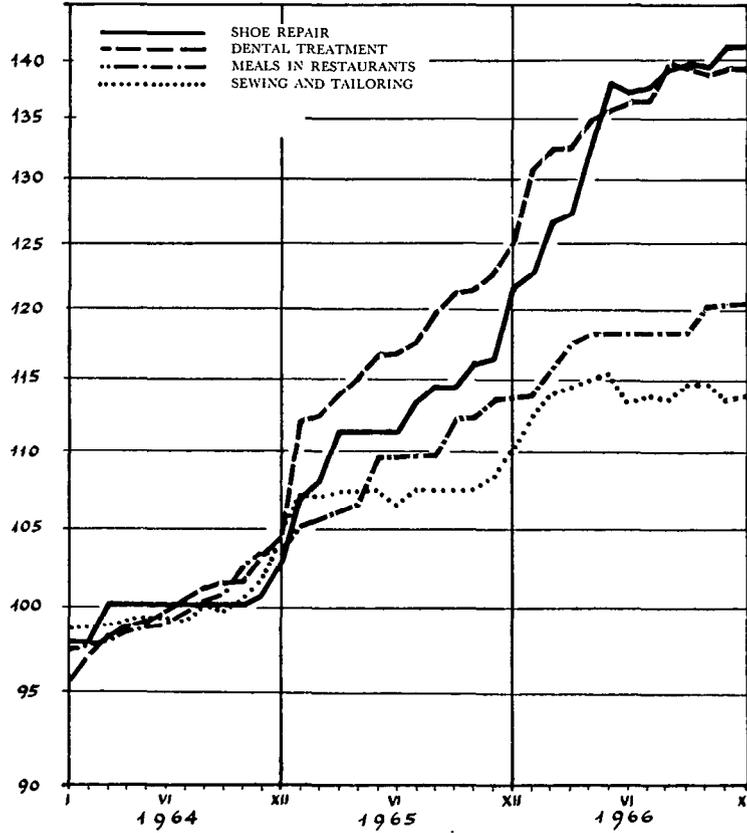


Table VI-13

RISE IN DWELLING PRICES AND KEY MONEY, 1964-66

(average 1964=100)

Period (middle of survey period)	Dwelling prices		Key money		Total	
	Index	Percent increase or decrease (-) as against previous period	Index	Percent increase or decrease (-) as against previous period	Index	Percent increase or decrease (-) as against previous period
1964 January 1	93.0	—	91.6	—	92.7	—
July 1	100.5	8.1	100.2	9.4	100.4	8.3
1965 January 1	106.6	6.1	108.3	8.1	107.0	6.6
April 1	111.6	4.7	108.5	0.2	110.9	3.6
July 1	111.6	0.0	107.0	-1.4	110.6	-0.3
October 1	112.2	0.5	114.5	7.0	112.7	1.9
1966 January 1	111.4	-0.7	115.1	0.5	112.2	-0.4
April 1	110.7	-0.6	111.9	-2.8	111.0	-1.1
July 1	109.4	-1.2	111.8	-0.1	109.9	-1.0
October 1*	106.9	-2.3	103.2	-7.7	106.1	-3.6

* Provisional figures.

SOURCE: Based on Central Bureau of Statistics data (see appendix—in Hebrew only).

which has been used to purchase dwellings), and the uncertainty concerning future economic developments, such as the fear of losing jobs with the growth of unemployment and the expectation that housing prices would slip further, all these considerably depressed demand for housing in 1966. The effect of these factors was to dampen prices and reduce purchases.

Housing prices are measured according to the value indicated when the dwelling is registered at the Land Registry Office, and not the price fixed between the buyer and seller when the transaction takes place. Since the property is registered later (sometimes after the buyer has already moved into the home), the survey findings have a certain time-lag. Hence the fall in housing prices in 1966 may have been greater than indicated by the data available. In addition, easier purchase terms, such as cheaper credit, were probably given during the year reviewed, but these were not entirely reflected by the measurement.

Key money declined somewhat in 1966 (see Table VI-13). This was undoubtedly connected with the rent increases in houses subject to the Tenant Protection Law—a rise recommended by a special committee that dealt with the matter.

(e) *Investment prices*

The level of domestic investment prices edged up 1 percent in 1966. This was a smaller rise than in any of the five preceding years, and was mainly due to the stability of construction prices.¹

Equipment prices (exclusive of motor vehicles) advanced 2-3 percent, with both imported and locally produced items showing higher figures. The rise in the prices of locally manufactured equipment was apparently connected with the increase in production costs in 1966.

Automotive vehicle prices were about 1 percent higher in 1966. The measurement of this item is somewhat deficient in that it does not fully take into account the improvements introduced in the latest models.

Table VI-14
CHANGES IN DOMESTIC INVESTMENT PRICES, 1963-66
(percentages)

	1963	1964	1965	1966
Construction	6	7	5	—
Equipment (excl. vehicles)	7	1	3	3
Locally produced	5	1	4	3
Imported	8	1	2	2
Vehicles	3	2	4	1
Ships and aircraft	—	—	—	—
Capital goods from agriculture	8	6	11	10
Total	6	5	4	1

SOURCE: Central Bureau of Statistics.

¹ On the problems involved in measuring the prices of this item, see Chapter V, "Domestic Investment", the section on prices, and Chapter XIII, "Construction and Housing", the section on input prices.