

## CHAPTER X

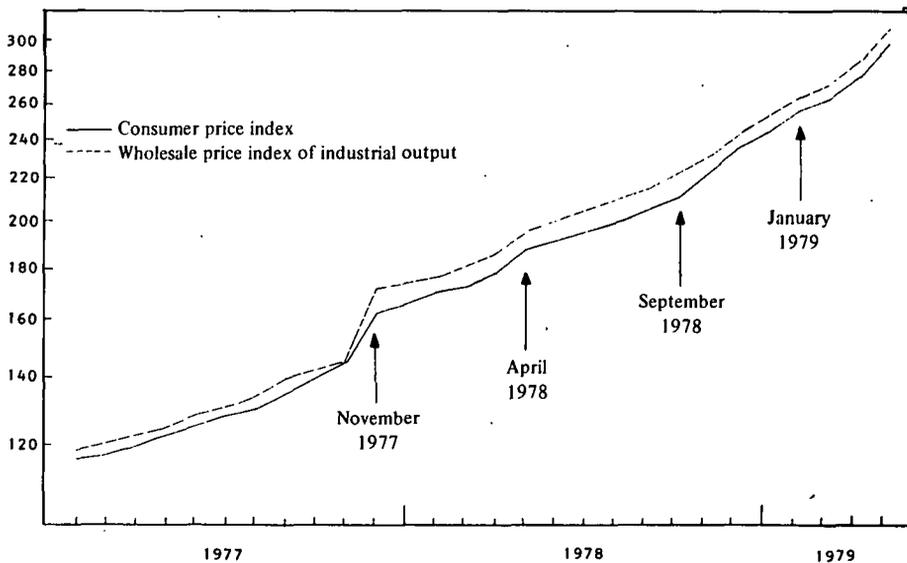
### PRICES

#### 1. MAIN DEVELOPMENTS

The price rise gained momentum in 1978: over the entire year the consumer price index climbed by 48 percent, reflecting the acceleration of the rate from 2.5–3 percent a month in the earlier part of the year to double this figure in the final months. The inflation continued to sharpen in the first months of 1979 as well.<sup>1</sup> The wholesale price index of industrial output presents a similar picture.

The exacerbation of inflation was due to the interplay of several factors: both ongoing and new ones on the costs side, along with the change of trend in domestic demand which occurred in 1978. In contrast to previous years when domestic demand, especially for housing, restrained price increases, the growth in demand which began towards the end

FIGURE X-1  
CONSUMER PRICE INDEX AND WHOLESALE PRICE INDEX  
OF INDUSTRIAL OUTPUT, 1977–79



<sup>1</sup> During the first four months of 1979 the consumer price index rose by 23.4 percent, or at an 88 percent annual rate.

of 1977 and increased in 1978 combined with the mounting costs to accelerate the rise in prices.

The source of most of the cost factors which affected prices in 1978 can be traced to previous years. During those years the economy was slack, and the 30–40 percent yearly price increases were due to cost-push. It should be emphasized that prolonged rapid inflation generates expectations for its continuation in the future, and economic units adjust their behavior to them; this results in a state of self-justifying expectations. A further legacy of the previous year was the repercussions of the October 1977 economic program, which involved a large devaluation of the Israeli pound and raised the value added tax. The immediate outcome was a 12 percent jump in prices in November, with further increases thereafter, due to the impact of the devaluation on the wage-price spiral. The developments in 1978 occurred against the background of a rapid monetary expansion which began in 1977, and of a labor market in which no overt unemployment was generated even during the period of relative recession.

Against this background the economy renewed its growth in 1978, reflected by an upturn in all demands. Housing played a central role in the latter development: the growth in demand for housing and the accelerated increase in its price preceded the other developments and influenced them. The continual exchange rate devaluation after the reform also contributed to the high rate of inflation this year. The resurgence of demands in an economy experiencing full employment, along with the continued impact of inflationary factors from previous years, exacerbated inflation from a 30–40 percent annual rate to 60–70 percent in the last months of 1978.

## 2. PRICE DEVELOPMENTS DURING THE YEAR

In November 1977, the consumer price index immediately responded to the foreign currency reform with an exceptional jump of 12 percent. From December onward the price rise slowed, and until August the level rose by an average of 2.5 percent per month, with sharp monthly fluctuations.<sup>2</sup> This rate doubled during the last three months of the year and the first months of 1979.

The wholesale price index of industrial output for the domestic market showed the same overall trend as consumer prices: the former went up in 18 percent in Novem-

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<sup>2</sup> In March and April prices rose by an average of 4.5 percent a month: excluding these two months, the level moved up from December 1977 to August 1978 at a monthly average rate of 2 percent.

ber 1977, in the following three months it moved up at a moderate pace, and then accelerated, especially towards the end of the year.

TABLE X-1

**SELECTED PRICE INDEXES, 1976-1978**  
(percent change during the year)

	1976	1977 <sup>a</sup>	1978 <sup>a</sup>	January- August 1978 <sup>b</sup> (annual rates)	September- December 1978 <sup>c</sup> (annual rates)
Consumer price index	38	42	48	38	71
Wholesale price index of industrial output	39	50	47	39	63
Official exchange rate relative to the basket of currencies	20	88	34	43	18
Dwelling prices <sup>d</sup>	7	22	134	127	150
Housing item in consumer price index	23	29	57	46	83

<sup>a</sup> December index divided by December index of previous year (in dwelling prices the index relates to January 1).

<sup>b</sup> August 1978 index divided by December 1977 index.

<sup>c</sup> December 1978 index divided by August 1978 index.

<sup>d</sup> Homes bought from private owners, from the quarterly surveys of dwellings. The figure for August was calculated on the assumption that the quarterly rise in the index was equally divided over the three months.

Due to the fluctuations in the movement of prices during the year, we should survey a number of factors which influenced prices during the year: import prices, wages, taxes and subsidies, and demand for commodities and factors of production.

The path of the exchange rate during the year was the opposite of that of domestic prices: a rapid devaluation until August – about 3 percent per month relative to the basket reflecting the composition of imports – and after that it dropped to half this rate. Overseas prices went up sharply in the last quarter of 1977 and the first quarter of 1978 (prices of capital goods shot up to an extraordinary extent); in the middle of the year they rose moderately but accelerated again in the last quarter of 1978.

Wages per employee in the business sector were 55 percent higher in 1978 than in 1977, and 52 percent higher in the public sector. Three cost-of-living increments were paid during the year: in January, a special increment of 12 percent as compensation for the exceptional price increases after the reform; and in April and October – 7.4 and 12.9 percent, respectively – in accordance with the general c-o-l agreement. The attempt to create differentials in wage increases, both between the business and public sector and between different segments of the public sector, did not enjoy much success, and the renegotiation of wage agreements stretched out over the entire year. In April an agreement was signed between the government and the Histadrut (General Federation of Labor) which was intended to moderate the rate of inflation; it obligated the government not to raise taxes or the prices of basic commodities, and to make an effort to speed up the signing of agreements whose conclusion had been delayed, principally in the public sector. In June and July advances were paid against these agreements, but in the end no agreements were signed in the public sector during this period. Only at the end of November was the general framework agreement concluded, while most of the wage agreements themselves were signed later, and some had not even been concluded by the end of the year.

Taxes were not raised during that period, nor in fact for the entire year, except for fuel taxes, which were raised in November. From November on subsidies were gradually scaled down, and the prices of basic commodities went up 10–20 percent.

Only limited information is available on the development of aggregate domestic demand during the year, except for housing, where a quarterly survey is conducted. In this sector demand and prices began to pick up in the second half of 1977 and accelerated during 1978. Quarterly national accounts data, which are less reliable, also indicate a steady, rapid growth of private consumption and investments in equipment.

Information about the labor market is based on quarterly data, and these point to a rise in the labor force participation rate (beginning around the middle of 1977) to the level which prevailed in 1973. Together with the drop in the unemployment rate, the picture that emerges is an increase in employment since the second half of 1977. There was also a continuous growth over the year in the number of employed persons from the administered areas, after three years of decline.

The movement of investment prices broadly resembled that of private consumption prices, but the acceleration here began earlier, the rise in the case of construction gaining momentum, as stated above, at the end of 1977. The bulk of the investments in equipment was for imported items (including motor vehicles), and here too the accelerated increase in price began in the final part of 1977, due to the combined impact of the reform, the steep rise in the foreign prices of capital goods at the end of 1977 and the

beginning of 1978, and the steady drop in the external value of the IL during the first months of 1978.

### 3. THE INFLATIONARY PROCESS

The acceleration of inflation in 1978 took place side by side with the renewed expansion of the economy and the increase in domestic demand, after a number of years of minimal growth and restrained domestic demand. In contrast to previous years, when demand, with housing at its head, moderated the price rises due to cost-push, the expansion of demand this year intensified the rise in prices.

The sluggish level of the domestic activity of the past few years was accompanied by a 30–40 percent annual rate of inflation due entirely to cost pressure. These underlying factors were in part exogenous to the Israeli economy, such as the price rises abroad, but most of them were the result of deliberate policy, such as the devaluations of the IL, the hiking of taxes, and the expansion of public sector employment. The rapid inflation got underway in 1973, with the rise in the prices of oil and other raw materials on the world market. In consequence of the deterioration of the balance of payments which resulted from this and the growth in defense expenditures after the Yom Kippur War, the government initiated a policy intended to reduce private consumption and imports and to encourage exports. Thus the Israeli pound was devalued by about 150 percent (from IL 4.20 to the dollar before the November 1974 devaluation to IL 10.30 before the reform of October 1977), and indirect taxes on domestic production and imports were raised a number of items. While this policy contributed to an improvement in the balance of payments, it also sparked a cost-price spiral. A high rate of inflation, when prolonged for a number of years, generates both expectations for its continuation and mechanisms for hedging against it. Some of these are institutional compensator arrangements, such as the cost-of-living allowances, exchange rate insurance, and other linkage devices, all of which operate with a time lag; others are created by the market by means of more frequent adjustments of prices by firms and wages by employees. Added to these compensatory and inflation-proofing devices is the uncertainty over the rate of future price and cost increases. Workers' claims for wage compensation for price increases, and the reaction of producers by adjusting prices to cover wage increases, bring about a wage-price spiral. Thus, even when the factors which initially provoked the inflation weaken, it continues at a rapid pace, until all the compensatory factors run their course. The convergence of this process is not guaranteed, especially in a period of abundant liquidity and demand expansion, which permit the continuation of the inflationary spiral.

During 1977 all the cost factors were still at work — “creeping devaluations” until October, price increases overseas, increased taxation and wage hikes; towards the end of the year the blow of an additional price increase struck the economy, following the exchange rate reform and the implicit increase in imports prices. During the first month after the reform, consumer prices rose by 12 percent, and industrial wholesale prices by 18 percent. The demand for an immediate compensation in wages was met by a special cost-of-living increment in January 1978, and part of the price increases after that were lagged repercussions of the reform.<sup>3</sup> The high level of inflation during the previous years and the exogenous shock of the reform form the background to the developments in 1978.

Against this backdrop, the rise in production costs continued in 1978, in both wages and import prices, due to the rapid devaluation and price increases overseas. The year 1978 represents a turning point in the development of the domestic economy with the current business cycle — like previous ones — being led by the construction industry. The turnaround in the housing construction sector, from a slump to a growth in demand, had already begun during the second half of 1977. Due to the inelastic supply, which has its origins in the long building time, this growth found immediate expression in price increases. Excess demand in this market continued unabated and intensified during 1978, and prices skyrocketed. This renewed demand spread from construction to other sectors, of which the first were construction-related industries, where particularly large price increases were recorded during 1978 (see Table X-3). The impact of intensifying demand was evident this year in all economic data, in final goods, and in productive factors: nondwelling investment rose this year by 10 percent, after a similar decline in each of the two previous years; the growth of private consumption picked up, with durable goods rising steeply, after three years of decline. Renewed growth also marked public consumption (excluding direct defense imports), after two years of contraction. Thus 1978 saw the resumption of economic growth, with the labor market close to full employment.

The question arises whether, after a slump of several years' duration, it is not possible to meet the incremental domestic demand from the idle capacity created in recent years without a sharpening inflation. To answer this we must distinguish between the construction industry and the other economic sectors. The inelasticity of supply in construction, which stems from the long building time, results in a shortage being reflected by price rises, which tend to accelerate. As to the growing demand for tradable goods, on the

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<sup>3</sup> In addition to the direct impact of the reform on prices and its indirect impact through the wage-price spiral, there was a wealth effect arising from the unexpected increase in private wealth during a period when domestic demands usually grow stronger.

face of it, it could be satisfied by the import of substitutes; but, in the wake of the reform, which was not accompanied by a significant abolition of import duties, imports became much more expensive than their domestic substitutes.<sup>4</sup> Thus the reform generated additional pressure on domestic production by encouraging import substitutes, along with an incentive to try to satisfy the demand growth, first of all through domestic production. Production of industrial goods other than diamonds grew this year by 7 percent, and it appears that it was manpower that constrained a larger expansion of tradable goods production. It should be remembered that along with the growth in domestic demand exports continued to advance, and this too required additional factors of production. In 1978 demand pressures were clearly evident in the labor market. The number of Israeli employed increased by 4.6 percent in 1978 (in the business sector the growth rate was about 3 percent), as a result of a rise in the participation rate to the level which prevailed in 1973 and a slight shrinkage in unemployment. The number of workers from the administered areas grew by 10 percent in 1978. The difference between the emergence from the 1966–67 recession and the current renewal of growth should be emphasized: in contrast to the past, growth is being renewed without any large reserve of unemployed persons in Israel, and with no large labor force potential from the administered areas. As for the other productive factor, capital stock, it should be noted that not all the measured stock can be utilized, due to the structural change in demand in recent years and the immobility of capital. The large growth in investments this year, which was distributed over most of the economic sectors, also indicates some capital constraint on the expansion of production, at least in some branches. At the same time, underutilization of capital apparently still prevails, principally because of a labor shortage. The short-term production function does not permit a large-scale substitution between capital and labor; thus the expansion of domestic production in 1978 was limited by the shortage of workers. In this context we should note the growth in demand for workers by the public sector, both during the years of the slump and in 1978. In the absence of unemployment, this reduces the supply of labor for the private sector, and causes price increases in the commodities market both because of the contraction of supply and because of mounting production costs as a result of the wage increases generated by the excess demand for labor. In 1978 the supply of workers from the administered

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<sup>4</sup> See Chapter IV. The increase in the price of imports, relative to GNP, was 15 percent on the average for 1978, whereas during the three previous years the cumulative relative rise was 6 percent. Towards the end of 1978 the rate of devaluation slowed while the rate of domestic prices rises increased, so that the trend of the changes in the relative price of foreign trade is the reverse of that which had prevailed since the reform, and the real devaluation is being steadily eroded.

areas was much lower than during the recovery from the previous recession, and in the absence of unemployment among Israelis, the labor market imposes an effective constraint on the expansion of production.

The Israeli economy accordingly found itself up against a growth in domestic demand in 1978, when the potential production capacity accumulated during the years of the slump was unable to fully satisfy it. During most of the year there were expectations (most of which were realized) of a persistent rise in production costs, as a result of continuing devaluations and large wage hike claims. Thus, with the first signs of a growth in demand prices were raised. It should be noted that the economy has in the past known periods of excess demand similar to that of 1978, but it did not result in such large price increases as occurred this year. The additional demand in 1978 caused the rapid acceleration of price rises only because the economy had already experienced a long period of adaptation and compensation for persistent cost inflation.

Throughout 1978 prices continued to be affected by cost factors: wage increases, which in part were a lagged reaction to the October 1977 devaluation and in part reflected the demand pressures in the labor market; the devaluation of the Israeli pound in most months of the year, and price increases in the world market. Amid all the pressures for compensation by both workers and producers, the expectation of a continued rise in costs, and the growth in demand for goods and workers, the government and the Histadrut tried to tone down inflation by avoiding any raising of taxes and prices of basic commodities. This effort, in the absence of complementary measures, did not bring about the hoped-for slowdown, and when the agreement expired, the advance of prices doubled from 3 percent in September to 6 percent in October. Were it not for the partial freeze agreement, the increase might have been spread over a longer period of time, so that the sharp acceleration in October would not have occurred. In other words, it is possible that the principal impact of the agreement was the postponement of part of the price hikes until October (when the freeze agreement expired and a 13 percent cost-of-living increment had to be paid). The movement of the wholesale industrial price index supports this assumption, since the rise in this index was more gradual during the second half of the year.

The mirror image of the growth in demand is reflected in the monetary aggregates. Here the rapid expansion had already begun in 1977 owing to a large-scale injection of liquidity into the economy. In 1978 the expansion continued mainly during the months January-September, when the liquid assets held by the public (the money supply and residents' foreign currency demand deposits) swelled and there was an even more rapid growth in bank credit to the public. In 1977 most of the monetary expansion was diverted to the purchase of financial assets, which increased at an extraordinary real rate, whereas

TABLE X-2  
**CHANGES IN CONSUMER PRICES, BY ITEM**  
 (percent)

	Weight in 1976	Change during the year <sup>a</sup>		
		1976	1977	1978
Total	1,000	38.0	42.5	48.1
1. Commodities				
(a) Agricultural produce	76	42	33	63
Fresh fruit and vegetables <sup>b</sup>	52	41	32	74
Other agricultural produce	24	46	35	40
(b) Industrial products	463	38	49	46
Food	174	39	53	39
Clothing and textiles	74	47	32	50
Leather, rubber, and plastics	27	44	42	45
Wood and wood products	27	31	45	45
Metal and machinery	9	27	46	48
Transport vehicles	29	38	69	84
Electrical equipment	45	30	55	45
Chemicals	19	26	46	52
Petroleum and petroleum products	29	35	53	34
Paper and publishing	15	37	52	46
Miscellaneous	15	46	48	50
2. Services				
(a) Construction and housing services	207	24	30	58
(b) Other services	254	44	44	42
Electricity and water	25	26	57	26
Transport and posts	48	44	43	32
Education services	25	44	29	15
Health services	32	42	52	66
Hotels	36	49	52	43
Other business services	6	13	21	52
Personal services	50	51	51	51
Insurance and taxes	31	44	31	46

<sup>a</sup> Change in December levels.

<sup>b</sup> There are many seasonal fluctuations in fresh fruit and vegetable prices; therefore it is preferable to compare annual averages. The latter increased by 27 percent in 1976, 32 percent in 1977, and 41 percent in 1978.

SOURCE: Central Bureau of Statistics, Monthly Price Statistics, January 1979.

the expansion in 1978 led to the incremental liquidity finding its way to the commodities market. In this fashion the monetary system contributed to the growth in economic activity, and made it possible for the excess demand to be fully reflected in prices.

#### 4. RELATIVE PRICES

##### A. RELATIVE PRICES OF RESOURCES AND USES

The price of domestic uses (excluding direct defense imports) increased by 58 percent on an annual average in 1978. The rise was not uniform for the different uses, chiefly because of the conspicuous change in import prices (which, excluding direct defense imports, climbed by 75 percent). Thus there was an especially steep increase in the price of uses with a high import component, namely nondwelling investment. The cyclic growth in housing demand together with supply constraints, caused an exceptional price increase this year in dwelling investments as well. The price of total investments thus rose by about 70 percent. Private and public consumption prices (excluding direct defense imports) rose by about 55 percent. As opposed to the 58 percent price rise for domestic uses, export prices climbed by 71 percent, paced by service exports. The change in the average price of foreign trade was predominantly affected by the foreign currency reform, which made imports and service exports much more expensive. The relative price of exports and imports continued to climb until August, due to prices rising abroad and the devaluation of the IL (which was higher than the domestic price rise until August). From September on there was a fall in the relative price of foreign trade, despite the renewed acceleration of price increases abroad, since the rate of devaluation slowed considerably and domestic price increases gained momentum (see Table II-1).

##### B. RELATIVE PRICES OF PRIVATE CONSUMPTION COMPONENTS<sup>5</sup>

Among the components of private consumption, the relative price of housing and of motor vehicles, which are mostly imported, rose, while the relative price of food, a considerable part of which consists of controlled items, declined. In services exclusive of housing, a large part of which is also regulated, there was likewise a below-average price rise. The fuel item registered price rises close to the average, with the increase in import prices partially offset by the tax freeze.

##### C. RELATIVE PRICES OF COMPONENTS OF INDUSTRIAL OUTPUT FOR DOMESTIC DESTINATIONS

The striking fact about the development of the various components of the price index of industrial output for the domestic market is that the increases in the different

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<sup>5</sup> See Table X-2.

TABLE X-3

**RISE IN THE WHOLESALE PRICE INDEX OF INDUSTRIAL OUTPUT  
FOR THE DOMESTIC MARKET, BY SECTOR, 1976-1978**  
(percent)

	Annual averages			December 1978 compared to December 1977	December 1978 compared to 1978 average
	1976	1977	1978		
General index <sup>a</sup>	31	39	53	47	21
Mining and quarrying	38	45	78	70	28
Food, beverages, and tobacco	27	38	43	37	21
Textile	40	38	47	46	19
Clothing	40	38	45	41	20
Wood and wood products	35	37	49	41	17
Paper and paper products	32	44	32	31	17
Leather and leather goods	58	49	59	57	27
Rubber and plastic goods	31	36	46	47	22
Chemical and petroleum products	26	37	59	51	21
Nonmetallic mineral products	29	38	69	65	26
Basic metals	29	36	59	55	23
Metal products	28	38	58	54	21
Machinery	33	39	55	44	20
Electrical and electronic equipment	31	40	67	55	23
Transport vehicles	28	38	68	60	19
Miscellaneous	34	45	57	48	22

<sup>a</sup> Excl. printing and publishing.

SOURCE: Central Bureau of Statistics.

branches in 1977 were close to the national average, whereas in 1978 they revealed an uneven pattern. Two principal factors may explain this phenomenon of 1978. Due to the extraordinary rise in import prices, the import component, which differs from branch to branch, contributed to the variance between them. Secondly, the different intensities of demand pressures led to larger price increases in branches unable to increase output in the short run. To discount the impact of the rise in import prices implicit in the reform, we should examine price developments during 1978, and not the annual average increase,

since it is reasonable to assume that increases in branches with a high import component occurred before the end of 1977.<sup>6</sup>

The sharpest price increases occurred this year in the branches which service the construction industry,<sup>7</sup> led by mining and quarrying (the prices of quarried products rose particularly fast) and the nonmetallic minerals branch (notably cement products and clay and lime products for construction). Relative prices also rose in basic metals, in particular those uses in construction.

Examination of the subbranches reveals significant rises in the relative prices of some consumption goods towards the end of the year, principally durables and some food products.

Overall we can say that the exceptional price increases which began in housing construction spread also to industry, initially to construction-related branches. It is reasonable to assume that precisely in these branches no excess production capacity had been created, due to the particularly low level of activity in recent years, so that the growth in demand caused the rapid price rise.

## 5. OTHER PRICE INDEXES

### A. CONTROLLED AND UNCONTROLLED GOODS IN THE CONSUMER PRICE INDEX

In October, 1977, controlled commodities became 15 percent more expensive, on the average, as part of the "new economic policy", the main element of which was the foreign currency reform. During the first nine months of 1978 these prices rose moderately, under the agreement with the Histadrut; towards the end of the year they rose by 10-20 percent. Thus the average price increase for these goods was 26 percent for the year, compared to an average of more than 50 percent in the other items of the consumer price indexes.<sup>8</sup>

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<sup>6</sup> If the price rises occurred at the beginning of 1978, most of their effect can be netted out by comparing December 1978 to the 1978 average, which shows an identical picture (see Table X-3).

<sup>7</sup> Except for the leather and leather products branch, which has seen extraordinary price rises since 1976, after a particularly slow rise previously, and which is connected, not to activity in the construction sector, but to the worldwide rise in raw materials prices in recent years.

<sup>8</sup> For the list of controlled commodities and services and their weight in the index, see Chapter X, "Prices", in the Bank of Israel Report 1977.

TABLE X-4

**RISE IN VARIOUS PRICE INDEXES, 1965-1977**  
(annual averages, percent)

	Average				1975	1976	1977	1978
	1965- 1967	1968- 1970	1971- 1973	1974- 1977				
Consumer price index	18	11	15	36	39	31	35	51
Wholesale price index of indus- trial output	10	9	14	40	41	31	39	53
Index of agricultural input prices <sup>a</sup>	7	17	14	41	46	33	31	51
Index of housing construction input prices	16	18	18	34	31	26	31	57
Index of road construction input prices	—	18	15	40	49	26	36	75

<sup>a</sup> Excluding the agricultural services branch.

SOURCE: Central Bureau Statistics.

#### B. PRICES OF THE CONSUMPTION BASKET OF VARIOUS POPULATION GROUPS

The average consumption basket, measured by the consumer price index, became, as stated, 48 percent dearer in 1978. The consumption basket of families in the lowest income bracket became 44.5 percent more expensive, while that of families in the highest income group became 51 percent more expensive. This difference stems from the higher weight of the private motor vehicle and vehicle maintenance items and privately owned dwellings, and the lower weight of food, public transportation, fuel, electricity, and water in the basket of families in the top decile in comparison with that of families in the lowest decile. Motor vehicle and home prices went up faster, as already pointed out, than the average level, while controlled commodities — which include some food products as well as public transportation, fuel, electricity, and water — rose at a below average rate.<sup>9</sup>

<sup>9</sup> For details see Monthly Price Statistics of the Central Bureau of Statistics, January 1979.

### C. HOUSING PRICES AND CONSTRUCTION INPUTS

The housing construction industry started to pull out of its prolonged slump in the second half of 1977, which also saw a renewed rise in dwelling prices. This sector is characterized by cyclical swings, and recovery begins with a rise in the relative price of homes. The rise gained momentum in 1978, in the course of which prices soared 134 percent. This process is described in detail in Chapter IX, "Investments and Construction."

The price of construction inputs rose by 58 percent in 1978, with the increase distributed over all inputs: labor and equipment became about 60 percent more expensive, and materials and transport 55 percent. The rise in wages was concentrated in the first half of the year, while the index excluding wages acceleration during the year – from 10 percent in the first quarter to 15 percent in the last quarter.

### D. INPUT PRICES IN AGRICULTURE AND ROAD CONSTRUCTION

Prices of agricultural inputs rose by 46 percent in 1978, similar to the preceding year. There were especially steep increases in wages (about 80 percent) and plant and equipment (about 55 percent). Agricultural input prices outpaced output prices, so that there was a deterioration in the terms of trade of this sector. In road construction input prices rose by 65 percent in 1978, after a similar rise last year. This reflects steep increases in all items – wages, materials, and above all the extraordinary jump in equipment prices.