

## CHAPTER VI

### PRICES

#### 1. MAIN DEVELOPMENTS

THE RAPID RISE of prices, evident since the middle of 1970, carried over through 1972, when the consumer price index went up 12.4 percent in the course of the year, compared with 13.4 percent during 1971.

The increases in 1972, as well as those in the two preceding years, were much greater than what the economy had experienced in previous boom periods. During the period 1960–65, which, like the last few years, was marked by full employment, the level moved up by an average of some 8 percent per annum. Since the middle of 1970 domestic prices have climbed at an annual rate of about 14 percent.

Most of the upward thrust has come from the buoyant demand, which has found expression in virtually all markets (including securities and real estate). In this respect, the year reviewed witnessed a continuation of the trend begun in 1970, although its character was somewhat different. In 1970 and 1971 the principal factors driving up the price level were the import levy imposed in August 1970 and the devaluation of the Israeli pound in 1971, which disrupted

Table VI-1  
AVERAGE RISE IN PRICES OF RESOURCES AND USES, 1961-72  
(percentages)

	Average 1961-65	1970	1971	1972
Private consumption	7.0	7.5	12.5	13.5
Public consumption	10.5	7.5	16.0	18.5
Gross capital formation	8.5	11.0	13.5	15.5
Total domestic uses	8.0	8.5	14.0	15.5
Exports	13.0	4.0	15.0	15.5
Total uses	8.5	8.0	14.0	15.5
Imports	11.0	4.0	15.0	21.0
Gross national product	8.0	9.5	13.5	12.5
Total resources	8.5	7.5	14.0	15.5

NOTE: Figures are rounded off to the nearest half percent.  
SOURCE: Central Bureau of Statistics.

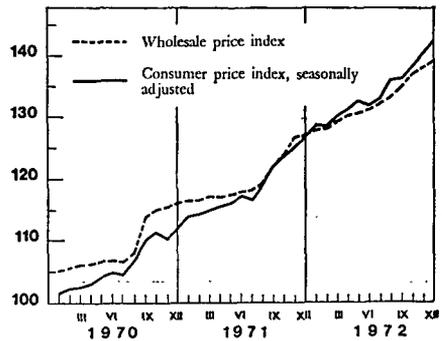
the equilibrium between aggregate demand and aggregate supply. In 1972 there was no upward pressure on prices due to administrative measures. The principal factor was the continued strong growth of demand, which far exceeded the growth of the supply of goods and services, and therefore generated strong inflationary pressures in the economy.

A contributory cause of the incremental demand was the accelerated monetary expansion and the resulting big increase in the economy's liquidity. The growth of demand can be traced by examining monetary developments in the course of the year, taking into account the lagged effect of the monetary expansion on real transactions in the economy. We find that the increase in the money supply and total liquid assets held by the public far outstripped the real increase in the supply of goods and services.<sup>1</sup> Moreover, the demand pressures which prevailed in the past three years, as reflected by this calculation, exceeded those in the boom period 1960-65. In recent years much of the incremental demand was diverted to the securities and real estate markets, as reflected by the level of prices and activity therein. In 1972 these two markets absorbed a substantial part of the additional demand, thereby easing the pressure on the balance of payments and averting a more rapid climb of commodity and service prices.

We can learn something about the growth of demand in 1972 from an examination of the labor market, for developments here are related to developments in the market for goods and services. In 1972 the unemployment rate fell to an all-time low of 2.7 percent (the previous boom-period low was 3.5 percent—in 1965). In addition, the number of unfilled job vacancies reached a new peak in 1972. The wage and salary hikes granted in 1972 reflect both the pent-up demand for labor, which reached its peak at the end of 1971 and the beginning of 1972, and the compensating of employees for the steep price rises since mid-1970. On the other hand, the 1972 pay hikes are not fully reflected in the data, as in many branches the new wage agreements were not yet signed by year's end, and these will include retroactive pay increases. The increments provided for in these agreements, including the retroactive adjust-

Figure VI-1

WHOLESALE PRICE INDEX AND  
CONSUMER PRICE INDEX  
(SEASONALLY ADJUSTED), 1970-72



SOURCE: Central Bureau of Statistics.

<sup>1</sup> The growth of the money supply, less the real increase in the national product weighted by its share in total resources, and less the rise in import prices (which is largely exogenous), weighted by the share of imports in resources. The result obtained may be regarded as an indication of the demand pressures in the economy.

ments, were a factor (although not a decisive one) in the inflationary developments in the final months of 1972 and the first part of 1973.

Along with the demand-pull on prices, there was pressure from the costs side. The most conspicuous development here was the sharp rise in import prices, which presumably affected chiefly those branches which have to compete with imports. Indeed, prices in such branches shot up 13.4 percent in the course of the year. However, domestic prices went up much more than warranted by the higher cost of imports. GNP prices (which do not reflect the higher import prices) jumped by an average of 13.5 percent in the last two years, a development strengthening the assumption that the buoyant demand was the main cause of the inflationary pressures.

**Table VI-2**  
**RISE IN VARIOUS PRICE INDEXES, 1971-72**  
(percentages)

	Annual average		Jan.-Dec.		Jan.-July		Aug.-Dec.	
	1971	1972	1971	1972	1971	1972	1971	1972
Consumer price index								
General	12.0	12.9	13.4	12.4	4.0	4.0	9.0	7.6
Excl. fruit and vegetables	12.0	13.1	12.9	12.0	4.5	6.4	8.0	5.2
Excl. fruit and vegetables and housing	11.8	11.5	12.7	9.6	4.2	4.7	8.2	4.7
Wholesale price index of industrial output	9.2	11.6	10.3	9.6	1.9	3.9	8.2	5.5
Index of road construction input prices	12.6	14.1	16.1	12.5	10.1	9.6	5.4	2.7
Index of residential construction input prices	10.5	16.0	13.3	17.1	11.1	14.6	1.9	2.1
Index of input prices in agriculture	12.3	13.4	13.6	7.5	6.7	8.8	6.5	-1.2

SOURCE: Central Bureau of Statistics.

It should be noted that in branches protected against the competition of imports the price rise was lower than in branches exposed to competing imports, amounting to 9.5 percent.

The rapid upswing in prices of uncontrolled services and dwellings carried over through 1972, largely reflecting the persistence of the strong demand pressures. The advance of dwelling prices, however, slowed in the course of the year. In other areas (notably items subject to Government control) prices went up to a much lesser extent than the other commodity groups and the average price

level. This pattern of price increases deserves attention for, besides reflecting a distorted allocation of resources, it indicates that in the prevailing demand-inflationary situation the extra purchasing power engendered by the failure to raise controlled prices was diverted to other markets, where it helped to push up prices. At the same time, it should be stressed that the relatively small increase in the case of controlled items was more in the nature of a postponement of price rises. Experience shows that in the course of time controlled prices tend to adjust to control-free prices.<sup>2</sup>

A noteworthy phenomenon is the difference between the competing and noncompeting branches. The price rise in the latter—i.e. branches where the producers enjoy a monopolistic position—was much lower than in the competing branches. It appears that the monopolistic branches, as well as those protected against imports, were affected relatively more by price control.

Finally, it should be noted that the uptrend in prices grew sharper toward the end of 1972 and the beginning of 1973. From October 1972 to March 1973 the consumer price index went up by a seasonally adjusted 9.7 percent, or at an annual rate of some 20 percent.<sup>3</sup> This was due to a number of factors which apparently began to press more strongly on the price level. First was the renegotiation of wage agreements, most of which were concluded toward the end of 1972, and the payment of retroactive increases. Second, the foreign prices of many imports began to move up at a faster rate. Third, with the lifting of controls on a number of items at the beginning of 1973, their prices started to advance more rapidly.

## 2. CAUSES OF PRICE DEVELOPMENTS

Prices climbed steeply during 1972. The average level of consumer prices advanced 12.9 percent, and the other price indexes showed similar rises. There was a striking 17 percent jump in residential construction input prices. These increases continued the trend of the two preceding years. During the past three years the consumer price index shot up nearly 40 percent; with the exception of the early fifties, when price controls were lifted, the economy had never before witnessed such a precipitate rise. This inordinate advance stands out in particular because of the similarity between the present and earlier booms.

<sup>2</sup> For example, in April 1973 there was a rise in the price of several commodities subject to Government control: sugar, flour, and frozen meat. It should be noted that in most of the controlled items the consumption of the low-income groups outweighs that of the high-income groups. This is why the price of the low-income groups' market basket went up less than that of the other groups. See Y. Manzily, "Price Change in the Consumption Baskets of Various Income Groups in Israel", Bank of Israel, *Economic Review*, No. 41 (in press).

<sup>3</sup> During the period January-March 1973 the consumer price index rose by 5.4 percent, compared with 2.9 percent in the same period of 1972.

Part of these price rises was connected with the imposition of the import levy and the devaluation of the Israeli pound. But there is no doubt that the accelerated monetary expansion, fueled at first by the Government's liquidity injection and subsequently by the growth of foreign currency assets and their conversion into Israeli pounds, helped to push prices up sharply, even more than warranted by the higher cost of imports.

The imposition of the import levy in August 1970 and the devaluation of the IL in August 1971 accentuated the upward movement of prices. In fact, most of the increase occurred between August and December. But the level continued to drift upward even after the influence of the dearer imports had worn off, and there were also steep advances in the prices of dwellings, services, agricultural products, and various other items, which were not connected with the higher cost of imports. The intrayear movement of prices was somewhat different in 1972 from that of the two preceding years, although the rate of increase was similar. In 1972 the curve went up fairly evenly throughout most of the year, whereas in 1970 and 1971 most of the rise occurred shortly after the introduction of administrative measures (devaluation, tax hikes, and subsidy cuts). Thus, for example, about 60 percent of the 1971 rise in the consumer price index, excluding vegetables and fruit, took place between August and the end of the year, while in 1972 only 40 percent of the rise occurred during these months. This suggests that demand was the main factor pulling up the price level in 1972, since as a rule its influence is felt gradually, whereas the administrative measures make their impact felt immediately.

To be sure, the Government did take action in 1972 as well, but in the direction of mitigating the price rise. The items affected were basic commodities and goods and services whose pricing is influenced by Government policy.<sup>4</sup> Here the increases were below the index average. In 1972 Government support payments on basic commodities rose to about IL 500 million, mainly because of the jump in their international price, or in their cost in the case of domestically produced commodities.

Mention should also be made of the lowering of customs duties on sugar, meat, and iron after the marked increase in their foreign prices, in order to restrain the rise in their domestic prices. These steps, as already noted, moderated the increase in the average price level (these items went up at a below-average rate); on the other hand, they contributed to the growth of real income and left the public with spare purchasing power which probably would otherwise have been absorbed. This apparently led to some shifting of demand to other goods and services, mainly those with a relatively high income elasticity, and to the further intensification of demand pressures in these markets.

Holding the lid on controlled prices is also likely to result in a heavier demand

<sup>4</sup> The reference is to the moderating of the retail price rise of basic commodities through subsidization. The producer prices may have gone up to a relatively greater extent.

for control-free items. It is difficult to quantify this, but it is reasonable to assume that part of the increase in uncontrolled prices is explained by the shifting to other markets of the excess demand not mopped up in the markets where administrative restraints were in force.

Further confirmation of the continued existence on inflationary pressures in 1972 can be found in the movement of uncontrolled service and housing prices, which largely reflect the operation of market forces. The prices of uncontrolled services advanced at a slightly milder rate than in 1972—15.4 as against 17.8 percent; it should be noted, however, that there was a steep jump after the devaluation of the IL in August 1971.

Home prices soared nearly 30 percent. The consumer price index, excluding fruit and vegetables and housing, went up more slowly in 1972—9.6 percent, compared with 12.7 percent in 1971.

As already mentioned, monetary expansion during the past three years was at a very rapid 80 percent rate, as contrasted with a rise of 40 percent in the price level.

An increase in aggregate demand that is not met by a corresponding increase in the real supply of goods and services results in the generation of demand-inflationary pressures. A possible quantitative measure of these demand pressures may be found in the ratio between the growth of the money supply, or total liquid assets in the hands of the public, and the volume of real transactions, as reflected by the quantitative expansion of the national product. Such a calculation indicates that the demand pressures prevailing during the past three years were very strong, and even relatively greater than during the boom years 1960–65.<sup>5</sup> Also attesting to this is the decline in the unemployment rate to 2.7 percent, compared with 3.5–4 percent in 1960–65, and the increase in the number of unfilled job vacancies from 7,135 in 1971 to 8,486.

An increase in demand over and above the growth of the real product may find expression in a rise of prices, the quantitative growth of imports and intensified activity in other markets, such as securities and real estate, as well as in transactions in existing assets.

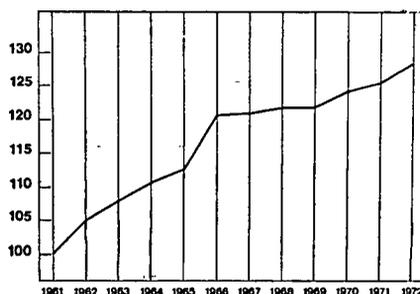
During the past three years, and in particular in 1971 and 1972, a greater percentage of the demand was channelled to other markets, namely the stock exchange and real estate. They absorbed much of the excess liquidity, and were it not for the boom conditions there, the increases in commodity, service, and import prices would have been larger than they actually were. In other words, the price level as measured by the conventional indexes generally does

<sup>5</sup> In 1970–71 the increase in the money supply over and above the growth of the product and the rise of import prices, which reflects the demand pressures existing in the economy, amounted to about 9 percent. The figure for the years 1961–65 was approximately 6 percent p.a. It should be stressed that this is not a precise quantitative measure of the prevailing demand pressures, but merely a rough approximation, with some significance only for purposes of making interyear comparisons.

not include the price advances in other markets. Inclusion of the latter (the securities and real estate markets) would give a more complete picture on the inflationary process.

Besides the growth of demand, there were some items that went up because of the price rises abroad. Import prices were up 21 percent in 1972, as against 15 percent the year before; and this influenced local producers who compete with imported commodities. During 1972 prices in the branches exposed to the competition of foreign brands moved up 13.4 percent, after advancing 10 percent in 1971.<sup>6</sup> On an annual average, they were 12.4 percent higher in 1972; the price rise in branches that do not have to compete with imports was lower —9.5 percent.

Figure VI-2  
**SERVICE PRICES RELATIVE TO  
 COMMODITY PRICES (EXCL.  
 HOUSING), 1961-72**  
 (average 1961=100.0)



SOURCE: Based on Central Bureau of Statistics data.

Table VI-3

**PRICE RISES IN COMPETING AND MONOPOLISTIC BRANCHES, ACCORDING TO  
 WHOLESALE PRICE INDEX OF INDUSTRIAL OUTPUT, 1970-72**

(average 1968=100.0)

	Weight in index	Price index			Percent increase in index			
		Dec. 1970	Dec. 1971	Dec. 1972	December levels		Annual average	
					1971	1972	1971	1972
Competing branches	51.3	117.3	128.1	143.9	9.3	12.4	9.0	12.5
Monopolistic branches	17.0	113.0	122.7	129.9	8.7	5.7	8.5	9.7

NOTE: The branches were classified as competing or monopolistic according to the index of concentration, with the former group having a relatively low concentration. The index was calculated according to the share of the three largest enterprises in the branch in its total sales. Exposure to competing imports was taken into account in calculating the index.

SOURCE: Based on Central Bureau of Statistics data.

These two groups also exhibited a differential rate of increase in 1970 and 1971, with the level going up faster in the exposed branches (see Table VI-4).

<sup>6</sup> The calculation was made for part of the items appearing in the wholesale price index of industrial output; their weight came to 22 percent. The weight of the items that do not have to compete with imports was about 46 percent.

Table VI-4

**PRICE RISES IN BRANCHES COMPETING WITH IMPORTS\*  
AND IN OTHER BRANCHES, ACCORDING TO WHOLESALE  
PRICE INDEX OF INDUSTRIAL OUTPUT, 1970-72**

(1968=100)

	Branches competing with imports	Other branches
	<b>Price index</b>	
Weight in index	218.3	459.3
1970 June	108.4	105.6
December	116.7	115.4
1971 June	119.5	116.2
December	128.4	125.4
1972 June	136.1	128.5
December	145.6	137.3
	<b>Percent increase</b>	
Half-yearly		
1970 I	—	—
II	7.7	9.3
1971 I	2.4	0.7
II	7.4	7.9
1972 I	6.0	2.5
II	7.0	6.8
Annual average		
1971	13.5	8.4
1972	12.4	10.9
December levels		
1970	11.6	11.1
1971	10.0	8.7
1972	13.4	9.5

\* Branches in which there is any import whatsoever of the products classified thereunder.

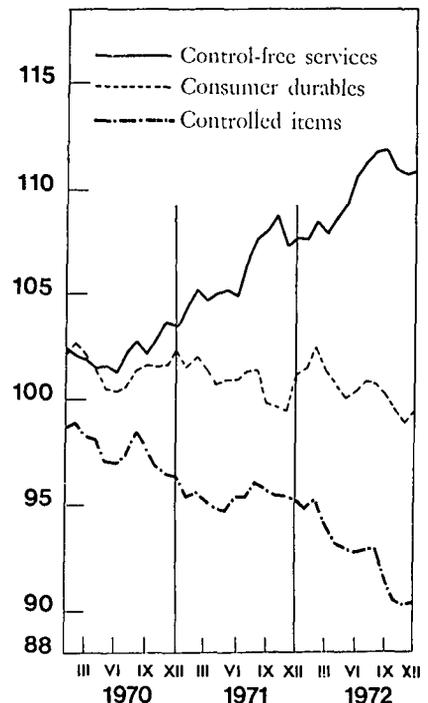
SOURCE: Based on Central Bureau of Statistics data.

But in both groups the increase was fairly fast during the last three years in comparison with the boom periods before the 1966-67 recession.<sup>7</sup>

It is also of interest to compare the price rises in branches holding a monopolistic position in the home market with those in which there is a large degree of competition. We find that the increase was greater in the latter—12.4 vs. 5.7 percent. As a rule, price policy in the monopolistic branches differs from that in the others, in that not only are the prices determined on the basis of cost calculations, but they are also influenced more by Government controls than by short-run fluctuations in demand. In 1971 prices had gone up to almost the same extent in the two groups, a fact apparently explained by the steep rise in production costs following the increase in the cost of the import component. By contrast, in 1972 the growth of production costs was relatively less important than in the previous year, and this may be the reason for the comparatively low price rise in the monopolistic branches. Price control may have been a contributory factor, since it exerts a greater influence on the monopolistic branches than on the other, more numerous branches.

In conclusion, the pressure of demand for workers built up in 1970-71 left its impact on the labor market in 1972, as reflected by the steep wage hikes granted during the year. But it should be borne in mind that the data for 1972 understate the actual wage increases, for in many branches the new wage

Figure VI-3  
**PRICE INDEXES OF SELECTED GROUPS RELATIVE TO CONSUMER PRICE INDEX (EXCL. FRUIT AND VEGETABLES), 1970-72**  
 (1969=100.0)



SOURCE: Based on Central Bureau of Statistics data.

<sup>7</sup> See also Table A-VI-7 in the statistical appendix (in Hebrew only) regarding the movement of prices in previous boom periods. It should be noted that no clear connection between the rise of prices and the degree of exposure to competing imports has been proven. In 1972 there was a conspicuous lack of connection, while a negative, weak connection was evident in 1970 and 1971. The weighted coefficient of correlation between the degree of exposure and the rise of prices was -0.203 in 1970, -0.113 in 1971, and -0.006 in 1972. These results strengthen the assumption regarding the dominant influence of excess demand on prices.

agreements had not yet been signed by the end of the year, and these include retroactive payments. The rises stipulated in these agreements and the payments that were made under the agreements concluded in the second half of 1972 were another, although apparently not a decisive, factor in the inflationary developments in the final months of 1972 and the early part of 1973.<sup>8</sup>

### 3. SECTORAL PRICE DEVELOPMENTS

#### (a) *Commodity prices*

Commodity prices included in the consumer price index, excluding fruit and vegetables and the housing item, moved up in 1972 to about the same degree as the two preceding years—9.2 percent compared with 11.8 percent in 1971.

The continuation of the uptrend points to the intensification of demand pressure in these markets, and reflects to some extent the price rises abroad, mainly in commodities exposed to the competition of imports. In 1970–71 the increase in production costs, together with the boom conditions prevailing in the economy, sharply pushed up commodity prices, mainly because the devaluations (official and unofficial) affected commodities much more than services. On the other hand, in 1972 there was no significant increase in exogenous production costs, and, as already noted, the wage-labor component did not exert upward pressure on prices.

This conclusion finds support in another indicator: the monthly rate of commodity price rise. During 1972 the curve ascended at a fairly even rate, whereas in both 1970 and 1971 most of the increase occurred in the post-August period (after the imposition of the import levy in August 1970 and the official devaluation of the IL in August 1971). The uniform tempo of the rise in 1972, as contrasted with the stepwise pattern of 1970–71, suggests that demand was the dominant factor in 1972.

Prices of consumer durables, whose weight in the consumer price index is about 12 percent, moved up at roughly the same rate as in the preceding year—10.1 percent as against 11.6 percent in 1971.

Industrial products, which account for about 45 percent of the general index, went up 9.4 percent during 1972—less than the 12 percent recorded in the previous year. The biggest rises were posted by the leather and the rubber and plastics industries—up 23 percent; clothing and textiles—14 percent; and furniture—14 percent. These industries are characterized by relatively stiff competition in the domestic market in comparison with chemicals and petroleum, for example—the latter went up by only some 3 percent during the year.

The strong rise in wholesale prices of industrial output, evident since the second half of 1970, carried over through the year reviewed, when the advance was almost equal to that of retail prices—9.6 percent. Here, too, there was a

<sup>8</sup> See Chapter IX below.

steep jump in leather and leather products—about 35 percent; clothing and textiles, wood and wood products, and basic metals were up about 15 percent. On the other hand, the uptrend in paper and paper products tapered off—a rise of only 1.9 percent, after an appreciable 13 percent increase in 1971. Virtual stability also prevailed in rubber and plastics and chemicals and petroleum (3 percent), and to some extent in food processing (about 5 percent).

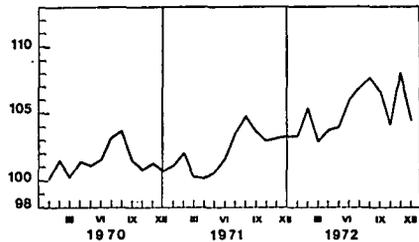
(b) *Service prices*

The service item in the consumer price index rose more mildly in 1972—10.5 percent compared with 14.5 percent the year before. Controlled services (rent, electricity, Sick Fund services, etc.) were mostly responsible for the slackening of the growth rate: these rose by about 8 percent, as against 13 percent in 1971. Uncontrolled services, housing services, private medical care, etc., where prices are influenced by market forces, continued to move up at a vigorous pace, but less so than in 1971—15.4 vs. 17.8 percent.

It is illuminating to compare the rise of uncontrolled service prices in the two subperiods January-July and August-December in 1972 and 1971 (i.e. the months before and after the devaluation of the IL in August 1971). In the second subperiod (August-December) the curve ascended more steeply in 1971, whereas in 1972 it went up at a relatively moderate rate. The devaluation may have been a factor, although not a direct one, in the relatively faster rise in 1971, for it made the import component dearer, as in the case of commodities. On the other hand, in the first subperiod (January-July) prices advanced faster in 1972 than in 1971, and faster still than in the corresponding period of 1970. This undoubtedly testifies to the sharpening of inflationary pressures in 1972, and is consistent with what has been discussed above.

Examination of relative prices—i.e. the price of a given commodity group compared with the average price level or with the price of another group—shows that in most commodity and service groups in the consumer price index the uptrend slackened at the beginning of 1972, about five months after the August 1971 devaluation (see Table VI-5), but there was a big spurt in the case of uncontrolled services. However, toward the end of 1972 the latter group edged down somewhat compared with several other groups, such as durable goods and a large percentage of other consumer price index items apart from those under control.

Figure VI-4  
**SERVICE PRICES RELATIVE TO  
 COMMODITY PRICES (EXCL. FRUIT  
 AND VEGETABLES AND HOUSING),  
 1970-72**  
 (1969=100.0)



SOURCE: Based on Central Bureau of Statistics data.

Table VI-5  
RISE IN SELECTED GROUPS OF COMMODITY AND SERVICE PRICES,  
ACCORDING TO THE CONSUMER PRICE INDEX, 1970-72

(percentages)

	Weight in index (in thou- sands; 1969= 100.0)	Rise in December levels			1970		1971		1972	
		1970	1971	1972	Jan.- July	Aug.- Dec.	Jan.- July	Aug.- Dec.	Jan.- July	Aug.- Dec.
Controlled items	200.9	8.5	12.9	8.1	3.4	4.9	4.7	7.8	4.8	3.1
Services <sup>a</sup>	97.1	8.8	11.5	2.5	0.9	7.8	1.5	9.9	1.4	1.0
Other <sup>b</sup>	298.0	8.6	12.4	6.3	2.6	5.9	3.6	8.5	3.7	2.5
Uncontrolled services <sup>c</sup>	111.4	12.9	17.8	15.4	5.5	7.0	7.7	9.3	10.0	5.0
Consumer durables <sup>d</sup>	124.4	12.6	11.6	10.1	3.3	9.0	3.5	7.9	6.1	3.8
Other items, excl. fruit and vegetables	246.5	7.4	11.3	10.5	-1.0	8.3	3.7	7.3	2.5	7.7
Total index, excl. fruit and vegetables and housing	780.3	9.5	12.7	9.6	1.9	7.5	4.2	8.2	4.7	4.7

<sup>a</sup> Rent, electricity and water, transportation and communications, insurance and taxes, Sick Fund services, education (excluding private lessons, lectures, advanced studies, and books and study equipment), and domestic help.

<sup>b</sup> Fuel, eggs, milk and dairy products, alcoholic beverages, sugar, cigarettes and tobacco, grains and flour products (other than biscuits, cakes, and some other confectionery goods).

<sup>c</sup> Housing services, private medical care, dental care, other public services, personal services other than domestic help, shoe repair, and sewing and tailoring.

<sup>d</sup> Furniture, solar water heaters, gas cooking stoves and hot plates, domestic electrical appliances.

SOURCE: Based on Central Bureau of Statistics data.

Figure VI-3 describes the price movement of controlled items, durable goods, and uncontrolled services in relation to the consumer price index exclusive of fruit and vegetables. In recent years there has been a pronounced rise in the relative price of uncontrolled services and a corresponding decline in the relative price (i.e. in relation to the consumer price index excluding fruit and vegetables) of the controlled items (including *inter alia* fuel, eggs, milk, bread, and other basic commodities, as well as the controlled services mentioned above). This undoubtedly has implications regarding the development of real transactions in the economy and the creation of distortions in resource allocation. By contrast, the relative price of durables has more or less held steady in recent years, there being only a slight decline.

(c) *Housing*

Private dwelling prices jumped about 30 percent in 1972—a high rate compared with the commodity groups and other services, as well as with residential construction inputs. The index of residential construction input prices went up in 1972 by 17 percent on an annual average, the steepest advance recorded for any price index.

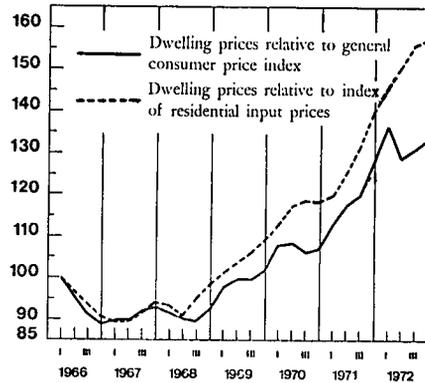
The fact that dwelling prices outpaced input prices gives some indication of the demand pressures prevailing in the real estate market. During the slump of 1966–67 the price of homes declined in relation to input prices, but there was a turnabout in the middle of 1968, when the relative price of dwellings began to climb rapidly (see Figure VI-5 and Table VI-6).

The uptrend in dwelling prices slackened in the latter part of 1972, testifying to some weakening of the demand pressures in this market in the second half of the year. The faltering of the uptrend in dwelling prices in the course of 1972 (see Table VI-6) also points to some let-up in the demand pressures that prevailed in the economy in 1971.

The smaller growth of the excess demand for housing in 1972 was partly due not to the slower absolute rise in demand, but to the increased supply of units put on the market—an outcome of the greatly stepped-up volume of building starts in previous years and of the growing number of secondhand homes offered for sale (see the discussion on residential construction in Chapter V above).

Figure VI-5

DWELLING PRICES RELATIVE TO RESIDENTIAL CONSTRUCTION INPUT PRICES AND GENERAL CONSUMER PRICE INDEX, 1966-72  
(1965=100.0)



SOURCE: Based on Central Bureau of Statistics data.

Table VI-6

**INDEX OF DWELLING PRICES AND KEY MONEY,  
ACCORDING TO SURVEY DATA, 1968-72**

(1964=100.0)

Middle of survey period <sup>a</sup>	Dwelling prices		Key money		Total	
	Index	Increase or decrease (-) as against previous period	Index	Increase or decrease (-) as against previous period	Index	Increase or decrease (-) as against previous period
1969 January	123.3	3.7	93.3	1.3	116.8	3.3
April	127.9	3.7	99.2	6.3	121.7	4.2
July	131.4	2.7	98.9	-0.3	124.4	2.2
October	135.9	3.4	99.2	0.3	127.9	2.8
1970 January	142.3	4.7	102.4	3.2	134.4	5.1
April	150.0	5.4	111.7	9.1	142.4	6.0
July	156.2	4.1	115.9	3.8	148.2	4.1
October	159.8	2.4	110.9	-4.3	150.1	1.3
1971 January	167.9	5.1	108.3	-2.3	156.1	4.0
April	179.5	6.9	111.3	2.8	166.0	6.3
July	191.5	6.7	100.9	-9.3	173.5	4.5
October	211.0	10.2	110.1	9.1	191.0	10.1
1972 January	230.0	9.0	117.6	6.8	207.7	8.7
April	244.5	6.3	132.3	—	222.3	7.0 <sup>b</sup>
July	256.7	5.0	136.8	—	232.9	4.8 <sup>b</sup>
December	267.0	4.0	139.8	—	241.8	3.8 <sup>b</sup>

<sup>a</sup> Each period covers six months, with an overlap of three months between every two periods. To take one example, the first period in 1972 covers the months October 1971 to March 1972, with January 1972 being the middle of the period, while the next one covers the months January 1972 to July 1972.

<sup>b</sup> There was no measurement of key money during this period; we have therefore used the estimated prices of residential construction inputs as an indicator of the rise in total housing prices.

SOURCE: Based on Central Bureau of Statistics data.

Table VI-7

**INCREASE IN DWELLING PRICES AND IN RESIDENTIAL  
CONSTRUCTION INPUT PRICES, 1965-72**

(percentages)

	Increase or decrease (-) as against previous period	
	Residential construction input prices	Dwelling prices
April 1965-December 1965	4.1	2.6
October 1965-June 1966	2.7	-0.7
April 1966-December 1966	5.4	-2.6
October 1966-October 1967	-1.7	-0.7
July 1967-March 1968	0.8	3.9
January 1968-October 1968	3.5	2.3
July 1968-March 1969	0.8	6.6
January 1969-October 1969	1.3	7.0
July 1969-March 1970	2.7	7.3
January 1970-October 1970	7.6	10.1
July 1970-March 1971	4.7	6.8
January 1971-September 1971	4.6	13.2
July 1971-March 1972	6.8	18.9
January 1972-September 1972	8.4	13.7

SOURCE: Central Bureau of Statistics.