

CHAPTER VI

PRICES

1. MAIN DEVELOPMENTS

PRICES WENT UP a little more in 1969 than in the two preceding years, according to most indexes, but the rise was still far below the average for 1960-69. The consumer price index averaged 2.5 percent higher in the year reviewed, compared with about 7 percent per annum in the prerecession years.

The moderate rise in 1969 continued the relative price stability which prevailed in 1967 and 1968. But at the same time there were some relatively sharp increases, particularly in control-free services, which went up by about 6 percent. On the other hand, prices held steady in most goods and services, especially those subject to administrative controls. The latter items, which account for nearly 30 percent of the total index, helped to hold down the general price level.

Exclusive of controlled items, the consumer price index climbed by a comparatively steep 5.4 percent, largely reflecting the excess demand for certain products and services as the economy approached a state of full employment. In 1968 the rise in these prices came to only 2.8 percent. This was due in part

Table VI-1
AVERAGE RISE IN PRICES OF RESOURCES
AND USES, 1961-69
(percentages)

	Average 1961-65	1968	1969
Private consumption	7.0	2.5	3.5
Public consumption	10.5	6.5	2.5
Gross capital formation	8.5	6.5	5.0
Total domestic uses	8.0	4.0	3.5
Exports	13.0	14.0	4.5
Total uses	8.5	4.0	3.5
Imports	11.0	13.0	5.0
Gross national product	8.0	3.0	3.5
Total resources	8.5	4.0	3.5

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

to the relatively high level of unemployment and idle resources that year, which permitted an appreciable expansion of supply to meet most of the additional demand—a development reflected by an increase of approximately 15 percent in the national product. In 1969, on the other hand, the GNP growth rate slowed down to 11 percent.

In the wholesale price index of industrial output there were also big price rises in certain branches, mainly metal and metal products. But in various other branches prices held fairly steady—mainly in chemicals, petroleum, rubber and plastics, and food. On an average, the wholesale price index rose by 3.2 percent in 1969, as against 3.0 percent the year before. These increases were still lower than in the prerecession period, when they averaged about 5 percent per annum.

Prices remained relatively stable in the year reviewed despite the continued strong expansion of demand (although at a lower rate than in 1968¹). This is partly explained by the fact that the incremental demand was satisfied in large measure by a corresponding expansion of supply (thanks to a marked improvement in productivity and a much larger import surplus). Thus, in contrast to the prerecession period, no demand pressure was generated in 1969 in respect of most goods and services.

Another factor tending to keep prices steady was the wage-freeze agreements in force in 1969, which brought down per unit wage costs. In addition, it should be noted that the import component of total resource uses was relatively high in the period before the recession; in other words, a considerable percentage of the total demand was for imported items (for security purposes and private consumption), and this too helped to ease pressure on local resources and restrain the rise of prices.

The stability of controlled prices strongly influenced the development of relative prices in the economy. The price of all goods included in the consumer price index, relative to services,² held steady for the third year running, with a moderate rise in 1969. This was in contrast to the long-run upward trend in the relative price of services which marked earlier years. Moreover, there was a further rise in the prices of uncontrolled services relative to those of controlled services, a trend observable since the onset of the recovery from the recent recession. During the slump the trend had been reversed because of sagging demand (see Figure VI-4).

2. CAUSES OF PRICE DEVELOPMENTS

In 1969 the consumer price index edged up 2.5 percent on an annual average; excluding fruit and vegetables, the increase was 1.6 percent, a lower figure than

¹ It should be stressed that 1968 was the first full year of recovery, and an exceptionally rapid growth of demand was to be expected.

² The index of service prices divided by the index of commodity prices.

in 1968. In the course of the year, however, there was a more rapid rise in prices,¹ the index (excluding vegetables and fruit) moving up by 3.5 percent.

The small rise in the average level as compared with that in December levels can be attributed partly to the housing item (dwelling prices and key money), which went up by 2.6 percent on an annual average but at a much higher rate in the course of the year. As recorded in the consumer price index, this item does not accurately reflect actual developments.² A direct measurement of housing prices is made on the strength of a survey, but the results are not incorporated into the consumer price index. If they were, the average annual rise in the index (exclusive of fruit and vegetables) would have come to about 3 percent in 1969 (see Table VI-2); in other words, adjustment of the housing item would have resulted in a higher increase in the price level in 1969 than with the item unadjusted.

In spite of the foregoing, the price rise in 1969 was still much lower than in the prerecession period (the consumer price index went up by an average of some 7 percent per annum in 1960-66). This testifies to the sustained relative stability of prices which prevailed in 1967 and 1968.

Prices remained stable even when measured according to the weights assigned the various index items after the updating of the "market basket" of goods and services in 1968-69. The index published up to the end of 1969 was based on the "market basket" for 1964. As from January 1970, the index will be based on the new basket, which covers the entire urban population, whereas that for 1964 covered only the urban wage-earning population in communities with 10,000 or more inhabitants. (It should be pointed out that a measurement of the two preceding years according to the new index hardly changes the rate of price rise.)

While prices on a whole remained fairly steady, there were relatively steep increases in certain groups of commodities and services, in the main those free of administrative control. Among these should be noted the 8 percent increase in housing services. Prices of other goods and services held firm, particularly

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¹ The increase in the course of the year is calculated by dividing the December index of a given year by that of the preceding December. This is to be distinguished from the average annual rise, which is obtained by dividing the average index of a given year by that of the preceding year.

² This is discussed in the section on housing prices.

Figure VI-1
CONSUMER PRICE INDEX, EXCL.
FRUIT AND VEGETABLES AND
HOUSING, 1967-69
 (average 1964=100)

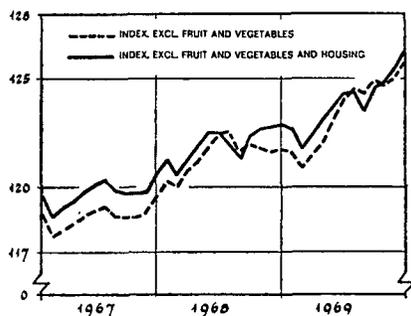


Table VI-2
RISE IN CONSUMER PRICE INDEX, AFTER ADJUSTING
THE HOUSING ITEM,^a 1960-69

(average annual percentage rise)

	Average 1960-66	1967	1968	1969
Consumer price index	7.3	1.6	2.1	2.5
Consumer price index, after adjusting the housing item	7.2	2.4	2.0	3.4
Consumer price index, excl. fruit and vegetables	7.2	1.7	2.4	1.6
Consumer price index, excl. fruit and vegetables and after adjusting the housing item	7.1	2.5	2.3	2.7

^a The adjustment is based on the results of a survey of dwelling prices and key money carried out once every three months. The adjustment for 1969 is based on a provisional estimate of housing prices according to a survey carried out between July and December 1969 (the middle of the survey period was October 1, 1969). For more details see p. 100.

SOURCE: Based on Central Bureau of Statistics data.

those largely subject to Government control.¹ Other price indexes reveal a similar picture. In the wholesale price index of industrial output, for example, there were some items that became dearer, such as metal products and electrical equipment, while in other items there was an appreciable degree of price stability (see section 3b).

This relative stability of prices was sustained in the year reviewed despite the steadily swelling demand. The growth of demand in 1969 was similar to that in the prerecession years but slower than in 1968, when the economy was emerging from the slump.

In addition, employment was on a high level in 1969, the unemployment rate having declined from 6.1 percent in 1968 to 4.5 percent. The expansion of domestic demand amounted to about 16 percent, as estimated by the nominal increase in domestic uses (investment and private and public consumption). In the prerecession years the rate of growth was very similar. On the other hand, the price level of domestic uses was only about 3.5 percent higher in 1969, as compared with a rise of about 8 percent in previous boom years. A much smaller rise than in the prerecession period was recorded in private and public consumption. As opposed to this, there was a relatively strong increase in investment prices—5 percent as against an annual average of some 8.5 percent in 1960-66.

One of the factors contributing to the price stability despite the heavier demand in some spheres was, as stated, the highly stable level of controlled prices,² whose

¹ If the Government had permitted the revision of controlled prices, presumably this would have induced producers to raise their prices. It can therefore be assumed that the continuation of the price freeze on controlled items helped to avert a further rise in the prices of other goods and services over and above that recorded in the index.

² See the notes to Table VI-5.

weight in the index amounts to nearly a third. Exclusive of these items, the consumer price index went up much more steeply, more or less in conformity with the prevailing economic conditions. On an annual average, the rise was 3.3 percent,¹ while that in the December levels was greater—5.4 percent. In 1968 the average annual increase was only 2.8 percent. In that year there was comparatively large-scale unemployment, and this permitted a big growth of supply; as a result, only a small part of the incremental demand was reflected by a rise of prices² (despite the dearer cost of imports after the devaluation of November 1967), while GNP advanced by about 15 percent. By contrast, in 1969 GNP expanded at a slower rate, while in some items demand outpaced supply, and this drove up uncontrolled prices to a relatively marked degree.

The stronger domestic demand in 1969 led to a heavier demand for factors of production. In 1968, when the level of unemployment was still relatively high, no upward pressure was generated on wages. However, in 1969 the growth of domestic demand and employment apparently engendered considerable pressure for wage rises, especially in the construction and industrial sectors. The policy of freezing wages and taxes, which was largely instrumental in keeping prices down, remained in force in the year reviewed. To be sure, wages went up by 4.6 percent, but this was still much lower than in the prerecession years. The price stability also contributed to the relative wage stability, owing to the interconnection between the two. In the last three years wage stability led to price stability, and vice versa. Wages account for an appreciable share of production costs, and if they go up faster than output, the result will of course be a rise in

Figure VI-2
CONSUMER PRICE INDEX,
SEASONALLY ADJUSTED, 1969
COMPARED WITH EARLIER YEARS

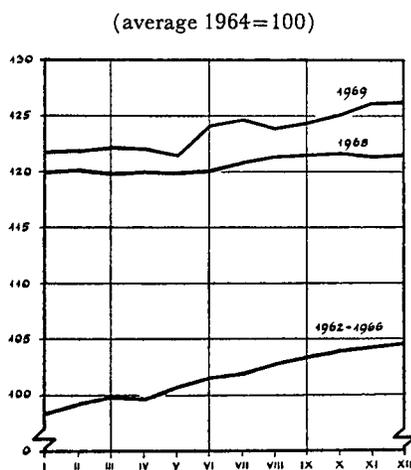
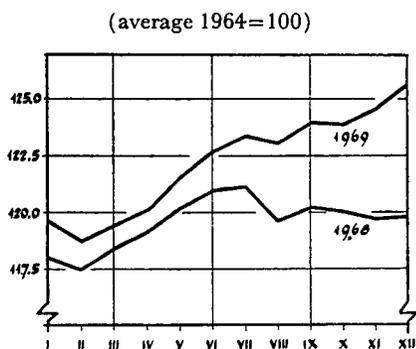


Figure VI-3
CONSUMER PRICE INDEX, EXCL.
FRUIT AND VEGETABLES AND
CONTROLLED ITEMS, 1968-69



¹ With the housing item adjusted, the rise in the index was greater—4.7 percent.

² See Bank of Israel, *Annual Report 1968*, p. 115.

Table VI-3

RISE IN CONSUMER PRICE INDEX, EXCLUDING CONTROLLED ITEMS, 1962-69
(percentage increase in December levels)

	Average 1962-66	1967	1968	1969
Consumer price index	6.9	0.2	1.9	3.9
Consumer price index, excl. controlled items	7.4	-0.6	2.8	5.4
Consumer price index, excl. fruit and vegetables	7.8	0.3	1.8	3.5
Consumer price index, excl. fruit and vegetables and controlled items	7.9	-0.5	2.6	4.9

SOURCE: Central Bureau of Statistics.

unit production costs. The latter development will have a direct impact on prices (unless producers absorb the increase).

We find an example of this in 1966 when the growth of hourly wages outstripped that in output per man-hour, driving up prices appreciably.¹ What is more, the link between wages and prices stood out not only in 1966, when demand began to sag; in most of the boom years, which were marked by heavy demand pressure in the commodity and service markets, upward pressure was generated on wages, and in turn on prices.

As in the two preceding years, output per man-hour went up in 1969 at a higher rate than hourly wages. As a result, wages per unit of output declined by a little less than 3 percent.

An additional factor restraining prices was the larger import surplus in the year reviewed. Presumably the moderating influence of imports on prices is more effective in the case of goods replaceable by imports. Most of the control-free services (for which there are no import substitutes) showed a relatively steep rise in price, as a mounting demand was not matched by a corresponding growth of supply. On the other hand, much of the demand for consumer goods was for imported items. Imports of consumer goods rose in 1969 by nearly 28 percent to total some \$ 140 million. Most of the incremental security demand was also supplied from imports. This eased pressure on domestic resources and thereby prevented a much greater increase in prices. In this context, note should be made of the expectation of a rise in taxes and the alteration of the exchange rate, which apparently resulted in heavy purchases of imported goods, mainly durables. This too reduced demand pressure in the domestic market and helped to moderate the rise of prices. It can therefore be concluded that the relative

¹ In 1966 hourly wages went up by 20 percent, as against approximately 12 percent in output per man-hour.

price stability was achieved partly at the expense of a big increase in the balance of payments deficit.

Besides imports, the slower monetary expansion in the year reviewed also acted to check the rise in prices. On an annual average, the money supply was up 7 percent, as against 19 percent in 1968.¹

Mention should also be made of the much larger holdings in 1969 of value-linked financial assets, which diminished to some extent the demand pressure in the goods and services market (this is discussed in Chapter XIV).

An analysis of the consumer price index, excluding fruit and vegetables, over the year reveals that the rise was concentrated mainly in the second and last quarters. After a considerable degree of stability in the early months, in line with the trend during the second half of 1968, the level moved up rapidly until July 1969. This is largely explained by the raising of the purchase tax on goods and services at the end of May. In the latter part of the year, the upward trend again accelerated, apparently reflecting the intensified demand engendered by the expectation of tax increases.

Adjusting the consumer price index for seasonal factors does not materially alter the picture, except that prices held fairly steady until May.²

3. SECTORAL PRICE DEVELOPMENTS

(a) *Agriculture*

The prices of farm products included in the consumer price index were 7.7 percent over their 1968 level. Fruit and vegetables, which became appreciably dearer in the year reviewed, accounted for much of the rise. The increase in this item amounted to 13 percent—11 percent in the case of fresh vegetables and about 14 percent for fruit.

The higher fruit and vegetable prices were largely responsible for the relatively steep climb of some 6 percent in the price index of agricultural output between October 1968 and September 1969. Citrus and noncitrus fruit contributed most to this increase.

By contrast, the index of input prices went up more moderately, with some sharp rises being accompanied by considerable stability in other items. Items moving up by 6–7 percent were machinery and parts, tools, and construction equipment and materials; among those that held steady were fertilizers, pesticides, water, electricity, and fuel.

¹ In contrast to the slower growth of the money supply in 1969, in the two preceding years there were relatively rapid increases. But the expanded domestic supply of goods (made possible by the prevailing unemployment) counteracted the upward influence of the incremental money supply on prices.

² See Figure VI-2.

Table VI-4
RISE IN CONSUMER PRICE INDEX, BY MAIN GROUP, 1967-69
 (percentages)

	Average weight	Annual averages			Average weight	Annual averages		
	1969=1000.0	1967	1968	1969	1964=1000.0	1967	1968	1969
Food	219.9	2.9	3.3	0.5	245.8	3.0	3.1	0.3
Fruit and vegetables	75.4	1.8	-1.2	11.6	79.3	1.8	-1.2	11.6
Housing	144.3	0.1	4.6	2.3	149.6	-1.9	4.7	2.5
Housing services	79.4	4.3	2.5	1.5	86.9	3.6	2.7	1.6
Furniture and household equipment	83.1	-0.3	-0.9	2.2	97.5	-0.8	-1.8	2.0
Clothing and footwear	97.6	2.1	1.8	1.7	98.7	2.2	1.8	1.9
Education, culture, and entertainment	116.7	2.1	1.6	3.8	88.6	2.1	1.7	3.4
Health	45.3	4.6	3.8	1.1	41.3	4.6	3.5	0.8
Transportation, communications, posts	94.9	2.8	-1.0	2.4	76.3	2.3	0.3	2.3
Miscellaneous	43.4	1.3	3.5	2.3	36.0	1.5	3.2	2.1
General index	1000.0	2.1	2.1	2.5	1000.0	1.6	2.1	2.5

SOURCE: Central Bureau of Statistics.

(b) *Industry*

Consumer prices of industrial products, excluding meat and milk items, went up by 2.8 percent during 1969 and by 1.7 percent on an annual average. These rates are higher than in 1967 and 1968 but lower than in preceding years.

The wholesale price index of industrial output showed a slightly higher rise—2.1 percent on an annual average and 3.2 percent in the course of the year. This compares with an annual average rise of about 5 percent in 1960-66. As with the consumer price index, here too some groups moved up at a substantial rate while others remained relatively static.

There were pronounced rises in basic metals (8.2 percent) and metal products (11.2 percent), owing to the dearer cost of imported raw materials. On the other hand, in other branches, such as food, textiles, paper, and rubber and plastics, which account for about half of the total index, there was a high degree of stability.

After holding fairly firm in the first months of 1969, the wholesale price index of industrial output climbed steadily throughout the rest of the year and the first part of 1970. Most of the increase took place in the second half of 1969.

(c) *Services*

During 1969 the service item, excluding housing, went up by 2.2 percent, compared with 1.1 percent the year before. The relatively modest size of the rise

Table VI-5

RISE IN SELECTED GROUPS OF COMMODITY AND SERVICE PRICES,
ACCORDING TO THE CONSUMER PRICE INDEX, 1967-69

(percentages)

	Weight in index (average 1964= 1000.0)	Change in December levels			1969			
		1967	1968	1969	I	II	III	IV
Controlled items	291.6	1.9	0.1	0.5	0.0	0.8	0.0	-0.3
Controlled services ^a	169.2	2.4	-0.1	0.6	-0.1	1.2	0.1	-0.6
Other controlled items ^b	122.4	1.3	0.3	0.3	0.1	0.1	0.0	0.1
Uncontrolled services ^c	101.8	0.4	4.4	5.7	1.2	1.2	2.2	0.9
Other items, excl. fruit and vegetables and housing	394.5	-0.9	2.6	3.7	-1.0	2.3	-0.1	2.5

^a Including 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.

^b Including fuel, eggs, milk and milk products, alcoholic beverages, sugar, cigarettes and tobacco, cereals, and flour products (other than biscuits, cakes, and some other confectionary products).

^c Including housing services, private medical care, dental care, other public services, personal services other than domestic help, shoe repair, and sewing and tailoring.

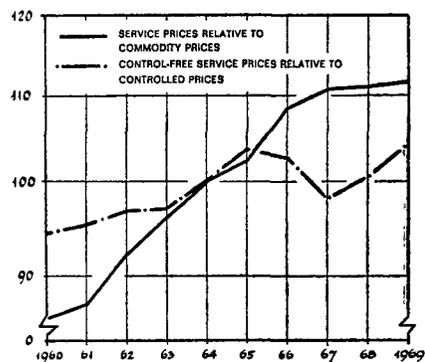
SOURCE: Central Bureau of Statistics.

can be ascribed primarily to the marked stability of the items largely subject to administrative control.¹ These edged up by a mere 0.6 percent, after a slight drop in 1968; during 1966 they jumped by nearly 17 percent.

Service prices trailed behind the rise of commodity prices in the year reviewed; the latter went up by 3.5 percent as against 2.4 percent during 1968. As a result, the stability in the price of services relative to goods, discernible since 1967, was sustained in the year reviewed. In earlier years the relative price of services had gone up by an average of 4 percent.

¹ See Table VI-5.

Figure VI-4
RISE IN RELATIVE PRICES, 1960-69
(average 1964=100)



Semi-logarithmic scale.

The moderate increase in service prices took place despite a notable rise in control-free items during the year—5.7 percent as against 4.4 percent the year before and less than 0.5 percent during 1967. During the years 1960–66 these items had gone up by a substantial 10 percent per annum. Uncontrolled commodities (other than housing and fruit and vegetables)¹ also moved up more rapidly during 1969—by 3.7 percent compared with 2.6 percent the year before and a fall of about 1 percent during 1967.

The development of the relative price of control-free services as opposed to controlled services is worthy of note. Up

Figure VI-5
INDEX OF CONTROL-FREE
SERVICE PRICES, 1968-69
(average 1964=100)

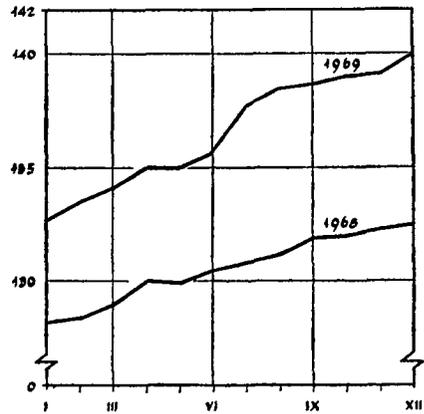


Table VI-6
INDEX OF DWELLING PRICES AND KEY MONEY, ACCORDING TO
SURVEY DATA, 1967-69
(average 1964=100)

Middle of survey period	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
1967 January 1	105.5	-0.8	100.9	-1.8	104.5	-1.0
April 1 ^a						
July 1	108.1	2.5	96.3	-4.6	105.5	1.0
October 1	110.7	2.4	102.5	6.4	108.9	3.2
1968 January 1	111.3	0.5	100.6	-1.9	109.0	0.1
April 1	112.3	0.9	99.1	-1.5	109.4	0.4
July 1	114.9	2.3	95.4	-3.7	110.7	1.2
October 1	118.9	3.5	92.1	-3.5	113.1	2.3
1969 January 1	123.3	3.7	93.3	1.3	116.8	3.3
April 1	127.9	3.7	99.2	6.3	121.7	4.2
July 1	131.4	2.7	98.9	-0.3	124.4	2.2
October 1 ^b	132.3	0.7	102.0	3.1	125.8	1.1

^a No survey was conducted for this period because of the small number of transactions.

^b Provisional figures.

SOURCE: Based on Central Bureau of Statistics data.

¹ Total commodities, excluding those whose prices are controlled; their weight in the index comes to about 40 percent (see Table VI-5).

to 1965 there was a rise in the relative price of the uncontrolled services, but in that year the trend was reversed, the decline becoming more pronounced in 1967. This reflected the transition from boom to recession. With the recovery of the economy, the upward trend in the price of free services reasserted itself and continued throughout the year reviewed, the increase being similar to that in prerecession years (see Figure VI-4).¹

Uncontrolled services moved up steadily until August 1969 and then tapered off. In most months of the year the increase was generally higher than in the corresponding months of 1968.

(d) *Housing*

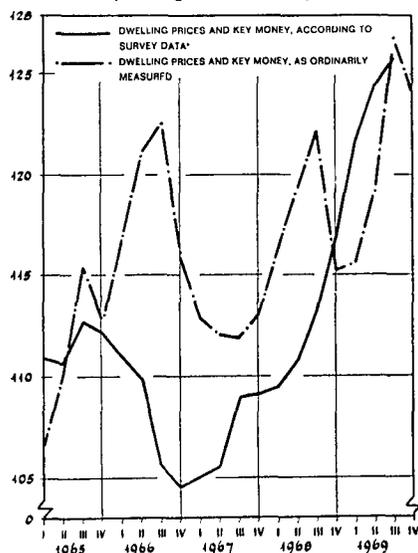
The housing item (dwelling prices and key money) in the consumer price index reflects to some extent the changes in the price index of construction inputs.² The latter fluctuated during the year as a result of swings in the wage item in the price index of construction inputs following the changeover to summer hours. It indicates a rising trend in housing prices since the end of 1967. In 1969 there was an average rise of only 2.6 percent over 1968.

On the other hand, the direct measurement of housing prices (published separately and not incorporated into the consumer price index) points to a steady upward movement since the beginning of 1967, with a jump of about 10 percent during 1969 (see Figure VI-6).

As already noted, the inclusion of this measurement in the consumer price index would show a higher rise in the latter—3.4 instead of 2.5 percent. But even so, this rise would still be much lower than in the years before the recession.

A similar adjustment for 1968 had very

Figure VI-6
INDEX OF DWELLING PRICES AND
KEY MONEY, 1965-69
(average 1964=100)



^a Direct measurement.

¹ In 1960-65 prices of controlled services went up by about 7 percent per annum, and those of other services by nearly 10 percent. The appreciable stability in the prices of controlled items in recent years presumably tended to stem the rise in the others.

² The calculation of these prices includes the findings of a survey of dwelling prices and key money conducted roughly every quarter and published after a lag of several months. For the rest of the year, the changes in the index of residential construction input prices and in the consumer price index excluding fruits and vegetables have been taken as indicators of housing prices.

little effect, since the rise in housing prices was similar according to both the index and survey data.

In 1969 dwelling prices alone averaged about 11 percent higher than in the year before.¹ This rise actually represents the average for heterogeneous groups of dwelling units differing from one another in standard and size, and therefore does not reflect the disparities between various groups of dwellings, such as those located in different areas or owner-occupied as opposed to rented units. To take one example, the prices of homes in Jerusalem jumped between January and September 1969 by about 24 percent compared with the average for 1968. By contrast, in Haifa prices hardly changed in 1968, and during the first nine months of 1969 they averaged 12 percent higher. In other cities they went up by 10 percent; in Tel Aviv a relatively low rise was recorded during the first nine months of 1969—approximately 5 percent.

¹ Data from the latest survey of housing prices are provisional.