

CHAPTER VI

PRICES

1. MAIN DEVELOPMENTS

IN 1963 THE PRICE LEVEL of commodities and services rose to a fairly high extent, though considerably less than in either 1962 or 1961; at the end of the year reviewed, the consumer prices index (excluding fruit and vegetables) stood 4.6 per cent above its level at the beginning of the year.¹

The excessive monetary expansion was reflected—chiefly during the first half of the year—in a speculative boom and rapid upward price movement in the real estate and share markets. When these markets reached a turning point in the second half of the year, signs of demand pressure began to appear in the commodity and service markets. Since the raising of industrial commodity prices was effectively prevented by the Government, the pressure mainly found expression in an accelerated growth of industrial production and a trend toward larger imports and smaller exports.

Table VI-1

AVERAGE RISE IN THE PRICES OF FINAL DOMESTIC USES, 1958-63

(percentages)

	1958	1959	1960	1961	1962	1963	Weight in 1963
Private consumption	4	3	3	6	10	8	57
Public consumption	6	7	3	6	21	5.5	20
Investment	3	1	4	8	20	6	23
Total	4	3	3	7	14	7	100

SOURCE: Central Bureau of Statistics.

¹ It should be noted at this point that the direct measurement of the "dwellings and key money" item in the index takes place only after a time lag. The most recent direct measurement of this item, which was included in the November index, refers to the average for the period April-September 1963 as against the preceding six months. In 1963 this item was the main factor pushing up the index. Thus the index reflects the actual rise in prices in 1963 on the assumption that no significant change has occurred in housing prices since the last direct measurement.

The average price level of final commodities and services from current production was 7 per cent higher than in 1962, while the average level of the consumer price index (excluding fruit and vegetables) was 6.7 per cent higher.¹

Table VI-2
RISE IN CONSUMER PRICE INDEX, BY ECONOMIC SECTOR, 1963

	Weight in index	Per cent increase		Weight in rise of index from December to December (%)	
		Average 1962 to average 1963	December 1962 to December 1963	Excluding fruit and vegetables	General index
Industrial goods	482.5	3.6	0.5	5.1	
Dwellings and key money	101.0	20.1	28.5	71.9	
Other housing services ^a	26.5	14.0	4.8	3.3	
Public services	53.6	7.7	5.4	6.6	
Personal services	85.7	8.3	4.8	9.6	
Transportation and posts	36.1	9.3	9.1	7.8	
Electricity and water	20.7	5.9	0.2	0.0	
Insurance and taxes	28.1	3.1	1.2	0.8	
Agricultural products other than fruit and vegetables	87.9	4.4	-2.5	-5.1	
Total index excl. fruit and vegetables	922.1^b	6.8	4.6	100.0	84.8
Fruit and vegetables	77.9^b	10.5^c	..	—	15.2
General index	1,000.0	6.6^c	5.0	—	100.0

^a Rent, painting and whitewashing, plumbing, glazing, and electrical work.

^b The weight of the "fruit and vegetables" item here differs from its weight in the index broken down according to commodity and service groups (84.7), on which is based the weighting of the index excluding fruit and vegetables—the one usually cited. The difference lies in that canned fruit and vegetables are here included with industrial products.

^c See footnote below.

SOURCE: Central Bureau of Statistics.

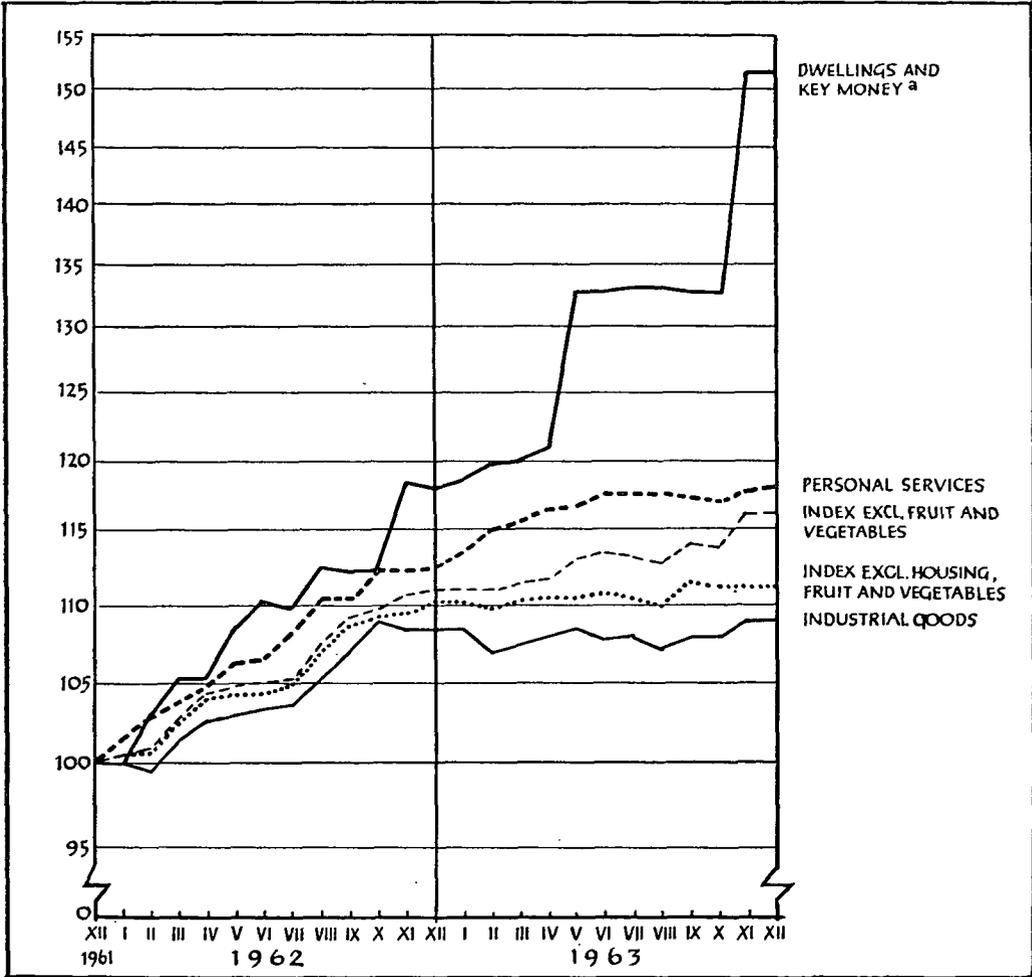
¹ The average rise in the consumer price index, including fruit and vegetables, as published by the Central Bureau of Statistics, was 6.6 per cent, but the "fruit and vegetables" item is not comparable with 1962, since its weighting was changed in 1963 and the new index was chained not to the previously published index but to a corrected unpublished index (see *Israel Statistical Monthly*, Part D, "Prices", May 1963, p. 202). The average real rise in this item reached 10 to 11 per cent (see *Israel Statistical Monthly*, Part D, "Prices", February 1964, p. 11). Consequently, the average increase in the consumer price index was in fact 6.9 per cent.

This differs from the rise in the prices of private consumption shown in Table VI-1 (7.9 per cent) for two reasons: differences between the populations referred to (the measurement in Table VI-1 refers only to the urban wage-earning population), and differences in weighting (Table VI-1 refers to the composition of consumption in 1963, while the index is based on the composition of expenditure among wage-earning families in 1959/60).

Diagram VI-1

RISE IN CONSUMER PRICE INDEX, BY ITEM, 1962-63

(December 1961 = 100)



^a See footnote on p. 75.
SOURCE: Central Bureau of Statistics.

However, this average rise largely reflects the considerable increase that occurred in 1962. In December of that year, the consumer price index (excluding fruit and vegetables) already stood 4.7 per cent above its average level for the year.

One of the most striking features of price developments in 1963 was their extreme asymmetry. In the industrial products market, direct Government intervention in the form of pressure and threats to permit competing imports pre-

vented price increases altogether. In the services market, where the efficacy of such measures is limited, prices went up by an average of 5 per cent during the year. On the other hand, prices of dwellings and key money moved up steeply, by 28.5 per cent.¹ This item, whose weight in the index is 10 per cent, accounted for 72 per cent of the total rise in the index (excluding fruit and vegetables), as against 20 per cent in 1962.

In analyzing price movements in 1963 there is justification for differentiating between housing prices and prices of goods and services from current production, since from the aspect of the general trends during the year the rise in housing prices should be viewed in conjunction with the boom in the real estate and share markets.

As regards relative prices, excluding those for housing, the trends prevailing over the past several years were discernible in 1963 as well. Throughout these years, the prices of services rose steadily relative to those of industrial products, and this tendency continued in 1963 without any marked change.

2. MAIN FACTORS IN PRICE DEVELOPMENTS

The speculative boom in the equity and real estate markets, which reached its peak during the first half of 1963, played a key role in price developments during the year reviewed. The rapid growth of the money supply, which during the first half of 1963 totalled 20 per cent as compared with an increase of only 5 per cent in the volume of production, was not accompanied by a parallel rise in the demand for commodities and services. On the other hand, the period was characterized by the rapid expansion of equity and real estate transactions and a steep rise in their prices. The activity in these markets apparently tied down a considerable percentage of the additional new money, and must be regarded as the main reason for the relatively smaller impact of the monetary expansion on the prices of currently produced commodities and services.

Moreover, there is reason to believe that this boom did not play merely a passive role by tying down means of payment in the share and real estate markets: it enhanced the attractiveness of these markets, and no doubt stimulated the transfer of funds from abroad, thus directly contributing to the growth of the money supply.

Another contributory factor was unquestionably the Government's policy of keeping down industrial commodity prices. Guaranteeing the stability of these prices led to a rise in the relative prices of real estate and shares, thereby accentuating the pull of these markets.

Also operating in this direction was the fact that the weight of nonwage incomes in the incremental domestic income exceeded their weight in total

¹ See footnote on p. 75.

domestic income. It may be assumed that the share and real estate markets hold a greater attraction for this type of income.

Among other factors easing the pressure on commodity and service prices was the nonincrease of demand deriving from construction activity.

In the last months of 1963, demand trends apparently underwent a change. Attesting to this is the upward movement of imports and the downtrend in exports, as well as the acceleration of industrial production. Owing to the Government's price restraining measures, the additional demand could not find expression in higher industrial commodity prices but only in an increase in the quantities demanded. To a certain extent, these months witnessed a decline in the relative attractiveness of the real estate and share markets, and the excess liquidity began to press more and more on the markets for currently produced commodities and services.

(a) *The boom in the real estate and share markets*

The boom in these two markets was largely an indirect outcome of the devaluation of February 1962. The devaluation caused a sudden change in the profitability of the various assets, thus inducing a shift among the public's asset holdings. Such conditions, marked by drastic changes in supply and demand and in prices, provide fertile soil for a speculative boom.

The share market, which since 1959 had maintained a steady upward trend, was adversely affected by the expectations of devaluation in the latter part of 1961. After the devaluation, the upward movement reasserted itself, and the market became the center of attraction for funds formerly invested in dollar-linked assets. The first months after devaluation was still a period of transition and adjustment, but in June 1962 a firm upward price trend set in. The average rise in share quotations during the second half of 1962 was 16 per cent, and the volume of transactions was 50 per cent larger than at the peak of the previous boom in early 1961. During the first half of 1963 share prices mounted at a feverish pace—5 to 10 per cent per month—and in June stood 50 per cent above the end-1962 level. The volume of Stock Exchange transactions was 170 per cent larger than during the second half of 1962, and nearly 4.5 times larger than at the crest of the 1961 spurt.¹

Moreover, owing to the speculative character of the boom, the increase in the volume of transactions was apparently accompanied by relatively still greater increase in the amount of funds operating in this market.

The real estate market displayed similar trends. A considerable proportion of the personal restitution payments received by Israelis was intended from the

¹ Using the Stock Exchange volume as an indicator of aggregate trade in shares would seem to underestimate the figure, as only part of this trade takes place at the Stock Exchange—after the matching of buying and selling orders by banks; in fact, there is reason to believe that the proportion of trade conducted at the Stock Exchange is smaller the larger the percentage of securities traded.

start for the purchase of dwellings, and the growth of such receipts had already in 1961 touched off a relative boom in the housing market, and in its wake the land market as well. These conditions made the real estate market a natural magnet for funds leaving other forms of investment after devaluation.

In the second half of 1963, both markets underwent changes. The volume of real estate transactions contracted and prices stopped rising, probably in consequence of the amendment of the land betterment tax law which increased the burden of this levy.

In the share market, the volume of activity declined somewhat, and quotations receded a little below the June level. The main reason seems to have been the shift of the center of gravity to the new issues market. During this period the volume of new issues increased considerably—to some IL 128 million as compared with IL 47 million during the first half of 1963. The rise in new issue prices was appreciably greater than that in the prices of existing shares, and sometimes they assured gains of 50 to 100 per cent within a short time. In view of this, as well as the fact that subscriptions to new issues were made conditional on a down payment of 50 per cent and later 80 per cent of the amount subscribed, the new issues market tied down a large percentage of the funds operating in the share market.

The composition of the new issues indicates that not all the funds mobilized in the equity market went to increase the demand for goods. About 10 per cent of the new issues were floated by land and development companies, and some 58 per cent by investment companies. Together with finance and insurance firms, they accounted for 73 per cent of all new share issues. No doubt, a large part of these funds were channelled to transactions in financial assets and real estate.

Accordingly, despite the change of trend in the share market during the second half of 1963, it continued to tie down a considerable part of the incremental means of payment.

(b) Government price stabilization measures

In its endeavor to assure price stability, the Government in 1963 placed greater emphasis than before on measures outside the sphere of monetary and fiscal policy: on an informational campaign, persuasion, and pressure to forestall price increases.

Another major means was direct price supports and tax cuts on various commodities whose prices had gone up on the world market. In certain cases, subsidies were even granted with the object of reducing prices.

The fact that most Israeli industries are still protected against competition from imported goods, either by high customs duties or by an administrative ban on imports, lent potency to the threat to permit competing imports. This weapon proved sufficient to prevent increases in the prices of protected goods, and there was hardly a single case where the threat had to be carried out. The employment of this means successfully kept down the prices of industrial commodities.

On the other hand, in areas where it is less effective—e.g. the services market—prices continued to mount in 1963, sometimes even to a marked extent. A characteristic example is provided by the prices of cinema tickets. Here, a cartelized organization upped prices appreciably, after substantial increases in previous years. The Government waged a protracted campaign against the cartel, and the considerable publicity accompanying it made this, in a sense, a test case. Nevertheless, the Government proved unable to prevent a rise in the prices of cinema tickets: by the end of 1963 they were 13.3 per cent higher than at the end of 1962, and prices for Saturday evenings, when the demand is particularly great, were 20.5 per cent higher.

However, the use of these methods as the mainstay of the stabilization policy poses a question quite unrelated to their effectiveness in preventing the rise of one price or another, for the efficacy of any measure intended to keep the price level stable cannot always be measured by the extent to which it holds down certain prices. When a specific price is prevented from going up, the economy's demand surplus is not decreased; rather, it eventually finds expression in increased demand pressure and a consequent faster price rise in other spheres where such methods of restraint are ineffective. The attempt to influence the general price level by expedients aimed not at reducing the demand surplus but directly at specific prices will inevitably lead, in the long run, to distortions in the price structure.

It should be noted that attempts to prevent price increases by administrative means in the face of continued demand pressure have another weakness: sometimes the result may be that, instead of an overt rise in prices, prices are raised covertly by reducing the quality of the product, worsening terms of purchase, reducing or suspending the production of cheap brands, etc.

In the Israeli economy, such administrative measures have an additional negative effect arising from the existence of substantial foreign exchange reserves and the fact that under its price stabilization policy the Government has refrained from raising indirect taxes. The pressure of excess demand tends to reduce exports and expand imports. Thus administrative price curbs unaccompanied by action against the demand surplus itself indirectly undermine the declared objective of the stabilization policy—to assure the economy's ability to compete in foreign markets in order to improve the balance of payments.

This applies equally to another economic-policy measure, the granting of subsidies and the cutting of import duties. This measure undoubtedly keeps down the prices of the subsidized commodities, but the first objective of a policy aiming to maintain stability and check inflationary pressure must be to mop up excess purchasing power, whereas subsidies increase purchasing power.

When there is a large demand surplus, administrative intervention as the main instrument of an anti-inflationary policy cannot avert negative developments in the general price level or in the trade balance. However, it should not be concluded that direct price curbs are in themselves unsound. In an overall

anti-inflationary policy they can sometimes play a significant part, since even in periods when the main threat to stability comes from the imbalance between supply and demand, it is not always possible to make do with measures designed to reduce aggregate demand. A general increase in labor costs, such as the raising of the cost-of-living allowance at the beginning of 1963, may push up prices even when there is no pressure from the demand side. Direct administrative means are of significant value in tackling such problems.

The fact that industrial prices remained stable must undoubtedly be ascribed to Government action. But the main reason why monetary expansion was not accompanied by a much greater rise in the general price level during 1963 lies primarily in the expansion of activity in the real estate and share markets, which experienced a speculative boom. It seems that from the very outset the increase in the money supply was not accompanied by a parallel growth of demand for commodities and services. Also attesting to this is the fact that the relative rise in service prices was virtually the same as in previous years (see Diagram VI-2), though these prices (in particular those for personal services) were freer to rise and thus reflect the presence of any demand pressure.

The part played by the speculative boom in the real estate and share markets in tying down means of payment indicates that the additional liquidity of the economy was not fully reflected by price increases, and that it may shift from these markets and create further pressure in the markets for currently produced commodities and services.

3. RELATIVE PRICES

(a) *Private consumption*

The average level of private consumption prices was 7.9 per cent higher in 1963 than in 1962, while the average rise in the consumer price index came to 6.6 per cent.¹ These increases mainly reflect developments that had occurred in 1962, since in December 1962 the index already stood 5.1 per cent above the average for that year. In 1963 the index went up 5.0 per cent, as compared with 10.2 per cent the year before.

1. *Industrial goods*

The average increase in industrial commodity prices as compared with 1962 was 3.6 per cent,² but during the year there were fluctuations ranging up to 1 per cent (except for February and August when there were seasonal sales of clothing and footwear). Excluding the clothing branch, only a few products showed price changes of as much as 5 per cent. As regards clothing, prices of

¹ See footnote 1 on p. 76.

² Milk, dairy products, and beef are here included with industrial goods, but will be discussed in the section on agricultural products.

standard products and other items subject to sharp competition declined, while on the other hand prices of fashion wear and certain other goods went up. The average level, however, remained unchanged.

The Government's direct price restraining measures are reflected more in the industrial sphere than elsewhere in the economy. The fact that industrial goods are effectively protected against competing imports, the structure of the sector where many enterprises enjoy a monopoly position, and the instruments and routines of administration and control by the Ministry of Commerce and Industry—all these render the sector a prime candidate for measures of this kind. Under such conditions, it should occasion no surprise that the Government is able to prevent price increases here.

The exposing of local production to the competition of imports was introduced as part of the stabilization policy, rather than with the intention of eliminating price distortions due to the excessive protection of various local products—which consequently could be manufactured at a profit to the producer though their production is unprofitable to the economy. In actual fact, hardly a single industry or enterprise was affected by foreign competition as long as it abided by the price-freeze order. While administrative import restrictions were lifted from a not inconsiderable part of the industrial products, this was done in a manner amply protecting local production, import duties averaging 60 per cent of the value added component. In the overwhelming majority of cases, no striking changes have appeared so far in the prices of commodities exposed to foreign competition or in their volume of output—the only indications that maladjustments have really been eliminated.

Subsidies and cuts in indirect taxation also had a part in keeping down prices of industrial products. This means was applied chiefly to imported goods whose prices had risen abroad, so as to prevent the shifting of these increases onto the

Table VI-3
IMPORTS AND CUSTOMS REVENUE—SELECTED COMMODITIES,
1962-63

	1962		1963		Per cent increase or decrease (-) as against 1962		
	Imports (\$ m.)	Customs (IL m.)	Imports (\$ m.)	Customs (IL m.)	Imports	Total customs	Average customs
Sugar	3.4	15.8	12.1	8.4	255.9	-46.8	-85.1
Frozen meat	4.0	13.6	6.4	16.1	60.0	18.3	-26.1
Coffee	2.3	16.7	3.1	18.6	34.8	11.4	-15.4
Cocoa	1.0	6.9	1.6	6.9	60.0	—	-37.5
Rice	2.2	3.0	2.2	1.7	—	-43.3	-43.3
Total	12.9	56.0	25.4	51.7	96.9	-7.7	-53.1

SOURCE: Department of Customs and Excise.

local consumer. The cuts in import taxes affected commodities manufactured abroad and were not applied under the import liberalization policy.¹ As regards some of the commodities, the local price was kept stable by reducing customs duties to the extent of the rise in the c.i.f. import price. The decline in the average customs rate as compared with 1962 sometimes came to tens of percentage points (see Table VI-3). As to other commodities directly imported by the Government, these were sold at their former prices despite the rise in their world market prices, with the resulting deficits included among subsidies. Total subsidies on goods other than agricultural produce increased from IL 36 million in 1962 to IL 65 million in 1963.²

2. *Agricultural products*

(i) *Fruit and vegetables*³

The average rise in fruit and vegetable prices during 1963 reached 10 to 11 per cent. Fruit went up by 14 per cent on the average, and vegetables by 6.5 per cent.

The main factor influencing these prices is supply, which often fluctuates sharply as a result of weather conditions. Producers' expectations, based on past experience, tend to accentuate the fluctuations. To these must be added the influence exerted by marketing bodies and the Vegetable Board through the planning of cultivated areas and the regulation of marketing, as well as the effect of changes in the price agreements.

The principal vegetables are marketed under agreements guaranteeing a minimum price to the producer during part of the year (usually during the main growing season) and providing for acreage quotas. In most items, a small number of marketing organizations wield a decisive influence, and among them Tnuva carries much more weight than all the others together.

This structure permits the leading marketing bodies to fix prices well above the minimum level. Supplies are regulated through sales to the Vegetable Board at the minimum price. The quantities sold in this manner, and which are thus eligible for Government subsidies, are resold to industry and for other uses.

Whereas most vegetable prices rose in 1963, some of them very steeply, there was a drop of 16 per cent in the average price of tomatoes, the vegetable with the biggest weight both in total vegetable sales and in the consumer price index. As from 1963, the minimum price agreement for tomatoes was extended to include the winter months, which normally are a period of low supplies. The price guarantees and the high price of the 1962 winter led to an increase in supplies during the winter of 1963, and prices fell by 25 to 60 per cent as compared with the corresponding months of 1962. On the other hand, the relatively low

¹ The producer price of local sugar is in any case guaranteed by the Government.

² See Chapter VII, "Public Sector Operations", p. 124.

³ See footnote ¹ on p. 76.

Table VI-4

**CHANGES IN AVERAGE PRICES OF SELECTED FRUITS
AND VEGETABLES AND FLUCTUATIONS THEREIN, 1963.**

Item	Weight in "fruit and vegetables" item (%)	Per cent increase or decrease (-) in average price as against 1962	Change in variation coefficient
Tomatoes	12.5	-16	-4
Cucumbers	4.3	55	105
Potatoes	7.8	27	53
Grapes	5.3	41	86
Plums	2.4	99	123
Bananas	10.3	2	147
Apples	18.7	9	-36

price during the summer of 1962 led to a reduction of supplies the following summer.

The fruit marketing structure is similar to that for vegetables, but here quantities are regulated through equalization funds in which the Government participates. To a certain extent, this arrangement is used to channel surpluses to the food processing industry.

Plum and grape prices rose steeply following a marked contraction of yields as a result of weather conditions. The supply of grapes went down 20 per cent and their prices up 45 per cent. The supply of plums was nearly 40 per cent lower and their prices doubled.

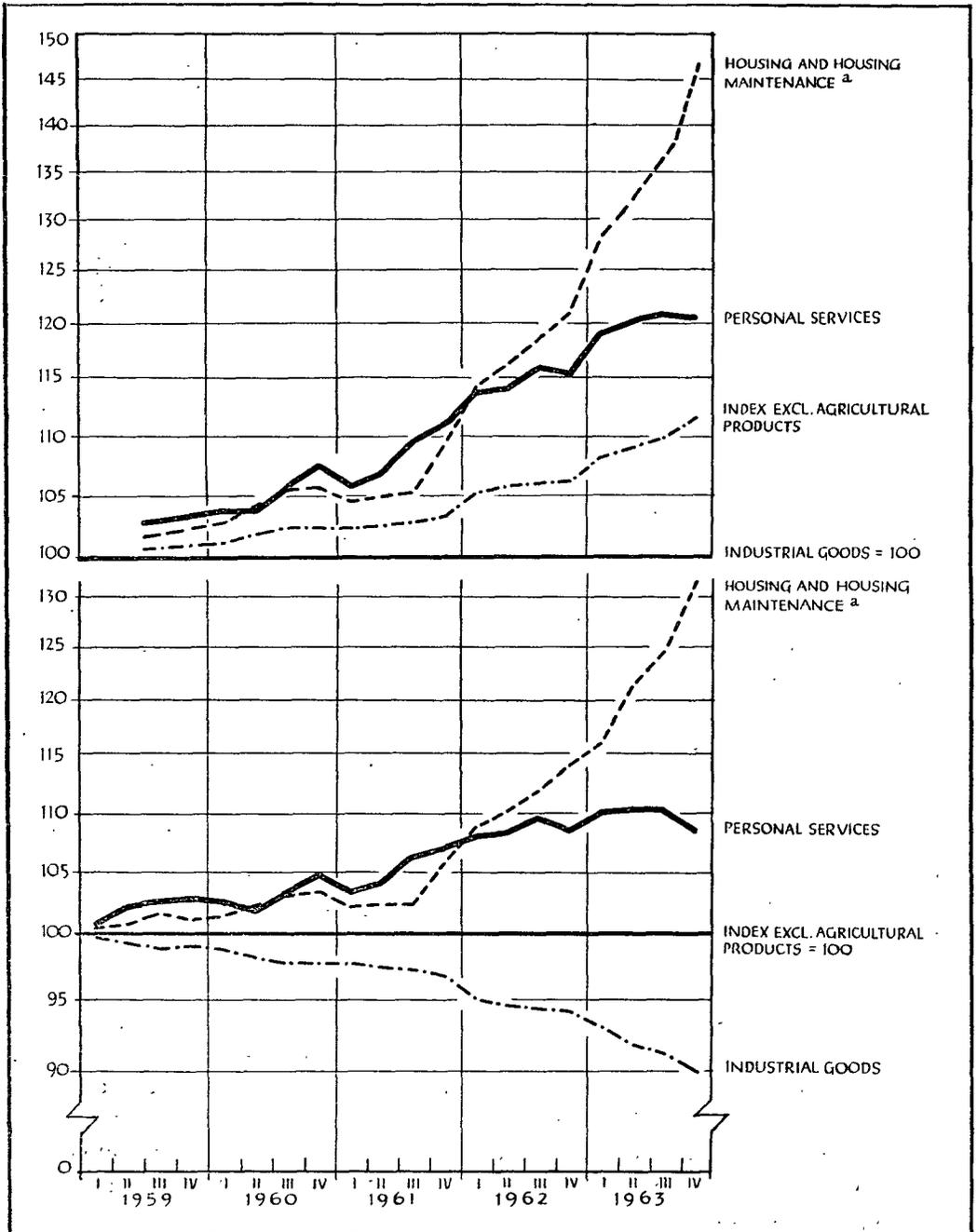
Domestic sales of citrus are regulated by the Citrus Marketing Board, but it does not have a completely free hand in setting prices, especially during a period when pressure is being exerted to keep the general price level down. Lemon prices climbed sharply, by 25 per cent. Shamuti oranges remained at their previous level, while prices of Valencia oranges were reduced by 40 per cent in May following the grant of a subsidy; for the year as a whole their average price was 20 per cent lower.

(ii) Poultry produce

Marketing of eggs and poultry is largely under the control of the Poultry Board, and most of it takes place under a quota and price-support agreement. Consumer prices are set with Government approval, and surpluses are diverted to storage and to export. There was no change in the prices paid under this agreement in 1963, but a serious shortage in September considerably raised the price of eggs marketed through unorganized channels, and average egg prices moved up 8 per cent during that month.

Poultry-meat marketing is regulated by channelling surpluses to storage and to export. Prices were 4.5 per cent higher in 1963 than in 1962. Fluctuations

Diagram VI-2
RELATIVE PRICE INDICES OF SELECTED CONSUMER PRICE
INDEX ITEMS, 1959-63
 (January 1959 = 100)



^a Includes, in addition to dwelling prices and key money, rent for unfurnished dwellings and painting, whitewashing, plumbing, and other services.

SOURCE: Central Bureau of Statistics.

during the year were insignificant, except in September and October (during which months several Jewish holidays fall), when their average level rose somewhat.

(iii) *Beef*

The average price of fresh beef was 3.3 per cent higher than in 1962. Here, marketing is organized under a minimum price guarantee agreement. Differences between the Government and the producers over the minimum price level arose during the first half of 1963 and caused a contraction of supplies; at the same time the Government did not expand imports of frozen meat. When an agreement was reached and the minimum price raised, large quantities of meat were offered for sale, and in July prices dipped 9 per cent below their level at the beginning of the year.

(iv) *Dairy produce*

These prices rose toward the end of 1962, and the average price for 1963 was 3 per cent higher than in 1962. However, there were no increases during 1963, except for a slight one in the case of cheese.

3. *Services*

Prices of services continued to climb during the year, although more slowly than in 1962. Between December 1962 and December 1963 the rise totalled approximately 5 per cent, as compared with 12 per cent during 1962, while the average annual level was more than 8 per cent higher than in 1962. The rise encompassed virtually all services. No attempts were made to prevent price increases in the majority of services, and wherever such measures were taken they proved to be of limited effectiveness. The rise in service prices reflects the pressure of demand, and though it was somewhat slower than during the two

Table VI-5
RISE IN SERVICE PRICES, ACCORDING TO CONSUMER
PRICE INDEX, 1961-63

	Weight in index in January 1962	Per cent annual increase in December levels ^a		
		1961	1962	1963
Personal services	85.7	10.5	12.6	4.8
Health services	31.4	5.0	18.2	4.3
Educational services	20.2	9.5	12.1	7.3
Transportation and posts	36.1	10.5	12.0	9.1
Insurance and taxes	28.1	11.5	8.9	1.2
Electricity and water	20.7	1.7	9.0	0.2
Other public services	2.0	0.0	0.0	0.0
Total	224.2	8.9	12.3	4.7

^a Weighting in 1961 is based on previous weights.

SOURCE: Central Bureau of Statistics.

Table VI-6
RISE IN PRICES OF VARIOUS SERVICES IN CONSUMER PRICE INDEX,
1960-63

	Weight in index January 1962	Per cent annual increase or decrease (-) in December levels ^a			
		1960	1961	1962	1963
Personal services					
Meals away from home					
At work and at school	3.9	6.4	4.2	12.3	1.8
In restaurants and cafes	9.3	3.8	9.0	12.8	4.9
Refreshments from kiosks	5.4	4.5	10.4	8.0	2.8
Total	18.6	4.7	7.9	11.4	3.5
Domestic help	15.1	8.6	9.9	17.6	4.8
Sewing and tailoring	4.7	..	..	6.2 ^b	9.0
Dry cleaning and laundry	4.8	..	..	11.0 ^b	6.7
Shoe repair	4.9	..	..	8.1 ^b	2.1
Cinema	14.5	9.7	8.2	10.9	13.3
Theater, concerts, etc.	5.4	16.3	10.6	19.9	4.5
Organized convalescent and holiday leave	3.6	2.4	23.1	7.5	—
Private convalescent and holiday leave	3.7	..	..	2.7 ^b	—
Haircutting and beauty parlors	5.3	2.8	7.4	8.7	5.1
Health services					
Sick Fund services	21.3	1.2	2.6	21.3	3.4
Private doctors	4.5	5.7	12.8	11.2	5.7
Dental treatment	5.6	4.6	7.9	13.2	6.2
Educational services					
Kindergarten	3.9	11.7	6.4	13.2	11.1
Secondary and vocational education	9.1	12.4	9.1	14.1	-0.7
Higher education	2.6	-2.5	8.7	7.9	8.6
Private lessons, advanced courses, etc.	4.6	3.8	12.7	9.8	20.8
Transportation					
Urban					
Bus		14.9	11.7	14.2	10.9
Taxi	16.5	—	4.9	13.2	5.5
Interurban					
Taxi		13.8	13.1	13.3	10.8
Bus	15.4	3.1	6.4	7.8	10.7
Housing services					
Painting and whitewashing	5.8	14.1	9.3	22.2	11.0
Plumbing		..	..	17.0 ^b	0.5
Electrical work		..	..	2.9 ^b	2.4
Glazing		..	..	24.0 ^b	2.7

^a The weighting in 1960 and 1961 is based on previous weights.

^b December 1962 as compared with January 1962.

SOURCE: Central Bureau of Statistics.

preceding years, the tendency for such prices to go up relative to those of commodities continued (see Diagram VI-2). On the other hand, the prices of services relative to the average level of the consumer price index declined, reflecting the rapid mounting of housing prices.

4. Dwelling prices and key money

This item showed a further rapid advance in 1963,¹ and was responsible for some 70 per cent of the total increase in the consumer price index during the year. As regards price trends and their underlying causes, the housing market differed in 1963 from all other commodity and service markets, and its development should actually be viewed in conjunction with the speculative boom in the real estate and share markets in 1962 and 1963.

The relatively rapid spurt of housing prices began in mid-1960. The main factor was the rise in incomes, and especially the increase in personal restitution receipts from abroad, a considerable part of which were from the outset earmarked for the acquisition of housing. It seems that the comparatively rapid upward climb of housing prices over a prolonged period made the housing market a prime attraction for funds leaving dollar-linked assets after devaluation. Thus, the boom in this market was partly due to the change in the relative profitability of the various assets after devaluation, and to the consequent drastic changes in their composition.

A striking development accompanying the rise in housing prices was the still

Table VI-7

RISE IN DWELLING PRICES AND KEY MONEY, OCTOBER-MARCH 1958 TO APRIL-SEPTEMBER 1963

Period	Dwelling prices		Key money	
	Index	Per cent increase	Index	Per cent increase
October 1958 to March 1959	85.3	—	97.2	—
April 1959 to September 1959	87.0	2.0	98.3	1.2
October 1959 to March 1960	89.6	2.9	100.0	1.7
April 1960 to September 1960	94.6	5.6	100.5	0.5
October 1960 to March 1961	100.0	5.7	100.0	-0.5
April 1961 to September 1961	108.2	8.2	114.6	14.6
October 1961 to March 1962	121.1	11.8	127.5	11.3
April 1962 to September 1962	132.9	9.8	147.8	15.9
October 1962 to March 1963	148.9	12.0	177.3	19.9
April 1963 to September 1963	168.4	13.1	208.1	17.4

SOURCE: Central Bureau of Statistics.

¹ This consumer price index item rose by 28.5 per cent in 1963, but this actually relates to the average for the period April-September 1963 as compared with the corresponding period of 1962. See footnote on p. 75.

more rapid rise in key money over the same period, following a relatively prolonged decline (see Table VI-7). This was apparently due to two factors. First, the amendment of the Tenant Protection Law in 1962 dissipated the fears of a big increase in rents covered by this law. These fears undoubtedly caused a reduction of demand and a resulting decline in key money relative to housing prices. Second, the soaring of housing prices drastically reduced the capacity of considerable sections of the population to buy homes, thus causing a shift in demand from purchased housing to key money dwellings, which are less expensive on the average.¹ The supply of the latter type of housing is fixed, and the cheapest types of such dwellings have no counterpart among housing offered for sale. Consequently, it should occasion no surprise that the rise in demand was accompanied by a big increase in key money.

(b) *Investment prices*

The level of domestic investment prices was on the average 6 per cent higher in 1963 than in 1962. The rise was more or less uniform in all categories, and was largely due to increases that occurred in 1962, the rise in 1963 proceeding more slowly.

The average price of imported equipment was 4.5 per cent higher than in 1962, mainly reflecting the fact that the old exchange rate was still in force at the beginning of 1962.

The rise in the average price of locally manufactured equipment, which totalled 5 per cent, was also the result of increases that occurred in 1962. Industrial output was the main area in which the Government's direct price restraining measures proved fully effective. By threatening to lift the protective barriers against competing imports, the Government was able to prevent industrial commodity prices from going up in 1963.

The prices of investment in construction are estimated to have gone up by 6 per cent on the average. This was mainly due to the rise in wages. The average increase of over 11 per cent in this input, whose weight in the index of building costs reaches 50 per cent, was responsible for more than 80 per cent of the rise in the index. Here too the upward trend slowed down in 1963.

No direct measure is available for investment prices in this item. The measurement is made on the input side, being based on wages and other purchased inputs. Prior to the boom in construction activity, there was no great difference between the index of building costs and housing prices. However, in the last two years a striking change occurred in this respect. There was a strong demand for new construction, and the rise of output prices was not accompanied by a parallel rise in the prices of purchased inputs, but instead by higher returns to relatively scarcer factors—wages, and particularly profits and land prices. It

¹ According to the Survey of Urban Family Expenditure in 1959/60, the average amount of key money paid by urban wage-earning families was equivalent to about 30 per cent of the average value of owner-occupied dwellings of such families.

would thus appear that, owing to this gap between purchased input prices on the one hand and wages and profits on the other, the measurement of building costs has a downward bias.

The rise in the prices of capital goods produced by the agricultural sector was greater than that in other investment prices. This was due to the considerable weight of wages in such investments (orchards, land reclamation, irrigation networks, afforestation, etc.).

Table VI-8
CHANGES IN DOMESTIC INVESTMENT PRICES, 1960-63
(percentages)

	1960	1961	1962	1963	Weight in 1963
Construction	6	11	14	6	593
Equipment					
Local equipment	1	5	14	5	131
Imported equipment other than ships and aircraft	} 1	6	{ 39	7	222
Ships and aircraft			{ 65	—	24
Total equipment	1	6	33	6	377
Capital goods from agriculture	3	9	10	9	30
Total	4	9	20	6	1,000

SOURCE: Central Bureau of Statistics.

(c) *Prices of public consumption*

Public consumption prices were on the average 5.5 per cent higher than in 1962. The services included with public consumption are not sold, and therefore have no market price. The estimate of price changes here is an assessment of the rise in the prices of inputs purchased for the provision of these services. The factors pushing up the price level in 1963 were the two main components of public sector expenditure—wages and other purchases. About half the total rise was due to the 9 per cent increase in average wages per employee, and the other half to the 4-5 per cent advance in the prices of other purchases. As in the case of price trends in other spheres, the latter rise mainly reflects increases that occurred in 1962.