

CHAPTER VI

PRICES

1. MAIN DEVELOPMENTS

PRICE DEVELOPMENTS in 1967 followed the trends of the second half of the previous year: marked stability in the general price level, with slight fluctuations caused by a few individual items or by seasonal factors. This pattern finds expression in both the consumer price index and the wholesale price index of industrial production. The relatively protracted stability of the price level is an extraordinary phenomenon in the Israeli economy; however, it should be borne in mind that it accompanied the general recession in economic activity, in itself a new phenomenon.

The Six Day War did not have a strong impact on the price level. Although the large-scale mobilization led to a sharp drop in the output of several industries (particularly in June), this was accompanied—except in the case of food processing—by a marked weakening of demand, so that the price level was hardly affected. The abnormal demand for food in May (principally for hoarding) was relatively short-lived and was supplied out of stock, so that in food prices as well no important changes took place during the period reviewed.

Table VI-1

AVERAGE RISE IN PRICES OF FINAL DOMESTIC USES, 1960-67
(percentages)

	Private consumption	Public consumption	Gross domestic investment	Total
1960	3	3	4	3
1961	7	6	9	7
1962	9	21	20	14
1963	8	6	6	7
1964	5	7	5	5
1965	8	13	4	8
1966	8	12	1	7
1967	2	0	1	1
Weight in 1967	61	25	14	100

SOURCE: Central Bureau of Statistics.

The devaluation in November also had no great effect on the price level in 1967. This can be ascribed *inter alia* to the relatively small devaluation, as well as to the fact that it took place toward the end of the year.

The price stability encompassed most economic sectors, so that there were no substantial changes in relative prices either. However, it should be stressed that such changes as did occur were in line with the long-run trend, namely a slight rise in the relative price of services.

The consumer price index held more or less steady during the whole of 1967. In December it stood at 118.9 points, as against 118.7 in the same month of the previous year, while the average level was about 1.6 percent higher than in 1966. This rise was the outcome of developments during 1966, the first half of which saw substantial price increases. The wholesale price index of industrial production also remained virtually unchanged from December 1966 to December 1967.

The derived price index of final domestic uses also points to relative stability—a rise of just over 1 percent compared with 1966. The increase was slightly higher in private consumption prices (2.0 percent). Public consumption prices,

Table VI-2
RISE IN CONSUMER PRICE INDEX, BY MAIN GROUP, 1966-67

	Percent increase or decrease (-)			
	Annual averages		December levels	
	From 1965 to 1966	From 1966 to 1967	From 1965 to 1966	From 1966 to 1967
Food	5.7	3.0	5.4	0.9
Housing	7.5	-1.9	5.5	-0.2
Housing services	13.9	3.6	15.0	1.9
Furniture and household equipment	3.4	-0.8	3.3	-5.0
Clothing and footwear	8.2	2.2	8.9	-0.3
Education, culture, entertainment	9.4	2.1	7.1	0.9
Health	12.9	4.6	13.7	2.5
Transportation, communica- tions, posts	11.0	2.3	12.6	1.4
Miscellaneous	17.9	1.5	15.4	1.7
Total index excl. fruit and vegetables	8.5	1.7	8.1	0.3
Fruit and vegetables	2.7	1.8	4.5	-0.5
General index	8.0	1.6	7.8	0.2

SOURCE: Central Bureau of Statistics.

on the other hand, remained firm; this was due to the fact that in 1967 (as opposed to the previous year) retroactive wage adjustments were not paid in the public sector, so that earnings per employee were lower. Investment prices crept up by slightly less than 1 percent. To a certain extent this can be ascribed to the November devaluation, which pushed up the price of the import component in investment toward the end of the year.

2. BACKGROUND AND CAUSES OF PRICE DEVELOPMENTS

The general price level, as already mentioned, began to firm in the second half of 1966, and hence the latter part of 1966 and the whole of 1967 may be treated as a single period. It should be noted, however, that whereas both the national product—in all its component elements—and employment moved in an opposite direction in the two halves of the year reviewed, the price level held steady throughout the entire year.

The stability of prices was the outcome of two factors: the stability of production costs on the one hand, and the weakening of aggregate domestic demand on the other. The price stability is noteworthy in view of the big increase in the liquidity of the economy during the year reviewed.

The demand pressures which existed in the commodity and service market during the early sixties (particularly after the 1962 devaluation) found expression in the labor market as well, and resulted in large wage hikes during those years. In 1965 there was some easing of these pressures (partly because of price increases that had formerly been prevented by the Government), and signs of a slump began to appear in the housing market. Steep wage increases were still being awarded at the beginning of 1966; these were largely the product of earlier negotiations conducted between workers and employers at a time when the economy was booming and apparently was expected to continue advancing at a vigorous rate. These wage increases, together with various Government measures—such as the upward revision of indirect taxes, the trimming of subsidies, and the permitting of a rise in the prices of controlled services—drove up the price level appreciably in the first half of 1966, even though in the same period—i.e. from the second quarter of the year—indications of an absolute decline in demand and GNP were already manifesting themselves. The price increases (particularly of industrial goods) were in fact lower than they would have been had all of the additional production costs been passed on to the customer. The downward trend of GNP carried over through the first half of 1967, while wages were fairly stable throughout the year, thus exerting no upward pressure on prices.

As already indicated, price stability existed side by side with a huge growth of liquidity in the economy. In contrast to the previous year, this growth encompassed not only less liquid assets (e.g. short-term bonds and time deposits), but also means of payment, which soared by about 26 percent, mostly during

the first seven months of 1967. Even allowing for the fact that part of the rise in means of payment stemmed from the needs of the Israeli-held territories, it was still very large. The growth of the public's liquid asset holdings originated in the expansion of credit—both to the Government and to the public.

The monetary expansion was largely deliberate, aimed at encouraging demand for real assets and thereby reduce unemployment and stimulate production. Most of the expansion occurred in the second quarter of the year. However, in view of the lagged effect of monetary policy on economic activity, the desired results could not have been expected to take place in the same period. During these months the public in fact enlarged its liquid asset holdings, including those of a less liquid nature, such as time deposits and foreign currency deposits originating in personal restitution receipts from West Germany.

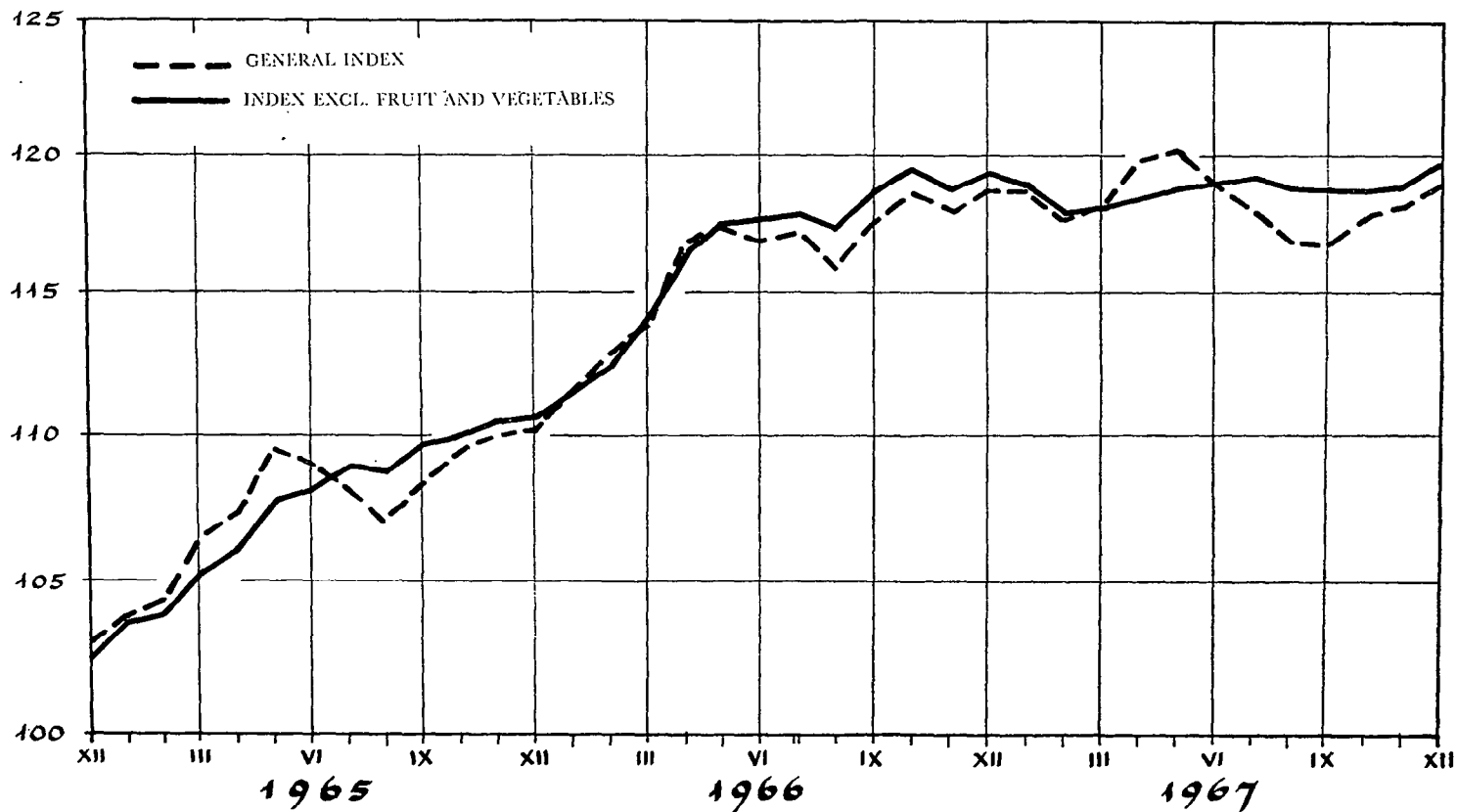
A large-scale monetary expansion also occurred in 1963—far exceeding the growth of the national product—and it too was not accompanied by a steep rise in the prices of currently-produced goods (with the exception of housing). However, the buoyant securities and real estate markets tied down large sums. This did not occur in 1967. The public's preference for holding cash and other liquid assets instead of buying real assets was presumably connected with the prevailing uncertainty, both political and economic. The fear of continued unemployment deterred the public from making purchases that could be postponed. Further, expectations of continued price stability and even a possible decrease in housing and consumer durable prices made it relatively more worthwhile to hold liquid assets, since under such conditions the anticipated real return on these assets is similar to, or even exceeds, the nominal yield.

Thus, the substantial monetary expansion in the second quarter of the year did not augment demand for real assets in that period (as mentioned above, an immediate reaction was not to be expected), and consequently there was no pressure on the price level. (In the first half of 1967 the circulation velocity of the money supply fell to its lowest point in the past seven years.) In the second half of the year economic activity began to pick up. The impetus came from an upswing in both Government and private sector demand, the latter possibly reflecting to some extent the lagged effect of the earlier monetary expansion. The price level remained fairly stable in the second half of the year as well, so that the incremental demand was met through an increased utilization of productive factors, which previously had been underemployed.

As already noted, the slump was first discernible in housing, and during 1966 demand for consumer durables also fell. Industries supplying construction inputs were the first to be affected, and by the middle of 1966, and particularly so in the second half of that year and the first half of 1967, the slump had spread to most sectors of the economy.

The cutback in production was accompanied by mounting unemployment. But whereas in previous years the growth of demand for labor—resulting from the boom in the commodity and service markets—led to substantial wage hikes,

Diagram VI-1
CONSUMER PRICE INDEX, 1965-67
(average 1964=100)



SOURCE: Central Bureau of Statistics.

Table VI-3

**RISE IN CONSUMER PRICE INDEX, EXCL. FRUIT AND VEGETABLES AND AFTER
ADJUSTING THE HOUSING ITEM, QUARTERLY, 1965-67**

(percentages; average 1964=100)

End of quarter	1965				1966				1967			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Index excl. fruit and vegetables and housing	3.5	2.3	1.2	1.3	3.0	3.0	1.4	1.5	-0.9	0.9	-0.3	0.8
Housing (dwelling prices and key money)												
(a) As measured normally	1.4	4.8	3.0	-2.4	5.4	3.3	-2.2	-5.2	-2.0	-0.4	0.0	1.9
(b) Adjusted for time-lag in measurement	3.6	-0.3	1.9	-0.4	-1.1	-1.0	-3.6	-1.0	^a	1.0 ^b	2.4 ^c	
Index excl. fruit and vegetables												
(a) As measured normally	2.7	2.7	1.5	0.7	3.4	3.1	0.9	0.6	-1.1	0.8	-0.3	0.8
(b) Adjusted for time-lag in measurement	3.5	1.9	1.3	1.0	2.4	2.4	0.7	1.2	^a	0.2 ^b	0.0 ^c	

^a No survey was conducted for the period January-June 1967 (the mid-part of which was the end of the first quarter) because of the small number of transactions.

^b Rate of change compared with the end of the last quarter of 1966.

^c Provisional data.

SOURCE: Central Bureau of Statistics.

the weakening of demand for workers and the rise in unemployment were not accompanied by any significant wage reductions, but only by wage stability. Hence this cost item remained stable throughout most of 1967. An exception was the construction sector, where the actual wage bill declined even though the official wage tariffs did not.

The fall in industrial production in the first half of 1967 affected most branches, in particular those supplying construction inputs or producing investment goods. Nevertheless, prices held steady on the whole and no significant decreases were registered. This rigidity of prices as regards a downward movement in a slump period—a phenomenon found in other economies as well—can be ascribed to several factors: (1) stability of production costs, especially the producer's inability to reduce wages despite mounting unemployment; (2) the cost structure—it is possible that a curtailment of output does not bring down unit costs; (3) the competitive structure—where there are only a few producers in an industry, an individual concern may hesitate to cut prices both because of apprehension as to the reaction of the other concerns and because of expecta-

Table VI-4

RISE IN CONSUMER PRICE INDEX, BY ECONOMIC SECTOR, 1966-67

(percentages)

	Weight in index (average 1964=100)	Increase or decrease (-)			
		Annual averages		December levels	
		1965 to 1966	1966 to 1967	1965 to 1966	1966 to 1967
Industrial products	404.5	6.6	1.4	6.8	-0.8
Agricultural products ^a	124.5	5.7	4.2	5.3	1.3
Dwelling prices and key money	132.8	7.1	-5.5	1.3	-0.5
Services					
Personal	79.8	11.3	2.6	10.4	1.8
Public	72.1	12.5	2.2	8.7	1.6
Other housing services	25.6	14.5	14.9	27.7	-0.4
Transportation, communications, posts	46.9	10.7	2.4	13.2	2.1
Electricity and water	20.4	7.7	7.3	11.6	3.6
Insurance and taxes	26.1	25.1	6.5	32.5	1.3
Total index excl. fruit and vegetables	932.7	8.5	1.6	8.0	0.3
Fruit and vegetables	67.3	2.0	1.8	4.7	-1.1
General index	1000.0	8.0	1.6	7.8	0.2

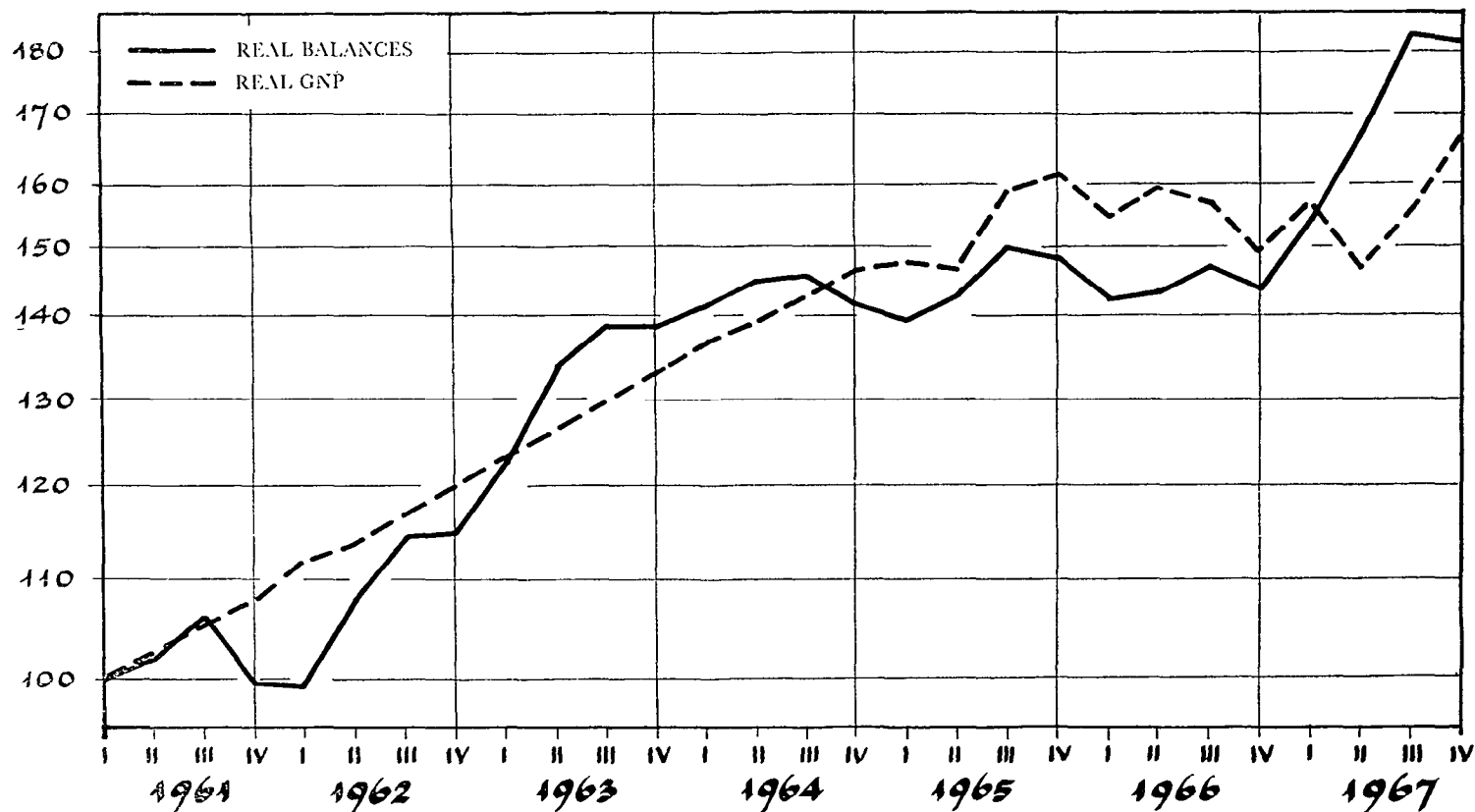
^a Excluding fresh fruit and vegetables; including milk and milk products as well as fresh beef and poultry, which have been transferred from the heading of industrial products to agricultural products.

SOURCE: Central Bureau of Statistics.

Diagram VI-2

INDEX OF REAL BALANCES^a AND REAL GNP,^b QUARTERLY, 1961-67

(first quarter 1961 = 100)



^a The index of real balances was calculated by dividing the index of means of payment by the index of consumer prices (first quarter of 1961=100).

^b The calculation of GNP for the years 1961-64 assumes a uniform growth over the year; from 1965 onward there are quarterly data on the development of GNP.

SOURCE: Based on Central Bureau of Statistics data.

tions of a relatively early change in the price trend. In this case, producers will prefer to compete among themselves not by open price cutting but by giving the customer better terms (e.g. credits for longer periods). This obviously represents an effective price decrease, but it is not reflected in the measurement. It is not known to what degree producers resorted to such means in 1967, and whether the extent of these disguised reductions differed from that in the previous year.

As regards housing, the slump continued through the first half of the year. After the Six Day War signs of a revival began to be felt, both in the number of transactions and in the area of new building starts. In contrast to industry, the impact of the recession was felt not only on the volume of transactions and building activity, but also on prices. The downward flexibility of housing prices may be explained *inter alia* by the large number of producers in the branch, as well as by its technological nature: building time per unit is long, the investment therein is large, and the holding of a large stock of completed units relative to turnover because of a reluctance to cut prices may be costlier, from the producer's point of view, than bringing down prices and selling the building. Moreover, in contrast to industry, in this sector the price of at least one of the important inputs—land—could be reduced to an even greater extent than the price of the finished product (since the supply of land is relatively inflexible). Housing prices started retreating in the middle of 1965 and they continued to lose ground till the middle of 1967. To be sure, here too the measured price decline was not large compared with the fall in the volume of construction and transactions, but it is reasonable to assume that the actual decline was greater than that measured in the surveys. In the sale of housing, credit plays an important part, and an improvement in credit terms has a considerable bearing on the real price of the dwelling unit. The difficulty of measuring this component (the Central Bureau of Statistics does not take it into account at all) for computing the index of dwelling prices gives reason to believe that the decline in housing prices was steeper than measured.

In the middle of November the Israeli pound was devalued by 17 percent in relation to the dollar, but the effect of this change on the 1967 price level was minor, due to the following reasons:

1. The relatively small devaluation.
2. Revision of customs duties—the Government reduced the rates of duty payable so that the absolute value would remain unchanged. As a result, import prices rose by less than the rate of devaluation. With regard to a number of goods and services (electricity, petroleum products, and food), the Government adopted a policy of keeping down consumer prices (either by enlarging price supports or by compensatory tax reductions).
3. Several countries devalued their currency to a similar extent following the devaluation of the pound sterling, so that imports from these countries did not become more expensive.

Table VI-5

**PERCENTAGE CHANGES IN INDUSTRIAL PRODUCTION AND WHOLESALE
PRICES OF INDUSTRIAL PRODUCTION, QUARTERLY AVERAGES, 1965-67**

End of quarter	1965				1966				1967			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Mining and quarrying												
Change in production		2.7	1.6	11.4	-0.3	-1.9	-8.4	8.7	-3.5	-13.3	7.4	14.1
Change in prices	0.2	1.6	0.7	0.3	0.1	0.3	0.6	-0.2	-0.8	-0.5	-0.1	0.1
Food												
Change in production		8.2	-4.7	-0.6	5.6	2.3	1.0	-2.9	5.2	-5.3	16.9	-6.5
Change in prices	1.3	2.2	1.6	1.4	1.7	0.4	0.0	1.2	0.8	-0.4	-0.2	0.9
Textiles												
Change in production		-1.0	6.8	0.4	6.4	-2.2	1.4	-13.2	-7.4	-1.3	23.3	7.7
Change in prices	0.6	0.4	0.4	0.4	0.3	0.7	8.0	2.9	-0.5	0.3	-1.2	-0.1
Clothing												
Change in production		5.7	11.4	-2.1	0.9	-0.3	11.6	-28.0	2.9	12.1	18.6	-11.5
Change in prices	-0.7	1.6	-2.8	3.2	-1.8	4.2	0.8	5.4	-4.3	0.7	-2.5	5.1
Wood and wood products												
Change in production		5.6	-4.6	16.3	-0.9	-7.8	-1.2	-0.9	-8.7	-7.6	15.5	14.8
Change in prices	1.0	0.8	0.7	0.2	0.8	0.6	0.3	0.1	-0.1	-0.3	-0.1	-0.5
Paper and paper products												
Change in production		-0.3	2.2	-8.7	17.2	-4.3	1.3	-6.1	11.5	-4.2	14.4	3.1
Change in prices	0.0	0.0	0.1	0.0	0.2	0.3	0.3	-0.1	-0.1	-0.1	-0.2	-0.1
Leather and leather goods												
Change in production		5.3	-5.3	4.2	5.5	-7.6	-5.4	-8.6	-7.1	-5.9	18.8	8.7
Change in prices	2.1	0.8	2.1	3.4	6.9	5.2	0.2	-0.2	-0.8	-0.7	-0.2	1.1

Rubber and plastic products												
Change in production		0.6	5.6	1.8	4.5	-6.0	3.3	-8.7	-8.3	3.8	22.9	4.4
Change in prices	-0.6	0.0	0.0	-0.1	0.2	0.8	0.2	-0.1	1.0	0.1	0.0	0.0
Chemicals and refined petroleum products												
Change in production		2.6	7.4	3.7	3.4	-4.6	8.7	-5.1	-4.8	1.4	14.6	12.3
Change in prices	1.1	1.3	0.9	0.6	1.2	3.1	1.1	0.5	0.5	1.1	0.1	0.2
Nonmetallic minerals												
Change in production		1.8	3.7	1.7	-3.8	-8.1	1.8	-4.5	-11.8	-29.2	14.1	27.4
Change in prices	1.1	1.0	0.9	0.7	1.1	0.8	2.0	1.2	-0.3	-0.4	-0.4	-0.1
Basic metals												
Change in production		-3.2	11.2	-0.3	3.1	-11.7	-13.4	3.2	-17.8	-5.7	32.1	2.0
Change in prices	0.3	0.9	0.6	1.1	1.2	2.6	2.6	1.2	0.1	-0.4	-0.5	0.6
Metal products												
Change in production		1.3	-0.3	5.7	-1.5	-4.0	-0.7	-14.2	-4.3	-13.3	16.8	15.3
Change in prices	2.9	1.2	0.7	0.9	2.2	1.8	0.0	0.6	-0.2	0.0	-0.1	0.5
Machinery												
Change in production		16.5	-6.5	-3.2	6.6	-13.2	-4.4	-7.0	-13.0	-5.4	22.5	28.6
Change in prices	0.4	0.6	0.3	1.1	1.1	0.9	0.2	-0.1	0.3	-0.4	-2.6	-2.6
Electrical equipment												
Change in production		-7.2	11.9	13.2	-16.3	-2.4	10.9	-19.2	-8.3	-18.1	34.4	9.9
Change in prices	1.4	0.9	0.4	0.3	1.8	1.0	0.1	0.3	-0.1	0.1	-0.4	0.7
Transport equipment												
Change in production		3.6	0.5	1.7	-1.5	-8.4	-11.8	-0.1	-4.9	-6.1	29.6	3.5
Change in prices	4.9	2.2	0.5	2.1	2.8	3.4	0.0	-0.2	-0.9	-0.3	0.2	0.1
Miscellaneous												
Change in production		3.4	-4.9	9.1	-4.7	-11.3	0.1	3.2	8.2	-4.0	4.0	14.9
Change in prices	3.1	1.5	0.5	0.7	1.9	0.7	0.5	0.2	-0.3	-0.4	1.5	1.8

SOURCE: Central Bureau of Statistics.

4. Sales out of stock were made at the old prices, or at prices only slightly higher (according to the Central Bureau of Statistics, which followed price developments in the first few weeks after the devaluation). This may have been due to the state of the economy at the time: despite a revival of business and rising demand, unemployment still prevailed.

To sum up, from the aspect of the price level, the trend in 1967 was more or less uniform. During the entire period of falling production and rising unemployment prices held firm, whereas previously they had gone up; with the resumption of rapid economic growth in the second half of the year, the price stability was on the whole sustained. In December the level edged up somewhat, but this was largely due to the devaluation.

3. RELATIVE PRICES

Relative prices showed no notable changes in 1967, since the price stability encompassed most sectors of the economy. In the first half of the year relative prices remained almost unchanged. The second half, however, saw a renewal of the upward trend in the price of services relative to goods, in particular industrial. Whereas the price of industrial goods included in the consumer price index (excluding meat and milk) fell by about 0.8 percent, prices of services rose by approximately 1.5 percent.

Fruit and vegetable prices advanced about 1.3 percent during the year. This was the outcome of a steep increase in vegetable prices, offset to some extent by a fall in fruit prices.

Prices of housing services continued to drift downward in the first half of the year, and only in the second half was a slight increase apparent (the results of the survey on dwelling prices in the last quarter of the year were not yet available at the time of preparing this report).

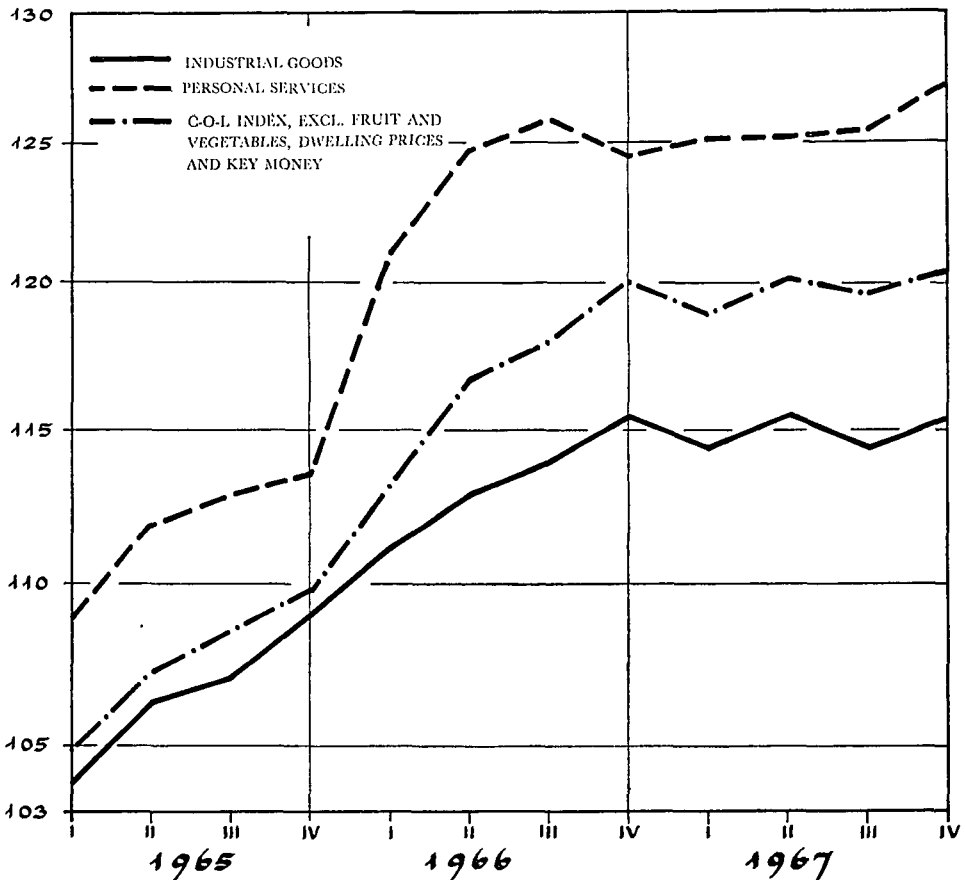
(a) *Industry*

Industrial prices, which had tapered off in the last quarter of the previous year, held steady throughout 1967. Prices of those items included in the consumer price index even decreased by about 0.3 percent during the year, while the index exclusive of milk and meat dropped slightly more—by close to 1 percent. The wholesale price index of industrial production also points to stability: a slight decline in the first half of the year, offset by a similar increase in the second half.

In industrial prices as well, the stability can be ascribed primarily to the weakening of real demand in the economy during the period reviewed. Production costs, particularly wages, also held firm in 1967, following a substantial increase the year before. The decline in demand caused most industries to cut back production from the second and third quarters of 1966 until the

Diagram VI-3

PRICE INDEX OF SELECTED GROUPS IN C-O-L INDEX, 1965-67



SOURCE: Central Bureau of Statistics.

second quarter of 1967. Prices, however, remained virtually unchanged and, apart from a few industries, no significant decreases were recorded.

The fact that the slackening of demand for industrial goods was expressed mainly by a decline in production rather than in prices is explained by a number of factors:

(1) Prices of inputs remained stable: wages, it will be recalled, held more or less steady over the entire year, while the prices of imported inputs did not fall (in several industries, such as metal products and footwear, there were even slight increases in the world prices of raw materials). In the last two months of the year import prices even moved up somewhat following the devaluation. The deepening of unemployment did not bring down industrial wages. The

inability of producers to reduce wages was doubtless one of the factors keeping product prices from falling.

(2) Even when input prices are constant, in certain industrial branches a cutback in production probably does not result in lower unit costs. Moreover, it is plausible to assume that manufacturers do not immediately adjust their workforce to a reduced volume of production. This is due partly to the inability to dismiss workers at will, and partly to their lack of desire to do so in anticipation of better times. Hence if labor constitutes a more or less fixed cost component, a fall in production may even be accompanied by an increase in unit costs.

(3) In most branches a small number of manufacturers account for a large percentage of total output. In these cases they prefer not to compete openly through the direct cutting of prices, but indirectly by giving their customers better credit terms, for example. (The garment industry, in contrast, is highly fragmentized and here price fluctuations exceed seasonal declines.)

(4) In 1966 production costs went up appreciably as a result of the wage hikes granted that year (and also because of the higher prices paid for several imported raw materials). These wage rises, which came to 17 percent on an annual average and about 12 percent in the course of the year, drove up certain industrial prices, even though signs of a slump were already clearly visible in the economy. However, these rises were lower than they would have been had the entire increase in production costs been passed on to the customer. Nevertheless, it is reasonable to assume that prices do not adjust immediately to changes in costs and demand but only after some time (partic-

Table VI-6

RISE IN INDUSTRIAL PRICES, ACCORDING TO CONSUMER
PRICE INDEX, 1966-67

	Percent annual increase or decrease (-) in December levels	
	1966	1967
Food	5.7	1.2
Furniture	1.6	-6.1
Clothing and textiles	9.3	-0.7
Footwear, leather, rubber, and plastics	11.6	0.0
Metal products, machinery, transport equipment, and electrical products	2.2	-3.5
Chemicals and refined petroleum products	8.8	1.7
Miscellaneous	5.8	1.7
Total	6.1	-0.3

SOURCE: Central Bureau of Statistics.

ularly since in some enterprises prices are subject to Government control, while in others the Government exerted pressure to keep down prices despite mounting costs). Hence, if demand had not declined still further in the first half of 1967, prices might even have gone up slightly following the previous year's wage increases. This further easing of real demand apparently averted such a price rise, the final outcome being a stable price level with a sharp cutback in production in several branches.

Industrial production began to revive in the second half of the year. The price level was still firm on the whole, and only toward the end of the year were slight increases registered in a number of branches. These can be largely attributed to the dearer cost of imported inputs after the November devaluation. Presumably the first months of 1968 will see further increases in the prices of industrial goods, the lagged effect of the devaluation.

Table VI-7
INCREASE IN THE WHOLESALE PRICE INDEX OF INDUSTRIAL PRODUCTION, 1966-67

(percentages; average 1963=100)

Branch	Average increase over previous year		June 1966 as against Dec. 1965	Dec. 1966 as against June 1966	June 1967 as against Dec. 1966	Dec. 1967 as against June 1967
	1966	1967				
Mining and quarrying	1.5	-0.9	0.5	0.1	-1.0	0.0
Food						
Meat, milk, canned fruit and vegetables	4.0	1.7	-4.0	2.7	0.2	0.1
Other foodstuffs	4.9	1.6	4.7	1.2	-0.4	1.5
Textiles	6.3	5.2	0.9	11.0	-0.1	-1.3
Clothing ^a	4.4	1.8	2.8	5.2	-2.9	3.1
Wood and furniture	2.0	-0.1	1.5	0.1	-0.4	0.2
Paper, cardboard, and products thereof	0.6	-0.1	0.6	0.0	-0.2	-0.2
Leather and leather products ^b	15.7	0.1	12.1	-1.1	-1.5	2.9
Rubber and plastic products	0.8	1.3	1.4	0.2	0.7	0.0
Chemicals and refined petroleum products	5.5	3.0	5.1	0.7	1.6	0.5
Nonmetallic minerals	4.2	1.4	2.6	2.3	-0.6	0.3
Basic metals	6.2	2.5	4.0	2.8	-0.4	1.6
Metal products	5.1	0.8	3.5	0.4	-0.2	1.1
Machinery	2.6	-1.8	1.2	-0.2	-0.1	-5.1
Electrical equipment	3.2	0.6	2.8	0.2	0.1	2.5
Transport equipment	7.8	-0.4	5.8	-0.8	-1.2	0.0
Miscellaneous	3.9	1.2	2.6	0.5	-0.6	5.1
Total	4.8	1.2	2.7	1.9	-0.4	0.3

^a Minus the sewing and tailoring item.

^b Minus the shoe repair item.

SOURCE: Central Bureau of Statistics.

A branch analysis of price charges shows a conspicuous drop in the price of consumer durables, due mainly to the paring of purchase taxes. According to the consumer price index, furniture prices moved down slightly from the beginning of the year until September, after which the decline grew stronger following the reduction of the purchase tax. Over the year as a whole, the decline amounted to about 6 percent. Prices of electric refrigerators and washing machines showed a similar development when purchase taxes were cut.

Prices of clothing and textile goods rose in the last months of 1966 following a new arrangement whereby export incentives were provided indirectly via the local market.¹ A sharp drop in output was also recorded in the last quarter of the year, due no doubt to both the higher prices of these goods and the general weakening of demand in the economy. During 1967 clothing and textile product prices fell slightly, and their level at the end of the year was still somewhat lower than at the end of 1966.

Footwear prices were about 2 percent lower in most months of the year than at the end of 1966, while output declined steadily from the second quarter of 1966 through the third quarter of 1967. Toward the end of the year, prices turned upward to regain their end-1966 level. This can be ascribed to the rise in the price of leather, which could be passed on to the customer because of the upswing in demand (by the third quarter of 1967 the branch already showed an impressive production rise).

The level of food prices, which for the most part are subject to Government control, remained fairly constant during the year (the demand for food did not fall off, in contrast to other consumer items).

As to industries producing mainly intermediate goods, it should be noted that, despite the decline in construction activity, the prices of construction materials decreased—with a few exceptions—to a very moderate extent.

(b) *Agricultural products*

Prices of agricultural products appearing in the consumer price index—including milk, milk products, and fresh meat and poultry, but excluding fresh fruit and vegetables—edged up during 1967 by about 1.3 percent, compared with a rise of 5.3 percent the year before.

Prices of various items held steady in the course of the year, but their average annual level was higher than in 1966 owing to increases that occurred that year. Thus, for instance, egg prices remained unchanged during the whole of 1967, but their average level was nearly 12.5 percent above that of the preceding year. Prices started to climb in September 1966, when the Government decided to cut its subsidies to producers and in lieu of this to permit a revision of the

¹ The Government cut its direct subsidy to this branch and allowed price increases in the local market instead. This made fabrics for the home market more expensive. As a result, the clothing item in the consumer price index jumped by nearly 9 percent.

Table VI-8

**CHANGES IN SELECTED FRUIT AND VEGETABLE PRICES,
ACCORDING TO CONSUMER PRICE INDEX, 1966-67**

	1966	1967
Tomatoes	-12.9	34.6
Cucumbers	-7.8	1.9
Potatoes	14.6	17.0
Grapes	6.3	-7.9
Plums	33.0	-24.1
Apples	-1.2	-10.1
Bananas	-6.9	-9.9
Oranges (Shamuti)	32.4	2.0
Grapefruit	15.2	0.0
Lemons	11.3	1.3
All vegetables	-2.7	17.8
All fruit	5.1	-7.8
Total fruit and vegetables	2.0	1.8

SOURCE: Central Bureau of Statistics.

consumer price. Despite the dearer cost of eggs, consumption was nearly 2.5 percent larger in 1967.

Fresh beef and poultry prices were only slightly higher at the end of 1967 than at the end of 1966, but their average annual level advanced by nearly 3 percent. There were sharp fluctuations during the year, especially in poultry prices. They reached a peak in September, when they stood nearly 26 percent above their trough in February. This erratic pattern was caused mainly by marked fluctuations in supply.

Milk prices were raised in December 1966, and on an annual average were almost 19 percent higher in the year reviewed than in 1966. This too can be ascribed to the cutting of the Government subsidy to producers.

Prices of fresh fruit and vegetables moved up by less than 2 percent in 1967. This was the combined result of a sharp fall in fruit prices and a steep rise in those of vegetables (7.8 and 17.8 percent respectively). The jump in vegetable prices is attributable to the fact that the bulk of the supply—and its expansion—was concentrated in a shorter season this year because of climatic conditions. The biggest price rises were actually recorded in the off-season.

(c) *Services*

The service item in the consumer price index went up during the year by just under 2 percent. While this is faster than the rise of the total index, it is

much lower than in previous years, so that service prices too can be said to have been comparatively stable during the year reviewed.

Service prices moved more or less in line with the general economic trend: in the first half of the year they virtually held steady (an increase of about 0.3 percent), while in the second half the upward trend grew somewhat stronger, reaching approximately 1.5 percent. This rise occurred in both the prices of public services determined by institutional factors and the prices of services largely free of administrative restraints.

Whereas in 1966 most service prices rose sharply—both those subject to Government control and those free of such curbs—in 1967 only a few individual items became dearer.

Among services subject to price control, the revision of the domestic water tariff should be noted. This went up by about 16 percent in 1967, after the local authorities had been permitted to raise the tariff by 18 percent in the previous year.

In contrast, the prices of electricity, postal and communication services, public transportation, education, and some health services were relatively stable.

Table VI-9
RISE IN PRICES OF MAIN SERVICE GROUPS, ACCORDING
TO CONSUMER PRICE INDEX, 1964-67

	Weight in 1964 (annual average)	Percent annual rise in December levels				1967	
		1964	1965	1966	1967	First half	Second half
Personal services	79.8	9.7	11.0	10.4	1.8	0.2	1.6
Health services	37.0	6.1	7.0	14.4	2.7	0.8	1.9
Educational services	30.0	6.3	7.1	2.4	1.0	0.0	1.0
Transportation and communications	46.9	0.7	11.3	13.2	2.1	0.6	1.6
Insurance and taxes	26.1	2.4	1.0	32.5	1.3	0.0	1.3
Electricity and water	20.4	0.0	6.8	11.6	3.6	1.9	1.7
Other public services	5.1	—	24.2	6.8	-2.5	-3.6	1.1
Total	245.3	5.2	8.8	12.8	1.8	0.3	1.5

SOURCE: Central Bureau of Statistics.

Public transportation fares were not revised, following appreciable increases in the two preceding years. The bus cooperatives demanded a revision of fares in 1967 as well, but their demands were satisfied not directly but indirectly by means of subsidies and a Government commitment to help finance various

projects of the cooperatives.¹ Foreign travel fares went up at the end of the year owing to the November devaluation.

Prices of educational services, over which the Government has a major say, more or less held steady, as already indicated. This is true of most components of this item.

Sick Fund rates remained stable during the year, but there was a slight increase for private medical services, particularly dental care.

Table VI-10

RISE IN PRICES OF VARIOUS SERVICES, ACCORDING TO CONSUMER
PRICE INDEX, 1964-1967

Item	Weight in index (pro mille), average 1964	Percent annual rise in December levels			
		1964	1965	1966	1967
Personal services					
Meals outside the home					
At work and at school	2.8	-0.3	17.5	-0.3	-8.7
In restaurants	8.9	6.4	9.6	6.0	1.5
Refreshments at kiosks	6.3	4.8	8.5	13.6	0.4
Total	18.0	4.6	10.6	7.6	-0.4
Domestic help	18.4	21.1	14.5	15.2	5.3
Sewing and tailoring	3.7	7.6	5.2	3.3	0.9
Drycleaning and laundry	5.1	9.2	14.3	7.1	0.6
Shoe repair	2.5	7.1	20.3	16.1	0.9
Cinema	12.9	2.1	12.3	15.4	1.8
Theater and concerts	5.7	18.7	9.7	6.2	-1.0
Convalescent and holiday leave	14.2	7.3	7.8	6.4	1.6
Haircutting and beauty parlors	6.3	7.9	7.0	9.0	2.0
Educational services					
Kindergarten	4.5	8.1	5.9	8.9	0.3
Secondary and vocational education	13.2	10.6	3.5	-8.7	0.3
Higher education	3.1	4.0	10.9	19.2	0.5
Private lessons, advanced courses, etc.	5.2	10.8	9.6	15.0	4.7
Health services					
Sick Fund services	21.8	3.6	0.1	17.2	1.1
Private doctors	5.4	10.4	11.0	10.0	1.9
Dental care	9.8	11.6	19.8	11.4	6.1

SOURCE: Central Bureau of Statistics.

¹ See Chapter XIV, "Transportation and Communications", section 2(b).

The index of "representative service prices"¹ (largely control-free) was also relatively stable in 1967, the rise coming to less than 2 percent. Here too most of the increase occurred in the second half of the year, the index holding steady in the first half (see Table IV-10).

In 1967 as well, service prices advanced more rapidly than those of goods (particularly industrial), so that the relative price of services continued to move upward. Most of this relative price rise took place in the second half of the year, the level of most commodity and service prices remaining firm in the first half.

Table VI-11
RISE IN PRICES OF REPRESENTATIVE SERVICES, QUARTERLY,
1965-67
(percentages)

End of quarter	1965	1966	1967
First	4.1	3.4	0.2
Second	3.3	3.3	0.0
Third	1.7	1.4	0.9
Fourth	2.1	0.8	0.8

SOURCE: Based on Central Bureau of Statistics data.

(d) *Housing*

Housing prices—as measured by the Central Bureau of Statistics for purposes of calculating the consumer price index—began to taper off in the middle of 1965, and in 1966 and the first half of 1967 they retreated somewhat. The measured decline between October 1965 and January 1967 totalled about 6 percent. Compared with the sharp drop in building activity and real estate transactions² in 1965-67, the price decline was of negligible proportions. The explanation lies primarily in the quality of the data: the measurement of housing prices does not reflect changes in payment terms, and since the mortgage loan and other credit granted by the contractor amounts to an appreciable percentage of the price of the dwelling unit, considerable importance attaches to an improvement in the terms offered the buyer (e.g. the reduction of the effective rate of interest and the granting of credit for a longer period). A change of this sort is tantamount to a reduction of the price, even though it is not caught

¹ This group consists of nine services: meals in restaurants, refreshments at kiosks, drycleaning and laundry, sewing and tailoring, shoe repair, private doctors, dental care, theater and concerts, haircutting and beauty parlors.

² The measurement relates to both new and used dwelling units.

by the measurement. It is hard to estimate the actual decline in housing prices (taking into account the above-mentioned factors), but it can reasonably be assumed to be greater than measured.

In contrast to industrial prices, housing prices slipped appreciably between 1965 and the middle of 1967, for several reasons:

(1) The slump in construction lasted longer than in the rest of the economy. (It will be recalled that this was one of the first sectors to show signs of the economic slowdown—at the end of 1964—whereas the recession spread to other sectors at a later date.)

(2) New building starts reached an all-time high in 1964 and the beginning of 1965, mainly because of the news of the impending Government curbs on building. In consequence of the record area of building starts, completions rose sharply in the second half of 1965 and the whole of 1966. In other words, the supply of housing was appreciably enlarged at a time when demand was falling off, a development which of course depressed the price.

(3) In contrast to industry, input prices could be lowered somewhat in the

Table VI-12

RISE IN DWELLING PRICES AND KEY MONEY, 1965-67

(average 1964=100)

Middle of survey period	Dwelling prices		Key money		Total	
	Index	Percent increase or decrease(-) as against previous period	Index	Percent increase or decrease(-) as against previous period	Index	Percent increase or decrease(-) as against previous period
1965 January 1	106.6	6.1	108.3	8.1	107.0	6.6
April 1	111.6	4.7	108.5	0.2	110.9	3.6
July 1	111.6	0.0	107.0	-1.4	110.6	-0.3
October 1	112.2	0.5	114.5	7.0	112.7	1.9
1966 January 1	111.4	-0.7	115.1	0.5	112.2	-0.4
April 1	110.7	-0.6	111.9	-2.8	111.0	-1.1
July 1	109.4	-1.2	111.8	-0.1	109.9	-1.0
October 1	106.9	-2.3	103.2	-7.7	106.1	-3.6
1967 January 1	106.0	-0.8	101.3	-1.8	105.0	-1.0
April 1 ^a						
July 1	108.7	2.5	96.6	-4.6	106.1	1.0
October 1 ^b	112.6	3.6	94.0	-2.7	108.6	2.4

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

^b Provisional figures.

SOURCE: Based on Central Bureau of Statistics data.

wake of a decline in product prices (i.e. of finished buildings). This is especially true of land (the supply of this item is inflexible, and its price plummeted during the slump), and to some extent also of wages (here too the measurement does not indicate any sharp fall, since it is not based on actual payroll outlay but on the official wage tariff). We find, then, that during the period reviewed production costs declined in this sector.

According to the Central Bureau of Statistics, housing prices began to turn upward in the middle of 1967 (see Table VI-12).¹ This occurred more or less simultaneously with the revival of building activity (see the discussion in Chapter XIII).

Rents rose by less than 4 percent in the course of 1967, but the average annual level was nearly 38 percent above that of 1966. This was due to the sharp upward revision of rents at the end of 1966 (with Government approval), following the recommendations of a committee appointed by the Government to examine the problem of rental housing subject to the Tenant Protection Law. It will be recalled that rents for protected dwellings were very much lower than they would otherwise have been, and hence the increase should be regarded as bringing them up to equilibrium level. This rise in rents was accompanied by a decline in key money (see Table VI-12).

(e) *Investment prices*

Domestic investment prices remained virtually stable in 1967, for the second consecutive year. The level went up by less than 1 percent compared with the

Table VI-13
CHANGES IN DOMESTIC INVESTMENT PRICES, 1964-67
(percentages)

	1964	1965	1966	1967
Construction	7	5	—	—
Equipment (excl. vehicles)	1	3	2	1
Vehicles	2	4	1	3
Ships and aircraft	—	—	—	2
Capital goods from agriculture	6	11	11	6
Total	5	4	1	1

SOURCE: Central Bureau of Statistics.

¹ The Central Bureau of Statistics carries out housing surveys once every three months, each time covering a period of six months (hence there is an overlap of three months between every two surveys). Comparatively few transactions took place in the period January to June.

previous year; the increase stemmed from a slight rise in equipment prices, while those of buildings held steady. The rise in the case of equipment (including motor vehicles, ships, and aircraft) is largely explained by the devaluation in November, which made imported equipment dearer, whereas the prices of locally produced equipment remained unchanged.

The prices of capital goods from agriculture rose strongly. This was apparently due to a decline in productivity in afforestation. A larger percentage of the labor this year was performed by relief workers, and while they receive lower pay, apparently their productivity is relatively lower still, so that outlay on afforestation per dunam rose.