

CHAPTER VI

PRICES

1. MAIN DEVELOPMENTS

PRICE DEVELOPMENTS in 1970 differed conspicuously from those of the three preceding years, when relative stability prevailed. During the year reviewed¹ the consumer price index went up by 10.1 percent, and the wholesale price index of industrial output by 11.3 percent, with most of the increase taking place between August and October. The rise in the average annual level was less than

Table VI-1
AVERAGE RISE IN PRICES OF RESOURCES
AND USES, 1961-70
(percentages)

	Average 1961-65	1969	1970
Private consumption	7.0	4.0	7.0
Public consumption	10.5	3.0	8.5
Gross capital formation	8.5	5.5	10.0
Total domestic uses	8.0	4.0	8.0
Exports ^a	13.0	4.5	2.5
Total uses	8.5	4.0	8.0
Imports ^b	11.0	4.5	4.0
Gross national product	8.0	3.5	8.5
Total resources	8.5	4.0	8.0

NOTE: Figures are rounded off to the nearest half-percent.

^a Valued at f.o.b. prices and at the effective exchange rate; including exports to the administered areas.

^b Valued at c.i.f. prices and the effective exchange rate; including imports from the administered areas.

SOURCE: Central Bureau of Statistics.

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.

that in end-year levels, amounting to 6.1 percent in the consumer price index and 7.1 percent in the wholesale price index of industrial output.

These developments in the year reviewed were largely connected with Government policy, especially the raising of taxes in August. Until that month prices moved up at a moderate rate; the consumer price index, exclusive of fruit, vegetables, and housing, went up in every month except February at roughly the same rate as in 1969. Beginning in August the price level showed the effects of the new fiscal measures introduced by the Government, including the raising of indirect tax rates, cancellation of subsidies on a number of products, and above all, the levying of a 20 percent surcharge on all imports apart from a few essential commodities. Other factors affecting prices during the year were the indirect tax hikes in February and the rise in the international prices of Israel's imports.

Except for a few items, it was pressure from the cost rather than the demand side that pushed up prices in 1970. To a large extent this reflected Government policy, which, through the imposition of stiffer taxes (especially in April and August) greatly restrained the growth of demand. Moreover, much of the incremental demand, which consisted primarily of security expenditures, was supplied directly by imports, thereby easing pressure on domestic resources.

On the other hand, the increase in costs per unit of output exerted upward pressure on the price level. It should be noted that during the first half of 1970 the increase in wage outlays was not accompanied by an advance in prices. Apparently this can largely be ascribed to the commitment undertaken by employers not to up prices, directly or indirectly, as a result of the "package deal"; another factor was the aforementioned absence of demand pressure in the domestic

Table VI-2
RISE IN VARIOUS PRICE INDEXES, 1969-70
(percentages)

	Jan.-Dec.		Jan.-July		Aug.-Oct.		Nov.-Dec.	
	1969	1970	1969	1970	1969	1970	1969	1970
Consumer price index								
General	3.9	10.1	2.8	2.6	0.1	6.6	1.1	0.7
Excl. fruit and vegetables	3.5	10.5	2.3	3.3	0.2	5.9	1.0	1.1
Excl. fruit and vegetables and housing	2.6	9.5	1.2	1.9	0.3	6.4	1.1	1.1
Wholesale price index of industrial output	3.2	11.3	1.0	2.4	1.3	7.9	0.9	0.8

SOURCE: Central Bureau of Statistics.

market.¹ After the new taxes went into effect in August, prices turned upward, but more or less in line with the incremental costs inclusive of the new taxes. This is true of the consumer price index as a whole and of the wholesale price index, but for individual items there was frequently a marked disparity, in either direction, between the rate of tax-induced increase in costs and the rate of price increase.

Hence not all of the increase in the consumer price index in the second half of 1970 should be attributed to the revision of tax rates in August. Fluctuations in various items of the index were independent of, or only slightly connected with, these increases. The weight of the items in which costs were substantially affected by the heavier taxes came to about 55 percent of the general index, and in these items prices went up by about 10 percent from August through October. As to the items whose costs were unaffected, or only slightly affected, by the tax hikes, some showed no change in price during these months, but in others there was a significant rise. The reference is mainly to uncontrolled services, whose prices went up appreciably compared with the same period in prerecession years. It is reasonable to assume that the suppliers of services took advantage of the general atmosphere of rising prices that prevailed at the time and upped their prices in order to offset the drop in their real disposable income due to the increase in taxes, the imposition of compulsory loans, and the general rise in prices.

The upsurge of prices in 1970 was concentrated in a relatively short period and was not sustained for long. In the latter part of the year prices tended to firm somewhat, but at the beginning of 1971 they again accelerated slightly.

2. CAUSES OF PRICE DEVELOPMENTS

Most price indexes went up by 10–12 percent in the course of 1970, with the increase being concentrated mainly during August–September, and to some extent in October. The rise in the average annual level was lower²—6.1 percent in the consumer price index and 7.1 percent in the wholesale price index of industrial output. These increases were much greater than in 1969, when the price level continued to hold comparatively steady, and were roughly the same as in the prerecession period. The relative stability of prices in evidence from mid-1966 was thus interrupted.

Until August of the year reviewed prices moved up at a moderate rate, although somewhat faster than in the same months of 1969. The consumer price index, excluding fruit and vegetables, went up 3.3 percent between January and July, compared with 2.3 percent during the corresponding period of 1969.

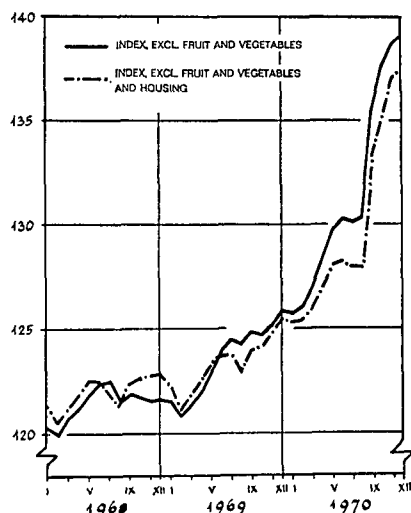
¹ Had there been strong demand pressure, prices probably would have risen, the “package deal” notwithstanding.

² This was due to the stability of prices in 1969 and the fact that the increases in 1970 were concentrated in the third quarter.

The difference between these two periods stemmed primarily from the strong rise in the housing item in the year reviewed and the tax increases in February 1970.¹ Except for February, the consumer price index, exclusive of fruit and vegetables and housing, rose at about the same rate as in January-August 1969, indicating that the relative price stability was maintained until August. This fact assumes added significance in view of the wage increases that took place under the "package deal", which exerted upward pressure on prices.

Two factors mainly explain the moderate advance of prices until August. First was the commitment by employers, under the "package deal", not to boost prices, directly or indirectly, because of the extra expenditures resulting from the increase in wage payments, the purchase of compulsory loans, and the upward revision of National Insurance contribution rates. The second, and even more telling, factor was presumably the absence of demand pressure in the domestic market. The principal indicator reinforcing this assumption about the lack of demand pressure was the much smaller excess of the Government's domestic expenditure over its revenue in 1970.² Besides the diminution of this surplus, a larger portion of Government demand, especially defense spending, was supplied from imports, thus reducing pressure on local resources. In addition to the absorptive measures taken by the Government, the money supply continued to increase at a sluggish rate, and this too undoubtedly served to ease demand pressure in 1970. Another contributory factor was the advancing of purchases at the end of 1969 because of the prevailing expectations of devaluation and tax hikes. This was followed by a slackening of consumption in the first half of 1970, reflected primarily by a significant drop in the case of durable goods.

Figure VI-1
CONSUMER PRICE INDEX, EXCL.
FRUIT AND VEGETABLES AND
HOUSING, 1968-70



¹ In February 1970 prices rose as a result of the heavier indirect taxes imposed that month. There were significant increases in cars (6 percent), health services (following the upward revision of Sick Fund membership dues owing to the payment of a cost-of-living allowance increment), and cigarettes and tobacco (the prices of which had not changed in recent years). The consumer price index, excluding fruit and vegetables and housing, edged up by 0.1 percent in February 1970, as compared with a drop of 0.9 percent in the same month of 1969. Prices generally decline in February because of a seasonal drop in the clothing and footwear items.

² See Chapter VII, "Public Sector Operations".

In August 1970 the Government introduced several major fiscal measures. It imposed a number of new indirect taxes, upped tax rates by 10–15 percent on a series of products, trimmed subsidies (on public transport, eggs, milk, dairy products, frozen meat, and carp), and, most importantly, levied a 20 percent surcharge on the majority of imports. While the heavier taxation helped to ease demand pressure on prices, it had a direct and immediate effect on costs, leading to sharp price rises in all markets. Within the brief space of some two months the consumer price index shot up about 6 percent, and the wholesale price index of industrial output by about 7 percent. In previous periods of devaluation or tax hikes prices had moved up at a strong rate, but not so swiftly and within such a short span as in the year reviewed.¹ By November the upward thrust had lost much of its momentum, and in the last two months of the year the consumer price index, exclusive of fruit and vegetables, rose at a rate similar to that of the same months in 1969.

The concentration of the price increases within such a short period is explained by several factors:

(a) Before August there was, as stated, upward pressure on prices due to the increase in labor costs under the “package deal”. When the new and heavier taxes were imposed, the opportunity was exploited to up prices, and in September alone the consumer price index soared 4 percent, and the wholesale price index by 5.4 percent.

(b) The general atmosphere and the public pressure on producers to continue holding the line on prices and not be drawn into a wage-price inflationary spiral induced them to raise prices immediately upon the imposition of the new taxes and not wait for some later date.²

(c) In some cases producers took advantage of the general increase in prices and raised theirs, even though the additional taxes had almost no effect on production costs in their branches. This was particularly true of services, the prices of which went up at a relatively high rate compared with previous years, including the prerecession period. Apparently the suppliers of services sought to compensate themselves for the drop in their real disposable income following the imposition of compulsory loans and additional taxes and the general increase in prices.

However, the Government’s policy of absorbing purchasing power from the public prevented the generation of demand pressure and kept prices from rising

¹ For example, in 1960 and 1961 prices rose rapidly after having held steady for some time, but the biggest increase registered in the consumer price index, exclusive of fruit and vegetables, for any one month was less than 2 percent. A similar picture was revealed after the 1962 devaluation.

² Some of the producers probably wanted to create a *fait accompli*, since they feared that it would be more difficult to raise prices at a later date. In quite a few cases the Public Price Committee set up under the “package deal” discussed increases that had already been implemented.

for long. Had demand pressure existed, the upward movement would doubtless have persisted. As it turned out, prices tended to firm within a short time. That no downward pressure was engendered and unemployment created can be largely attributed to the much heavier Government demand and the expansion of the money supply during the months August through October.

If all of the tax increase of August had been passed on to the consumer, this should have driven up the price level by nearly 6 percent.¹ The actual increase in the consumer price index during the months August-October came to about 6 percent (from August until the end of the year it was in the region of 7 percent),² and that in the wholesale price index of industrial output amounted to roughly 8 percent. Thus it turned out that the actual rise from August until the end of the year was close to that which can be attributed to the new taxes—a development in conformity with the guiding principle of the Public Price Committee, which justified the raising of prices to cover the extra outlays due to higher taxes and the dearer cost of raw materials (see the discussion below). But it should be remembered that during this period many prices went up without any connection with these factors, i.e. over and above the rate of tax increase. It follows that in other items the price rise did not reflect the full effect of the additional taxes in the branch concerned.³

In order to examine the possible link between prices and taxes, all items in the consumer price index were divided into three groups. The first comprised those items whose costs were significantly affected by the heavier taxation; the second consisted of items which either were not affected at all, or were only slightly affected, and whose prices did not go up; the third consisted of items whose

¹ The increase attributable to the import surcharge is 3.5–4 percent, while other taxes and the cancellation of subsidies accounted for another 2–2.5 percent (total revenue deriving from the additional taxes and cancellation of subsidies is estimated at approximately IL 350 million, which is equivalent to roughly 6 percent of the average annual private consumption).

² Not all of the actual increase can be attributed to the heavier taxation; some items became dearer even though they were not affected by the new tax rates. Also, there were some price increases (due to seasonal factors, etc.) which would have occurred irrespective of the taxes.

³ The increase in prices in the year reviewed was not substantially different from that in costs per unit of output (taking into account the rise in productivity); in fact, it was even slightly lower. The increase in per unit costs in industry is estimated at approximately 12–14 percent, whereas the rise of prices, according to the wholesale price index of industrial output, was 11.3 percent during the year. The percentage increase in costs was calculated as the sum of the following products: the weight of imports multiplied by the 20 percent surcharge; the weight of domestic purchases multiplied by the rate of increase in their price (estimated on the basis of the output price); and the weight of wages multiplied by the rate of increase in wages per worker. From this sum the increase in productivity was deducted. (Had the additional costs resulting from the taxes imposed in February and from the change in the international prices of Israel's imports been taken into account, the increase in costs would have been slightly higher.)

Table VI-3

ESTIMATED EFFECT OF THE AUGUST TAX INCREASE ON CONSUMER PRICE INDEX ITEMS, AUGUST-OCTOBER 1970

(percentage changes)

	Items affected by taxes	Items unaffected by taxes	
		Prices did not change	Prices changed
Food			
Weight in index	152.9	31.9	32.3
Change in prices	10.4	0.0	-3.6
Housing			
Weight	17.9	5.8	120.6
Change in prices	0.9	0.0	3.8
Housing maintenance			
Weight	8.7	56.2	14.5
Change in prices	19.1	0.0	6.0
Furniture and household equipment			
Weight	82.1	0.0	0.0
Change in prices	8.5	0.0	0.0
Clothing and footwear			
Weight	93.3	0.0	4.3
Change in prices	14.3	0.0	2.3
Education, culture, entertainment			
Weight	67.3	4.1	45.3
Change in prices	4.4	0.0	5.4
Health			
Weight	5.9	22.9	16.5
Change in prices	4.3	0.0	5.3
Transport, communications, postal services			
Weight	94.9	0.0	0.0
Change in prices	9.7	0.0	0.0
Miscellaneous			
Weight	27.3	5.1	7.5
Change in prices	13.3	0.0	4.2
Total			
Weight	550.3	126.0	241.0
Change in prices	7.8	0.0	3.3

NOTE: The weights of the consumer price index items listed above add up to 917.3 out of a total of 1,000. The items excluded and their weights are as follows: fruit and vegetables—75.4; canned fish—2.8; other furniture—1.0; and legal services—3.5.

SOURCE: Based on Central Bureau of Statistics data.

prices went up even though they were hardly affected by the taxes. The first group constituted nearly 55 percent of the general index; in other words, more than half of the "basket" of goods and services used to calculate the consumer price index was affected by the taxes imposed in August. The price increase for this group was approximately 10 percent during the months August-October. The second group constituted roughly 13 percent of the total index (included here are bread, milk, sugar, gas, electricity, water, Sick Fund services, etc.). The third group accounted for about 24 percent of the total, and consisted primarily of professional services (such as dental care), housing maintenance and repairs (prices of which rose by about 6 percent each from August to October), convalescent and holiday leave (which went up by approximately 8 percent), haircutting, primary education, and poultry. Excluding the last two items and housing, prices in this group went up by 5.5 percent, which is quite high compared with previous years (in 1963-65, for example, they edged up by less than 1 percent on an annual average). As already mentioned, most of the increases, especially of professional services, were partly influenced by the general atmosphere of advancing prices that prevailed at the time, which probably induced suppliers of these services to boost their prices in order to compensate for the contraction of their real disposable income.

In the group of products and services where significant increases were to be expected because of the change in tax rates, the effect of the heavier taxation was not uniformly felt. The items most affected were furniture and household equipment, clothing and footwear, and transport, communications, and postal services. Nearly all components of these items were influenced by the taxes. Two other items strongly affected were food (about 70 percent of its weight)¹ and education, culture, and entertainment (about 60 percent).

An examination of the impact of taxes on resource use is of interest. The actual increase in the prices of domestic resource use (private and public consumption and investment) was 8 percent in the year reviewed, whereas the import surcharge should have driven up prices by no more than 5.5 percent.² The steepest actual increase was recorded for investment—over 10 percent—while the rise attributable to the heavier taxation was about 7 percent. For public consumption the figures were approximately 8 and 7 percent respectively. In private consumption the actual increase was about 7 percent, but that attributable to the stiffer taxes came to less than 4 percent owing to the relatively low import component of this end-use.

The increases approved by the Public Price Committee (mostly in the post-August period) also reflected to a certain extent the tax-warranted rises. The

¹ In other words, 70 percent of the total weight of food represented items that were greatly affected by the taxes.

² This is obtained by multiplying the import component (net of taxes) by the 20 percent surcharge which was levied on all imports apart from a few essential products such as wheat, soya beans and oil, sugar, rice, and fish fillet.

Table VI-4

**ACTUAL AND APPROVED PRICE INCREASES OF SELECTED
CONSUMER PRICE INDEX ITEMS, 1970**

(percentages)

Item	Increase approved by Public Price Committee	Actual increase in 1970	
		Aug.-Oct.	Aug.-Dec.
Washing machines	6.0-6.5	12.5	12.4
Electric refrigerators	5.5	5.8	5.7
Gas stoves and ranges	8.5	3.0	3.0
Jam, honey, etc.	3.7-10.0	6.2	6.9
Woven fabrics and auxiliaries	5.4-9.9	9.5	10.4
Children's footwear	6.6	7.5	6.8
Men's footwear	8.4-9.5	5.5	6.9
Mattresses	8.2-8.7	7.2	8.8
Margarine	2.0	3.2	2.1
Nonalcoholic beverages	0.8-8.8	7.3	8.2
Other electrical equipment ^a	6.1-7.8	12.2	14.6
Clothing	6.8-9.0	5.9	13.1
Toilet and cosmetic articles	9.0	11.3	12.2
Flour products	4.4	2.2	2.7
Cheese	10.0	2.7	12.9
Gas hot plates	5.0	4.0	4.0
Mixers ^a	6.1	21.8	22.5
Electric and fluorescent lamps	8.0	6.6	11.9
Sewing machines	10.8-16.0	16.3	17.2
Washing powder	64.0-78.0	95.0	95.0
Aluminum pots	9.0-10.0	10.3	14.1
Tricot articles	11.6	8.9	15.9
Matches	10.0	0.0	0.0
Towels	5.3	12.5	17.6
Shoes	9.4	6.0	7.3

NOTE: The items in this table were taken from the files of the Public Price Committee and were selected because conceptually they conform closest to the relevant items in the consumer price index of the Central Bureau of Statistics. Whereas the Committee's approvals covered individual products of the factory or producer applying for authorization of a price increase, the CBS definitions are based on a detailed description of the properties of the commodity (and not according to producer). Hence caution must be exercised in drawing conclusions about individual items.

^a Excluding purchase tax; the increase in the tax must of course be added in calculating the total rise in the consumer price of the item.

Table VI-5

**ACTUAL AND APPROVED PRICE INCREASES OF SELECTED ITEMS IN THE
WHOLESALE PRICE INDEX OF INDUSTRIAL OUTPUT, 1970**

(percentages)

Item	Increase approved by Public Price Committee	Actual increase in 1970	
		Aug.- Oct.	Aug.- Dec.
Stainless steel cutlery	8.0-14.0	2.7	2.7
Steel wool	6.65	13.7	13.7
Locks	3.8-8.0	7.3	5.9
Sole leather	15.0-16.0	12.7	13.9
Upper leather	12.6	8.1	8.3
Plastic paints	8.0-10.0	9.0	9.0
Gas stoves and ranges	8.5-11.0	-0.3	1.8
Ferrous castings	8.6	7.6	8.5
Tin cans and containers	4.0-12.0	6.6	9.2
Batteries and accumulators	5.5-8.0	6.8	6.9
Insecticides	8.0-10.0	9.8	9.8
Matches	10.0	0.0	3.7
Heaters	6.0-8.4	12.8	5.9
Soup	5.0	0.6	2.2
Washing machines ^a	6.0-6.5	9.6	12.0
Washing powder	64.0-78.0	84.6	84.6
Electric and fluorescent lamps	8.0	5.4	8.7
Air conditioning and heating equipment	7.5-7.8	0.0	0.0
Electric motors	10.0	8.1	9.7
Metal pipes	10.0-12.0	10.2	10.2
Lubricants	5.7	5.7	6.8
Metal products	9.0-12.0	7.5	9.6
Cooking utensils	9.0-10.0	5.5	5.5
Sewing machines	10.8-16.0	10.5	10.5
Electric cables	^b	10.9	10.3
Tools	6.0-10.0	9.9	10.8
Beer	3.5-6.2	7.3	7.3
Canned fruit and vegetables	3.5	4.1	4.8

NOTE: See the note to Table VI-4.

^a Excluding purchase tax; the increase in the tax must of course be added in calculating the total rise in the consumer price of the item.

^b No price increase was approved.

principle guiding the Committee was to prevent an upward revision of prices because of the "package deal", i.e. not to approve a price increase on the grounds of a larger wage outlay under this agreement. Nor did it regard the dearer cost of credit as justifying an increase. But it did accept the dearer cost of raw materials as a valid reason. The increases approved by the Committee averaged approximately 8 percent,¹ and this was roughly the rate at which prices in general actually moved up from August till the end of the year. From a sample of items drawn from the consumer price index and the wholesale price index of industrial output² a comparison was made of the increases approved by the Committee with those that actually took place. As may be seen from Table VI-4, some discrepancy between the two is to be found for products in the consumer price index (since the classification in the two indexes is not completely identical, only substantive differences should be distinguished; see the note to the table). Among the products that rose at more or less the approved rates were nonalcoholic beverages, margarine, mattresses, children's footwear, and textiles. Among the items that moved up by more than the approved rates were soap, toilet and cosmetic articles, cheese, electric and fluorescent lamps, aluminum pots, towels, and clothing. This can be attributed to the comparatively small approved increases and the strong demand. But there were also products where demand had a restraining effect on prices, so that the actual increases fell below those approved by the Committee. Among the products in this category are shoes, matches, and men's footwear.

A similar picture is found for items in the wholesale price index (see Table VI-5). It should be noted, however, that in the case of controlled prices the actual increases were very similar to the approved increases (e.g. bread, margarine, eggs, etc.).

3. SECTORAL PRICE DEVELOPMENTS

(a) *Agriculture*

The prices of farm products, other than fresh fruit and vegetables, included in the consumer price index rose by about 10 percent during 1970, compared with approximately 2 percent the year before. Because of their relatively low weight in the index (3 percent of the total), they accounted for less than 0.5 percent of the total increase in the index during the year reviewed.

Most of the increases took place in the third quarter, and stemmed primarily from the abolition of the subsidy on eggs (these rose 22.4 percent) and on

¹ Ministry of Commerce and Industry calculations. The data are cumulative to the end of 1970, and pertain to concerns with an aggregate turnover of IL 1,840 million in 1969.

² See the note to Table VI-4 for the deficiencies of the sample. Since the individual items included in the two indexes are not strictly comparable, only broad generalizations can be made.

carp (up 10.6 percent). Toward the end of the year farm prices turned slightly downward.

Prices of fresh fruit and vegetables, on the other hand, were only some 0.5 percent over their 1969 level, following a significant rise in 1969, apart from August and September. In all other months they were lower in 1970 than in the previous year.

(b) *Industry*

Consumer prices of industrial products were up 8.7 percent in 1970, compared with a 2.9 percent rise in the previous year. The increase encompassed almost all items and occurred mostly after the August tax hikes. There were relatively steep rises in metal products, transport equipment, and electrical equipment (13.5 percent); these accounted for a quarter of the total increase in industrial prices, whereas their weight in the industrial product was only 15 percent.

Table VI-6

INCREASE IN PRICES ATTRIBUTABLE TO THE IMPORT SURCHARGE AND ACTUAL INCREASES, ACCORDING TO THE WHOLESALE PRICE INDEX OF INDUSTRIAL OUTPUT, 1970

(percentages)

	Weight in index (in thousands; 1968=100)	Increase attributable to import surcharge	Actual increase		
			Sept.	Aug.- Sept.	Aug.- Dec.
Mine and quarry products	16.0	3.1	3.9	4.0	6.2
Meat, fish, edible oils, dairy products, and other foodstuffs	247.0	6.8	5.0	6.7	6.7
Textiles and clothing	148.0	5.3	7.0	7.4	12.1
Wood, wood products, and furniture	69.0	3.9	5.9	8.8	11.6
Paper and paper products	23.0	8.3	11.8	15.3	16.1
Leather and footwear	20.0	2.7	5.8	7.7	10.2
Rubber and plastic products	34.0	6.4	3.8	4.7	9.2
Chemical and refined petroleum products	64.0	10.7	5.9	6.1	7.7
Glass, ceramics, cement, and products thereof	58.3	3.9	2.0	3.2	5.9
Basic metals and pipes	35.0	6.8	5.2	8.5	8.3
Metal products	74.0	4.8	5.1	7.0	7.1
Machinery and electrical equipment	103.0	5.9	5.4	6.8	9.4
Transport equipment	84.0	4.3	5.2	6.2	8.9
Total	975.3	5.9	5.4	6.9	8.8

SOURCE: Based on Central Bureau of Statistics data.

The wholesale price index of industrial output rose at a higher rate—by 11.3 percent in the course of 1970, after holding relatively steady in the three preceding years. Branches showing the steepest advances were wood and paper (about 18 percent); basic metals (15.4 percent); and electrical equipment (about 14 percent).

On an annual average, the rise in the wholesale price index was 7.1 percent. While most of the increase occurred in August, in some items prices started to climb at the beginning of 1970, mainly because of the increase in the international prices of import goods. Notable among these were basic metals, prices of which jumped 6.6 percent in the first quarter alone, and metal products, electrical equipment, and transport equipment (up more than 4 percent).

Much of the increase in wholesale industrial prices from August onward is explained by the 20 percent import surcharge levied that month. This should have pushed up prices by an estimated 6 percent;¹ the actual rise during August and September was about 7 percent, and from August until the end of the year it was approximately 9 percent. The movement of wholesale prices was also influenced by the heavier indirect taxes and demand conditions in the home market. In some branches the actual increase was apparently lower than that which the import surcharge would have warranted. These branches, the most important of which were chemicals and oil refining, constituted 17 percent of the general index.² In such branches as wood and furniture, paper and paper products, leather and footwear, and metal products, prices went up by more than was warranted by the surcharge. The weight of these branches in the index is close to 70 percent. The actual increase in several branches, such as foodstuffs, glass, ceramics, and basic metals, whose weight comes to about 6 percent, was similar to that attributable to the surcharge³ (see Table VI-7).

(c) *Services*

The services item (excluding building and housing services) in the consumer price index went up by 10.4 percent during the year reviewed, compared with 2.2 percent in 1969, and accounted for 30 percent of the total increase in the

¹ This is derived by multiplying the import component (net of taxes and customs) by the surcharge rate. In this calculation we have assumed that all of the additional costs are passed on to the customer.

² The calculation of the weights is based on Appendix Table VI-2 (in Hebrew only), which gives a detailed breakdown of Table VI-7.

³ The weighted coefficient of correlation between the increase attributable to the surcharge and the actual increase from August to December is relatively low, testifying to a lack of correlation. The coefficient for September alone is relatively higher (about 0.3), but presumably other factors influenced price developments, as stated above. The fact that some of the price increases were influenced by the general atmosphere of advancing prices, and that not all of the actual price rises can be attributed to the taxes, may help to explain this relatively low coefficient of correlation.

index. Prices rose throughout the year, accelerating in the third quarter—owing evidently to the general atmosphere of advancing prices that prevailed from August onward. Even though most personal services were not affected by the August tax hikes, the upward movement of their prices nevertheless gathered momentum. Over the year as a whole they went up by 14.4 percent, and accounted for most of the increase in service prices exclusive of housing. The rises in transport, communication, and postal services can be ascribed to the upward revision of postal and telephone rates and of travel prices in Israel and abroad (the latter following the raising of the foreign travel tax). Items whose prices went up relatively little were water and electricity (0.4 percent); educational services (4 percent); and other public services (down 0.7 percent).

Until August the rise of service prices outpaced that of goods included in the consumer price index. Controlled services went up 3.4 percent from January to July, and uncontrolled services by 5.5 percent. The remaining items, apart from housing and fruit and vegetables, edged down by less than 1 percent

Figure VI-2

RISE IN RELATIVE PRICES, 1970

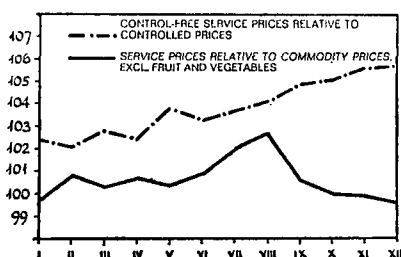


Table VI-7

RISE IN SELECTED GROUPS OF COMMODITY AND SERVICE PRICES,
ACCORDING TO THE CONSUMER PRICE INDEX, 1969-70

(percentages)

	Weight in index (1969=100)	Change in December levels		1970	
		1969	1970	Jan.- July	Aug.- Dec.
Controlled items	298.0	0.4	8.6	2.6	5.9
Services ^a	200.9	0.4	8.5	3.4	4.9
Other ^b	97.1	0.2	8.8	0.9	7.8
Uncontrolled services ^c	136.4	5.7	12.9	5.5	7.0
Other items, excl. fruit and vegetables and housing	363.8	3.5	8.1	-0.5	8.6

^a 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 Fuel, eggs, milk and dairy products, alcoholic beverages, sugar, cigarettes and tobacco, grains, and flour products (other than biscuits, cakes, and some other confectionery goods).

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

SOURCE: Based on Central Bureau of Statistics data.

during this period. After August the situation was reversed: controlled services rose 5 percent in the last five months of the year and uncontrolled services by 7 percent, while the remaining items, exclusive of housing and fruit and vegetables, jumped 8.6 percent. It seems that following the August tax hikes service prices dropped relative to commodity prices because the heavier taxes fell mainly on commodities. The rise in the relative price of services during the first seven months of the year continued the long-run trend which had been interrupted only in years of price stability. However, the tax increases, which had an especially strong impact on goods, caused a deviation from this trend.

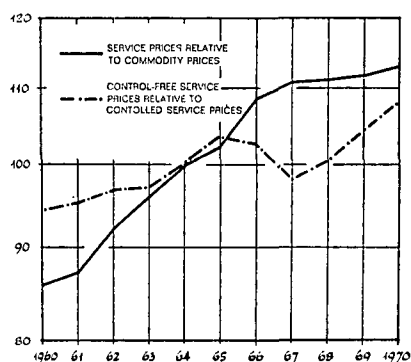
The upward movement of the prices of uncontrolled services relative to controlled services carried over through the year reviewed, when the rise was similar to that of earlier boom years. As will be recalled, control-free service prices fell relative to controlled items during the recession, especially when the slump in domestic demand deepened. But with the recovery of the economy in 1967, the rising trend in the prices of free services reasserted itself.¹

(d) *Housing*

The upswing in the housing item (according to a special survey which directly measures dwelling prices and key money), which began in 1968, continued in the year reviewed. Dwelling prices soared 20 percent and key money by some 16 percent. Dwelling prices shot up fastest in Jerusalem (about 30 percent); they rose by 23 percent in Tel Aviv, 18 percent in Haifa, and 16 percent in other cities.

It should be noted that dwelling prices and key money, as they appear in the consumer price index, only partly reflect the changes in the index of residential construction input prices.² A direct measurement of dwelling prices and key

Figure VI-3
RISE IN RELATIVE PRICES, 1969-70



Semi-logarithmic scale.

¹ The price of control-free services relative to controlled services went up by nearly 4 percent in the year reviewed, a rate similar to that in 1969 and the prerecession years. During the recession it declined by up to 4.5 percent relative to controlled services. (The relative price is calculated as an annual average, by dividing the price of control-free services by the price of controlled services).

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 fruit and vegetables, have been taken as indicators of housing prices.

Table VI-8
INDEX OF DWELLING PRICES AND KEY MONEY, ACCORDING TO
SURVEY DATA, 1968-70

(Base: 1964=100)^a

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
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	135.9	3.4	99.2	0.3	127.9	2.8
1970 January 1	142.3	4.7	102.4	3.2	133.5	4.4
April 1	150.0	5.4	111.7	9.1	141.6	6.1
July 1	156.2	4.1	115.9	3.8	147.3	4.0
October 1	159.2	1.9 ^b	116.2	0.3 ^b	149.7	1.6 ^b

^a For 1970 new weights were used, with 1969=100.

^b Preliminary estimate.

SOURCE: Based on Central Bureau of Statistics data.

money is published separately in a special survey, which shows the prices of dwelling units that have changed hands, as recorded by the Land Betterment Tax Office. The consumer price index, excluding fruit and vegetables, has therefore been adusted to include dwelling prices and key money as they appear in these surveys (in place of the monthly index). This brings up the average annual increase in the consumer price index exclusive of fruit and vegetables from 6.5 to over 7 percent. In 1969 the adusted index was also higher than the recorded increase.