

not in terms of news that prices are increasing, but rather in terms of the magnitude of the increases. Prices have been stable during the period from 1958 through 1964. In 1965 the first signs of increases became apparent during the last quarter. Preliminary data for both January and February point to a continuation of the trend but at a slightly faster rate. Chart 1 shows the year-to-year percentage changes in both consumer and wholesale prices for the period since 1948. Relative to the present, the period 1948 through 1952 saw sharp movements in the price index; a similar but not as sharp a movement occurred in the period from 1956-58.

The consumer price index rose by 1.6 percent during the year 1965 as compared with an average increase of 1.2 percent over the preceding 4 years. Required supplies of meat and some other animal products contributed to the sharpest price advances, and rising demand pressures also brought about increases in prices of various other nondurable consumer goods. Prices of automobiles and some other consumer durable goods, however, were lower than a year earlier, principally because of the midyear cut in Federal excise taxes. Prices of services (excluding rent) increased by nearly 3 percent.

In the closing months of 1965, retail prices of foods averaged about 3-percent higher than a year earlier. Meat prices advanced sharply in the spring and increased further in December. On the other hand, large harvests—particularly of citrus fruits and processed fruits and vegetables dropped to levels well below a year earlier. Consumer prices of apparel, particularly shoes, and of fuel oil, transportation, and medical services also rose more than in other recent years.

The wholesale price which has been relatively stable since 1958 began to rise early in 1965 primarily as a result of farm products; 7 points from January to June. Beginning in May 1965 the industrial factor began to climb also, increasing by 1 percent between May and December. Virtually all of this increase was in the consumer non-durable-goods sector. No information is currently available on the role which the tax excise cut played in pricing.

Sharpest price increases during 1965 affecting the home building industry were in metal products, up 2.3 percent primarily as a result of copper which showed an 11.8-percent rise for copper sheet. Lumber and wood products increased by 1.9 percent, most of the increase being in hardwood lumber which went up by 12.7 percent. Furniture and household durables were virtually unchanged.

The industrial price index increased 0.3 percent in January to the 103.5 level. The index which was stable from 1959 through 1964 has increased at an annual rate of 2½ percent since September 1965. A somewhat more erratic but truer indicator of what lies ahead (a leading economic indicator according to the National Bureau of Economic Research) is the index of industrial materials prices which has risen by 10 points since January 1965. The present level is 120.3 (1957-59 equals 100). Half of the increase has come since September 1965. A third industrial index is the Federal Reserve Board's index of sensitive industrial materials (sensitive to price changes) which has risen from 101.3 in January 1965 to 103.7 in January 1966.

Even though the present increases have not as yet been as sharp, it must be remembered that the large sums of money committed by the Government and the anticipated budget deficit have not been reflected in the current indicators. Within the next few months, the effect of Government policies, both fiscal and monetary, will make itself felt. The "hyperinflation" of the immediate postwar period will not, however, again rear its head. The shortages which characterized the economy are no longer present. Short-term imbalance between supply and demand particularly in materials in heavy demand for use in Vietnam will exist.

HOMEBUILDING

The big news is still mortgage money, or money in general. After the change in the discount rate in early December last year, the availability and cost of money took a sharp turn for the worse. The ¼-percent raise in the FHA rate was too little, too late. As one builder said before the raise, "We are very likely going to be stuck with the increase in the rate as well as the increase in points." He was right. The increase to 5½ percent meant in many cases not only a ¼-percent increase in the interest rate but also a further increase in points. "Before the FHA increase, I paid 1½ points. Now I have to pay 3 points," commented a builder from North Carolina.

Points have taken a sharp turn upward since late last year. In September the average price for \$100 of an outstanding loan was \$98.4, \$98.2 in November,