

CHAPTER IV

PRIVATE CONSUMPTION

PRIVATE CONSUMPTION¹ was estimated to have risen in 1957 by 9 per cent, in real terms, as compared with 1956. Allowing for a population increase of 5.5 per cent, the rise in real per capita consumption was about 3.5 per cent. At current prices, consumption rose by 19 per cent. The implied price increase² derived therefrom was estimated at about 9 per cent.

At current prices, private consumption was estimated in 1957 at IL.2,210 million, of which rent, both direct and imputed³, represented IL.171 million.

1. THE BACKGROUND TO THE CHANGES IN CONSUMPTION

The increase in private consumption of IL.360 million, at current prices, or 19 per cent, should be considered in the light of the rise in private disposable income,⁴ which rose in 1957 by IL.400 million, or about 20 per cent.

As, in 1957, private disposable income was estimated at IL.2,435 million, and total consumption expenditure at IL.2,210 million, the latter accounted for 90.8 per cent of total disposable income. In 1956, consumption represented 91.4 per cent of disposable income, so that there was no change in the average propensity to consume in 1957. In other words, in 1957, the phenomenon which occurred in 1956 did not repeat itself; consumption in 1956 rose at a slower rate than private disposable income, and the average propensity to consume fell from 96.3 per cent in 1955 to 91.4 per cent in 1956. This fall might have been due to part of the consumers refraining from increasing their consumption expenditure as a result of the precautionary measures caused by the tense security situation. When this tension was alleviated in 1957, the public increased its rate of expenditure more or less proportionally to the increase in disposable income.

The portion of income which had not been consumed was saved in different

¹ Private consumption is defined here as the total current consumption expenditure of the private sector, including households and non-profit institutions.

² This figure is derived indirectly, i.e. it is the result of the division of the estimated nominal value of total consumption expenditure, at current prices, by the estimated consumption in real terms. The implied price increase arrived at in this chapter is not identical with the price increase in the consumers' price index shown in Chapter VI, Prices, as that index is based on the consumer basket of urban wage-earners in 1951.

³ From a separate estimate prepared by the Central Bureau of Statistics.

⁴ For definition see Chapter II, Resources, Product and National Income.

forms, including apartments which represented either purchases made during the current year or instalment payments for apartments acquired in previous years.

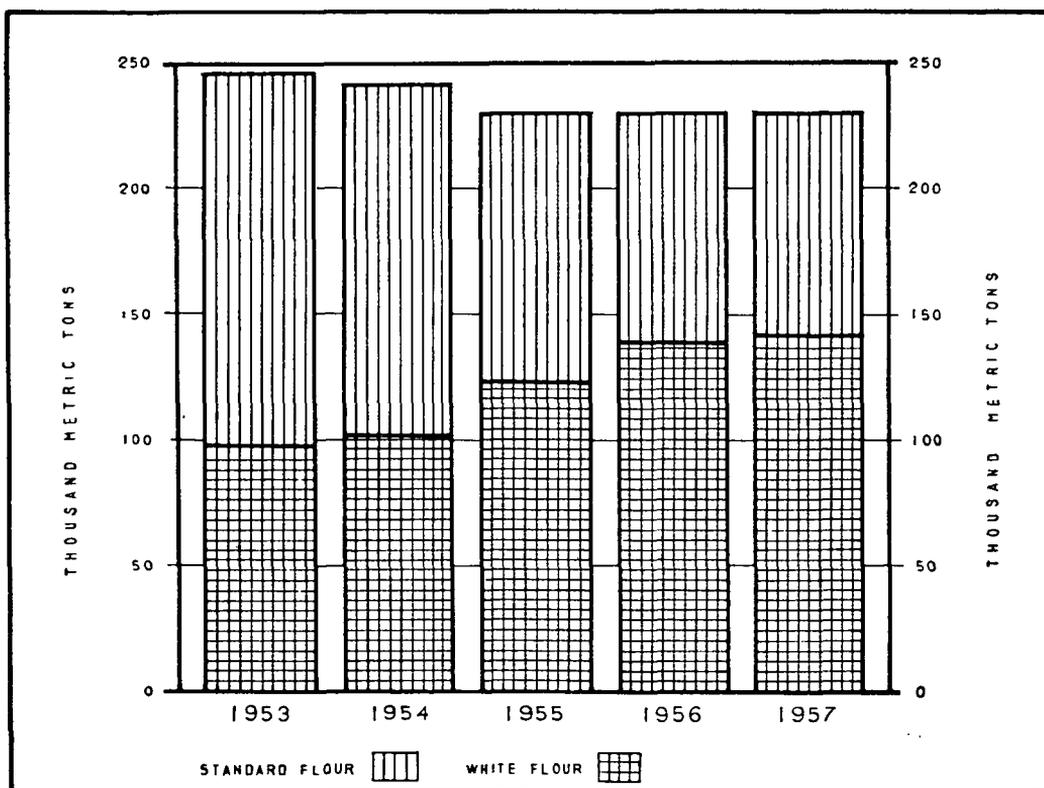
When considering the average rate of consumption in the economy as a whole, it should be borne in mind that the sum total does not reflect the different propensities of the various social strata and income groups.

Moreover, it should be remembered that total private disposable income includes substantial transfer payments, both domestic and from abroad, which were in part received as non-recurrent payments. Discounting these special receipts in respect of which consumer behaviour differs, the ratio of consumption rates to current income was somewhat higher.

2. CONSUMPTION PATTERNS

In 1957, the most striking development in consumption was the large increase in the consumption of durable consumer goods, which was relatively higher

DIAGRAM IV-1
Consumption of Flour
(thousand metric tons)



than the rate of increase in total consumption. Food consumption, on the other hand, rose to a lesser extent than total consumption.

In some countries, a rising consumption of durable goods and of recreation is attributed to an increase in the level of income. The tendency towards a shift to certain kinds of consumer goods, considered to be of better quality by the consumer, such as the shift from standard to white bread (indicators of this development are shown in Diagramme IV-1, showing changes in flour consumption), from cheaper cigarettes to dearer ones, and from cheaper to more expensive cinema seats, etc. is attributed to this phenomenon. It should, however, be pointed out that owing to the sharp changes in the relative prices and qualities of the different commodities, these conclusions regarding particular items cannot always be verified.

The change in the percentage of imports in final consumption¹ is also noteworthy. It has been mainly due to the large increase, relative to total consumption, in the consumption of agricultural produce, which has a relatively low percentage of imports; it has also been due to a comparatively minor increase in the consumption of other kinds of food, largely imported, as well as in that of electricity and kerosene, all of which have a high import percentage, all at current prices.

Table IV-1 shows that, at current prices, consumption rose by about 19 per cent. Consumption of agricultural produce increased by about 30 per cent, while that of other food rose by about 9 per cent, and kerosene, electricity and gas by about 13 per cent. As the food items represent a considerable share of total consumption, relative changes therein are likely to influence the composition of consumption as a whole.

This development is, in the main, the result of a reduction in the supplies of these commodities from imports, and stems in part from the increased supplies of domestic produce, especially agricultural. Only to a minor extent can it be attributed to a change in consumer "tastes". It can, therefore, be concluded that Government policy in the field of imports and levies contributed to a certain reduction in imports for consumption only by changing its internal composition.

3. CONSUMPTION INDICATORS

The calculations of the rate of change in private consumption are based on data which were collected in the main by the Bank of Israel. They purport to indicate the principal trends of consumption, but cannot accurately reflect their fluctuations. The index compiled from these data has been adjusted by the weights received from various sources, including the Central Bureau of Statistics.

¹ Import for consumption has been defined in this Chapter as the value of imports at IL.1.800=\$1 in the final price paid by the consumer, including indirect levies. The percentage of imports is thus low in commodities with heavy imposts, such as of durable goods.

The estimate of the total value of consumption expenditure for 1957, based on its corresponding figure for 1956, has been extrapolated from changes in 1957¹ at current prices. These calculations do not allow for rent, both direct and imputed, which have been derived from separate estimates prepared by the Central Bureau of Statistics. In private consumption, a distinction is made between the consumption of non-profit institutions which appear under services, and that of households, excluding the latter's payments to these institutions. The share of these organizations in total private consumption is estimated at about 10 per cent. Changes in consumption of these organizations have been measured on the basis of the change in added value. Data on their total expenditure are available only until 1955.²

The extent of the coverage of the detailed indicators is unequal. The coverage of data on the consumption of agricultural food, cigarettes, alcoholic beverages and selected durable goods is almost complete. The extent of the coverage of data on textiles, footwear and furniture is unknown. The indicators are shown in Tables IV-1 and IV-2 as well as in diagrammes.

In view of the fact that some indicators are only available on an annual basis, including data for the consumption of liquid fuel, for services of non-profit organizations, and for part of the durable goods, it seems difficult to get a clear indication of the fluctuations of the weighted indicators for periods of less than a year. Table IV-2 and the following diagrammes, referring to changes over shorter periods, are therefore limited to part of the indicators.

4. CHANGES IN THE MAIN GROUPS OF CONSUMPTION

The following discussion is concerned with commodity groups in respect of which not only the rise in demand as a result of the rise in income is allowed for, but also the substitution arising from changes in the relative prices of the different commodities.

Indeed, it may be assumed that the larger the number of commodities within a given group, the smaller the reaction of the consumer to price changes will be (demand elasticity relative to prices).

a. *Foodstuffs.* The relatively moderate increase in food consumption was the result of two opposed components of this item: a considerable rise, with the exception of poultry meat³, in the consumption of agricultural produce and in part of domestic food production, and a fall in the consumption of imported food, such as imports for the "grey market", e.g. oil, frozen meat, sugar, etc.

¹ See Annual Report for 1956, p. 67, note 1.

² Provisional estimates of the Central Bureau of Statistics.

³ For further details see Chapter IX, Agriculture.

TABLE IV-1

Increase or Decrease in Consumption Indicators, from 1956 to 1957
(Percentages)

	Increase or decrease (-)		Weights
	Current prices	1957 prices	
Foodstuffs	22.2	8.6	38.3
of which: Agricultural produce	29.5	13.5	22.5
Industrial and imported produce	9.3	- 0.2	12.7
Other food	22.2	8.6	3.1
Cigarettes ^a	26.2	10.3	2.0
Textiles	12.4	5.8	12.9
Footwear	17.9	10.0	3.0
Durable consumer goods	29.6	26.7	5.6
Electricity, gas and kerosene ^b	12.9	- 9.5	1.9
Cinema ^c	19.6	11.1	1.4
Interurban travel	18.0	11.4	2.8
Other commodities	17.2	10.3	6.5
Rent	15.0	6.0	7.8
Other services	17.4	8.5	17.8
<i>Total</i>	19.3	9.1	100.0

SOURCE: Bank of Israel.

Note: Agricultural produce—Fruit and vegetables, milk and milk products, fresh meat, poultry meat, eggs and fish.

Durable consumer goods—electric refrigerators, radio sets, gas stoves, washing machines, sewing machines and furniture.

Rent—direct and imputed, data submitted by the Central Bureau of Statistics.

Interurban travel—“Egged” Transport Cooperative Society Ltd., Israel Railways and four inter-urban taxi companies.

Other services—including non-profit institutions, according to data submitted by the Central Bureau of Statistics. Weighted by data submitted by the Central Bureau of Statistics, the Falk Foundation for Economic Research and the Bank of Israel.

^a The real change has been weighted by the number of packages of every brand of cigarettes, according to its share in total cigarette turnover in 1956.

^b Real indices have been calculated as follows:
Electricity—according to the number of kWh;
Gas and kerosene—according to quantities, in tons.

^c The real change has been calculated by weighting the number of visits in Jerusalem, Tel-Aviv and Haifa, according to the weights of turnover in the different price groups in 1956.

TABLE IV-2

*Increase or Decrease (-) in Consumption Indicators, in Real Terms
from 1956 to 1957
(Percentages)*

	<i>Corresponding quarters of 1956=100</i>			
	<i>First quarter</i>	<i>Second quarter</i>	<i>Third quarter</i>	<i>Fourth quarter</i>
Food	11.2	8.8	7.6	13.2
of which: Agricultural produce	18.9	11.4	9.2	18.5
Other food	- 4.3	3.6	4.4	2.6
Cigarettes	30.0	16.6	7.0	- 0.7
Textiles	18.4	8.2	5.2	- 5.3
Footwear	- 8.6	26.2	18.9	5.6
Durable goods	26.5	34.4	21.3	21.2
Cinema	8.7	6.7	13.4	23.8
Travel	- 6.3	9.3	16.1	27.9

SOURCE: Bank of Israel.

* Data for electricity, gas, kerosene, as well as for certain food products and durables are available only on an annual basis and they have been included in Table IV-1. There was a substantial fall in electricity and kerosene consumption, and it may be assumed that it occurred in the first half of the year.

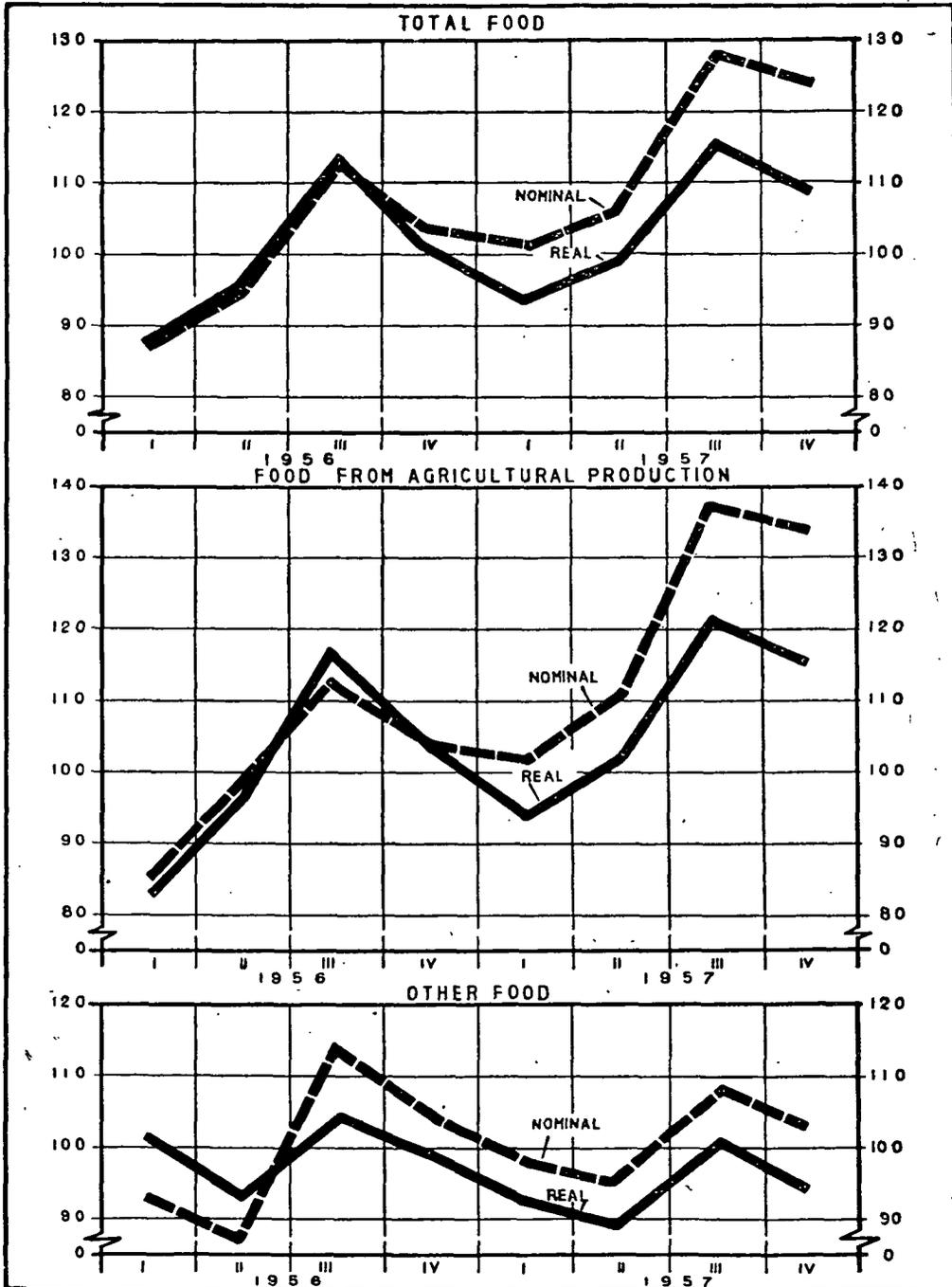
The increase in the consumption of agricultural produce was rendered possible by a substantial increase in marketed quantities which satisfied intensified demand. The reasons for the increase in demand were: (a) A general rise in income; (b) consumer shift to domestic agricultural produce caused by smaller supplies of certain kinds of imported food; and (c) relatively cheap prices for specified agricultural products as a result of the Government's subsidy policy. The subsidies caused a fall in the prices of fruit and vegetables, and a reduction in the rate of increase in the prices of certain kinds of agricultural produce.

The fall in consumption of edible oil, frozen meat and other goods imported within the framework of the "grey market", was largely due to the curtailment of supplies by the Government following the Sinai campaign at the end of 1956 and in the first half of 1957. Insofar as can be seen, the price increases which were likely to occur owing to excess demand were prevented by the control and rationing applied to some of these commodities. It would appear that the Government was also able to fix effectively the prices of unrationed commodities. However, the following reservations should be made: (a) It may well be that certain commodities were hoarded in October 1956, in the wake of the Sinai campaign. These stocks were subsequently consumed: this was reflected by a fall in sales during the months following the campaign; and (b) it is probable that available price data do not reflect prices actually received by retailers for certain commodities at the time when their supply contracted.

b. *Cigarettes.* In real terms, the rate of increase in cigarette sales was slightly

DIAGRAM IV-2

Index Numbers (nominal and real) of Per Capita Food Consumption, 1956-1957

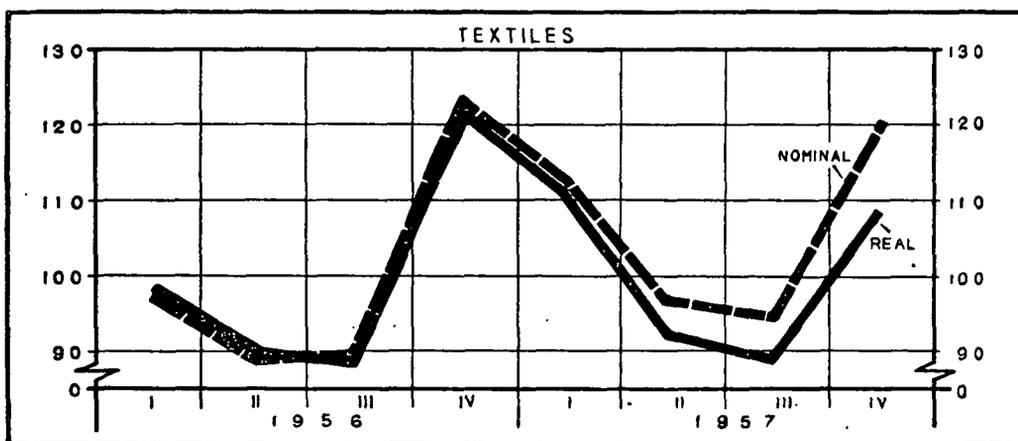


more than 10 per cent in 1957 over 1956. The per capita rate of increase was about 4.5 per cent. The increase arose mainly through the shift from cheaper to more expensive cigarette brands which, for the purpose of these calculations, have been given greater statistical weight than the cheaper brands. This development is in contrast to that of the beginning of 1956, when there was a shift to cheaper cigarettes.

c. *Textiles and footwear.* The rate of increase of textile sales in real terms corresponded to that of the population increase. During the first quarter the rate of increase was somewhat higher than in the same period in 1956. It continued, however, to fall over the rest of the year compared with that of the previous year. An analysis of the development of textile sales over the last three years shows that a particularly large rise in sales apparently occurred towards the end of 1956 and in the early part of 1957. Sales did not, however, rise as much towards the end of 1957. It is difficult to know to what extent seasonal sales were responsible therefor. It would seem that, at the end of 1957, retailers were left with considerable stocks, as a result of expectations—which did not, however, fully materialize—that the business level in the latter half of 1957 would resemble that of the same period in the previous year.

DIAGRAM IV-3

Index Numbers (nominal and real) of Per Capita Textile Consumption, 1956-1957



Towards the end of 1957, the decline in the rate of textile consumption was also caused by the high prices fixed by producers and retailers, who expected a volume of sales similar to that of the preceding season. However, at this high price level, expectations of greater sales did not materialize. It would appear that the mild autumn weather in 1957 might also have been a factor contributing to the reduction in the rate of increase in sales towards the end of 1957.

In footwear, the considerable increase in the latter half of 1956 continued throughout 1957. It represented a rise of 10 per cent for 1957.

d. *Durable consumer goods.* Consumption of these goods rose in 1957 by about 27 per cent,¹ in real terms, over the previous year. Price increases occurred in nearly all kinds of consumer goods in this group. It should be borne in mind that some of these data only reflect changes in the number of units, but not in their quality.

The rise in the consumption of durable goods can be attributed to a general increase in the level of private income. According to estimates, the consumption of durable goods rose in 1957 by IL.31 million. If it were assumed that one-third² of the additional income from personal restitution payments from Germany—about IL.13 million—was largely intended for the consumption of durable goods, this might explain to a certain extent the steep rise in this item, so that the rise in the sale of durable goods, engendered by an increase in income which is not nonrecurrent in character, may seem reasonable.

Furthermore, the purchase of these commodities also follows the entry by residents into new dwellings, as has happened in recent years. A similar relation is also found in other countries.

At the existing price level, the supply of durable goods apparently satisfied demand, as most prices of this commodity group rose by only 2–3 per cent. In certain cases, prices are controlled by the Government.

The level of sales went up during the first three quarters of the year, only to decline in the last quarter. In the absence of information on the seasonality of sales, no conclusions can be inferred therefrom. A comparison of corresponding quarters, assuming that seasonal phenomena will thus be cancelled out, shows that sales reached their peak during the second quarter, while their rate of increase fell off towards the end of the year.

Following the restrictions on the use of electricity at the end of 1956, a particularly steep increase occurred in the sales of gas cooking stoves, and it would appear that the same was true for kerosene stoves.

e. *Electricity, gas and kerosene.* Total consumption of these three commodities fell by 9.5 per cent in real terms in 1957, compared with 1956; while their consumption, at current prices, rose by about 13 per cent.

The fall in real consumption originated in the opposed trends of the components of this item: (a) A fall in electricity and kerosene sales; and (b) an increase of about 28 per cent in gas sales.

The fall in electricity sales was the result of the electricity restrictions imposed at the end of 1956 which continued in 1957. It was apparently also due to the

¹ Data are not fully representative, but they cover almost 80 per cent of this type of consumption and include the most important commodities, such as furniture, electric refrigerators, radio sets, gas stoves (including installations), and sewing and washing machines.

² Based on a preliminary survey of personal restitution payments prepared by the Institute for Applied Social Research and the Bank of Israel.

increase in tariffs on consumption exceeding a definite quantity. The fall in kerosene sales can largely be attributed to an increase in its price. In fact, no restrictions were imposed on gas consumption, while prices of gas as well as of gas cooking stoves remained stable; this may well have encouraged the shift to the use of gas during the period under review.

f. *Cinema*. The real¹ change in cinema attendance shows an increase of 11 per cent and a 20 per cent change in turnover. The real increase was mainly the result of a shift to dearer seats. This was caused in part by the increased supply of cinema seats which largely included seats in the higher price groups.

The sharpest increase, as shown by the comparison of corresponding quarters for 1956 and 1957, occurred during the last quarter of 1957. This increase is, however, inherent in the periods compared, as the cinema branch experienced a slump towards the end of 1956 following the Sinai campaign.

According to partial data on theatres and other forms of entertainment, it would seem that here too there was an increase in attendance in 1957.

g. *Travel*. This indicator mainly reflects inter-urban² travel. It shows a rate of increase of about 11 per cent, in real terms.

It may be assumed that the increase was actually lower, in view of the reduction in passenger traffic in 1956, as a result of the strike of the passenger transport cooperatives. It was also due to the dislocations arising from the Sinai campaign, which reduced the number of both registered³ and real journeys during this period.

The rates of increase in travel were not uniform. In real terms, bus travel rose by 14 per cent, rail travel by 8 per cent,⁴ while taxi journeys rose by 2 per cent only. For bus travel, these differences apparently stem from the improvement in services and from the bus strike which took place in 1956.

The increase in rail travel is to a certain extent related to the expansion in the railway services. The price increase in taxi fares, which amounted to 11.5 per cent at the beginning of 1957, caused a reduction in taxi journeys.

h. *Other consumption*. This item covers non-profit institutions and other personal services not elsewhere specified. It represents 18 per cent of the total consumption.

It has been assumed that changes in other personal services follow those in total consumption.

Changes in consumption of non-profit institutions have been estimated on the basis of the increase in added value.

¹ The number of visits in real terms has been weighted according to the weights of turnover in the different price groups in 1956.

² "Egged" ("Eshed"), Israel Railways and four inter-urban taxi companies, including also business trips which are not considered as private consumption.

³ It may be assumed that part of the passengers found alternative modes of transport during the strike, but this was not recorded.

⁴ This figure differs from that quoted in Chapter XII, Transport, because the data in that Chapter refer to fiscal years and have been calculated on a passenger/kilometre basis.