

CHAPTER IV

PRIVATE CONSUMPTION AND SAVING

1. MAIN DEVELOPMENTS

PRIVATE CONSUMPTION per capita rose by less than 1 percent in real terms in 1970, after going up by 8 percent per annum in 1968-69 and by an average of some 6 percent in the prerecession period. Whereas the standstill in consumption during the 1965-67 recession took place against a background of large-scale unemployment, the marked deceleration in 1970 occurred under conditions of full employment and expansion of GNP (although at a slower rate than in 1969).

The more sluggish growth of consumption was connected with the far more moderate gain in real disposable income in 1970 and with heavy speculative purchases made in 1969. Owing to the smaller percentage rise in GNP in 1970, private income was up only 6.9 percent, as against 9.3 percent in 1969. The raising of direct tax rates in April and the increase in collections on account of the compulsory Defense and Savings Loans also braked the growth of disposable income. In addition, extra indirect taxes were imposed in August (in particular a 20 percent surcharge on a long list of imported products), and the resulting price rise had a dampening effect on real disposable income. In 1969, especially in the latter part, fears of devaluation and uncertainty as to future Government policy on consumption mounted, and this induced heavy advance purchases of goods and services. This, too, tended to reduce consumption in 1970 (mainly in the first half).

The weaker expansion of private consumption, together with the rapid growth of other end-uses, brought down the proportion of imports destined directly and indirectly for private consumption in 1970 to only 6 percent of total incremental imports, compared with 26 percent in 1969. The import component of private consumption edged down from 22 percent in 1969 to 21.6 percent because of the sagging rate of increase in direct imports for this destination.

The slacker growth of private incomes, as already stated, held down the rise of real consumption per capita; but it seems that during 1970 consumers did not manage to fully adjust their consumption level to the sluggish growth of incomes, as evidenced by the drop of 1 percent in the propensity to save out of disposable income, exclusive of compulsory loans. But if these loans are

treated as saving and not a tax, there was a rise of 1 percent in the propensity to save.

Examination of the consumption components shows that purchases of consumer durables fell off and the upward trend in expenditure on nonprofit institution services slackened (owing to the reduced activities of the political parties after the 1969 elections). Consumption of other services also went up less steeply. Purchases of footwear and clothing were much heavier in 1970 because of changes in fashion, and perhaps also because there was some substitution between these items and consumer durables.

Among saving components, dwelling investment continued upward, but financial savings failed to advance.

From a survey of family expenditure in 1968-69 it emerges that there is no great difference between the average consumption of households whose head is a wage or salary earner and that of households whose head is self-employed. On the other hand, there is a significant difference in the saving rates of the two groups—in 1970 the latter saved 21 percent of their disposable income, and the former 7 percent.

2. TOTAL PRIVATE CONSUMPTION

The strongly advancing trend that has marked private consumption in recent years came to a halt in 1970. The per capita level did not go up at all, despite a 4 percent growth of GNP per capita (compared with an annual rise of 6 percent in 1960-65).

The slowdown in 1970 was even more pronounced than shown by a comparison of annual averages; during 1970 real private consumption per capita did not move up at all, and the 0.5 percent increase in the annual average was due to the rise that took place during 1969 (see Figure IV-1).

All components of private consumption showed a slower growth rate in 1970, but the decline was particularly striking in consumer durables (acquisitions of which fell off even in absolute terms) and expenditure on services provided by nonprofit institutions. The remaining components went up by 3.4 percent per capita, compared with an average of 4.5 percent per annum in 1968-69 and 5.3 percent in 1960-65.¹

The deceleration of private consumption can be ascribed mainly to the following factors: (1) a slower expansion of the national product and the Gov-

¹ The slowdown appears at first glance to have been quite mild. However, consumption tends to respond with some lag to changes in income, so that in 1970, except for consumer durables and current spending on nonprofit institution services, the level went up at a fast pace relative to incremental income. In addition, there is a certain degree of substitution among the various consumption items, so that a cutback in durables spending may lead to a larger expenditure on other goods and services. If allowance could be made for this substitution effect, the slowdown would apparently have been more marked than shown here.

ernment's fiscal measures designed to avert a rapid growth of disposable private income; (2) a rise in consumer prices due to the imposition of indirect taxes; and (3) the large volume of purchases in 1969 made earlier than planned.

(a) *Private income*

The increase in real gross private income per capita slackened in 1970 as a consequence of the smaller rise in the real national product—6.9 percent as against 9.3 percent in 1969. Higher rates of direct taxation, in particular

Table IV-1
PRIVATE CONSUMPTION,^a INCOME,^b AND SAVING,^c 1960-70

	Average 1960-65	1966	1967	1968	1969	1970
Total consumption (IL million, at current prices)	4,936	7,909	8,113	9,244	10,612	11,681
	Percent					
Change in real consumption	10	3	2	12	11	3
Change in gross real income	11	-1	6	17	9	6
Change in real income, excl. compulsory loans	11	-1	7	18	10	3
Change in gross real saving	12	-10	24	34	0	12
Change in real consumption per capita	6	1	-2	8	8	0
Change in gross real income per capita	7	-3	3	14	7	3
Change in gross real income per capita, excl. compulsory loans	6	-4	3	15	7	0
Change in real saving per capita	8	-13	20	30	-3	9
Average propensity (gross) to consume out of income from domestic sources	84	84	80	78	79	78
Average propensity (gross) to consume out of income from all sources	76	78	74	71	72	71
Average propensity to consume out of income from domestic sources, excl. compulsory loans	84	85	81	78	78	80
Average propensity to consume out of income from all sources, excl. compulsory loans	76	79	75	71	72	73

^a Since 1967 immigrants' imports have been included in private consumption expenditure in accordance with the changed balance of payments treatment of this item.

^b Gross disposable private income deflated by the consumer price index.

^c Consumption and saving have been deflated by the consumer price index.

National Insurance contributions, slowed the growth of disposable income still more, as did the heavier compulsory Government loans levied during the year.

In recent years the Government has financed part of its budget by way of forced loans from the public. The influence of these loans on private consumption is fairly complex. On the one hand, for individuals who treat them like any other ordinary form of saving, the obligation to purchase these loans merely results in some shift in the composition of their savings, and the effect on their consumption is small. On the other hand, for those persons who previously had not saved at all, or who cannot reduce their current saving (e.g. contractual saving) or obtain loans to offset this forced saving, the influence of these compulsory Government loans is similar to that of taxes, in that they dampen consumption.

Compulsory loans influence consumption not only when they are collected, but also when the certificates are distributed or redeemed. Total redemption is still relatively small (about IL 58 million in 1970), and the amount paid off in 1970 was also not large (IL 12 million). On the other hand, there was a drop of about IL 167 million in the value of certificates distributed in 1970 (previously Defense Loan certificates had been mailed out soon after collection, while certificates of the 1970/71 issue have still not been distributed). Distribution of the certificates enables the recipients to adjust the volume and composition of their savings and consumption. Obviously, the nearer distribution takes place to collection, the smaller will be the dampening effect of the loans on consumption (but even when the certificates are distributed soon after collection, the loans will still have a bearing on consumption, because the collections are made regularly and in relatively small amounts, whereas the certificates are distributed en bloc and in large amounts).

As it is not known which part of the public regards these loans as a tax and which as ordinary voluntary savings,¹ the effect of these loans on private consumption cannot be reliably quantified. We shall therefore use two "extreme" approaches—one that treats loan collections (less the value of certificates distributed) as ordinary savings, and another that views them as a direct tax to be netted out when calculating disposable private income.²

In 1970 there was an appreciable increase in collections on account of the

¹ A few insights into the public's attitude to compulsory loans are found in a quarterly survey carried out by the Institute of Applied Social Research. The interviewees were asked how the loans affected their savings and consumption. Only 13 percent replied that they were saving less than previously and that the loan certificates substituted for other forms of savings. The others said that the loan certificates either represented an addition to their savings or were sold. (The interviewees' concept of saving doubtless differs from the definition generally used in this chapter, and hence their replies should be regarded as only an indicator).

² The value of certificates distributed should really be weighted by their market value.

Defense and Compulsory Savings Loans because of the higher percentage deducted from incomes and the wider coverage of the loans (as a result of their conversion from voluntary to forced loans), and therefore their effect on consumption in 1970 was greater than in previous years.

However the compulsory loans are viewed—as savings or a tax—the growth of real disposable income per capita slowed down. If they are looked upon as savings, the gain in per capita disposable income dropped from 6.5 percent in 1969 to 3.4 percent in 1970; if they are considered as a tax, there was no increase at all in 1970, after an advance of 7.4 percent the year before. This sharp curtailment in private income growth was the main reason for the standstill in private consumption per capita in the year reviewed.

A factor operating in the opposite direction, i.e. accelerating the rise in private income, was the appreciable growth of \$ 70 million in personal restitution received from West Germany in 1970. But its overall effect on consumption was not great, because the propensity to spend such income on current consumption is less than the propensity to spend from ordinary income. However, a sharper fall in purchases of consumer durables was undoubtedly avoided because of the larger volume of restitution.

2. Rise of prices

Prices climbed steeply in 1970, particularly in the second half. In the conditions prevailing in the economy, this development had a complex effect on consumption: on the one hand, it led to a contraction (at least in the short run) of income and real money holdings, and therefore tended to dampen consumption; on the other hand, the very rise in prices and expectations that they would continue upward prompted consumers to advance purchases, the more so as they could obtain unlinked credit, which is worthwhile in a period of rapidly mounting prices.

But since the sharp price rises were not anticipated by most of the public, and since they were concentrated in a relatively short period (from August to October), it appears that the advancing of purchases was not on a large scale, so that on balance the higher prices worked to slow down the growth of real income.

3. Advance purchases

Another factor slowing the expansion of consumption in 1970 was heavy anticipatory buying at the end of 1969, mainly of consumer durables (owing, as was noted previously, to the public's expectation of devaluation and the prevailing uncertainty as to the Government's future policies). Because of the large volume of goods purchased in 1969 earlier than originally planned, consumption spending in 1970, especially in the first six months, was much smaller, particularly in the case of consumer durables.

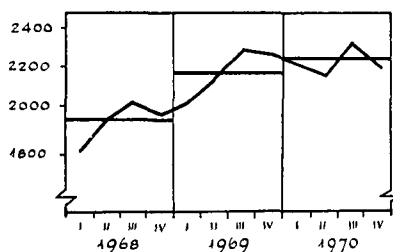
(b) *Developments during the year*

The 3 percent rise in the average annual level of private consumption in 1970 stemmed, as already noted, from the increase during 1969; during 1970 itself there was no rise. The first half of the year saw a decline relative to the second half of 1969, for the most part because of smaller purchases of consumer durables. In the third quarter the curve rose 6 percent over the second-quarter level; this was largely due to seasonal influences, but also because the rapid upward movement of prices beginning in August, along with the sale of goods at their old prices for a limited period, touched off a buying spree in that quarter.

Figure IV-1

PRIVATE CONSUMPTION,
QUARTERLY, 1968-70

(IL million, at 1964 prices)



Semi-logarithmic scale.

(c) *Interdependence of private consumption, total resource use, and imports*

In the past private consumption grew at more or less the same rate as GNP and total resources, with the result that its weight in total resource use remained relatively constant. During the recent recession its weight went up owing to a sharp cutback in investment, but since 1967 there has been a relatively strong upswing in investment and especially in public consumption, a development accompanied by a drop in the weight of private consumption in total uses. But whereas in 1968-69 the decline stemmed from the relatively rapid rise in other uses while private consumption went up at about the same rate as GNP, in 1970 it trailed well behind GNP in rate of growth. This, along with the sagging share of private consumption in total resource use, has enabled the economy to allocate a larger proportion of its output to exports, defense needs, and investment.

The changed composition of private consumption in 1970 tended to decrease somewhat the overall import component¹ of this end-use. Most of the decline occurred in finished goods and services, and was by and large a result of the curtailed import of durable goods and lighter spending by Israelis abroad. It appears that there was also some substitution of indirect for direct imports for private consumption, which showed up as a slight rise (0.4 percent) in the weight of the indirect import component of private consumption.

¹ Total imports for private consumption consist of finished goods and production inputs (direct and indirect). The calculations for 1963-68 are based on input-output tables prepared in 1958 and partly updated to 1962-64. The estimates for 1969-70 are derived from input-output tables prepared for 1965.

Table IV-2
PRIVATE CONSUMPTION, USES, AND IMPORTS, 1963-70
(percentages)

	1963	1964	1965	1966	1967	1968	1969	1970
Weight of private consumption in total uses	47.8	48.0	49.0	50.5	48.5	44.2	43.6	40.8
Weight of imported finished goods for private consumption in total private consumption	5.4	5.9	5.7	6.0	6.1	6.8	7.6	6.8
Weight of imported inputs for private consumption in total consumption								
A ^a	12.9	13.1	13.1	13.5	13.6	13.2	13.0	
B ^b						14.7	14.4	14.8
Weight of total imports for private consumption in total private consumption								
A ^a	18.3	19.0	18.8	19.5	19.7	20.0	20.6	
B ^b						21.5	22.0	21.6
Weight of total imports for private consumption in total imports ^a	32.1	32.2	33.6	34.9	31.8	31.2	30.4	26.3

NOTE: All data are at 1969 prices and the official rate of exchange.

^a According to input-output tables for 1958, updated to 1963-69.

^b According to input-output tables for 1965.

SOURCE: Bank of Israel input-out tables.

Total imports of goods and services went up by 3.5 percent at current prices and amounted to \$ 673 million. The increase was concentrated in inputs (up 9 percent), while imports of finished items (goods and services) were down 4 percent. The much slower rise in imports destined for private consumption, along with the rapid growth of security imports, depressed the weight of private consumption in total imports from 30 percent in 1969 to 26 percent in the year reviewed.

Because the import component of private consumption was relatively constant in recent years, and its weight in total imports fairly stable at around 30 percent, a 1 percent rise in private consumption increased the economy's import bill by 0.3 percent. Thus, in 1969 the additional imports destined for private consumption accounted for about 26 percent of total incremental imports. But in 1970, owing to the flagging growth of private consumption and of imports for this destination and the much heavier defense imports, private consumption was responsible for only 6 percent of the rise in the economy's import bill.

3. HOUSEHOLD SAVING AND ITS COMPONENTS

The aforementioned problem of how to treat the compulsory loans also arises when estimating household propensity to save in 1970. If the loans are defined as ordinary saving, the propensity to save went up 1 percent; if we assume that the public regards the loans (net of the value of certificates distributed) as a tax, then there was a drop of 1 percent. As already mentioned, there is insufficient information on the public's attitude toward forced loans. Nevertheless, it seems that the rate of voluntary saving drifted downward somewhat. If current purchases of consumer durables are treated as investment, and the services provided during the year by the stock in the hands of households as current consumption, it turns out that, even if these loans are defined as saving, there was no rise in the propensity to save.

Examination of the components of saving reveals that the advancing trend in the weight of real assets carried over through 1970. Whereas financial asset holdings edged down by 1 percent, investment in dwellings rose by a steep 19 percent; investment in consumer durables, on the other hand, contracted.

Table IV-3
SELECTED COMPONENTS OF PRIVATE SECTOR SAVING, 1960-70

	Average 1960-65	1966	1967	1968	1969	1970
Gross saving (IL million)	1,581	2,229	2,804	3,836	4,048	4,832
Rate of growth (%)	17	-4	26	37	6	19
Average propensity to save from income from all sources	24	22	26	29	28	29
Average propensity to save from all income, excl. forced loans (%)	24	21	25	29	28	27
Average propensity to save from income from domestic sources (%)	16	16	20	23	21	22
Average propensity to save from income from domestic sources, excl. forced loans (%)	16	15	19	22	22	19
Saving in the form of consumer durables (IL million)	100	33	12	210	492	219
Gross saving, incl. consumer durables (IL million)	1,733	2,262	2,816	4,046	4,540	5,051
Rate of growth (%)	20	-9	25	44	12	11
Average propensity to save (%)	26	23	26	31	32	31
Number of dwellings completed ('000 units)	—	38	28	23	25	31
Saving in financial assets (IL million)	—	1,075	1,497	1,414	1,487	1,473

SOURCE: Central Bureau of Statistics and Bank of Israel.

Among the financial components, there was a strong growth of fixed-term deposits, which stemmed *inter alia* from the switch out of bill brokerage. By contrast, the banks' approved saving schemes expanded more slowly than in the previous year, because it became more worthwhile to save by way of time deposits and by buying Defense and Absorption Loan certificates in the secondary market.

Security holdings of the public soared from IL 196 million in 1969 to IL 459 million, largely because of heavy purchases of compulsory loans.

About 31,000 dwellings were completed in the year under review—nearly 24 percent more than in 1969. The change in total expenditure on housing could not be determined, for although the rise in dwelling prices tended to boost total housing expenditure, there was apparently some offsetting decline in down payments made by households on homes scheduled to be completed after 1970.

An analysis of six selected consumer durables shows a reduction of about 13 percent in their acquisition, while consumption of their services rose by 54 percent, due to the accumulation of a large stock in previous years. Because of these two developments, saving in the form of consumer durables dropped appreciably. However, this was not reflected by a decline in the calculated propensity to save: this edged down only slightly—from 31.6 percent in 1969 to 31.4 percent (or from 32 to 29.7 percent if compulsory loans are deducted from saving).

The 1968/69 family expenditure surveys of the Central Bureau of Statistics revealed differences in the saving rates of various groups of the population. The average rate of saving by self-employed far exceeded that of wage earners—21.6 percent as against 7.4 percent (families whose heads were not members of the labor force had a dissaving of about 2.5 percent).

As with other cross-sectional studies, the family expenditure survey data show a positive correlation between income level and the propensity to save: the higher the income the greater the percentage saved. For incomes of up to IL 1,500 a month there is a great disparity in the rate of saving between self-employed and wage earners; and most of the saving by self-employed is to be found in the IL 1,500+ brackets. The principal form of saving by self-employed is business saving, which averages IL 205 out of a total monthly saving of IL 220.

4. COMPOSITION OF CONSUMPTION

The slowdown in income growth had a differential effect on the various components of private consumption. Purchases of consumer durables fell off and expenditure on "other services" moved up more sluggishly than in 1969; on the other hand, the upward trend in food, beverages, and tobacco and in footwear and clothing accelerated in the year reviewed.

Table IV-4
PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1969-70

(at current prices)

	Weight in total consumption in 1970 (%)	IL million		Percent increase or decrease (-) in 1970	
		1969	1970	Quantity	Price
Goods					
Food, beverages, tobacco	27.7	3,010.6	3,315.2	6.9	3.0
Household fuel, light, and ice	2.5	272.9	301.7	8.7	0.2
Clothing, footwear, and personal effects	10.1	1,028.9	1,212.8	15.0	2.5
Durable goods	9.6	1,285.7	1,150.4	-17.4	8.3
Other industrial goods	5.3	563.3	630.9	5.1	6.6
Total	55.2	6,161.4	6,611.0	3.2	4.0
Services					
By nonprofit institutions	9.2	974.5	1,097.0	3.3	8.9
Housing	15.3	1,483.9	1,829.4	5.3	17.1
Other services	20.3	2,209.7	2,440.3	3.6	6.6
Total	44.8	4,668.1	5,366.7	4.1	10.5
Total consumption of goods and services ^a	100.0	10,829.5	11,977.7	3.6	6.8

^a The discrepancies between these data and those on private consumption stem from the inclusion in the latter of changes in inventories and the net consumption of nonresidents.

SOURCE: Central Bureau of Statistics.

These disparate growth rates led to slight changes in the composition of private consumption. As in previous years, the weight of expenditure (at current prices) on food, beverages, and tobacco in total consumption contracted. However, the 1970 decline was small in comparison with previous years (0.3 percent as against an average of about 1 percent) because of a relatively rapid rise in the real consumption of this item.

The decrease in the weight of this item with a rise in income signifies an income elasticity of less than 1, and it is found both in time series (see Table IV-5) and in cross-sectional data (the family expenditure surveys show that as income rises the percentage spent on food, beverages, and tobacco drops gradually—from 44 percent of incomes of up to IL 400 a month to about 21 percent of those in excess of IL 1,500 a month).

Because of the smaller volume of purchases, the weight of consumer durables in consumption fell sharply, from 12.1 percent in 1969 to 9.6 percent, but this was still higher than in the prerecession years.

Table IV-5
COMPOSITION OF PRIVATE CONSUMPTION, 1960-70

(percentages, at current prices)

	Average 1960-65	1966	1967	1968	1969	1970
Food, beverages, tobacco	33	30	31	29	28	28
Durable goods	9	8	7	9	12	10
Other goods	17	17	16	18	17	17
Services	41	45	46	44	43	45
Total consumption of goods and services	100	100	100	100	100	100

SOURCE: Central Bureau of Statistics.

Real consumption of housing services accelerated in 1970, and this, together with the rise in their prices, brought up the weight of this item (at current prices) in total consumption. Expenditure on services provided by nonprofit institutions and on other services went up more slowly in the year reviewed, depressing their weight somewhat.

(a) *Food*

Real per capita consumption of food went up 4.5 percent in 1970 to stand at approximately IL 82 a month (at 1970 prices). This increase outpaced that in income, and was apparently the result of three factors: (1) in 1970 individuals adjusted their food consumption to their income level, after it had lagged behind income growth in 1969; (2) the price of food declined relative to that of other consumption components; (3) there was some substitution of food consumption for that of other goods and services during the year.

Consumption of meat and meat products rose by about 6 percent per capita, chiefly because of the expanded supply of fresh beef and poultry (the latter after the eradication of Newcastle disease).

Per capita purchases of fish went up by 8 percent in 1970 and their relative price by 3.5 percent. Most of the incremental demand was for local pond fish and imported fish fillet. Egg consumption per capita remained practically unchanged, after a big rise in 1969. The sharp upturn in their relative price following the abolition of Government subsidies on this item played a part in holding down the expansion of egg consumption.

In milk and milk products there was a per capita increase of 5 percent. As in previous years, consumption of fluid milk rose at a sluggish rate (by about 2 percent), while that of dairy produce (mainly hard cheeses) rose by a rapid 14 percent.

For fresh fruit a 4.3 percent per capita increase was recorded in the year

Table IV-6

CHANGES IN REAL CONSUMPTION OF SELECTED FOOD ITEMS, 1970

(percentages)

	Weight in total food consumption in 1970	Increase over 1969	Change in relative price ^a
Cereals and cereal products	11.1	3.0	1.2
Meat and meat products	25.2	8.8	1.2
Fish and fish products	3.6	11.0	3.5
Eggs	5.0	2.5	5.0
Milk and milk products	10.1	8.2	1.2
Edible oils and fats	3.1	2.8	0.5
Fresh fruit	14.2	7.1	-2.8
Fresh vegetables	12.1	11.0	-5.0
Sugar and sugar products	6.5	5.4	-1.2
Tea, coffee, cocoa	3.0	4.9	4.4
Processed fruit and vegetables and misc.	6.0	8.5	1.5
Total	100.0	7.3	—

^a The change in the price of each item divided by the change in the price of total foodstuffs.
SOURCE: Central Bureau of Statistics.

under review. Although there was no change in the total supply, in 1970 part of the inferior grade fruit which in the past had been diverted to industry was sold directly to consumers. The greater quantity marketed and the decline in quality depressed the relative price of this item.

Fresh vegetables showed a per capita rise of 8 percent, primarily because of an increased supply in the winter season, when the quantities shipped to the market are generally smaller than in the spring and summer. The larger supply was responsible for a 5 percent drop in the relative price.

(b) *Beverages, cigarettes, and other tobacco products*

Real per capita expenditure on beverages edged up by about 0.5 percent in 1970, the net result of a 6 percent rise in nonalcoholic drinks and a 3 percent decline in alcoholic beverages, which have a high income elasticity.

Sales of cigarettes and other tobacco products were up about 2 percent per capita, compared with a 4 percent rise in 1969. All of the increase was in cigarettes, whereas consumption of other tobacco products fell off.

(c) *Durable goods*

The sharp fluctuations which have characterized durable goods spending in recent years continued in 1970. Purchases averaged 17.4 percent lower for

Table IV-7

CHANGES IN REAL CONSUMPTION OF CONSUMER DURABLES, 1960-70

(percentages)

	Weight in 1970	Average 1960-65	Annual increase or decrease (-)				
			1966	1967	1968	1969	1970
Furniture	38	20	-5	-20	46	15	6
Household equipment	50	15	-6	-17	91	49	-25
Personal transportation equipment	12	16	-15	-20	77	45	-36
Total	100	18	-8	-19	72	36	-17

SOURCE: Central Bureau of Statistics.

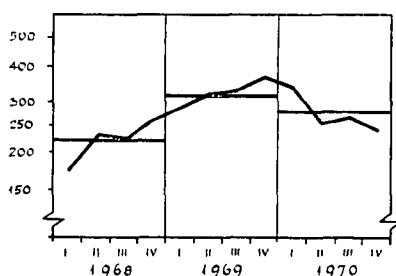
the year, after a sharp 36 percent upswing in 1969.¹ The drop was particularly steep for private passenger vehicles and household equipment, while furniture sales rose more slowly than in 1969.

The decline in durable goods purchases was concentrated in the first and second quarters of the year. In the third quarter the figure rose because consumers planning to buy advanced their acquisitions when dealers announced after the August tax hikes that certain goods would be sold for a limited period at the old prices. In the last quarter the curve turned down again, in contrast to the usual rise with the introduction of new car models.

The erratic swings in acquisitions of durable goods can be attributed to their special character. These assets do not wear out quickly, and therefore the consumption of services from current acquisitions does not constitute a large percentage of the total services provided by the existing stock. For this reason, purchases of durables can be adjusted much more easily to changes in income level, expectations, etc. than is the case with other goods and services.

Three factors operated to restrain durable goods purchases in 1970:

Figure IV-2
PURCHASES OF CONSUMER
DURABLES, QUARTERLY, 1968-70
(IL million, at 1964 prices)



Semi-logarithmic scale.

¹ Central Bureau of Statistics' estimates of durable goods purchases do not include, in accordance with the statistical practice of the United Nations, items brought in by immigrants. Since most of their direct imports are consumer durable goods, and since it is reasonable to assume that such imports are growing, their inclusion in private consumption would result in a smaller decline in purchases of durable goods. But presumably this would not flatten out the fluctuations.

(1) In 1969, particularly toward its end, there was large-scale buying of durable items in anticipation of price rises and devaluation. This augmented the stock by more than might otherwise have been considered desirable, and partly explains the sagging volume of purchases in 1970.

(2) The dampening effect of the "surplus stock" of 1969 on acquisitions was apparently strongest in the first half of 1970; afterward the sluggish growth of income was the main factor depressing purchases. Since in buying durables consumers actually acquire a flow of services over time, a slackening of income growth is liable to cause a falling-off of purchases (the accelerator principle).

(3) During 1970 taxes on consumer durables were raised twice (in February and August), pushing up their prices by an average of 8 percent; this in turn depressed their sales.

The decline in acquisitions in 1971 did not affect the stock of these goods and the consumption of their services to any great extent. Estimates calculated for the aforementioned six selected consumer durables indicate that acquisitions of these products contracted in 1970, while the stock and consumption of services grew quite rapidly.¹

Table IV-8
PERCENTAGE OF HOUSEHOLDS OWNING SELECTED
CONSUMER DURABLES, 1966-70

	1966	1967	1968	1969	1970
Gas cooker	83.1	84.3	85.5	88.0	85.8
Electric refrigerator	80.1	82.9	85.6	88.6	88.9
Washing machine	29.5	31.8	35.2	38.7	42.8
Radio	79.2 ^a	74.0	73.1	} 89.7	89.9
Transistor radio	40.3	50.2	57.9		
TV set	3.4	4.9	10.5	30.0	49.7
Vacuum cleaner	14.1	18.1	19.2	21.2	20.5
Tape recorder	6.1	9.2	9.2	11.6	11.9
Private car	10.5	13.3	13.1	13.9	15.4
Telephone	—	—	—	31.0	34.8

^a One conventional radio only. Since 1966 a distinction has been made between conventional and transistor radios.

SOURCE: Central Bureau of Statistics, household equipment survey for July-September.

¹ These findings are explained by the volume of durable goods purchases in the past and by the different weights of these assets in household-owned stocks. They also depend on a number of quite strong assumptions as to the life of the durables and the alternative returns to the capital invested in them. Changes in these assumptions would probably modify the quantitative estimates but not the direction of the change. Support for this hypothesis can be found in the fact that the number of private vehicles in the economy was up about 13 percent, despite a drop of some 37 percent in current purchases during the year.

Purchases of household equipment were, at IL 571 million, down 25 percent. Most of the decrease was in television sets (sales of which plunged 45 percent), but other items also fell off—by 5 to 6 percent. The drastic decline in TV sets is attributable to the heavy volume of acquisitions in 1968–69, the first years the Israeli television service was in operation; the advancing of purchases in 1969 because of the fear (which later materialized) that sets would be more heavily taxed; and the fact that half the families in the country already possessed a set.

Among the other items of household equipment, steep declines were recorded for radios, phonographs, and air conditioners, while sales of electric stoves and hot plates were much higher.

Passenger vehicles were down by a steep 36 percent in 1970. However, the stock of private cars grew, and the proportion of families owning a car went up to about 15 percent in the third quarter of the year.

(d) *Other industrial products*

Purchases of “other industrial goods” rose more rapidly in the year under review. Outlay on clothing went up by 13 percent per capita, largely due to changes in women’s fashions (which favored longer dresses and thereby increased consumer spending). However, this rise may possibly be overstated because of inexact measurement of price variations. Sales of footwear also mounted rapidly, by 10 percent per capita. It appears that the various categories of consumption are to some degree substitutable, and therefore the decline in consumer durables may have contributed to the heavier purchases of clothing and footwear.

The rise in expenditure on other goods was fairly slack—2.3 percent per capita as against 9.5 percent in 1969. The deceleration was mainly due to a substantial drop in “books, newspapers, and stationery” (10 percent per capita), whereas spending on household maintenance items, cosmetics, and drugs and medicines went up at a fast pace.

(e) *Housing services*

The estimated consumption of housing services is largely imputed on the basis of the country’s dwelling stock—owner-occupied homes and those rented in exchange for key money. Hence fluctuations in this item stem mainly from changes in the dwelling stock. The completion of a large number of new units in 1970 (see Table IV–3) augmented the dwelling stock, resulting in a 2.5 percent rise in real per capita consumption of housing services, compared with 1.6 percent in 1969. This was accompanied by a jump in prices (17.1 percent as against 7 percent in 1969), but it appears that part of this recorded price increase was due to inexact measurement and must be assigned to the previous year.

(f) *Other services*

This item, which consists of all services other than those supplied by non-profit institutions and housing, accounts for most of the consumption of services purchased currently. Hence it is more sensitive to changes in income than are the other two categories.

The slower growth of disposable income in 1970 resulted in an increase of only 1 percent in real per capita consumption of "other services", after a rise of 3 percent in 1969 (which itself was well below the 6 percent annual increase in 1960-65).

The slackening of growth encompassed most components of this item. Decreases were recorded for education and theatrical and cinema presentations. The downtrend in cinema attendance, which has persisted for several years, can apparently be attributed to the competition of television, and to a lesser degree to changes in income.

Expenditure on vehicle maintenance moved up by a relatively rapid 10 percent per capita in real terms. On the other hand, in bus, taxi, and rail services the figure held more or less steady, while foreign travel fell off.

5. CONSUMPTION OF VARIOUS POPULATION GROUPS

The 1968/69 family expenditure survey reveals differences between the consumption, income, and saving of families whose heads are wage earners and those whose heads are either self-employed or do not belong to the labor force.

Table IV-9

PER CAPITA EXPENDITURE ON PRIVATE CONSUMPTION, BY OCCUPATIONAL STATUS OF FAMILY HEAD, 1963/64 AND 1968/69

(IL, at 1968/69 prices)

	1963/64	1968/69	Percent real increase
Occupational status of family head			
Wage earners	2,573	3,126	22
Self-employed	—	3,120	—
Do not belong to the labor force	—	2,481	—
Average annual consumption per capita			
According to family expenditure survey	—	3,003	—
According to national accounts	2,950	3,450	17

NOTE: The family expenditure surveys covered the periods from July 1963 to June 1964 and from September 1968 to August 1969. The national accounts calculations relate to average consumption in the years 1963 and 1964, and from the last quarter of 1968 through the first three quarters of 1969.

SOURCE: Central Bureau of Statistics, Family Expenditure Survey 1968/69, and National Accounts Division.

The findings show that the average per capita consumption spending of a family whose head was a wage earner reached IL 3,126 in 1968/69, compared with IL 2,577 in 1963/64 (at 1968/69 prices)—an average real annual increase of about 4 percent over this period.¹

Average per capita consumption for the economy as a whole (including self-employed and families living in rural areas) rose during the same period by a somewhat smaller rate—3 percent per annum. Obviously no conclusions should be drawn from these data on the percentage increase in per capita consumption of the rest of the population (i.e. the total population less wage earners), but estimates indicate that it was similar to that of wage earners. Furthermore, even if there were differential rates of increase, in 1968/69 there was no great divergence between the per capita consumption of a family with a self-employed head (IL 3,120) and one whose chief provider was a wage earner (IL 3,126).² If there were differences in the consumption of these two family groups prior to 1968/69, they subsequently disappeared.

¹ This covers both years of strong economic expansion and of recession, when per capita consumption fell off.

² For families where the head did not belong to the labor force, per capita consumption was of course smaller—IL 2,481.