

CHAPTER IV

PRIVATE CONSUMPTION AND SAVING

1. MAIN DEVELOPMENTS

Private consumption grew more slowly in 1971 than in previous years of full employment, continuing the trend begun in 1970. In real terms the level was up 4.5 percent (or only 1.5 percent per capita), and since prices advanced 12 percent, total consumption spending reached IL 13,892 million at 1971 prices. This sluggish growth of private consumption in comparison with the 9 percent gain in the national product is of significance, as it means that resources were released for other uses. However, it should be noted that the uptrend accelerated in the course of the year.

Disposable private income from all sources expanded more rapidly than private consumption – by 8-9 percent per capita. This can be credited to the stronger growth of GNP, the easing of the wage restraints imposed under the tripartite “package deal” signed in 1970, and the milder restrictive measures (mainly with respect to incomes) adopted by the Government in 1971. The widely divergent consumption and income growth rates resulted in a much larger private saving, and the average propensity to save out of income from all sources (other than compulsory loans – see below) rose from 29 percent in 1970 to 32 percent (compared with an average of 24 percent in 1960-65).

The disparity between the growth of private consumption and that of incomes in 1971 was exceptional, as in the past the two had moved at roughly the same rate. No full explanation of the marked difference can be offered on the strength of the data available at the time of writing this survey, but a number of reasons can be advanced to at least partially account for it. The principal cause was apparently the failure of the public to fully adjust its consumption spending to its higher income level during the year, and while in the second half private consumption picked up appreciably, this was not reflected in the annual averages. Another factor was apparently the increase in saving, especially in the form of housing investment; this was due to the precipitate advance of prices, which made it necessary to allocate a larger proportion of disposable income to the purchase of homes. A third factor was the much larger volume of transfers from abroad (the propensity to consume from these receipts is relatively low).

All saving components shared in the increase: that in the form of housing was up strongly, and financial savings also rose notably – especially time deposits, Pazak and Tamam accounts, and net claims on social insurance funds. There was also an appreciable growth of about IL 600 million in compulsory Government loan collections, which contain an element of saving.

Among the consumption components, per capita purchases of durables were down 2 percent, but in the course of the year the trend turned upward. A relatively rapid 6 percent rise was recorded in per capita spending on "other services".

2. TOTAL PRIVATE CONSUMPTION

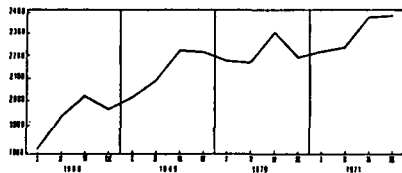
Real private consumption per capita went up by an average of 6 percent per annum during the first half of the sixties and still more in the postrecession years 1968-69. The trend was reversed in 1970, when the level edged up by a mere 1 percent, and a downward movement set in as the year wore on. A similarly sluggish advance was noted once before, during the 1967-68 slump, but then there was large-scale unemployment and a minimal growth of resources and uses. The year 1970 was exceptional in that it was distinguished by a very modest rise in per capita private consumption in spite of full employment and a vigorous upswing in other uses.

In 1971 the annual average growth of real private consumption per capita was about the same as in the previous year (1.3 percent). This average, however, obscures the change of trend during the year: whereas in 1970 the level had declined, in the year reviewed it began to move up fairly rapidly, so that in the second half it was 3 percent higher than in the same period of 1970. Even if we exclude nonprofit institution services and housing, which are not very sensitive to short-run changes in income (also, the method of measuring their development over the years is not very reliable), we still find that private consumption rose during 1971.

The fluctuations in private consumption over the last two years can be largely ascribed to the Government's incomes policy. After the 1969 Knesset and local authority elections, the public expected the Government to clamp down on consumer demand. Indeed, at the beginning of 1970 the "package deal" was concluded which provided for a small nominal rise in wages, along with higher tax rates and the levying of fairly heavy compulsory loans. This tripartite arrangement was designed to reduce the disposable income of a large part of the population. It went into force in the second half of 1970, but the public had already begun to cut down on its spending in the first half of 1970, so that per capita consumption fell off during the second half. In 1971 direct and indirect tax payments, less transfer receipts, increased rapidly (though somewhat less so than in 1970). This was due to the hiking of tax rates in 1970 (in the year reviewed the rates remained unchanged). On the other hand, wages and salaries went up beyond what had been stipulated in the "package deal", but the Government did not take any additional measures (beyond those of 1970) to prevent this. On the contrary, as a result of public pressure it substantially stepped up its transfer payments.

Figure IV - 1
PRIVATE CONSUMPTION,
QUARTERLY,
1967-71

(IL million, at 1964 prices)



SOURCE: Central Bureau of Statistics.

Private income from all sources¹ rose in 1971 by 25 percent at current prices, compared with 17 percent the year before. This fairly rapid advance was partly due to the accelerated growth of the national product.

Several factors tended to partly neutralize this appreciable income gain. Total direct tax payments outpaced the percentage rise in income, causing some slackening of growth in disposable income. At the same time transfer receipts soared even more rapidly, by 44 percent, so that the weight of incremental direct taxes net of transfer receipts in total gross income amounted to about 4 percent in 1971, as against some 25 percent in the preceding year. In this respect the steps taken by the Government in 1971 to restrain spendable income were weaker than in 1970. The main effect of the sharp indirect tax hikes was to push up the prices of consumer goods.

The deceleration in the Government's direct tax revenue net of transfer payments was set off to some extent by the heavier collection of compulsory loans (Defense and Savings): less the value of certificates distributed, the figure shot up from IL 390 million in 1970 to IL 970 million. These loans really constitute personal savings, for they will be redeemed at some stipulated date in the future. In the short run, however, they have a tax-like effect on consumption. Those who do not save voluntarily find their consumption reduced.² For those who have positive, though not necessarily contractual, savings the loans are somewhat analogous to a tax, since their terms compare unfavorably with those of alternative saving schemes: the interest is lower, the paper is not negotiable, and the period to maturity, especially of the Defense Loan, is very long.

It is obvious, therefore, that the difference between the terms of the compulsory loans and those of other forms of saving can be looked on as a tax, as it dampens the consumption even of the saving public (who can compensate for their Defense Loan purchases by reducing some other type of saving). It is difficult to estimate the tax element stemming from the nonnegotiability of the loans and their long redemption period, but it is possible to quantify the tax element inherent in the less favorable interest offered. This estimate will clearly be biased downward, and in order to calculate the lower limit of the tax element we have assumed the alternative real interest to be 5 percent – which is fairly close to the real creditory rate but lower than the debitory rate. According to this calculation, the tax element in the Defense Loan amounts to about 30-35 percent and that of the Savings Loan to 12-17 percent. The substantial increase in compulsory loan collections in 1971 consequently moderated the growth of private consumption.

We can now proceed to compute the change in real income per capita, for the estimates cited above represent the lower limits of the tax element, and as against them we can posit the extreme assumption that the public regarded the loans as being all tax. Given this assumption, we find that the increase in per capita income ranged from 7 to 9 percent in 1971, as opposed to 1-3 percent the year before.

1. Gross private income from economic activity and personal remittances from abroad.
2. It is not plausible that these families dissaved, since this would have meant taking on numerous small loans for very long terms. If there were some who managed to do this, their weight was undoubtedly very small.

Table IV-1
PRIVATE CONSUMPTION,^a INCOME,^b AND SAVING,^c 1960-71

	Average 1960-65	1966	1967	1968	1969	1970	1971
Total consumption (IL million, at current prices)	4,936	7,909	8,113	9,246	10,591	11,782	13,892
	Percent						
Change in real consumption	10	3	2	11	11	3	4
Change in gross real income	11	-1	6	17	11	8	13
Change in real income, excl. compulsory loans	11	-1	7	18	12	5	10
Change in gross real saving	12	-13	23	34	13	20	31
Change in real consumption per capita	6	1	-2	8	8	0	1
Change in gross real income per capita	7	-3	3	13	8	5	10
Change in gross real income per capita, excl. compulsory loans	6	-4	3	15	9	2	7
Change in real saving per capita	8	-15	19	29	10	17	27
Average propensity (gross) to consume out of income from domestic sources	84	84	80	78	77	76	72
Average propensity (gross) to consume out of income from all sources	76	78	74	71	71	69	64
Average propensity to consume out of income from domestic sources, excl. compulsory loans	84	85	81	78	77	78	76
Average propensity to consume out of income from all sources, excl. compulsory loans	76	79	75	71	71	70	67

^a Since 1967 immigrants' imports have been excluded from 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 index of consumption prices.

SOURCE: Central Bureau of Statistics.

The main determinant of private consumption is the consumer's "permanent income", which may be defined as the average of all his past and future income, and hence may sometimes diverge from his current income. Consumers will naturally attempt to adjust their spending to their permanent income level and are unlikely to modify it with every random nonrecurrent change in their current income. Nonetheless their current

income does have some bearing on their consumption, since liquidity problems may prevent them from spending all of their permanent income.

In the past consumption changed more or less in line with income, but this was not true in 1971, when real income per capita went up 7.9.5 percent and real private consumption per capita by only 1.5 percent. This marked disparity can probably be attributed to a combination of factors (see below), but they offer only a partial explanation. The problem may be resolved in the future with the revision of the income and consumption estimates, or with the disclosure of offsetting developments in 1972; at the time of writing this chapter, however, there was no reliable information on this point. Following are some of the possible contributory factors:

1. The most plausible reason for the marked gap between consumption and income in 1971 is the failure to adjust private consumption to the appreciable growth of income. If this was so, private consumption may be expected to rise in 1972, in a lagged response to the higher income level.

As already noted, in 1970 the growth of incomes slackened (to 1 percent per capita), which was only to be expected in view of the restrictive measures taken by the Government; as a result, consumers adjusted their spending to the slight rise in income. In 1971 disposable private income began to move up at an accelerated rate, but the public probably thought at first that this was a passing phenomenon, and it was only after the rapid uptrend persisted that they began to step up their spending. Indeed, in the second half of the year reviewed per capita consumption began to expand rapidly, but this of course was not fully reflected in the annual averages – between the second half of 1970 and the second half of 1971 the per capita level went up 3.1 percent, as opposed to the annual average rise of 1.5 percent. The acceleration in the second half of the year reviewed was most noticeable in industrial consumer goods and in “other services”.

The nonadjustment of consumption to incomes in 1971 does not, however, account for all of the gap between the two, and we must therefore look for further reasons.

2. The devaluation of August 1971 stimulated spending in the latter part of the year. In contrast to the unofficial devaluation of 1970 (the reference is to the imposition of a 20 percent surcharge on commodity imports), that of 1971 was official and owners of time deposits in foreign currency or pegged to the foreign exchange rate (Pazak and Tamam) earned capital gains of nearly IL 1,000 million, equivalent to 5-6 percent of the total current income for the year. These capital gains altered the account holders' consumption-saving equilibrium. It is only reasonable to assume that those who thus found their wealth suddenly augmented displayed a propensity to spend somewhat more – which in turn reduced their saving out of current income, especially toward the end of the year. On the other hand, because of the Government's policy of keeping down the prices of the existing stock, the devaluation did not lead to an immediate rise in the prices of imported consumer goods but to some advancing of purchases. This happened in the previous year as well, but then the Government did not attempt to hold the line on prices, so that the advancing of purchases was not on the same scale as in 1971.

3. The rate of return on saving rose strongly in 1971, and in some component items, notably housing, there was even a real increase. The larger volume of home sales may explain part of the disparity between income and consumption. The consumption of housing services is mostly imputed on the basis of the existing stock of dwellings, and current sales are not treated as consumption but as investment. Dwelling prices, which have skyrocketed since the war of June 1967, moved up much faster than consumption prices in the year reviewed. The outcome was a much heavier nominal expenditure on homes and a consequent dampening of the private consumption growth rate.

4. Personal remittances from abroad rose at a very rapid rate (48 percent, not counting pensions – the propensity to consume from which is relatively high). The propensity to consume such receipts is lower than in the case of current income (moreover, a large proportion of the remittances was received only toward the end of the year, after the devaluation).

3. INTERDEPENDENCE OF PRIVATE CONSUMPTION, TOTAL RESOURCE USE, AND IMPORTS

Ever since the recovery from the 1966-67 recession the weight of private consumption in total resource use has been drifting downward, reflecting the slack growth of this use as contrasted with the vigorous upswing in public consumption, domestic capital formation, and exports. This development is of great significance as regards the country's progress toward economic independence, for it means that resources are being released from private consumption for other uses, in the main exports and productive investments.

Total imports for private consumption (inputs³ and final goods and services) went up only slightly faster than total private consumption – by 4.9 percent in real terms to reach

Table IV-2
PRIVATE CONSUMPTION, USES, AND IMPORTS, 1968-71

	1968	1969	1970	1971
Weight of private consumption in total uses (percent, at current prices)	44.2	43.1	40.3	38.1
Rate of imported finished goods for private consumption in total private consumption (cents per 1968 IL)	1.968	2.187	1.927	1.964
Rate of imported inputs for private consumption in total consumption (cents per 1968 IL)	4.337	4.267	3.995	3.991
Rate of total imports for private consumption in total private consumption (cents per 1968 IL)	6.305	6.454	5.922	5.955
Weight of total imports for private consumption in total imports (percent, at 1968 prices)	32.2	31.6	25.5	24.3

SOURCE: Bank of Israel calculations.

3. The calculation of the direct and indirect inputs is based on the input-output table for 1965.

\$660 million at 1968 prices. This brought up the overall import component of private consumption by 0.5 percent, following an 8 percent drop in 1970. The increase was more pronounced in direct imports (6.4 percent, mainly concentrated in services) than in inputs (4.3 percent).

Private consumption is not as import-intensive as other end-uses. Whereas its weight in total uses was 38 percent in 1971, imports of current consumption items accounted for only 24 percent of the total import bill. Along with the decline in the weight of private consumption in total uses, there was an even sharper decline in the proportion of total imports destined for private consumption.

These data do not take into account the widely divergent effective rates of exchange applicable to the various private consumption import items. As with taxes on domestic production of consumer goods, this differential pattern of exchange rates constitutes a handicap to economic efficiency; but, as in previous years, nothing was done by the Government to achieve greater uniformity.

4. HOUSEHOLD SAVING AND ITS COMPONENTS

As already noted, private sector saving was much higher in the year reviewed; this was true of saving out of income from both domestic and all sources and irrespective of whether the compulsory loans are treated as a tax or saving.

Since the end of the 1967 recession the private sector has displayed a much higher propensity to save. Calculated in relation to income from all sources, the figure rose from an average of 24 percent in 1960-65 to nearly 30 percent in 1969-70 and 35 percent in 1971. The experience of the recession may have brought about a change in consumers' preferences and made them more savings-minded,⁴ but it is also possible that the relatively steep rise in dwelling prices has encouraged – or necessitated – the allocation of a larger share of disposable income to the purchase of homes, thereby resulting in a greater saving.

While nearly all saving components shared in this growth, the biggest increase was in housing. Although residential completions did not change much in 1971, this gives no indication of total down payments made by households on homes scheduled to be completed after 1971. Dwelling prices continued to soar during the year, at an even faster rate than before. At the same time there was a brisker sale of homes, by both the public and the private sector, and an increase in total down payments on homes due to be finished in the future.

Saving in the form of consumer durables – calculated as the difference between total sales of durable goods and the consumption of their services – fell off in 1971, apparently because more intensive use was made of the stock accumulated in earlier years while sales rose at a very sluggish rate (see the discussion on p. 90). But if the calculation is made for the consumption of consumer durables rather than their acquisition, then there was a notable rise in the propensity to save.

4. That is, they tend to save more under any circumstances, even those similar to what prevailed in 1960-65.

Table IV-3
SELECTED COMPONENTS OF PRIVATE SECTOR SAVING, 1960-71

	Average 1960-65	1966	1967	1968	1969	1970	1971
Gross saving out of income from all sources (IL million)	1,581	2,229	2,804	3,821	4,314	5,334	7,708
Rate of growth (%)	17	-4	26	36	13	24	45
Average propensity to save (%)	24	22	26	29	29	31	36
Average propensity to save out of income from all sources, excl. compulsory loans (%)	24	21	25	29	29	30	33
Average propensity to save out of income from domestic sources (%)	16	16	20	22	23	24	28
Average propensity to save out of income from domestic sources, excl. compulsory loans (%)	16	15	19	22	23	22	24
Saving in the form of consumer durables (IL million)	146	-9	-174	22	771	293	-52
Gross saving, incl. consumer durables (IL million, at 1970 prices)	2,615	2,758	3,117	4,429	5,235	5,890	7,482
Rate of growth (%)	15	5	13	42	18	13	27
Average propensity to save (%)	26	23	25	30	33	34	38
Number of dwellings completed ('000 units)	-	38	28	23	25	31	38
Liquid savings (IL million)	-	801	1,079	1,248	1,282	1,551	2,615

SOURCE: Central Bureau of Statistics and Bank of Israel.

Among the financial components there were several striking increases. Compulsory loan collections were stepped up appreciably, from IL 390 million in 1970 to IL 970 million. As already explained, these loans have a substantial tax element (conservatively estimated at 30-35 percent for the Defense Loan and 12-17 percent for the Savings Loan). Nevertheless, they also contain an element of household saving, and this rose sharply in the year reviewed. There was also a strong expansion of fixed-term deposits (IL 625 million) and of net claims on social insurance funds. Contributions to such funds are mostly made under company plans or in accordance with collective wage agreements, and thus constitute contractual saving. However, much of the incremental saving was of a voluntary nature, which is explained by the relatively high rates of return due to the tax benefits granted on such saving.

5. COMPOSITION OF CONSUMPTION

Expenditure on services rose more strongly in 1971 (4.3 percent per capita) than that on commodities (1.3 percent), even though service prices went up at a relatively faster rate (as in the past). There was a particularly large rise in "other services" (6.1 percent per capita), bringing the weight of this item in total consumption up to 21 percent at current prices.

Consumer durables were down 2 percent per capita on an annual average, but as the year progressed the trend turned upward. There was no real increase in per capita spending on clothing, footwear, and personal effects. The figure for food, beverages, and tobacco edged up 1.7 percent; the weight of this item in total consumption of goods and services (excluding that by nonresidents and inventory changes) therefore remained unchanged at 27 percent, continuing the long-run declining trend in the relative importance of this item (in 1960-65 its share was 33 percent).

Table IV-4
PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1970-71
(at current prices)

	Weight in total consumption in 1970 (%)	IL million		Percent increase or decrease (-) in 1971	
		1970	1971	Quantity	Price
Goods					
Food, beverages, tobacco	26.9	3,313.6	3,890.8	4.5	12.1
Household fuel, light, and ice	2.5	301.7	369.1	12.5	8.8
Clothing, footwear, and personal effects	9.5	1,209.5	1,375.0	3.5	9.8
Durable goods	9.0	1,157.2	1,308.7	1.3	11.6
Other industrial goods	5.3	638.7	761.2	7.1	11.6
Total goods	53.2	6,618.7	7,704.8	4.5	11.4
Services					
By nonprofit institutions	9.4	1,120.3	1,356.0	6.3	13.8
Housing	16.8	1,912.8	2,429.7	5.9	19.9
Other services	20.7	2,444.1	2,998.0	9.1	12.4
Total services	46.8	5,477.2	6,783.7	7.4	15.3
Total consumption of goods and services^a	100.0	12,095.9	14,488.5	5.8	13.2

^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.

Table IV—5
COMPOSITION OF PRIVATE CONSUMPTION, 1960-71
 (percentages; at current prices)

	Average 1960-65	1966	1967	1968	1969	1970	1971
Food, beverages, tobacco	33	30	31	29	28	27	27
Durable goods	9	8	7	9	12	10	9
Other goods	17	17	16	18	17	18	17
Services	41	45	46	44	43	45	47
Total consumption of goods and services	100	100	100	100	100	100	100

SOURCE: Central Bureau of Statistics

(a) *Food*

Real per capita consumption of food was up 1.2 percent in 1971, with prices climbing 12.8 percent. Considering the increase in total private consumption and in food prices, as well as the strong 4.5 growth in per capita spending on food in 1970, this increase may be somewhat rapid but can still be regarded as reasonable.

In cereals and cereal products there was a per capita increase of 1.9 percent, which was confined mainly to bread and matzot (up 2.7 percent) and rice (6.7 percent). By contrast, in items with a higher income elasticity, such as pastry, biscuits, and kindred products, the rise was slower (0.5 percent per capita).

Meat and meat products head the list of foodstuffs from the standpoint of expenditure, accounting for 26 percent of total food outlay in 1971. Their prices advanced sharply during the year, owing mainly to the 33 percent dearer cost of imported frozen meat. This reduced the consumption of such meat by 16 percent and increased the demand for fresh beef and poultry. Because of the declining supply of local fresh beef, the quantity of poultry marketed was stepped up by 11 percent per capita to meet demand, with prices rising by 15 percent (see Chapter X, "Agriculture").

Per capita sales of fish were up 5 percent in 1971, despite a rise in their relative price. Fish apparently constitute a substitute for meat, and the rise in the relative price of the latter resulted in a smaller consumption of meat and a larger consumption of fish.

Egg prices, which are controlled by the Government, were raised by 16 percent in 1971, bringing up the relative price of this item by 4 percent; this resulted in a 2.1 percent drop in per capita consumption.

In milk and milk products there was a fairly substantial per capita increase of 4.4 percent, due to the fall in their relative price. As in the past, the expansion of fluid milk consumption trailed behind that of dairy produce, but owing to the more sluggish rise in milk prices in 1971, this long-run trend was less pronounced this year.

Per capita spending on edible oils and fats went up 8 percent following a decline in their relative price. The 6 percent upturn in real per capita consumption of margarine

Table IV-6
CHANGES IN REAL CONSUMPTION OF SELECTED FOOD ITEMS, 1971
 (percentages)

	Weight in total food consumption	Increase over 1970	Increase or decrease (-) in relative price ^a
Cereals and cereal products	10.8	4.9	-5.2
Meat and meat products	26.4	2.3	7.5
Fish and fish products	3.9	8.3	4.1
Eggs	4.9	0.9	2.9
Milk and milk products	9.9	6.4	-4.5
Edible oils and fats	3.1	10.7	-5.8
Fresh fruit	13.3	-0.4	-1.3
Fresh vegetables	11.8	3.2	-1.4
Sugar and sugar products	6.6	8.3	-3.0
Tea, coffee, cocoa	3.2	12.1	-0.9
Processed fruit and vegetables and misc.	5.9	7.4	-4.8
Total	100.0	4.1	-

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

may be attributed to the modest 6 percent rise in the price of this commodity relative to the 20 percent increase in that of butter, for which it serves as a substitute (real per capita consumption of butter dropped 10 percent).

Fresh fruit was down 3.5 percent, owing mainly to the smaller quantities marketed and to a lesser extent to sagging demand.

Fresh vegetables held steady, the resultant of the larger quantity of potatoes marketed and the contraction of other vegetable supplies, mainly because of unfavorable weather conditions which affected the winter crop.

(b) Beverages, cigarettes, and other tobacco products

Real per capita expenditure on beverages moved up 5 percent in 1971, reflecting a 6.3 percent rise in nonalcoholic drinks and a smaller 4.1 percent increase in alcoholic beverages. Among the latter there was a 20 percent drop in foreign brands, apparently because of the higher prices charged in the year reviewed.

Despite the antismoking campaign, sales of cigarettes and other tobacco products were up 7 percent per capita, with cigarettes somewhat outpacing other tobacco products. The shift to expensive brands of local cigarettes persisted in 1971, when per capita sales went up 16 percent as contrasted with a 17 percent drop in cheaper brands. This is largely ascribable to the effect of the higher disposable incomes in 1971 as well as the 8

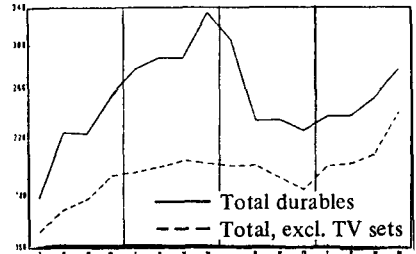
percent rise in the price of imported cigarettes, which depressed per capita sales by about 5 percent.

(c) *Durable goods*

At the bottom of the list of private consumption items in the year reviewed are durable goods, which inched up only 1 percent in real terms, equivalent to a 2 percent decline per capita. On the other hand, the reversal of trend in the course of the year was more pronounced in these goods than in consumption as a whole. Compared with the second half of 1970, sales of consumer durables were up about 14 percent in the corresponding period of 1971, or 19 percent not counting television sets, sales of which are affected by special factors (e.g. vogue).

The factors influencing the acquisition of durable goods are not the same as for other consumer goods and services. Owing to the indivisibility of durables and the absence of any widespread rental service, those wishing to enjoy the services of such goods must buy them outright, which is virtually tantamount to acquiring a flow of services over a period of several years.

Figure IV-2
CONSUMPTION OF
CONSUMER DURABLES,
1968-71
(IL million)



SOURCE: Central Bureau of Statistics.

Table IV-7
CHANGES IN REAL CONSUMPTION OF CONSUMER DURABLES, 1960-71
(percentages)

	Weight in 1971	Average 1960-65	Annual increase or decrease (-)					
			1966	1967	1968	1969	1970	1971
Furniture	37	20	-5	-20	46	15	6	-1
Household equipment	45	15	-8	-17	91	54	-22	-6
Personal transportation equipment	19	16	-15	-20	77	45	-36	37
Total	100	18	-8	-19	70	38	-16	2

SOURCE: Central Bureau of Statistics.

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 to some extent be timed at will. (The flurry of sales during the second half of 1971 was probably connected with the expectation of a price rise after the devaluation.) In view of the

measures taken by the Government in the second half of 1971 to ensure that existing stocks were sold at prevaluation prices, it was certain that prices would subsequently go up, and consumers accordingly went on a buying spree. This was facilitated by the abundant liquidity in the economy, which made it possible to obtain the necessary loans.

Furniture sales were down 1 percent in 1971, with prices rising by 11 percent. This decline is somewhat surprising and may be due to errors in measurement. These may arise from an underestimate of the output of smaller cabinetmakers and from the noninclusion of immigrants' imports in the consumption data (in accordance with Central Bureau of Statistics definitions). These imports are insignificant in relation to total private consumption, but since they consist mainly of durables, their omission may well affect this category.

Household equipment was down 5.5 percent in real terms, with prices advancing by a moderate 7 percent. Most of the decrease was in television sets, sales of which plunged 30 percent, while the remaining items showed a 12 percent increase. The drastic decline in TV sets – which accounted for 29 percent of the total amount spent on household equipment in 1971 – started in 1970 and is attributable to the heavy volume of sales in 1967-69, the first years the Israeli television service was in operation. Between 1967 and 1971 the proportion of households owning a TV set jumped from 5 to 60 percent, and obviously no rapid increase is to be expected in the future. Hence current sales are unlikely to expand and may even fall off somewhat.

Among other items of household equipment, a steep 40 percent rise was recorded for washing machines, the net result of an increase in foreign and a slight drop in domestic brands.

There were also strong rises in kerosene heating stoves, sales of which soared 66 percent with the introduction of new models, as well as in air conditioners and electric fans. By contrast, the figures for radios and electric stoves and hot plates fell off.

Passenger vehicles were up by a steep 38 percent in 1971, and the proportion of car-owning families rose from 15.4 percent in 1970 to 18.2 percent.⁵ Most of the increase occurred in the first and final quarters of the year, and it was accompanied by a 22 percent rise in prices due to higher foreign list prices, tax hikes, and devaluation. Two principal factors apparently accounted for the brisker car sales: one is the 36 percent decline in 1970, so that part of the 1971 sales may be regarded as of a compensatory nature. The second factor is the current practice of supplementing salaries *inter alia* by buying cars for some of the personnel and of refunding the maintenance costs ostensibly incurred in the course of work.

(d) *Other industrial products*

No increase took place in 1971 in real per capita consumption of footwear, clothing, and personal effects. It will be recalled that a fairly rapid and partly unexplained advance of 12 percent was recorded in 1970. Conceivably, the 1970 estimate had an upward bias while the 1971 figure is an underestimate.

5. This estimate does not include cars imported by new immigrants.

Table IV-8
PERCENTAGE OF HOUSEHOLDS OWNING SELECTED CONSUMER DURABLES, 1966-71

	1966	1967	1968	1969	1970	1971
Electric refrigerator	80.1	82.9	85.6	88.6	88.9	90.6
Washing machine	29.5	31.8	35.2	38.7	42.8	46.2
Radio	79.2	74.0	73.1	} 89.7	89.9	89.4
Transistor radio	40.3	50.2	57.9			
TV set	3.4	4.9	10.5	30.0	49.7	59.7
Vacuum cleaner	14.1	18.1	19.2	21.2	20.5	21.1
Tape recorder	6.1	9.2	9.2	11.6	11.9	13.8
Private car	10.5	13.3	13.1	13.9	15.4	18.2
Telephone	-	-	-	31.0	34.8	37.9

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

The 3.8 percent additional expenditure on other goods under this head was the outcome of an 11 percent increase in household maintenance items, cosmetics, and drugs and a 16 percent drop in books, newspapers, and stationery – probably due to the change in reading habits brought about by the introduction of TV.

(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. Consequently, current home sales are not directly reflected by this estimate, except insofar as they affect the dwelling stock, and sales of units still under construction are not reflected at all. Hence fluctuations in this item do not mirror the developments that took place in the housing market during the year.

Real consumption of housing services went up by 2.9 percent per capita, as against 2.5 percent in 1970. At the same time a price jump of 20 percent was recorded, but because of the method of measurement used the figure is probably biased downward.

(f) *Other services*

This item, which consists of all services other than those supplied by nonprofit institutions and housing, accounts for most of the consumption of services sold currently. Hence it is more sensitive to changes in income than are the other two categories. On the other hand, it includes the consumption of services by tourists, which tends to introduce an upward bias.

Consumption of "other services" rose steeply in relation to other items – 6.1 percent. However, part of this increase can be credited to the impressive expansion of tourism. Those items in which tourists account for a major share (though for technical reasons they cannot be separated out) showed a particularly strong upswing; thus per capita spending on hotels moved up 16 percent and that on tourist services by 28 percent, bringing up their weight to about one quarter of total "other services". Telephone services also advanced rapidly, by 13 percent per capita, while private car maintenance was up 10 percent. The accelerated consumption of these two items was apparently associated with the practice of supplementing salaries by way of services in kind.