

CHAPTER IV

PRIVATE CONSUMPTION

1. MAIN DEVELOPMENTS

PRIVATE CONSUMPTION per capita¹ in 1967 was similar to the previous year's level, despite a 2.3 percent increase in per capita private income. This is explained by several factors: (a) the uncertainty induced by the recession in 1966 and 1967 gave rise to a pessimistic outlook concerning future earnings; (b) the income growth took place in the second half of 1967, and this was not fully reflected by the consumption figures for the year as a whole, since it takes some time for consumption to adjust to changes in income; (c) it was mostly the non-employees rather than employees whose earnings went up in 1967—a more even distribution of the incremental income presumably would have resulted in a greater increase in consumption.

During the year reviewed consumption did not change at an even rate, but expanded faster in the second half of the year, owing to the economic recovery and the growth of incomes.

The principal changes in the composition of consumption were the rise in the weight of food from 30 percent in 1966 to 31 percent (following a drop in previous years), and the decline in the weight of durable consumer goods from 8 percent to 7 percent (in absolute terms, purchases of durable goods contracted by 16 percent).

In the second half of 1967 Israelis made large-scale purchases in Judea, Samaria, and the Gaza Strip. These purchases, which came to about IL 70 million, are included in the estimate of total consumption but have not been broken down into their components.

2. CHANGES IN TOTAL CONSUMPTION

Per capita consumption edged down by 0.4 percent in 1967, whereas per capita income rose by 2.3 percent—a larger divergence in the growth rates than in previous years.² If the consumption of services supplied by nonprofit

¹ For purposes of comparison with developments in the past, the trends and composition of consumption will be analyzed here on the basis of data excluding East Jerusalem.

² In 1962 there was also a fairly big differential, but this stemmed from a large increase in the local-currency value of private transfers from abroad due to the devaluation of the Israeli pound. The differential in 1964 can be attributed to the fact that the weight of private restitution payments within total income declined (for the first time). See the chapter on consumption in Bank of Israel Annual Reports for 1962 and 1964.

Table IV-1

CONSUMPTION, PROPENSITY TO CONSUME, AND DISPOSABLE PRIVATE INCOME, 1960-67

	1960	1961	1962	1963	1964	1965	1966	1967	
								Incl. East Jerusalem	Excl. East Jerusalem
Total consumption (IL million)									
At current prices	3,094	3,647	4,408	5,245	6,087	7,136	7,909	8,136	8,121
At 1967 prices	4,755	5,264	5,851	6,455	7,171	7,757	7,997	8,136	8,121
Percent increase in real consumption		10.7	11.2	10.3	11.1	8.2	3.1	1.7	1.6
Percent change in real income ^a		10.1	13.7	10.1	9.4	7.5	-1.3	4.6	4.4
Real consumption per capita at 1967 prices									
Amount (IL)	2,246	2,404	2,557	2,713	2,895	3,027	3,042	2,997	3,029
Percent change from preceding year		7.0	6.4	6.1	6.7	4.6	0.5	-1.5	-0.4
Percent change in real income per capita ^a		6.4	8.8	5.8	5.0	3.9	-3.7	1.3	2.3
Propensity to consume from disposable income (%)	84.7	85.2	83.3	83.5	84.8	85.3	89.1	86.7	86.7

^a Disposable private income from all sources deflated by the consumer price index.

SOURCE: Central Bureau of Statistics.

institutions and housing services are eliminated, the disparity in the growth rates turns out to be larger in both 1967 and 1966 than in previous years. It exceeds the average for 1960–65 even if we deduct from disposable private income the Defense Loan (which in 1967 was at least partly regarded as a tax by consumers) and lump-sum receipts (the propensity to consume out of such receipts is lower than for other types of income).

The changes in income and consumption in 1967 must be viewed in the light of developments in the previous year. Real per capita income was down 3.7 percent from the 1965 level. Since in earlier years consumption tended to adjust to a rise in income, the per capita figure could have been expected to decline in 1966; in actual fact, it even edged up slightly (by 0.5 percent). This is partly explained by the marked rigidity of consumption as regards a downward movement, i.e. it adjusts to a decline in income only after some time-lag. Another reason, connected with the first, is that consumption in a given year is determined not only by the income of that year but also by income and consumption levels in previous years and by expectations concerning future incomes. A change in income deviating sharply from the norm of previous years and which does not accord with consumers' expectations will not induce a corresponding change in consumption. Between 1960 and 1965 income per capita rose at an average annual rate of 6 percent; it is therefore possible that consumers thought that the decline in incomes in 1966 was temporary, a belief which in the following year turned out to be justified. Nevertheless, it is reasonable to assume that at a time of recession, wage freeze, and uncertainty, consumers expected their incomes to rise more moderately than in the past.

As in 1966, consumption did not immediately adjust to the change in incomes during the year reviewed, and the growth rates of the two variables diverged. A possible explanation is that 1967, and especially the first half, was similar to 1966, with recession, uncertainty, and a pessimistic outlook concerning future incomes. Incomes apparently began to move up strongly in the middle of 1967, too late in view of the aforementioned time-lag to affect the 1967 consumption level very much. It is also possible that the rise of incomes in the second half of the year did not lead to any marked change in expectations as to future earnings.

Another possible reason lies in the changes in income distribution in 1967. Incomes of nonemployees advanced, while those of wage earners remained stable; since the propensity to consume is greater among the latter, this differential development of incomes would in itself lead to a smaller expansion of consumption than it would have if the incremental income had been more equally divided (as in the past, except for 1966).¹ Moreover, the fairly steep—and exceptional—drop

¹ See Table II-10 on p. 38 of this Report, and the Report of the Committee to Examine the Distribution of National Income, Jerusalem, December 1966 (Hebrew), Appendix Table 18.

in real income in 1966 presumably resulted in a more cautious attitude among nonemployees when their incomes rose again, so that their propensity to consume was lower than in the past.

Owing to the recession, per capita income declined in 1966, tapering off in the first half of 1967. However, per capita consumption did not fluctuate much, but held steady in 1966 and 1967, in contrast to the steady upward trend of earlier years.

The Six Day War affected consumption in several conflicting ways. While food consumption rose during the period of prewar tension and fighting, the consumption of some services contracted and purchases of consumer durables declined. The net effect on the year's consumption is not yet clear, since the reduced consumption of durables may have been compensated by a rise after the war, and the increase in food consumption may have offset the decline in the consumption of services. However, it is reasonable to assume that the war reduced consumption in the second quarter of 1967, and tended to raise it in the third quarter.

Partial indicators show that per capita consumption began to move upward in the second half of 1967, after having stood still or even decreased in the first half. This was due partly to the postponement of purchases during the war, and partly to the economic recovery and rising incomes in the last six months of the year.

The average propensity to consume was lower in 1967 than in the previous year, owing to the standstill in consumption and the growth of incomes by about 4.4 percent. This estimate should be accepted with some reservation, since business saving (undistributed profits) cannot be separated from disposable income. In 1967 business saving apparently increased, so that compared with 1966 the propensity to consume is understated in 1967.

Nevertheless, the propensity to consume in 1967 exceeded the average for 1960-65. This applies to total consumption, whether or not durables are included. It is apparently explained by the marked downward rigidity of consumption and the fact that consumption had not yet adjusted to the incomes of the recession period. The large number of unemployed during the first half of 1967 may have contributed to the high propensity to consume in 1967, since the propensity is high among this group.

3. CHANGES IN THE COMPOSITION OF CONSUMPTION

The main changes in the composition of consumption in 1967 were a substantial decline in durable goods spending, a smaller decline in clothing and footwear, and a rise in food consumption.

The decline in purchases of consumer durables continued the trend of 1966—which in turn followed a slowdown of the growth rate in 1965—and resulted in the reduction of the weight of durables within total consumption. Consumption

Table IV-2
PRIVATE CONSUMPTION,^a BY MAJOR COMPONENT, 1966-67
(IL million)

	Weight in total consumption (%)		1966 at current prices	1967		Percent increase or decrease (-) in 1967	
	1966	1967		At current prices	At 1966 prices	Volume	Price
Goods							
Food, beverages, tobacco	29.8	30.8	2,399	2,523	2,503	4.3	0.8
Household fuel, light and ice	2.5	2.8	201	228	215	7.0	6.0
Clothing, footwear, and personal effects	9.2	8.6	739	709	693	-6.2	2.3
Furniture, household equipment, and private vehicles	8.2	6.7	660	553	555	-15.9	-0.4
Other industrial goods	4.8	5.0	381	410	397	4.2	3.3
Total	54.5	53.9	4,380	4,423	4,363	-0.4	1.4
Services							
By nonprofit institutions	9.5	9.7	764	798	785	2.7	1.7
Housing	14.7	14.9	1,178	1,221	1,241	5.3	-1.6
Other services	21.3	21.5	1,715	1,762	1,714	-0.1	2.8
Total	45.5	46.1	3,657	3,781	3,740	2.3	1.1
Total consumption of goods and services ^a	100.0	100.0	8,037	8,204	8,103	0.8	1.2

^a The difference between these data and those on total private consumption (Table IV-1) stems from the inclusion in the latter of changes in inventories and the net consumption of nonresidents.

SOURCE: Central Bureau of Statistics.

of clothing and footwear fell off in 1967, after a slower percentage increase in 1966 as compared with the preceding year. Food consumption grew faster in 1967 than did total consumption, so that its weight within the total rose.

(a) *Food*

Real per capita consumption of food¹ was up 2.3 percent in 1967, whereas total per capita consumption decreased slightly. This rise is slightly higher than what could have been expected on the basis of price and income elasticities, since real income per capita advanced by 2.3 percent and the relative price of food by 0.8 percent.

¹ The food consumption of the armed forces is included in the estimate. In measuring the product according to the income approach, imputed wages to the value of this consumption have been added.

Table IV-3

CHANGES IN PRIVATE CONSUMPTION,^a BY MAJOR COMPONENT, 1961-67

(percentages)

	Increase or decrease (-) in volume							Increase or decrease (-) in price						
	1961	1962	1963	1964	1965	1966	1967	1961	1962	1963	1964	1965	1966	1967
Goods														
Food, beverages, tobacco	8.2	11.9	7.7	9.5	4.4	4.0	4.3	5.7	3.5	7.0	0.8	7.1	6.1	0.8
Household fuel, light, ice	17.6	14.2	13.9	14.2	12.2	8.7	7.2	1.1	2.3	2.9	-0.1	1.4	10.2	6.1
Other industrial goods	12.4	13.1	15.5	16.3	8.6	-0.4	-7.6	4.3	9.5	2.6	2.1	4.5	6.5	1.7
Total goods	10.2	12.4	11.0	12.4	6.4	2.3	-0.4	5.0	5.7	5.0	1.3	5.7	6.4	1.4
Services														
By nonprofit institutions	9.2	7.5	8.3	7.1	15.2	-1.8	2.7	6.6	9.7	8.5	11.3	13.9	15.9	1.7
Housing	7.2	7.0	7.7	8.1	7.1	7.1	5.4	11.7	18.7	21.0	11.0	13.0	1.9	-1.6
Other services	12.0	10.4	10.6	11.8	7.7	4.4	-0.1	9.0	15.2	8.6	6.9	10.1	11.0	2.8
Total services	9.9	8.7	9.2	9.6	8.9	4.0	2.3	9.3	15.1	12.4	9.1	11.8	8.8	1.1
Total goods and services ^a	10.1	11.0	10.3	11.3	7.5	3.1	0.8	6.6	9.3	8.0	4.5	8.4	7.5	1.3

NOTE: Percentage changes have been calculated from unrounded figures.

^a Total consumption excluding changes in inventories and the net consumption of nonresidents.

SOURCE: Central Bureau of Statistics.

Since food consumption grew faster than total consumption, its weight within the total increased in 1967, in contrast to the downward trend of previous years.

There is some evidence that the amount spent on food was higher in the second and third quarters of 1967 than in the first and last quarters. This was apparently due partly to seasonal factors and partly to the effects of the war:

1. On the eve of the war there was some hoarding, mostly of canned goods. While the weight of hoarding purchases in total food consumption was not very large and some of these prewar purchases were consumed afterward, households apparently did not run down their stocks altogether.

2. Large-scale mobilization reduced the number of consumers per family, and this unquestionably tended to diminish the "economies of scale" in consumption,¹ since food purchasing habits probably did not alter in proportion to the temporary decrease in family size. Another factor here was the sending of parcels to the troops.

3. The food purchases of the armed forces may have exceeded the normal average food consumption of those called up.

Real per capita consumption of fresh vegetables was 0.5 percent larger in 1967, compared with a 3.3 percent increase in 1966 and a decline in 1965. The moderate growth in 1967 is explained by the rise in the relative price following the reduction of supplies—the result of unfavorable weather conditions for vegetables in the winter (the main growing season) and the smaller returns earned by producers in 1966. On the other hand, the quantity of fresh fruit per capita rose by 6.7 percent in 1967, largely because the expansion of supplies (inelastic in the short run) caused prices to dip.

Per capita consumption of meat and meat products was up 1.2 percent in 1967, compared with a 7 percent rise in the preceding year. There was a shift from frozen meat to fresh meat and poultry in 1967, in contrast to an opposite trend in previous years. The switch was due on the one hand to a decline in the quality of frozen meat (which also depressed demand) and a rise in its relative price (which resulted in a smaller quantity marketed), and on the other hand to the expanded supply of fresh meat and the fall in its relative price as compared with that of frozen meat. The increased supply of fresh beef was connected with the larger number of milch cows slaughtered as farmers reached the maximum quotas set for dairy herds.

Consumption of fish fell off in 1967: the amount consumed per capita was 9 percent lower, while relative prices edged down by about 1 percent. This was due to both demand and supply factors. The downward trend in the demand for pond fish was intensified, with a resulting curtailment of supplies—supply in this branch is sensitive to fluctuations in demand and is adjusted relatively quickly in order to avert a sharp fall in the relative price. Demand for sea fish

¹ See N. Liviatan, *Consumption Patterns in Israel*, Falk Project for Economic Research in Israel, Jerusalem 1964, pp. 12, 19, *et. al.*

Table IV-4
CHANGES IN REAL CONSUMPTION OF FOOD ITEMS, 1967
(percentages)

	Weight in total food consumption in 1967	Increase over 1966	Change in relative price ^a
Cereals and cereal products	12.5	4.8	0.7
Meat and meat products	23.7	3.2	0.4
Fish	3.3	-7.5	-0.7
Eggs	5.3	2.3	11.3
Milk and milk products	10.5	4.0	4.9
Edible oils and fats	3.4	6.4	0.8
Fresh fruit	14.0	8.8	-10.5
Fresh vegetables	11.4	2.5	11.3
Processed fruit and vegetables	2.7	10.5	0.0
Sugar and sugar products	7.2	6.3	1.0
Tea, coffee, and cocoa	3.0	7.1	-1.0
Miscellaneous	3.0	8.2	1.0
Total	100.0	4.6	0.8

^a The change in the price of the item divided by the change in the price of total consumption.

SOURCE: Central Bureau of Statistics.

was unchanged, a decline at the beginning of the year being offset by a rise toward the end.

Real per capita consumption of milk and milk products was up approximately 2 percent, compared with a decline of about 1 percent in 1966. Most of the increase was in dairy produce (cheese, butter, etc.), the per capita consumption of which grew by 8 percent. The prices of these products, which are fixed by institutional arrangements, held steady during the year, and in December the price of butter actually fell slightly. The price of fluid milk was raised by 17 percent, and per capita consumption declined 7 percent.

Real consumption of sugar and sugar products, tea, coffee, and cocoa increased by 4.5 percent per capita, while relative prices remained stable. This is a greater increase than could have been expected on the basis of income and price elasticities, and may be due to eve-of-war hoarding or to the deduction of too small an amount on account of consumption in the administered areas.

(b) *Beverages*

Real per capita consumption of beverages declined by about 2.5 percent. The per capita figure for all alcoholic beverages was down 4.4 percent (the relative price rose by 2.8 percent); however, there was a larger consumption of

imported products in 1967, following a decline in 1966 because of the higher duties charged. Per capita consumption of nonalcoholic beverages edged up 1 percent in 1967. This is a small increase in view of the stability of the relative price, the long summer, and the fact that a large number of troops were stationed in hot areas. It can probably be ascribed partly to the fact that consumption by Israelis in the administered areas was not included in the estimate.

(c) *Cigarettes and tobacco products*

The quantity of cigarettes and tobacco products consumed per capita was 3.9 percent higher than in 1966; this represents a resumption of the upward trend interrupted in 1966 when prices were raised.

The switch from cheaper to more expensive cigarettes continued in 1967, and the weight in total consumption of cheap cigarettes (priced up to 70 agorot per package) again declined. Purchases of expensive brands rose in particular during the period of tension preceding the Six Day War and through the third quarter; this was due partly to a shift from other tobacco products (which were marketed in small quantities during this period) to expensive cigarettes. In the last quarter of 1967 consumption of expensive cigarettes and other tobacco products returned to their first-quarter levels.

Purchases of imported cigarettes were considerably higher in 1967, but the data apparently include purchases by inhabitants of the administered areas.

Table IV-5
CHANGES IN CIGARETTE AND TOBACCO CONSUMPTION, 1964-67
(percentages)

	1964	1965	1966	1967
Real change in consumption of cigarettes and tobacco products	9.0	13.5	-0.4	6.0
Real change in cigarette consumption	7.9	14.0	-0.5	6.5
Change in quantity (number of cartons)	3.1	6.3	-1.0	5.3
Change in quality	4.7	7.2	0.5	1.1

SOURCE: Based on data of the Department of Customs and Excise.

(d) *Durable goods*

Purchases of consumer durables were 16 percent below the 1966 level; this continued the trend discernible since 1965, when the rate of growth slowed down, followed by an absolute decline of 7.5 percent in 1966.

The most striking changes during the year reviewed were the increased acquisition of motor scooters, apparently at the expense of automobiles, and the

higher percentage rise in purchases of radio transistor receivers, mainly because the war and the preceding period of tension stimulated demand, and partly because of the substitution of transistor for conventional radio receivers.

Table IV-6
CHANGES IN REAL CONSUMPTION OF DURABLE GOODS, 1964-67
(percentages)

	Weight in 1967	Increase or decrease (-) as against previous year			
		1964	1965	1966	1967
Furniture	42.0	16	16	-4	-19
Household equipment	44.7	29	5	-8	-13
Private motor vehicles	13.3	27	-17	-15	-17
Total	100.0	24	5	-8	-16

SOURCE: Central Bureau of Statistics.

Purchases of durable goods during the year do not reveal a uniform pattern: the figure for the first half of 1967 was lower than in the second half of 1966, but it picked up in the third quarter and continued upward at a stronger rate in the last quarter.

Partial monthly data on durable goods purchases show that, adjusted for the war months and seasonal factors, they were at a low but stable level during the months January-April. In other words, the decline which began in 1966 was checked at the beginning of 1967, and the trend turned upward in the second half of the year.

The purchase of durables is tantamount to the purchase of a flow of future services, and changes in current income and expectations about the future are

Table IV-7
INDEX OF PURCHASES OF DURABLE CONSUMER GOODS,
QUARTERLY, 1964-67

(at current prices; average 1966=100)

	I	II	III	IV
1964	113.0	135.6	134.7	114.4
1965	99.4	118.1	115.9	129.6
1966	136.5	92.1	97.3	74.1
1967	64.7	63.6	86.2	113.6

SOURCE: Central Bureau of Statistics.

Table IV-8
PURCHASES OF SELECTED DURABLE GOODS, 1966-67
(units)

	Locally made			Imported			Total		
	1966	1967	Percent increase or decrease (-)	1966	1967	Percent increase or decrease (-)	1966	1967	Percent increase or decrease (-)
Sewing machines	7,294	5,355	-26.6	3,361	2,507	-25.4	10,655	7,862	-26.2
Phonographs	3,711	2,470	-33.3	30,664	16,502	-46.2	34,375	18,972	-44.8
Radios	16,415	11,526	-29.8	5,507	5,278	4.4	21,472	16,804	-21.7
Washing machines	21,901	18,534	-15.4	9,017	4,549	-49.6	30,918	23,083	-25.3
Gas cookers	39,249	30,184	-23.1	—	—	—	39,249	30,184	-23.1
Electric refrigerators	44,915	35,502	-21.0	2,146	6,706	212.5	47,061	42,208	-10.3
Motor scooters	^a	150	^a	^a	2,690	^a	2,454	2,840	15.7
Motor cars	2,404	2,619	8.9	7,074	6,250	-11.6	9,478	8,869	-6.4
Electric mixers	11,503	7,988	-30.6	18,171	20,525	13.0	29,674	28,513	-3.9
Vacuum cleaners	1,383	1,118	-19.2	17,206	13,070	-24.0	18,589	14,188	-23.7
Tape recorders	—	—	—	14,317	12,739	-11.0	14,317	12,739	-11.0
Television sets	—	671	—	8,062	5,616	-30.3	8,062	6,287	-22.0
Transistor radios	831	583	-29.8	59,158	122,105	106.4	59,989	122,688	104.5
Air conditioners	8,752	6,641	-24.1	317	761	140.1	9,069	7,402	-18.4

^a The data do not distinguish between imported and local products.

SOURCE: Department of Customs and Excise.

major determinants. The developments described above and the prevailing unemployment give grounds for believing that at the beginning of 1967 consumers expected a slower growth of income and they therefore reduced their purchases appreciably.

In the middle of 1967 purchases of durable goods began to move upward at a rapid rate. Part of the increase can be attributed to the deferment of purchases because of the war, but the more optimistic expectations and the economic recovery after the war also played their part. Other factors inducing larger purchases in the second half of 1967 were the cutting of taxes in the third quarter, the belief that prices would go up after the devaluation, a rise in home purchases,¹ and an increase in the gross marriage rate as compared with the first half of 1967.

Table IV-9

PERCENTAGE OF HOUSEHOLDS OWNING SELECTED DURABLE GOODS, 1961-67

	Gas cooker	Electric refriger- ator	Washing machine	First radio	Second radio	Transistor radio	Electric mixer	Vacuum cleaner	Tape recorder
1961	62.3	50.2	18.3	79.6	—	—	—	—	—
1962	73.0	58.8	19.2	86.8	15.4	—	9.2	—	—
1963	79.4	64.3	23.4	88.4	18.7	—	12.8	8.7	3.2
1964	84.4	70.8	23.6	89.4	22.6	—	13.8	10.0	3.8
1965	85.5	77.6	28.5	89.9	30.5	—	17.7	13.8	6.8
1966	83.1	80.1	29.5	79.2 ^a	2.3 ^b	40.3	19.7	14.1	6.1
1967	84.3	82.9	31.8	74.0 ^a	2.1 ^b	50.2	21.8	18.1	9.2

^a One conventional radio only.

^b As from 1966 a distinction has been made between conventional and transistor radios.

SOURCE: Central Bureau of Statistics.

The accelerated growth of durable goods purchases was reflected in the past by a steady rise in the percentage of families owning such assets. In 1966, when purchases fell off, the percentage ownership stabilized (the decline recorded for certain items that year was apparently due to sampling errors). This stability continued in 1967, as expected.

Prices of durable goods fell by 0.4 percent on an annual average. This was caused partly by sluggish demand in the first half of the year and partly by the cutting of purchase taxes in August and the reduction of the customs duty

¹ Building completions have been taken as an indicator of home purchases. In view of the curtailment of building starts in the two preceding years, the area of completions could have been expected to continue downward in 1967. The fact that it increased toward the end of the year presumably indicates that work on buildings in process was speeded up in order to meet the stronger demand (see Chapter XIII, "Construction and Housing").

on medium-sized motor cars. The effect of the lower tax rates was offset to some extent (particularly as regards imported goods) by the devaluation of the Israeli pound in November, but on the whole the reductions tended to stimulate purchases in the last quarter.

(e) *Clothing and footwear*

Real per capita consumption of clothing and footwear declined by 8.1 percent in 1967. The decrease, which followed a slowdown in the growth rate in 1966, apparently occurred in the first quarter; in the second quarter the level tapered off and even turned slightly upward (this was partly of a seasonal nature), continuing in that direction in the final quarter.

(f) *Fuel*

The slower rise in fuel consumption which became noticeable in 1965 grew more pronounced in 1967, the increase coming to 6.4 percent as against 16 percent in 1966 and 19 percent in 1965. This low rate is explained by the moderate rise of real incomes and the effects of the war.

(g) *Services supplied by nonprofit institutions*

Real per capita consumption of services supplied by nonprofit institutions rose by 0.7 percent. This is a very low rate compared with previous years (even if we ignore election years, which are not relevant for comparative purposes); it can apparently be attributed to the slower growth of the institutions' income in 1967. Since the institutions generally do not resort to credit for financing their current operations, a more sluggish increase in income forces them to reduce the volume of services supplied.

(h) *Housing*

Real per capita consumption of housing services was up 3.3 percent in 1967, compared with 4.4 percent the year before. It should be noted that the estimate of this item is largely imputed on the basis of the country's dwelling stock.

(i) *Other services*

Real per capita consumption of other services was down 2.0 percent in 1967. This was largely due to a 6.2 decline in entertainment services. The June war affected this consumption item more strongly than the others, since it is apparently of a seasonal nature, the peak period falling in the second and third quarters of the year. A change in the drawing system of the State Lottery and the football pools tended to depress the demand for these services.

Summary

The changes in income in the wake of the recession led to relative stability in the level of per capita consumption in 1966 and 1967, but produced a change in the composition of consumption. Some of these structural changes were partly due to special factors (such as the war in 1967) and some reflected long-run trends.

Table IV-10

COMPOSITION OF PRIVATE CONSUMPTION AT CURRENT PRICES, 1960-67

(percentages)

	1960	1961	1962	1963	1964	1965	1966	1967
Services	38.0	38.9	40.1	41.4	42.6	44.5	45.5	46.1
Durable goods (furniture, household equipment, private motor vehicles)	7.8	7.9	8.9	9.4	10.2	9.5	8.2	6.7
Food, beverages, tobacco	36.5	35.6	34.0	32.9	31.3	30.0	29.8	30.8
Other consumer goods	17.7	17.6	17.0	16.3	15.9	16.0	16.5	16.4
Total consumption of goods and services ^a	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a Total consumption exclusive of changes in inventories and the net consumption of non-residents.

SOURCE: Central Bureau of Statistics.

Consumption of durables is sensitive to fluctuations in current income and in expectations about future income, and the decline in the weight of this item in 1965 signalled the start of the recession. The weight of services (whose income elasticity is above unity) rose at a rate only slightly below the average for 1960-65. In 1967 it went up by 1.3 percent, but it might have grown by more had there been no war.

The rising weight of services in 1966 and 1967, at a time when incomes were virtually stable and the weight of durables in consumption dropped steeply, can apparently be explained by the fact that services are purchased and consumed concurrently, whereas durables provide a flow of future services. Pessimism about future income is thus more likely to reduce the acquisition of durables, especially as their prices are generally higher than those of services, which are purchased as required for current consumption.