

## CHAPTER IV

### PRIVATE CONSUMPTION

IN REAL terms, the level of private consumption<sup>1</sup> is estimated to have been 11 per cent higher in 1958 than in 1957. Allowing for a population increase of 3.6 per cent, real consumption per capita rose by approximately 7.5 per cent, a rate of increase double that of 1957.

Consumption expenditure, at current prices, increased by about 14 per cent, and is estimated to have totalled over IL.2,500 million.<sup>2</sup> The implied increase in consumer prices is—2.5 per cent.

The rise in consumer spending was smaller during 1958 than during 1957. However, since prices remained relatively stable in the year under review, the real increase exceeded that of 1957.

#### 1. THE BACKGROUND TO THE CHANGES IN CONSUMPTION

The level of disposable income (i.e., total income after deduction of direct taxes) is one of the major factors affecting fluctuations in consumption. In 1958, disposable income is estimated to have risen by approximately IL.370 million, while additional consumption expenditure was assessed at IL.310 million. Thus, some 85 per cent of the disposable income increment went towards increasing consumption.

It is estimated that private disposable income totalled more than IL. 2,700 million in 1958. As private consumption expenditure reached IL.2,500 million, some 93 per cent of total private disposable income were spent on consumption, as against 94 per cent in 1957. The marginal and average annual changes indicate that the increase in disposable income was not accompanied by an appreciable rise in the level of savings.<sup>3</sup>

<sup>1</sup> Including the consumption of households and non-profit institutions.

<sup>2</sup> The change in consumption expenditure has been calculated on the basis of data compiled chiefly by the Bank of Israel and in part by the Central Bureau of Statistics. These data serve as indicators to the change, reflecting the main trends of consumption. In 1958, most of the indicators were obtained from the sources specified in the Bank of Israel Annual Report for 1957 and its Appendix, the share of the direct estimation of consumption increasing in 1958. The value of consumption in 1958 is based on the 1957 figure. At current prices, consumption expenditure totalled IL.2,523 million in 1958.

<sup>3</sup> No conclusions should be drawn from the annual fluctuations, since there is a large margin of error in estimates of saving. Data for 1957 have been revised.

The increase in average per capita consumption tends to conceal the considerable differences in the change in the consumption level of various categories in the population, such as income groups, ethnical groups, age groups, etc. Moreover, it must be noted that total private disposable income also comprises certain large non-recurrent receipts, spent in a manner quite unlike that of current income. As regards the most important of these items—personal restitution from West Germany—the Savings Survey<sup>1</sup> indicates that only 25 per cent of income from this source were diverted to consumption, as compared with more than 90 per cent of current income. Receipts from personal restitution payments rose in 1958 by the substantial amount of IL.45 million—i.e., by 46 per cent.

It should be borne in mind that data on the income and consumption of the private sector include not only households but also non-profit institutions, whose consumption pattern is different. These institutions carry a considerable weight in the economy, accounting for some 8 per cent of total consumption. Some of them obtain most of their funds from abroad.

After allowing for these reservations, it seems likely that Israel households save very little of their current income.

## 2. MAIN DEVELOPMENTS IN CONSUMPTION PATTERNS

In 1958, there was a substantial real increase in consumption, particularly as regards foodstuffs, the consumption of which rose by 17 per cent. The average consumption of other commodities and services rose more slowly—by 8 per cent. The real increase in food consumption was relatively greater than in the case of other items, even though the pattern of consumer expenditure did not change appreciably, expenditure on foodstuffs rising by 18 per cent, while total consumption expenditure increased by 14 per cent.

The main reason why the real increase in food consumption was greater than anticipated on the basis of the higher level of disposable income, was the stability of certain food prices. In the case of agricultural products, some prices even fell.

Another possible explanation of the appreciably larger quantity of food consumed is that the lower income groups, whose nutritional level is low, used most of their additional income to buy foodstuffs. In 1958, there was a certain shift from part-time to full-time employment, which increased the income of these groups. Yet another factor, albeit of lesser importance, was the rather low import level of certain foodstuffs in 1957, which makes the increase in their consumption during 1958 appear abnormally large, whereas in fact the increase during 1957 was smaller than usual.

In the year under review, the consumption of agricultural foodstuffs rose to the considerable extent of 23 per cent, while only 9 per cent more manufactured

<sup>1</sup> See Chapter XVI—"Personal Saving"

TABLE IV-1  
*Indicators of Consumption Trends, 1957-1958*

	<i>Percentage increase or decrease (-) from 1957 to 1958</i>		<i>Weight in total consump- tion</i>
	<i>at current prices</i>	<i>at constant 1957 prices</i>	
Foodstuffs	18.0	17.1	35.4
Of which: Agricultural products	22.2	23.5	20.0
Industrial and imported products	12.5	8.7	15.4
Cigarettes <sup>a</sup>	9.2	- 1.5	2.2
Textiles	10.0	5.9	9.2
Footwear	8.0	5.5	2.6
Durable consumer goods	13.3	8.7	5.9
Fuel <sup>b</sup>	23.1	20.2	2.3
Cinema <sup>c</sup>	16.6	16.3	1.3
Travel	15.5	14.6	2.9
Other commodities	8.8	8.2	5.4
Rent	9.4	5.2	14.6
Non-profit institutions	12.4	8.6	8.1
Other services	14.4	9.3	10.1
<i>Total</i>	14.0	11.0	100.0

<sup>a</sup> The real change has been weighted by the number of packages of each brand of cigarettes, according to its share in the total cigarette turnover during 1957.

<sup>b</sup> Real indices have been calculated as follows: Electricity—in KWh; gas, kerosene and motor fuels—quantitatively, in tons; benzine—quantitatively, in kilolitres; ice—by the number of blocks.

<sup>c</sup> The real change has been weighted by the number of cinema attendances in the three main cities, according to the weights of receipts in the different price groups in 1957.

*General Note:*

Agricultural produce:—fruit and vegetables, milk and dairy products, mutton and beef, poultry meat, eggs and fish. The consumption of each item has been estimated separately.

Durable consumer goods:—electric refrigerators, wireless sets, gas ranges, sewing machines, furniture, motor-scooters, stoves and sun boilers.

Travel:—journeys by "Eshed", "Dan", the Israel Railways and four inter-urban taxi companies.

Rent:—real and imputed rent in 1957, as calculated by the Bank of Israel. The change at constant prices has been calculated on the basis of the increase in the number of dwelling units (existing units+new construction). The change at current prices was calculated by multiplying the real change by the weighted price index of housing items received from real estate agents. (Details of computation methods will shortly be published in the Appendix to this Report).

Other services:—hotels, restaurants, laundries, health, education, insurance, etc.

and imported foodstuffs were consumed. This phenomenon may be explained by the large supply of local agricultural products, due to the maturing of investments made in previous years, and to the Government's policy of encouraging output by granting subsidies to agricultural producers. The additional supplies were partly absorbed by the local market only because some prices dropped considerably, while others remained stable, despite the upward trend in the general price level (see Table IV-2).

**TABLE IV-2**  
*Changes in Prices and Quantities of Selected  
Agricultural Products, 1957-1958*

<i>Product</i>	<i>Percentage increase or decrease (-) from 1957 to 1958</i>	
	<i>quantity</i>	<i>price</i>
Poultry meat	68.0	-16.0
Eggs	37.0	- 7.0
Fruit and vegetables	21.0	8.0 <sup>a</sup>
Milk and milk products	18.0	0.4
Mutton and beef	5.0	2.0
Fish	6.0	4.0

<sup>a</sup> See note on page 66.

A marked rise occurred in the expenditure on durable goods, which rose—at constant prices—by 8.5 per cent. However, this rate of increase is lower than the rate of increase of overall consumption and of disposable income—in contrast to 1957, when expenditure on durable goods—and particularly on certain commodities—showed a large increase. This development may be mainly accounted for by the fact that excess demand existing in former years for certain durable goods (such as wireless sets and electric refrigerators) has now been satisfied, and the market has become saturated as regards these commodities. An additional factor was the fact that recipients of personal restitution from West Germany, who had been responsible for a large proportion of the additional consumption of durable goods in 1957, may have preferred during the year under review to hold in liquid form, in PAZAK and TAMAM accounts, a higher proportion of their receipts. It should also be noted that in 1957 restrictions on the use of electricity caused a considerable increase in the consumption of one of the main durable items—gas ranges.

Nevertheless, it seems that consumption expenditure on durable goods increased in 1958 by more than the rate actually measured, as even when

the sales of certain durable items—such as gramophones—expanded considerably, they were not recorded.

Purchases of furniture rose to the significant extent of 12.5 per cent, in the wake of the 7 per cent increase in residential housing completions during the year reviewed.

The analysis of various data indicates that, in contrast to 1957, the import component of consumption<sup>1</sup> did not decline in 1958, despite the vertical development of production. Insofar as imports for consumption are calculated at constant prices in foreign currency (see Chapter II—"Resources, Product and National Income"), this phenomenon may have been caused by the larger import component of agricultural output, due to its different composition, as well as by the big increase in the consumption of industrial and agricultural products, which have a higher import component than services.

During 1958, an important development occurred in the field of consumer marketing, which may affect the future buying habits of the population. As in other countries, large retail stores, based on self-service, were set up by private and co-operative interests. This type of marketing requires a larger investment per unit of sale, and in certain cases is based on a higher "added value" of the commodity in the form of packing, higher finishing stages and extensive advertising. Should this development continue in coming years, large investments in commerce may be expected (which will probably originate in part from public sources), as well as a further development of production and packing methods for local products.

### 3. CHANGES IN THE MAIN CONSUMPTION GROUPS

An attempt will be made below to examine the change in the various components of consumption, in the light of fluctuations in demand and supply and the effect of changing income levels on demand.

(a) *Foodstuffs*: The consumption of foodstuffs expanded significantly. There was a real increase of 23 per cent in the consumption of agricultural produce (as detailed in the Note to Table IV-1) and a relatively moderate—9 per cent—rise in the consumption of foodstuffs processed by local industry or imported.

Total expenditure on food, at current prices, was estimated at IL.920 million, of which local agricultural produce represented 60 per cent.

The big increase in food consumption was mainly due to the rapid growth of disposable income, the falling prices of certain agricultural products, and higher earnings in the main food-consuming income brackets. The relaxation of import restrictions imposed on certain commodities in 1957 was likewise a

<sup>1</sup> Imports for consumption are here defined as the value of imports, calculated at the exchange rate of IL.1.800 per dollar, within the final price paid by the consumer, including taxes. The import component is, therefore, lower when consumer goods are subject to heavy duties, as in the case of imports for the "grey" market.

contributory factor. It should be noted that 1958 brought a considerable improvement in the quality, variety and packing of foodstuffs on sale, which was not reflected in higher prices. For the consumer this was tantamount to a decrease in prices and stimulated demand.

There were considerable changes in the kinds of food consumed, partly due to the policy of the Government, which restricted the sale of certain imported foodstuffs, such as frozen fish, fish fillet and frozen meat, thus reducing their consumption. Furthermore, as the prices of these commodities were controlled, it was possible to lower them or keep them steady. As a result, the consumption of the corresponding agricultural products rose steeply. Table IV-3 shows that the consumption of frozen meat declined, while that of other meats—and especially of poultry meat—increased.<sup>1</sup> The amount of liquid oils consumed declined, most of these being likewise controlled. The consumption of margarine and imported butter, however, rose considerably.

TABLE IV-3  
*Meat Consumption, 1957-1958*  
(tons)

	1957	1958	Percentage increase or decrease (—) from 1957 to 1958
Frozen imported meat	8,533	7,149	-16
Mutton and beef	10,056	10,574	6
Poultry meat	17,733	31,144	68
Other meat <sup>a</sup>	1,876	2,546	36
<i>Total</i>	38,198	51,413	35

<sup>a</sup> These data refer to the agricultural year (from October to October).

A noteworthy development in 1958 was the continued decline in the consumption of bread, which usually accompanies a rise in the standards of living and nourishment.

(b) *Cigarettes*: The consumption of cigarettes fell by 9 per cent in the second half of 1958, but since it had risen by 7.2 per cent in the first half of the year, the annual decline was only 1.5 per cent. The demand for cigarettes decreased due to the excise policy of the Government, which raised the excise duty on expensive cigarettes by 11 per cent in August 1958, while lowering the tax on cheaper brands by 36 per cent. The price gap between the most expensive and cheapest cigarettes thus widened, the former costing 900 pruta and the

<sup>1</sup> The comparison is made in tons, though it disregards the different value of the items comprised in the table.

latter—180 pruta. As a result, there was an acute shift to cheaper brands. In November, an attempt was made to remedy this situation and the prices of the cheaper brands were again raised. However, it is still difficult to determine whether this has increased the consumption of the higher-priced brands.

(c) *Textiles and footwear*<sup>1</sup>: The rate of increase in textile sales is estimated at 10 per cent, while sales of footwear rose by 8 per cent. In real terms the increase amounted to 5–6 per cent, a rate similar to that of recent years, excluding 1957.

The consumption of textiles and footwear rose to a lesser extent than total consumption, the per capita increase being very slight.

(d) *Durable goods*.<sup>2</sup> The real consumption of these commodities rose more slowly than in the preceding year. As already explained above, this moderate rate of increase may be attributed to the comparative saturation of the market. This is borne out by the fact that a considerably larger share of income from personal restitution was saved in 1958 as compared with 1957, deposits in PAZAK and PAMAZ accounts (which represent mainly savings of restitution recipients) rising by 112 per cent, as against an increase of 46 per cent in restitution receipts. Sales of gas ranges, which had greatly expanded in 1957 (chiefly due to the restrictions on the use of electricity), did not increase significantly in 1958.

At the beginning of 1958, there were in use in the country an estimated 160,000 electric refrigerators, 160,000 gas ranges and 360,000 wireless sets. It would seem that, at the existing income and price levels, the demand for these commodities has been saturated.

(d) *Fuel*.<sup>3</sup> Fuel consumption rose steeply in 1958, the real increase totalling 20 per cent over the preceding year. Fuel prices remained stable.

The higher fuel consumption was caused by a steep increase in the consumption of gas, due to the installation of gas ranges in an increasing number of homes, and by a considerably bigger domestic consumption of electricity. No changes occurred in the consumption of kerosene.

*Electricity*. This item represents one-third of total fuel consumption. Electricity consumption rose by approximately 33 per cent. The increase is particularly marked in comparison with 1957, but amounts to only 2.8 per cent as against 1956, since electricity restrictions were imposed at the end of 1956 and remained in force up to the middle of 1957. At the same time, the marginal prices of electricity, beyond a certain minimum supply, were appreciably raised. This may be the reason for the 6 per cent decline in per capita consumption in

<sup>1</sup> The weight of this items within total consumption has been reduced. It is now estimated that it totalled approximately IL.260 million in 1957.

<sup>2</sup> Including electric refrigerators, gas ovens and ranges, wireless sets, furniture, motor-scooters, heating stoves and sun boilers.

<sup>3</sup> Private consumption only, including—in order of importance: electricity, kerosene, gas, ice, benzine, matches, solar oil, motor lubricants and heavy fuel oil.

TABLE IV-4  
*Real Consumption of Fuel, 1956-1958*  
(percentages)

	Percentage increase or decrease	
	from 1956 to 1957	from 1957 to 1958
Electricity	-23.0	33.6
Kerosene	9.3	0.6
Gas	27.9	44.6
Other items <sup>a</sup>	- 3.6	5.8
<i>Total</i>	- 4.3	20.2

<sup>a</sup> Including ice, benzine, matches, solar oil, motor lubricants and heavy fuel oils.

1958, as compared with 1956, and may also have encouraged a shift to gas and kerosene for various uses.

*Kerosene:* No changes occurred in the consumption of kerosene, in contrast to the 9.3 per cent rise in 1957.<sup>1</sup>

*Gas:* Gas consumption expanded by 45 per cent, gas ranges being installed in an increasing number of homes.

The consumption of other components of the "fuel" item, such as benzine, matches, solar oil and motor lubricants, likewise increased, the only exception being ice for refrigeration, the use of which declined owing to the greater number of electric refrigerators in Israel homes (see Table IV-4).

(f) *Entertainment:* Cinema attendances increased by 16 per cent, at constant prices. Had it not been for the strike, which caused cinemas to shut down for two weeks, the rate of increase as against 1957 may have been even higher.

(g) *Travel:* This item increased—in real terms—to the considerable extent of 14.5 per cent. The rise was similar at current prices, as travelling costs did not change.

(h) *Housing services:* The value of these services is estimated at IL.340 million, as against IL.310 million in the preceding year.<sup>2</sup> The real change has been calculated on the basis of the increase in the area of residential construc-

<sup>1</sup> The figures appearing in the Annual Report for 1957 have been amended by the Fuel Department of the Ministry of Finance. It would seem that the consumption of this item rose, as it served as a substitute for electricity.

<sup>2</sup> This estimate differs from that of the Central Bureau of Statistics, appearing in the Annual Report for 1957, which cited a figure of only IL.171 million. The present assessment includes the value of real and imputed rent, computed by the method prepared by the Central Bureau of Statistics for the compilation of the consumer price index, from data concerning the number and prices of flats collected by the Bank of Israel. As a result, the weight of this item has significantly increased. A fuller explanation will be given in the Appendix.



tion in 1958 and of the estimated changes in the prices of flats. These calculations include imputations, but no allowance is made for depreciation in 1958.

(i) *Non-profit institutions*:<sup>1</sup> The consumption expenditure of these organizations rose, at current prices, by 12.5 per cent. In real terms, the increase amounted to 8.5 per cent.

(j) *Services*: The consumption of other services has been estimated on the assumption that, at current prices, it increased at the same rate as total consumption. Only partial information is available with regard to this item. The consumption level of these services, at constant prices, is calculated by deflating the appropriate items with their price changes as calculated in the consumer price index.

<sup>1</sup> Absolute data on the consumption of these institutions in 1957 and the changes in it were compiled by the Central Bureau of Statistics. Their share within the total volume of consumption is estimated at slightly over 8 per cent.