

CHAPTER IV.

PRIVATE CONSUMPTION

THE REAL INCREASE in private consumption per capita amounted to 6 per cent in 1962. This was smaller than the increase in private disposable income per capita, which reached 8 per cent at constant prices. Thus there appears to have been a considerable rise in the rate of private saving. This striking change was probably caused by a shift in the ratio between the various sources of growth in private disposable income: transfer payments from abroad expanded by 80 per cent at constant prices, and their proportion of total private disposable income went up from 9 to 14 per cent. The rate of saving from these transfer payments is apparently higher than that from current income.

The much larger volume of transfer payments also affected the structure of the incremental private consumption, for it was responsible for the marked rise in expenditure on housing and durable goods.

Table IV-1

RATE OF INCREASE IN DISPOSABLE INCOME AND PRIVATE CONSUMPTION PER CAPITA, AT CONSTANT PRICES, 1961-62

(percentages)

	Income from local sources		Transfer payments from abroad		Total disposable income	
	1961	1962	1961	1962	1961	1962
Income	7	2	3	80	7	8
Consumption	—	—	—	—	6	6

SOURCE: Central Bureau of Statistics.

1. CHANGES IN THE STRUCTURE OF CONSUMPTION

The most characteristic feature of the rise in private income during 1962 was the growing weight of transfer payments from abroad, which consisted mainly of personal restitution from West Germany. The value of these receipts in Israel currency rose after devaluation, thus increasing their share of the increment to private disposable income. According to saving surveys, the rate of saving from personal restitution monies is higher than that from current income, and the bigger weight of such payments is the reason for the widening

of the gap between the rate of increase in consumption and that in private disposable income.

Another factor moderating the expansion of private consumption and increasing the rate of saving was the encouragement given to the premature redemption of mortgages. These payments, which are actually a form of saving, totalled IL 54 million. It is of course possible that the larger saving of those who redeemed their mortgages under this arrangement involved a decline in the private saving of others. However, on the whole it appears to have increased the total volume of private saving. It is further possible that this rise, being due to special factors, will be followed by a decline in saving in future years, and that the operation of these special factors will not change the average rate of consumption in the long run, but merely the timing of consumption. Nevertheless, it remains true that in 1962 these factors led to an increase in the rate of saving.

Table IV-2
USES OF PERSONAL RESTITUTION PAYMENTS FROM GERMANY,
1957/58 AND 1958/59
(percentages)

Type of expenditure	Recipients of restitution in 1957/58		Recipients of restitution in 1958/59 Structure of expenditure in same year
	Structure of expenditure in 1957/58	Structure of expenditure in 1958/59	
Current consumption	17	4	18
Durable goods	9	4	18
Real estate ^a	20	25	40
Financial assets	45	-33	22
Other uses	9	—	2
Total	100	0	100

^a Mainly housing.

SOURCE: Survey of Family Savings, 1957/58 and 1958/59 (Preliminary Report), Research Paper 8, Falk Project for Economic Research in Israel, pp. 9-10.

The pattern of expenditure from personal restitution monies was the decisive factor in the developments in the sphere of consumption. Saving surveys indicate that about 40 per cent of such receipts are utilized for the purchase of flats or houses, while 13 to 18 per cent are spent on durable goods. Various studies made abroad also show that expenditure patterns as regards non-recurrent income differ from those governing current income. The high proportion of expenditure on housing and durable goods from non-recurrent income is particularly striking.

It would seem that the boom in the market for these two items is at least partly stimulated by the character of the increase in private disposable income.

Table IV-3
INCREASE IN REAL CONSUMPTION PER CAPITA,
BY CATEGORY, 1961-62
(percentages)

Category	Increase in 1961	Increase in 1962	Price increase in 1962 over 1961
Housing ^a	-6	7	23
Food	5	6	5 ^b
Clothing	7	8	6
Footwear	5	2	9
Cigarettes	2	4	—
Travel ^c	1	1	12
Durable goods	17	13	8
Total	6	6	9

^a On the basis of data of building completions.

^b See note to Table IV-6.

^c In Israel only.

SOURCE: Central Bureau of Statistics; Department of Customs and Excise; and Bank of Israel.

Another factor was the large-scale monetary expansion, which increased the possibilities of obtaining credit. For in both these markets financing through credit plays a decisive role. Both factors—the increase in transfer payments from abroad and the monetary expansion—were closely connected with the devaluation.

(a) *Housing services*

Despite the steep rise of 21-23 per cent in housing prices, the number of residential units acquired by the public went up by 12 per cent, or 7 per cent per capita. This was due to the greater demand for housing after devaluation, as well as to the monetary expansion and the expectation of further price increases.¹ The estimate of residential units purchased does not take into consideration qualitative changes not reflected in the price, and since there has been a considerable improvement in the quality of residential building in recent years, it may be assumed that the estimate has a downward bias. The percentage of persons living in self-owned flats or houses continued to rise in 1962, as in previous years. This trend is due to the Tenant Protection Law, which affects the profitability of building for rental purposes and the demand for such building.

¹ See Chapter VI, "Prices", p. 86.

(b) *Durable goods*

Purchases of durable goods were up 18 per cent in 1962, at constant prices, which is equivalent to an increase of 13 per cent per capita. On the basis of the income elasticity of these items, the rise in private disposable incomes should have caused demand to increase by 16 per cent per capita.¹ Moreover, transfer payments received by private persons from abroad expanded by 80 per cent in 1962, as already mentioned,² and their weight in local disposable income rose from 9 to 14 per cent. Since the marginal propensity to purchase durable goods from non-recurrent income far exceeds the norm, an even greater increase in such purchases might have been expected.

Price increases must not be regarded as a factor checking the expansion of consumption. Prices of durable goods rose by 8 per cent, i.e. less than the average rate of increase in the prices of private consumption, which came to 10 per cent.

One possible explanation for the slower rate of increase in income elasticity than anticipated may be the rate of growth in 1961, which reached 17 per cent per capita—i.e. far more than might have been expected on the basis of the rise in private income during that year. The big increase then was apparently due to expectations of devaluation, which inclined many people to advance their purchases. It is therefore reasonable to ascribe part of the increase of 1961 to developments in 1962. Another factor limiting the rate of increase in the acquisition of durable goods was the growth of saving involved in the premature redemption of mortgages. It would seem that saving increased partly at the expense of purchases of durables. Purchases of these goods are in a sense acquisitions of consumer services and investment goods alike, and consequently may be regarded as a form of saving. It may therefore be assumed that an unexpected increase in one type of saving will to a certain extent be reflected by a decline in other forms of saving. Looking at the two years 1961 and 1962 as a single period, the increase in purchases of durable goods is easily explained by the rise in private disposable income.

As regards durable goods, there were certain developments unconnected with the general trend. Purchases of motor cars were slightly smaller in 1962 than in 1961, while purchases of other durable goods taken together show an increase of 16 per cent per capita. This development was due to changes in relative prices: prices of durable goods other than motor cars rose by 6 to 7 per cent, whereas the price of motor cars soared by 15 to 20 per cent.

There is evidence that among most families one item of each product is regarded as sufficient. This assumption is borne out by the data from a family

¹ The income elasticity of demand for durable goods is approximately 2.0, and the rise in private disposable income per capita totalled 8 per cent, as already stated.

² Including the increase due to the revaluation of foreign currency deposits and deposits linked to the exchange rate of foreign currencies.

Table IV-4
ACQUISITION OF DURABLE GOODS, 1961-62
(in units)

Commodity	Locally produced		Per cent increase or decrease (-) in 1962	Imported		Per cent increase or decrease (-) in 1962	Total		Per cent increase or decrease (-) in 1962
	1961	1962		1961	1962		1961	1962	
Sewing machines	6,029	7,692	27.6	2,749	5,335	94.1	8,778	13,027	48.4
Phonographs	11,622	16,788	44.5	7,026	7,235	3.0	18,648	24,023	28.8
Radios	30,081	31,134	3.5	34,377	40,489	17.8	64,458	71,623	11.1
Washing machines	12,671	17,095	34.9	1,091	3,519	122.5	13,762	20,614	49.8
Gas appliances	53,795	51,457	-4.3	—	—	—	53,795	51,457	-4.3
Of which: Hot plates	47,923	45,179	-5.7	—	—	—	47,923	45,179	-5.7
Ranges	5,872	6,278	6.9	—	—	—	5,872	6,278	6.9
Electric refrigerators	41,060	46,842	14.1	3,336	6,639	99.0	44,396	53,481	20.5
Motor scooters	724	682	-5.8	1,382	2,003	44.9	2,106	2,685	27.5
Bicycles	17,249	17,218	-0.2	1,967	4,601	133.9	19,216	21,819	13.5
Motor cars	725	1,162	60.3	6,867	6,255	-8.9	7,592	7,417	-2.3
Mixers and vacuum cleaners	—	—	—	6,875	20,834	203.0	6,875	20,834	203.0
Tape recorders	—	281	—	2,092	6,947	232.1	2,092	7,228	245.5

SOURCE: Department of Customs and Excise and Central Bureau of Statistics.

expenditure survey.¹ Consequently, there is reason to expect that the income elasticity of these products will be in inverse ratio to the frequency with which they already appear in households.² And indeed, the income elasticity is higher as regards the items still owned by a relatively low percentage of the population and vice versa (see Table IV-5). This phenomenon is due to the fact that the acquisition of a durable commodity confers ownership rights to the consumer services it supplies. A one-time purchase thus enables the buyer to benefit from the current consumption of consumer services without having to undertake additional purchases. This situation may change when the item is purchased not so much for the consumer service it offers as for purposes of ostentation. The problem then acquires different aspects, and conditions are created for the purchase of more than one unit of the same item.

Table IV-5
OWNERSHIP AND INCOME ELASTICITY OF
DURABLE GOODS

Commodity	Income elasticity	Number of units owned per 100 families
Radios	0.2	84
Gas hot plates	0.5	66
Electric refrigerators	0.9	59
Washing machines	1.4	19

SOURCES: Bank of Israel and the Central Bureau of Statistics.

There appears to be a certain order in which durable goods are purchased: normally, the first to be bought is a radio, and then—in order—a gas hot plate, electric refrigerator, washing machine, electric mixer, and vacuum cleaner. This is demonstrated by the big differences in the percentage of families owning the various commodities. The order of purchase is the same in all ethnic groups and age groups.

(c) *Clothing and footwear*

The real increase in the consumption of clothing and footwear reached 8 per cent per capita—about what might have been expected on the basis of the income elasticity of these items.

The competitive character of the clothing branch and difficulties in exporting

¹ According to an analysis prepared by the Bank of Israel.

² On the basis of a certain assumption concerning the order in which families reach satiety in the various commodities.

its products prevented price increases, and even led to a relative decline. Prices in the footwear branch went up 9 per cent following devaluation, and the growth in consumption per capita came to 2 per cent. If the relative prices of footwear had remained stable, an 8 per cent increase in per capita consumption might have been anticipated in the wake of the rise in incomes. The increase at a rate slower than expected was due to the rise in prices.

(d) *Travel within Israel*

The consumption of transportation services increased by approximately 1 per cent per capita. This low rate was due to the steep 12 per cent rise in fares. Development was by no means uniform in the various branches. As regards bus services, which constitute the major proportion of this item, the increase was 1 per cent, but railway journeys per capita went up by 6 per cent. The difference was due to the considerable improvement in railway services, and to a certain extent also to the changes in relative prices—since train fares rose by 11 per cent, while bus fares on the corresponding inter-urban lines rose by 13 per cent.

(e) *Travel abroad*

Though prices rose by 17 per cent, the volume of foreign travel increased by 16 per cent. The income elasticity of this item is presumably very great, but even so, this cannot fully explain the large growth in consumption: Foreign travel is in practice a by-product of tourism abroad, and the demand for foreign travel thus constitutes part of the demand for the entire service, consisting of both the journey and the stay abroad. The price of this service as a whole rose much less than the price of the journey, since the cost of tourism abroad (which is the main component of this service) remained unchanged.

(e) *Food*

Food consumption increased by 11 per cent, at constant prices, this being equivalent to 6 per cent per capita. According to estimates of income elasticity, the rise in private income should have led to a 5 per cent increase in per capita consumption. The difference between this rate and the actual rate must be ascribed to the relative decline in the prices of foodstuffs. Food prices rose by 4.7 per cent, while the prices of commodities and services other than food rose by 11 per cent. Thus, relative to other consumption items, food actually became some 5 per cent cheaper.

In cases where the rise in the price of a specific food was similar to the general increase in food prices (e.g. in the case of meat and dairy products), the main factor in the larger consumption was the rise in real income. But as regards food items the prices of which did not follow the general pattern, changes in relative prices appear to have played a decisive part in the altering of consumption habits.

Table IV-6
CHANGES IN FOOD CONSUMPTION, BY ITEM, 1961-62

(at constant prices)

Item	Per cent increase or decrease (-)		Per cent increase or decrease (-) in prices in 1962, as against 1961 ^a
	From 1960 to 1961	From 1961 to 1962	
Fresh fruit	7.0	22.8	-1.2
Meat	-0.5	21.3	4.0
Poultry	21.9	7.9	1.4
Alcoholic drinks	1.7	7.8	—
Milk and dairy produce	3.7	6.8	2.3
Tea, coffee, and cocoa	11.6	1.9	11.6
Fresh vegetables	10.1	1.5	8.1
Fats and margarine	1.3	0.5	0.1
Chocolate, sweets, jam, and sugar	3.8	0.4	1.1
Fish	6.5	-0.3	7.7
Bread, cereals, and flour products	0.8	-1.0	15.5
Canned vegetables and fruit	26.7	-10.8	9.3
All foodstuffs	5.0	6.3	4.7

^a Index of nominal consumption divided by the index of real increase.
SOURCE: Central Bureau of Statistics and Bank of Israel.

Changes in relative prices and the difference between anticipated and actual consumption for five specific food items,¹ are shown in Table IV-7.² In every case where the anticipated increase in consumption exceeded the actual increase, it will be found that the relative price of the item rose. The opposite applies when the actual increase exceeded the anticipated increase. However, there is no correlation between the extent of the changes in relative prices and changes in consumption. This is due to the fact that the income elasticity of demand varies considerably as between the various items. Greater elasticity causes a drop in the relative price to produce a much bigger increase in consumption.

¹ The items chosen are those for which income elasticity estimates were available. The five items concerned constitute 65 per cent of total food consumption.

² A full explanation of the computing methods used will be found in the Appendix to this report (in Hebrew only).

Table IV-7

**CHANGES IN RELATIVE PRICES AND
DIFFERENTIAL BETWEEN ACTUAL AND
ANTICIPATED GROWTH OF CONSUMPTION^a**

(percentages)

Item	Difference between anticipated and actual growth of consumption ^b	Change in relative price ^c
Fruit	-15.8	-5.6
Meat	-5.9	-0.7
Vegetables	1.3	3.2
Milk	-2.6	-2.3
Bread and cereals	1.6	10.3

^a Based on income elasticity of demand.

^b Anticipated increase less the actual increase in per cent of the anticipated increase.

^c Index of the commodity's price (see note to Table IV-6) divided by the index of food prices as a whole.

1. Fresh fruit

The 23 per cent increase in the consumption of fresh fruit may be explained chiefly by the fact that their relative prices fell by 6 per cent following an absolute decline of 1.2 per cent. There was an especially big increase in the consumption of deciduous fruit—32 per cent. Consumption of citrus fruit rose to a smaller extent, owing to a rise in price; the latter development was due to the higher prices fetched abroad, which led to an expansion of exports and reduced the quantity available for the local market.

2. Meat and poultry

The big expansion of meat consumption was mainly due to larger imports of frozen meat (the increase was 260 per cent). This was part of a deliberate policy intended to check the mounting of local meat prices. The relative stability achieved in this manner seems to have been one of the factors preventing a greater increase in the consumption of poultry meat, despite the fall in its relative price; the nominal rise in poultry meat prices came to 1.4 per cent, and the increase in consumption totalled 8 per cent per capita.

3. Fresh vegetables

The consumption of fresh vegetables per capita remained stable, since their relative prices rose by 3 per cent.

4. Cereals and flour products

After the abolition of the subsidies in August 1962, the prices of cereals and flour products rose by an annual average of 15 per cent,¹ thus leading to a 10 per cent rise in their relative prices. Since the income elasticity of these products is low, the limited decline in their consumption after these price increases shows that the price elasticity in the demand for cereals is likewise small.

¹ The increase reached 30 per cent in August, but following the abolition of the subsidies, the rise in the average price level for the entire year amounted to only 15 per cent.