

CHAPTER IV

PRIVATE CONSUMPTION

THE GENERAL TRENDS in the level and composition of private consumption prevailing during the past few years continued in 1963.

Expenditure on consumption was 18 per cent higher, at current prices, than in 1962, and the quantity consumed was 10 per cent higher; consumption prices rose by 8 per cent. Private disposable income expanded by 21 per cent.

Real consumption per capita increased by 5.4 per cent, after having risen by 6.7 per cent in 1962.

The general level of private consumption reached IL 5,150 million in 1963, while consumption per capita was some IL 250 higher than in 1962.

The increase in the level of consumption was accompanied by changes in composition characteristic of an advancing standard of living. The percentage spent on food continued to drop, while that spent on durable goods continued to rise.

As regards food, there was a decline in the consumption of bread, cereals, and pulses, which may be considered "inferior" goods, i.e. they tend to be consumed in smaller quantities as the standard of living rises. On the other hand, there was an increase in the consumption of beef, beverages, and chocolate and sweets. Protein and fat intake likewise continued upward.

In respect of durable goods, satiety appears to have been reached in purchases of gas cookers and electric refrigerators; on the other hand, there was an unprecedented boom in purchases of automotive vehicles, and their number went up by a quarter during the year.

From the aspect of the composition of consumption, Israel now resembles the developed European countries.

1. THE LEVEL OF CONSUMPTION

The level of consumption is determined by two factors: the level of private disposable income and the propensity to spend this income on consumption. The propensity to consume is itself dependent on the distribution of incomes in the economy, on saving conditions, and on expectations concerning the cost of saving and the yield thereon.

The economy's propensity to consume is chiefly determined by households. The percentage of private disposable income used for consumption may serve

Table IV-1
TOTAL AND PER CAPITA CONSUMPTION, 1959-63

	1959	1960	1961	1962	1963
Total consumption, at current prices (IL million)	2,766	3,096	3,634	4,364	5,149
Total consumption, at 1963 prices (IL million)	3,533	3,833	4,216	4,701	5,149
Per capita consumption, at 1963 prices (IL)	1,713	1,811	1,925	2,054	2,164
Per cent increase in real consumption per capita	6.3	5.7	6.3	6.7	5.4

SOURCE: Central Bureau of Statistics.

as a yardstick for measuring this propensity, though private disposable income also includes business saving (i.e. undistributed profits of private enterprises).

The average propensity to consume out of private disposable income from domestic sources (i.e. excluding personal restitution payments from West Germany) has apparently been slowly but systematically declining. Personal restitution payments reduce the overall propensity to consume, owing to their non-recurrent nature.

Table IV-2
AVERAGE PROPENSITY TO CONSUME,^a 1959-63
(percentages)

	1959	1960	1961	1962	1963
From private disposable income (excluding restitution payments) ^b	92.9	92.1	91.6	91.8	88.5
From private disposable income (including restitution payments)	89.5	88.1	87.8	85.7	83.3

^a Private consumption only.

^b Based on the assumption that the average propensity to consume from personal restitution payments remained constant. The estimate of this propensity, based on studies of saving, is 12 per cent.

SOURCE: Central Bureau of Statistics and Bank of Israel.

The weight of each item in the consumption increment measures the marginal propensity to consume this item. In respect of commodities, the marginal propensity to consume is lower than their weight in total consumption, whereas in the case of services it exceeds their weight (see Table IV-3). The reason for this seems to be that the elasticity of expenditure¹ is greater than unity in the case of services, but less than unity in the case of commodities.

¹ The ratio between the relative change in the consumption of a specific commodity and the relative change in total consumption.

Table IV-3
PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1962-63
 (IL million)

	Weight in 1962	1962	1963		Weight in consumption increment at current prices
			At current prices	At 1962 prices	
Commodities					
Food, beverages, and tobacco	35	1,537	1,772	1,657	29
Industrial products (including fuel, light, and ice)	25	1,147	1,341	1,308	24
Total	60	2,684	3,113	2,965	53
Services					
By nonprofit institutions	9	374	427	399	6
Housing and other services	31	1,393	1,726	1,523	41
Total	40	1,767	2,153	1,922	47
Total consumption of commodities and services ^a	100	4,451	5,266	4,887	100

^a These figures differ from those on total private consumption in that they include additions to stocks and the consumption of nonresidents in Israel.

SOURCE: Central Bureau of Statistics.

Nutrition level

Food balance sheet data show a rise in the nutrition level. The upward trend in per capita protein and fat consumption has continued unbrokenly over the last several years (see Table IV-4).

Table IV-4
PER CAPITA CONSUMPTION OF PROTEINS AND FATS,
1959/60 TO 1962/63^a
 (grams per day)

	1959/60	1960/61	1961/62	1962/63
Proteins	34.0	34.6	36.5	38.3
Fats	86.7	86.9	91.8	93.5

SOURCE: Central Bureau of Statistics.

A certain satiety in per capita consumption appears to have been reached in all items of food supplied by the agricultural sector. The main item still

showing a considerable increase was beef and mutton, the consumption of which rose by more than 2 kilograms per capita.

The stability of the total amount consumed on the one hand, and the change in the composition of consumption resulting in a growth in protein and fat intake on the other, are distinct by-products of the rise in living standards. But it must be noted that a state of satiety as regards the average quantity consumed per capita does not imply that the situation of each individual family is satisfactory; there are still families whose nutrition level falls far below the average.

As regards the consumption level for the principal food items, Israel can be said to head the list of Mediterranean countries together with France¹ (see Table IV-5; the data refer to averages for the 1957-59 period, but there is no doubt that Israel's relative position in 1963, far from having worsened, considerably improved).

The almost identical ranking of the countries in each commodity should be noted.

Even as compared with the most developed countries, Israel is not lagging as regards food consumption. The per capita consumption of fresh fruit is the highest in the world, while in respect of eggs, only the United States has reached a comparable level. Italy and France are the only countries where per capita consumption of vegetables exceeds that of Israel. Further interesting evidence concerning Israel's food consumption as compared with other countries is the income elasticity of demand for foodstuffs.² The higher the overall level of consumption, the level of incomes, or the standard of living (with other conditions remaining constant), the lower the income elasticity of demand for food. In other words, income elasticity is ranked according to the level of consumption. In Israel, the income elasticity of demand for edible oils, fats, eggs, and fish is lower than in any other Mediterranean country, while as regards milk, dairy produce, and meat, only France has a lower income elasticity of demand than Israel.

2. THE COMPOSITION OF CONSUMPTION

A rise in the consumption level is accompanied by characteristic changes in the composition of consumption.

In Israel, there has been a downtrend in the percentage of expenditure on

¹ Comparisons of this kind are based on the assumption of other things being equal. This is an extreme assumption, implying equal geophysical conditions, equal tastes, and equal economic conditions (such as price structure and income distribution). No two countries are really equal as regards these "other factors", but the Mediterranean countries are similar as regards the physical conditions of consumption, so that other differences between them presumably do not invalidate the significance of the comparison.

² The relative change in the consumption of an item as against the relative change in income. This is an important tool in demand analysis.

Table IV-5

**MEDITERRANEAN COUNTRIES RANKED IN DESCENDING ORDER^a
OF CONSUMPTION OF SELECTED FOOD ITEMS, AVERAGES, 1957-59**

Animal proteins	Cereals	Pulses and nuts	Sugar	Vegetables	Fresh fruit	Oil and fat	Milk	Meat	Eggs	Fish
France	France	France	France	Italy	Israel	Israel	Israel	France	Israel	Portugal
Israel	Spain	Israel	Israel	France	Greece	Spain	France	Israel	France	Israel
Greece	Israel	Syria & Lebanon	Italy	Israel	Spain	Greece	Yugoslavia	Italy	Italy	Spain
Yugoslavia	Portugal	Portugal	Portugal	Greece	Turkey	France	Greece	Yugoslavia	Spain	Greece
Italy	Syria & Lebanon	Yugoslavia	Spain	Spain	Italy	Italy	Italy	Greece	Greece	North Africa
Portugal	Italy	North Africa	Syria & Lebanon	North Africa	Syria & Lebanon	Portugal	Syria & Lebanon	Portugal	Yugoslavia	France
Spain	Greece	Italy	Yugoslavia	Portugal	Portugal	Yugoslavia	Turkey	Spain	Portugal	Italy
Turkey	Yugoslavia	Turkey	North Africa	Turkey	North Africa	Syria & Lebanon	North Africa	North Africa	Turkey	Yugoslavia
North Africa	North Africa	Greece	Greece	Syria & Lebanon	Yugoslavia	Turkey	Spain	Turkey	Syria & Lebanon	Syria & Lebanon
Syria & Lebanon	Turkey	Spain	Turkey	Yugoslavia	France	North Africa	Portugal	Syria & Lebanon	North Africa	Turkey

^a Except for cereals and pulses, which are considered as "inferior" commodities and have been classified in ascending order.

SOURCE: *Agricultural Commodities Projection for 1970*, F.A.O.

food and an uptrend in respect of durable goods and personal services. A sound basis for comparisons over time is provided by surveys of family expenditures. These cover only urban wage-earning families (who constitute more than half of all families in Israel), but the changes which they reveal are presumably characteristic of all Israeli households.

During the last six years, the weight of expenditure on food within total consumption expenditure declined by more than 10 per cent, while that on furniture and household equipment almost doubled (see Table IV-6). Almost all the changes in the composition of consumption between 1959/60 and 1963

Table IV-6

CONSUMPTION EXPENDITURE, AT CURRENT PRICES, ACCORDING
TO FAMILY EXPENDITURE SURVEYS AND ESTIMATES OF
EXPENDITURE ELASTICITIES, 1956/57 TO 1963

(percentages)

	Elasticity of expenditure (according to 1959/60 survey)	1956/57 survey	1959/60 survey	Estimate for end-1963 ^a	
				On the basis of 1963/64 survey ^b	On the basis of elasticity of expenditure ^c
Food (including fruit and vegetables)	0.51	47.2	41.3	35.6	34.0
Household maintenance	0.76	9.1	9.1	8.3	8.3
Clothing and footwear	1.20	13.9	11.9	11.5	12.9
Furniture and household equipment	1.25	5.6	9.5	10.4	10.3
Health, education, and culture	1.34	12.0	14.7	15.9	16.5
Cigarettes, transportation, and personal services	1.79	9.4	11.4	16.2	14.7
Membership fees and donations	2.70 ^d	2.7	2.1	2.1	3.4 ^d
Total consumption expenditure ^a	1.00	100.0	100.0	100.0	100.0
Average expenditure per family (in current IL)	—	257.7	369.3	575.0	575.0

^a Excluding rent etc.

^b On the basis of results from a partial sample covering 750 families, which was carried out in the second half of 1963 within the framework of the 1963/64 survey of family expenditures.

^c A forecast based on expenditure elasticities estimated from cross-section data from the 1959/60 survey, without taking into consideration changes in relative prices; the estimate of total expenditure is taken from the survey.

^d Derived as a residue.

SOURCE: Central Bureau of Statistics.

may be explained by expenditure elasticities, as is clear from a comparison between the 1963 estimate, based on a survey of family expenditure, and the forecast based on elasticities of expenditure. The rapid change in the composition of consumption has been largely due to the increase in incomes, and not to changes in relative prices.

Such changes have also appeared in other countries where living standards are rising, particularly in Europe, though there they do not occur as rapidly as in Israel. The composition of consumption, and particularly the percentage of income spent on food, is an indicator of the standard of living, or of the level of consumption, not only for purposes of comparison over time in the same country but also for comparisons between different countries—subject, of course, to the qualifications regarding the degree of similarity in the size and composition of the family and in general living conditions.

Table IV-7

EXPENDITURE ON FOOD AND DURABLE GOODS AS A PERCENTAGE
OF TOTAL CONSUMPTION EXPENDITURE IN ISRAEL AND
SOME EUROPEAN COUNTRIES

	Italy 1960	France 1959	Israel 1959/60	Belgium 1960	Norway 1960	Sweden 1960	Israel 1963 (estimate at 1959/60 prices ^a)	Nether- lands 1960
Food	50.1	36.8	36.1	35.2	34.4	33.3	33.1	32.3
Durable goods	2.4	7.1	8.1	8.6	13.7	9.3	9.5	11.9

^a The estimate for 1963 at 1963 prices, on the assumption that expenditure on rent etc. is 12 per cent (as against 11.3 per cent in 1959/60), is as follows: food—31.9 per cent, durable goods—9.2 per cent.

SOURCE: J. Sandee, Ed., *Europe's Future Consumption*, Vol. II, ASEPELT, 1964.

The classification of the countries in descending order of percentage expenditure on food and in ascending order of percentage expenditure on durable goods (apart from a minor deviation in the case of Norway) shows that the composition of expenditure in Israel in 1959/60 was similar to that of France and Belgium at the same period (see Table IV-7). In 1963 the composition of consumption in Israel was similar to that in the developed European countries in 1960, and is probably very similar even today, since the change in consumption has been relatively rapid here.

Changes in the composition of consumption undoubtedly raise the import component of consumption, since the import component of food is low while

that of durable goods is high. The expansion of foreign travel has also contributed to the rise in the import component (see Table IV-8).

Table IV-8
IMPORT COMPONENT OF PRIVATE CONSUMPTION, 1959-63
(percentages)

	1959	1960	1961	1962	1963
Average import component	20.8	21.3	22.1	21.4	21.7
Marginal import component	23.0	27.0	30.3	15.5	24.8

SOURCE: Bank of Israel, based on input-output tables.

The average import component is not particularly high, but its tendency to rise means that the marginal import component is higher than the average. Any addition to income increases consumption demand, and the import component of the consumption increment reaches some 25 per cent, as against the average import component of 22 per cent for total private consumption.

3. THE INCREASE IN CONSUMPTION

Real private consumption increased in 1963 by 10 per cent as compared with 1962, or by 5 per cent per capita. This growth rate is slower than in recent years, when it came to 6 per cent per capita. The deceleration was due to a parallel decline in the growth of private incomes. Under normal conditions, a per capita rise of 6 per cent, or even 5 per cent, is considered big for an economy that has passed the initial stages of development. Thus, for example, in European countries with a level and composition of consumption similar to Israel's, the growth rates are under 5 per cent.

The item showing the highest rate of expansion in Israel is durable goods, the real consumption of which rose by 20 per cent in 1963 (see Table IV-9).

(a) *Food*

The increase in total food consumption—7 per cent—was the lowest among all categories of consumption. Since there has been no significant change in the relative price of food, this development must be ascribed to the low income elasticity of demand for foodstuffs, especially for those supplied by the agricultural sector.

In several items, which together account for 45 per cent of total food consumption, there was no increase whatever in real per capita consumption.

Table IV-9

INCREASE IN CONSUMPTION, BY MAJOR CATEGORY, 1963

(percentages)

	Weight in total consumption in 1963	Per cent increase		
		Quantity	Price	Value at current prices
Commodities				
Food				
From agriculture	24	6	9	16
From industry	8	11	2	13
Total food	32	7	7	15
Cigarettes and tobacco products	2	14	0	14
Textiles	7	12	2	14
Footwear and leather	2	8	0	8
Durable goods (furniture, equipment, and motor vehicles)	9	20	3	24
Fuel, light, and ice	2	11	4	15
Misc. commodities	5	11	5	16
Total commodities	59	10	5	16
Services				
By nonprofit institutions	8	7	7	14
Housing services	14	8	21	30
Travel, entertainment, and miscellaneous services	19	10	8	19
Total services	41	9	12	22
Total private consumption	100	10	8	18

SOURCE: Central Bureau of Statistics.

The biggest rate of increase was in frozen meat—54 per cent. Imports of such meat helped to restrain the rise in food prices. Total consumption of alcoholic drinks and chocolate and sweets rose by approximately 20 per cent.

The marked differences between the rates of change in the consumption of various food items are due to corresponding differences in the income elasticity of demand, and they are causing a rapid modification of the composition of food consumption which is characteristic of rising living standards. The bigger consumption of meat, chocolate and sweets, and beverages on the one hand, and the declining weight of flour products, cereals, and pulses on the other, are typical in this respect.

Table IV-10

**CHANGES IN REAL CONSUMPTION OF SELECTED
FOOD COMMODITIES, 1963**

	Weight in total food consumption, 1963	Per cent increase or decrease (-)
All foodstuffs	100	7
Fish	3	-3
Flour products and cereals	13	1
Poultry	8	2
Eggs	5	11
Fresh meat	8	12
Light beverages	3	15
Alcoholic beverages	5	17
Chocolate and sweets	3	22
Frozen meat	4	54

SOURCE: Central Bureau of Statistics.

(b) *Cigarettes and tobacco products*

The increase of 14 per cent in the consumption of cigarettes and tobacco products at current prices was also the real increase, since prices did not rise. This partly explains the high rate of growth in this item. A switch to better quality brands is, of course, tantamount to an increase in consumption. Consequently, not every increase in real consumption is due to a larger number of smokers or to more intensive smoking; to a large extent it is due to the changeover from cheaper to more expensive brands, as well as to a switch from cigarettes to cigars or pipe tobacco. The weight of cheap cigarettes (up to 60 agorot per pack) declined from 38 per cent in 1962 to 32 per cent in 1963.

(c) *Clothing and footwear*

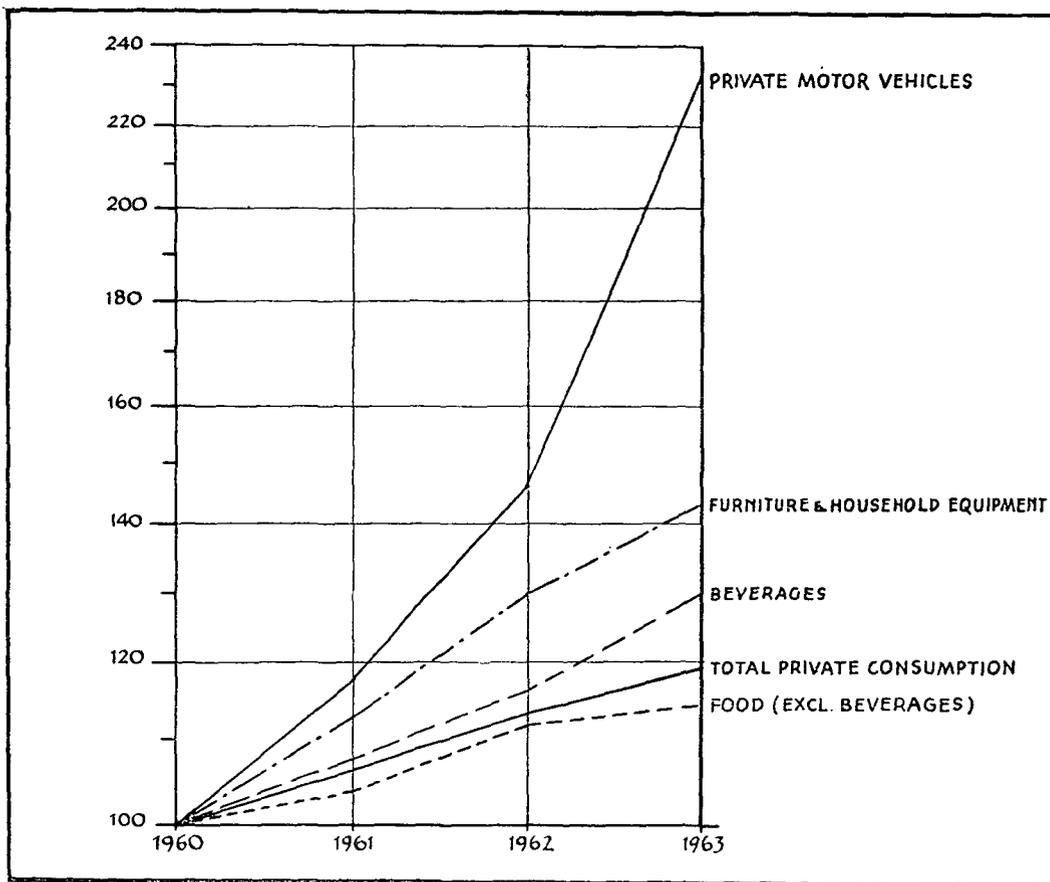
The 10 per cent increase in the consumption of this item corresponds to the rate of increase in total consumption, and is consistent with the income elasticity of demand for these products.

(d) *Durable goods*

Current purchases of durable goods may be regarded as purchases of future services, and therefore can be said to constitute saving. The weight of these commodities within private consumption has been rising. Income elasticity here is among the highest for any kind of consumption. In 1963 total consumption

Diagram IV-1

INDICES OF GROWTH IN REAL PRIVATE CONSUMPTION PER CAPITA,
BY SELECTED ITEM, 1960-63



Semi-logarithmic scale.

expanded by 20.4 per cent, at constant prices, or by 16 per cent per capita, as compared with 18 per cent in 1962. Following these changes, the income elasticity of demand reached 3.0.¹

Various studies have shown that it is difficult to explain changes in the percentage of families owning durable goods on the basis of changes in incomes and relative prices only. Another important factor is changes in tastes due

¹ This elasticity is calculated gross and has an upward bias, being computed on the basis of constant relative prices, whereas the relative price of durable goods declined somewhat in 1963.

mainly to learning and demonstration effects. The ownership percentages for durable goods normally tend to rise over time, the rate of increase accelerating up to a certain point, thereafter decelerating gradually as the ownership percentage approaches satiety.¹ In respect of radio sets, gas cookers, and electric refrigerators, the rate of increase in this country has already reached a peak and is beginning to decline. The increase in the ownership percentages for these commodities was smaller in 1963 than in 1962. As regards washing machines, the country appears to be close to the maximum rate of increase, while in private motor vehicles the rate of acquisition is now beginning to move up.

Table IV-11
OWNERSHIP OF DURABLE GOODS, 1962-63

Year (July-Sept.)	Per cent of families owning:					
	Radio	Gas cooker	Electric refrigerator	Washing machine	Second radio	Electric mixer
1961	79.6	62.3	50.2	18.3
1962	86.8	73.0	58.8	19.2	15.4	9.2
1963	88.4	79.4	64.3	23.4	18.7	12.8

SOURCE: Central Bureau of Statistics.

As regards the consumption of durable goods in general, not only has the rate of increase been higher than for any other category of consumption, but it shows a distinct tendency to rise. The percentage of real growth in the last five years has been as follows (the figure for each year reflects the comparison with the preceding year) :

1959	1960	1961	1962	1963
<u>7.0</u>	<u>9.0</u>	<u>15.5</u>	<u>23.0</u>	<u>20.4</u>

It is possible that the income elasticity of demand for durable goods is rising owing to the satiety in commodities with a low income elasticity of demand, and the increase in purchases of commodities with a high income elasticity of demand. The rise is due partly to monetary expansion, and especially to the receipt of personal restitution from West Germany. For durable goods, the average propensity to consume from nonrecurrent income is 10 per cent, while for other commodities and services (except housing) it is only 3 per cent. The main increase in durables was in purchases of private motor vehicles.

¹ This kind of development over time is called a logistic curve (a curve used to describe learning processes in psychology and the spread of epidemics in biology).

Table IV-12

**INCREASE IN REAL CONSUMPTION OF
DURABLE GOODS, 1963**

	Weight in 1963	Per cent increase over 1962
Household equipment	43	6.3
Furniture	40	21.0
Private motor vehicles	17	76.9
Total	100	20.4

The order in which families tend to purchase durable goods is as follows: (1) radio, (2) gas hot plate or range, (3) electric refrigerator, (4) washing machine, (5) second radio, (6) electric mixer, (7) vacuum cleaner, (8) automobile, and (9) tape recorder.

The table of probabilities for the purchase of each of the above commodities in each of the first nine positions in the order of acquisition (Table IV-13) shows that a first radio set will never be among the last six positions, but will almost always be purchased first. On the other hand, a tape recorder will hardly ever be among the first five positions. The average position of each of the nine commodities (last column of Table IV-13) shows the order in which families tend to buy these items. The probability pattern reflects the order of preferences of the consumers, which itself is the product of their tastes on the one hand and the relative prices of the various commodities on the other. This order of preferences did not change in 1963, and the order of acquisition remained as before.

(e) *Fuel*

Fuel consumption rose by 25 per cent—an unprecedented rate, which was entirely due to the larger number of private motor vehicles.

(f) *Housing services*

Despite the soaring of housing prices, real consumption increased by 8 per cent, apparently owing to the high income elasticity of demand for this item, and possibly on account of speculative considerations as well. The growth was largely due to monetary expansion. The average propensity to spend restitution monies on housing is high, and a sizeable proportion of nonrecurrent receipts is channelled to this market.

Table IV-13

PROBABILITY PATTERN FOR THE ORDER OF ACQUISITION OF NINE DURABLES, 1963^a

Commodity	Order of acquisition									Average ^b
	1	2	3	4	5	6	7	8	9	
First radio set	.9	.0	.1	.0	.0	.0	.0	.0	.0	1.16
Gas hot plate or range	.1	.7	.2	.0	.0	.0	.0	.0	.0	2.38
Electric refrigerator	.0	.2	.7	.1	.0	.0	.0	.0	.0	2.84
Washing machine	.0	.0	.1	.5	.1	.1	.1	.1	.0	5.32
Second radio set	.0	.0	.0	.3	.3	.1	.1	.1	.1	5.53
Electric mixer	.0	.0	.0	.1	.3	.3	.2	.1	.0	5.85
Vacuum cleaner	.0	.0	.0	.1	.1	.3	.3	.2	.0	6.50
Private motor car	.0	.0	.0	.0	.1	.1	.1	.2	.4	7.56
Tape recorder	.0	.0	.0	.0	.0	.1	.2	.3	.4	7.86

^a The probability that a family will buy commodity x in k order of acquisition is calculated as the difference between the probability that commodity x will be found in the ownership of a family which already has k out of the nine commodities and the probability that it will be found in the ownership of a family which already has $k-1$ of the nine commodities. The sum total of probabilities in each line and column equals 1 (discrepancies are due to rounding).

^b The average of all the ranks from 1 to 9 weighted according to probabilities. The figures in this column add up to 45 (the sum of the digits from 1 to 9).

SOURCE: Bank of Israel, based on the manpower survey of 1963.

(g) *Travel*

The increase in this item came to 9 per cent, about the same as for total private consumption. Real consumption per capita did not change as regards travel within the country; the main increase occurred in overseas journeys, which expanded to the unprecedented extent of 22 per cent, following an increase of 17 per cent in 1962.

The demand for this service also reflects the demand for foreign tourism, and its income elasticity is among the highest. The larger weight of this item contributed, as already mentioned, to the rise in the import component of consumption.