

CHAPTER IV

PRIVATE CONSUMPTION

NO STRIKING CHANGES occurred in 1964 in the general trends of private consumption; however, in contrast to previous years, the influence of relative price changes made itself felt in several of the items.

Real per capita consumption rose by 6.8 percent—roughly the same rate as in 1963—while consumption prices went up 4 percent, or a little less than in the previous year. Average per capita consumption exceeded that in 1963 by IL 250. Total private consumption at current prices expanded by 16 percent. The growth of private disposable income amounted to some 13 percent, and consequently the rate of saving fell off somewhat. The advance in living standards was reflected in the increased weight of services and durables in total consumption and in the higher per capita intake of animal proteins.

As regards food, there was a notable rise of 21 percent in the consumption of fruit. Good weather conditions and record yields of deciduous fruit led to a fall in prices and a marked increase in consumption. The upward trend in meat and egg consumption continued.

In durable goods, the percentage ownership of radios (first set), gas cookers, and electric refrigerators increased more slowly during the year reviewed, but in the case of automobiles it rose more rapidly. The growing weight of items relatively new to this country, such as television sets, should be noted.

Table IV-1
TOTAL AND PER CAPITA CONSUMPTION, 1959-64

	1959	1960	1961	1962	1963	1964
Total consumption, at current prices (IL million)	2,766	3,097	3,653	4,385	5,235	6,051
Total consumption, at 1964 prices (IL million)	3,675	3,989	4,409	4,914	5,447	6,051
Per capita consumption, at 1964 prices (IL)	1,782	1,885	2,013	2,147	2,289	2,444
Percentage increase in real per capita consumption	6.3	5.8	6.8	6.7	6.6	6.8

SOURCE: Central Bureau of Statistics.

1. THE LEVEL AND COMPOSITION OF CONSUMPTION

The rise in the level of consumption embraced all sections of the population, regardless of ethnic origin or length of residence in Israel. However, the consumption of families of European and American origin, as well as of native-born families, rose to a greater extent than that of families of Asian and African origin. Studies of family expenditure show that the ratio between the average per capita consumption spending of European-American immigrants and that of Afro-Asian immigrants was 1.58 in 1959/60 and 1.71 in 1963/64 (see Table IV-2),¹ suggesting a trend toward greater inequality in the distribution of incomes between these groups. The personal restitution payments received by many European immigrants unquestionably contributed to the relatively rapid rise in the consumption level of this group.

Table IV-2

INDICES OF CONSUMPTION EXPENDITURE PER FAMILY AND PER CAPITA,
BY ORIGIN OF FAMILY HEAD, 1959/60 AND 1963/64
(Immigrants from Asia and Africa = 100)

Continent of origin of family head	Consumption outlay per family		Consumption outlay per capita	
	1959/60	1963/64	1959/60	1963/64
Asia and Africa	100	100	100	100
Europe and America	103	116	158	171
Israel	112	122	153	176

SOURCE: Central Bureau of Statistics—family expenditure surveys.

The uptrend in the level of private consumption was due to the advancing level of incomes. The propensity to consume from income depends on the income distribution and the saving conditions prevailing in the country. The percentage of private disposable income used for consumption may serve as a rough indicator of this propensity (see Table IV-3).

During the years 1959 to 1963 there was a slow but systematic downward trend in the average propensity to consume. This is attributable to the growing weight of personal restitution payments,² which do not form part of regular current income and tend to be spent on consumption to a lesser extent than current earnings. In 1964, for the first time, there was a decline in the weight of private restitution payments, and this apparently explains the greater pro-

¹ The Family Expenditure Survey 1959/60 was carried out from October 1959 to September 1960; the survey of 1963/64 was carried out from July 1963 to June 1964.

² In this chapter personal restitution is included in private sector income, whereas in Chapter XIX, "Saving", it is excluded from private disposable income.

Table IV-3
AVERAGE PROPENSITY TO CONSUME,^a 1959-64
 (percentages)

1959	1960	1961	1962	1963	1964
89.5	87.6	88.1	86.3	83.4	85.1

^a Private consumption only.

SOURCE: Central Bureau of Statistics; Bank of Israel.

propensity to consume and the reduced rate of saving during the year (see Table IV-3). It should be noted that business savings (i.e. undistributed profits) of private enterprises cannot be statistically isolated from private disposable income, and the slower increase of such saving in 1964 may also explain this development.

The marginal propensity to consume, classified according to the components of consumption, can be estimated by calculating the weight of each component within the consumption increment at current prices. Such an estimate gives the orders of magnitude only, since relative prices are subject to change.

Table IV-4
PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1963-64
 (IL million)

	Weight in 1963 (%)	1963	1964		Weight in consumption increment at current prices (%)
			At current prices	At 1963 prices	
Commodities					
Food, beverages, tobacco	33	1,770	1,986	1,974	26
Industrial goods (incl. fuel, light, and ice)	26	1,367	1,605	1,574	28
Total	59	3,137	3,591	3,548	54
Services					
By nonprofit institutions	8	438	495	462	7
Housing and other services	33	1,767	2,101	1,937	39
Total	41	2,206	2,596	2,399	46
Total consumption of commodities and services ^a	100	5,343	6,187	5,947	100

^a The difference between these data and those on total private consumption cited elsewhere in this chapter is due to the fact that additions to stocks and the net consumption of foreign residents are not included here.

SOURCE: Central Bureau of Statistics.

We see from Table IV-4 that the relative share of commodities in the consumption increment at current prices is higher than that of services. But it is also clear that the weight of commodities in this increment is smaller than their weight in total consumption, while the opposite applies to services. This reflects the fact that the elasticity of expenditure exceeds unity in respect of services, but is less than unity in respect of commodities. Further evidence of this can be found in the estimates of expenditure elasticities calculated in the cross-section studies of the family expenditure surveys.

The rise in the level of consumption in 1964 is reflected by the higher nutrition level and an improvement in its composition. Per capita consumption of animal proteins and fats, a conventional indicator of the standard of living, continued to exhibit an upward tendency during the year reviewed (see Table IV-5).

Table IV-5
PER CAPITA CONSUMPTION OF ANIMAL PROTEINS AND FATS,
1959/60 TO 1963/64
(grams per day)

	1959/60	1960/61	1961/62	1962/63	1963/64
Animal proteins	34.0	34.6	36.5	37.7	39.8
Fats	86.7	86.9	91.8	93.2	93.3

SOURCE: Central Bureau of Statistics—food balance sheet.

The improvement in the average standard of living in recent years may also be discerned in the changed composition of consumption. A good basis for comparisons between different periods are the surveys of the expenditure of urban wage-earning families, if we assume that the changes taking place in the composition of the consumption of these families, which account for more than half of the families in the country, are typical of the changes in the consumption of all households.

The main developments brought out by Table IV-6 are a decline in the weight of expenditure on food; the doubling of the weight of expenditure on furniture and household equipment as compared with 1956/57; an increase in the relative amount spent on health, education, and culture (including entertainment), as well as on cigarettes, transportation, and personal services. Similar changes in the composition of private consumption are reflected by the national accounts. It should be noted that these trends are chiefly due to higher incomes, and while they have also occurred in other countries, especially in Europe after World War II, in Israel the changes are taking place at a relatively very fast pace. These are long-run trends, and occasional deviations may occur from year to year, mainly as a result of fluctuations in relative prices.

Table IV-6
COMPOSITION OF CONSUMPTION EXPENDITURE, AT CURRENT PRICES,
1956/57, 1959/60, 1963/64
 (percentages)

	1956/57 ^a	1959/60	1963/64
Food (including fruit and vegetables)	47.2	41.3	35.7
Housing maintenance	9.1	9.1	8.3
Clothing and footwear	13.9	11.9	11.4
Furniture and household equipment	5.6	9.5	10.8
Health, education, culture	12.0	14.7	16.2
Cigarettes, transportation, personal services	9.4	11.4	15.6
Membership fees and donations	2.7	2.1	2.0
Total consumption expenditure ^b	100.0	100.0	100.0
Average expenditure ^b per Jewish family (in current IL)	257.7	369.3	574.2

^a May 1956 to April 1957.

^b Excluding rent etc.

SOURCE: Central Bureau of Statistics—family expenditure surveys.

The changes in the composition of consumption are taking place among all sections of the population, regardless of origin or length of residence in the country. However, the intergroup differences in per capita consumption expenditure referred to above derive chiefly from disparities in income levels, and consequently are also reflected by the differing percentages spent on food, as shown in Table IV-7.

Table IV-7
SHARE OF FOOD IN TOTAL CONSUMPTION EXPENDITURE
(EXCL. HOUSING), BY ORIGIN AND LENGTH OF RESIDENCE
IN ISRAEL OF FAMILY HEAD, 1959/60 AND 1963/64
 (percentages)

	1959/60	1963/64
All families	41	36
Israeli-born	39	30
European-American born		
Veterans ^a	37	31
New immigrants ^b	43	35
Afro-Asian born		
Veterans ^a	44	41
New immigrants ^b	47	43

^a Immigrated before 1948.

^b Immigrated in 1948 or later.

SOURCE: Central Bureau of Statistics—family expenditure surveys.

Among persons born in Asia or Africa, the share of food in total consumption expenditure went down by 3–4 percent over the last four years, while among persons born in Israel, Europe, or America the decline totalled 6–7 percent. These rapid shifts in consumption patterns and the rising weight of durable goods within total consumption have helped to increase the import component of consumption.

Table IV-8

**IMPORT COMPONENT OF PRIVATE CONSUMPTION, AT CONSTANT PRICES,
1959-64**
(percentages)

	1959	1960	1961	1962	1963	1964
Average import component	20.8	21.3	22.1	22.5	23.5	23.7
Marginal import component	23.0	27.2	29.7	26.1	32.8	25.1

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

The rise in the average import component in recent years indicates that the marginal import component is higher still. Any addition to income increases private consumption, and the import component of the marginal increment of consumption reaches 25 percent. In other words, if incomes rise, most of the increment will not be spent on agricultural foodstuffs, for example, which have a low import component, but will finance purchases of cars, television sets, or trips abroad—a development which would have a marked impact on the balance of payments.

2. THE INCREASE IN CONSUMPTION AND ITS COMPONENTS

Real private consumption rose by 11 percent as compared with 1963, or by some 7 percent per capita. This rate is higher than that in 1963 and even a little above the average for the past several years. This can be ascribed to the corresponding rise in private disposable income, which is high even in comparison with developed countries. In countries where the level and composition of consumption are similar to those in Israel, the rates of expansion are slower than here. The growth in consumption in 1964 is largely attributable to increased purchases of durable goods and certain foodstuffs, such as fruit. Durables, the weight of which within total consumption has reached 10 percent, accounted for about 20 percent of the incremental consumption, while fruit, constituting 5 percent of total consumption, contributed some 15 percent. The two principal factors causing shifts in consumption patterns are changes in income and changes in relative prices. In contrast to previous years, the influence of

changes in relative prices was discernible in the increase that occurred in 1964 in several components of consumption, especially foodstuffs.

(a) *Food*

The growth of real food consumption came to 12 percent, similar to the rate for total consumption, but 50 percent more than the 1963 rate for this item.

In Israel, as in other countries, the demand for most foodstuffs is inelastic relative to income (the rate of change in real expenditure on such foodstuffs is lower than that in real income), while the demand for nonfood commodities

Table IV-9
INCREASE IN CONSUMPTION, BY MAJOR ITEM, 1964

	Weight in total consumption in 1964	Percent increase		
		Quantity	Price	Value at current prices
Commodities				
Food	31	11.5	0.6	12.2
From agriculture	24	11.7	-1.3	10.4
From industry	7	11.5	2.2	13.7
Cigarettes and tobacco products	1	9.0	0.0	9.0
Textiles	7	10.3	1.5	12.0
Footwear and leather	2	10.8	2.0	13.0
Durable goods (furniture, equipment, and motor vehicles)	10	21.2	1.8	23.4
Fuel, ice, and light	2	11.6	0.4	12.0
Miscellaneous	5	13.1	3.5	17.1
Total commodities	58	13.1	1.2	14.5
Services				
By nonprofit institutions	8	5.5	7.0	12.9
Housing services	14	8.0	11.1	20.0
Travel, entertainment, and miscellaneous services	20	10.7	6.7	18.1
Total services	42	9.0	7.9	17.7
Total private con- sumption	100	11.1	4.0	15.8

SOURCE: Central Bureau of Statistics.

and services is usually elastic relative to income (especially as regards durable goods). This generally results in a lower percentage increase in real consumption of food than that for total private real consumption. But when relative prices change, the opposite relationship may obtain.

In recent years the index of the relative price of food has been falling steadily. In 1962 and 1964 the decline was so great that the percentage increase in the real consumption of this item exceeded that for total consumption. In 1964, however, the drop in the relative price was mainly accounted for by items with the highest price and income elasticities, such as fish, milk, eggs, and especially fresh fruit. It was these that showed the most striking price decreases—11 percent in the relative price and 7 percent in the absolute price—in contrast to former years when there had never once been a decline in absolute prices.

This development apparently resulted from the 25 percent increase in supplies of fruit other than citrus during the year 1963/64. This big supply, caused by a record harvest and the maturing of young orchards, is inelastic in the short run, thus inevitably leading to price reductions.

Table IV-10
CHANGES IN THE RELATIVE INDICES OF FOOD PRICES AND
CONSUMPTION, 1959/60 TO 1963/64
(percentages)

	1959/60	1960/61	1961/62	1962/63	1963/64
Change in index of food consumption relative to index of total consumption	-0.5	-1.5	+0.5	-1.5	+0.5
Change in index of food prices relative to consumer price index	-1.5	-2.5	-4.5	-2.0	-3.5

This analysis can also be applied to the fruit item itself. On the reasonable assumption that income and price elasticities are higher in the case of fruit only recently introduced into the Israeli market, we find that the main increase in consumption was not in the "traditional" fruit—citrus, bananas, and grapes—but in the deciduous varieties. The quantity marketed increased by over 50 percent in each of the following: plums, apricots, pears, apples, dates, and peaches. As regards rare fruit such as the anona and the persimmon, which undoubtedly have very high income and price elasticities, prices dropped appreciably and the quantity marketed was several times greater than in 1963.

A similar development, although in a more moderate degree, occurred in respect of eggs, the relative price of which declined by 5 percent, as well as in

dairy products and fish. The relative prices of these commodities fell as a result of the subsidization policy. The milk subsidy was raised by 15 percent, while direct price supports for fish were doubled.¹

Real consumption of nonalcoholic beverages, which rose by 15 percent in 1963, showed hardly any increase during the year reviewed despite the stability of their prices. This can probably be ascribed to the long winter of 1964. On the other hand, consumption of alcoholic beverages went up 11 percent. Consumption of meat, whose relative price held steady, was 17 percent higher than in 1963—a similar growth rate as in the previous year. However, the internal breakdown of this item underwent a change: consumption of poultry meat rose by 18 percent—as compared with 2 percent the previous year—despite a 3 per cent fall in its relative price, while consumption of fresh and frozen beef increased more slowly than in 1963.

Table IV-11
CHANGES IN REAL CONSUMPTION OF SELECTED
FOODSTUFFS, 1964

	Weight in total food consumption in 1964	Percent increase
All foodstuffs	100	12
Cereals and cereal products	13	5
Fresh vegetables	10	5
Eggs	5	8
Fish	3	9
Milk and dairy products	9	8
Sugar and sugar products	8	13
Tea, coffee, cocoa	3	13
Fresh fruit	15	21

(b) *Cigarettes and tobacco products*

The 9 percent increase in consumption of cigarettes and tobacco products, at current prices, also represents the real increase, since prices did not change. This is a lower rate than in 1963 (14 percent), and apparently reflects the influence of the anti-smoking campaign conducted in connection with the incidence of cancer. The 9 percent rise in 1964 was not necessarily due to a larger number of smokers or more intensive smoking, but was caused primarily by a switch from cheap to more expensive brands, as well as a switch from cigarettes to pipes and cigars.

¹ See Chapter XI, "Agriculture".

The weight of cheap cigarettes (costing up to 60 agorot per pack) declined from 38 percent in 1962 to 32 percent in 1963 and 23 percent in 1964.

(c) *Clothing and footwear*

Consumption of clothing and footwear increased by 10 percent in 1964, about the same as total consumption and similar to the 1963 rate for this item. This rise is consistent with its income elasticity.

(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 total consumption has been moving upward. In 1964, as in previous years, the rate of increase was double that for total private consumption. The bigger consumption of durable goods has been due not only to the rise in income level, but also to changes in taste stemming from learning and demonstration effects. The analysis of developments in durable goods shows that the percentage of families owning a first radio, a gas cooker, and electric refrigerator increased more slowly during the year reviewed, indicating that in these items satiety is being approached.

Table IV-12
OWNERSHIP OF DURABLE GOODS, 1961-64

Year	Percent of families owning:								
	First radio	Gas cooker	Electric refrigerator	Washing machine	Second radio	Electric mixer	Vacuum cleaner	Car ^a	Tape-recorder
1961	79.6	62.3	50.2	18.3	—	—	—	—	—
1962	86.8	73.0	58.8	19.2	15.4	9.2	—	4.1	—
1963	88.4	79.4	64.3	23.4	18.7	12.8	8.7	5.2	3.2
1964	89.3	84.5	(68.8)	(27.0)	24.2	14.4	10.3	6.9	3.9

^a In the manpower surveys cars are defined more narrowly than here.
SOURCE: Central Bureau of Statistics—manpower surveys for July–September. Figures in parentheses are Bank of Israel estimates based on data of the Department of Customs and Excise.

The order in which the commodities appear in Table IV-12 (from left to right) is the order in which they are generally purchased by households.

The number of cars bought in 1964 was 30 percent higher than in 1963. Most of the purchases were made during the first half of the year, in anticipation

of higher taxes. Consequently, the rate of acquisition slowed down in the second half, when the extra tax was actually imposed.

The big increase in household equipment, which amounted to 22 percent as compared with 1963, was due to the steep rise in purchases of television sets, which brought up the weight of this item within total durable goods.

The growth in purchases of gas hot plates and ranges in 1964 is explained by the exchange of older for more modern models (see Table IV-14).

Table IV-13
INCREASE IN REAL CONSUMPTION OF DURABLE GOODS,
1964

	Weight in 1964	Percent increase over 1963
Household equipment	38	22.0
Furniture	43	16.4
Private cars	19	30.2
Total durables	100	21.2

(e) *Fuel*

Fuel consumption rose by some 13 percent following an increase in the number of automobiles and kilometrage.

(f) *Housing services*

Real consumption of housing services went up by 8 percent, about the same rate as in 1963. It is obvious, therefore, that the sharp fluctuations in housing prices had a very limited effect on real consumption. Consumer expenditure on housing is mainly influenced by the size of the dwelling inventory.

(g) *Tourism and communications*

In 1964 expenditure on travel rose by 13 percent, a higher rate than in the previous year. However, 90 percent of the growth occurred in domestic tourism. The rate of increase in foreign travel fell to a quarter of that for 1962 and 1963.

Expenditure on communications was some 20 percent greater. This unprecedented rate occurred mainly in telephone services, following a conspicuous rise in the number of instruments installed.

Table IV-14

PURCHASES OF DURABLE GOODS, 1963-64

Item	Locally produced		Percent increase or decrease (-) in 1964	Imported		Percent increase or decrease (-) in 1964	Total		Percent increase or decrease (-) in 1964
	1963	1964		1963	1964		1963	1964	
Sewing machines	8,123	8,880	9.3	4,605	4,175	-9.3	12,728	13,055	2.5
Phonographs	15,064	11,735	-22.1	16,098	20,798	29.2	31,162	32,533	4.4
Radios	24,651	22,682	-8.0	2,507	3,220	28.4	27,158	25,902	-4.6
Washing machines	18,703	19,573	4.7	7,299	8,942	22.5	26,002	28,515	9.7
Gas cookers	50,997	58,589	14.9	—	—	—	50,997	58,589	14.9
Hot plates	42,127	50,212	19.2	—	—	—	42,127	50,212	19.2
Ranges	8,870	8,377	-5.6	—	—	—	8,870	8,377	-5.6
Absorption refrigerators	6,666	4,773	-28.4	—	—	—	6,666	4,773	-28.4
Electric refrigerators	45,281	46,951	3.7	6,096	5,919	-2.9	51,377	52,870	2.9
Motor scooters	1,215	842	-30.7	4,530	2,568	-43.3	5,745	3,410	-40.8
Bicycles	16,832	15,481	-8.0	4,796	3,486	-27.3	21,628	18,967	-12.3
Motor cars	1,923	2,704	40.6	9,735	12,745	30.9	11,659	15,449	32.6
Mixers	3,413	7,678	125.0	17,272	12,592	-27.1	20,685	20,270	-2.0
Vacuum cleaners	920	887	-3.6	17,830	19,142	7.4	18,750	20,029	6.8
Tape recorders	528	324	-38.6	10,896	13,724	26.0	11,424	14,048	23.0
Pianos	30	58	93.3	1,281	1,415	10.5	1,311	1,473	12.4
Television sets	218	47	-78.4	1,876	14,162	654.9	2,094	14,209	578.6
Transistor radios	3,739	2,313	-38.1	33,049	32,488	-1.7	36,788	34,801	-5.4
Car radios	4,126	9,059	119.6	2,717	2,342	-13.8	6,843	11,401	10.9
Air conditioners	8,566	9,105	6.3	397	465	17.1	8,963	9,570	6.8

SOURCE: Department of Customs and Excise, Ministry of Finance.