

CHAPTER IV.

PRIVATE CONSUMPTION

1. MAIN DEVELOPMENTS

THE DEVELOPMENT OF PRIVATE CONSUMPTION in 1965 exhibited a change in pattern. The real increase came to 8.5 percent, which was slower than in any of the six preceding years. In 1964 there had been a particularly steep rise, but even if we take the average for the last two years, we find that the growth rate slowed down. The population expanded by 3.4 percent, as contrasted with over 4 percent per annum in 1962-64; nevertheless a comparison of the percentage increases in real private consumption per capita shows that here too there was a marked deceleration in 1965—a rise of 4.7 percent compared with more than 6.3 percent during the previous six years. This development was due to the slower growth of real incomes in 1965.

Though the year reviewed witnessed exceptionally large wage increases in the public services sector, which accounts for about a third of all wage earners in the economy, real incomes of other wage earners and of self-employed rose to a smaller extent.

After two years of relative stability, private consumption prices went up appreciably in 1965, their average level being 8 percent higher than in 1964, as contrasted with a rise of only 4 percent the year before. The growth of real private consumption slightly exceeded that of real private disposable income—8.3 as against 7.0 percent.

In contrast to earlier years, the relative price of food did not decline in 1965. Real consumption of food per capita remained virtually unchanged, despite the rise in real income per capita. In a number of items, such as vegetables, eggs, poultry, sugar, edible oils, etc., there was even a decrease in real per capita consumption.

Purchases of durable consumer goods also slowed down, although toward the end of the year certain items started picking up. In some commodities, such as radios, gas cookers, and electric refrigerators, the economy is approaching saturation point. However, the slower growth of purchases is mainly attributable to the decline in private automobiles. The latter stemmed partly from the raising of taxes on imported cars in the second half of 1964, since the expectation of such a step induced many to buy before the revision of the tax rates. Commercial vehicles, which by definition are not included in private consumption, apparently constituted a substitute for private cars in 1965 and were acquired in greater numbers. Outlay on furniture and other household

equipment likewise went up more slowly. The decrease in personal restitution payments from Germany, part of which was used in the past to buy durable goods, also seems to have influenced developments during the year reviewed.

On the other hand, there were big increases in items supplied by nonprofit institutions to households. This mainly reflects the activity of political parties in 1965, when elections to the Knesset, Histadrut (General Federation of Labor), and local authorities were held.

Despite the slower expansion of consumption, average annual consumption per capita was IL 335 higher than in 1964.

Total private consumption at current prices increased by about 17.5 percent, as compared with a rise of 15.5 percent in disposable private income from all sources.

As a result of the much slower growth of consumption, the average propensity to consume was only 1.5 percent greater than in 1964. This estimate should be accepted with some reservation, since it is impossible to isolate statistically the saving of private businesses (retained earnings) from disposable private income, and fluctuations in the rate of business saving may affect the comparison.

Table IV-1
PRIVATE CONSUMPTION PER CAPITA, 1960-65

	1960	1961	1962	1963	1964	1965
Total private consumption at current prices (IL million)	3,096	3,648	4,410	5,247	6,098	7,164
Total private consumption at 1965 prices (IL million)	4,350	4,811	5,383	5,954	6,615	7,164
Increase in real consumption (percent)	10.9	10.6	11.9	10.6	11.1	8.3
Per capita consumption at 1965 prices (IL)	2,055	2,197	2,353	2,502	2,669	2,795
Increase in real consumption (percent)	6.3	6.9	7.1	6.3	6.7	4.7

SOURCE: Central Bureau of Statistics.

The weight of services (including those supplied by nonprofit institutions) in private consumption (at current prices) reached 47 percent in 1965, compared with 44 percent in 1963 and 45 percent in 1964.

Table IV-2
AVERAGE PROPENSITY TO CONSUME,* 1959-65

1959	1960	1961	1962	1963	1964	1965
89.5	89.0	89.0	89.1	86.0	87.0	88.4

* Private consumption divided by disposable private income from all sources.
SOURCE: Central Bureau of Statistics; Bank of Israel.

The upward trend in the weight of services within private consumption has been in evidence for some years, and was particularly marked in 1965. This trend is typical of economies with rapidly advancing living standards (the weight of services in total consumption is sometimes used as a yardstick for comparing living standards in different countries).

The reduced proportion of commodities within total consumption was especially noticeable as regards agricultural foodstuffs; these accounted for 23 percent of consumption expenditure in 1965, as against 24 percent in 1964.

Table IV-3
PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1964-65
(IL million)

	Weight in 1964 (%)	1964	1965		Weight in consumption increment at current prices (%)
			At current prices	At 1964 prices	
Commodities					
Food, beverages, tobacco	31	1,978	2,215	2,066	23
Industrial goods (incl. fuel, light, and ice)	24	1,480	1,677	1,604	19
Total	55	3,458	3,892	3,670	42
Services					
By nonprofit institutions	9	556	719	645	16
Housing and other services	36	2,220	2,669	2,398	42
Total	45	2,776	3,388	3,043	58
Total consumption of commodities and services^a	100	6,234	7,280	6,713	100

^a These data differ from those on total private consumption cited elsewhere in this chapter, owing to the noninclusion here of increases in inventories and the net consumption of foreign residents.

SOURCE: Central Bureau of Statistics.

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 order of magnitude only, since relative prices are subject to change. Table IV-3 shows that the weight of commodities within the consumption increment at current prices was not only lower than that of services, but even lower than the weight of commodities within total consumption. This indicates that the elasticity of expenditure is less than unity as regards commodities (especially

food), but exceeds unity as regards services. Accordingly, the relative share of services tends to increase as living standards rise.

Further evidence of the difference in elasticity of expenditure between commodities and services can be found consistently in the family expenditure surveys, which relate to specific points in time.

2. THE GROWTH OF CONSUMPTION AND COMPOSITION THEREOF

The smaller percentage increase in real income and the reduction of the public's liquid balances, owing to the rise of prices and the deceleration of monetary expansion, resulted in a much slower expansion of consumption.

Real private consumption increased by 8.5 percent in 1965, and per capita—by about 5 percent. This is a lower figure than in any of the six preceding

Table IV-4
INCREASE IN CONSUMPTION, BY MAJOR ITEM, 1965

	Weight in total consumption in 1965 (%)	Percent increase over 1964		
		Quantity	Price	Value (at current prices)
Commodities				
Food	29	4.0	7.6	11.9
From agriculture	23	2.9	9.0	12.1
From industry	6	8.2	2.9	11.3
Cigarettes and tobacco products	2	13.5	0.0	13.5
Clothing and footwear	9	12.3	5.1	18.0
Durable goods	9	4.9	3.3	8.3
Fuel, ice, and light	2	12.2	-0.8	11.3
Miscellaneous	2	5.0	11.8	17.4
Total commodities	53	6.1	6.0	12.6
Services				
By nonprofit institutions	10	16.0	11.5	29.3
Housing services	15	7.1	15.0	23.1
Travel, entertainment, and misc. services	22	8.7	8.9	18.3
Total services	47	9.6	11.3	22.0
Total consumption of commodities and services ^a	100	7.7	8.4	16.8

^a These data differ from those on total private consumption cited elsewhere in this chapter, owing to the noninclusion here of increases in inventories and the net consumption of foreign residents.

SOURCE: Central Bureau of Statistics.

years, but is still high compared with other countries. In economies where the level and composition of consumption are similar to Israel's, the growth rates are lower than here.

In 1964 durable goods accounted for approximately 17 percent of incremental real consumption, and in 1965 for only 6 percent. The share of foodstuffs came to about 30 percent in 1964, but only to some 15 percent in 1965. The changes that occurred in relative prices in general, and in that of food in particular, were largely responsible for these changes in consumption and its composition.

(a) *Food*

As regards total food consumption and most component items, the income elasticity of demand is not only less than unity, but it declines as the consumption level rises,¹ so that the influence of income diminishes over time. In the period before 1963, the development of food consumption could be explained solely by changes in income level, but in 1964 and 1965 price fluctuations had a strong bearing.

Food prices advanced 8 percent in 1965, and for the first time in many years the relative price of this item did not decline (the price of total consumption also went up by 8 percent). As a result, there was no increase in real per capita consumption of food. As regards several commodities, per capita consumption receded to the 1963 level, and in some cases even to that of 1962. On the other hand, in 1964 there was virtually no rise in food prices, and the relative price of foodstuffs as compared with the average price of total consumption fell by about 4 percent. The prices of agricultural foodstuffs even declined absolutely in 1964, so that real per capita food consumption expanded that year to the same extent as total real per capita consumption. The rise of food prices in 1965 can be attributed to the slower expansion of agricultural output in general and that of livestock in particular (see Chapter XI, "Agriculture"), and to the Government's policy of reducing subsidies while permitting the raising of retail prices. In 1965 vegetable supplies to the domestic market were 14 percent smaller than in 1964. There were almost no surpluses during the year reviewed, and real per capita consumption of vegetables fell by 2 percent. The quantity of citrus marketed in Israel was down 6 percent. Real consumption of other fruit increased by only 2 percent, after having gone up by over 20 percent in 1964 and despite the fact that the income elasticity of demand for such fruit (which consists mainly of deciduous varieties) is greater than unity. The quantity of poultry marketed was about 10 percent below the 1964 level, and the slaughter of livestock—9 percent. Decreases were also registered in real per capita consumption of sugar, butter, margarine, and edible oils.

¹ See N. Liviatan, "Consumption Patterns in Israel", Falk Project for Economic Research in Israel, Jerusalem, 1964, Table 14, p. 39.

Table IV-5
INDEX OF CHANGE IN 1965 IN REAL CONSUMPTION
OF SELECTED FOODSTUFFS

	Weight in total food consumption in 1965	Index of change (1964=100)	Index of change per capita (1964=100)
All foodstuffs	100	104.1	100.7
Cereals and cereal products	12	103.2	99.8
Fresh vegetables	10	101.9	98.5
Fish	3	105.4	101.9
Milk and dairy products	9	102.2	98.8
Tea, coffee, cocoa	3	108.8	105.2
Fresh fruit	13	101.0	97.7
Meat and meat products	23	104.3	100.9

SOURCE: Central Bureau of Statistics.

Per capita consumption of milk and eggs in Israel is among the highest in the world. Analysis of family expenditure surveys shows that these are the food items closest to saturation point in the higher income brackets.¹ In other words, above a certain income level, consumption of these commodities hardly increases as income rises. Consequently, even should the level of real income per capita go up, no marked change in the per capita consumption of these products is to be expected, unless there are changes in their prices, in the distribution of incomes, or in consumers' tastes. In May 1965 egg and milk prices rose by 11 and 18 percent respectively above their average levels in 1964, and the result was a 5 percent drop in the quantity of eggs marketed, as well as a decline in real per capita consumption of milk and dairy products.

Import of frozen meat, which is supplied to the market at a relatively low price, was substantially larger in 1965. Consumption of such meat, which serves as a substitute for fresh beef and poultry, was nearly 40 percent greater than in 1964. There was also a much bigger consumption of sea fish. Per capita consumption of tea and coffee increased in 1965, but at a lower rate than in 1964.

Real consumption of beverages, both total and per capita, was considerably greater than in 1964, but did not exceed the 1963 level. The quantity of non-alcoholic beverages consumed was up 11 percent as compared with 1964, when the figure held steady. The long winter of 1964 and the hot summer of 1965 may have been responsible for this difference. The quantity of alcoholic beverages sold in 1965 was also 11 percent larger than in 1964.

¹ See N. Liviatan, *op. cit.*, Figure 1, p. 36.

(b) *Cigarettes and tobacco products*

Consumption of cigarettes and tobacco products rose in 1965 by 13 percent at current prices. As prices remained unchanged, this was also the rate of real increase.

The stability of prices in this branch, which has persisted for several years, has induced a switch from cheap to expensive brands. The weight of cheap cigarettes (costing up to 60 agorot per pack) declined from 38 percent in 1962 to 32 percent in 1963, 23 percent in 1964, and only 15 percent in 1965. This changeover reflects a considerable improvement in the quality of cigarettes consumed, and it contributes significantly to the real growth of consumption of this item. Table IV-6 shows that of the real percentage increase, approximately one-third can be attributed to this factor in 1963 and over half in 1964 and 1965. In 1965 tobacco consumption fell off, while the number of cigarette smokers (or the intensiveness of cigarette smoking) increased. In 1964 there had been an opposite development, probably because of the energetic anti-smoking campaign that year.

Table IV-6

CHANGE IN CIGARETTE AND TOBACCO CONSUMPTION, 1963-65

(percentages)

	Increase over preceding year		
	1963	1964	1965
Real change in the consumption of cigarettes and tobacco products	14.4	9.0	13.5
Real change in cigarette consumption	14.5	7.9	14.0
Change in quantity	8.4	3.1	6.3
Change in quality	5.6	4.7	7.2

SOURCE: Bank of Israel estimates based on data of the Department of Customs and Excise.

(c) *Clothing and footwear*

Real consumption of clothing and footwear was up 12 percent in 1965. This exceeded the rate expected according to the income elasticity of demand for these goods, and it may have been caused by a decline of some 3 percent in their relative prices.

(d) *Durable goods*

Consumption of durable goods is estimated on the basis of annual purchases. Since such products are not used up during the first year after their acquisition,

and the purchase of a durable product is tantamount to purchasing a flow of future services, then insofar as total purchases exceed the depreciation, part of the consumption can be regarded as net investment, or a form of saving.¹

Table IV-7
OWNERSHIP OF DURABLE GOODS, 1961-65

Year	Percent of households owning:								
	First radio	Gas cooker	Electric refrigerator	Washing machine	Second radio	Electric mixer	Vacuum cleaner	Private car	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	89.4	84.4	(68.8)	(27.0)	22.6	13.8	10.0	6.5	3.8
1965	89.9	85.5	(75.1)	28.5	30.5	17.7	13.8	7.7	6.8

SOURCE: Central Bureau of Statistics manpower surveys for July-September. Figures in parentheses are Bank of Israel estimates based on data of current purchases supplied by the Department of Customs and Excise.

The income elasticity of demand for these goods exceeds unity. For a number of years the consumption of consumer durables rose twice as fast as total private consumption. The stock of durables owned by the general public expanded very rapidly, and the weight of expenditure on such goods within total family expenditure doubled over the last seven years. In 1965 several factors combined to slow down the growth of this type of consumption, so that the real increase was lower than that in total consumption. It should be recalled that consumption of durables, and especially its composition, are affected not only by changes in income and price, but also by changes in consumers' tastes; the latter factor affects purchases of durable goods much more than it does other items, reflecting the learning and demonstration effects.²

Analysis of long-run trends in the percentage ownership of durable consumer goods shows that the rate of increase for a first radio, gas range or hot plate, electric refrigerator, and washing machine is gradually slowing down,

¹ See "Stock, Consumption, and Net Investment in Durable Goods in Israel, 1956-63", Bank of Israel Bulletin No. 26, June 1966, p. 65.

² See "The Growth of Ownership of Durable Goods in Israel", Bank of Israel Bulletin No. 24, December 1965, p. 81.

indicating that the Israeli market is approaching saturation point in these commodities.¹

The order in which these goods appear in Table IV-7 (from left to right) is the order in which they are generally purchased by households.²

Table IV-8
INCREASE IN REAL CONSUMPTION OF DURABLES, 1964-65

	Weight in 1965	Percent change from previous year	
		1964	1965
Furniture	40	16	13
Household equipment	44	29	6
Private motor vehicles	16	27	-14
Total	100	23	5

SOURCE: Central Bureau of Statistics.

The slowdown in the growth of durable goods consumption occurred in all three component groups, but was most marked in private cars, largely because of the fiscal policy changes introduced in respect of this commodity. The upward revision of taxes on imported cars in August 1964 caused a spurt in such purchases in the immediately preceding period, and a sharp decline during 1965. The impending rise in commercial vehicle prices (which came into force at the beginning of 1966) led to an acceleration of purchases in 1965. During the year reviewed commercial vehicles apparently served as a substitute for private cars, contributing to the drop in purchases of the latter. Commercial vehicles were bought on a considerable scale in 1965, but since they are conceptually excluded from private consumption, this development is not reflected by the data cited in this chapter. The rise in maintenance costs as of the beginning of 1966 may also have made the ownership of a car economically less worthwhile, discouraging potential buyers.

The anticipated revision of taxes on imported television sets, which was duly implemented during the last quarter of 1964, likewise caused a steep rise in purchases in 1964 and a considerable drop in 1965. However, these changes may only reflect fluctuations in dealers' stocks.

The decline in personal restitution payments from West Germany (which in the past were partly utilized for purchases of durable goods) no doubt con-

¹ See "Stock, Consumption, and Net Investment in Durable Goods in Israel, 1956-63".

² See Bank of Israel Report for 1963, p. 61.

Table IV-9

PURCHASES OF SELECTED DURABLE GOODS, 1964-65

(units)

	Locally produced		or Percent increase decrease (-) in 1965	Imported		decrease (-) in Percent increase or 1965	Total		Percent increase or decrease (-) in 1965
	1964	1965		1964	1965		1964	1965	
Sewing machines	9,288	7,786	-16.2	4,175	4,119	-1.3	13,463	11,905	-11.6
Phonographs	9,390	7,262	-22.6	20,798	29,894	43.7	30,188	37,156	23.1
Radios	24,825	21,872	-11.9	3,220	5,715	77.5	28,045	27,587	-1.6
Washing machines	20,017	21,926	9.5	8,163	15,491	89.8	28,180	37,417	32.8
Gas cookers	56,680	47,576	-16.1	—	—	—	56,680	47,576	-16.1
Electric re- frigerators	51,555	55,653	7.9	5,937	4,120	-30.6	57,492	59,773	4.0
Motor scooters	842	1,461	73.5	3,435	1,362	-60.3	4,277	2,823	-34.0
Motor cars	2,704	3,313	22.5	12,745	7,969	-37.5	15,449	11,282	-27.0
Mixers	10,174	13,886	36.5	11,587	20,575	77.6	21,761	34,461	58.4
Vacuum cleaners	887	2,272	156.1	19,142	20,826	8.8	20,029	23,098	15.3
Tape recorders	—	—	—	13,719	16,351	19.2	13,719	16,351	19.2
Pianos	58	39	-32.8	1,415	1,641	16.0	1,473	1,680	14.1
Television sets	—	—	—	11,412	8,243	-27.8	11,412	8,243	-27.8
Transistor radios	2,479	3,191	28.7	21,767	41,327	89.9	24,246	44,518	83.6
Car radios	9,059	10,303	13.7	2,342	4,271	82.4	11,401	14,574	27.8
Air con- ditioners	9,163	9,600	4.8	666	651	-2.3	9,829	10,251	4.3

SOURCE: Department of Customs and Excise.

tributed to the deceleration in 1965. The propensity to consume from such receipts apparently declined as well, since a smaller percentage of restitution was converted into Israeli currency.

(e) *Fuel*

Despite the drop in car purchases in 1965, consumption of fuel went up by some 20 percent, as compared with 13 percent in 1964. The stability of fuel prices and the decline in its relative price increased consumption; this is reflected by the kilometrage of private cars, which was approximately 30 percent greater in 1965, compared with an increase of only 10 percent in 1964.

(f) *Services supplied by nonprofit institutions*

The increase in real consumption of services supplied by nonprofit institutions was more rapid than in any previous year, reaching 16.6 percent. Moreover, it was twice as fast as that in total consumption. This was due to the intense activity of political parties during an election year. In continuation of the trend of previous years, there was also a big increase in public sector transfers to nonprofit institutions, in the main for educational (especially higher learning) and health purposes.¹

(g) *Housing services*

Real consumption of housing services went up by 7 percent, after having risen by 8 percent in each of the two preceding years. Fluctuations in housing prices influence real consumption only to a limited degree in the short run, the main cause of changes here being the growth of the country's dwelling stock.

3. DIFFERENCES IN CONSUMPTION PATTERNS OF VARIOUS POPULATION GROUPS

The main variables causing differences in consumption patterns are the income level and size of the family. But in Israel the continent of origin is also important: there are, for instance, considerable differences in the consumption of certain items between families originating in Asia or Africa and those from America or Europe, even when income and family size are identical.

Analysis of the family expenditure surveys shows that these disparities have not lessened over time. Accordingly, the changes that have occurred over time in the consumption of certain items can be analyzed in Israel not only by reference to changes in incomes and relative prices during the period concerned, but also by reference to changes in the relative shares of the various origin groups within the population and the distribution of incomes among them.

The proportion of persons originating in Europe and America has been moving steadily downward, while that of persons of Afro-Asian origin has been rising.

Several indicators suggest that the inequality in income distribution has widened. Whereas in 1959/60 the ratio between per capita consumption expenditure of those of European-American origin and that of persons originating in Asia or Africa was 1.58:1, by 1963/64 it had risen to 1.7:1. German restitution, received only by those of European origin, unquestionably contributed to the more rapid rise in the disposable income of this group and enabled it to increase its consumption.

¹ See Chapter VIII, "Nonprofit Institutions".

Differences in the average expenditure on several consumption items as between families of European-American and of Afro-Asian origin are analyzed in Table 10, which was prepared from data of the 1963/64 Central Bureau of Statistics survey of expenditure by urban wage-earning families. The table demonstrates to what extent the disparities resulted from differences in income level, family size, and tastes (i.e. the residue which cannot be ascribed to the other two factors).

It emerges that differences in taste were the main factor in these divergences. Accordingly, the decreasing weight of the European-American origin group and the corresponding increase in that of the Afro-Asia group may explain part of the decline in real per capita consumption of milk and dairy produce, as well as the rise in the real per capita consumption of alcoholic drinks, cigarettes, and tobacco.

Table IV-10

**DIFFERENCE BETWEEN AVERAGE MONTHLY EXPENDITURE PER
FAMILY OF EUROPEAN-AMERICAN ORIGIN AND THAT OF
AFRO-ASIAN ORIGIN ON SELECTED ITEMS**

(IL)

Item	Total difference	Difference due to:		
		Income	Family size	Tastes
Milk and dairy produce	4.2	1.0	-2.5	5.8
Alcoholic beverages	-4.2	0.6	0.5	-5.3
Cigarettes and tobacco	-2.1	0.7	0.4	-3.2

SOURCE: Bank of Israel.