

## CHAPTER IV

### PRIVATE CONSUMPTION

#### 1. MAIN DEVELOPMENTS

THE SLOWDOWN IN THE GROWTH of private consumption, first apparent in 1965, grew more pronounced during the year reviewed. Real consumption per capita rose by only some 0.5 percent, as against approximately 5 percent in 1965 and over 6 percent in each of the five preceding years (see Table IV-1).

Per capita consumption at current prices averaged IL 239 more than in 1965, while total private consumption at current prices expanded by 11.1 percent, compared with a rise of some 6 percent in disposable private income from all sources. In real terms, income declined while consumption expanded. Thus even the small rise in consumption reflects an increase in the ratio between consumption and income, i.e. in the propensity to consume.

Contrary to expectations, the decelerated growth of consumption did not lead to a higher rate of saving, but was accompanied by a decline in total saving and a sharp drop in the rate of saving out of income. This development began in 1965, when consumption also rose somewhat faster than income.

As to the sources of financing consumption, it should be noted that there was a marked decline in 1966 in purchases of real assets, especially dwellings, and

Table IV-1

#### TOTAL AND PER CAPITA PRIVATE CONSUMPTION, 1960-66

	1960	1961	1962	1963	1964	1965	1966
Total consumption at current prices (IL million)	3,101	3,654	4,416	5,255	6,122	7,185	8,000
Total consumption at 1966 prices (IL million)	4,737	5,239	5,821	6,426	7,165	7,752	8,000
Increase in real consumption (percent)	11.2	10.6	11.1	10.4	11.5	8.2	3.2
Per capita consumption at 1966 prices (IL)	2,238	2,392	2,544	2,700	2,892	3,025	3,043
Increase in real per capita consumption (percent)	7.2	6.9	6.4	6.1	7.1	4.6	0.6

SOURCE: Central Bureau of Statistics.

presumably the resources released thereby augmented the public's purchasing power, increasing its current consumption and generating demand for liquid assets such as promissory notes traded through banks and short-term loans.

In the disposition of private income, the share of private consumption (see Table IV-2) and liquid assets therefore moved up, while that of investment in real assets, such as real estate and durable consumer goods, declined. The firming of prices in the second half of 1966 and the beginning of 1967 apparently strengthened this tendency.

During the years 1960 to 1965 the propensity to consume was more or less stable, though there was a slight decline in 1962 and 1963 owing to the big increase in personal restitution receipts from Germany and in the conversion of such funds after the devaluation. Since these are a nonrecurrent source of income, the tendency to spend them on consumption is smaller than in the case of current income.

In 1966 the average propensity to consume went up by some 5 percent as compared with 1965. This estimate, however, must be treated with reserve, since it is impossible to isolate statistically the saving of private business concerns (undistributed profits) from disposable private income, and fluctuations in the rate of business saving may impair the comparison. There are grounds for believing that undistributed profits declined in 1966, and therefore the rise in the propensity to consume would have an upward bias; however, this presumably would not alter the direction of the change that occurred in 1966. If the consumption of services provided by nonprofit institutions is eliminated from the calculation, the rise in the propensity to consume would be even greater, and if the consumption of durable goods (which is determined not only by income received in the same year) is also eliminated, the rise becomes greater still.

**Table IV-2**  
**AVERAGE PROPENSITY TO CONSUME IN ISRAEL,<sup>a</sup> 1960-66**

1960	1961	1962	1963	1964	1965	1966
84.0	84.5	82.4	82.2	84.0	84.7	89.0

<sup>a</sup> Private consumption divided by disposable private income from all sources.  
SOURCE: Central Bureau of Statistics.

The propensity to consume, measured here as the ratio between total consumption and total income, is affected by various factors, and presumably it was the changes in some of them that caused the increase of 1966.

Four possible explanations of this development will be presented here: two of them ascribe it to changes in Israel's income distribution in 1966, while two are connected with economic theories evolved against the background of

similar data in other countries. These theories endeavor to explain why the annual changes in real consumption are not always equally susceptible to annual changes in real income.

1. The decline in real income in 1966 resulted from a sharp decrease in the incomes of non-wage-earners, which was not wholly offset by the increased earnings of wage earners. This brought up the share of wage earnings in total real income. As the propensity to consume among wage earners is greater than among nonemployees,<sup>1</sup> the increased weight of wage earnings within total real income resulted in a larger overall propensity to consume.

2. Since the propensity of unemployed to save presumably is close to zero or even negative, the notable growth in the number of jobless in 1966 in itself helps account for the higher propensity to consume.

3. There is a theory that consumption is inelastic as regards a downward movement. This is attributed to the fact that consumption in any given year is not governed solely by income received during that year but also by income and consumption levels in previous years. This is why the decline in real income in 1966 was not accompanied by a parallel contraction of consumption.

4. In order to explain the changes that occur in consumption, total income must be divided into two component elements, each of which exerts a different influence. The first, which may be called "normal income", is stable and represents long-run income, while the second component consists of non-recurrent income and income subject to temporary fluctuations. Various studies have shown that the propensity to consume out of normal income is greater than that from other incomes. The ratio between consumption and income may be viewed as a weighted average of both tendencies, with the weights being the two types of income. A change in the weights would explain a change in the overall propensity to consume. The decline in the temporary component was apparently sharper in 1966, so that the ratio between consumption and income rose.

It should be emphasized that the theories explaining developments in consumption by reference to income distribution and those which ascribe them to various economic hypotheses are not mutually exclusive. On the contrary, to some extent they represent different points of view of the same phenomenon and hence complement one another. The various factors mentioned apparently combined in 1966 to depress the rate of private saving and increase the propensity to consume.

Private consumption prices rose by 8 percent in 1966, about the same rate as in 1965. But in contrast to 1965, the main thrust during the year

<sup>1</sup> This fact was established by several studies. See, for example, the 1963/64 Saving Survey, carried out jointly by the Central Bureau of Statistics and the Bank of Israel and published in CBS Special Publication No. 217, 1967.

reviewed came from the Government. Most of the rise in prices took place in the first four months of the year, when taxes, excise duties, and tariffs were revised on a long list of goods and services. In addition, the Government approved price increases for many goods and services subject to its control. In the second half of 1966 prices tended to stabilize.

The slower growth of consumption was felt in all major components except food, but was most striking in furniture and household equipment and in services provided by nonprofit institutions.

As regards food, a long-run declining trend in its relative price may be noted. The year 1965 was an exception in this respect: the relative price did not decrease, and consequently per capita consumption did not expand. In 1966 the downtrend in the relative price reasserted itself, and food consumption per capita rose by 2.2 percent. A large supply of fresh vegetables, which is inelastic in the short run, was accompanied by a fall in prices, and vegetable consumption rose sharply. The supply of deciduous fruit during the year reviewed was likewise ample, so that prices remained stable and consumption expanded. Real per capita consumption of cigarettes and alcoholic beverages declined in 1966, after having gone up by over 13 percent the year before. The main reason for this was the raising of customs and excise duties on these items, after several years of stable prices. Consumption of imported cigarettes and alcoholic beverages was almost halved.

The slower growth of the population, the decline in real incomes, and the feeling of uncertainty generated by the recession and unemployment affected the consumption of furniture and household goods, and purchases of furniture and durable goods declined—a trend apparently reinforced by the depression in the housing market. The high cost of maintaining cars, due to higher license fees, fuel prices, and insurance premiums, apparently deterred potential buyers, and purchases of cars were down 16 percent from the 1965 level.

Among the major components of consumption, the biggest decline in 1966 occurred in services supplied by nonprofit institutions to households. In 1965, on the other hand, this item registered the biggest rise. The nonprofit institutions include political parties, which were very active in 1965, when elections were held to the Knesset, Histadrut (General Federation of Labor), and local authorities, whereas in 1966 their operations contracted sharply. The recession presumably also tended to reduce such activity.

If for the purpose of this analysis the consumption of services provided by nonprofit institutions is excluded from private consumption, it emerges that the percentage increase in real per capita consumption of goods and services was not much different from that in 1965. The increase in consumption, inclusive of nonprofit institutions, in 1965 totalled 4.7 percent, and exclusive of such institutions, only 2.8 percent; in 1966 the figures were 0.5 and 1.1 percent respectively.

A number of indicators testify to the downward trend in private consumption during 1966. For instance, the quantities of some food items marketed toward the end of the year were smaller than at the beginning, and purchases of durable goods showed a distinct quarterly decline. Though there are no data to illustrate developments in the consumption of services in the course of the year, it may be assumed that the falling trend affected all items of private consumption.

A parallel trend in real income per employee and the growth of unemployment may have been one of the reasons for the decline in consumption during the year, while the contraction of demand may explain the stabilization of the price index in the second half.

The changes that occurred in consumption were also reflected in its composition. From the early fifties until 1964, there was a steady upward trend in the weight of durable goods, while in the last two years the weight of this item within total private consumption fell off by about 2 percent.

**Table IV-3**  
**PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1965-66**  
(IL million)

	Weight in 1965 at current prices (%)	1965	1966		Weight in 1966 at current prices (%)
			At current prices	At 1965 prices	
<b>Goods</b>					
Food, beverages, tobacco	31	2,218	2,462	2,306	30
Industrial goods (incl. household fuel, light, and ice but excl. items in previous line)	25	1,847	1,987	1,860	25
<b>Total</b>	<b>56</b>	<b>4,065</b>	<b>4,449</b>	<b>4,166</b>	<b>55</b>
<b>Services</b>					
By nonprofit institutions	9	671	784	659	9
Housing	15	1,078	1,178	1,155	15
Other services	20	1,485	1,721	1,552	21
<b>Total</b>	<b>44</b>	<b>3,234</b>	<b>3,683</b>	<b>3,366</b>	<b>45</b>
<b>Total consumption of goods and services<sup>a</sup></b>	<b>100</b>	<b>7,299</b>	<b>8,132</b>	<b>7,532</b>	<b>100</b>

<sup>a</sup> 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.

Services have displayed a definite and persistent long-run advancing trend. This is the outcome of both the faster expansion of real consumption (i.e. of the volume of services consumed) relative to that of goods and of the more rapid rise in the prices of services, the result of factors operating on both the supply and the demand side.

As to demand, elasticity relative to income is known to be higher in the case of services than of goods. Accordingly, as real income rises, a relatively larger proportion of the increment is spent on services than on goods. Studies of consumer demand—both those based on aggregate time series data and those based on the budgets of a cross-section of households in a given period of time—show that elasticity of demand is less than unity as regards commodities, especially food, but greater than unity in the case of services.

On the supply side, there are several factors at work. First, productivity rises more rapidly in the case of goods than of services, as the latter offer fewer possibilities of technological improvement. Consequently, commodity prices go up more slowly than those of services. Another explanation is connected with international trade: increases in commodity prices are usually restrained by importing identical items from countries where their prices have not risen, but this is virtually impossible in the case of services. The existence of high tariff walls has been a major factor in Israel, especially in years when the Government threatened to permit competing imports in order to keep prices down—a threat that was more effective as regards commodities.

## 2. THE GROWTH OF CONSUMPTION AND COMPOSITION THEREOF

Time series analysis has shown that the main determinants of annual changes in the components of real consumption are the growth of the population, the rise in real per capita incomes (reflected by changes in real consumption), and fluctuations in relative prices. These factors explain long-run trends in the components of consumption, but it is also possible to distinguish each year some changes in a number of consumption items which deviate from the pattern suggested by the three aforementioned determinants and which are due to the operation of special factors during the year concerned.

In 1966 the population growth rate fell off, chiefly because of the smaller volume of immigration. Total real consumption also expanded more slowly, owing to the smaller percentage rise of real incomes. These developments depressed the demand for goods and services during the course of the year. In addition, there were some changes in relative prices, that of food falling, while the relative prices of consumption items subject to institutional price control rose.

Real private consumption went up 3.2 percent in 1966, i.e. by about 0.5 percent per capita. This represents a marked deceleration in the growth of

Table IV-4

COMPOSITION OF PRIVATE CONSUMPTION, AT CURRENT PRICES, 1960-66  
(percentages)

	1960	1961	1962	1963	1964	1965	1966
Services	38.0	38.9	40.1	41.3	42.4	44.3	45.3
Durable goods <sup>a</sup>	7.8	7.9	8.9	9.4	10.1	9.2	8.1
Other commodities	54.2	53.2	51.0	49.3	47.5	46.5	46.6
Total consumption of goods and services	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> Furniture, household equipment, and private vehicles.

SOURCE: Based on Central Bureau of Statistics data.

consumption, a trend already noted in 1965 when the level advanced by 8.2 percent only as compared with an average of approximately 11 percent per annum during the period 1959-64.

The contribution of durable goods to the growth of real consumption was negative in 1966, amounting to -23 percent. In 1965 they accounted for 7 percent of the increment, and in 1963 and 1964 for nearly 21 percent. The share of the food, beverages, and tobacco item came to approximately 30 percent in 1964, 19 percent in 1965, and as much as 38 percent in 1966. The changes in relative prices during the last two years, especially in respect of food, were responsible for most of the changes in per capita consumption and its components.

In general, it may be said that in 1966 too changes in population, total consumption, and relative prices explain most of the changes in the components of private consumption, though a number of special factors operated in the year reviewed. For instance, the reduced consumption of furniture and household equipment was greater than what might have been expected as a result of the slower growth of the population and of total real consumption. This was apparently connected with changes in the expectations of households induced by developments in 1966, and with the slump in the housing market, as the demand for durable goods is affected by the state of this market.

The contribution of each of the three major determinants to the real growth of consumption and its component elements can be estimated, and it is also possible to establish the existence and degree of influence of the special factors at work in 1966. The analysis was made by comparing the rates of increase in the actual consumption of various items with the changes that might have been expected had special factors not operated in 1966 (see Table IV-6). These

**Table IV-5**  
**INCREASE IN CONSUMPTION, BY MAJOR ITEM, 1966**  
 (percentages)

	Weight in total consumption in 1966	Increase or decrease (-) as against previous year		
		Quantity	Price	Value
<b>Goods</b>				
Food, beverages, tobacco	30	4.0	6.8	11.0
Household fuel, light, and ice	3	8.3	10.4	19.6
Clothing, footwear, and personal effects	9	4.1	7.7	12.1
Furniture, household equipment, and private vehicles	8	-7.5	3.4	-4.3
Other industrial goods	5	7.3	9.3	17.3
<b>Total</b>	<b>55</b>	<b>2.5</b>	<b>6.8</b>	<b>9.4</b>
<b>Services</b>				
By nonprofit institutions	9	-1.8	19.0	16.8
Housing	15	7.0	2.0	9.2
Other services	21	4.6	10.9	16.0
<b>Total</b>	<b>45</b>	<b>4.1</b>	<b>9.4</b>	<b>13.9</b>
<b>Total consumption of goods and services<sup>a</sup></b>	<b>100</b>	<b>3.2</b>	<b>8.0</b>	<b>11.4</b>

<sup>a</sup> The difference between these data and those on total private consumption (Table IV-1) stems from the inclusion in the former of increases in inventories and the net consumption of foreign residents.

SOURCE: Central Bureau of Statistics.

changes were computed according to the income and price elasticities estimated from time series data on consumption components and consumption prices as estimated in the national accounts.

The estimated change in per capita consumption of a given item is obtained by adding the product of the income elasticity of that item multiplied by the change in total real consumption per capita (exclusive of nonprofit institutions) and the product of the price elasticity multiplied by the change in the relative price.<sup>1</sup>

In some items, such as beverages, tobacco, and durable goods, there is a wide divergence between actual consumption and the expected estimate, but both show a much slower rise or even a decline as compared with 1965.

<sup>1</sup> On the procedure employed in estimating elasticities and the use of the findings for forecasting consumption, see J. Paroush, "Trends in the Components of Private Consumption—Time Series Analysis", Bank of Israel Bulletin No. 28, February 1967.

Table IV-6

**EXPECTED AND ACTUAL INCREASE IN REAL CONSUMPTION OF  
MAIN COMPONENT ITEMS, 1966 AS AGAINST 1965**

(percentages)

	Actual increase in 1965 over 1964	Actual change in 1966 as against 1965	Expected estimates			
			Change in real consump- tion <sup>a</sup>	Growth of popu- lation	Income com- ponent	Price com- ponent
			(1)	(2)	(3)	(4)
Food	3.5	4.9	4.3	2.6	0.8	0.9
Beverages	10.6	-4.4	0.7	2.6	1.0	-2.9
Tobacco	14.0	-0.4	-8.2	2.6	0.5	-11.0
Clothing, footwear, and personal effects	12.0	4.1	3.6	2.6	1.0	0.0
Housing	7.1	7.1	5.8	2.6	1.1	2.0
Household fuel, light, ice	10.2	6.5	4.9	2.6	0.9	1.3
Furniture and household equipment	10.1	-6.1	5.3	2.6	1.8	0.8
Household maintenance	6.8	3.3	1.2	2.6	0.9	-2.3
Personal care and health	5.9	5.9	3.1	2.6	0.7	-0.2
Transportation and communications	1.8	1.6	2.8	2.6	1.5	-1.3
Recreation and entertainment	9.9	7.7	5.4	2.6	1.0	1.7
Other services and misc.	15.5	-2.8	1.7	2.6	1.0	-1.9

<sup>a</sup> The expected change in real consumption (col. 1) is obtained by adding the rates of changes shown in columns (3) and (4) multiplied by the rate of change shown in column (2).

SOURCE: Central Bureau of Statistics.

(a) *Food*

Unlike other consumption items, which showed a smaller increase in 1966, real per capita consumption of food went up. This was due primarily to fluctuations in the relative prices of food, and to a lesser extent to changes in income level. These fluctuations in relative prices are connected, at least insofar as agricultural foodstuffs are concerned, with the supply of these items, which in the short run is inelastic and dependent on weather conditions.

A comparison between the actual percentage changes in real consumption of food and the estimates based on time series data on consumption and its components shows that income and price effects almost totally explain the rates of change in per capita consumption of food and of all component

Table IV-7

EXPECTED AND ACTUAL INCREASE IN REAL CONSUMPTION  
OF SELECTED FOOD ITEMS, 1966 AS AGAINST 1965

(percentages)

	Weight in total food con- sumption, 1966	Actual change in real con- sumption	Expected estimates			
			Change in real consump- tion*	Growth of pop- ulation	Income com- ponent	Price com- ponent
			(1)	(2)	(3)	(4)
Cereal and cereal products	12.2	2.6	3.6	2.6	0.0	0.9
Meat and meat products	26.0	9.0	7.7	2.6	1.7	3.3
Fish	3.8	6.1	2.3	2.6	0.2	-0.5
Eggs	4.7	5.0	4.4	2.6	1.0	0.8
Milk and milk products	9.8	1.9	0.0	2.6	0.2	-2.7
Edible oils	3.2	4.9	2.6	2.6	0.4	-0.4
Fresh fruit	14.7	6.0	4.8	2.6	1.7	0.4
Fresh vegetables	10.3	5.7	7.3	2.6	0.0	4.6
Sugar and sugar products	6.8	-4.6	3.4	2.6	0.6	0.2
Tea, coffee, cocoa	2.9	0.6	5.0	2.6	1.4	0.9
<b>All foodstuffs</b>	<b>100.0</b>	<b>4.9</b>	<b>4.3</b>	<b>2.6</b>	<b>0.8</b>	<b>0.9</b>

\* The expected change in real consumption (col. 1) is obtained by adding the rates of change shown in columns (3) and (4) multiplied by the rate of change shown in column (2).

SOURCE: Central Bureau of Statistics and Bank of Israel.

items except sugar, tea, coffee, and cocoa, where the growth rates also reflect inventory fluctuations.

Food prices advanced 5 percent in 1966, and since the prices of consumption as a whole averaged 8 percent higher, the relative price of food declined. This represented the continuation of a trend persisting for several years, with the exception of 1965 when the relative price of food held steady.

Real consumption of food per capita rose by 2.2 percent in 1966, mainly because of the fall in its relative prices. In 1965, on the other hand, there was no rise whatsoever, and in certain items there was even a decrease, this being partly due to the stabilization of the relative prices of food that year.

There were bumper fruit and vegetable yields in 1966, and this partly explains the moderate rise in food prices as a whole as compared with 1965. The volume of fresh vegetables marketed was up by some 6 percent, following a decline the year before. That vegetable prices retreated only 2.4 percent despite the growth of supplies can apparently be ascribed to the fact that most of the increase was in winter and spring vegetables, the prices of which

are relatively higher than those grown in the summer and autumn, while demand for vegetables is more elastic in winter and spring (see Chapter XI, "Agriculture"). The quantity of citrus supplied to the domestic market in 1966 increased by 3.6 percent. The rise in fruit consumption during the year reviewed was connected with the decline in their relative prices following the appreciable expansion of supplies.

The drop in the relative prices of meat and meat products resulted in a 9 percent rise in real per capita consumption. As in 1965, imports of frozen meat were considerably expanded in 1966. This item serves as a substitute for fresh meat and for various types of canned meat. Frozen meat consumption was up 16 percent in 1966, while the slaughtering of livestock contracted by 11 percent. The quantity of poultry marketed rose by 18 percent, after having declined by 10 percent in 1965; the increase was connected with the sharp decline in the relative price of poultry.

Real per capita consumption of milk and milk products edged down about 1 percent in 1966, following a decline of 1.5 percent the year before. The downward trend in 1965 and 1966 is chiefly explained by the 11 percent rise in milk prices in both years.

Egg consumption rose by 5 percent—a faster rate than in 1965. Real per capita consumption of edible oils and fish was also higher in 1966.

The figure for sugar and sugar products declined by 7 percent in 1966, after advancing steadily for many years. There was also a decrease in tea, coffee, and cocoa—2 percent as compared with a 5 percent rise in 1965. These items, as already mentioned, were affected by inventory fluctuations.

Real consumption of beverages was off 4.4 percent, or 7 percent per capita. This represents a sharp drop as compared with 1964 and 1965, when increases of 5 and 11 percent respectively were recorded.

The quantity of alcoholic drinks consumed in 1966 was 8.7 percent lower than in 1965 or 1964, when real consumption grew by 10 percent per annum. Sales of imported alcoholic beverages were approximately 30 percent smaller in 1966. This was due partly to a 13 percent price rise following the imposition of an additional duty thereon, but the decrease was greater than what the price and income elasticities computed from time series data would warrant, probably because of the smaller number of parties and other celebrations held in 1966 by institutions, business concerns, and private persons owing to the recession.

Consumption of nonalcoholic beverages increased by 4 percent, despite a rise in prices. Consumption of such drinks is closely linked to weather conditions, and presumably the short winter and long hot summer of 1966 contributed to the larger sale of these beverages, and perhaps to the smaller sale of alcoholic drinks during the winter of that year.

(b) *Cigarettes and tobacco products*

Consumption of cigarettes and tobacco products declined by 0.4 percent in 1966—a conspicuous development in view of the average rise of some 12 percent in the five preceding years.

At the beginning of 1966 cigarette prices soared 27 percent owing to the higher excise duty levied. This nonrecurrent rise, which came after several years of stable prices, depressed cigarette consumption by 0.5 percent.

During the years 1962–65 there was a rising trend in the real consumption of cigarettes. This was largely due to the switch from cheap cigarettes to more expensive brands of higher quality, which was facilitated by the stability of prices in recent years. The weight of cheap cigarettes (costing up to 60 agorot per pack) within total cigarette consumption moved down from 38 percent in 1962 to 23 percent in 1964 and only 13 percent in 1966.

Table IV-8

CHANGE IN CIGARETTE AND TOBACCO CONSUMPTION, 1963–66  
(percentages)

	Increase or decrease (-) as against previous year			
	1963	1964	1965	1966
Real change in the consumption of cigarettes and tobacco products	14.4	9.0	13.5	-0.4
Real change in cigarette consumption	14.5	7.9	14.0	-0.5
Change in quantity (number of cartons)	8.4	3.1	6.3	-1.0
Change in quality	5.6	4.7	7.2	0.5

SOURCE: Based on data of the Department for Customs and Excise.

It should be noted that, despite the rise in prices and the consequent decline in cigarette consumption, smokers continued to switch from cheap to more expensive brands. This represented a positive change of 0.5 percent in the real consumption of cigarettes, but it was more than offset by a 1 percent drop in the quantity sold.

Sales of imported cigarettes were down 63 percent in 1966, but those of imported tobacco and cigars were 22 percent higher. There was apparently some substitution between these two commodities, induced by the change in their relative prices following the raising, at the beginning of the year, of customs duty on imported cigarettes by 30 percent and that on imported tobacco by only 5 percent.

(c) *Clothing and footwear*

Real consumption of clothing and footwear increased by 3.8 percent in 1966—about one-third of the rate of 1965 and previous years. Nevertheless, the rise exceeded expectations. It was the resultant of an increase of some 6 percent in clothing and a drop of 3 percent in footwear. The higher prices of footwear, due chiefly to the dearer cost of imported leather, had a dampening effect on sales.

(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 of their acquisition and the purchase of a durable product is tantamount to purchasing a flow of future services, then insofar as total purchases exceed depreciation, part of the consumption can be regarded as net investment.<sup>1</sup> After several years of large-scale net investment in such assets, the figure declined in 1966 to the level prevailing five years ago (see Chapter XIX, "Saving").

The year 1966 saw a striking 17 percent decline in purchases of durable goods, which affected all items except transistor radios. The latter apparently substituted for radio sets, this largely representing a qualitative decrease in consumption of this item.

For several years the real consumption of durable goods expanded at about double the rate for total consumption. In 1965, however, the trend turned, consumption of durable goods going up by only 5 percent, and total consumption by 8.5 percent. In 1966 there was a 4 percent rise in total consumption, whereas the figure for durable goods declined sharply, as already mentioned.

The income elasticity of demand for durables exceeds unity, and since real per capita income fell somewhat in 1966, this partly explains the smaller consumption of such items. However, the decrease was much sharper than what might have been expected on the basis of the respective income and price elasticities. The pessimistic outlook concerning future earnings, the state of uncertainty prevailing in 1966 (a recession year), the decline in personal restitution receipts over the last two years, and the slump in the housing market, all these were the factors reducing purchases.

The percentage decreases in purchases of durables set forth in Table IV-9 are annual averages, and do not reflect developments in the course of the year. It should therefore be pointed out that in most items purchases began to fall off precipitately in the second quarter of 1966, and this trend gathered momentum in the last quarter. In other words, the downward movement in consumption was more pronounced than what the annual average shows. To take an example, purchases of cars declined by 16 percent in 1966, but

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

**Table IV-9**  
**PURCHASES OF SELECTED DURABLE GOODS, 1965-66**  
(units)

	Locally made			Imported			Total		
	1965	1966	Percent increase or decrease (-)	1965	1966	Percent increase or decrease (-)	1965	1966	Percent increase or decrease (-)
Sewing machines	7,786	7,294	-6.3	4,119	3,361	-18.4	11,905	10,655	-10.5
Phonographs	7,262	3,711	-48.9	29,894	30,664	2.6	37,156	34,375	-7.5
Radios	21,872	16,415	-24.9	5,715	5,057	-11.5	27,587	21,472	-22.2
Washing machines	21,926	21,901	-0.1	15,491	9,017	-41.8	37,417	30,918	-17.4
Gas cookers	47,576	39,249	-17.5	—	—	—	47,576	39,249	-17.5
Electric refrigerators	55,653	44,915	-19.3	4,120	2,146	-47.9	59,773	47,061	-21.3
Motor scooters	1,461	—	—	1,362	—	—	2,823	2,454	-13.1
Motor cars	3,333	2,404	-27.4	7,969	7,074	-11.2	11,282	9,478	-16.0
Electric mixers	13,319	11,503	-13.6	24,071	18,171	-24.5	37,390	29,674	-20.6
Vacuum cleaners	2,342	1,383	-41.0	21,948	17,206	-21.6	24,290	18,589	-23.5
Tape recorders	—	—	—	16,351	14,317	-12.4	16,351	14,317	-12.4
Television sets	—	—	—	8,243	8,062	-2.2	8,243	8,062	-2.2
Transistor radios	3,191	831	-74.0	41,327	59,158	43.1	44,518	59,989	34.8
Air conditioners	9,600	8,752	-8.8	651	317	-51.3	10,251	9,069	-11.5

SOURCE: Department of Customs and Excise.

a comparison of purchases made during the last three quarters of 1966 with the corresponding period of 1965 shows a decrease of 38 percent, while a comparison of the last three quarters of 1966 with the preceding nine-month period shows a decrease of 45 percent. A similar picture is revealed by electric refrigerators, washing machines, phonographs, and other durables (see Diagram IV-1 and Table IV-10).

Table IV-10

INDEX OF PURCHASES OF SELECTED DURABLES,<sup>a</sup> QUARTERLY, 1965-66  
(average 1965 = 100)

	1965				1966			
	I	II	III	IV	I	II	III	IV
Motor cars	85.6	99.8	85.3	129.3	140.2	63.7	64.1	68.0
Electric refrigerators	87.7	110.9	117.0	84.4	82.3	88.2	98.4	46.1
Washing machines	97.9	100.1	94.7	107.3	109.9	82.4	76.8	61.4
Gas cookers	100.0	90.0	110.1	99.9	99.7	71.9	94.1	64.3
Television sets	65.4	88.3	141.3	105.0	115.4	109.8	94.6	71.4
Radios	98.3	97.7	93.2	110.8	104.8	81.0	71.3	54.2
Phonographs	114.7	101.4	75.4	108.5	162.9	71.9	68.7	66.6

<sup>a</sup> These items account for more than 80 percent of total purchases of durable goods and automotive vehicles in both years.

SOURCE: Department of Customs and Excise.

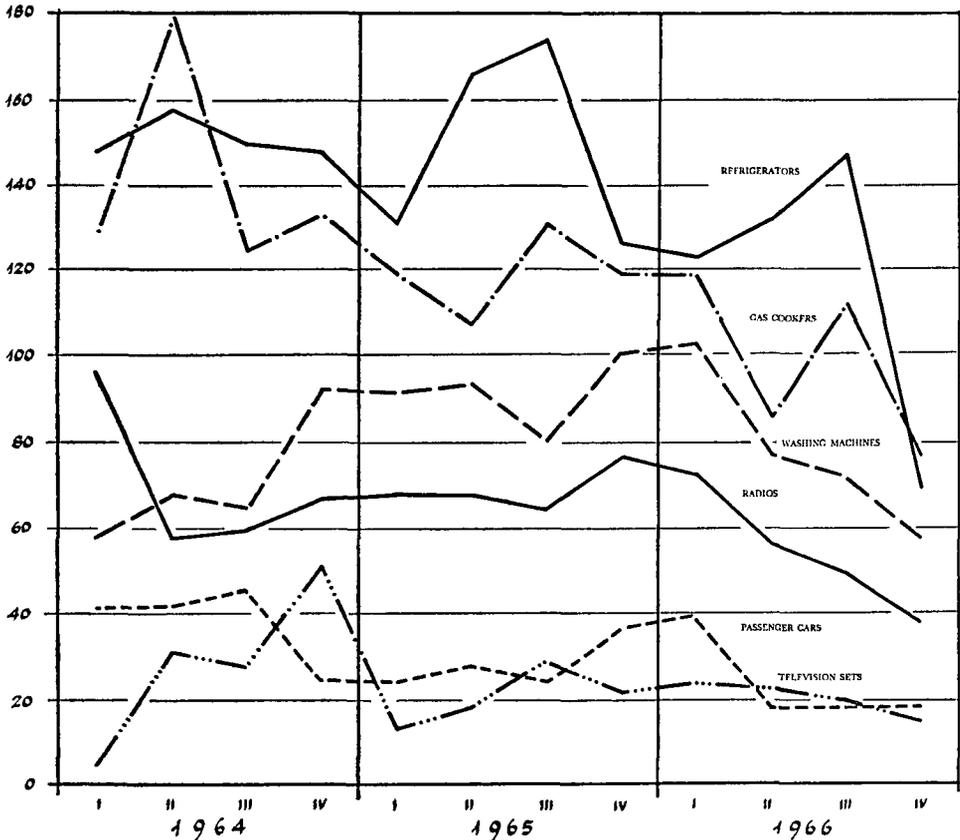
Purchases in the last quarter of 1965 and the first quarter of 1966 were higher than in the preceding and following months. This was apparently connected with the big increase in wage and salary payments in all sectors of the economy in the second half of 1965 and the beginning of 1966, owing to the payment of retroactive wage increments on account of previous years, the signing of new collective wage agreements at the beginning of 1966, and the raising of the cost-of-living allowance in January of the same year.

The smaller volume of purchases during 1966 can be attributed primarily to the slump in the housing market, but there were apparently several other factors aggravating the decline. The latter were for the most part connected with the recession and the state of uncertainty generated thereby—the pessimistic outlook concerning future income, the postponement of wedding plans (after several years of steady increase in the gross marriage rate, the figure tapered off in 1966), the drop in the birth rate (after an upward trend in 1963-65), etc. As there is a connection between the purchases of certain durable goods and the size of the family, the above demographic factors presumably affected such purchases in 1966.

Diagram IV-1

PURCHASES OF SELECTED CONSUMER DURABLES, QUARTERLY, 1964-66

(hundreds of units)



For several years the rapid rise in purchases of consumer durables was reflected by a steady increase in the percentage of families owning these goods (see Table IV-11). In 1966 the ownership percentages held steady. As regards items showing decreases, this was presumably due to sampling errors in the estimates as calculated from manpower surveys.

The reduced consumption of durables is reflected in all three component items (see Table IV-12). In 1965, on the other hand, there was a decline in private motor cars and a rise in furniture and household equipment (though the increase in household equipment was much smaller than in 1964).

After the raising of taxes on imported cars in August 1964 and the rush to buy before the new rates went into effect, purchases of this item fell off 14 percent in 1965. As taxes were not revised on commercial vans that year, purchases went up substantially, and apparently the price differential resulted in the substitution of commercial for passenger vehicles. This was discontinued

Table IV-11

## PERCENTAGE OF HOUSEHOLDS OWNING SELECTED DURABLES, 1961-66

Year	First radio	Gas cooker	Electric refrigerator	Washing machine	Second radio	Electric mixer	Vacuum cleaner	Tape recorder
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	8.7	3.2
1964	89.4	84.4	70.8	23.6	22.6	13.8	10.0	3.8
1965	89.9	85.5	77.6	28.5	30.5	17.7	13.8	6.8
1966	90.9	83.1	80.1	29.5	31.8	19.7	14.1	6.1

SOURCE: Central Bureau of Statistics manpower surveys for July-September.

in 1966, when customs duty on commercial vehicles was also raised. Since commercial vehicles are conceptually excluded from private consumption, their purchases are not reflected by the data cited.

In 1966 car purchases were down 16 percent (see Table IV-9), the decline being fastest in the second quarter of the year. In the first quarter the figure was 40 percent above the average rate for 1965. This rise was partly of a seasonal nature, being connected with the introduction of new models on the market, and in part can be ascribed to the delivery of locally produced cars ordered in 1965. In the second quarter purchases came to only about half the volume of the first quarter, but in the second half of the year the figure levelled off.

Table IV-12

## CHANGE IN REAL CONSUMPTION OF DURABLES, 1964-66

(percentages)

	Weight in 1966	Increase or decrease (-) as against previous year		
		1964	1965	1966
Furniture	43	16	16	-4
Household equipment	44	29	5	-8
Private motor cars	13	27	-17	-15
Total	100	24	5	-8

SOURCE: Central Bureau of Statistics.

The big rise in maintenance costs, which began to be felt in the early months of 1966 following the revision of fuel prices, insurance premiums, and various fees, made the purchase of a car less worthwhile and apparently discouraged potential buyers.

The smaller volume of restitution payments received in the last two years from West Germany doubtless contributed to the slower rise in purchases of durable goods and automotive vehicles in 1965 and to the decline in such purchases in 1966, since some of this income has always been spent on such items.

(e) *Fuel*

Fuel consumption went up more slowly in 1966, continuing the trend of the previous year. The growth rates were 16 and 19 percent respectively, and followed several years during which it had averaged some 30 percent per annum—a result of the larger number of cars bought on the one hand, and the stable prices of fuel and the consequent decline in its relative price on the other.

Despite the 17 percent drop in car purchases in 1965, fuel consumption increased since the decline in its relative price led to a greater consumption, reflected by a 31 percent rise in the kilometrage of private cars as compared with 1964.

In 1966 car purchases continued downward, while fuel and license fees cost 33 percent more. Accordingly, fuel consumption increased to a lesser extent than in the previous year, the rise being similar to that in the kilometrage of private cars.

(f) *Services supplied by nonprofit institutions*

The increase in real consumption of services supplied by nonprofit institutions was substantially higher in 1965 than in any previous year. Moreover, it was double the growth of total consumption, whereas it had usually been lower. This item contributed about 5 percent to the growth of total consumption in 1964 and nearly 16 percent in 1965. The big increase in 1965 was due chiefly to the intense activity of political parties during an election year. There was also a further sharp rise in public sector transfers to nonprofit institutions in the health and educational fields (except for higher education). In 1966 the activity of political parties fell off, while the institutions' operations expanded much more slowly because of the recession. This was reflected by a decrease of 2 percent in the consumption of services supplied by the institutions and by a negative contribution of 5 percent to the real growth of total private consumption.

(g) *Housing services*

Real consumption of housing services rose by 7 percent in 1966; this was about the same as in 1965, but slightly slower than in 1963 and 1964 when the rate came to 8 percent.

The growth in 1966 somewhat exceeded expectations, but it should be recalled that fluctuations in housing prices influence real consumption to only a limited extent in the short run. The main cause of changes here is the expansion of the country's dwelling stock, while purchases of homes during the year have a smaller impact.