

## CHAPTER VII

# PRIVATE CONSUMPTION AND SAVING

### I. MAIN DEVELOPMENTS

The growth of private consumption slowed in 1974. The real per capita level rose by only 2.5 percent during the first nine months, compared with a 10 percent increase in the corresponding period the year before. The annual growth rate declined from 6 to 4.5 percent. It should be noted, moreover, that the major part of the 1974 gains occurred in the first half of the year, especially during the second quarter; in the last six months the upward pace slackened and private spending even dipped slightly.

The sluggish advance in private consumption in 1974 was due primarily to an absolute decline in real disposable income. The small upswing in the first half of the year apparently resulted from purchases postponed from the last quarter of 1973.

A reduction in the real level of private saving made the expansion of private consumption possible despite the drop in disposable income. Saving rates in 1974 decreased 5.6 percent (according to the various definitions of saving). This fall, coupled with the earlier downturn in the rates of private saving in the first nine months of 1973, marked the end of their 1968-72 upward climb.

The decline in saving seems to have occurred in two principal areas—dwellings and financial assets. Among the financial assets, deposits in approved saving schemes and mutual fund participation certificates soared, while direct public purchases of index-linked bonds dropped absolutely.

Per capita consumption of food fell somewhat in 1974, following the cut in government subsidies and the subsequent rapid rise in food's relative price. Purchases of durables slackened notably: up approximately 3.5 percent in the first three quarters of 1974 in contrast to 39 percent in the same period the year before. The annual increase for 1974 was 8 percent as compared with close to 20 percent in 1973. This sluggishness should be understood in light of the real decline in disposable income. If one takes into account, however, that durable purchases soared in the two previous years, then it must be concluded that durable consumption continued at a high level in 1974. This fast pace may be explained, in part, by speculative purchases made in advance of an expected change in the exchange rate.

A marked expansion—6 percent per capita in real terms—took place in

expenditures on clothing, footwear, personal effects, and other manufactured items. It should be noted, however, that military consumption is mistakenly included in these estimates of private spending.

Although real per capita consumption of services, excluding housing and services provided by non-profit institutions, slipped 3 percent in the first nine months, the figure for the year as a whole exceeded that for 1973. The marginal difference apparently stems from the low consumption of services in the last quarter of 1973.

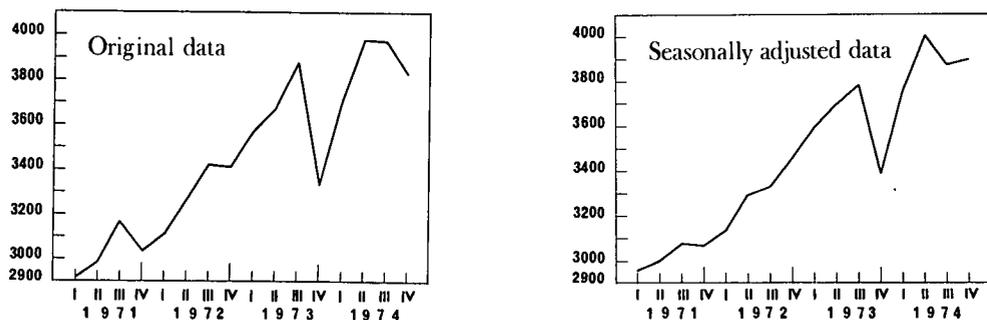
It is worth noting that the estimates of national consumption are calculated by subtracting from total domestic consumption a "global" sum to cover the spending of non-residents (mainly tourists). The slump in tourist expenditures in Israel in the first three quarters of 1974—in comparison with 1973—leads to underestimates of the elements of private consumption and their respective rates of growth.

## 2. TOTAL PRIVATE CONSUMPTION

Real private consumption per capita in 1974 exceeded that for 1973 by approximately 4.5 percent; in the first nine months the increase was 2.5 percent over the same period the year before. In 1973 the annual rate of growth of private consumption was 6 percent, but for the first three quarters it was as high as 10 percent. Hence, on both bases of comparison, the 1974 advance in private consumption lagged behind that of 1973.

The expansion in private consumption was not uniform throughout 1974. On the contrary, whereas a considerable increase was registered in the first quarter, the forward momentum halted towards the middle of the year and thereafter private spending declined slightly but steadily until the end of the year.

**Figure VII-1**  
**TOTAL PRIVATE CONSUMPTION, 1971-74**  
(IL million)



SOURCE: Central Bureau of Statistics.

**Table VII-1**  
**PRIVATE CONSUMPTION AND INCOME, 1961-74**

	Average			1970	1971	1972		1973		1974	
	1961- 1965	1966- 1967	1968- 1969			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
Total consumption at current prices (IL million)	5,305	8,011	9,873	11,542	13,554	12,426	17,056	16,812	22,386	23,787	33,170
	<b>Percent annual increase</b>										
Consumption	10.5	2.5	11	3.5	5	—	9	13.5	9.5	5	7
Consumption per capita	6	-.5	7.5	.5	1	—	5.5	10	6	4.5	4.5
Disposable income per capita from domestic sources	6.5	1	8.5	5	7.5	—	10.5	6.5	6.5	4	-2
Disposable income per capita from domestic sources, less net compulsory loans	6	1.5	9.5	1.5	4.5	—	11.5	7	6.5	2.5	-3.5
Disposable income per capita from all sources	6.5	.5	9	3.5	9	—	11.5	3	3.5	1	-4
Disposable income per capita from all sources, less net compulsory loans	6	.5	10	3	6.5	—	12.5	3.5	3.5	-0.5	-5.5

NOTE: The methods of estimation were revised slightly in 1968. The annual rates of change in 1960-67 were calculated on the basis of the previous year's prices, and those for 1968-74 in terms of constant 1970 prices.

SOURCE: Central Bureau of Statistics and Bank of Israel.

The drop in disposable income provided the primary reason for the sluggish growth in private consumption. For the first time since the 1966-67 recession, disposable income fell in real terms according to all definitions (from internal sources and from all sources, with or without the compulsory loans). What actually requires an explanation is why private consumption grew at all as real income fell. In other words, why did the private sector cut back its rate of saving to permit a further rise in consumption despite the decrease in real disposable income?

No single factor accounts for this development, but the following elements seem to have played an important role:

a. Certain expenditures were deferred to the beginning of 1974 from the last quarter of 1973 during which time Israel was at war (this argument mainly applies to spending on durables, clothing, and footwear). This hypothesis is confirmed in part by an analysis of saving rates in 1973. Whereas in the first nine months of the year they dropped in comparison with those for 1972, on an annual average the rates were similar in both years (1972 and 1973). In other words, in contrast to the general trend, saving rates rose in the last quarter of 1973 apparently due to the wartime situation.

b. Changes in private consumption tend to lag behind fluctuations in the level of disposable income. No stable pattern of time intervals between these two economic variables (disposable income and consumption) has been identified on the basis of past experience. Particularly with respect to 1974, however, when real disposable income began to drop sharply, it is reasonable to assume that private spending adjusted only after a certain delay. This adjustment process most specifically relates to the last months of 1974, when prices rose by approximately 20 percent without any corresponding increase in disposable income. (A special cost of living allowance of up to IL 200 was approved for the month of December, but payment was actually made in January 1975.) There are no grounds to assume that private consumption immediately adapted itself to the steep decline in real income. In the last quarter of 1974, private spending showed no significant fluctuations despite the reduction in real disposable income.

This phenomenon was also expressed in another way. The private sector's rates of saving in the first nine months of 1974 were higher than the saving rates for the entire year (see Table VII-2).

(c) It appears that expectations of a change in the exchange rate and a rise in indirect taxes also pushed up private consumption in 1974. At the outset one would have expected that purchases of durable goods and travel abroad would not increase in 1974 or would go up only slightly. After all, part of the surge in private consumption in 1973 was explained as an expression of the public's anticipation of a switch in economic policy. For this reason, even the slower rate of

advance—approximately 8 percent—in durable purchases represents substantial growth in this component of private consumption, explained, as noted above, by expectations of important economic changes.

(d) The fall in real disposable income occurred at a time when nominal income climbed rapidly even though the consumer price index rose even faster (34 and 38 percent respectively). One may reasonably assume that at least part of the public was exposed to the “money illusion”, i.e. because its nominal income grew rapidly, part of the public did not realize that its real income was dropping.

This decline in real income (the nominal rise in income being lower than the price increase) was the consequence of government policy measures adopted during the year. Indirect taxes were increased and consumer subsidies reduced; the Israeli pound was devalued at the beginning of November and direct income taxes were raised slightly.

(e) Finally, various technical or statistical factors should be noted which may have led to overestimates of the level of private consumption. Part of military spending (especially clothing) was included in the statistics on private consumption, and it will be understood that military expenditures on this item rose sharply during the year under review.

### 3. SAVING

Due to the reductions in both saving rates and real disposable income, savings in 1974 declined in real terms for the first time since the recession of 1966-67. Savings in the private sector dipped 16 to 26 percent (depending on how savings are defined).

No detailed data are available on the individual components of private savings (household financial saving, household investments in family dwellings, and undistributed profits). Nonetheless, on the basis of information from the capital market (see Chapter XVIII) and statistics on residential construction (see Chapter VIII), one can almost certainly conclude that these savings components also decreased in real terms.

Savings of households and firms<sup>1</sup> in financial assets rose 14-15 percent in nominal terms in 1974, a real decrease of approximately 18 percent. Among the financial assets there was a steep climb in capital saving (allocations to social insurance funds), deposits in special saving programs, and investments in mutual fund participation certificates. On the other hand, direct public purchases of index-linked

<sup>1</sup> We do not possess separate data for private and business saving. It was assumed that the general trends were valid for private saving as well.

**Table VII-2**  
**SELECTED COMPONENTS OF PRIVATE SECTOR SAVING, 1961-74**  
 (at current prices)

	Average			1970	1971	1972		1973		1974	
	1961-1965	1966-1967	1968-1969			Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year
Gross saving out of income from all sources (II million)	1,692	2,523	3,804	5,311	7,847	8,539	11,378	9,778	14,064	12,679	16,539
Rate of growth (%)	20	12	21	30	48	—	45	15	24	30	18
Average propensity to save (%)	24	12	28	32	37	41	40	37	39	35	33
Average propensity to save out of income from all sources, excl. compulsory loans (%)	24	23	28	30	34	38	38	35	36	32	30
Average propensity to save out of income from domestic sources (%)	16	18	21	25	29	33	32	31	33	30	28
Average propensity to save out of income from domestic sources, excl. compulsory loans (%)	15	17	21	23	25	30	29	28	30	26	24
Gross saving, incl. consumer durables (at constant prices)											
Rate of growth (%)	9 <sup>a</sup>	13	27	12	29	—	26	—	5	—	-14
Average propensity to save (%)	27 <sup>a</sup>	25	31	33	38	—	41	—	40	—	36
Number of dwellings completed ('000 units)	—	33	24	31	38	35	47	41	51	38	51
Outstanding mortgage bank credit (IL million)	—	-90	-111	-209	-308	—	-467	—	-686	—	-938

<sup>a</sup> Average for 1962-65.

SOURCE: Central Bureau of Statistics and Bank of Israel.

bonds declined even in nominal terms.

The differential development of these index-linked components of private saving apparently reflects public expectations that profits on privately held bonds would be taxed more severely than profits from mutual fund participation certificates or special saving programs (see Chapters XVI, XVII, and XIX).

Altogether, savings in liquid assets linked to the consumer price index increased by approximately 46 percent. On the other hand, savings in non-linked liquid assets continued to fall this year, further reducing their share of the public's total liquid saving. This downtrend is a reasonable development in light of the accelerated inflation of the past two years. As far as the public is concerned, this inflation reflects a rise in the cost of holding non-linked financial assets.

As for saving-investment in housing, the downturn which began in 1973 seems to have continued in 1974. The number of apartments purchased by the public dropped in comparison with 1973. In the first three quarters, building starts fell 15 percent. For the year they were down 2.5 percent; completions dipped 7 percent. The decline in apartment buying resulted from the slump in immigration coupled with the over-construction of apartment dwellings in previous years. Purchase and financing privileges for special groups (mainly young couples) were maintained and even extended. Mortgage credit granted to young couples soared from about IL 200 million in 1973 to approximately IL 515 million in 1974. This expansion in credit financed additional home purchases and permitted a reduction in savings from current income.

#### 4. COMPOSITION OF CONSUMPTION

The estimate of private consumption was calculated by measuring spending on local goods and services, netting (globally)<sup>2</sup> the expenditure of non-residents (mainly tourists), and then adding the consumption of Israelis abroad. The estimated spending by nonresidents in Israel decreased 35 percent in real terms in the first nine months of 1974, a drop which significantly reduced the growth of total national private consumption and domestic private consumption. Total spending on goods and services rose by approximately 3 percent in this period, whereas total private consumption increased by around 5 percent.<sup>3</sup> This margin limits to a certain extent an item by item analysis, since the goods and services estimates have a consistent downward bias.

<sup>2</sup> Except for quantitatively insignificant exceptions.

<sup>3</sup> This phenomenon, while rare, is not unique to 1974. Since 1960, differences of more than 1 percent in the respective rates of increase of domestic and national consumption occurred in 1968, 1971, and 1973.

**Table VII-3**  
**COMPOSITION OF PRIVATE CONSUMPTION, 1960-74**  
 (percentages; at current prices)

	Average			1970	1971	1972		1973		1974	
	1960-1965	1966-1967	1968-1969			Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	Jan.-Sept.	Entire year
Food, beverages, tobacco	32.5	30.5	29.5	28.0	27.5	26.0	25.5	24.5	25.0	25.0	24.5
Durable goods	9.0	7.5	11.0	10.0	9.5	10.0	10.5	11.5	11.0	11.0	11.0
Other goods	16.5	16.5	15.5	16.0	15.0	15.0	15.5	15.5	15.5	16.0	16.5
Housing and nonprofit institution services	22.0	24.0	33.0	25.5	26.5	27.5	27.5	28.5	29.5	30.0	30.0
Services and miscellaneous	19.5	21.5	21.0	20.5	21.5	21.5	21.0	20.0	19.0	18.0	18.0
Total consumption of goods and services*	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

NOTE: Data have been rounded to the nearest half-percent.

\* Excluding changes in inventories and net consumption of nonresidents.

SOURCE: Central Bureau of Statistics.

**Table VII-4**  
**PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1973-74**

(at current prices)

	Weight in total consumption in 1974 (%)	IL million		Percent annual increase					
				Jan.-Sept. 1973 <sup>a</sup>		Jan.-Sept. 1974 <sup>b</sup>		Jan.-Dec. 1974 <sup>c</sup>	
		1973	1974	Quantity	Price	Quantity	Price	Quantity	Price
<b>Goods</b>									
Food, beverages, tobacco	24.9	5,792	8,412	6.6	18.0	2.2	38.9	1.3	43.3
Household fuel, light, ice	3.0	515	1,009	10.8	5.0	-1.3	84.9	0.3	95.4
Clothing, footwear, personal effects	8.6	2,059	2,926	21.7	17.6	3.9	28.2	9.0	30.3
Durable goods	11.0	2,572	3,732	39.4	15.1	3.3	29.6	8.1	34.2
Other industrial goods	4.7	1,023	1,579	16.6	14.3	8.7	37.8	8.5	42.2
<b>Total goods</b>	<b>52.2</b>	<b>11,961</b>	<b>17,658</b>	<b>16.2</b>	<b>16.6</b>	<b>3.1</b>	<b>36.7</b>	<b>4.7</b>	<b>41.1</b>
<b>Services</b>									
By nonprofit institutions	9.7	2,336	3,263	10.8	22.6	0.6	33.8	3.1	35.5
Housing	20.2	4,502	6,838	8.4	29.7	7.2	39.2	7.2	41.6
Other services and misc.	17.9	4,396	6,034	6.8	16.0	-0.8	25.7	5.9	29.6
<b>Total services and misc.<sup>d</sup></b>	<b>47.8</b>	<b>11,234</b>	<b>16,135</b>	<b>8.1</b>	<b>22.3</b>	<b>2.2</b>	<b>33.1</b>	<b>5.8</b>	<b>35.8</b>
<b>Total consumption of goods and services<sup>e</sup></b>	<b>100.0</b>	<b>23,195</b>	<b>33,793</b>	<b>12.4</b>	<b>19.2</b>	<b>2.7</b>	<b>34.9</b>	<b>5.2</b>	<b>38.5</b>

<sup>a</sup> Compared with January-September 1972.

<sup>b</sup> Compared with January-September 1973.

<sup>c</sup> Compared with January-December 1973.

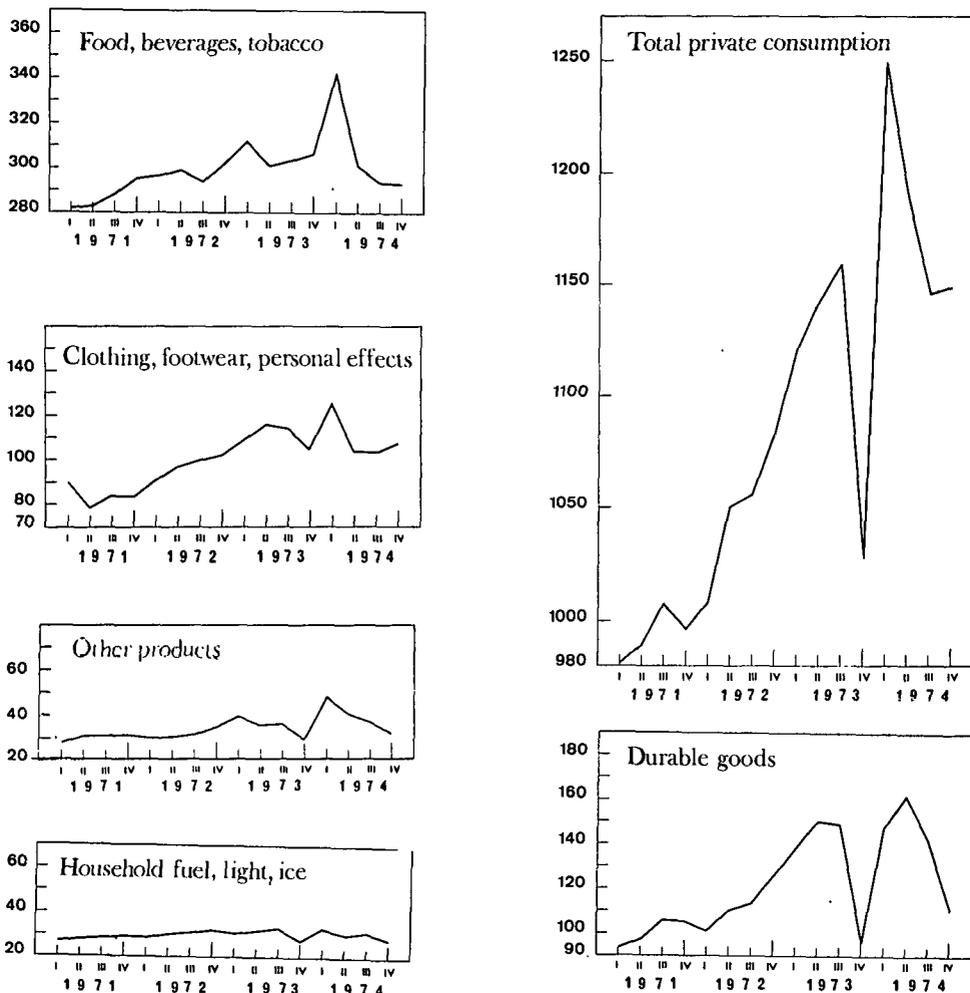
SOURCE: Central Bureau of Statistics.

<sup>d</sup> Including East Jerusalem.

<sup>e</sup> The discrepancies between these figures and those on total private consumption stem from the inclusion here of changes in inventories and net consumption of nonresidents.

Private consumption grew sluggishly due to a slackening in the purchases of food, beverages and tobacco, fuel and light, durable goods, and other services. On the other hand, there was no slowdown in spending on clothing, manufactured goods, and housing. These developments deviated from the long-term trends in the composition of private consumption. Whereas their share had been steadily declining, the weight of food, beverages, and tobacco rose in 1974. The proportion of other services in consumption fell sharply (even though the weight of all services in consumption was high in comparison with past years).

**Figure VII-2**  
**REAL PER CAPITA CONSUMPTION, BY MAJOR COMPONENT, 1971-74**  
 (IL at 1970 prices; seasonally adjusted data)



SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table VII-5

## CHANGES IN REAL CONSUMPTION OF SELECTED FOODSTUFFS, 1974

(percentages; at current prices)

	Weight in total food con- sumption	Increase over Jan.- Sept. 1973			Increase over Jan.- Dec. 1973		
		Quantity	Price	Relative price <sup>a</sup>	Quantity	Price	Relative price <sup>a</sup>
Cereals and cereal products	11.1	-2.3	58.6	11.7	-2.1	71.7	17.1
Meat and meat products	27.8	-5.3	47.4	3.8	-4.5	44.7	-1.3
Fish and fish products	4.1	2.1	46.9	3.5	4.2	51.8	3.5
Eggs	4.6	2.9	54.8	9.0	7.3	64.5	12.2
Milk and milk products	10.4	1.9	56.4	10.1	2.2	70.8	16.5
Edible oils and fats	3.1	-0.1	43.4	1.0	-1.1	69.0	15.3
Fresh fruit	11.7	6.3	17.3	-17.4	4.6	19.0	-18.8
Fresh vegetables	10.8	5.1	37.3	-3.3	3.7	34.4	-8.3
Sugar and sugar products	7.4	-4.1	47.8	4.1	-8.6	63.8	11.7
Tea, coffee, cocoa	2.6	18.6	6.0	-25.4	7.5	11.1	-24.2
Processed fruit and vegetables and misc.	6.4	7.2	44.2	1.5	6.2	49.0	1.6
<b>Total</b>	<b>100.0</b>	<b>0.8</b>	<b>42.0</b>	<b>—</b>	<b>0.2</b>	<b>46.6</b>	<b>—</b>

<sup>a</sup> The change in the price of each item divided by the change in the price of total foodstuffs.  
SOURCE: Central Bureau of Statistics.

(a) *Food*

Per capita consumption of food edged down 2.5 percent in 1974. The decline was continuous throughout the year. In the first quarter per capita consumption was 2.5 percent below that of the corresponding period the year before. Consumption in the second quarter was nearly equivalent to that in the second quarter of 1973, and in the third and fourth quarters it was 3.5 and 4.5 percent lower than in the respective periods a year earlier. The reduction in food consumption at the beginning of 1974 was influenced by the hoarding of foodstuffs in the last quarter of 1973 and the supply difficulties resulting from the war. Against these developments, one must take into account the considerable consumption of food by the army—included in our estimates—and the reduction in the “economies of scale” which would otherwise have accrued to families in which household members were called to active duty.

The overall drop in food consumption is explained by the significant rise in its relative price: food prices soared by 42 percent on the average in the first nine months of 1974, whereas the prices for non-food items increased by only 35.8

percent. Furthermore, real income slowed its advance.<sup>4</sup>

It should be stressed that the dip in food consumption does not necessarily mean a decline in the level of nutrition. From 1960-70 the increase in food calories consumed per capita paralleled the growth in per capita food consumption, but the price per calorie rose in real terms. This phenomenon, which reflects a transition to more expensive types of food, is common in developed countries. In Israel, however, the number of calories obtained per IL of food expenditure dropped much more quickly than it did in other developed countries such as Canada, West Germany, and the U.S. Expenditures in IL could thus be reduced without affecting nutritional values.

Per capita consumption of cereals and cereal products declined by approximately 5 percent, due to the jump in their relative prices, most of which are determined by the government.

The reduction in per capita meat and meat products consumption was close to 7 percent in 1974; their relative price fell slightly. This drop is not entirely explained by the relatively high income and price elasticity of meat and meat products. It may be that the estimate is too low and that per capita consumption was in fact higher for two reasons: (i) too large a part of military consumption was attributed to the last quarter of 1973; and (ii) in 1974 there was a transition to the consumption of less expensive meats (poultry instead of frozen meat) and this movement was reflected by a sluggish rise in the quantity index (without any connection with nutritional values). The weight of poultry in total meat consumption was 43 percent in 1973; it reached 50 percent in 1974. Per capita consumption of frozen meat plummeted 46 percent in real terms in 1974. This precipitous drop resulted from changes in the relative price of frozen meat. The cost of frozen meat rose 50 percent in the period discussed whereas fresh meat prices increased by only 32 percent. Although the price of poultry soared 47 percent, real consumption still went up, perhaps because it remained relatively cheaper than frozen meat.

On the supply side, certain factors enlarged the supply of poultry and fresh meat (see the chapter on Agriculture). Consequently, the per capita amount of poultry consumed rose 8 percent; that of fresh beef—11 percent. The relative price of fresh beef dropped considerably and that of poultry very slightly.

Real per capita consumption of eggs edged up 4 percent as their relative price

<sup>4</sup> An equation in which the independent variables are relative prices and per capita consumption and the dependent variable is the weight of food consumption in total consumption produces a price elasticity of .64 and an income elasticity of .47. According to these elasticities the per capita consumption forecasted for 1974 should have fallen 2.7 percent, which is exactly what happened.

rose. This increase in consumption was partly due to the substitution of eggs for meat, the consumption of which declined, as noted above.

Milk and milk products consumption per capita slid downward by 1.5 percent in 1974. The slight decline was due to substantial price increases and the drop in real disposable income. Among the principal components milk consumption rose 2 percent per capita and white cheeses were up 2.7 percent. These items have low income and price elasticities, and they constitute substitutes for other dairy products such as yoghurt (per capita consumption of which fell by 1 percent) and hard cheeses (down 3 percent). Real per capita consumption of butter dropped 10 percent and, contrary to expectations, so did consumption of its substitute product, margarine, approximately 3.5 percent per capita. A slight recovery in spending on milk and milk products took place in the second quarter of 1974, apparently connected with the substantial demobilization of the reserves, but a clear slowdown was registered in the final half of the year.

Real per capita consumption of fresh fruits increased by 2 percent in 1974 as their relative price plummeted. After falling in 1973, fruit consumption rose following good harvests in 1974 which enlarged both domestic supplies and crops from the administered territories.

Fresh vegetable consumption per capita was only slightly above the 1973 figure, thus continuing the trend of non-growth in this item. Supplies of fresh vegetables at the start of the year reflected the effects of the war, but in the course of the year consumption levels recovered somewhat.

#### *(b) Beverages and tobacco*

Real per capita consumption of beverages inched up about 0.5 percent. For non-alcoholic drinks the per capita figures rose 5.5 percent; for alcoholic beverages they were slightly down by 0.2 percent. The overall decrease in alcoholic beverages was moderated by the quantities consumed by the military in the first quarter of the year. During the year there was a decline in per capita consumption—despite the stability of relative prices—due to the sluggish growth of disposable income.

In real terms tobacco consumption per capita rose 6.5 percent in 1974 as its relative price fell about 10 percent. Only a small part of this growth was due to the fall in the relative price; most of it can be attributed to the effects of the war. (Expenditures on tobacco and tobacco products in the last quarter of 1973 doubled the average consumption level for the first nine months of the year.)

(c) *Household fuel and light*

Real per capita consumption of household fuel and light dropped 2.5 percent in 1974; the seasonally adjusted data, however, do not reflect a downward trend. There were no significant changes in the relative consumption shares of household fuel, electricity, and gasoline. (In the last quarter of 1973 gasoline consumption declined considerably, whereas household fuel and electricity consumption was down only slightly.)

The overall reduction in the consumption of these products may be attributed mainly to changes in the relative price of household fuel and light (fuel and light prices shot up 95 percent during the year, whereas the general consumer price index went up by 38 percent). The decline in real income is another explanatory factor.

(d) *Clothing, footwear, and personal effects*

In 1974 real per capita consumption of clothing, footwear, and personal effects rose 6 percent. Clothing accounted for the entire increase, as spending on this item rose markedly during the year. On the other hand, per capita consumption declined for footwear and personal effects (jewellery, handbags, umbrellas, etc.).

These figures are to some extent overestimates. They are calculated according to production indices and no special adjustments have been made to allow for 1974 defense purchases. Although the bias cannot be estimated at present, it may be assumed that these data will have to be altered significantly.

(e) *Durable goods*

Purchases of durable goods expanded 8 percent in real terms in 1974. With respect to the second and third quarters, which were less affected by the war and its aftermath, the real increase was only 5 percent. In other words, in comparison with the two previous years, durable purchases in 1974 reflect a downturn. The slowdown was probably even greater than that shown, because the data include transactions postponed from the end of 1973 in addition to "special" consumption, such as the tax-free purchases of vehicles by war invalids and bereaved families.

This sluggishness in durable spending is typical of periods in which the rise in income decelerates (as in 1966-67 and 1970-71). It also stems from the particular nature of these goods in total consumption. All other consumption items are consumed shortly after purchase (such as food, medicines, and travel). Durable goods actually represent an inventory of services which will be consumed mainly in the future. If the services of durables are estimated on the basis of their inventory and

Table VII-6

**CHANGES IN REAL CONSUMPTION OF CONSUMER DURABLES, 1963-74**  
(percentages)

	Weight in 1974	Annual increase							
		Average			1970	1971	1972	1973	1974
		1963- 1965	1966- 1967	1968- 1969					
<b>Purchases</b>									
Furniture	33	16	-14	29	7	0	17	15	12
Household equipment	46	14	-11	76	-22	3	5	22	11
Personal transporta- tion equipment	21	25	-16	61	-32	34	42	29	-3
<b>Total</b>	<b>100</b>	<b>16</b>	<b>-13</b>	<b>57</b>	<b>-16</b>	<b>6</b>	<b>15</b>	<b>21</b>	<b>8</b>
<b>Services<sup>a</sup></b>									
Furniture	34	14	12	11	12	10	10	10	10
Household equipment	50	15	11	16	18	13	11	12	12
Personal transporta- tion equipment	16	32	15	17	16	13	16	18	17
<b>Total</b>	<b>100</b>	<b>16</b>	<b>12</b>	<b>14</b>	<b>15</b>	<b>12</b>	<b>11</b>	<b>12</b>	<b>12</b>

NOTE: Purchases have been calculated at 1970 prices and consumption of services of the stock of durable goods has been calculated at 1964 prices.

<sup>a</sup> Services provided by the stock of durable goods.

SOURCE: Central Bureau of Statistics and Bank of Israel.

not according to current purchases, the consumption of these services rose 12 percent in 1974, an annual rate similar to that for the past three years.

The main factors influencing spending on durables are income, expectations of future changes in income, the existing inventory, and such demographic factors as the number of marriages and the number of new immigrants.

It may therefore be concluded that when real income declines, individuals will tend to exhaust the capital stock in their possession and refrain from replacing depreciated stock. Moreover, they will try to postpone purchases which would increase their inventory, since the immediate benefits of buying new durable goods are not large.

As to the demographic factors, 1974 witnessed a rise in marriage rates which caused a rise in purchases in the period discussed. (Some of the 1974 marriages were weddings that had been postponed from the last quarter of 1973; with respect to these cases it may be assumed that at least part of the purchases were already made in 1973. But even if the postponed marriages are deducted, it is clear that the marriage rates went up.)

On the other hand, there was a significant fall in the number of immigrants in

1974 (slightly less than 50 percent). In addition, restrictions were imposed on the purchasing privileges of immigrants. No separate data are available on the purchase of durables by immigrants and others. On the one hand, estimated taxable vehicle sales dropped 35 percent (see below) and direct imports by immigrants—which cannot be classified by type of goods—declined 14 percent in the first nine months of 1974. On this basis it appears that if spending by new immigrants had been at the 1973 level, total purchases would have been 4-6 percent higher.

Among the main durables there was a very strong upswing in expenditures on household equipment—a rise of 11 percent over 1973. Part of this rapid growth resulted from the postponement of purchases from the last quarter of 1973. In addition, some of the 1974 purchases, especially television sets and transistor radios, were donations to the army, and it is thus doubtful whether they can be properly regarded as private consumption.

Spending reached a high point during the second quarter, apparently due to the large-scale demobilization of troops in the first half of the year and the expectations that additional taxes would soon be imposed on these goods.

Purchases of private vehicles fell in real terms by approximately 3.5 percent, following a very rapid climb in the previous three years.<sup>5</sup> The stock of private vehicles in 1974 was double that of 1970 and 5 times the 1964 level.

The drop in the purchase of private vehicles resulted from the decline in disposable income, the slump in immigration, and a 100 percent rise in the price of fuel in the period discussed. The number of duty-free vehicles imported decreased from approximately 10,000 in the first nine months of 1973 to nearly 6,500 for the same period in 1974. This estimate does not include sales of locally-produced vehicles, but it does include tax-free acquisitions by diplomats, U.N. personnel and others. Vehicle imports by these groups, however, constitute a relatively small percentage of all duty-free purchases.

On the other hand, the demand for vehicles on the part of army invalids and bereaved families lessened the decline.

The real changes in vehicle purchases reflect differences in quality as well as quantity (such as a switch to larger cars or to cars with more accessories, etc.). An index of car engine capacity was used<sup>6</sup> to measure the change in quality. From 1967

<sup>5</sup> The estimate of the real change is not exact. By eliminating the price factor, the estimate also fails to take into account any change in the relative share of tax-free vehicles.

<sup>6</sup> The index required here is a measure of real monetary purchases divided by an indicator of physical quantities. The available data are insufficient to permit the use of this index, because the price elimination is defective and automobiles and motorcycles are not classified separately.

to 1973 the average engine capacity of newly acquired automobiles increased steadily. Whereas in the years 1964-67, engine capacity averaged approximately 1,200 cc, in 1972-73 it reached some 1,470 cc. This index fell slightly in 1974 to 1,440 cc, probably due to the sharp rise in fuel prices.

(f) *Housing*

In the first three quarters of 1974 real per capita consumption of housing services rose by close to 4 percent. This item is calculated on the basis of an imputed rent on owner-occupied dwellings. The real increase reflects the number of new units completed.

The growth in housing services may also be estimated according to the change in housing density. This estimate has an advantage in that family housing conditions are measured annually. It has the disadvantage of being incomplete, since it does not include housing improvements and covers only Jewish families who do not live in institutions or kibbutzim. According to this alternative estimate, the 1974 per capita rise in housing consumption services was 1.7 percent. For analytical purposes a comparative time series of two estimates—national accounts and housing density—is presented here.

Since 1970 apartment prices have increased more rapidly than the prices of other private consumption goods and services. In the second half of 1973, however, this trend began to slacken. During the first nine months of 1974 no change was registered, and in the last quarter the relative prices of apartments even declined.

**REAL CHANGES IN PER CAPITA CONSUMPTION OF HOUSING  
SERVICES, 1968-74**  
(percent increase)

	1968	1969	1970	1971	1972	1973	1974
National accounts	0.6	1.2	2.0	2.7	3.5	2.5	4.4
Housing density	3.9	2.0	3.2	1.8	2.8	2.7	1.7

(g) *Other services*<sup>7</sup>

The per capita consumption of "other services" expanded by 3 percent in 1974 as their relative price dipped approximately 2 percent.

<sup>7</sup> The main components of this item are: domestic help; domestic services (laundromats,

A mild decline occurred in expenditures on health services, vehicle maintenance services, and hotel accommodations; spending on other items advanced slightly. The real decrease in vehicle maintenance services— approximately 5.5 percent—can be accounted for by the drop in car purchases.

Cinema attendance in 1974 rose by 6 percent, bucking the general downward trend that has prevailed since Israeli television broadcasts began.

etc.); hairdressers and beauty parlors; health; vehicle maintenance; travel; postal and telephone services; cinemas; theater; gambling; hotel accommodations; other entertainment (radio, television); financial services; and miscellaneous services.