CHAPTER IV

PRIVATE CONSUMPTION AND SAVING

1. Main Developments

Private consumption increased in 1969 by 16 percent in nominal terms to reach IL 10,707 million. Per capita, the level went up by 9 percent (in real terms), topping the 8 percent rise in 1968 and substantially exceeding the average annual growth of 6 percent during the years 1960–65. Real income per capita, on the other hand, increased more slowly than in 1968 (6 as against 13 percent). As a result of these differential growth rates, the average propensity to consume was greater in the year reviewed than in 1968 but still below that of the prerecession years.

This relatively strong expansion of consumption is explained by the fact that it is determined not only by the level of current income; in 1969 it was also influenced by the growth of incomes in the previous year. Another contributory factor was the prevailing atmosphere: the economic situation engendered a feeling that after the elections (to the Histadrut and Knesset) the Government would modify its policy with regard to private consumption, besides possibly devaluing the Israeli pound and introducing other changes.

Direct and indirect imports for private consumption were 17 percent larger (at current prices) in the year surveyed, bringing up the import component of this use to some extent. As in 1968, direct imports of consumer items rose more rapidly than imports of intermediate goods. The labor input in the production of consumer goods edged up 1 percent during the year, but the changed composition of consumption and the improvement in productivity reduced the number of man-hours invested in each IL of private consumption by 10 percent in real terms.

Private consumption has a relatively low import component compared with other uses, for the share of imports for private consumption purposes is less than that of private consumption in total uses. The labor component, however, is large relative to that of other uses.

The most striking change in the composition of consumption during 1969 was the 40 percent jump, measured in real terms, in acquisitions of durable goods, which brought up their weight in total consumption spending from 9 percent in 1968 to 12 percent. Outlay on food rose at a sluggish rate, and its weight in total consumption continued downward, in line with the long-run trend. Consumption by nonprofit institutions was 13 percent above the 1968 level, mainly because of the intensified activity of the political parties in this, an election year. Expenditure on "other services" was only 6 percent higher in 1969, but this small rise was partly due to the method used in measuring this item—the increase in spending by foreign tourists, which is included under this head, was slower this year.

As to the components of saving, in 1969 there was an increase in dwelling investment, a much larger investment in consumer durables, and a slow rise (4 percent) in liquid savings, accompanied by a shift to assets linked to the exchange rate.

2. Total Private Consumption

(a) *Growth of private consumption*

Private consumption continued upward at a strong rate in 1969. In real terms, the per capita level went up by 8.9 percent to reach approximately IL 3,700 (at 1969 prices). This was the steepest rise during the past decade: in 1968 it came to 8.4 percent, and in 1960–65 it averaged about 6 percent.

Private income per capita[1] trailed behind the growth of consumption, the increase amounting to 6.1 percent. This was far below the 13.3 percent rate posted in 1968, but virtually the same as in 1960–65 (an average of 6 percent).

These disparate growth rates of consumption and income brought up the average propensity to consume by about 2 percentage points, but it still failed to regain its level of 1960–65.

Table IV–1

PRIVATE CONSUMPTION,[a] INCOME,[b] AND SAVING, 1960–69

	Average 1960–65	1966	1967	1968	1969
Total consumption, at current prices (IL million)	4,936	7,909	8,113	9,244	10,707
Percent change in real consumption	10	3	2	12	12
Percent change in gross real income	11	0	7	17	9
Percent change in gross real saving	14	–11	25	32	2
Percent change in real consumption per capita	6	1	–2	8	9
Percent change in gross real income per capita	7	–3	3	13	6
Percent change in net real saving per capita	9	–13	21	27	–1
Average propensity (gross) to consume (%)	76	78	74	71	73
Average propensity (gross) to save (%)	24	22	26	29	27
Marginal propensity to consume (%)	73	114	26	54	88

[a] Since 1967 imports by immigrants have not been included in private consumption spending, in accordance with the changed balance of payments treatment of this item.
[b] Gross disposable private income from all sources, deflated by the consumer price index.
Source: Central Bureau of Statistics.

[1] Disposable private income from all sources, deflated by the consumer price index.

Along with the growth of incomes in 1969, several other factors spurred consumption: the rapid rise of incomes in 1968, various expectations which stimulated consumption spending by the public, and the virtual stability in the distribution of incremental income as between wage-earning and non-wage-earning families.

The volume of consumption in a given year is determined not only by the income of that year, but also by the level of income received in the past and that expected in the future. In 1968, as already noted, income per capita went up by an appreciable 13.3 percent, but consumption lagged behind, the increase being only 8.4 percent. Conceivably, the growth of consumption in 1969 at a faster rate than income (8.9 as against 6.1 percent) can be ascribed in some degree to the relatively moderate rise of consumption (in comparison with income) in 1968. In other words, in 1968 the public did not adjust its level of consumption to that of its income. It may also be that company profits earned in 1968 were distributed only in the following year, so that in 1969 consumers' spending was influenced also by the incremental income received in 1968.

When there is a turnabout in economic activity, such as the slump of 1966–67 and the subsequent recovery, consumption tends to respond with some lag to changes in income. In 1966 per capita income dropped by 2.8 percent, but consumption held steady; however, the reduced income left its mark on consumption in 1967, the latter falling off despite an upturn in income. In 1968 the growth of income outstripped that of consumption, this finding expression in 1969, when consumption went up at a more vigorous rate than income.

Besides the adjustment of the level of consumption to that of incomes, the prevailing expectations prompted the public, as already pointed out, to step up their purchases to a degree even exceeding that which can be attributed to the growth of incomes over the past several years. The shaky position of several currencies in the wake of the international monetary crisis, the rise of local prices in various spheres, the country's mounting balance of payments deficit, and that in the Government budget, all these engendered a feeling that after the elections (to the Histadrut and the Knesset) the Government would change its economic policy with a view to curtailing private consumption spending. On top of this, there was a growing belief that certain taxes would be revised upward. This expectation, which did in fact materialize (in the case of TV sets and cars, for instance), sparked intermittent buying sprees during the year.

Such an advancing of purchases generally affects commodities and services alike, but it is reasonable to assume that the category showing the strongest impact will be consumer durables, which provide their owners with a flow of services for a fairly long period. And indeed the data show that sales of durables soared by nearly 40 percent in real terms, bringing up their weight in total consumption by 3 percentage points. This was accompanied by a steep rise in prices, indicating that the influence of prevailing expectations on consumers' behavior outweighed that of the higher prices.

Further evidence of the expectational effect is found in the changes that took place in the components of saving in 1969, there being a switch to assets linked to the foreign exchange rate.

The differential rates at which income and consumption expanded in 1969 reflect a greater propensity to consume, but the 73 percent figure was still below the average for 1960–65 (76 percent). Contributing to the change in the year reviewed was the distribution of incremental income: whereas in 1968 the earnings of self-employed rose more rapidly than wage income, depressing the average propensity to consume, in 1969 the distribution of the additional income was fairly even, mainly because of a steep rise in the number of wage earners. A savings survey conducted by the Central Bureau of Statistics shows that the gross income of urban wage-earning families went up by 8 percent in 1969. This finding is consistent with the growth of disposable income per wage earner: the increase was fairly slow, but as the number of wage earners rose more rapidly than the population as a whole, the growth of wage income per capita (as distinct from wage income per employee) almost matched the average rise in income.[1] Since wage earners display a slightly higher average propensity to consume than do the self-employed, the distribution of incomes in 1969 did not reduce the average propensity to consume.

In the last three years the average propensity to consume was lower than in the prerecession period. This may indicate a shift in the public's behavior in favor of increased saving. However, it could also represent only a phase in the long-run process of adaptation, so that the average propensity to consume may very likely resume its upward movement in the future.

(b) *Developments during the year*

A quarterly analysis of private consumption in 1969 does not show any great departure from the pattern of previous years.[2] The first-quarter level was up some 4 percent from the final quarter of 1968, while the second quarter saw a further rise of approximately 5 percent (compared with the first quarter). In the third quarter growth accelerated to 8 percent, and in the last quarter the

[1] The nonwage component of disposable private income from all sources is not necessarily identical with the return to capital, since part of it actually belongs to wage earners. This component consists of fringe benefits, imputed rents on owner-occupied dwellings, restitution payments from abroad, and of course returns to capital, part of which likewise accrues to wage earners. From data on earnings per employee and on income per capita it is difficult to calculate the differences in income distribution. For this purpose aggregate data are more useful, and here we find that total wage income went up by 12 percent and national income by 13 percent. These figures suggest a slight degree of inequality in income distribution as between wage-earning families and those of self-employed.

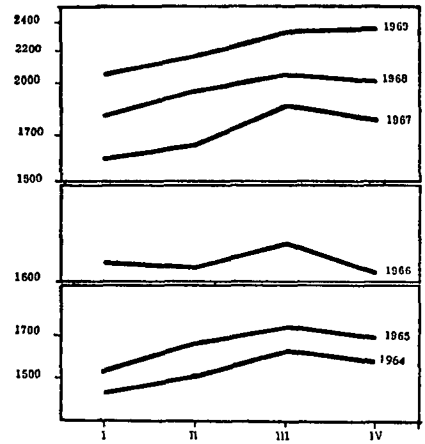
[2] Quarterly estimates of private consumption are available only from 1964. This relatively short series, which includes the recession years, does not permit an accurate estimate of seasonal variations.

curve flattened out. In previous years, private consumption fell off in the last quarter, and in this respect 1969 deviated from the usual pattern. The non-decrease of consumption in the last quarter can probably be ascribed to the advancing of purchases in anticipation of price rises.

Figure IV–1

PRIVATE CONSUMPTION, QUARTERLY, 1964–69

(IL million, at 1964 prices)



Semi-logarithmic scale.

(c) *Interdependence of private consumption, imports, and employment*

The weight of private consumption in total resource use has been fairly stable in recent years, apart from the recession period. In 1960–65 it averaged about 49 percent, rising during the recession because of a sharp cutback in investment. Thereafter it turned down and stood at 45 percent in 1969.

Since private consumption is more highly taxed than any other end-use, a calculation at factor cost would reduce its weight in total uses. What is more, private consumption tends to develop in the direction of highly taxed goods and services. This of course depresses the weight of private consumption in total real resources, but in the short run the quantitative effect is obviously small.

In 1969 the import component of private consumption was unchanged, so that the share of the economy's imports for this destination was similar to that in 1968. Total imports[1] of goods and services for private consumption rose in 1969 by 17 percent (at current prices) to reach $ 612 million. As in 1968, the increase was greater in finished products.

Since the 16 percent nominal increase in private consumption was slightly less than the growth of imports, the import component of this use rose slightly in current-price terms. But as import prices went up more steeply than private consumption prices in 1969, the import component at constant prices was virtually static.

The import component of private consumption was a little higher in the last two years than during the 1966–67 slump period or even in 1963–65. Owing to the structural change in 1968–69 in private consumption demand (with a

[1] Total imports for private consumption consist of finished goods and production inputs (direct and indirect). The estimates cited here are based on input-output tables prepared in 1958 and partly updated in a mechanical fashion to 1962–64. Obviously the estimates are not exact, if only because the tables were constructed so long ago. Nevertheless, they are indicative of orders of magnitude and directions of change.

Table IV-2

PRIVATE CONSUMPTION, USES, IMPORTS, AND EMPLOYMENT, 1963–69

(percentages)

	1963	1964	1965	1966	1967	1968	1969
Weight of private consumption in total uses	47.8	48.0	49.0	50.5	49.0	44.3	44.6
Weight of imported finished goods and services for private consumption in total private consumption[a]	5.4	5.9	5.7	6.0	6.1	6.5	7.0
Weight of imported inputs for private consumption in total private consumption[a]	12.9	13.1	13.1	13.5	13.6	13.2	13.0
Weight of total imports for private consumption in total private consumption[a]	18.3	19.0	18.8	19.5	19.7	19.7	20.0
Weight of total imports for private consumption in total imports[a]	32.1	32.2	33.6	34.9	31.8	27.4	27.7
				Coefficients			
Man-hours per IL of private consumption							
A[a]	—	—	.0929	.0922	.0822	.0790	.0174
B[b]	—	—	—	.0934	.0945	.0821	.0778
Weight of labor input in private consumption in total labor input	—	—	50.8	53.2	53.0	50.1	48.5

[a] At 1969 prices and at the official rate of exchange of IL 3.5=$ 1.
[b] The labor coefficients given the labor/output ratio of the previous year; at 1969 prices.
SOURCE: Bank of Israel input-output tables.

notable shift toward durables), the weight of the import component in finished goods went up while that of the indirect import component held steady. The net effect was, as stated, a rise in the overall import component[1] compared with the prerecession years.

Since imports for private consumption grew faster in 1969 than total imports, the weight of this end-use in total imports edged up by 0.3 percent-

[1] The estimates are based on imports valued at factor cost, whereas private consumption is calculated at market prices. If imports are valued at market prices, the calculated import component will as a rule be higher. But as there were no major changes in 1969 in the effective rates of exchange for imports, the change in the overall import component cited here is similar to what would have been obtained had the estimates been made at market prices.

age points to 27.7 percent. However, this was still small in comparison with the weights of the other uses, for private consumption accounts for a far higher share of total resource use than of imports—45 as against 28 percent.

In recent years the import component of private consumption has held more or less constant, and the weight of private consumption in total imports has also been fairly stable at around 30 percent. Consequently, a one percent increase in private consumption has increased the economy's total import bill by 0.3 percent. In 1969 the larger import for private consumption was responsible for about 5 percent of the total import growth; that is to say, 30 percent of the incremental imports in 1969 were destined for private consumption.[1]

As in previous years, the labor input in private consumption declined in 1969.[2] Since the drop was steep relative to changes in other uses, its share in the total labor input fell to 48.5 percent.

The labor input in production for private consumption edged up 1 percent in 1969 and amounted to 96 million standard man-days. Since private consumption grew at a faster rate (12 percent at constant prices), this implies a lower labor intensity. A decline in labor intensity generally results from two developments: a change in the composition of consumption (the different items represent varying degrees of labor intensity), and an improvement in labor productivity. In 1969 the changes in the composition of private consumption apparently had a downward effect on labor intensity. This was due *inter alia* to the greater weight in private consumption of imported finished goods, which have a low domestic labor component. The gain in productivity reduced the labor input per unit of private consumption by 8 percent.

From the aspect of its relative importance in total resource use, private consumption tops the list. However, the upsurge of public consumption and investment after the economic slowdown reduced the weight of private consumption in 1968 and 1969 in comparison with the prerecession years. As stated, private consumption has a low import component compared with other uses; on the other hand, despite the decline in the labor component during the year reviewed, it is still relatively more labor-intensive than the other uses.

3. Household Saving and its Components

Household saving increased moderately in 1969 in relation to the previous year. Since incomes grew more rapidly than saving, the average propensity to save declined, although it was still higher than in the prerecession period. If

[1] The incremental import for private consumption will actually be larger in the long run, since an expansion of private consumption increases other end-uses and thus their import component as well.

[2] The ensuing discussion refers to both direct and indirect labor inputs for private consumption, but not direct purchases of labor for private consumption purposes. This is discussed in greater detail in Chapter IX.

purchases of durables are regarded as investment, the rise in the rate of saving would still have been lower than in 1968, although the average propensity to save would have been roughly the same in both years.

No direct measurements of household saving are available, but there are two indicators: (1) the difference between disposable private income and expenditure on private consumption; and (2) purchases of financial and real assets.

According to the first indicator, the growth of saving sagged noticeably in the year reviewed. Saving out of gross income from all sources rose by 5 percent as against 34 percent in 1968, and net saving by 2 percent as against 50 percent. This indicator must be viewed with some reservation, however, since private income includes undistributed corporate profits. The latter may have declined in 1969 (this does not necessarily imply smaller profits), so that the slower growth of saving may have stemmed, at least to some extent, from a change in the weight of undistributed profits in total income.

The second indicator—purchases of financial and real assets—also points to a more sluggish increase in saving. Liquid savings went up at a moderate rate, while the number of completed dwellings bought was only slightly higher than in 1968; at the same time, however, there was a substantially larger volume of down payments on unfinished homes (this is discussed below). As to purchases of durables (net of the current consumption of services provided by the stock of such goods), there was an increase in 1969 in both absolute terms and in relation to other forms of saving, but not to such an extent as to alter the conclusion that the overall rate of private saving rose more slowly than in 1968.

Table IV-3

SELECTED COMPONENTS OF PRIVATE SECTOR SAVING, 1960–69

	Average 1960–65	1966	1967	1968	1969
Gross saving (IL million)	1,551	2,227	2,801	3,750	3,953
Rate of growth (%)	22	–4	26	34	5
Average propensity to save (%)	27	22	26	29	27
Saving in the form of consumer durables (IL million)	80	29	–3	229	469
Net saving, incl. durables (IL million)	1,673	2,326	2,865	4,062	4,545
Rate of growth (%)	22	–6	23	42	12
Average propensity to save (%)	26	23	26	31	31
Area of residential construction completed (thousand m²)	2,661	3,116	2,381	1,987	2,451
Number of dwellings completed ('000 units)	—	38	28	23	26
Saving in financial assets (IL million)	—	1,074	1,494	1,435	1,486

SOURCE: Central Bureau of Statistics.

Examination of the components of saving shows that the rising trend in the weight of real assets carried over through 1969. Whereas financial asset holdings expanded by 4 percent, investment in dwellings and in particular that in in durables went up at a stronger rate.

During the year 26,000 residential units were completed, compared with 23,000 in 1968. These figures do not represent actual purchases by individuals: in 1968 homes were also bought out of the stock of vacant dwellings accumulated during the recession; in 1969, with the expansion of immigration, the public sector purchased a larger number of dwellings out of the current stock for newcomers than in the previous year. The total number of additional units purchased in 1969 by individuals was therefore no greater than in 1968. Investment in dwellings, however, was much larger because of the higher prices paid. This is evident from a partial indicator of the incremental outlay on housing—the public's mortgage indebtedness to banks—which soared from IL 93 million in 1968 to IL 192 million.[1] Another component of dwelling investment—down payments on homes scheduled to be completed after 1969—was of fairly significant proportions this year.

An analysis of six selected consumer durable goods reveals that in 1969 the percentage increase in purchases far outpaced that in the consumption of services provided by these assets, bringing up saving in the form of durables from IL 229 million in 1968 to IL 469 million. A computation of total private saving on the strength of income and consumption data consistent with the assumptions underlying the above estimates for the six selected durables[2] shows a 12 percent increase in total saving in 1969, as contrasted with 42 percent in 1968. Since the rising income trend slowed down considerably in 1969, the propensity to save fell off somewhat, from 31.1 percent in 1968 to 30.7 percent, but it was still far above the 26 percent average for the years 1960–65.

Financial (or liquid) savings were influenced in 1969 by two contrasting developments. One was the steep rise of dwelling prices and an anticipated heavier taxation of consumer durables, which stimulated purchases of real assets. The second was the expectation that a number of countries would alter the exchange rate of their currency, which spurred the acquisition of financial assets linked to the exchange rate. The net outcome of these two influences was a moderate rise of 4 percent in financial savings for the year.

Heading the list of financial assets in rates of growth were Pazak and Tamam deposits (originating primarily from the receipt of restitution payments from

[1] The public's liabilities to mortgage banks cannot serve as a measure of changes in total expenditure on housing, as immigrants are given relatively bigger and cheaper mortgage loans. An increase in immigration is therefore likely to result in a disproportionate increase in total mortgage financing (this is discussed in greater detail in Chapter XII, "Construction and Housing").

[2] I.e. income also includes imputed interest on the stock of assets, while consumption includes the current services provided by these six selected items, but not the total expenditure on their acquisition.

West Germany); this development can be credited in part to the above-mentioned expectations. Approved saving scheme accounts also rose at a vigorous rate (although by less than in 1968), mainly because of the more attractive terms offered (the introduction of a scheme wherein Absorption Loan certificates can be deposited at par value). By contrast, demand and time deposits remained more or less stationary in the year reviewed.

If purchases of consumer durables are treated as saving rather than consumption, it follows that in the last two years the public tended to be better savers. To be sure, the growth of saving slackened in 1969, but the average propensity to save was about the same as in 1968 and far above that of the prerecession years. This conclusion, however, must be accepted with considerable caution, for it may very well be that the aforementioned underlying assumptions do not accurately reflect the public's behavior.

4. Composition of Consumption

From the aspect of the breakdown of incremental consumption, the year reviewed did not deviate from the usual pattern. Items showing strong rates

Table IV–4

PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1968–69

(IL million, at current prices)

	Weight in total consumption in 1969 (%)	IL million		Percent increase or decrease (–) in 1969	
		1968	1969	Volume	Price
Goods					
Food, beverages, tobacco	27.6	2,773.5	3,010.6	5.8	2.6
Household fuel, light, and ice	2.5	249.5	272.9	9.3	0.1
Clothing, footwear, and personal effects	10.1	930.7	1,105.6	16.1	2.3
Durable goods	12.1	883.3	1,321.1	39.6	7.2
Other industrial goods	5.1	493.4	552.3	10.0	1.7
Total	**57.4**	**5,330.4**	**6,262.5**	**13.8**	**3.3**
Services					
By nonprofit institutions	8.8	825.5	958.5	13.3	2.5
Housing	13.6	1,333.6	1,486.6	4.1	7.1
Other services	20.2	2,031.7	2,209.7	5.6	3.0
Total	**42.6**	**4,190.8**	**4,654.8**	**6.6**	**4.1**
Total consumption of goods and services[a]	**100.0**	**9,521.2**	**10,917.3**	**10.6**	**3.6**

[a] The discrepancies between these data and those on private consumption stem from the inclusion in the latter of changes in inventories and the net consumption of nonresidents.
Source: Central Bureau of Statistics.

Table IV–5

COMPOSITION OF PRIVATE CONSUMPTION, 1960–69

(percentages, at current prices)

	Average 1960–65	1966	1967	1968	1969
Food, beverages, tobacco	33	30	31	29	28
Durable goods	9	8	7	9	12
Other goods	17	17	16	18	18
Services	41	45	46	44	42
Total consumption of goods and services	100	100	100	100	100

SOURCE: Central Bureau of Statistics.

of increase were durables, clothing, and footwear; expenditure on food, on the other hand, went up at a slower-than-average rate. As to services, there was an increase in those supplied by nonprofit institutions. To a large extent this stemmed from the heightened activity of the political parties in connection with the elections to the Histadrut (General Federation of Labor), Knesset (Israel's parliament), and local authorities. "Other services" rose more slowly than in 1968.

The weight of expenditure on food, beverages, and tobacco products continued downward to 27.6 percent. This item has displayed a long-run declining trend, falling from some 36 percent in 1960. Apart from 1967, when there was apparently some hoarding because of the war, its weight has diminished in every single year, by an average of 1 percent.

Consumer durables have shown the most striking change: their weight moved up from 9.3 percent in 1968 to a new high of 12.1 percent in the year reviewed. The previous peak was in 1964, when the figure reached 10.2 percent.

The relatively slow increase in "other services" depressed their weight by about 1 percentage point, to 20.2 percent.

(a) *Food*

Per capita consumption of food was up 2.6 percent in 1969, somewhat less than what could have been expected in view of the rise of incomes and prices. In 1968 the growth rate was nearly the same—2.5 percent; but this relatively slow increase is largely explained by the exceptionally high level reached in 1967. The moderate rise in the last two years may signal the start of a more sluggish growth trend in food consumption.

Real per capita consumption of meat and meat products rose appreciably compared with 1968, 6.6 as against 4 percent, bringing up the weight of this item

Table IV-6

CHANGES IN REAL CONSUMPTION OF SELECTED FOOD ITEMS, 1969

(percentages)

	Weight in total food consumption in 1969	Increase over 1968	Change in relative price[a]
Cereals and cereal products	11.5	1.5	–2.3
Meat and meat products	24.6	9.3	–5.5
Fish	3.3	4.2	–1.5
Eggs	5.0	7.9	–2.7
Milk and milk products	9.9	5.6	–1.3
Edible oils and fats	3.3	3.3	–2.6
Fresh fruit	14.6	–0.3	11.6
Fresh vegetables	12.3	6.7	7.8
Sugar and sugar products	6.7	3.5	–2.8
Tea, coffee, cocoa	2.9	6.1	–2.9
Processed fruit and vegetables and misc.	5.9	5.7	–1.1
Total	**100.0**	**5.2**	—

[a] The change in the price of each item divided by the change in the price of total foodstuffs.
SOURCE: Central Bureau of Statistics.

to a quarter of total food expenditure. The faster increase in the year reviewed is attributable to an improvement in supply (principally of poultry), which depressed the average price in absolute terms.

After falling off in 1968 (because of the curtailment of supply), per capita purchases of eggs went up 5.2 percent in the year reviewed.

The effect of the heavier demand for food in 1969 was most apparent in the case of fresh fruit. In 1968 a much larger quantity had been put on the market compared with the previous year, but since not all of it could be absorbed, part of the glut was destroyed and another part sold in the administered areas. In 1969 there was no significant change in the quantities marketed (this implies a decline in per capita consumption), but mounting demand drove up prices, with the result that total expenditure on fruit was up 15 percent (at current prices). In fresh vegetables, there was a slower quantitative increase compared with the previous year and a rise of prices, a development to be expected in view of the expansion of supply and decline of prices in 1968.

(b) *Beverages, cigarettes, and other tobacco products*

Real per capita expenditure on beverages was 7.5 percent higher in 1969. The growth of income and demand was reflected by a relatively large consumption of alcoholic drinks, the per capita figure moving up by about 10 percent as against 5.3 percent the year before. In nonalcoholic beverages the increase was approximately 5 percent.

In contrast to earlier years, the amount spent on cigarettes and other tobacco products increased strongly in 1969—by 7.2 percent per capita as against 1.5 percent in 1968. The rising qualitative trend carried over through the year reviewed, there being a larger sale of expensive brands and a smaller sale of cheaper brands.

(c) *Durable goods*

Unlike most consumer goods, where annual changes tend to be fairly mild and more or less in line with the average growth of total consumption, durables display sharp fluctuations. Between 1960 and 1965 total consumption spending rose by 10 percent, but that on durables went up 18 percent. During the recession years 1966–67, total consumption moved up by 2 and 3 percent respectively, but durables fell off by a precipitate 7 and 19 percent. By contrast, in 1968–69 the 12 percent annual growth in total private consumption was far surpassed by that for durables—70 and 40 percent respectively.

These erratic swings can be attributed to the technological indivisibility of these products and the lack of any widespread rental services, so that they have to be bought in their entirety. In purchasing durables, consumers acquire a flow of services over an extended period; hence net acquisitions of durables and the consumption of their services need not necessarily coincide. For this reason, during the recession the public was able to defer the purchase of such assets, compensating for this by expending 70 percent more in 1968.

In 1969 as well, net acquisitions of durables apparently did not coincide with the consumption of their services. Some of these purchases too were probably intended to replenish consumers' stocks run down during the recession, and in this respect they resembled purchases in the previous year. But in 1969 a speculative element was added: the public anticipated a revision of taxes, especially

Table IV–7

CHANGES IN REAL CONSUMPTION OF CONSUMER DURABLES, 1960–69

(percentages)

	Weight in 1969	Average 1960–65	Annual increase or decrease (–)			
			1966	1967	1968	1969
Furniture	31	20	–5	–20	46	22
Household equipment	54	15	–8	–17	91	52
Personal transportation equipment	15	26	–15	–20	77	45
Total	**100**	**18**	**–7**	**–19**	**70**	**40**

SOURCE: Central Bureau of Statistics.

on cars and TV sets, and this resulted in heavy purchases of these two items, the rise coming to 45 percent. By contrast, in the case of furniture, which was not more heavily taxed, growth was close to the average of previous years (23 percent). These expectations made themselves felt throughout the year, but especially when new tax rates were about to go into effect.[1]

An examination of six selected household durable goods and cars (but not furniture) reveals that in 1969 acquisitions soared 72 percent in nominal terms. The consumption of services provided by the stock of these items increased by an estimated 34 percent—nearly three times as fast as the growth of incomes. No reliable estimates are available on the income elasticity of the service element in durable goods, but a rise of such dimensions seems to be somewhat greater than what the growth of incomes could have been expected to produce; hence part of the acquisitions may be attributed to the aforementioned expectational effect.

Another factor contributing to the heavier purchases of durables was the larger number of new immigrants, especially from affluent countries. The latter have a comparatively high buying power, and use part of it to buy Israeli-made durables (immigrant purchases of imported commodities exempt from customs duties are defined by the Central Bureau of Statistics as unilateral transfers rather than private consumption).

The import component of durable consumer goods valued at factor cost is fairly high. But because of the Government's policy of taxing durables and services at differential rates, the import component is not particularly high when the valuation is made at market prices. Because no data are available for breaking down indirect taxes by economic destination, a calculation cannot be made of the import component at the effective rates of exchange. However, we can fall back on a partial indicator: on an average, each dollar of imported (directly) consumer durable cost IL 7.43 in 1968, and in 1969 the figure apparently changed very little (this effective rate of exchange is about double the official rate).

Domestically produced consumer durables are also highly taxed. The Government persisted in 1969 with its policy of heavily taxing a narrow range of goods and services, raising the taxes (which were already substantial) on cars and TV sets in particular. The heavy purchases of durables in anticipation of the new tax rates encompassed both imported and domestically manufactured items. The hectic pace of acquisitions can be expected to ease in the future, but in every rational economy there is a time preference, and therefore the advancing of purchases involves a certain price.[2]

[1] The monthly estimates available relate to wholesale sales and not changes in dealers' stocks. Hence they do not accurately reflect short-run fluctuations.

[2] For example, in the form of imputed interest on the stock of durables and the engendering of heavy demand pressure in the market with an ensuing rise in the prices of the commodities and in wage costs (these prices tend to be rigid in a downward direction).

Table IV–8

PERCENTAGE OF HOUSEHOLDS OWNING SELECTED DURABLE GOODS, 1964–69

	1964	1965	1966	1967	1968	1969
Gas-cooker	84.5	85.5	83.1	84.3	85.5	**88.0**
Electric refrigerator	70.8	77.6	80.1	82.9	85.6	**88.6**
Washing machine	23.6	28.5	29.5	31.8	35.2	**38.7**
Radio	89.4	89.9	79.2[a]	74.0	73.1	**89.7**
Transistor radio	—	—	40.3	50.2	57.9	
TV set	—	—	3.4	4.9	10.5	**30.0**
Vacuum cleaner	10.3	13.8	14.1	18.1	19.2	**21.2**
Tape recorder	3.9	6.7	6.1	9.2	9.2	**11.6**
Private car	6.9	7.7	10.5	13.3	13.1	**13.9**
Telephone	—	—	—	—	—	**31.0**

[a] One conventional radio only. As from 1966 a distinction has been made between conventional and transistor radios.
SOURCE: Central Bureau of Statistics, household equipment survey for July–September.

Furniture sales were up 22 percent in 1969. Although this was far below the 46 percent rise recorded the year before, it was close to the 1960–65 average—20 percent.

Household equipment showed a real rise of 52 percent in 1969. This can largely be attributed to a new item "in vogue" during the past two years—television sets. Sales totalled IL 170 million in 1968 and IL 370 million in 1969, bringing up the share of this product in total acquisitions of durables to 49 and 85 percent respectively.[1] As a result of the heavy volume of TV sales, the proportion of families owning this item went up to nearly 30 percent by the third quarter of 1969.

Several other durables recorded gains similar to that of TV sets (their weight, however, was much smaller). Among them were air conditioners and tape recorders (sales of which doubled) and washing machines (up 60 percent).

Personal motor vehicles showed a slower increase than household equipment. Total outlay in 1969 is estimated at about IL 200 million, bringing up the ownership rate to nearly 14 percent of all families. This estimate, however, is biased downward, since some vehicles defined as commercial are used for personal purposes as well.

(d) *Other industrial goods*

Expenditure on "other industrial goods" slackened in the year reviewed, the per capita increase being 11.1 percent compared with 19.5 percent in 1968.

[1] It should not be inferred from these figures that were it not for the heavier sales of TV sets total acquisitions of durables would have been smaller by exactly this amount, for there is some degree of substitutability between TV sets and other commodities and services.

Clothing, footwear, and personal effects together rose by 13.2 percent, while the remaining items went up more moderately—by 7.3 percent.

Some of the products under this head contain, like durables, a "stock" element; that is, their services are not consumed immediately but over an extended period. In 1968 there had been a heavy acquisition of these goods, in part to compensate for the deferment of purchases during the recession. In 1969 the growth rate returned to its prerecession level. A quarterly analysis reveals that, in contrast to previous years, the second-quarter level fell off (compared with the first), but in the final quarter the level rose at a faster rate than in the past.

(e) *Housing*

Real per capita consumption of housing services edged up by 1.5 percent in the year reviewed, slightly above the 0.6 percent figure of 1968. The estimate of this item is largely imputed on the basis of the country's dwelling stock, which expanded in 1969.

(f) *Other services*[1]

Consumption of "other services" slowed down conspicuously in 1969, the per capita growth being only 3.0 percent, compared with 9.3 percent the year before. To some extent the deceleration can be attributed to the method of measurement used. Since this item covers domestic consumption (as distinct from national consumption), local expenditures by foreign tourists are recorded in several different subitems and subsequently are netted out of the aggregate data on private consumption. Thus the more sluggish growth of foreign tourism in 1969 found expression in this item.

The amount spent per capita on cinema attendance was down 10.3 percent in 1969. This came on top of a 2.5 percent drop the year before, a development for which TV can undoubtedly be blamed. By contrast, there was a larger expenditure in the year reviewed on other forms of entertainment, particularly the State Lottery and the football pool.

Along with the heavier purchases of passenger vehicles, a larger amount was spent on vehicle maintenance—the rise coming to 15.0 percent per capita, as against 9.4 percent in 1968. In bus and taxi services growth was more moderate—a mere 0.8 percent per capita. Other transport items (travel abroad and domestic rail and air services) were up 7.1 percent per capita.

Expenditure by Israelis abroad (excluding fares) was, at IL 240 million, about 2 percent below the previous year's level. The raising of the foreign travel tax in 1969 rendered rates of taxation on consumption somewhat more uniform.

[1] For services supplied by nonprofit institutions see Chapter VIII. The discussion there does not include political parties, whose consumption rose steeply in 1969 because of the elections.