

## CHAPTER VIII

### PRIVATE CONSUMPTION AND SAVING

#### 1. MAIN DEVELOPMENTS

Real per capita private consumption rose by about one percent in 1977, after a rise of about 2.5 percent in 1976 and a decline of about 2 percent in 1975. The growth patterns of the components of private consumption are similar to those of 1974–1976: a very slow increase in the items of current consumption, a decrease in purchases of durables, and a (relatively) rapid growth of imputed housing consumption.

Per capita disposable private income, which had decreased in 1974–1976 at a rate of 6 to 10 percent<sup>1</sup>, rose in 1977 by 3.54 percent in real terms; however, despite this growth, real per capita disposable private income was still lower in the year under review than the peak levels of the years 1972–1973.

In the years 1974–1976, there were relatively sharp fluctuations over short periods in the level of private consumption, but on an annual average there was stability, despite the decline in disposable private income during this period.

The growth of income in 1977 enabled households to increase their rate of savings somewhat; they had fallen sharply in the three preceding years. The increase of the saving rate this year was assisted by the greater attraction of saving in shares and investment-savings in housing, as well as by considerable retroactive wage payments, from which the propensity to save is higher.

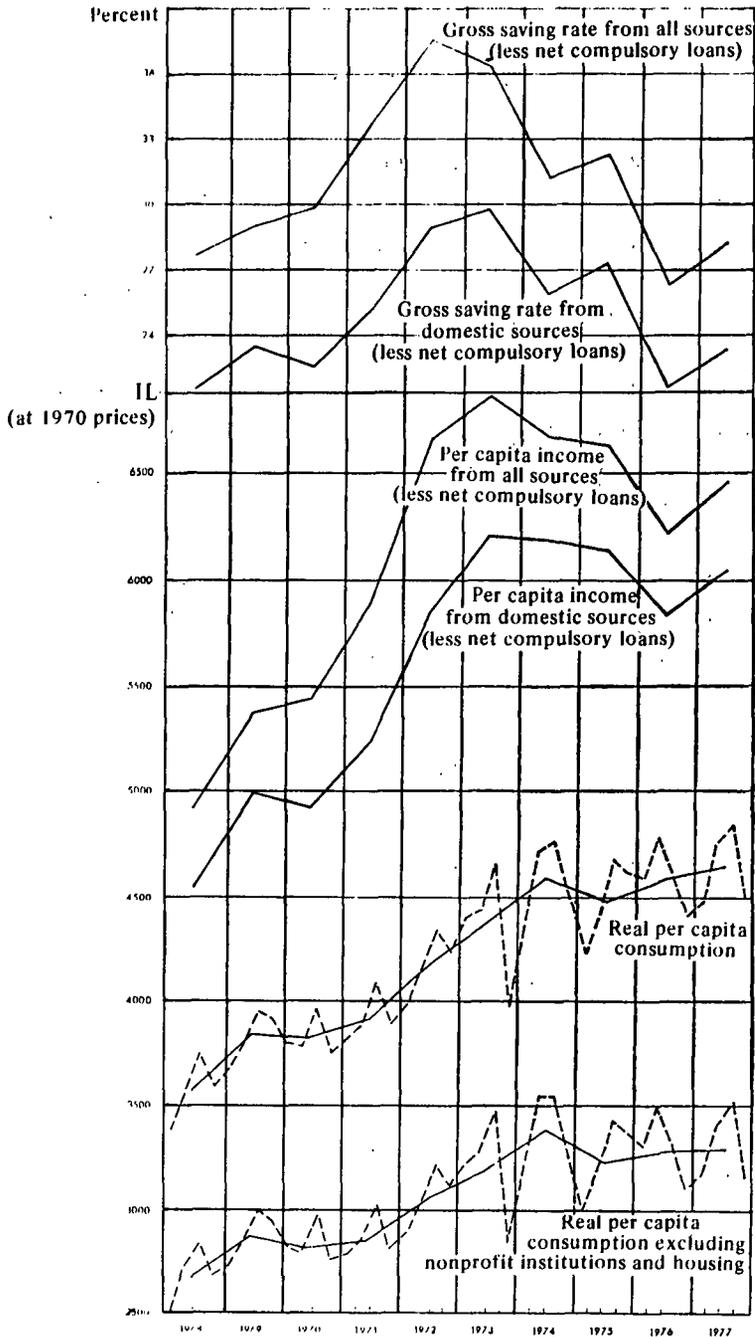
There was an increase of about 2 percent this year in the components of private consumption, in the per capita consumption of food, beverages and tobacco, and the weight of this item in total consumption also increased. Per capita consumption of other industrial products rose by about 6 percent, and the consumption of other services also increased (5.5 percent). The consumption of a number of components dropped: clothing, footwear and personal effects (1.5 percent); the rate of decrease in durable acquisition slowed down in comparison to previous years (3.5 percent).

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<sup>1</sup> According to various definitions of income, see Tables II-9 and VIII-1.

FIGURE VIII-1

TOTAL PER CAPITA PRIVATE CONSUMPTION, PER CAPITA DISPOSABLE PRIVATE INCOME AND SAVINGS RATE, 1968-1977



The growth of private sector savings was concentrated this year in savings in financial assets, and it appears that in the second half of 1977, savings in housing investments increased. Undistributed company profits apparently decreased in 1977.

#### TOTAL PRIVATE CONSUMPTION AND SAVING

Real per capita private consumption increased in 1977 by about one percent; after deduction of the consumption of nonprofit institutions and housing (which are items in which quantities consumed in the current year are not determined by the consumer), real private consumption increased by only about 0.5 percent.

The increase of private consumption in 1977, as in the preceding two or three years, occurred mainly in "current" consumption — food, beverages and tobacco, fuel, light, other industrial products and services<sup>2</sup>; while in the purchase of durables and travel abroad, per capita consumption declined.

Per capita disposable private income increased in 1977 by 3-4 percent, after decreasing continuously between 1974 and 1976. Despite the increase this year, per capita income was still lower in 1977 than the peak level of income in 1973.

The quicker growth of income as against consumption was expressed in a real per capita growth of about 25 percent in private saving<sup>3</sup>, but the saving rate, despite its increase this year (to about 23-25 percent), is still lower than its highest rate, in the years 1971-1973.

There have been significant fluctuations in private consumption since 1973: in the first half of 1974 there was a rapid rise in consumption; a decrease took place in the last quarter of 1974 and the first quarter of 1975; in the second quarter of 1976 consumption increased, in anticipation of the imposition of Value Added Tax, and afterwards it decreased.

But during this time, some of these fluctuations offset each other, and it can be said (taking into account the absolute size of the changes, and within the range of error of

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<sup>2</sup> Detailed data referring to these items (Table VIII-4) include a consumption component of tourists in the country. This component is deducted "globally", and thus the level of consumption and perhaps even the growth rates of the individual items in 1977 deflected upwards somewhat.

<sup>3</sup> Net private saving from internal sources, less net compulsory loans. Total private savings are estimated as the difference between disposable private income and private consumption. As an estimate of a difference, the error range of "private savings" is wider than that of income or consumption.

TABLE VIII-1  
PRIVATE CONSUMPTION, 1970-1977

	1970	1971	1972	1973	1974	1975	1976	1977
Total consumption at current prices (IL million)	11,339	13,414	17,055	22,186	33,237	46,676	62,880	88,148
Percent annual change (rounded to nearest 0.5 percent)								
Total real consumption	3	6	10	8.5	8.5	0	4.5	3.5
Per capita real consumption	0	2.5	6.5	5	5	-2	2.5	1
Per capita real consumption, excl. nonprofit institutions and housing	-1.5	1.5	6.5	5	6	-4	2	0.5
Disposable income per capita from domestic sources <sup>a</sup>	-1.5	6.5	12	6.5	0	-0.5	-5.5	3.5
Disposable income per capita from all sources <sup>a</sup>	1	8.5	12.5	3	-2.5	-0.5	-6	4

<sup>a</sup> Less net compulsory loans.

SOURCE: Central Bureau of Statistics.

estimates) that between 1973 and 1977 per capita private consumption (excluding the consumption of nonprofit institutions and housing) remained stable, with a slight tendency to rise.

Between the years 1974 and 1976, relative stability in private consumption was detected, compared to a sharp drop in disposable income; this was expressed, as already mentioned, by a sharp decline in saving rates. This decline was due to a number of factors: consumption, particularly its current component, tends toward rigidity in the downward direction; i.e. when income decreases, individuals prefer to finance their current consumption by reducing saving rates and postponing the purchase of durables, the purchase of apartments, and travel abroad. An additional explanation is based on the changes in the distribution of income between wages and capital: the propensity to consume from wages income and from income from current transfers is greater than the propensity to consume from capital and capital transfers; thus, the increased weight of wages and current transfers in income has had the effect of reducing the average propensity to save since 1974.

To these factors was added the uncertainty concerning the willingness and the capability of the government to meet its obligations to savers, the deterioration of the terms of linked government savings programs, and a decrease in relative prices of apartments and of stock values in the years 1974–1975<sup>4</sup>.

The stability of consumption in the years 1974–1976 and the absence of any significant reduction despite declining income in those years apparently pushed saving rates below a desirable level.

The share of income from work continued to rise in 1977: real wages increased by 8.9 percent, while real average capital revenue decreased<sup>5</sup>. This development in itself has brought down the average saving rate.

On the other hand, a number of factors were in action in the opposite direction in 1977, enabling households to increase saving rates somewhat: the rise of income this year, with its component of retroactive payments, from which the propensity to save is greater; the increased attraction of saving in financial assets in 1977 (in the first ten months of the year, real rates of return on the stock market were very high, and they tied up significant amounts for the purchase of stocks issued in the course of 1977)<sup>6</sup>. To this should be added

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<sup>4</sup> For details - see Bank of Israel Annual Reports for previous years.

<sup>5</sup> See Chapter II, as well as Table X-5.

<sup>6</sup> The reverse effect can also be shown: the increase of stock prices increases the assets of each individual; the growth of assets leads to an increase of fixed income followed by a rise in consumption.

an improvement in the terms of saving in linked financial assets at the end of 1977, as well as an additional factor, the increase of housing prices in the second half of the year, which enhanced the attraction of investment-savings in housing. All these constituted the background for a slight increase in saving rates.

### 3. PRIVATE CONSUMPTION, SOURCES AND USES - INTERDEPENDENCE RELATIONS

During the economic standstill which has lasted since the Yom Kippur War, real private consumption rose slightly, against a steep decline in investments, a moderate decrease in public consumption in the last two years, and a substantial growth of exports. The combined result of these changes was that private consumption maintained its share of total resources, excluding direct defense imports<sup>7</sup> – about 40 percent – and its weight in domestic uses, excluding direct defense imports, increased to 55-57 percent, from about 50 percent before the Yom Kippur War.

Imports destined for private consumption, directly as well as indirectly (commodities and services), of which about \$1.5 billion represents input imports, and about \$0.5 billion, direct imports.

The reduction of real income since 1974 together with the rise in the relative prices of imports, brought about a real reduction of about 3.5 percent in direct imports destined for private consumption between the years 1974 and 1977<sup>8</sup>. In imports of inputs destined for production for private consumption, there was an increase during this period similar to the increase of total private consumption, about 8.5 percent<sup>9</sup>.

Prices of imports destined for private consumption increased between 1974 and 1977 (in Israeli pounds) by about 190 percent, against an increase of about 150 percent in private consumption prices. Thus, the weight of imports destined for private consumption rose, reaching about one-third of total private consumption in 1977.

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<sup>7</sup> Gross National Product and imports, less direct defense imports.

<sup>8</sup> The decline in direct imports of commodities and of services was similar – 3.5 and 4 percent respectively (in real terms) – between 1974 and 1977.

<sup>9</sup> This result stems partly from the use of constant coefficients of input-output tables. A change in production in the direction of import substitution (or the increase of import-intensity in production) is not expressed in this estimating method. As a result of a change in the composition of private consumption between 1974 and 1977, there was a slower real growth of imports of commodity inputs than of imports of service inputs – 1 percent in commodities and 13 percent in services.

TABLE VIII-2

**PRIVATE CONSUMPTION, RESOURCES AND USES<sup>a</sup>, 1971-1977**  
(rounded percent)

	1971	1972	1973	1974	1975	1976	1977
<b>A. Weight of private consumption</b>							
1. in total resources <sup>b</sup>	39	39	38	39	39	40	39
2. in total resources <sup>c</sup>	39	39	39	40	40	41	41
3. in domestic uses <sup>b</sup>	50	51	49	50	51	54	55
4. in domestic uses <sup>c</sup>	51	51	51	52	51	55	57
<b>B. Weight of imports (direct and indirect) for private consumption</b>							
1. in total domestic imports <sup>b</sup>	29	31	28	30	31	30	29
2. in private consumption <sup>b</sup>	26	27	27	29	29	30	33
3. in private consumption <sup>c</sup>	30	31	30	29	28	28	28

<sup>a</sup> In all relevant sizes – excluding direct defense imports.

<sup>b</sup> At current prices.

<sup>c</sup> At fixed prices (resources and uses between 1971 and 1975 at 1970 prices, 1976 and 1977, at 1975 prices. Private consumption imports at 1974 prices). Lines B2 and B3 – imports in IL at effective exchange rate.

The weight of imports destined for private consumption in total imports of the economy is lower than the weight of private consumption in total uses (excluding direct defense imports); it follows that private consumption is less import-intensive than other uses.

It is worth mentioning that tax rates on imports of private consumption inputs are similar (or equal) to tax rates imposed on inputs for other uses; however, in direct commodity imports, mainly the import of durables for private consumption, tax rates are different from one another. To increase the efficiency of allocation of foreign currency at the disposal of the economy, the various categories of taxes and subsidies and their rates should be standardized.

#### 4. COMPOSITION OF PRIVATE CONSUMPTION

##### A. FOOD, BEVERAGES AND TOBACCO

Real per capita consumption of food, beverages and tobacco rose in 1977 by about 2 percent, despite an increase of relative prices. The weight of this item had declined in the past, while the reduction of disposable income and the rapid price increases in this item disrupted the downward trend. In 1975 and in 1977, the weight of the food, beverages and tobacco item in total consumption increased. In the consumption of this item there is a component (of unknown proportions) of tourist consumption in Israel; in light of the growth of tourism, it is reasonable to assume that the increase of national per capita consumption of food, beverages and tobacco was somewhat lower than 2 percent.

Among the main components, the per capita consumption of food increased by 1.5 percent (the average price of food increased by 42 percent). Per capita consumption of beverages – soft drinks and alcoholic – increased by 10 percent in 1977, stemming partly from the growth of tourism and a relatively slow increase of prices (27 percent).

The per capita consumption of tobacco and tobacco products declined by about 2.5 percent in 1977, which was contrary to the trend of most years, when a relatively fast increase of this consumption was noted: between 1968 and 1977, the consumption of tobacco and tobacco products increased by about 68 percent per capita, while total per capita consumption increased during this period by about 30 percent. Part of the increase of tobacco consumption can be attributed to socio-economic factors, and part to a decline in the relative prices of tobacco and its products; they increased four-fold between 1968 and 1977, while total consumption prices increased six-fold (approximately).

##### B. CLOTHING, FOOTWEAR AND PERSONAL EFFECTS

The per capita consumption of clothing products decreased in 1977 by about 6 percent, while the consumption of footwear and personal effects increased in real terms. In the past, there had been substantial fluctuations in the item of clothing, footwear and personal effects consumption; it is possible that this stems from fluctuations in the military purchases of clothing and footwear recorded in this item.

##### C. DURABLES

The decrease in purchases of durables continued in 1977, but it was moderate in comparison with the preceding two years: a per capita decline of about 3 percent. A comparison of the first nine months of 1977 reveals that the per capita level of purchases was 23 percent lower than in the same period in 1973. The decrease in purchases in 1977 was concentrated in household goods (7 percent per capita) and furniture, in which purchases dropped by about 2.5 percent per capita. In contrast, per capita purchases of pri-

TABLE VIII-3

**COMPOSITION OF PRIVATE CONSUMPTION, 1960-1977**  
(percent, at current prices)

	Average 1960- 1965	Average 1966- 1967	Average 1968- 1969	Average 1970- 1973	1974	1975	1976	1977
Food, beverages, tobacco	32	30	30	27	25	27	27	28
Durables	9	7	10	10	11	10	9	9
Other goods	16	17	17	15	16	16	6	16
Housing	13	15	14	17	20	19	19	17
Nonprofit institutions	9	10	9	10	10	10	10	10
Other services	20	22	20	20	18	18	19	20
Total consumption <sup>a</sup>	100	100	100	100	100	100	100	100.0

<sup>a</sup> Excludes inventory changes, net consumption of nonresidents, and East Jerusalem.

SOURCE: Central Bureau of Statistics.

TABLE VIII-4

## PRIVATE CONSUMPTION OF GOODS AND SERVICES BY MAJOR COMPONENTS, 1973-1977

	Weight in 1977 (percent)	Current prices			Annual change per capita compared to			
		1973 <sup>a</sup>	1976	1977	1976		1973 <sup>a</sup>	
					Quantity	Price	Quantity	Price
		(IL million)			(percent)			
Goods								
Food, beverages, tobacco	28.5	4,283	17,158	25,088	2.0	40.2	3.9	263.0
Household fuel, light	3.8	398	2,527	3,386	0.8	29.9	1.8	27.8
Clothing, footwear, personal effects	7.3	1,293	4,854	6,409	-1.6	31.3	4.6	186.8
Durables	9.4	2,021	6,056	8,260	-3.3	37.9	-23.3	234.6
Other industrial goods	5.3	804	3,110	4,662	6.1	38.1	7.5	239.8
Total goods	54.2	8,799	33,705	47,805	0.9	37.5	-1.8	250.7
Services								
Nonprofit institutions	10.8	1,774	6,087	9,540	2.5	49.5	1.4	246.6
Housing	17.3	3,097	11,887	15,231	3.8	20.8	23.2	159.7
Other services and misc.	21.1	3,437	12,208	18,587	5.4	41.2	6.3	227.9
Total services	49.2	8,308	30,182	43,358	4.3	34.9	10.9	205.3
Total consumption of goods and services	103.4	17,107	63,887	91,163	2.5	34.0	3.9	228.6
Net consumption of foreigners in Israel	-3.4	469	1,007	3,015	67.7	74.5	-22.3	241.7
Expenditure on private consumption	100.0	16,638	62,880	88,148	1.2	35.5	4.6	228.5

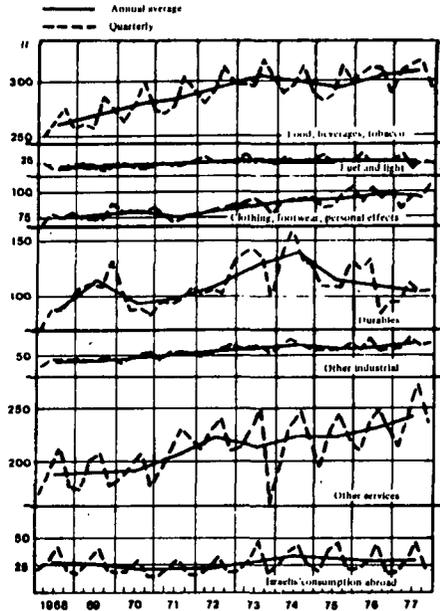
<sup>a</sup> First nine months of 1973 and 1977.

SOURCE: Central Bureau of Statistics.

vate vehicles increased in 1977 by 2.5 percent, but this level is 46 percent lower than in 1973 per capita (owing to a sharp reduction in 1975, as a result of administrative restrictions and a rapid increase of prices).

FIGURE VIII-2

**PER CAPITA CONSUMPTION OF SOME COMPONENTS OF PRIVATE CONSUMPTION, 1968–1977**  
(IL per capita, at 1970 prices)



Additional factors pushing toward a reduction in the purchase of durables were the shrinking of the volume of immigration and the low level of apartment acquisitions.

#### D. HOUSING

The per capita consumption of housing services increased in 1977 by 4 percent, a rate that constitutes a slowdown compared to previous years. The relative prices of apartments decreased in the year under review, so that the weight of this item in total consumption decreased. The estimate of housing consumption is essentially imputed, and it is based on changes in the inventory of apartments: in the years 1974–1976, some of the new apartments had accumulated in the hands of contractors, and the estimate of housing services was slightly deflected upwards. It seems that in 1977, and particularly towards the end of the year, the inventory of unsold apartments shrank.

#### E. OTHER SERVICES

Real per capita consumption of other services rose in 1977 at a relatively rapid pace (5.5 percent), despite the relative price increases. The rise was concentrated mainly in the items in which consumer expenditure was measured directly (a per capita increase of

**TABLE VIII-5**  
**CHANGES IN REAL CONSUMPTION OF DURABLES, 1963-1977**  
 (rounded percentages)

	Weight in 1977 (fixed prices)	Average 1963- 1965	Average 1966- 1967	Average 1968- 1969	1970	1971	1972	1973	1974	1975	1976	1977
<b>Purchases</b>												
Furniture	36	16	-14	29	6	0	15	14	12	-2	-5	1
Household equipment	49	14	-11	71	-25	10	7	24	17	-10	-4	-5
Personal transportation equipment	15	25	-16	61	-32	35	41	29	4	-49	7	5
Total	100	16	-13	54	-17	10	16	22	12	-16	-3	-2
<b>Services</b>												
Furniture	34	14	12	11	12	10	10	10	10	9	7	5
Household equipment	48	15	11	15	17	12	12	12	13	12	9	7
Personal transportation equipment	18	32	15	17	16	13	16	18	17	9	3	3
Total	100	16	12	14	15	12	12	13	13	10	7	6

NOTE: Purchases have been calculated at 1970 prices, and services of the inventory at 1964 prices. See Appendix for the formulation of inventory of durables.

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

about 6.5 percent), while in other items, where they are measured by partial indicators, or attributed, the increase was slower – 3.5 percent per capita.

There were increases in the expenditure on travel (13 percent per person), as well as on postal and telephone services (13 percent per capita in real terms). It is possible that there is in this item a significant component of tourist consumption, as well as an increase in consumption during Sadat's visit. On the other hand, the number of visits to cinemas continued to drop: about 23 percent per capita in real terms.

## 5. COMPOSITION OF PRIVATE SAVINGS

Partial data and indicators<sup>10</sup> show that the financial savings of households increased very rapidly in 1977. In investment-savings in housing there was a slight increase in 1977, mainly in the second half of the year, and in undistributed business profits there was apparently a decline in 1977.

### A. SAVINGS IN FINANCIAL ASSETS

Savings of households in financial assets increased in real terms very rapidly in 1977. Total net savings of households in the medium- and long-term institutional frameworks of the capital market increased this year by about 35 percent in real terms, and, in addition, the stock issues increased five-fold, and the rapid growth of foreign currency savings continued.

In the components of financial savings in 1977, there was a transfer from direct holding of government securities to indirect holding of these securities, mainly through saving schemes and annuity and pension funds. This transfer stemmed partly from changes in relative revenues in favor of institutional saving schemes, but mainly from the continuing lack of confidence in linked securities on the part of the public. The real increase in saving schemes (72 percent) stems from an improvement in the relative return on this kind of saving in the course of the year, from a temporary deviation due to an adjustment of terms between banks, from the increase of return to the saver caused by competition, and, for a number of days following the reform in the foreign exchange market, as a result of the possibility of depositing index-linked monies prior to the reform; the increase also stems from retroactive wage payments made this year in the public sector.

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<sup>10</sup>The data in our hands do not enable us to divide the savings of the private sector into its main components: financial savings of households, savings through investment in housing, and undistributed business profits.

TABLE VIII-6

## PRIVATE SECTOR SAVINGS, 1970-1977

	1970	1971	1972	1973	1974	1975	1976	1977
	(IL million)							
Gross savings <sup>a</sup>	3,293	4,528	6,927	9,385	11,639	17,453	17,089	26,841
Net savings <sup>a</sup>	1,452	2,215	3,939	5,279	5,366	8,224	4,360	7,601
Change in real net savings	-17.7	36.4	53.7	12.2	-26.7	9.2	-58.8	28.9
	Gross saving rate from disposable income							
From domestic sources:								
Including compulsory loans	25	29	32	33	30	29	22	23
Excluding compulsory loans	23	25	29	30	26	27	21	23
From all sources:								
Including compulsory loans	31	37	40	39	35	34	26	28
Excluding compulsory loans	30	34	37	36	31	32	26	28
	Indicators of household saving (IL million)							
Net savings via:								
Social insurance funds				890	1,510	1,740	2,160	3,850
Approved saving schemes				540	1,700	2,190	2,460	5,730
Life insurance				180	320	450	620	910
Mutual funds				240	1,000	1,670	1,340	1,510
Total net household savings, in the institutional frameworks of the capital market				1,850	4,530	6,050	6,580	12,000
Securities				+860	-590	-650	-780	-1,810
Repayments of previous household loans				600	740	1,150	1,460	2,370
Credit to households from financial institutions				1,079	1,930	2,390	3,000	3,680
Mortgages				(770)	(1,450)	(1,860)	(2,110)	(2,380)
Stock issues <sup>b</sup>				626	431	750	702	3,721
Financial means <sup>c</sup>				1,805	1,330	1,892	2,872	5,231
IL time deposits <sup>c</sup>				-49	-224	-40	503	1,088
Pazak restitutions and Tamam, less linkage and rate differentials				499	531	1,079	1,747	1,036
Patam, less linkage differentials				597	37	481	1,507	3,356
Sales index of apartments in private construction (1971 = 100)				75	68	52	46	49

<sup>a</sup> Domestic sources, less compulsory loans.

<sup>b</sup> During 1973-1974 - total stock issues (An unknown component of stock issues was bought by capital market institutions). From 1975 onwards: total stock issues, less stock by capital market institutions.

<sup>c</sup> Including companies' savings component, whose size is unknown.

The net increase of savings through annuity funds (a real increase of about 32 percent) is inherent in the rapid rise of wage payments and a substantial increase in the permitted amounts of deposits.

The exceptional upsurge in the stock market in 1977 increased household savings through the acquisition of stocks issued this year (about IL 4 billion).

With the introduction of the reform in foreign exchange policy at the end of 1977, the possibility of saving in foreign currency was made available to the entire population, and some of the restrictions on the use of these accounts were lifted. Accumulation in foreign currency accounts reached about IL 4.5 billion (excluding devaluation differentials).

#### B. INVESTMENT-SAVINGS IN HOUSING

Savings through investment in housing apparently increased in 1977: there was a slight average annual increase in the purchase of apartments, and a moderate increase (about 8 percent) in apartment prices. The increase in apartment purchases, accompanied by an increase in their prices, took place towards the end of the year. Mortgage credit increased this year by about 13 percent, so that there was no significant change in the financing component of apartment purchases in 1977; it would therefore appear that savings in housing increased in 1977.