

## CHAPTER IV

### PRIVATE CONSUMPTION AND SAVING

#### 1. MAIN DEVELOPMENTS

THE ACCELERATED upswing in private consumption in 1972, after two years of laggard growth, gained additional momentum during the first nine months of 1973. Real per capita spending was up 9 percent from the corresponding period of 1972 and 8.5 percent as against the year as a whole. This is a very strong rise compared with the past and also with the growth of disposable private income during the first three quarters of 1973: real disposable income from domestic sources (excluding compulsory loans) rose 7 percent and that from all sources by 3 percent. These developments depressed the average propensity to save during the first three quarters of 1973, after several years of steady improvement in the rate of private saving. Nevertheless, the private saving rate during this period was still higher than in any year during the 1960s.

The stronger expansion of private consumption in 1973 can be attributed to a number of factors. First of all, private consumption in a given year does not adjust to a change in that year's income but only to the multiyear average ("permanent") change in income. In 1971-72 the sharply higher level of disposable private income was not fully reflected in private consumption during that period, so it was to be expected that the slackening of income growth during the first nine months of 1973 would not significantly affect consumption—which would continue to be influenced by the notable income gains of the two preceding years.

Secondly, the public was uncertain as to Government policy after the elections. The fear of additional taxes—especially a value-added tax—spurred consumers to advance their purchases, particularly of durables. Finally, the uptrend in home purchases began to taper and certain population groups were granted better terms, so that more income was available for current consumption spending.

As a result of a much heavier import for private consumption, the first nine months of 1973 saw a rise in the import component of this end-use. This is explained by a shortage of domestic production capacity and the increased preference displayed by the public for imported brands.

Purchases of durable goods soared 35.6 percent in real terms, and per capita spending on clothing by 26 percent. Expenditure on food, beverages, and

tobacco trailed behind the rise in total consumption during the first three quarters of 1973, so that the share of this item in the latter continued to shrink. Consumption of services by nonprofit institutions accelerated, partly because of the outlays by the political parties in connection with the elections to the Knesset and the Histadrut (General Federation of Labour). The "other services" item went up at a sluggish pace.

The slowdown in the growth of private saving apparently encompassed both real and financial assets. The composition of financial savings underwent a change in 1973—a shift from unlinked interest-bearing assets to those linked to the cost-of-living index.

## 2. TOTAL PRIVATE CONSUMPTION AND SAVING

The accelerated uptrend in private consumption, which began in the latter part of 1971, grew stronger during the first nine months of 1973. After advancing 5.5 percent in 1972, real per capita consumer spending rose by an average of 9 percent during the period discussed—a rate matched only in 1968 and 1954. All components of private consumption shared in the increase, but it was especially sharp in industrial goods, notably durables.

Disposable income lagged behind the expansion of private consumption. Real per capita disposable income from domestic sources (excluding compulsory loans) was up 7 percent during the first three quarters of the year, as against 8 percent in 1972. Personal transfers from abroad were down in absolute terms, so that the gain in disposable income from all sources (excluding compulsory loans) was only 3 percent during this period, as contrasted with 9.5 percent in 1972.<sup>1</sup>

Because the growth of income trailed behind that of consumption, the propensity to consume rose during the first nine months of 1973, reversing the downtrend begun in 1967.

The much higher level of consumer spending during the period discussed, in

<sup>1</sup> There is usually no significant difference between the growth of income from domestic sources and that from all sources. But the large differential in the first three quarters of 1973 raises the question of which is relevant for the purposes of this analysis. An examination of the principal components of personal transfers from abroad shows that pension payments, which are essentially a recurrent income, continued upward, while nonrecurrent restitution payments declined sharply. Immigrant transfers rose more slowly in nominal terms and declined in real terms, while foreign transfer receipts of Israelis, where the permanent income element is low, fell steeply in real terms. It therefore seems that the deceleration of income from all sources can be traced chiefly to those forms of income where the propensity to spend them on current consumption is relatively low. Consequently the changes in income from domestic sources would be more meaningful for our analysis than changes in income from all sources. Nevertheless, the slackened growth of personal transfers from abroad must not be completely ignored, and the change in income from domestic sources must be regarded as an upwardly biased estimate or as an upper bound.

Table IV-1

## PRIVATE CONSUMPTION, INCOME, AND SAVING, 1961-73

	Average			1970	1971	1972		1973	
	1961- 1965	1966- 1967	1968- 1969			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
Total consumption at current prices (IL million)	5,305	8,011	9,658	11,434	13,555	12,356	17,025	16,474	21,948
	Percent annual real increase or decrease (-)								
Consumption	10.5	2.5	10.5	3	5	—	9	12.5	8.5
Consumption per capita	6	-5	7.5	.5	2	—	5.5	9.0	5
Disposable income per capita from internal sources	6.5	1	8.5	2.5	8	—	7	6	6
Disposable income per capita from internal sources, less net compulsory loans	6	1.5	9.5	-5	5.5	—	8	7	6
Disposable income per capita from all sources	6.5	.5	9	3.5	10	—	9	2.5	2.5
Disposable income per capita from all sources, less net compulsory loans	6	.5	10	.5	7.5	—	9.5	3	3

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 1968-73 in terms of constant 1970 prices.

SOURCE: Central Bureau of Statistics and Bank of Israel.

comparison both with the past and with the slacker expansion of private income, requires clarification.

(a) It was noted in previous *Annual Reports*<sup>2</sup> that since the 1966–67 recession income has risen at fairly disparate rates. This points up the fact that changes in consumption are more a function of the average multiyear level of income than of its short-run trend. Thus, in the past a strong income gain in any given year was generally accompanied by a moderate expansion of private consumption, while during the first nine months of 1973 consumption continued to advance precipitately in the face of a more sluggish income growth.

(b) During this part of 1973 there was uncertainty as to what Government policy would be like after the elections scheduled for October; in particular, there was apprehension that additional taxes—especially a value-added tax—would be imposed. Such a climate probably spurs the advancing of purchases, especially of durable goods.

(c) Previous years saw a surge in the volume of home sales following an increase in the number of dwellings sold and the soaring of prices. Since this necessitated the allocation of substantial sums out of current income for this purpose, the rate of saving rose.

During the first three quarters of 1973 the uptrend in home sales and housing prices began to taper. In addition, improved terms and big loans were granted to large groups of purchasers (e.g. newlyweds); consequently a smaller percentage of current income had to be used for this purpose than before, thereby depressing the rate of saving.

(d) Another factor stimulating consumption during this period was the practice of supplementing salaries and wages through the payment of telephone, car, and various other tax-exempt allowances. While most of these payments are included in the estimates of private income, the propensity to spend them on current consumption is higher than in the case of ordinary income.<sup>3</sup> The payment of such benefits was not unique to the first nine months of 1973, but has become more and more widespread over the years. The weight of such payments in total income has risen, making them an increasingly important factor in the propensity to consume.

<sup>2</sup> See, for example, Bank of Israel, *Annual Report 1972*, p. 93.

<sup>3</sup> For example, the telephone allowance, which is included in the calculation of private consumption, also appears in the income estimate, since the latter is derived from GNP, one component of which is, of course, private consumption. Since the size of the allowance depends on the number of calls made (in other words, the cost of a telephone call to the recipient is nil), obviously the measured propensity to consume out of this income is 100 percent. From the standpoint of efficient resource allocation, it would be preferable to pay benefits of this sort in the form of regular wages or salaries.

### 3. INTERDEPENDENCE OF PRIVATE CONSUMPTION, TOTAL RESOURCE USE, AND IMPORTS

During the first nine months of 1973 private consumption moved up faster than GNP. However, total uses also outpaced GNP, so that the weight of private consumption in total uses did not change in comparison with the corresponding period of 1972.

In the past few years private consumption lagged behind the growth of income and of other uses (even exclusive of direct defense imports), so that its weight in total uses drifted downward. However, if the sharp 1972 upswing in private consumption persists, its share in total uses (and especially in total uses less public sector defense spending) will increase.

**Table IV-2**  
**PRIVATE CONSUMPTION, TOTAL RESOURCES, AND IMPORTS, 1968-73**  
(percentages)

	1968	1969	1970	1971	1972		1973
					Jan.- Sept.	Entire year	Jan.- Sept.
Weight of private consumption in total uses (at current prices)	43.7	42.3	39.5	36.9	37.2	37.2	37.1
Weight of private consumption in total uses, excl. defense imports (at current prices)	45.7	44.5	42.7	39.2	39.4	39.3	38.7
Weight of imported finished goods for private consumption in total private consumption (at 1968/69 prices) <sup>a</sup>	7.5	7.8	7.0	7.4	7.1	7.2	8.6
Weight of imported inputs for private consumption in total private consumption (at 1968/69 prices) <sup>a</sup>	13.6	13.5	14.7	13.8	13.9	13.8	14.0
Weight of total imports for private consumption in total private consumption (at 1968/69 prices) <sup>a</sup>	21.1	21.3	21.7	21.2	21.0	21.0	22.6
Weight of total imports for private consumption in total imports (at 1968/69 prices) <sup>a</sup>	30.9	29.5	26.5	24.5	26.6	26.3	26.7
Weight of total imports for private consumption in total imports, excl. defense imports (at 1968/69 prices)	35.9	34.8	34.5	29.8	31.3	30.9	29.7

NOTE: The calculations are based on the input-output table for 1968/69.

<sup>a</sup> Less net consumption of nonresidents and changes in inventories.

SOURCE: Central Bureau of Statistics and Bank of Israel.

Total imports for private consumption<sup>4</sup> in the first three quarters of 1973 were up 20 percent in real terms, as against 8 percent in 1972. This was a result of the surge in private consumption and the increase in its import component.

Imported inputs moved up in step with private consumption, so that their weight in this final demand did not change significantly from the corresponding period of 1972. On the other hand, the share of direct imports was up sharply, with goods and services advancing to about the same extent. The higher proportion of direct imports is explained by a shortage of production capacity in the country and the consequent diversion of the excess demand to commodities and services from abroad, as well as by a change in consumers' tastes in favor of imported brands.

Despite the accelerated growth of imports for private consumption, their weight in total imports remained unchanged, since imports for other uses (excluding defense imports) increased relatively faster.

The weight of private consumption imports in total imports (whether valued at the official or the effective rate of exchange) is lower than the weight of private consumption in total uses. It follows that private consumption is less import-intensive than other uses.

The total import component (finished goods and inputs) was estimated<sup>5</sup> at both the official and effective rates of exchange for certain major private consumption items,<sup>6</sup> for the years 1968–72. It was found that the dollar cost to the economy of each IL spent on food, beverages, and tobacco was no less than that of each IL spent on durable goods. The average import component of food, beverages, and tobacco (at the official rate of exchange) for this period was 26 percent, while for durables it was 24.5 percent. In other commodities the figure was 24.7 percent. It was lowest in services—13 percent; this is attributable to their large labor input and the technical impossibility of importing services to any appreciable extent.

The breakdown of the import component between inputs and finished goods is  $\frac{2}{3}$  and  $\frac{1}{3}$  respectively. Durable goods are an exception in this respect, as their direct import component is twice as large as that of imported inputs.

The average rate of tax on private consumption imports in 1968–72 was 25 percent (28 percent in 1972), or 5 percent of total private consumption.

<sup>4</sup> Excluding the consumption of foreign nationals and changes in inventories. The estimates are for imports of inputs, services, and finished goods. The direct and indirect inputs have been calculated according to the coefficients in the input-output table for 1968/69.

<sup>5</sup> These estimates are based on consumption and import data for 1972. Although they have not been revised according to 1974 data, they may still be used, as the revisions made in earlier years did not change them quantitatively and certainly not materially. The calculations are in 1972 prices, and the rates of exchange (both official and effective) are also from that year. The estimates are based on the input-output table for 1965/66 (and not for 1968/69).

<sup>6</sup> Food, beverages, and tobacco, durable goods, and other goods and services.

**Table IV-3**  
**AVERAGE IMPORT COMPONENT OF PRIVATE CONSUMPTION,**  
**BY MAJOR GROUP,<sup>a</sup> 1968-72**

(percentages)

	Import component		Import tax component of private consumption	Rate of taxes on imports
	At effective rate of exchange	At official rate of exchange		
Food, beverages, tobacco	32.4	25.9	6.5	25.1
Durable goods	39.5	24.4	15.1	61.9
Other goods	32.6	24.7	8.0	32.0
Services	14.3	13.1	1.2	9.2
Total private consumption <sup>b</sup>	24.3	19.4	4.9	25.3

<sup>a</sup> Calculated on the basis of the input-output table for 1965/66, updated to May 1973.

<sup>b</sup> Less net consumption of nonresidents and inventory changes.

The rates vary widely.<sup>7</sup> Durable goods are heavily taxed, the average being 62 percent (70 percent on finished goods and 47 percent on inputs); taxes are lowest on services—about 10 percent. The differential rates of taxation affect the relative prices and hence the consumption of the various items. Thus they induce an inefficient allocation of the foreign exchange at the economy's disposal.

#### 4. HOUSEHOLD SAVING AND ITS COMPONENTS

Estimates for the first nine months of 1973 indicate a slight dampening of the average propensity to save. The uptrend begun after the 1966-67 recession was therefore apparently checked in 1973, though the average propensity to save remained higher than in the 1960s.

Lack of data precludes a full decomposition of private saving, but it seems that the contraction occurred in the two principal components—financial and real assets. There was a shift in financial saving to assets linked to the consumer price index.

Housing completions were up 10 percent in 1973, while starts held steady during the first nine months of 1973 and moved down for the year as a whole. There is never an exact estimate of the amount spent by households on home purchases in a specific year. But data on residential building started and completed suggest a slackening in the growth of household expenditure on home

<sup>7</sup> The rate of tax on direct imports is higher for every category than that on inputs because of a protectionist policy. The differentials are between the rate on inputs and that on finished goods in each of the different categories.

**Table IV-4**  
**SELECTED COMPONENTS OF PRIVATE SECTOR SAVING, 1961-73**

(at current prices)

	Average			1970	1971	1972		1973	
	1961-1965	1966-1967	1968-1969			Jan.-Sept.	Entire year	Jan.-Sept.	Entire year
Gross saving out of income from all sources (IL million)	1,692	2,523	4,018	5,344	7,858	7,997	10,721	9,144	13,077
Rate of growth (%)	20	12	21	47	47	—	36	14	22
Average propensity to save (%)	24	24	29	32	37	39	39	36	37
Average propensity to save out of income from all sources, excl. compulsory loans (%)	24	23	30	30	34	37	36	33	35
Average propensity to save out of income from domestic sources (%)	16	18	23	25	29	31	30	29	31
Average propensity to save out of income from domestic sources, excl. compulsory loans (%)	15	17	23	23	25	28	27	26	28
Gross saving, incl. consumer durables (at constant prices)									
Rate of growth (%)	12	2	28	8	30	—	18	—	4
Average propensity to save (%)	27	25	33	34	38	—	40	—	39
Number of dwellings completed ('000 units)	—	33	24	31	38	—	47	41	51
Liquid savings (IL million)*	—	668	942	1,206	2,060	—	2,081	—	2,263
Outstanding mortgage bank credit (IL million)	—	-90	-111	-209	-308	—	-467	—	-686

\* In contrast to previous years, this item does not include saving through social insurance funds and insurance companies.

SOURCE: Central Bureau of Statistics and Bank of Israel.

purchases in 1973. The fairly large volume of loans extended to various pressure groups—especially young couples—on easy terms tended to depress saving from current income (see Table XIV-3 in Chapter XIV, “Financial Institutions”, for the volume of financing to young couples).

The brisk sale of durables during the previous two years brought up computed saving in the form of such assets (the difference between total current purchases of durables and the consumption of their services). In absolute values, this is smaller than other types of saving, so that its effect on total saving is not great.

While no data are available on financial saving, various indicators show that there was no acceleration in 1973, but there was a change in composition.<sup>8</sup> The growth of the public’s time deposits in Israeli currency<sup>9</sup> slowed noticeably, from IL 600 million in 1971 and IL 500 million in 1972 to IL 200 million, because the interest paid could not compete with the return on Government index-linked bonds. Sales of the Short-Term Loan—which is not index-linked and whose nominal yield was very low in 1973—fell off in absolute terms; the decline was concentrated in the last quarter of 1973, after the expiration of the underwriting agreement with the banks (see Chapter XV, “The Securities Market”).

Household saving through approved savings schemes expanded by a substantial IL 700 million in 1973, as against IL 300 million in 1971 and in 1972. This notable increase can be partly credited to the introduction of a new savings plan, which features a rather substantial initial grant and linkage to the consumer price index.

Net purchases of medium-term index-linked bonds soared, chiefly in the last quarter of 1973. It is likely that at least part of the growth of savings schemes and bond purchases reflects the shift from unlinked financial assets (Pazak foreign currency time deposits and the Short-Term Loan) to index-linked assets, so that the uptrend in total household liquid savings did not accelerate.

Compulsory loan collections were up 20 percent in 1973, but the value of certificates distributed (on account of nonnegotiable loans collected in previous years) declined, so that the net rise was 28 percent. With the inflation growing more rampant, the tax component of these loans increased, because the interest paid is not linked to the consumer price index. But total saving in the form of compulsory loans was greater than in 1972.

## 5. COMPOSITION OF CONSUMPTION

Consumption of goods rose more than twice as fast as that of services during the first three quarters of 1973—by an average of 15 as against 7 percent in real terms. This was due partly to the spurt in clothing purchases, but mainly to the stepped up acquisition of durable goods, which accounted for about

<sup>8</sup> When this chapter went to press data were not yet available on household saving through social insurance funds and insurance companies.

<sup>9</sup> Time deposits of up to IL 50,000.

**Table IV-5**  
**COMPOSITION OF PRIVATE CONSUMPTION, 1960-73**

(percentages; at current prices)

	Average			1970	1971	1972		1973
	1960-1965	1966-1967	1968-1969			Jan.-Sept.	Entire year	Jan.-Sept.
Food, beverages, tobacco	32.5	30.5	29.5	28.0	27.5	26.0	25.5	24.5
Durable goods	9.0	7.5	11.0	9.5	9.5	9.5	10.0	11.5
Other goods	16.5	16.5	15.5	15.5	15.0	15.0	15.5	15.5
Housing and nonprofit institution services	22.0	24.0	23.0	25.5	26.5	28.0	28.5	29.0
Services and miscellaneous	19.5	21.5	21.0	21.0	21.5	21.5	20.5	19.5
Total consumption of goods and services <sup>a</sup>	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.

<sup>a</sup> Excluding changes in inventories and net consumption of nonresidents.

SOURCE: Central Bureau of Statistics.

4 percentage points, or one-third, of the total real increase in consumption. The relatively faster rise in commodity prices contrasts with the usual trend, as for many years service prices outpaced commodity prices, generally because of the relatively faster advance in housing services and the subsidization of various commodities.

As a result of these quantity and price changes, the share of food, beverages, and tobacco in total consumption continued downward, durables and other commodities held steady and did not deviate significantly from their multiyear average, while services edged down a little.

(a) *Food*

Per capita consumption of food moved up 2.3 percent in the first nine months of 1973, with its relative price rising a notch. Part of the increase reflected the building up of stocks (mainly sugar and flour) by consumers in anticipation of a hike in basic commodity prices in April 1973 (expectations which materialized). The real growth of food consumption per capita (excluding sugar and tea) came to less than 1 percent in 1973.

Cereals and cereal products inched up 0.7 percent in real per capita terms. This was the net result of a decline in standard bread and an increase in more expensive items such as pastry, biscuits, and kindred products.

Per capita spending on meat products was up by an appreciable 8.7 percent in the first three quarters of 1973, with their relative price dipping slightly. Most of the increase was in frozen liver (up 103 percent), the price of which rose only fractionally. Sales of poultry were also much brisker (up 7.3 percent per capita), even though they became 23 percent dearer. Although frozen meat prices did not go up as fast as those for poultry, per capita consumption of the former rose by only a moderate 2.3 percent, apparently because of a change in tastes. Fresh beef sales contracted in absolute terms; the decline was partly due to supply difficulties but mainly because of a 23 percent price hike.

Real per capita consumption of eggs rose 7.3 percent in the first nine months of 1973, as their relative price slipped 14.5 percent. At the beginning of the year a shortage arose because of production difficulties, and the demand had to be partly met by storage and imported eggs.

Milk and milk products were up 5.9 percent in real per capita terms, with prices advancing mildly (these commodities are controlled and subsidized). Most of the increase was accounted for by fermented milk products (up 21 percent), fat white cheese (12.5), salted cheese (9), and pasteurized milk (7.6). Per capita sales of butter and processed cheese slumped.

The per capita figures for fresh fruit and vegetables plummeted by 14.5 and 7.5 percent respectively, with prices mounting by a steep 41 and 32 percent respectively. This was due to the severe frost, which damaged part of the fruit and vegetable crops in January 1973 (especially subtropical fruits such as bananas and

**Table IV-6**  
**PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1972-73**  
 (at current prices)

	Weight in total consumption in 1973 <sup>a</sup> (%)	IL million			Percent annual increase			
		1972		1973	1972		1973 <sup>a</sup>	
		Jan.- Sept.	Entire year	Jan.- Sept.	Quantity	Price	Quantity	Price
<b>Goods</b>								
Food, beverages, tobacco	24.7	3,351.2	4,536.0	4,206.8	6.6	8.8	6.1	18.3
Household fuel, light, and ice	2.2	322.6	444.6	376.3	11.3	8.3	10.6	5.4
Clothing, footwear, and personal effects	9.1	1,082.7	1,535.9	1,554.8	20.7	14.5	22.1	17.6
Durable goods	11.4	1,241.4	1,797.8	1,942.1	14.4	16.4	35.6	15.3
Other industrial goods	4.1	529.9	739.8	697.6	10.4	10.6	16.1	13.4
<b>Total goods</b>	<b>51.5</b>	<b>6,527.8</b>	<b>9,504.1</b>	<b>8,777.6</b>	<b>10.7</b>	<b>10.2</b>	<b>15.2</b>	<b>16.8</b>
<b>Services</b>								
By nonprofit institutions	9.7	1,270.1	1,712.6	1,657.2	7.2	12.7	8.3	20.5
Housing	19.1	2,354.0	3,364.0	3,248.0	6.9	33.6	7.4	28.5
Other services and misc.	19.4	2,711.9	3,594.8	3,300.9	6.1	13.1	5.4	15.4
<b>Total services and misc.</b>	<b>48.2</b>	<b>6,336.0</b>	<b>8,671.4</b>	<b>8,206.1</b>	<b>6.6</b>	<b>20.2</b>	<b>6.7</b>	<b>21.4</b>
East Jerusalem—goods and services	0.3	35.9	47.4	48.0	7.0	19.7	9.8	21.8
<b>Total consumption of goods and services<sup>b</sup></b>	<b>100.0</b>	<b>12,899.7</b>	<b>17,773.4</b>	<b>17,031.7</b>	<b>8.8</b>	<b>15.4</b>	<b>11.2</b>	<b>18.7</b>

<sup>a</sup> January-September, 1973 compared with January-September, 1972.

<sup>b</sup> The discrepancies between these figures and those on total private consumption stem from the inclusion in the former of changes in inventories and the consumption of nonresidents, less the consumption of Israelis abroad.

SOURCE: Central Bureau of Statistics.

Table IV-7

## CHANGES IN REAL CONSUMPTION OF SELECTED FOODSTUFFS, JAN.-SEPT. 1973

(percentages; at current prices)

	Weight in total food consumption	Increase or decrease (-) compared with Jan.-Sept. 1972		
		Quantity	Price	Relative price <sup>a</sup>
Cereals and cereal products	9.5	4.0	13.1	-4.9
Meat and meat products	29.2	12.3	18.1	-0.7
Fish and fish products	3.6	8.5	10.9	-6.7
Eggs	4.0	10.8	1.8	-14.4
Milk and milk products	9.1	9.4	5.9	-10.9
Edible oils and fats	2.7	6.7	3.0	-13.4
Fresh fruit	14.2	-11.6	40.6	18.3
Fresh vegetables	11.2	-4.6	31.9	10.9
Sugar and sugar products	7.5	21.4	20.4	1.3
Tea, coffee, cocoa	3.1	22.1	6.2	-10.7
Processed fruit and vegetables and misc.	5.9	6.2	16.8	-1.8
<b>Total</b>	<b>100.0</b>	<b>5.7</b>	<b>18.9</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.

avocados), and to drought, which reduced yields in the administered areas—where vegetables and especially fruit are not irrigated. During the first three quarters of 1973 the administered areas even had to import fruit and vegetables, in contrast to their traditional export of these commodities.

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

Real per capita consumption of nonalcoholic drinks was down 11 percent in the first nine months of 1973, with prices advancing 19.5 percent. Sales of alcoholic beverages, whose income elasticity of demand is relatively high, were up 7.6 percent, after retreating 4.5 percent in 1972.

The strong uptrend displayed in recent years by tobacco and tobacco products carried over through the first three quarters of 1973, when the per capita figure advanced 10 percent. This is partly explained by the 6 percent decline in the relative price of this item. Tobacco sales went up more rapidly than those of cigarettes—46 vs. 12 percent.

(c) *Durable goods*

Sales of durable goods soared 35.6 percent in real terms during the first nine months of 1973 to account for about one-third of the total increase in private

consumption. This continued the upward trend which began in 1971 and gained force in 1972, especially the last quarter. However, the growth rate slowed during the first three quarters of 1973, and provisional figures show that the level in the third quarter stood only 18 percent higher (on a seasonally adjusted basis) than in the fourth quarter of 1972.

The determinants of durable goods demand differ drastically from those for other private consumption items. The principal reason is that such assets provide households with a multiyear flow of services. Whereas in the case of other goods and services purchases can be advanced or postponed for only a relatively short period, with the quantities involved being insignificant, the acquisition of consumer durables can be advanced or deferred for several years.

**Table IV-8**  
**CHANGES IN REAL CONSUMPTION OF CONSUMER DURABLES, 1960-73\***  
(percentages)

	Weight in 1973 <sup>a</sup>	Annual increase or decrease (-)						
		Average			1970	1971	1972	1973*
		1960- 1965	1966- 1967	1968- 1969				
Furniture	35	20	-13	28	6	-1	18	26
Household equipment	39	15	-13	72	-23	2	4	33
Personal transportation equipment	26	30	-18	58	-36	37	45	47
Total	100	18	-13	52	-16	7	14	36

<sup>a</sup> January-September, 1973 compared with January-September, 1972.  
SOURCE: Central Bureau of Statistics.

Several factors gave a fillip to sales of durable goods during the first nine months of 1973:

(1) Large retroactive wage and salary increments were paid. These were nonrecurrent payments and exceeded the recipients' current monthly income; hence that part of the payments which was earmarked for private consumption was used not for current consumption but for the acquisition of durables.

(2) This period saw the revaluation of several European currencies, which made most of the goods imported from these countries more expensive in IL terms and triggered sporadic waves of panic-buying of durables.

(3) Rumors abounded of the Government's intention to impose a value-added tax (which would push up the general price level); this too spurred the advancing of purchases.

(4) Restrictions on duty-free imports by immigrants were slated to come into force at the beginning of 1974. This was expected to induce immigrants

to significantly step up their purchases in 1973. However, data for the first nine months of the year do not indicate any great difference, and the real increase in their imports was in fact below the national average—27 as against 36 percent.

Furniture sales accelerated during these months despite soaring prices. The total amount spent was up 26 percent, with prices advancing 25 percent—faster than for any other major industrial item. Partial data show a particularly steep rise in sales of imported products.

After a sharp downturn in 1970 and a moderate growth in 1971 and 1972, household equipment rebounded during the first three quarters of 1973, posting a 33 percent real increase. All products showed higher figures, with imports moving up relatively faster, because of a change in tastes and a shortage of domestic production capacity.

After peaking in 1969 and losing ground over the next three years, sales of TV sets began to perk up in the last quarter of 1972 and in 1973 were 15 percent higher on an annual average than in 1972 (sales of domestically produced sets rose only 7 percent). The figure for the first nine months of 1973 was 22 percent up on the corresponding period of 1972. This strong rise brought up the proportion of families owning at least one set to nearly three out of every four by October 1973. Steep increases were recorded in electric and transistor radios, tape recorders, and phonographs. Washing machines were up by a formidable 40 percent, although sales of local makes fell off. By the third quarter of 1973 more than half of all families owned a washing machine.

Sales of personal transport equipment rocketed during the first nine months of 1973 by 47 percent in real terms; this came on top of similar rises in the previous two years—37 and 45 percent in 1971 and 1972 respectively.

**Table IV-9**  
**PERCENTAGE OF HOUSEHOLDS OWNING SELECTED**  
**CONSUMER DURABLES, 1969-73**

	1969	1970	1971	1972	1973
Electric refrigerator	88.6	88.9	90.6	92.1	92.4
Washing machine	38.7	42.8	46.2	50.5	55.2
Radio (incl. transistor radios)	89.7	89.9	89.4	89.0	84.4
TV set	30.0	49.7	59.7	68.0	74.4
Vacuum cleaner	21.2	20.5	21.1	23.5	24.2
Tape recorder	11.6	11.9	13.8	14.9	18.9
Private car	13.9	15.4	18.2	19.1	22.1
Telephone	31.0	34.8	37.9	41.2	44.3

SOURCE: Central Bureau of Statistics, household equipment surveys.

Expectations of an indirect tax hike gave a strong boost to sales, especially after the Government announced its intention of altering the method of calculating the tax on vehicles, which would make them more expensive. As a result, sales spurted in the first quarter of 1973. In this connection it should be pointed out that for the past several years car sales have been stimulated by the various tax-exempt allowances granted to employees owning vehicles.

(d) *Other industrial products*

Real per capita consumption of footwear fell 2 percent during the first nine months of 1973, a surprising development in view of the previous year's decline.

The per capita figure for clothing rose to about the same extent as in 1972—by 26.3 and 27.6 percent respectively. No explanation can be offered for either the large recorded gain in clothing sales or the decline in footwear, but they may have been due to statistical deficiencies.

Other industrial products went up 12.4 percent in real per capita terms, with cosmetics, drugs, books, and newspapers leading the way.

(e) *Housing services*

Changes in the consumption of housing services are calculated on the basis of the imputed rent on owner-occupied dwellings rather than any direct measurement. In the first nine months of 1973 this item increased 4 percent in real terms, a slightly faster rate than in the postrecession years but similar to the average for 1961–65.

As usual, this item rose very strongly in price terms—by an average of 28.5 percent during the first three quarters of 1973. Because of the method of estimation used, some of the previous year's increase may have been attributed to this period.

(f) *Other services*<sup>10</sup>

Real per capita consumption of other services rose by a very sluggish 2 percent, following a moderate growth in the previous year as well. The exclusion of hotels and other services which cater predominantly to tourists brings the figure up to almost 4 percent. These services have a relatively high income elasticity of demand, so that this estimate appears to have a slight downward bias.

There was a sharp 15 percent per capita real increase in car maintenance (garage services, license fees, etc., but excluding fuel). The figure for public transport services rose 3.7 percent, after inching up 1.1 percent in 1972.

A large 12 percent increase was recorded in postal and telephone services. After declining for the past few years, per capita outlay on cinema tickets rose 1.4 percent during the first nine months of 1973.

<sup>10</sup> See Chapter VIII for the consumption of nonprofit institutions.