

CHAPTER VIII

PRIVATE CONSUMPTION AND SAVING

1. MAIN DEVELOPMENTS

The development of private consumption in 1978 bears clear signs of economic recovery. Against the background of a renewed rise in disposable private income in 1977 and continuation of the uptrend in 1978, real per capita private consumption rose by 5.5 percent this year, following average increase of about 2 percent in the two preceding years and a decrease of 1.5 percent in 1975.

In 1974–76, when income either decreased or came to a standstill, individuals financed their consumption by reducing their rates of saving while changing the composition of their consumption; in this way they maintained a constant level of current consumption and deferred purchases of durables. With the rise in incomes in 1977, purchases of durables began to pick up toward the end of the year and accelerated further in 1978. This was particularly true of household equipment and private cars, where there was a large catchup demand. The growth of income and the liberalization of foreign currency control in themselves stimulated the consumption of Israelis abroad. At the same time, per capita income rose less than per capita consumption (about 2 percent), so that the saving rate declined somewhat.

Total savings of the private sector out of income from domestic sources rose in 1978 by about 5 percent in real terms. There was an increase in the share of savings in real assets: housing investment was nominally larger this year, but due to supply constraints, real growth was slow. In financial savings of households the shift from direct to indirect holdings of government bonds continued in 1978, though a little more slowly.

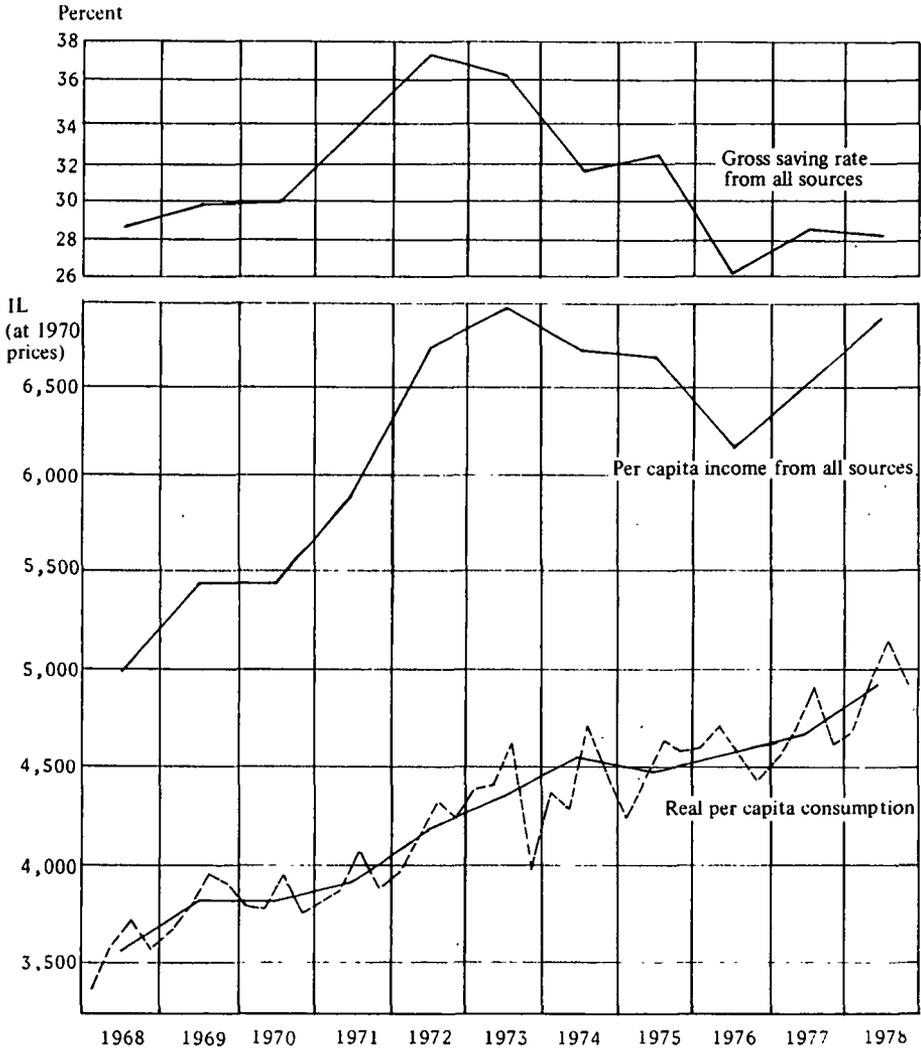
2. TOTAL PRIVATE CONSUMPTION

Per capita private consumption stabilized in 1973–77, with a slight upward tendency. During this period there were significant fluctuations in private consumption, resulting from such special events as the Yom Kippur War, the economic steps of November 1974, and the imposition of a value added tax in July 1976.

The development of private consumption in 1973–77 is explained by the decline in disposable private income. The public adjusted its total consumption to the diminishing

FIGURE VIII-1

PER CAPITA PRIVATE CONSUMPTION, PER CAPITA DISPOSABLE
PRIVATE INCOME, AND SAVINGS RATE, 1968-78



income by reducing the rate of private saving (which in 1970-73 had reached a very high level). In addition, there was a change in the various components: durable goods purchases and travel abroad sagged, while "current" consumption¹ held steady or even increased slightly.

¹ For a more detailed analysis for each year see Bank of Israel Reports for the relevant years.

TABLE VIII-1

PRIVATE CONSUMPTION, 1972-78

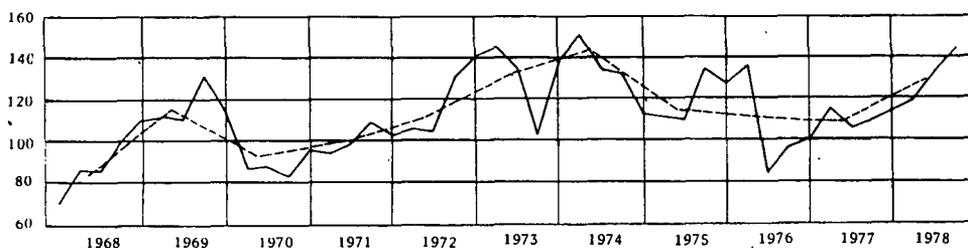
	1972	1973	1974	1975	1976	1977	1978
Total consumption at current prices (IL million)	17,055	22,122	32,877	46,408	62,078	88,110	146,696
	Percent annual change (rounded to nearest 0.5 percent)						
Total real consumption	10	8	8	1	4	4	8
Per capita real consumption	6.5	4.5	4.5	-1.5	1.5	2	5.5
Per capita real consumption, excl. nonprofit institutions and housing	6.5	4.5	5	-4	0.5	1.5	7
Disposable income per capita from domestic sources ^a	10.5	6	1	-3	-9	5	3.5
Disposable income per capita from all sources ^a	11.5	3	-2	-3	-9	5.5	5.4

^a Less net compulsory loans.

SOURCE: Central Bureau of Statistics.

In 1977 disposable private income increased by about 5 percent, reversing a two to three year downtrend.² Real per capita private consumption grew in 1977 at a slightly slower pace than income, pulling up the rate of saving a bit. In 1978 per capita disposable income continued upward: there was a gain of close to 4 percent in income from domestic sources, and together with the accelerated expansion of transfers to individuals from abroad, income from all sources rose 4.5 percent per capita. The growth of disposable income in the last two years (which brought it up to the level before the Yom Kippur War) and the pent-up demand for a number of component items led to a 5.5 percent annual average rise in private consumption (following an average increase of less than 2 percent in 1974–77). The increase in per capita private consumption, excluding nonprofit institutions and housing services, totalled about 7 percent, which is high compared to the previous period. The rapid rebounding of private consumption during the year is seen in the fact that in the second half real per capita consumption was 5 percent higher than its level in the first half (7 percent excluding nonprofit institutions and housing services).

FIGURE VIII-2
PER CAPITA PURCHASES OF DURABLES, 1968–78
 (IL, 1970 prices)



Besides the main factor in the expansion of consumption this year, namely the growth of income, there were several secondary factors; the turnabout in economic activity generated expectations that the renewed upswing in income would persist; the acceleration of inflation in 1978 increased the subsidy element in cheap credit granted to households (although the magnitude of this subsidy has not yet been estimated, it is reasonable to

² In accordance with the various definitions of income; see Table VIII-1.

assuming that it is a significant factor),³ the large devaluation of October 1977 appreciated the real value (in IL terms) of foreign currency deposits, thus stimulating consumption.

The composition of the incremental private consumption in 1978 was typical of a period of emergence from economic stagnation: an increased consumption of products whose purchase was postponed in recent years such as durables, where the per capita figure was up 18 percent (the abundance of liquidity after the sizable monetary expansion in 1977 and the fairly large amount of credit available in the economy in 1978 were probably contributory factors). There was also a 25 percent larger consumption of Israelis abroad (the upturn started in 1977 and grew stronger this year because of the liberalization of foreign currency control).⁴

3. INTERDEPENDENCE OF PRIVATE CONSUMPTION, RESOURCES AND USES

Total imports directly and indirectly destined for private consumption (commodities and services) amounted in 1978 to an estimated \$ 2 billion (in current prices),⁵ of which some \$ 800 million was direct imports of commodities and services and \$ 1,234 billion inputs.

Direct commodity imports for private consumption rose by 8 percent in real terms, i.e. there was some import substitution (consumption of commodities increased by 9.5 percent). This may have stemmed from the overprotection granted in October 1977 to the production of import substitutes. The consumption of Israelis abroad ("direct imports of services") rose by about 25 percent in real terms; this can be credited to the growth of disposable income and the liberalization of foreign currency control.

Input imports for private consumption increased by 7 percent in real terms, with commodities being up 6 percent and services by 11 percent.

Direct commodity imports for private consumption are far more heavily taxed than other imported goods; thus, for example, the price of one dollar of imported finished

³ Estimates of the subsidization of credit appearing in other chapters of this Report refer to credit to business and not households.

⁴ On the increased consumption of clothing, footwear, and personal effects, see section 4 below.

⁵ Estimates of input import are based on the 1972/73 input-output tables; these estimates differ from those presented in previous reports, which were based on the 1968/69 input-output tables.

TABLE VIII-2
SHARE OF IMPORTS FOR PRIVATE CONSUMPTION, 1973-1978^a
 (rounded percentages)

	1973	1974	1975	1976	1977	1978
In private consumption (direct imports)	11	9	10	11	11	13
In private consumption (direct and indirect imports)	24	25	25	27	27	30
In total imports of the economy ^b	26	26	27	26	26	26

^a Current prices; imports at effective exchange rate.

^b Excluding direct defense imports.

SOURCE: Central Bureau of Statistics and Bank of Israel.

good was IL 16.80 in 1977, compared with only IL 11.90 for inputs. Such a differential system of effective exchange rates encourages inefficient import substitution, and may indirectly contribute to an increase in the current account deficit, while at the same time increasing the pressure on prices.

4. COMPOSITION OF PRIVATE CONSUMPTION

The long-term downward trend in the share of food, beverages, and tobacco in consumption reasserted itself in 1978, following a slight increase in recent years. Food consumption was up 3 percent per capita (the average price of food jumped 47 percent). Consumption of beverages stabilized due to the sharp rise in their price (64 percent), while the per capita figure for tobacco edged up about 1 percent, after a drop in 1977 and a steep rise in previous years.

Real per capita consumption of clothing, footwear, and personal effects rose by 16 percent. In clothing the level was up more than 20 percent, while in footwear it went up by a mere 2-3 percent, and in personal effects by about 10 percent. The extraordinary

TABLE VIII-3

PRIVATE CONSUMPTION OF GOODS AND SERVICES BY MAJOR COMPONENTS, 1976-78

	Weight in 1978 (%)	Current prices (IL million)			Percent annual change per capita			
					1977		1978	
		1976	1977	1978	Quantity	Price	Quantity	Price
Goods								
Food, beverages, tobacco	26.6	17,158	25,217	39,100	2.3	40.7	2.4	47.9
Household fuel, light	3.7	2,527	3,404	5,449	1.0	30.5	3.0	51.9
Clothing, footwear, personal effects	8.1	4,854	6,557	11,845	0.5	31.5	16.0	52.1
Durables	10.8	6,056	8,289	15,778	-2.7	37.7	17.6	58.2
Other industrial goods	5.3	3,110	4,677	7,780	6.4	38.4	4.6	55.4
Total goods	54.5	33,705	48,144	79,952	1.4	37.8	7.1	51.6
Services								
Nonprofit institutions	10.7	6,087	9,623	15,641	2.2	51.4	1.0	57.3
Housing	17.1	11,887	15,231	25,180	3.8	20.7	2.4	57.7
Other services and misc.	21.0	12,208	18,464	30,774	4.5	41.6	5.3	54.8
Total services	48.8	30,182	43,318	71,595	3.7	35.4	3.2	56.4
Total consumption of goods and services	103.3	63,887	91,462	151,547	2.5	36.6	5.2	53.9
Consumption of Israelis abroad	4.7	1,962	3,327	6,852	16.6	42.3	22.8	63.9
Less consumption of foreign nationals in Israel	8.0	3,771	6,679	11,703	17.8	47.1	7.9	53.7
Expenditure on private consumption	100.0	62,078	88,110	146,696	2.1	36.0	5.6	54.2

SOURCE: Central Bureau of Statistics.

increase this year, as recorded by the Central Bureau of Statistics, has again raised doubts as to the reliability of the annual estimates of this item.⁶

In durables there was a falling trend in recent years with sharp fluctuations. In the second half of 1977 the level turned upward and by the end of 1978 the per capita figure had returned to the 1973 level. Sharp rises were recorded for household equipment and private vehicles (27 and 25 percent per capita respectively), while in furniture the increase was very moderate (4 percent per capita).

Purchases of durables actually constitute the acquisition of a stream of consumption services; therefore it is relatively easy to postpone their purchase without sharply changing the stream of services in the current year. On the other hand, with a rise in income individuals tend to adjust their stock of durables, with a consequent significant increase in spending on such goods. The sharp drop in purchases was reflected a significant slowdown in the calculated consumption of their services, particularly in the case of private vehicles. The much heavier purchase of durables this year somewhat increased the rate of growth of the consumption of such services.

Besides the renewed growth of incomes and the low level to which the stock of durables had sunk, inflation contributed the faster rate of increase in purchases. Because of the differential rate of price increases, the public apparently prefers to spread its investments between real assets, such as durables, and homes and financial assets.

Per capita consumption of other services rose in 1978 by 5.3 percent, with relative prices rising slightly. According to the Central Bureau of Statistics, there was a similar increase in items where consumer expenditures are measured directly (travel, post, telephone, etc.) and in the items which are measured on the basis of partial indicators and imputations. There was a notable increase in travel, especially overseas, and an 11 percent per capita increase in cinema attendance.

5. COMPOSITION OF PRIVATE SAVINGS

The increase in private consumption at a faster rate than disposable income slightly depressed the rate of private saving from disposable income in 1978. Total private sector savings (from income from all sources) rose in 1978 by 5 percent in real terms. Only partial indicators are available on the composition of household saving, but it appears that the share of financial savings decreased while investment in housing increased.

⁶ See Bank of Israel Annual Reports for previous years. Even if we attribute to this item a different, more reasonable, growth rate (such as that for other industrial products), the per capita increase will decrease by about 1 percent; i.e. even if there is an error in the estimates, it will not change the general picture of a rebounding of consumption.

TABLE VIII-4
PRIVATE SECTOR SAVINGS, 1973-78
(IL million)

	1973	1974	1975	1976	1977	1978
Gross saving from all sources ^a (IL million)	14,129	17,760	24,206	22,604	36,363	58,769
Percent increase	4	-9	-3	-27	18	5
Gross rate of saving, from disposable income (percent)						
From domestic sources ^a	33	31	30	22	24	22
From all sources ^a	39	35	34	27	29	29
Selected indicators of household saving (IL million)						
Social insurance funds	890	1,510	1,740	2,160	3,850	6,940
Approved saving schemes	540	1,700	2,190	2,460	5,730	8,130
Life insurance	180	320	450	620	910	1,420
Mutual funds	240	1,000	1,670	1,340	1,510	1,290
Total net household savings through capital market intermediaries	1,850	4,530	6,050	6,580	12,000	17,780
Savings channeled to capital market intermediaries in form of securities ^b and deposits	860	-590	-650	480	-1,880	-4,170
Net purchase of government bonds (direct holding)				-4,450	-5,280	-1,700
Household loan repayments	600	740	1,150	1,460	2,370	3,000
Credit to households from financial institutions	1,079	1,930	2,390	3,080	3,750	5,820
Pazak restitution, and Tamam deposits, less linkage and exchange differentials	499	531	1,079	1,011	1,036	3,373
Index of home sales	100	91	69	61	65	73

^a Before subtracting compulsory loans.

^b Purchases less sale of securities, in the secondary market, plus net purchases of original issues.

INVESTMENT IN HOUSING

The renewed growth of demand for housing, which began in the second half of 1977, was only partially reflected by an increase in construction because of severe supply constraints. The excess demand resulted in a very high price rise (133 percent) for homes; however, sales increased in 1978 by only 10–15 percent. Total investment in residential construction increased nominally by about 70 percent (compared to a nominal increase of 65 percent in total private savings).

FINANCIAL SAVINGS

The liberalization of foreign currency control at the end of 1977 opened up new saving channels in the form of financial assets linked to foreign currency. In 1978 Patam accounts (foreign currency deposits by Israeli residents), which include both household and business saving, reached about IL 17 billion (excluding devaluation differentials), compared to approximately IL 3 billion in 1977.

In the medium- and long-term financial components there was a continued preference for institutional savings, at the expense of a reduction in net sales out of directly held securities. Among the savings components approved saving schemes topped the list, followed by provident funds. The accumulation in these two media, which are relatively long-term, reached about IL 15 billion this year and constituted the bulk of medium- and long-term savings.