

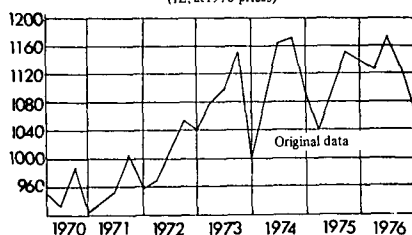
## CHAPTER VII

### PRIVATE CONSUMPTION AND SAVING

#### 1. MAIN DEVELOPMENTS

Real per capital private consumption rose by 2 percent in 1976. The annual average underwent various changes throughout the year: in the first half of 1976, the per capita private consumption level was similar to that of the second half of 1975, whereas in the second half of 1976 consumption dropped, partly due to advanced purchases in the second quarter (prior to the levy of the Value Added Tax), and partly because incomes declined.

FIGURE VII-1  
TOTAL PER CAPITA PRIVATE  
CONSUMPTION, 1970-1976  
(IL, at 1970 prices)



Since 1973, private consumption has been subject to strong fluctuations which derived from public expectations and over-reactions to government policy measures. These fluctuations mean that the average growth of private consumption in these years does not accurately reflect consumption development, and it is therefore preferable to examine consumption developments over a longer period. From 1973 until 1976 total per capita private consumption grew by 4.5 percent. After deducting housing service consumption and nonprofit institutions, the growth of private consumption is even slower (see Table VII-2).

Real per capita disposable income (from domestic sources, less compulsory loans) declined by 8.0 percent per capita<sup>1</sup> between 1973 and 1976. The difference between the growth rates of consumption and of income can be explained by the following factors:

a. The propensity to consume differs according to type of income: in wages and current transfers the propensity to consume is higher than in other income. Since income from wages and current transfers increased between 1973 and 1976, while other incomes declined, the propensity to consume intensified. There was also a slowing of the downward trend in private consumption which would have resulted from an equal decrease in all parts of disposable income.

<sup>1</sup> According to other definitions of income, the decline reached 11 to 13.5 percent (see Table II-10).

b. Return on all types of savings declined, and uncertainty as to the continuation of government commitments regarding savings both intensified the reluctance to save and increased consumption.

c. Because household debts are not generally linked, while assets and income are, inflation and the worsening of bond terms created a capital gain for households, which apparently encouraged private consumption.

d. The slowdown in apartment purchases, which began in 1973, was expressed by a decline in investment-savings for housing, and enabled the growth of current consumption.

Higher consumption and lower income caused a real decline in private sector savings. Saving rates, which in 1973 reached a peak of 32 to 40 percent (according to the various definitions of income), declined in 1976 to 23–28 percent. The real decline in savings involved all components: undistributed business profits, investment-savings for housing, and savings in financial assets.

In private consumption, the rapid per capita increase in consumption of clothing, footwear and personal effects is outstanding (14 percent between the first nine months of 1973 and 1976), as is the higher imputed consumption of housing (20 percent per capita between the first nine months of 1973 and 1976). In contrast, purchases of durables declined (25 percent between the first nine months of 1973 and 1976), especially purchases of vehicles (a decrease of 52.5 percent).

## 2. TOTAL PRIVATE CONSUMPTION

Real per capita private consumption increased by 2 percent in 1976 as compared with 1975. Real per capita income from domestic sources, less compulsory loans, decreased between 1975 and 1976 by 6 percent per capita<sup>2</sup>.

In 1975 as well, per capita income declined by 3 percent, but it seemed then that private consumption had adjusted itself to the drop in income and also declined by 2.5 percent per capita. Nevertheless, due to strong fluctuations in consumption during these two years, it is impossible to determine whether consumption actually adjusted itself to incomes within one year. These fluctuations have essentially been taking place since the Yom Kippur War. They derive mainly from expectations, and have confused the meaning of the annual averages. In November 1974, drastic economic measures were taken; even though employees and low wage earners were immediately and fully compensated for the price increases that followed, public expectations were pessimistic, and real per capita consumption dropped by 6 percent in the first half of 1975 as compared with the second half of 1974.

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<sup>2</sup> According to other definitions of income, incomes declined in 1976 by 8 percent per capita as compared with 1975 (see Table II-10).

TABLE VII-1

## PRIVATE CONSUMPTION, 1966-1976

	Average		1970	1971	1972	1973	1974	1975	1976
	1966- 1967	1968- 1969							
Total consumption at current prices (IL million)	7,840	9,698	11,324	13,283	16,683	21,839	32,518	45,372	61,160
	Percent annual change								
Consumption	2	11	3	5	9	9.5	7.5	-0.5	4
Consumption per capita	-1	7.5	0.5	1.5	5.5	6	4.5	-2.5	2
Disposable income per capita from domestic sources	1	8.5	1	8.5	11	8	2	-6	-8
Less net compulsory loans	1.5	9.5	-2	6	12	9	1	-3.5	-5.5
Disposable income per capita from all sources	0.5	9	2.5	10.5	12.5	5	-0.5	-6	-8
Less net compulsory loans	0.5	10	-0.5	8	13	5.5	-1.5	-4	-6

NOTE: The methods of estimation were slightly revised in 1968.

SOURCE: Central Bureau of Statistics.

Private consumption recovered in the second half of 1975, and, as mentioned before, the average level of consumption in that period remained similar during the first half of 1976. Consumption increased in the second quarter due to advanced purchases in expectation of the levying of the Value Added Tax, and then began declining in the third and fourth quarters. The per capita level of consumption was 5 percent lower in the fourth quarter than in the same quarter of 1975. In order to examine consumption development without short-term fluctuations, the private consumption level in 1976 should be compared to its level prior to the Yom Kippur War.

TABLE VII-2

**REAL CHANGES IN PER CAPITA CONSUMPTION AND INCOME, 1973–1976**  
(percent)

	1973 compared to 1976	1973 compared to 1976 <sup>a</sup>
Total consumption	4.5	3
Total consumption, excluding nonprofit institutions and housing	2	0
Income from domestic sources, less net compulsory loans	–8	–

<sup>a</sup> Comparison of first three quarters only.

SOURCE: Central Bureau of Statistics.

Table VII-2 reveals<sup>3</sup> that between 1973 and 1976 a significant gap was created between income and consumption: per capita income declined by 8 percent while per capita consumption remained stable. The difference between consumption and income caused a significant decline in the private sector's real savings; the rate of savings from domestic sources income, less compulsory loans, which was 30–32 percent in 1972 and 1973, dropped to 23 percent in 1976.

<sup>3</sup> From the data in the table, it seems that one must refer to the comparison between the first three quarters of 1973 and of 1976, and not the yearly comparison. In the last quarter of 1973 consumption decreased because of the war, and therefore yearly comparison would cause overestimation. On the other hand, in the last quarter of 1976 there was a seasonal decline, and its omission would cause an underestimate. Furthermore, housing consumption, which does not reflect current expenditure, and consumption of nonprofit institutions, which is not in the hands of private individuals in most cases, should be deducted from total private consumption.

This development was due to the following reasons:

a. Part of the drop in the rate of savings can be attributed to the change in income distribution between 1973 and 1976, between income from wages and current transfers, and other income (return on capital and capital transfers)<sup>4</sup>. The propensity to consume from wage income and current transfers is higher than that from other income. Between 1973 and 1976 income from wages and transfers rose while other income dropped; hence the propensity to consume increased. Total real disposable income from wages and current transfers (not per capita) rose between 1973 and 1976 by 8 percent, whereas real disposable income from capital returns and capital account transfers decreased during this period by 3.5 percent. The weighting of these factors (together with another variable – growth of population deriving from immigration) indicates that according to previous behavior patterns, real per capita private consumption should have increased by 3.5 percent between 1973 and 1976; in fact, per capita consumption increased by 4.5 percent (even though average per capita disposable income dropped according to this definition by 5.5 percent during that period)<sup>5</sup>.

b. Real return on savings declined in 1976 and that contributed to intensified consumption. At the end of 1975 and 1976 the terms of linked bonds, savings programs, and social insurance funds worsened. In addition, uncertainty grew as to the government's ability and willingness to fulfil its obligations regarding the linkage of savings. (The worsening of terms added to this uncertainty.) The attraction of foreign currency savings and assets linked to foreign currency, which had grown following the price increases caused by taxation (the Value Added Tax) weakened the domestic purchasing power of savings linked to foreign currency.

The rise of taxes on apartments, not owner-occupied, and on capital gains resulting from the sale of flats, reduced private sector savings.

c. Property: income and property of private individuals are more or less linked to price increases, but most private sector debts are unlinked. Therefore inflation reduces the real debt, at the same time increasing property value. We possess only partial estimates of debts owed by households to other sectors.

#### CREDIT BALANCES OF HOUSEHOLDS FROM FINANCIAL INSTITUTIONS

(IL million, balance at end of year)

1973	1974	1975	1976
3.0	5.2	7.7	11.3

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<sup>4</sup> Based on Y.Lavi's study on the consumption function (not yet published).

<sup>5</sup> Another forecast of private consumption based on changes in total income without the differential change in the various types of income indicates an increase of 2.5 percent in 1973-1976. The change in income distribution contributed, according to these estimates, to an increase of one percent in per capita consumption in this period.

In 1976, when prices increased by 38 percent, households enjoyed capital gains amounting to IL 2–3 billion; it is reasonable to assume that these capital gains affect the growth of consumption<sup>6</sup>. The worsening of linked bond terms created one-time capital gains for holders of "old" bonds, and those too contributed to the increase of property. On the other hand, a decrease in the relative prices of flats had the opposite effect.

d. The large drop in purchases of apartments: in contrast to other products, private consumption of apartments is measured according to services rendered by the apartment inventory, and not according to purchases. There may be a significant decline in purchases (between 1973 and 1976 the purchase of flats from private construction decreased by 40 percent), but the consumption of apartment services has continued to rise. Since purchases of flats involve large sums relative to current income, and are accompanied by repayment of loans, the decrease in flat purchases is expressed by a reduction of savings, while at the same time it enables the increase of current consumption.

Moreover, between 1973 and 1976 the mortgage credit obtained by households grew by 175 percent (from IL 770 million to IL 2,100 million). It seems that this represents a rise in mortgage rates<sup>7</sup>. Such an increase allows a larger part of current income to be directed to consumption.

### 3. PRIVATE SAVING AND ITS COMPOSITION

The rapid growth of private consumption relative to the rise in income found expression in the real decline in savings since 1973. Since the 1966 recession, saving rates increased and in 1973 reached a peak of 32 percent (income from domestic sources less compulsory loans), then they dropped, reaching 23 percent in 1976.

We are not in possession of detailed information as to savings components of the private sector (financial savings, saving by way of investments in housing, and undistributed business profits), but partial data indicate that savings in all three components declined this year. The drop in income deriving from private sector capital continued this year, and it can be assumed that this was reflected in the lower undistributed business profits.

Investment-savings in housing continued to drop for the fourth year in a row. This was reflected in a drop in purchases of new apartments by the public, due to the decrease in immigration and the reduction in speculative demand, resulting from changes in taxation on flats. The slow price increase of flats (8 percent from October 1975 to October 1976)

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<sup>6</sup> An examination of disposable income, less repayment of debts by households, does not confirm the assumption that income less repayment increased at a faster rate than disposable income (without deducting repayment).

<sup>7</sup> Data presented here refer only to mortgage credit granted through the financial institutions.

**TABLE VII-3**  
**PRIVATE SECTOR SAVINGS, 1970-1976**

	1970	1971	1972	1973	1974	1975	1976
	(IL million)						
Gross savings <sup>a</sup>	3,293	4,556	7,038	10,184	13,598	18,607	18,151
Net savings <sup>a</sup>	1,455	2,253	4,059	6,126	7,388	9,200	5,496
	(percent)						
Change in real net savings	-25	38	56	26	-13	-11	-54
Rate of savings out of disposable income							
From domestic sources:							
Including compulsory loans	25	29	33	34	33	31	23
Excluding compulsory loans	23	26	30	32	29	29	23
From all sources:							
Including compulsory loans	32	37	41	40	37	35	28
Excluding compulsory loans	30	34	38	38	34	34	28
Indicators of household saving							
	(IL million)						
Net savings through social insurance funds				890	1,510	1,740	2,160
Net savings through saving schemes				540	1,700	2,190	2,460
Life insurance				180	320	450	620
Mutual funds				240	1,000	1,870	1,820
Securities				+860	-590	-650	-780
Total net medium- and long-term financial assets of households				2,710	3,940	5,600	6,280
Payments of previous household loans				600	740	1,150	1,460
Credit to households from financial institutions				1,079	1,930	2,390	3,000
Mortgages				(770)	(1,450)	(1,860)	(2,110)
Financial means <sup>b</sup>				1,805	1,330	1,892	2,872
IL time deposits <sup>b</sup>				-49	-224	-40	503
Pazak restitutions and Tamam				1,164	3,574	1,876	5,008
Linkage and rate differentials				(665)	(3,043)	(797)	(3,261)
Sales index of apartments in private construction (1971=100)				75	68	52	46

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

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

also contributed to the drop in housing savings. Mortgage credit for apartments grew in 1976 at a rate more or less similar to the price increase — 13 percent (though household repayments increased at a faster rate, 27 percent).

Household savings in medium- and long-term financial assets increased nominally by 12 percent in 1976, which represents a real decrease of 14 percent. Compared to the rapid increase in savings through life insurance (38 percent) and social insurance funds (24 percent), there was a significant slowdown in savings through purchase of securities, saving programs, and mutual funds, which derived from the worsened terms of bonds issued by the government and expectations for a further worsening.

#### 4. COMPOSITION OF PRIVATE CONSUMPTION

In 1976 private consumption composition changed only slightly as compared with the previous year, since most of the major items in private consumption grew this year. The share of food, beverages and tobacco in total consumption showed a tendency to decline this year, after being affected in 1975 by the rapid increase in relative prices. The real decline in the purchase of durables was reflected in their weight in total consumption.

TABLE VII-4  
COMPOSITION OF PRIVATE CONSUMPTION, 1960–1976  
(percent, at current prices)

	Average 1960– 1965	Average 1966– 1967	Average 1968– 1969	Average 1970– 1973	1974	1975	1976
Food, beverages, tobacco	32	30	29	27	25	27	26
Durables	9	7	11	10	12	10	9
Other goods	16	17	16	15	16	16	17
Housing	13	15	14	16	19	19	19
Nonprofit institutions	9	10	9	10	10	9	9
Other services	20	22	21	21	18	18	19
Total consumption <sup>a</sup>	100	100	100	100	100	100	100

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

SOURCE: Central Bureau of Statistics.

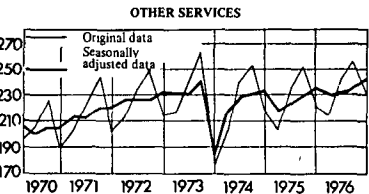
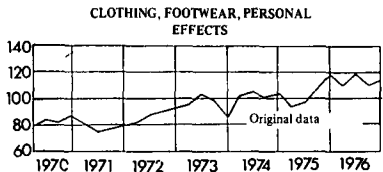
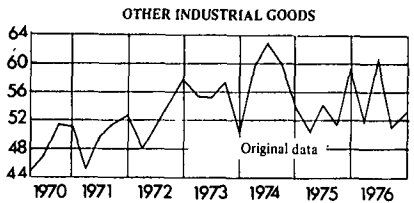
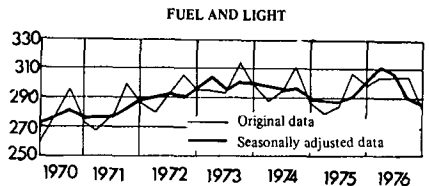
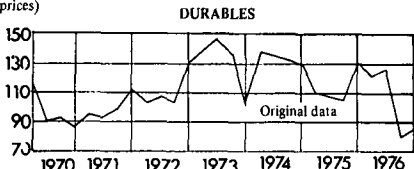
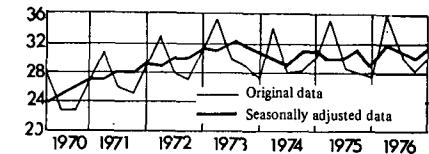
Among the main components of private consumption, the most notable were the rapid rise in the consumption of footwear and clothing (a real per capita increase of 12 and 8 percent respectively), and a 6 percent drop in the purchase of durables. The per capita consumption of services of nonprofit institutions stabilized.



Comparison of private consumption between 1973 (omitting the war quarter) and 1976 indicates rapid growth in the per capita consumption of footwear, clothing and personal items (14 percent), and housing consumption (20 percent), a significant decrease in purchases of durables (25 percent), and stability in other items. Until 1973 service prices increased at a much faster rate than those of goods consumption. Between 1973 and 1976 the trend reversed, and prices of goods consumption increased at a faster rate than prices of service consumption. This derived from the increase of fuel prices abroad, the devaluation, and taxes applying mainly to goods. In contrast, the shrinking demand for apartments caused a significant slowdown in the increase of their prices.

COMPONENTS OF REAL PER CAPITA  
CONSUMPTION, 1970-1976

(IL, at 1970 prices)



## A. FOOD

Real per capita food consumption rose by 2 percent in 1976, with a slight decline in the relative prices. In comparison with 1973, real per capita food consumption declined by 1.5 percent. This decline derives from the slowdown in income and the rise in relative prices: total consumption prices rose by 155 percent between 1973 and 1976, whereas food prices rose by 175 percent.

Food consumption dropped mainly in controlled products, whose prices increased at the most rapid rate; consumption of flour and grain products declined by 7.5 percent per capita between 1973 and 1976 (their prices increased by 225 percent), per capita consumption of sugar and its products declined by a quarter (a price increase of 265 percent), and edible oil by 10 percent per capita (a price increase of 285 percent). Milk and milk products were an exception, their per capita consumption increasing by 8 percent in the same period, in spite of a rapid price increase (220 percent).

Rapid price increases abroad affected coffee and tea; as a result, the per capita consumption of those products dropped by 1.5 percent between 1975 and 1976, and by 13 percent between 1973 and 1976 (even though their relative prices declined between 1973 and 1976).

The per capita consumption of food was stable in the first three quarters of 1976 and then dropped in the last quarter, partially due to seasonal changes.

## B. BEVERAGES AND TOBACCO

The per capita consumption of soft drinks rose by 7 percent in 1976 in real terms, and that of alcoholic beverages dropped by 2 percent (in spite of a drop in their relative price). Between 1968 and 1976 the real consumption level of alcoholic beverages did not change.

Consumption of tobacco and its products increased by 4.5 percent per capita in 1976 despite an increase in relative prices. Between 1973 and 1976 the per capita consumption of tobacco and its products increased by 10 percent, and between 1968 and 1976 by 70 percent per capita (total per capita consumption in this period rose by 28 percent).

## C. HOUSEHOLD FUEL AND LIGHT

The increase of fuel prices in the world and in Israel slowed in 1976 in comparison with the previous two years. The relative prices of fuel and light did not rise in 1976, and per capita consumption rose by 6 percent. This rise was concentrated mainly in household fuel (a real per capita increase of 9 percent), whereas gasoline consumption remained stable.

## D. CLOTHING, FOOTWEAR, AND PERSONAL EFFECTS

At the beginning of 1975, a sharp decline in the consumption of clothing, footwear and personal effects was recorded, but in the second half of 1975 this consumption recovered. In 1976 annual average real per capita consumption of clothing, footwear and

TABLE VII-5

## PRIVATE CONSUMPTION BY MAJOR COMPONENT, 1973-1976

	Weight in 1976 (percent)	1973 <sup>a</sup> (IL million, current prices)	1975	1976	Annual change, 1976 compared to			
					1975		1973 <sup>a</sup>	
					Quant.	Price	Quant.	Price
(percent)								
<hr/>								
Goods								
Food, beverages, tobacco	26.4	5,585	12,506	16,548	4.5	27	7.5	176
Household fuel, light	3.9	501	1,753	2,455	8	29	9	350
Clothing, footwear, personal effects	8.5	1,840	3,521	5,330	11	37	23	135
Durables	9.3	2,709	4,591	5,829	-4	32	-18	163
Other industrial goods	4.6	1,040	2,152	2,848	3	29	5	162
Total goods	52.7	11,675	24,523	33,010	4	30	4	172
Services								
Nonprofit institutions	9.4	2,320	4,411	5,902	2	32	8	136
Housing	18.6	4,049	9,031	11,608	8.5	19	29	122
Other services and misc.	19.3	4,611	8,565	12,068	5.5	32.5	6	147
Total services	47.3	10,980	22,007	29,578	6	27	14	136
Total consumption of goods and services <sup>b</sup>	100.0	22,655	46,530	62,588	5	29	8.5	155

<sup>a</sup> Annual average based on first three quarters only.

<sup>b</sup> The difference between these data and total consumption is that the former also includes inventory changes, net consumption of nonresidents, and East Jerusalem.

SOURCE: Central Bureau of Statistics.

personal effects was 8.5 percent higher than in 1975. The increase in footwear (12 percent per capita) was faster than in clothing (8 percent). Their consumption was stable in 1976.

#### E. DURABLES

Purchases of durables declined by 6 percent per capita in 1976, as compared with 1975. During 1976 there was a downward trend in purchases of durables, resulting from advanced purchased in the first half of 1976 (prior to the levy of VAT).

If short-term fluctuations are disregarded, it can be seen that purchases of durables fell in 1976 by 25 percent per capita as against the first three quarters of 1973. The fall was steeper in vehicles (52.5 percent per capita), and more moderate in household equipment (a 21 percent fall) and furniture (9 percent).

TABLE VII-6

**CHANGES IN REAL CONSUMPTION OF CONSUMER DURABLES, 1963–1976**  
(percent)

	Weight in 1976 <sup>a</sup>	Average 1963– 1965	Average 1966– 1967	Average 1968– 1969	1970	1971	1972	1973	1974	1975	1976
<b>Purchases</b>											
Furniture	39	16	–14	29	7	0	17	15	13	–2	–3
Household equipment	46	14	–11	76	–22	3	5	22	13	–13	–9
Personal transportation equipment	16	25	–16	61	–32	35	41	29	4	–49	11
Total	100	16	–13	56	–16	6	15	22	11	–18	–4
<b>Services</b>											
Furniture	35	14	12	11	12	10	10	10	10	9	7
Household equipment	47	15	11	16	18	13	11	12	12	10	7
Personal transportation equipment	18	32	15	17	16	13	16	18	17	9	3
Total	100	16	12	14	15	12	12	12	13	10	7

<sup>a</sup> At fixed prices.

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

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

The sharp decline in the purchase of durables derives from the special nature of these goods. In effect, purchases of durables constitute a certain acquisition of services, which are consumed during a relatively long period after their purchase. Therefore, in a period when income drops, it is reasonable that purchase of durables will decline too. Nevertheless, a drop in immediate consumption of other components will be prevented. Between 1973 and 1976 real per capita income declined by 8 percent, and purchases of durables fell by a quarter, but imputed service consumption of durables continued to grow (though it slowed down in 1975 and 1976).

Other factors affecting the decline in the purchase of durables were limited immigration and the decline in the purchase of apartments.

#### F. OTHER INDUSTRIAL ITEMS

Per capita consumption of other industrial items in 1976 remained at the same level as in 1975. In the second quarter, there was an increase, because of advanced purchases due to the anticipation of VAT, but in the second half of the year, consumption of these items declined for no particular reason, except for the advanced purchases.

In comparison to the first nine months of 1973, per capita consumption of industrial items decreased by 3 percent in real terms; the drop was concentrated in nonvital items such as entertainment and hobbies (24 percent per capita), as well as books and cosmetics (3.5 percent per capita). Consumption of medication increased by 18 percent per capita between the first nine months of 1973 and 1976.

#### G. HOUSING

Housing service consumption declined by 6 percent per capita in 1976. The housing consumption estimate is a calculation based on changes in the inventory of flats. Because some of the new flats remained in the hands of contractors in 1976, housing consumption has been somewhat overestimated.

#### H. OTHER SERVICES

The real per capita consumption of "other services" increased by 3 percent in 1976. Throughout the year their consumption was stable, with a slight tendency to increase in the second half (seasonally adjusted). In comparison to the first nine months of 1973, real per capita consumption fell by 2 percent. This is mainly in items where consumers' expenditures were measured directly, whereas in other items, which are measured by partial indicators of crediting, per capita consumption did not fall between 1973 and 1976.

Among the items constituting the other services, one should note an increase in postal service consumption (11 percent per capita between 1975 and 1976), a rapid growth in entertainment consumption (excluding cinema), and hotel consumption (which also expresses the increase in tourism).