

5. Real measures of income

As described in earlier sections, measures of income, such as national or disposable income are generally preferred, in theory, to GDP, in analyses of well-being both in nominal and real terms. However there are some specificities related to the calculation and associated interpretations of real income, as opposed to real GDP say, that are worth mentioning.

Definition

Whereas GDP can be measured relatively simply in volume terms because price and quantity components exist, at least in principle, for all of the flows in GDP (via the expenditure or production approach), this is not the case for the additional income components that reflect the difference between GNI say and GDP; which cannot be decomposed into price and quantity dimensions. These flows can be measured in “real” terms through the use of an appropriate price index that measures their real purchasing power in relation to a selected basket of goods and services. But moving from real GDP to real GNI is not simply a case of choosing an appropriate price index to deflate the additional income components. Another adjustment that takes account of changes in the *terms of trade* is needed; which is only relevant for real measures.

Gross Domestic Income (GDI), as opposed to Gross National Income, in current prices is exactly equal to GDP. But if the prices of a country’s exports rise faster (or fall more slowly) than the prices of its imports (that is, if its terms of trade improve) fewer exports are needed to pay for a given volume of imports. Thus, an improvement in the terms of trade makes it possible for an increased volume of goods and services to be purchased by residents out of the incomes generated by a given level of domestic production. This improvement (or otherwise, *e.g.* if the prices of imports rise faster than exports), known as *trading gains and losses from changes in the terms of trade*, reflects the difference between real GDI and real GDP. It follows that it also forms part of the difference between real GDP and real national income (GNI and NNI) and disposable (and adjusted disposable) income.

These trading gains or losses are equal to the current trade balance deflated by a single price index, minus real exports, plus real imports (where estimates of real exports and real imports are consistent with those used in real GDP). And so

real GDI is equal to final consumption (households, NPISH and general government final consumption) + real gross capital formation + the “real” trade balance.

Comparability

The comparability of current price measures of income is described in the previous sections. The choice of the single price index used to deflate the current trade balance varies across countries. The SNA recommends that the choice of the price index is left to statistical authorities to decide on the basis of national circumstances. Three approaches are commonly used. The first is to use either the overall import (or export) price index. The second is to use a weighted average of the overall import and export price indices. The third method, which is the approach used by many countries for simplicity, is a general price index (typically this is the implied deflator for gross domestic final expenditure). The advantage of this third approach is that the income components that reflect the difference between GNI (and other income measures) and GDP can also be (and usually are) meaningfully deflated using this same general price index.

Source

- OECD (2012), *National Accounts of OECD Countries*, OECD Publishing, <http://dx.doi.org/10.1787/2221433x>.

Online database

- OECD (2012), “Aggregate National Accounts: Disposable income and net lending/borrowing”, *OECD National Accounts Statistics* (database), <http://dx.doi.org/10.1787/data-00002-en>.

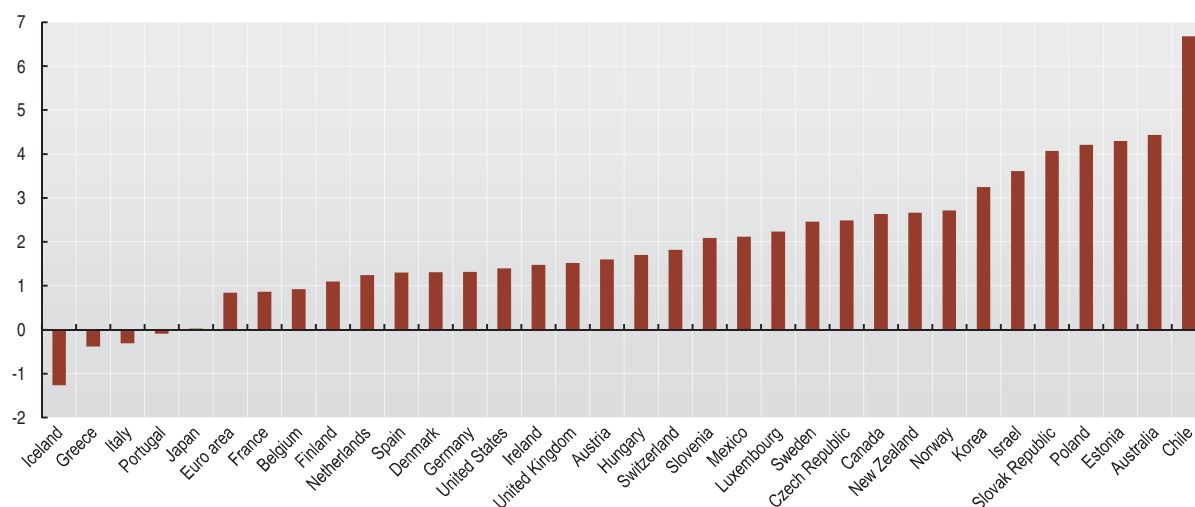
Further reading

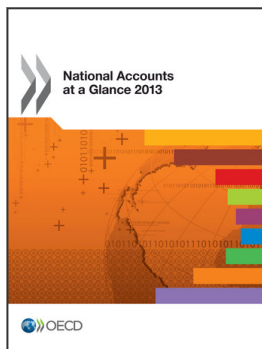
- Eurostat (2001), *Handbook on Price and Volume Measures in National Accounts*, Eurostat, Luxembourg.
- Lequiller, F. and D. Blades (2007), *Understanding National Accounts*, OECD Publishing, <http://dx.doi.org/10.1787/9789264027657-en>.
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- UN, OECD, IMF, World Bank and Eurostat (eds.) (1993 and 2008), *System of National Accounts*, United Nations, Geneva, <http://unstats.un.org/unsd/nationalaccount/sna.asp>.

Table 5.1. Real net national income index

Year 2005 = 100

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	75	79	80	84	87	92	96	100	104	110	114	115	122	129 e
Austria	87	89	92	92	95	96	98	100	104	107	108	103	106	108
Belgium	90	93	95	95	97	97	99	100	102	105	104	100	105	104
Canada	74	78	85	85	87	91	96	100	104	107	110	101	106	110 e
Chile	71 e	71 e	74 e	76 e	78 e	81 e	91 e	100	111 e	119 e	119 e	120 e	135 e	145 e
Czech Republic	80	80	81	84	87	90	94	100	105	109	114	106	106	107
Denmark	84	86	88	89	90	91	95	100	104	104	104	96	101	102
Estonia	61	61	66	70	76	83	90	100	110	120	115	98	98	107
Finland	82	86	90	93	95	94	99	100	104	108	107	98	102	103
France	87	91	93	95	95	96	98	100	102	105	104	101	102	103
Germany	91	93	94	96	96	97	100	100	105	108	107	103	107	109
Greece	79 e	81 e	83 e	87 e	91 e	95 e	99 e	100	104	107	106	102	94	84
Hungary	73	75	78	82	88	93	97	100	102	101	102	96	97	97
Iceland	77	80	83	84	88	88	92	100	101	108	82	73	75	82
Ireland	68	73	80	82	85	91	94	100	107	111	106	97	99	95
Israel ¹	82	83	88	90	89	89	93	100	107	113	114	117	123	128
Italy	92	94	95	97	98	98	100	100	102	103	99	95	96	94
Japan	94 e	94 e	95 e	95	95	97	99	100	101	103	99	93	96	95 e
Korea	71	77	83	86	93	95	98	100	104	109	108	109	116	118
Luxembourg	71	78	80	81	80	80	95	100	96	111	104	78	90	101
Mexico	78 e	83 e	90 e	90 e	92 e	92	96	100	106	110	111	101	107	111 e
Netherlands	84	90	95	96	96	96	100	100	106	109	106	100	103	108
New Zealand	76	78	81	85	89	95	98	100	101	106	104	106	109 e	111 e
Norway	66	71	83	84	82	84	91	100	107	108	114	101	106	110
Poland	80	83	86	87	88	90	95	100	106	113	121	123	128	131 e
Portugal	91	95	96	97	99	99	100	100	100	102	100	98	100	96
Slovak Republic	79	78	80	83	87	86	92	100	108	120	127	119	123	124
Slovenia	76	81	82	86	90	94	97	100	106	113	115	107	106	106
Spain	78	81	85	88	91	94	97	100	104	106	106	103	102	100
Sweden	82	85	88	89	90	94	97	100	105	110	110	102	109	113
Switzerland	86	88	91	88	88	93	95	100	103	98	91	101	108	106
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	78	80	83	87	91	95	98	100	101	106	106	99	100	101
United States	82	86	90	90	91	93	97	100	103	103	102	98	102	104
Euro area	88	90	93	94	95	96	99	100	103	106	105	100	102	103
OECD-Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..

1. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.StatLink  <http://dx.doi.org/10.1787/888932762311>Figure 5.1. Real net national income
Average annual growth rates between 2001 and 2011Note: Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.StatLink  <http://dx.doi.org/10.1787/888932761608>



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