

## 6. 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 (2009), *National Accounts of OECD Countries 2009, Volume I, Main Aggregates*, OECD Publishing, [http://dx.doi.org/10.1787/na\\_vol\\_1-2009-en-fr](http://dx.doi.org/10.1787/na_vol_1-2009-en-fr).

### Online database

- OECD (2009), “*Aggregate national accounts: disposable income and net lending/borrowing*”, *OECD National Accounts Statistics* (database), <http://dx.doi.org/10.1787/data-00002-en>.


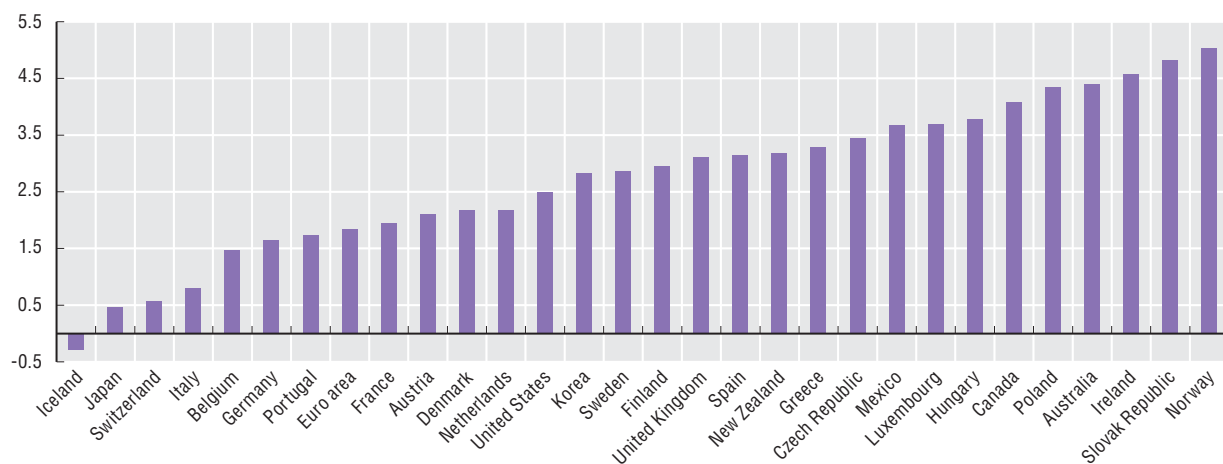
### Further reading

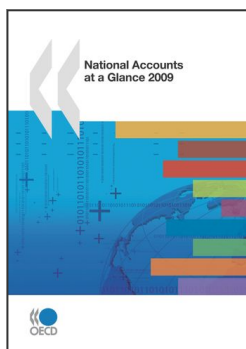
- Eurostat (2001), *Handbook on Price and Volume Measures in National Accounts*, Eurostat, Luxembourg.
- Lequiller, F. and D. Blades (2007), *Understanding National Accounts*, OECD Publishing, <http://dx.doi.org/10.1787/9789264027657-en>.
- OECD (2000), *System of National Accounts, 1993 – Glossary*, OECD Publishing, <http://dx.doi.org/10.1787/9789264180871-en>.
- UN, OECD, IMF, Eurostat (eds.) (1993), *System of National Accounts 1993*, United Nations, Geneva, <http://unstats.un.org/unsd/sna1993>.

Table 6.1. Real net national income index

Year 2000 = 100

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	80	85	89	93	97	100	104	108	115	119	124	129	135	142 e
Austria	89	91	92	95	97	100	100	103	104	107	109	112	114	116
Belgium	90	90	93	95	97	100	99	101	102	104	105	108	112	109
Canada	80	81	85	87	92	100	100	102	106	112	118	123	127	..
Czech Republic	93	98	96	99	99	100	103	106	111	117	125	132	139	140
Denmark	87	90	93	95	97	100	101	102	103	108	113	118	117	117
Finland	76	79	86	92	96	100	104	106	106	111	112	117	120	118
France	86	88	90	94	97	100	102	102	103	106	107	109	112	111
Germany	93	94	94	96	98	100	101	101	102	105	106	110	112	113
Greece	86 e	88 e	92 e	95 e	97 e	100	105	109	114	119	120	125	130	131
Hungary	84	83	87	93	95	100	106	113	119	126	128	131	130	131
Iceland	76	80	86	94	97	100	103	107	107	112	122	120	130	83
Ireland	67	72	79	87	92	100	103	107	114	117	124	133	137	130
Italy	91	93	95	97	98	100	102	102	103	104	104	106	107	104
Japan	97 e	100	101	98	98	100	99	100	100	102	105	106	107	106 e
Korea	90 e	94 e	96 e	88 e	95 e	100	104	112	115	119	121	126	132	131
Luxembourg	81	84	89	89	97	100	102	101	100	119	125	122	137	133
Mexico	72 e	77 e	84 e	87 e	92 e	100	100 e	102 e	103	107	111	118	122	124 e
Netherlands	81	83	88	89	95	100	101	101	102	105	105	112	114	111
New Zealand	87	89	92	95	98	100	106	111	118	123	125	127	132	130 e
Norway	71	77	82	80	86	100	102	100	101	109	121	130	133	140
Poland	77	82	88	93	97	100	101	102	105	110	116	123	131	140
Portugal	84	86	90	95	99	100	102	104	104	105	105	105	..	..
Slovak Republic	86	89	95	99	97	100	103	108	107	115	125	136	150	160
Spain	83	85	88	92	97	100	103	107	111	113	117	121	124	124
Sweden	87	88	90	93	97	100	100	102	106	108	111	119	124	123
Switzerland	88	89	92	95	97	100	97	97	103	105	109	111	107	98
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	82	85	89	94	96	100	103	108	111	114	116	118	123	125
United States	79	82	87	92	96	100	101	102	104	108	112	115	116	114
Euro area	88	90	92	95	98	100	102	103	104	107	108	111	114	112
OECD-Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..

StatLink  <http://dx.doi.org/10.1787/740633340728>Figure 6.1. Real net national income  
Average annual growth rates between 1998 and 2008StatLink  <http://dx.doi.org/10.1787/738668232633>



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