

5. Real measures of income

- In OECD countries 14 out of the 33 experienced a contraction in real net national income in 2012. Real net national income contracted most significantly in Greece (6.7%). On the other hand, Chile (5.0%) and Norway (4.9%) showed the highest growth rates.
- Between 2002 and 2012, most OECD countries recorded a positive average annual growth rate. Three countries showed average annual growth rates above 4%: Australia (4.2%) Poland (4.3%) and Chile at 6.8%. In contrast, four countries showed an average decline in real income: Greece (-1.4%), Italy (-0.7%) and Portugal (-0.5%) and Iceland (-0.3%).

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 say GNI 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 (2013), *National Accounts of OECD Countries*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/2221433x>.

Online database

OECD (2013), “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, http://ec.europa.eu/eurostat/ramon/statmanuals/files/KS-41-01-543-__-N-EN.pdf

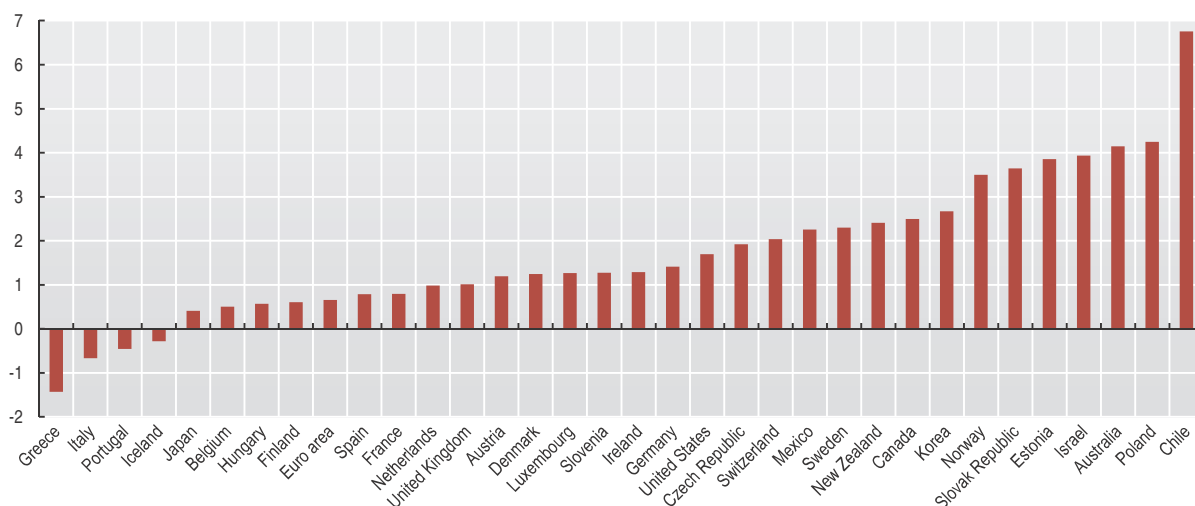
Lequiller, F. and D. Blades (2007), *Understanding National Accounts*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264027657-en>.

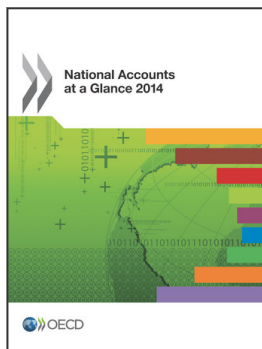
Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Table 5.1. Real net national income index

Year 2005 = 100

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Australia	79	80	84	87	92	95	100	105	110	115	115	123	130	130
Austria	89	92	92	95	96	98	100	104	107	108	103	106	107	107
Belgium	93	95	95	97	97	99	100	102	105	104	100	104	104	102
Canada	78	85	85	87	91	96	100	104	107	110	101	106	109 e	111 e
Chile	70 e	74 e	76 e	78 e	81 e	91 e	100	111 e	119 e	119 e	120 e	134 e	143 e	150 e
Czech Republic	80	81	84	87	90	94	100	105	109	114	106	106	108	105
Denmark	86	88	89	90	91	95	100	104	104	104	96	101	102	102
Estonia	61	66	70	76	83	90	100	110	120	115	98	97	108	112
Finland	86	90	93	95	94	99	100	104	108	107	98	102	103	100
France	91	93	95	95	96	98	100	102	105	104	101	102 e	104 e	103 e
Germany	93	94	96	96	97	100	100	105	108	107	104	107	110	111
Greece	81 e	83 e	87 e	91 e	95 e	99 e	100	104	107	106	102	94	84	78
Hungary	75	78	82	88	93	97	100	102	101	102	96	96	96	93
Iceland	80	83	84	88	87	92	100	101	108	82	73	75	83	85
Ireland	73	81	83	86	91	94	100	106	111	107	97	99	97	97
Israel	83	88	90	89	89	93	100	107	113	114	117	123	128	131
Italy	94	95	97	98	98	100	100	102	103	99	95	95	95	91
Japan	94 e	95 e	95	95	97	99	100	101	103	99	93	98	97	99 e
Korea	77	83	86	93	95	98	100	104	109	108	109	116	117	121
Luxembourg	78	80	81	80	80	95	100	96	111	104	75	87	92	91
Mexico	83 e	90 e	90 e	92 e	92	96	100	106	110	111	101	108	112	115 e
Netherlands	90	95	96	96	96	100	100	106	109	106	100	103	107	106
New Zealand	78	80	85	89	95	98	100	100	106	102	106	108	111	113 e
Norway	71	82	84	82	84	90	100	107	107	113	101	105	110	116
Poland	83	86	87	88	90	95	100	106	113	121	123	127	132	133
Portugal	95	96	97	99	99	100	100	100	102	100	98	101	98	95
Slovak Republic	78	80	83	87	86	92	100	108	120	127	119	121	124	124
Slovenia	81	82	86	90	94	97	100	106	113	115	107	106	106	102
Spain	81	85	88	91	94	97	100	104	106	106	103	102	100	99
Sweden	85	88	89	90	94	97	100	105	110	110	102	109	112	113
Switzerland	88	91	88	88	93	95	100	103	98	91	101	109	104	108
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	80	83	86	89	94	97	100	101	105	106	98	99	101	99
United States	85	89	90	91	94	97	100	103	103	101	99	103	105	108
Euro area	90	93	94	95	96	99	100	103	106	105	100	102	103	102
OECD-Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..
China	..	..	..	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	..	..	91	100	110	122	127	139	..	..	..
Indonesia	..	83	88	87	86	93	100	105	109	118	121	131	..	..
Russian Federation	56 e	71 e	72 e	74	79	90	100	111	124	131	109	121	133	..
South Africa	75	79	81	86	88	94	100	106	110	113	113	120	128	129

StatLink  <http://dx.doi.org/10.1787/888933001977>Figure 5.1. Real net national income
Average annual growth rates between 2002 and 2012StatLink  <http://dx.doi.org/10.1787/888933001027>



From:
National Accounts at a Glance 2014

Access the complete publication at:
https://doi.org/10.1787/na_glance-2014-en

Please cite this chapter as:

OECD (2014), "Real measures of income", in *National Accounts at a Glance 2014*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/na_glance-2014-8-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.