

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 (2011), *National Accounts of OECD Countries*, Vol. 2011/1, OECD Publishing
<http://dx.doi.org/10.1787/na-v2011-1-en>.

Online database

- OECD (2011), “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

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- Lequiller, F. and D. Blades (2007), *Understanding National Accounts*, OECD Publishing,
<http://dx.doi.org/10.1787/9789264027657-en>.
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<http://unstats.un.org/unsd/sna1993>.

Table 6.1. Real net national income index

Year 2005 = 100

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Australia	71	74	78	80	84	87	92	95	100	104	110	114	114	121 e
Austria	84	87	89	92	92	95	96	98	100	104	107	109	103	105
Belgium	88	90	93	95	95	97	97	99	100	102	105	104	100	104
Canada	72	74	78	85	85	87	91	96	100	104	107	110	101	106
Chile	70 e	73 e	71 e	75 e	76 e	78 e	82	91	100	111	119	118	116	134 e
Czech Republic	79	80	80	81	84	87	90	94	100	105	109	114	105	106
Denmark	82	84	86	88	89	90	91	95	100	104	104	104	97	102
Estonia	56	61	61	66	70	76	83	90	100	110	120	116	97	97
Finland	78	82	86	90	93	95	94	99	100	104	108	107	99	103
France	84	88	91	94	95	95	96	99	100	102	105	104	101	102
Germany	90	91	93	94	96	96	97	100	100	105	108	107	103	106
Greece	77 e	79 e	81 e	83 e	87 e	91 e	95 e	99 e	100	105	107	105	102	96
Hungary	69	73	75	78	82	88	93	97	100	102	101	102	96	96
Iceland	70	77	80	82	85	88	87	92	100	100	107	82	73	72
Ireland	63	69	73	80	83	86	91	94	100	106	110	105	93	93
Israel ¹	78	82	83	89	91	89	89	93	100	106	112	113	116	121
Italy	91	93	94	96	98	98	98	100	100	101	102	99	94	95
Japan	96	94	94	95	94	95	96	97	100	101	103	99	92	97 e
Korea	77	71	77	83	86	93	95	98	100	104	109	108	109	116
Luxembourg	71	71	78	80	81	80	80	95	100	96	111	104	81	94
Mexico	75 e	78 e	83 e	90 e	90 e	92 e	92	96	100	106	110	111	101	106 e
Netherlands	83	84	90	95	96	96	96	100	100	106	109	106	100	104
New Zealand	74	76	78	81	85	89	95	98	100	101	106	104	106	111 e
Norway	68	66	71	83	84	82	84	90	100	107	108	114	100	106
Poland	76	80	83	86	87	88	90	95	100	106	113	121	123	128
Portugal	85	91	95	96	97	99	99	100	100	100	103	100	99	100
Slovak Republic	76	79	78	80	83	87	86	92	100	108	120	127	118	123
Slovenia	74	76	81	82	86	90	94	97	100	106	113	115	107	107
Spain	75	79	83	86	88	91	95	97	100	103	106	105	102	102
Sweden	79	82	85	88	89	90	94	97	100	105	110	110	101	108
Switzerland	84	87	88	91	89	89	94	96	100	101	98	90	102	110
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	77	81	83	86	89	92	96	98	100	101	106	107	100	101
United States	78	82	86	90	90	91	93	97	100	103	103	102	98	102
Euro area	85	88	91	93	94	95	96	99	100	103	106	105	100	102
OECD-Total

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


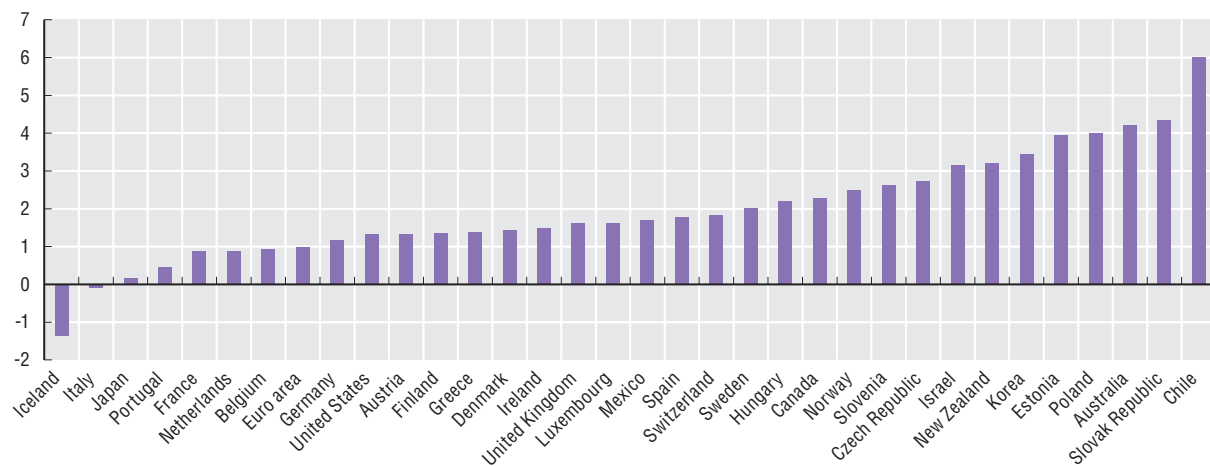

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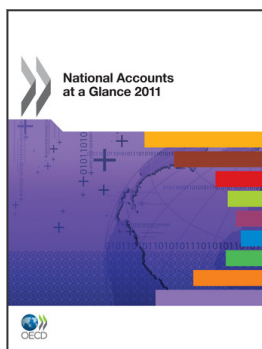
Figure 6.1. Real net national income

Average annual growth rates between 2000 and 2010



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

StatLink  <http://dx.doi.org/10.1787/888932549150>



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