This paper shows the importance of including relative price changes and international income flows in real income measures for Canada and the US. In doing so, it examines the 1993 System of National Accounts (SNA) recommendations for calculating the trading gain. Using Kohli (2006), the apparently contradictory recommendations of the SNA 1993 are shown to be related, and are in fact equal when trade is balanced.

The adjustment for trading gains is comprised of two price ratios: the terms of trade and the relative price of traded to non-traded goods. The terms of trade is the more important price ratio for both countries, and changes in the terms of trade are shown to respond to commodity price movements. The trading gain, in large part, captures the effect of commodity price cycles and shocks on these economies.

A comparison of Canadian and US economic performance is subsequently performed. Relative measures of labour productivity, real GDP per capita and real GNI per capita are examined over the 1961 to 2007 period. From 1961 to the late 1990s or early 2000s, all measures indicate the same pattern. Canada does relatively better from 1961 to the early 1980s, then the US does relatively better until the late 1990s or early 2000s. Post-2002, however, the measures diverge significantly as relative price gains included in real GNI lead to Canada performing better than the US. At the same time, Canada's relative real GDP per capita is mostly unchanged and its relative labour productivity declines. Conclusions about which country does better post-2002 depend greatly on whether or not the impact of rising commodity prices is accounted for.