

CHART OF THE WEEK

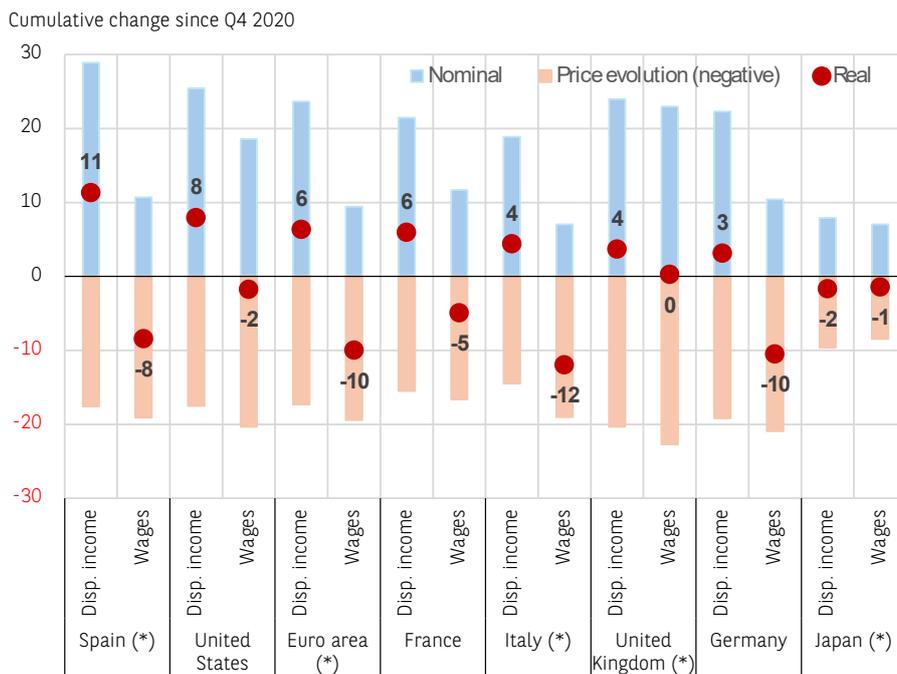


8 January 2025

HAS HOUSEHOLDS' PURCHASING POWER RETURNED TO ITS PRE-INFLATION LEVEL?

Lucie Barette and Hélène Baudchon

Has households' purchasing power returned to its pre-inflation level?



Note: For consistency, disposable income has been deflated using the consumption deflator to obtain real disposable income, and nominal wages have been deflated using the CPI to obtain real wages.

The countries are ranked in descending order of real disposable income.

(*) Cumulative change between Q4 2020 and Q2 2024.

While in most major advanced economies the year-on-year growth in nominal wages has been back above inflation for a few months now, we can ask ourselves where households' purchasing power stands compared to its pre-inflationary crisis level. This purchasing power can be measured in two ways: in the broad sense and more accurately, when it is calculated on the basis of the real gross disposable income (GDI) of households; and in a narrower sense, but perhaps more meaningful for households, when it is assessed on the basis of real wages¹.

Since Q4 2020 (the reference date chosen because it marks the trough of inflation before the first signs of its surge in early 2021), gains in GDI purchasing power, of varying magnitude, have been recorded in all the countries analysed, with the exception of Japan. In contrast, the cumulative increase in nominal wages remains below that of the consumer price index (CPI) in all countries. It should be noted that the difference in cumulative evolution between the consumption deflator and the CPI is, in fact, not very large, and is always the same sign (except in Japan).

The difference in cumulative changes between nominal GDI and nominal wages is instructive: despite the significant gains in purchasing power of GDI that result from this, the losses in terms of real wages are attracting more attention and probably contribute to the negative feeling of households, at least in Europe.

¹ The real wage indicators used for each country are as follows: France (monthly index of wages and salaries, Ministry of Labour), Germany (monthly index of pay rates in the production sector, Bundesbank), Spain (monthly collective agreements on wages and salaries, Ministry of Labour), Italy (monthly index of hourly wages and salaries, Istat), Eurozone (monthly negotiated wages indicator, Eurostat), United Kingdom (weekly basic wage, ONS) United States (monthly average hourly earnings, BLS), Japan (monthly wages index, e-Stat).

ECONOMIC RESEARCH



BNP PARIBAS

The bank
for a changing
world

They also contribute to the sluggishness of their consumption, and therefore, to their abnormally high savings rate compared to 2019, in contrast to the American situation. Much also depends on the components of the GDI that have supported its progress. In France, for example, in 2023 and 2024, it was for a part fuelled by financial income, which is saved rather than consumed. It has also been fuelled by the dynamics of social benefits, which have been revalued in line with inflation, but this increase has not been consummated as we might have expected. In the United States, the more direct nature of emergency income support measures during the Covid crisis may have played a more favourable role.

What does this bode for consumption?

The continued slowdown in inflation expected in the euro area throughout 2025, combined with a still relatively dynamic growth in nominal wages (although less than in 2024), should allow the cumulative evolution of real wages to be less negative, or even to tip into positive territory. However, the positive effects of these purchasing power gains on household consumption are not certain in all countries, insofar as the likely rise in unemployment rates and future budgetary developments could act as counterweights, particularly in France. The situation looks different in Japan and the United States, where inflation is expected to rise gradually over the course of 2025. The latter would erode nominal wage gains, probably more clearly in the United States, where their momentum is downward, than in Japan, where they are still accelerating.

Lucie.barette@bnpparibas.com

helene.baudchon@bnpparibas.com



ECOCONJONCTURE

Structural or thematic topics.

ECOMERGING

Analyses and forecasts for a selection of emerging economies.

ECOPERSPECTIVES

Analyses and forecasts with a focus on developed countries.

ECOFFLASH

Data releases, major economic events.

ECOWEEK

Recent economic and policy developments, data comments, economic calendar, forecasts.

ECOPULSE

Easy-to-read monthly overview of inflation dynamics in the main developed economies.

ECOCHARTS

Monthly barometer of key economic indicators of the main OECD countries.

ECOTV WEEK

MACROWAVES

Our economic podcast.

SUBSCRIBE ON OUR WEBSITE
see the [Economic Research website](#)

&

FOLLOW US ON LINKEDIN
see the [Economic Research linkedin page](#)

OR TWITTER
see the [Economic Research Twitter page](#)

The graphic shows a hand holding a smartphone displaying a website, with a laptop and tablet also displaying the website. The background is dark grey.

The information and opinions contained in this document have been obtained from, or are based on, public sources believed to be reliable, but there is no guarantee of the accuracy, completeness or fitness for any particular purpose of such information and such information may not have been independently verified by BNPP or by any person. None of BNPP, any of its subsidiary undertakings or affiliates or its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy and completeness of the information or any opinions based thereon and contained in this document and it should not be relied upon as such. This document does not constitute research, as defined under MIFID II, or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on, in connection with any contract or investment decision. Information and opinions contained in this document are published for the information of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient, are subject to change without notice. In providing this document, BNPP does not offer investment, financial, legal, tax or any other type of advice to, nor has any fiduciary duties towards, recipients. Any reference to past performance is not indicative of future performance, which may be better or worse than prior results. Any hypothetical, past performance simulations are the result of estimates made by BNPP, as of a given moment, on the basis of parameters, market conditions, and historical data selected by BNPP, and should not be used as guidance, in any way, of future performance. To the fullest extent permitted by law, no BNPP group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this document even when advised of the possibility of such losses. All estimates and opinions included in this document are made as of the date of this document. Unless otherwise indicated in this document there is no intention to update this document. BNPP may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this document or derivatives thereon. Prices, yields and other similar information included in this document are included for information purposes however numerous factors will affect market pricing at any particular time, such information may be subject to rapid change and there is no certainty that transactions could be executed at any specified price. BNPP may have a financial interest in any issuer or person mentioned in this document, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa. BNPP, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this document. BNPP may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this document. BNPP may be a party to an agreement with any person relating to the production of this document. BNPP may to the extent permitted by law, have acted upon or used the information contained herein or in the document, or the analysis on which it was based, before the document was published. BNPP may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this document. Any person mentioned in this document may have been provided with relevant sections of this document prior to its publication in order to verify its factual accuracy.

This document was produced by a BNPP group company. This document is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNPP. By accepting or accessing this document you agree to this.

BNP Paribas is a société anonyme incorporated in France, licensed and supervised as a credit institution by the European Central Bank (ECB) and as an investment services provider by the Autorité de contrôle prudentiel et de résolution (ACPR) and Autorité des marchés financiers (AMF), and having its registered office at 16, boulevard des Italiens, 75009 Paris, France.

Some or all of the information contained in this document may already have been published on <https://globalmarkets.bnpparibas.com>.

For country-specific disclaimers (United States, Canada, United Kingdom, Germany, Belgium, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland, Brazil, Turkey, Israel, Bahrain, South Africa, Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, Vietnam) please type the following URL to access the applicable legal notices: https://globalmarkets.bnpparibas.com/gm/home/Markets_360_Country_Specific_Notices.pdf
© BNP Paribas (2025). All rights reserved.

Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre / Chief editor: Isabelle Mateos y Lago