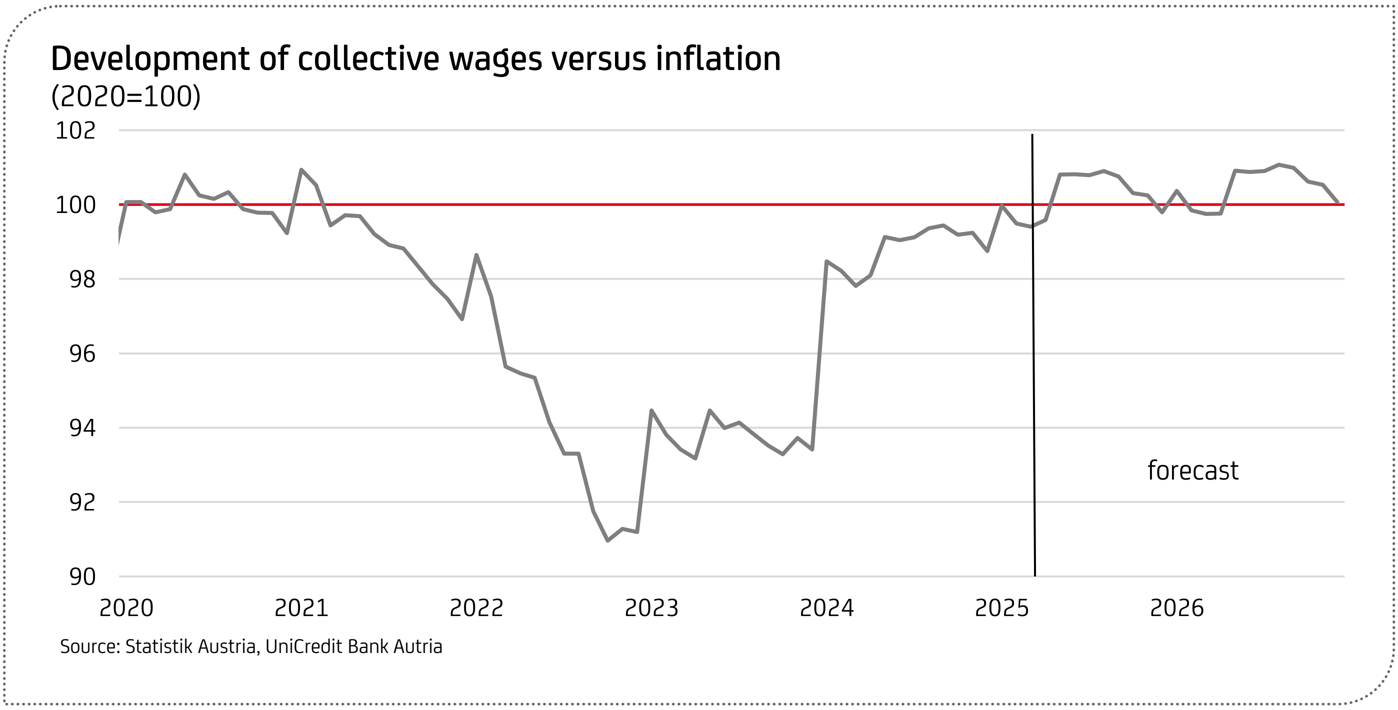
The regained purchasing power is not yet perceived

April 2025

Overview



REGAINED PURCHASING POWER IS NOT YET PERCEIVED

- Due to the sharp rise in inflation from 2021 onwards, real purchasing power in Austria decreased noticeably. In the fall of 2022, the average loss was almost 10 percent compared to 2020.
- The subsequent adjustment of collective wages to the increased inflation led to massive real wage increases from 2023 onwards, which largely brought real purchasing power in Austria back to the level before the inflation shock began by the first quarter of 2025.
- The development of the real purchasing power of employees in the individual sectors of the economy deviates from the average due to different results in wage negotiations and different increase dates. Employees in energy supply, public administration and other economic services are already showing real increases in purchasing power.
- In the course of 2025, the increase in collective wages will ensure that, on average and probably in almost all main sectors, the real purchasing power of 2020 will be fully reached again. In contrast, the increase in pensions since the beginning of the inflation shock will still remain below the extent of inflation.
- The respective spending behavior strongly influenced the development of individual real purchasing power. In particular, prices for food, housing (including household energy) and visits to restaurants and hotels have risen at an above-average rate.
- The significantly higher "perceived" inflation measured on the basis of the mini or micro price basket explains the high level of consumer restraint despite regained purchasing power.
- The regained purchasing power was already reflected in a real increase in disposable income in Austria in 2024. However, the savings ratio rose to 11.7 percent. A savings ratio at the level of the long-term average would have brought economic growth to the Austrian economy through consumption in 2024.
- More aggressive consumer behavior could have prevented a second year of recession in a row in 2024 and is also crucial for stabilizing or improving the Austrian economy in 2025 to avoid another year with a GDP decline.

LOSS OF PURCHASING POWER BY INFLATION SHOCK OFFSET IN 2025

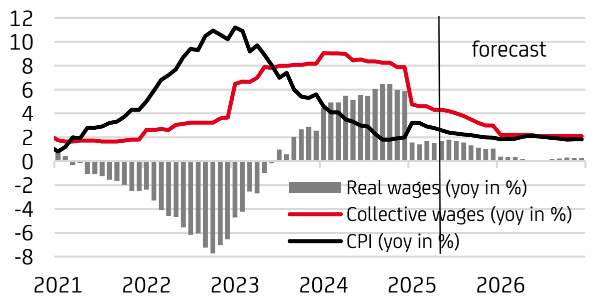
As a result of the Russian attack on Ukraine, energy price increases in particular have strongly fueled inflation in recent years. In 2022, inflation rose to an annual average of 8.6 percent. At an annual average of 7.8 percent in 2023, consumer price growth slowed only slightly and was only at a moderate level of 2.9 percent in 2024, with values of around 2 percent again towards the end of the year. The sharp rise in inflation led to massive losses in real wages in Austria, as the nominal wage increases to compensate for the price increases took place with a time lag. In October 2022, real wages, measured by the development of collective wages and consumer prices, were only 91 percent of the annual average for 2020. From autumn 2022 onwards, real wage losses gradually decreased as inflation slowed. Until the onset of the trend reversal in mid-2023, collective wages had risen less than inflation for 28 months in a row.

Since July 2023, collective wages have been rising faster than inflation, so there have now been continuous real wage increases for 21 months. During this period, the gains have now almost offset the previous losses. Since the turn of the year 2024/25, real purchasing power in Austria has largely returned to the level of 2020.

In the course of 2025, we expect inflation to fall to an average of 2.5 percent after the renewed increase in the first quarter due to the abolition of the electricity price brake. In view of an expected increase in collective wages by an average of 3.9 percent in the current year 2025, the increase in real purchasing power will continue in 2025 and exceed the level before the start of the inflation shock.

Real purchasing power will continue to increase in 2025

Collective wages versus inflation



Source: Statistik Austria, UniCredit

PURCHASING POWER OF EMPLOYEES DEPENDS ON THE ECONOMIC SECTOR

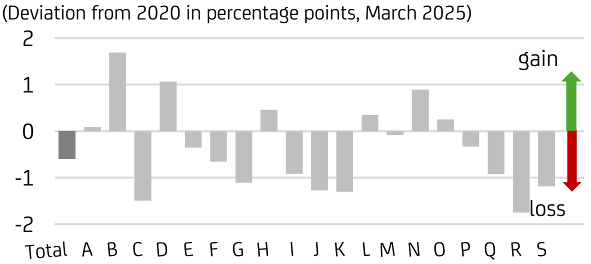
The development of collectively agreed wages in the individual sectors of the economy deviates from the average due to different results in wage negotiations between the Sozialpartnerschaft, the institutionalized co-operation between the representations of employers and labor in Austria. In addition, the purchasing power comparison is strongly influenced by the different timing of the respective salary increases. The snapshot at the end of the first quarter of 2025 thus shows certain distortions.

At the end of the first quarter of 2025, there were noticeable differences in the real purchasing power of employees in the individual ÖNACE main groups compared to the annual average for 2020, taking into account the general development of consumer prices. In a total of 19 main groups, employees in six sectors currently show a real increase in purchasing power, led by employees in mining, energy supply, public administration and other economic services. Here, above all, employees in building management, security services and temporary workers have achieved increases in purchasing power to date.

In the majority of economic sectors, however, wage increases are still lagging behind inflation cumulatively since 2020. In particular, in the financial services sector, arts, entertainment and recreation, and health and social services, employees have not yet received full compensation for inflation since 2020 through corresponding wage increases. In manufacturing, too, the employees are currently still suffering from a loss of purchasing power. In motor vehicle manufacturing, mechanical engineering and metalworking in particular, the cumulative increase in collectively agreed wages by the end of the first quarter of 2025 is still more than 2 percentage points below that of general consumer prices.

Differences in purchasing power in economic sectors

Purchasing power in ONACE main groups
(Deviation from 2020 in percentage points, March 2025)

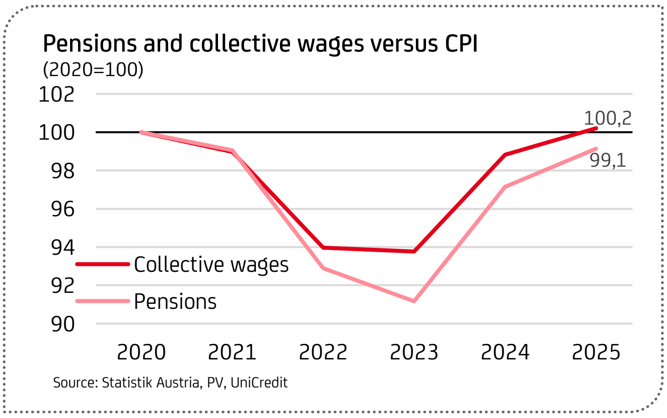


A.Agriculture, B..Mining, C..Manufacturing, D..Energy, E..Water, F..Construction, G..Trade, H..Transport, I..Tourism, J.. ICT, K..Finance, L..Real estate, M..Professional services, N..Suport service activities, O.. Public adminstration, social security, P..Education, Q..Health and social work, R..Arts, entertainment and recreation, S..Other services. Source: Statistik Austria

COLLECTIVE WAGES WILL ENABLE REAL PURCHASING POWER GAINS IN 2025, PENSIONS NOT YET

In the course of 2025, the increase in collective wages will ensure that, on average and probably in almost all main economic sectors, the real purchasing power of 2020 will be fully reached again. In contrast, the increase in pensions since the beginning of the inflation shock will still remain below the extent of inflation. However, the gap compared to the real purchasing power level of 2020 is small at 0.9 percentage points. In addition, due to the decisions of the National Assembly, the increase in pensions in some years was not exclusively based on the calculated adjustment factor (average consumer price inflation between August and next July). Direct payments and a stronger increase usually favored small and medium-sized pensions, so that the increase in general consumer prices was more than compensated for in these pensions. On the other hand, due to various caps on the increases, the loss of purchasing power for recipients of higher pensions is greater than average.

Real purchasing power of pensions lags behind

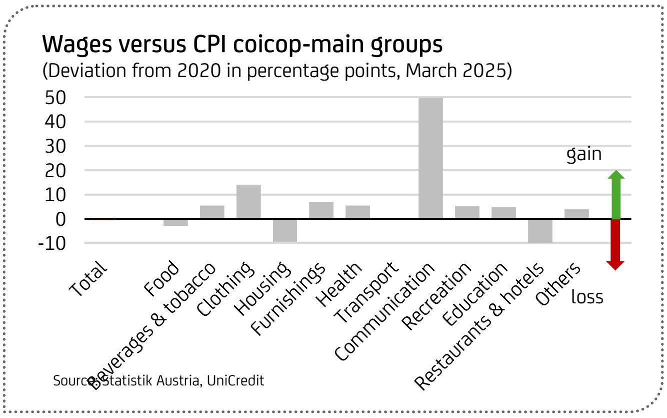


SPENDING BEHAVIOUR HAS A STRONG INFLUENCE ON PURCHASING POWER

When assessing the real purchasing power of pensions, it must also be taken into account that consumer behavior differs from that of the active population. In retirement, the consumption structure shifts to spending on food, health, housing and heating. On the other hand, the elimination of work-related expenses and lower mobility are reducing consumption in the areas of transport, restaurants and clothing.

A look at the different price developments in the main groups of the consumer price index makes it clear that pensioners have probably lost even more purchasing power compared to average consumers due to their deviating spending behavior.

Loss of purchasing power for food, housing, restaurants and hotels

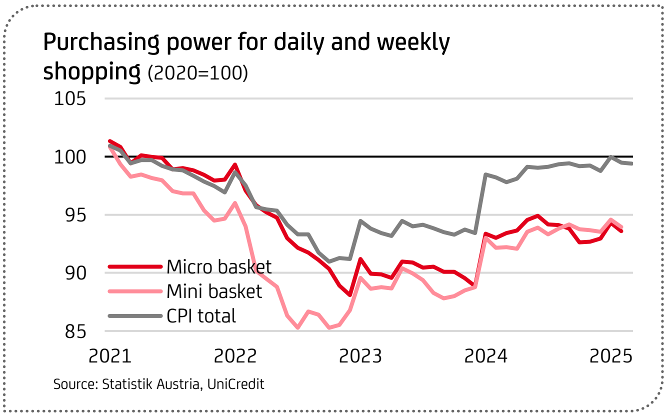


From 2020 to March 2025, price developments were lower than the collectively agreed wage increases in nine of the twelve main Coicop groups, resulting in real increases in purchasing power. According to the study, people with high expenditure in the areas of communication (+49.8 per cent), clothing (+14 per cent) and furnishing and household equipment (+6.9 per cent) benefited the most, which usually does not apply to pensioners. In contrast, there were significant losses in purchasing power for food (minus 2.9 percent), housing (including household energy – minus 9.4 percent)) and visits to restaurants and hotels (minus 10.1 percent). In particular, the first two expenditure categories are particularly relevant for pensioners and more than outweigh the possible advantage of the slightly higher real purchasing power in health expenditure.

"PERCEIVED" INFLATION HIGHER

While the loss of purchasing power due to the inflation shock has now been largely offset by wage increases, the corresponding perception among the Austrian population is different. This is mainly due to the significantly higher perceived inflation. By means of the price development of the mini and micro price index, the perceived price development of the population can be better assessed. The mini basket represents the top 60 items of an average weekly purchase. The micro basket better reflects the perception of inflation by measuring only about 20 everyday goods that are bought most often.

Greater losses in purchasing power for daily and weekly shopping



Measured in terms of both the mini and micro price baskets, the real purchasing power of the average collectively agreed wage at the end of the first quarter of 2025 is about 6 percentage points lower than in the base year 2020, a clear difference from the general consumer price development.

HIGH PERCEIVED INFLATION SLOWS DOWN CONSUMPTION AND ECONOMIC MOMENTUM

In view of the high level of uncertainty among domestic consumers due to the challenging economic conditions and the significantly higher inflation experience, Austrian consumers have not yet noticed that wage increases have now largely compensated for inflation and that real purchasing power is already back to the same level as before the inflation shock began.

As a result, the dynamics of consumption in Austria are suffering noticeably. In 2023, private consumption fell by 0.5 percent in real terms, and in 2024 consumption stagnated. While the weakness of consumption in 2023 could still be explained by the reduced real purchasing power as a result of the inflation shock, this argument no longer applies to developments in 2024. Disposable income in Austria rose by 3.5 percent in real terms in 2024. However, the additional income was saved entirely and not used for consumption. The savings ratio rose to 11.7 percent. More than 33.7 billion euros were set aside by domestic households in 2024, more than in the first Corona year 2020, when many businesses were closed for a long time for health policy reasons and the opportunity to consume was not even available. From 2010 to 2023 inclusive, the average savings ratio in Austria was 8.7 percent, despite an upward outlier due to the Corona pandemic. If Austrian households had kept their savings volume at this average level in 2024, i.e. if the savings ratio had also been 8.7 percent in 2024, a total of around 10 billion euros more would have flowed into private consumption. Instead of stagnating, these additional funds would have led to an increase in private consumption of almost 3.5 percent in real terms, thus triggering an additional growth effect for the economy as a whole, so that GDP would not have fallen by 1.2 percent, but would have risen by 0.5 percent.

More aggressive consumer behavior could therefore have prevented a second year of recession in a row in 2024 and is also crucial for stabilizing or improving the Austrian economy in 2025 by avoiding another year of GDP decline. It is therefore in the hands of domestic consumers to boost the economy, as foreign trade will not be able to set positive impetus for the time being due to US tariff policy and the difficult competitive situation of domestic industry.

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