

Economic Indicators — Part 4: Purchasing Power in 2025–2026

by Max Farrington and Michael Hirsch — Updated Edition

Today's indicators focus on purchasing power — tools that allow us to compare the real value of currencies and wages across countries, far beyond simple exchange rates.

Purchasing Power Parity (PPP): Understanding What Money Is Really Worth

PPP (Purchasing Power Parity) is a fundamental concept: the value of the money you own depends on the cost of living where you live compared with other countries.

With €5, for example, you can buy far more goods in India than in France or Norway. PPP measures how much of a given currency is required to purchase the same basket of goods in different countries.

The Big Mac Index: Still Relevant After 40 Years

One famous and accessible example of this tool is the Big Mac Index, created in 1986 by economist Pamela Woodall for *The Economist* magazine.

The idea is simple: the Big Mac is McDonald's most recognizable product, and the same ingredients are used everywhere in the world. By comparing its price in different countries once converted into dollars, economists can estimate whether a currency is overvalued or undervalued.

What began as a humorous journalistic concept has become a serious subject of study in universities and financial institutions.

According to the Big Mac Index of January 2024, Switzerland had the most expensive Big Macs in the world at \$8.17, followed by Norway (\$7.14) and Uruguay (\$7.04).

The price of a Big Mac was \$5.69 in the United States and about \$5.87 in the euro area.

In 2025, these trends continue:

- In the United States, the reference Big Mac costs about \$5.80.
- In Switzerland, it approaches \$8.00.
- In the euro area, it averages around \$5.30, or roughly €4.95.

In Taiwan or India, however, the price drops to less than \$2.50.

Within the European Union, western countries such as France and northern countries such as the Netherlands and Belgium tend to have the highest prices, while southern countries like Spain and eastern countries such as Greece offer lower prices.

What does this tell us in practical terms?

If a Big Mac costs more in one country than another after exchange rate conversion, this may indicate that the local currency is overvalued relative to the reference currency. Conversely, a lower cost may suggest that the local currency is undervalued.

In 2025, for example, a Big Mac costs \$5.79 in the United States and 25.5 yuan in China. If PPP were perfectly respected, the implied exchange rate would be 4.40 yuan per dollar.

However, the actual exchange rate in January 2025 is around 7.3 yuan per dollar. This means that \$5.79 can buy more than 42 yuan, enough to purchase almost two Big Macs in China, suggesting that the yuan is significantly undervalued.

Another illustrative measure is the “working time” indicator. Studies have estimated the amount of time a worker must work in order to buy a Big Mac. In major global cities, this indicator can vary by a factor of ten depending on wages and living costs.

The Minimum Wage: A Key Indicator of Workers’ Purchasing Power

The minimum wage — the legal minimum amount an employer can pay a worker before deductions — remains one of the most direct indicators of the purchasing power of low-income households.

Not all countries have one. Some, such as the Nordic countries, prefer to allow social partners to set wage floors through sectoral collective agreements.

Within the European Union, the differences are striking.

According to Eurostat data for the first half of 2026, the minimum wage ranges from €620 per month in Bulgaria to €2,704 in Luxembourg.

With a gross monthly minimum wage of €1,823, France ranks sixth among EU countries, behind:

- Belgium (€2,112)
- The Netherlands (€2,295)
- Germany (€2,343)
- Ireland (€2,391)
- Luxembourg (€2,704)

Luxembourg confirms its status as the European champion. Since May 2025, the Grand Duchy has offered a minimum wage of €2,704 gross per month for unskilled workers and €3,244 for skilled workers.

This exceptionally high level is based on a unique automatic indexation system, which regularly adjusts wages to the cost of living.

However, this generosity also comes with very high living costs, particularly for housing, where property prices are among the highest in Europe.

In France, the net minimum wage (SMIC) reached €1,443 per month in January 2026, following a 1.18% increase at the beginning of the year.

This automatic adjustment illustrates an essential mechanism: if inflation reaches 2%, the minimum wage must increase by at least the same amount simply to maintain purchasing power — in other words, to allow workers to buy the same quantity of goods as before.

An Important Reminder: Comparing Wages Also Means Comparing Contexts

Another way to compare wage levels in Europe is to use Purchasing Power Standards (PPS), which adjust salaries according to the prices of goods and services in each country.

For example, a worker living on €800 in Bulgaria may enjoy significantly greater purchasing power than someone earning the same salary in France.

Simply comparing gross salaries in euros is therefore insufficient. They must always be analyzed alongside the actual cost of living in each country.

Conclusion

Purchasing power is far more complex than the simple amount shown on a paycheck.

The Big Mac Index and PPP remind us that the value of money is always relative — relative to local prices, exchange rates, and living standards.

And the minimum wage, as important as it is, only has real meaning in terms of what it actually allows people to buy in the country where they live.

In a world where inflation has significantly reshaped economic conditions in recent years, these indicators are more useful than ever for understanding wealth inequalities between countries and between citizens.

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Vocabulary:

Purchasing power – Pouvoir d'achat

Purchasing Power Parity (PPP) – Parité de pouvoir d'achat (PPA)

Currency – Devise / monnaie

Cost of living – Coût de la vie

Big Mac Index – Indice Big Mac

Overvalued currency – Devise surévaluée

Undervalued currency – Devise sous-évaluée

Exchange rate – Taux de change

Basket of goods – Panier de biens

Minimum wage – Salaire minimum

Gross wage – Salaire brut

Net wage – Salaire net

Unskilled worker – Travailleur non qualifié

Skilled worker – Travailleur qualifié

Living standards – Niveau de vie

Automatic indexation – Indexation automatique

Inflation – Inflation

Eurostat – Eurostat (office statistique européen)

Purchasing Power Standards (PPS) – Standards de pouvoir d'achat (SPA)

Income inequality – Inégalités de revenus

Housing prices – Prix de l'immobilier / logement

Gross monthly income – Revenu mensuel brut

Economic indicator – Indicateur économique

Wage floor – Plancher salarial

Sectoral collective agreement – Accord collectif sectoriel

Relative value of money – Valeur relative de l'argent

Reference currency – Devise de référence

Worker's purchasing power – Pouvoir d'achat des travailleurs

Cost adjustments – Ajustements du coût / de la vie

1. **Global cities** – Villes mondiales