

ETUC MACROECONOMIC OUTLOOK 2025

1st edition

November 2025

Across the EU, households face a dual squeeze: housing costs have risen faster than incomes, while the distribution of value added has shifted away from wages towards profits. This erosion of household income and purchasing power makes it impossible to finance the green transition through austerity. These difficulties inevitably spill over into the industrial sector: what cannot be bought cannot be produced.

Editorial

In publishing its Macroeconomic Outlook 2025, titled “The EU Squeeze”, the European Trade Union Confederation (ETUC) offers a necessary corrective to the dominant economic narratives shaping EU policy. At a time when fiscal orthodoxy is returning to the political agenda and inequality continues to deepen, this report brings forward a macroeconomic analysis rooted in the lived realities of Europe’s workers, rather than in the abstractions of market efficiency or competitiveness metrics.

"We examine macroeconomic dynamics on the scale of a worker’s career, not the lifespan of a stock share."

The report highlights a number of structural imbalances that have defined the post-crisis European economy. Real wages have persistently lagged behind productivity gains. Housing has become increasingly unaffordable, while energy poverty and renovation inequality expose the limits of current climate transition strategies. Meanwhile, the labour share in GDP has steadily declined, not because of economic necessity, but as a result of institutional weakening of collective bargaining, wage suppression policies, and the financialisation of the corporate sector. By grounding its analysis in robust data and linking household-level experiences to macroeconomic outcomes, The EU Squeeze demonstrates that stagnating private investment, profit-led inflation, and declining social cohesion are not isolated issues, but symptoms of a broader systemic failure. Public investment, strong labour institutions, and fair income distribution emerge not only as social priorities, but as macroeconomic imperatives. ETUC’s Outlook is a reminder that economic policy is never neutral. It reflects choices, and those choices must begin to serve people, rather than narrow interests. This document aims to equip trade unions, policymakers, and civil society with the evidence and arguments needed to shape a more equitable and sustainable EU economic model.

Section 1: HOUSEHOLDS - facing rising housing costs, stagnant real wages and declining labour share

Housing affordability is a hidden poverty. Since the late 1990s, the housing-to-income ratio (Chart 1) increased across most EU countries as house prices outran incomes. Between 2015 and 2021, housing prices rose by 16.7%, showing that the problem long predates the energy crisis of 2022 and reflects deeper structural imbalances. Consequently, home ownership is out of reach especially for young households and first-time buyers, tenants are spending increasing amounts on housing, and low- to middle-income groups are more frequently pushed into the “housing cost overburden” – spending more than 40% of their income on housing.

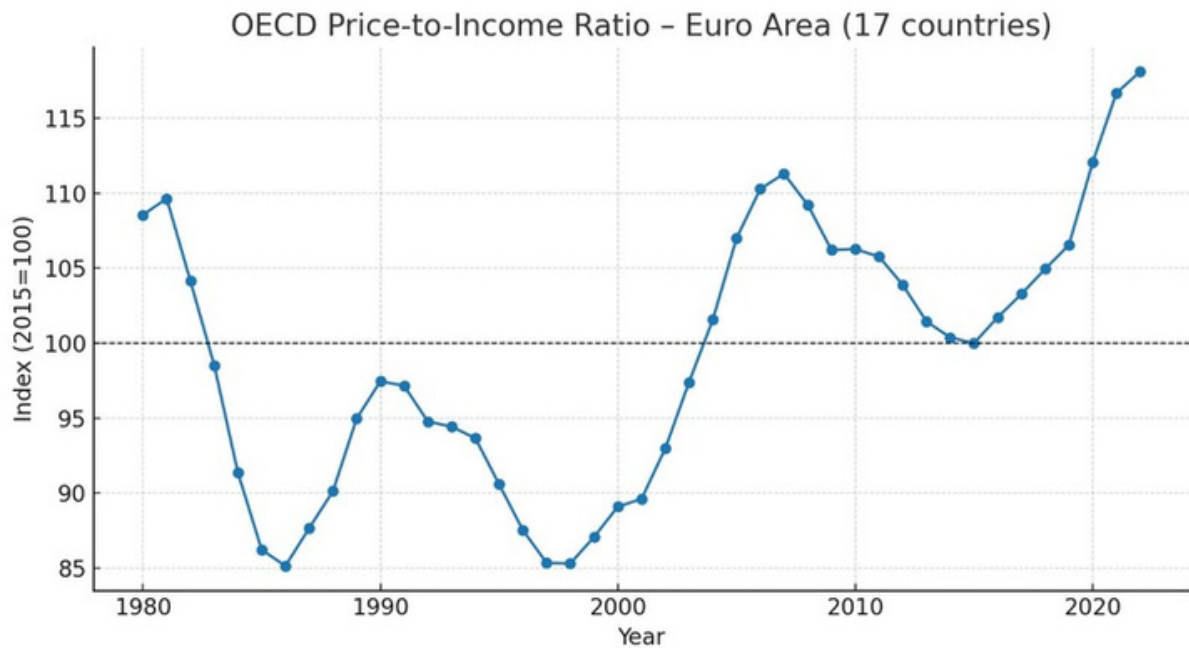
The oil shocks of the late 1970s and early 1980s produced a sharp but temporary spike in housing-to-income ratios, driven by inflation, high interest rates, stagnant real wages, and demographic pressure. However, the ratios were again close to pre-shocks levels by the mid-1980s. In today's context, the drivers of the increase are structural: cheap credit – which expanded demand for houses and pushed up the prices –, urban land scarcity, asset speculation and ultra-low interest rates.

Such an increase reduces households' disposable income for other consumption. This dynamic shows that workers' share of prosperity is shrinking since the 1990s.

Trade union demand:

The EU and Member States must guarantee adequate, decent and affordable housing for all. This requires a real change of direction, with increased investment in non-for-profit, limited-profit, public and social housing, measures to tackle speculation and financialisation, and coordinated action to raise wages, expand public housing supply and curb speculative rent increases.

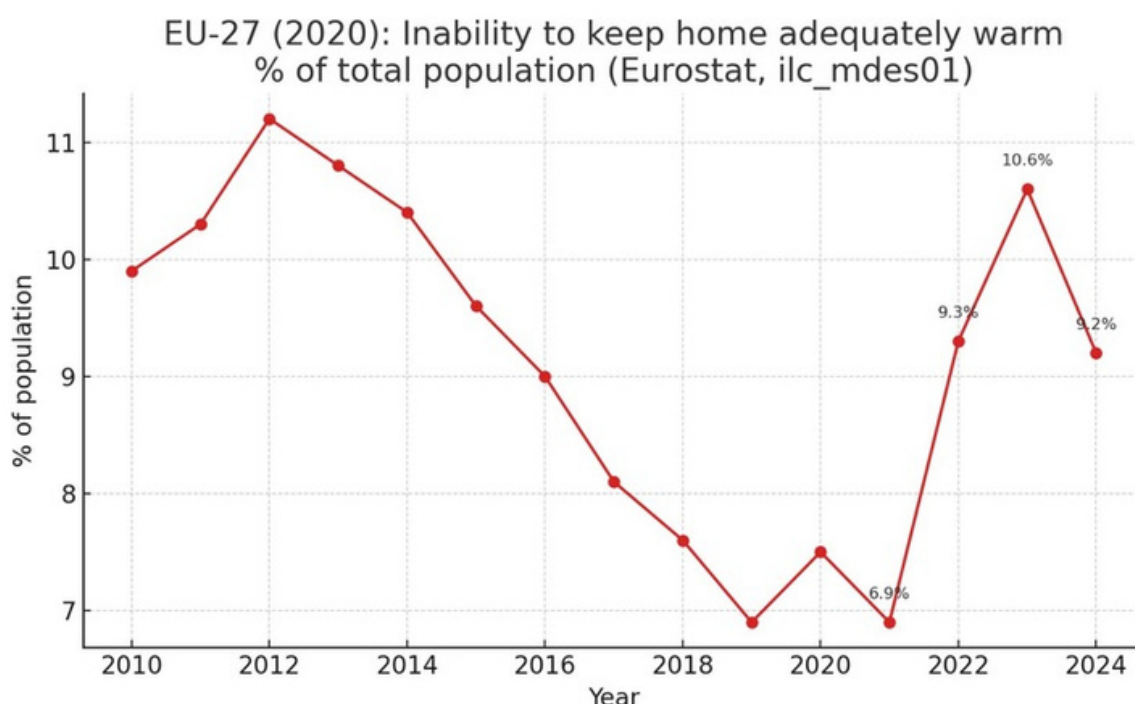
Chart 1. OECD housing-to-income ratios, Euro Area 17, 1980–2022.



This trend does not necessarily indicate a rise in poverty, but rather that housing costs have outpaced the growth of household disposable income. Following the financial crisis, ultra-low interest rates and unconventional monetary policies inflated asset prices, including real estate, while real income growth remained sluggish. The sharp rise in housing prices during the 2010s and 2020s can be attributed to increased demand for "safe assets" and growing financial inflows into European real estate, particularly in metropolitan areas, further decoupling housing costs from household earning capacity.

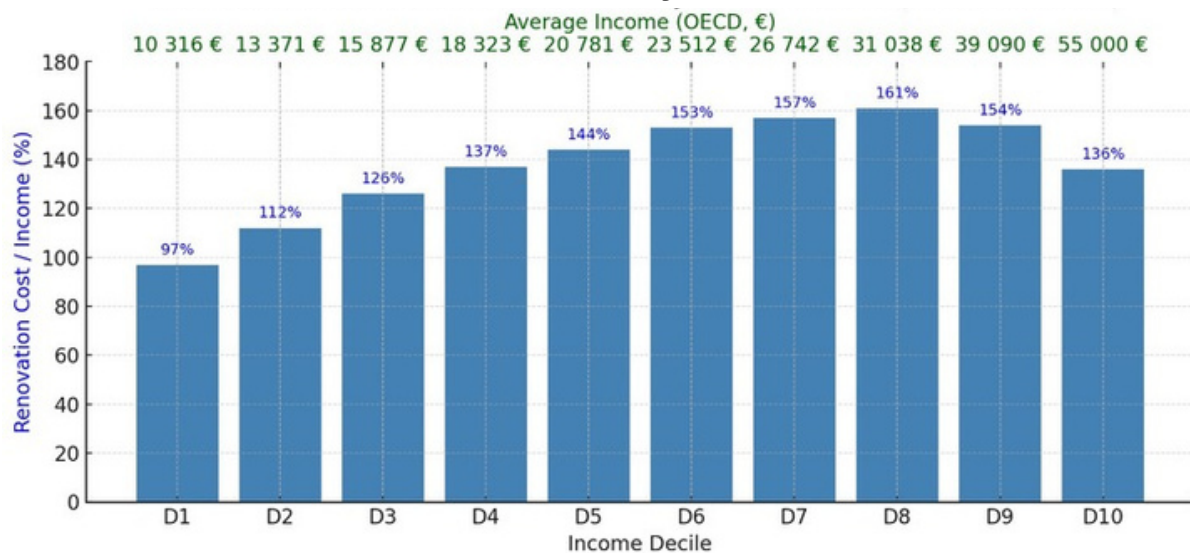
Energy poverty and thermal renovation inequality In 2023, more than 40 million people (9.2% of EU population) were unable to keep their homes adequately warm in the EU (Chart 2), demonstrating the scale of the energy poverty problem. In 2024, 21% of the population in the EU was at risk of poverty or social exclusion, a percentage which rises above 24% for children. Although there will be a decline in 2022– 2024, levels will remain high. (source: Eurostat data, AROPE indicator identifies the share of the population either in income poverty, materially/socially deprived, or living in households with very low work intensity).

Chart 2. Share of the EU–27 population unable to keep their home adequately warm



According to new estimates by the ETUC (Chart 3), under the EU’s current economic governance framework, thermal renovation remains financially out of reach for most households without public subsidies, meaning that the decarbonisation of housing will not happen by magic. The EU cannot expect people to finance the green transition on their own through low wages. The cost of deep energy retrofits for an average dwelling in Europe ranges from €20,000 to €40,000, or €200 to €500 per m². For around 90% of households, especially those relying on wages rather than accumulated wealth or savings, such costs remain out of reach. These estimates consider that households differ in average dwelling size across income groups, meaning that lower-income families typically face smaller but still disproportionate renovation costs relative to their income. Still, one year of income does not weigh the same: low-income families cannot save or dedicate an equivalent share of their earnings to investment. These figures highlight the structural inequality embedded in current policy choices.

Chart 3. Retrofit cost as % of annual income by Income decile (ETUC calculation)



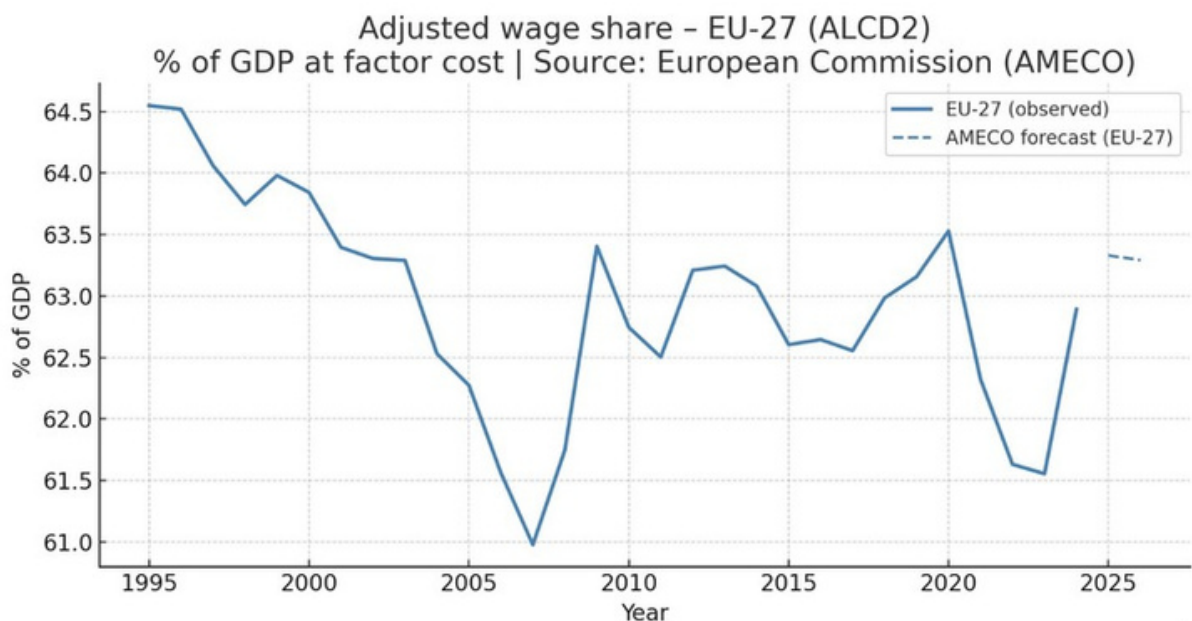
Trade union demand:

Publicly funded retrofits creating green jobs and social justice at the same time, ensuring that climate action goes hand in hand with fair pay. Large-scale and long-term subsidies, affordable financing, and public investment are essential to decarbonise the European housing stock without deepening inequalities.

Section 2: DISTRIBUTION – A structural shift from labour to capital that should be addressed

The labour share in GDP has experienced a long-term decline in the EU since the early 1990s. As shown in Chart 4, following a sharp drop during the 2008 crisis, the labour share in the EU-27 has stabilized around 63%, roughly 1.5 percentage point below its average in the 1990s. This indicates a growing portion of value added is being captured by capital rather than labour.

Chart 4. Labour share in GDP, EU-27, 1995-2023 (ETUC calculation, source: AMECO)



The trend is even more pronounced in the original Euro Area (EA-12): as illustrated in Chart 5, the labour share fell from nearly two-thirds of GDP (about 60–62%) to under 59% by the late 2010s and early 2020s.

Chart 5. Labour share in GDP, EA-12, 1975–2024 (ETUC calculation. Source: AMECO)



According to ETUC estimates, the shift from labour to capital represents a massive redistribution of income within the European economy. Using DG ECFIN data, the average annual wage income shortfall since 2015 would amount to around €298 billion, cumulating to nearly €3 trillion – roughly the size of Germany’s GDP. Using Eurostat data, which excludes self-employed workers and includes product taxes in GDP, the estimate is more conservative at €1.8 trillion. Despite these methodological differences, both sources point to the same reality: a persistent erosion of labour’s share in value added and a structural transfer of income from workers to capital without triggering any meaningful rise in private investment.

This decline is neither a temporary fluctuation nor the result of falling labour productivity (as the next chapter will show). It reflects a structural and political transformation in income distribution. The post-crisis economic model has moved away from “retain and reinvest” toward a regime of “downsize and distribute,” in which profits are no longer reinvested in employment and wages, but redirected toward financial markets and shareholder returns.

Several factors have caused such phenomenon:

- Financialisation has shifted firm priorities toward dividends and buybacks, weakening the wage–profit link
- Undermined union density and precarious jobs have eroded labour’s bargaining power and wage share
- Automation and digitalisation have displaced mid-skill jobs, concentrating income among capital and high-skilled labour

- Offshoring has reduced domestic labour leverage, exerting sustained downward pressure on wages
- EU competitiveness rules have institutionalised wage restraint, especially through internal devaluation in Southern Europe.

Trade union demand:

Restoring bargaining and coverage. The 2022 EU Directive on Adequate Minimum Wages requires Member States with collective bargaining coverage below 80% to adopt concrete action plans to expand it. Sectoral bargaining is recognised as a cornerstone of the European social model – it ensures stable wage dynamics, reduces inequality, and anchors inflation expectations.

Understanding structural loss of purchasing power and living standards

At no point since the 1990s do the data show wages outpacing productivity. The real gap is not inflationary – it is institutional. Since 1995, labour productivity per hour has increased by around 34%, while real compensation per hour has risen by only 25% (Chart 6). As a result, workers' purchasing power and living standards have not improved as much as productivity gains would allow.

Chart 6. Average labour productivity per hour (APL) and real compensation per hour in the EU-27, 1995=100 (ETUC calculation, source: Eurostat)

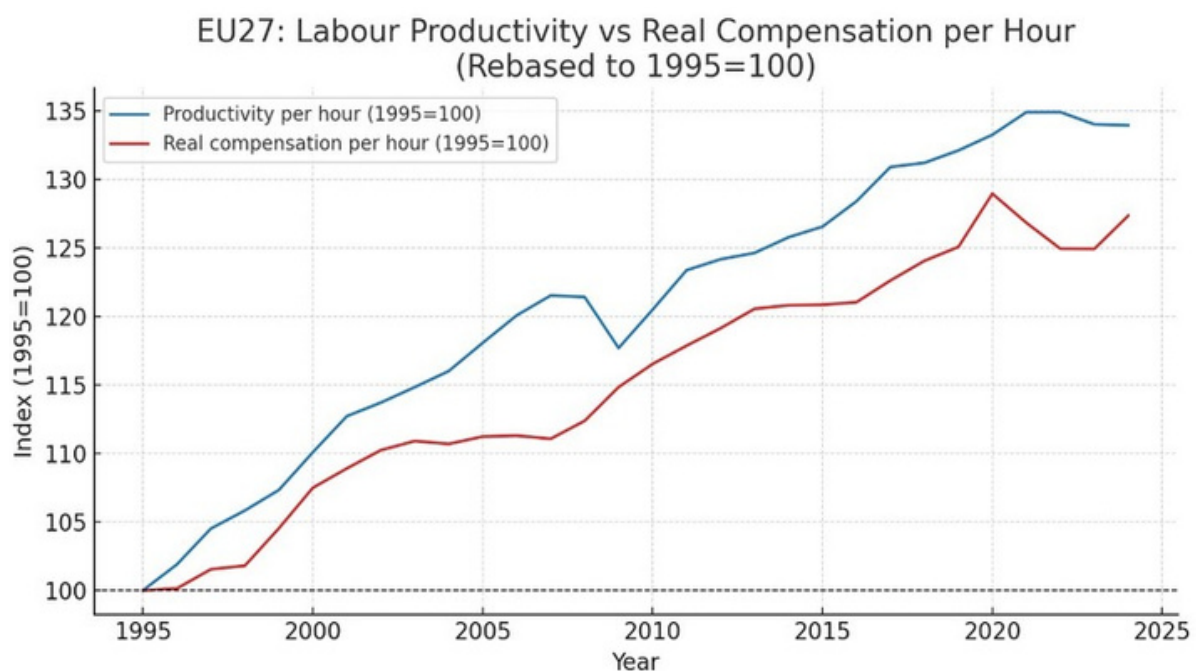
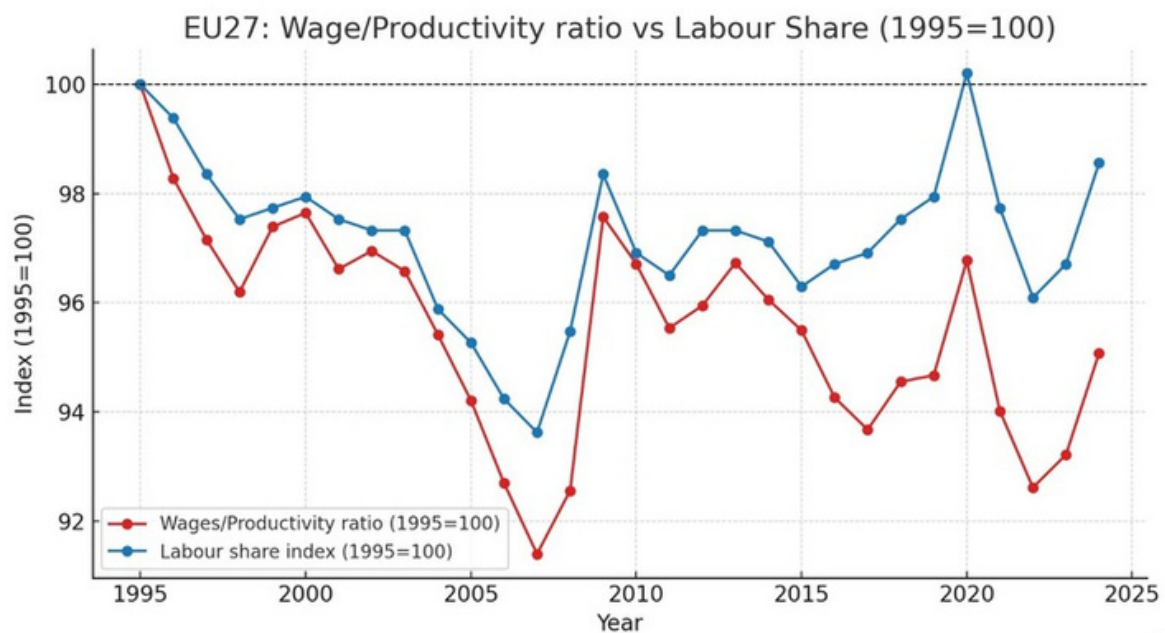


Chart 7, plotting the ratio of real wages to average productivity per worker (APL) alongside the labour share, reveals a striking pattern: a new wedge has opened between productivity and pay that cannot be attributed to technology alone. Today, real wages are falling behind the actual economic value that workers create. This is due to institutional and policy failures – like weakened collective bargaining, unequal wage-setting systems, or policy choices that have reduced workers' bargaining power. The data show that EU workers have been consistently underpaid relative to their productivity for decades.

Chart 7. Ratio of real wages to average productivity vs. labour share, EU-27 (ETUC calculation, source: Eurostat and AMECO)



Trade union demand:

Productivity gains must translate into fair pay. Rather than fixating on unit labour costs, the EU should ensure real wages keep pace with productivity to stabilise the labour share, shifting the focus from cost-competitiveness to equitable income distribution. Investment in workers, not just capital. Firms benefiting from productivity gains and rising profits must reinvest in decarbonisation, reskilling, and job quality, not simply reward shareholders.

Stagnation of private investment in the EU

Over the past 25 years, the European Union has faced chronic stagnation in private investment.

For households, the investment-to-GDP ratio has hovered between 17% and 20%, while for non-financial corporations it has remained close to 12–13%, both far below historical levels (Charts 8 and 9). Key causes include corporate financialization, rigid fiscal rules, weak household demand.

On the household side, stagnant wages, housing costs, and post-2008 credit tightening curbed investment in housing and durable goods. Although ultra-low interest rates sparked partial recovery in the 2010s, it mainly fuelled real estate speculation, not productive investment in housing or durable goods.

Crucially, the decline in labour's share of income - now around 63% of GDP compared to almost 66% in the 1990s - means that roughly 37% of value added is captured by capital. Yet only about one third of this income is reinvested in the real economy, as private investment by firms accounts for barely 12–13% of GDP. In other words, two thirds of capital income are distributed rather than reinvested, feeding financial markets instead of productive capacity. Despite record profits, this imbalance between accumulation and investment has become structural, undermining innovation, decarbonisation and job creation.

Because of this structural inertia, the EU now suffers from a persistent private-investment deficit that undermines innovation, decarbonisation and job growth, leaving public investment to bear the burden. In macroeconomic terms, Europe has effectively become a net exporter of savings.

Chart 8. Stagnation of private investment of firms in the EU as a % of GDP (2000–2024)
Source: Eurostat

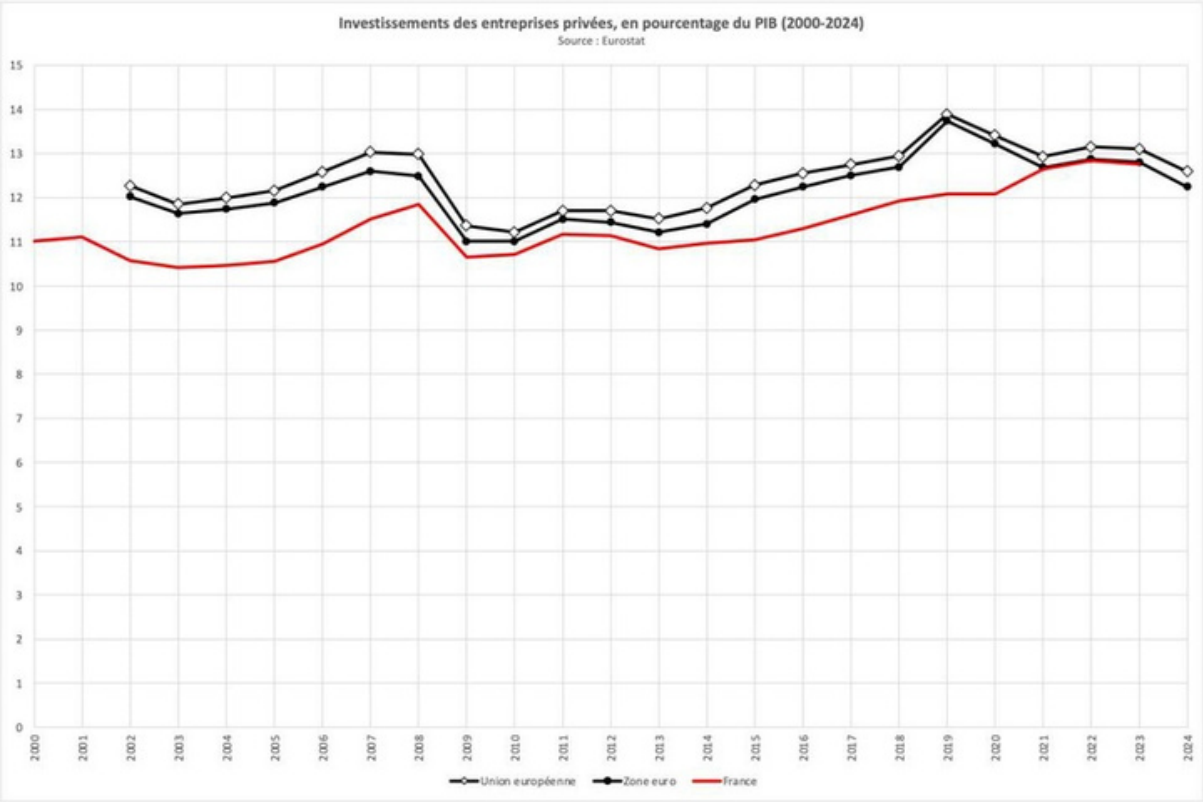
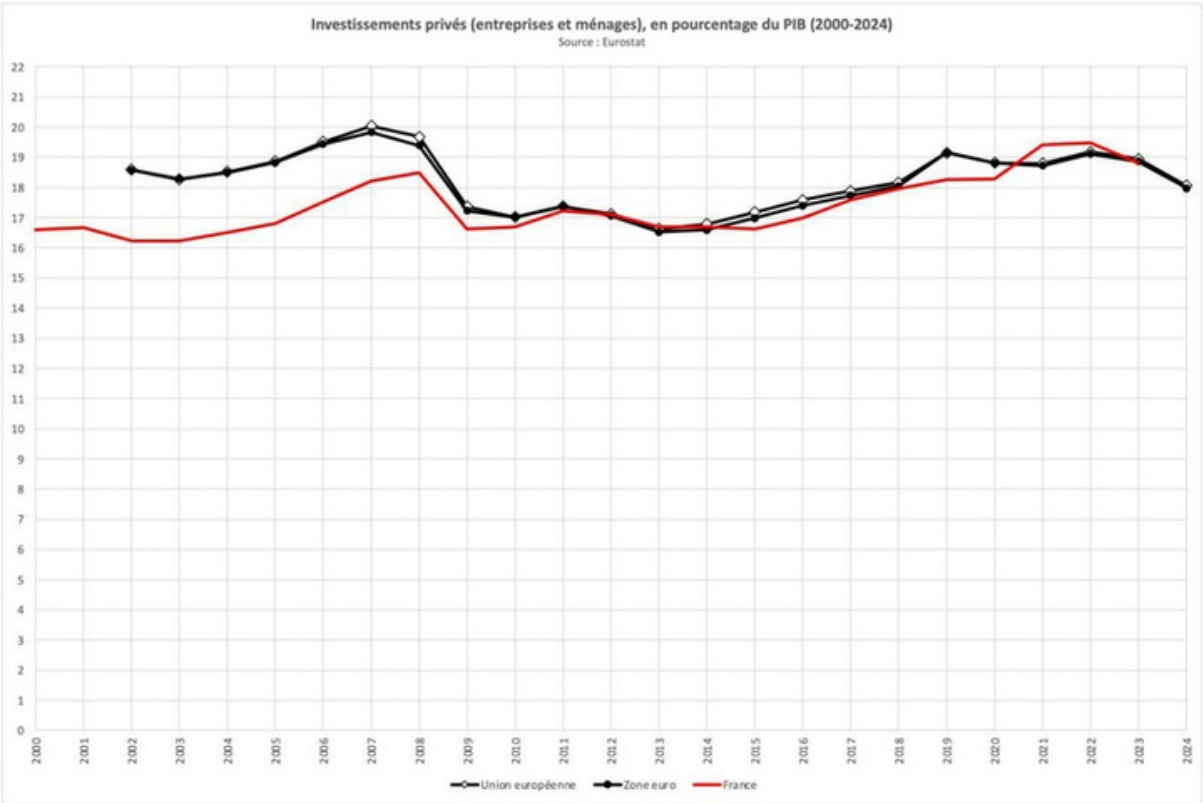


Chart 9. Stagnation of private investment of households and firms in the EU as a % of GDP (2000–2024) Source: Eurostat



Inadequate assessment of drivers of inflation and responses to profit-driven inflation In 2023, the ECB and the IMF, as illustrated in Chart 10, acknowledged that inflation was partly driven by rising profit margins for companies in a position of strength. Once “external” causes – the post-COVID recovery, the conflict in Ukraine, and energy shocks – are taken into account, mark-ups explain roughly half of inflation in 2022–2023, while wage-price spirals are absent. The ECB and IMF recognised that inflation was driven by an increase in corporate profit margins not justified by higher production costs, contrasting with the fear of a wage-price spiral. Inflation today reflects a distributional conflict between profits and wages. The focus on wage-price spirals obscures a deeper phenomenon: the reallocation of value added away from wages and toward profits. Since 2008, firms expanded markups during crises while wages stagnated and prices of essential goods rose. Today’s wage increases therefore do not represent a new wage-price spiral, but rather a partial catch-up after several years of falling real wages. In other words, there is no “second wave” of inflation driven by wage growth, since real compensation has only begun to recover from the losses caused by profit-led price increases. Inflation, in its profit-driven phase, has left a lasting mark: even if inflation rates normalise, price levels remain high and the purchasing power lost during the profit surge has not been restored.

Trade union demand:

Monitoring corporate profits, not only wages, as inflation drivers. Stronger price monitoring and margin control wherever abuse occurs. Profit-driven inflation requires vigilance over mark-ups and transparency in price formation to protect workers’ purchasing power.

Chart 10. Drivers of inflation in the Eurozone 2015-2023 (source: IMF)

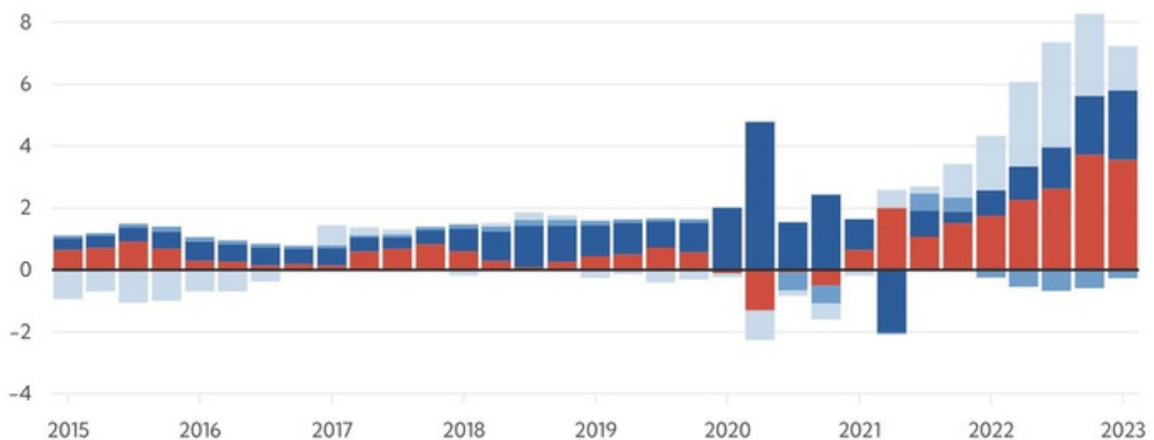
Inflation drivers

Corporate profits now account for nearly half of all euro area inflation.

Contribution to annual change in consumption deflator

(percentage points)

■ Profits ■ Labor costs ■ Taxes ■ Import prices



Sources: Eurostat, OECD, IMF staff calculations. · Notes: Profits, labor costs, and taxes refer to the total contributions from their nominal values per unit of real value added summed up from sectoral level, and import prices refers to the contribution from foreign value added. See Hansen, Toscani, and Zhou (2023) for details.

IMF

Wage growth vs. food prices Between 2022 and 2024, nominal wage growth in the food sector averaged 4–5% annually, while food prices increased by 20–25%.

Data show that labour costs, accounting for less than 20% of value added, cannot explain the price surge; corporate profits rose sharply instead. This pattern is consistent with a profit pass-through mechanism: firms not only passed higher input costs to consumers but also increased mark-ups to rebuild margins:

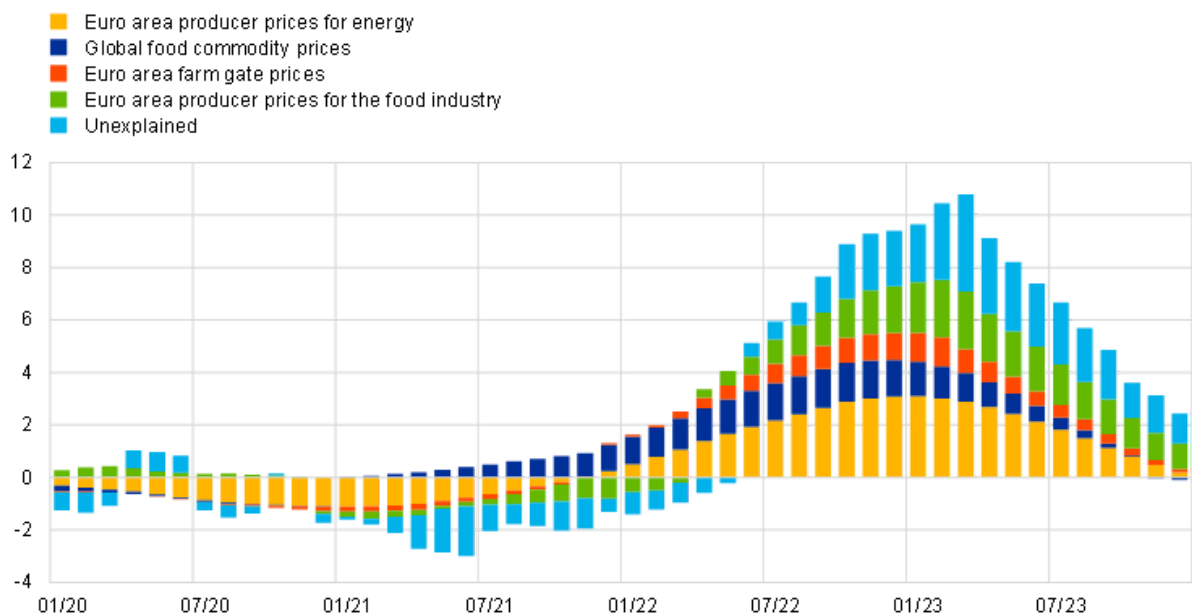
- Energy prices sparked the initial inflation in 2021-2022, but food prices stayed high even after energy costs fell.
- Wage increases came later (2023-2024), indicating they followed, not caused, the price surge.
- The microeconomic evidence points to a profit-price spiral, not a wage-price spiral, as the main driver of persistent food inflation.

Trade union demand:

Rather than blanket price controls, which risk hurting genuinely cost-hit SMEs, margin controls deserve consideration.

Profits should support investment, not rising dividends and buybacks, especially for funding the climate transition to curb energy inflation.

Chart 11. Drivers of food inflation in the eurozone (source: ECB)



Section 3: PUBLIC FINANCE - Debunking selective “whatever it takes” vs. austerity

Gross Domestic Product (GDP) measures the total value created in the economy each year — the sum of value added across all sectors. Yet public debate focuses almost exclusively on the debt-to-GDP ratio, which can obscure more meaningful questions. The real issue is not how much governments spend, but what that spending achieves: does it strengthen social resilience, support the ecological transition, or simply serve to reassure financial markets? To reframe the debate, the ETUC proposes using a more insightful indicator: the ratio of Public Value Added to Total Value Added (GDP).

When fiscal policy is assessed through this lens, the narrative around public spending shifts dramatically. It reveals the central role of the public sector as a driver of collective welfare, economic resilience and long-term sustainability (Chart 12).

When assessing debt sustainability, what matters is not the debt-to-GDP ratio, a stock-to-flow indicator with limited short-term relevance, but the annual interest burden relative to government revenue. Financial markets typically consider sovereign debt risky only when interest payments exceed 15% of revenues, a threshold no major EU country approaches today. This view is supported by Finance Watch’s report “The Debts We Need”, which shows that markets focus on interest burdens, not gross debt ratios. Institutions such as the IMF, OECD and the European Commission also use the interest-to-revenue ratio in their sustainability analyses, rather than debt-to-GDP alone. As shown in Chart 13, the debt service ratio in the EU remains low, confirming that public debt levels are sustainable and that there has been no sovereign-debt crisis. The real problem is that current fiscal restrictions, justified by arbitrary debt thresholds, prevent the use of available fiscal space for urgent public investment.

While the ETUC is obviously not advocating for higher debt servicing, the data show clearly that debt is being instrumentalised as a political constraint, rather than an economic necessity.

Chart 12. Contribution of public expenditure (administration, defense, health, social) to GDP (1995–2024) (ETUC calculation, source: OECD)

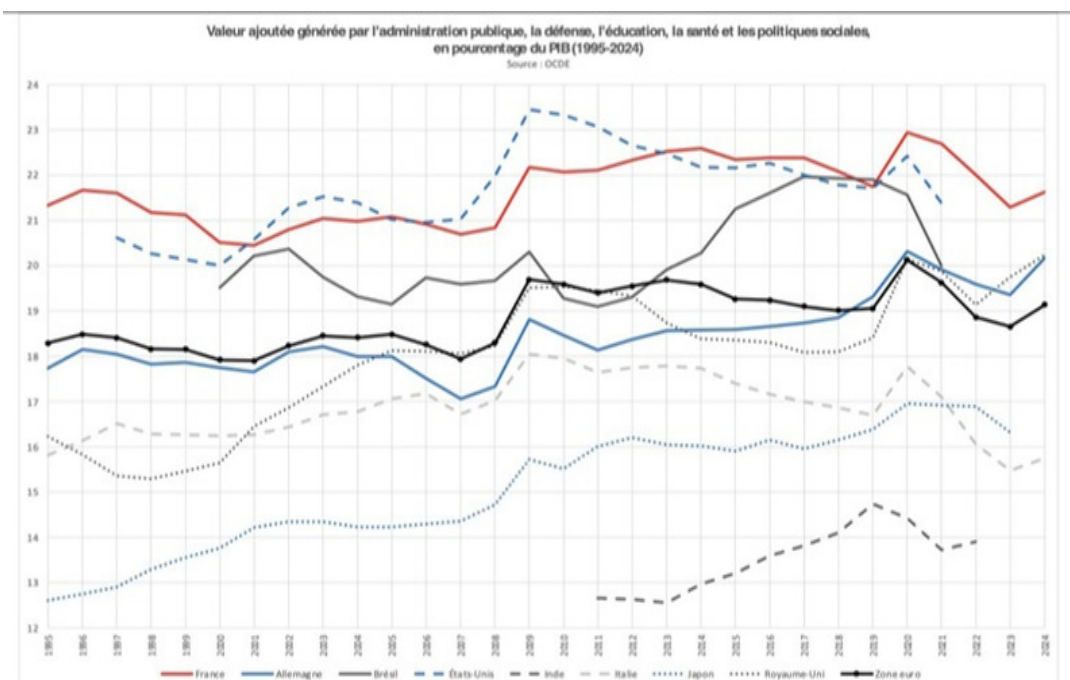
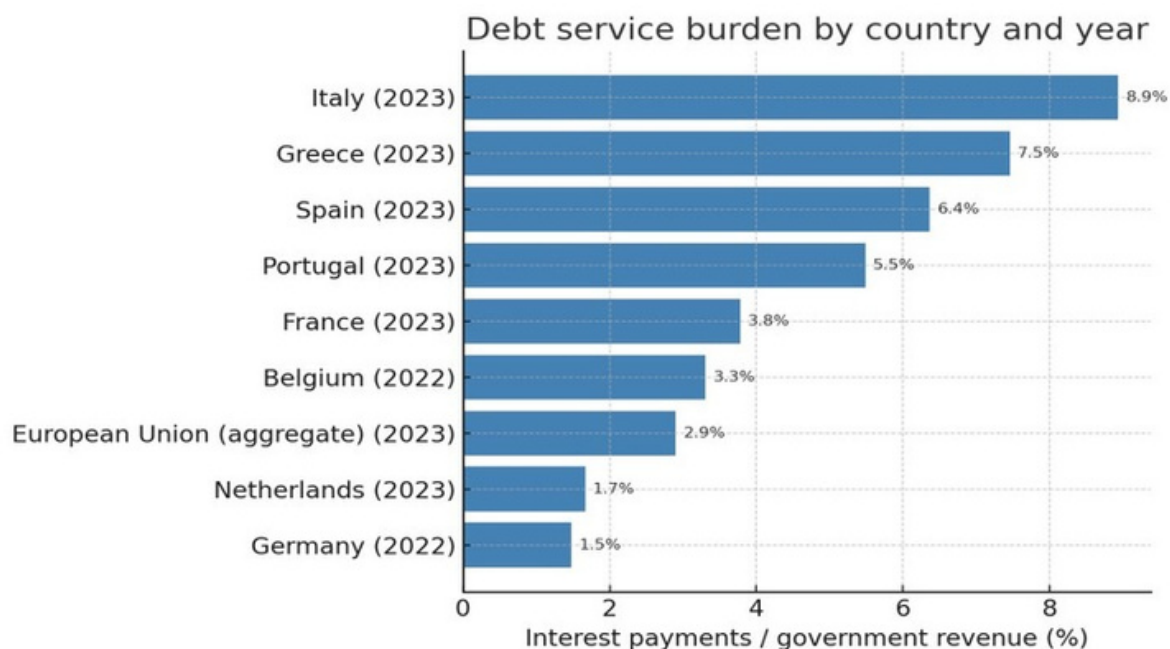


Chart 13. Debt service ratio in the EU



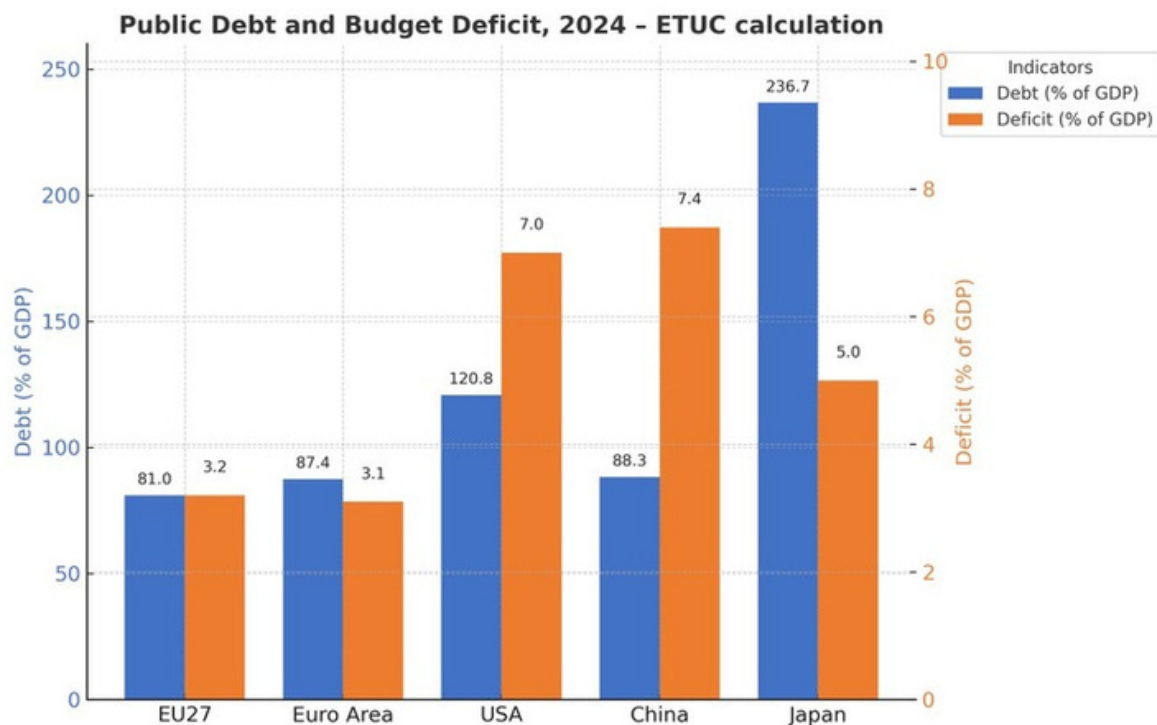
Despite moderate debt levels – 81% of GDP for the EU27 and 87% for the Euro Area – the EU maintains a restrictive fiscal stance. This discipline, designed for another era, now constrains its ability to invest strategically. Public debt remains far below that of the United States (121%) or Japan (237%), which sustain much more expansionary fiscal policies.

In 2024, the EU27 deficit stood at -3.2% of GDP (-3.1% in the Euro Area), compared with -7% in the US, -7.4% in China, and -5.0% in Japan (OFCE, 2025). These figures show that other major economies use fiscal policy to drive industrial transformation and technological leadership, while Europe treats it as a constraint (see Chart 14).

Whereas the US and China mobilise public budgets to secure industrial and technological sovereignty, Europe's focus on rapid consolidation limits investment in energy, clean tech and strategic sectors. The issue is not high debt, but how fiscal capacity is used: without coordinated public investment and reformed fiscal rules, the EU risks losing ground not because of fiscal limits, but because of policy inertia.

Chart 14. Public debt and budget deficit, 2024 – EU and major economies

ETUC calculation based on Eurostat (2024), IMF World Economic Outlook (2024) and OFCE Economic Outlook. Both bars are neutralised for the EU baseline.



Section 4: TRANSITION – Green transition and reindustrialization require smart financing, not austerity

For workers across the EU, the supposed trade-off between social justice, climate ambition and fiscal responsibility is a false narrative. In reality, austerity undermines both the green transition, public services and social protection.

The EU's net-zero target by 2050 requires an estimated €40 trillion in cumulative investment, equivalent to about 2% of EU GDP annually. If EU GDP continues to grow at around 1.5% per year in real terms, the additional cost of decarbonisation remains well within reach. What's missing is not fiscal space, but political will, coordinated financing, and institutional capacity.

At the current investment level (€370 billion per year), the EU would only reach the required cumulative investment level by 2133, nearly a century too late. Even if annual spending keeps pace with inflation (around 2%) or grows modestly in real terms (3–4%), the total falls far short. To meet the 2050 target, investment must grow in real terms by 9–10% per year. Such investment levels cannot be achieved through fragmented national budgets or fiscal rules focused on consolidation. Nor can the EU afford to delay: the cost of inaction already amounts to tens of billions of euros annually due to extreme weather events. The real choice is not between spending and saving, but between investing in resilience today or paying a much higher price tomorrow.

Trade union demand:

The ETUC calls for the full suspension and urgent reform of EU fiscal rules to prioritise investment and tax justice over austerity. It proposes a permanent EU investment facility, worth 2–3% of EU GDP annually, financed through common debt and new own resources. This facility should support quality jobs, decarbonisation, and social infrastructure, with strong social conditionalities and democratic oversight. It must complement, not replace, existing EU funds, and include crisis response tools to safeguard employment and production. All public funding should align with EU social and environmental goals and be tied to fair transition plans.