Real Terms

Why a pay rise below inflation is a pay cut, and how to check.

Money

Real change = nominal change − inflation.

real = nominal − inflation

3% rise, 5% inflation — **−2% in real terms**

A pay cut.

5% rise, 2% inflation — **+3% real**

A genuine increase.

0% rise, 4% inflation — **−4% real**

A freeze is a cut.

THE COMMON MISTAKE

× **Comparing salaries across years without adjusting**

✓ **Convert to real terms first**

A wage that looks higher than a decade ago may buy less. Nominal comparisons across time are meaningless.

The same applies to savings rates, rent increases and any figure quoted across years.