Mercer | ABACUS

IMPACT OF INFLATION & TOPLINE GROWTH ON REAL INCOME

2021-2025

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Content

Introduction

Between 2021 and 2025, Pakistani employers operated in a perfect storm of elevated inflation, brittle supply chains, and a labour market that reset its expectations. In that turbulence, one question matters more than most: did pay keep pace with company performance and with the real cost of living?

Drawing on Mercer's Total Remuneration Survey for Pakistan, this analysis follows a cohort of 100 large corporates, having more than 110,000 employees that reported consistently over five years. We map how salary increments moved relative to revenue growth and inflation, with a close look at Consumer Goods, the country's bellwether sector shaped by global players such as Unilever, Procter & Gamble, Coca Cola, PepsiCo, and Reckitt, and by influential local groups including Engro, Packages, Tapal, and House of Habib etc. We then widen the lens to fast growing arenas such as Technology, Energy, Chemicals, and Life Sciences, where compensation choices are increasingly setting the market tone.

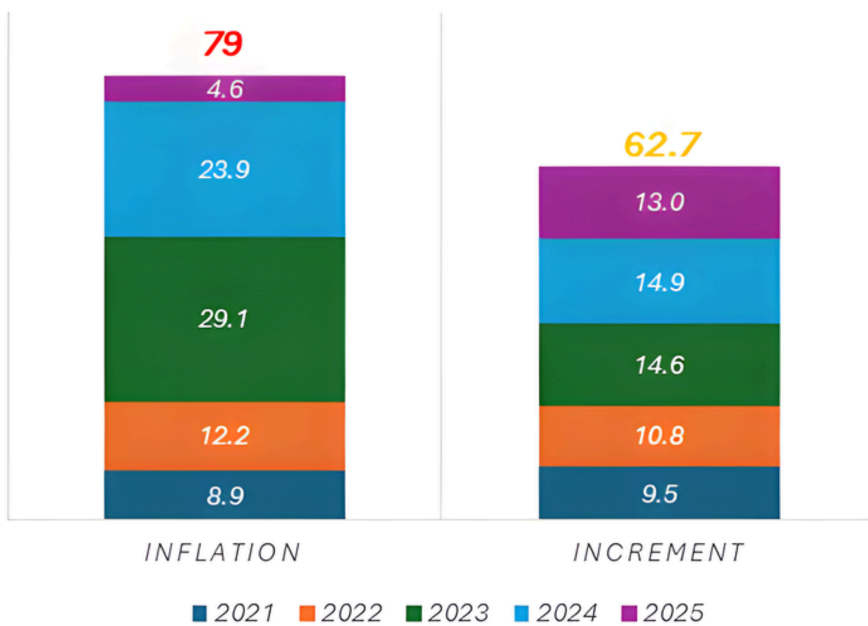
Our approach is straightforward and rigorous. We track increment to CPI ratios, total increment growth, revenue trajectories, and increments as a share of revenue from 2021 through 2025. The result is a sector-by-sector view of how value creation translated, or failed to translate, into employee rewards. Backed by Mercer TRS data and deep dive analysis from Abacus consultants, this piece is designed for CEOs, CHROs, and policymakers who need an evidence base to align growth, fair pay, and long-term talent strategy.

Annual Average Increment vs CPI Inflation:

Inflation is the hurdle every pay plan must clear. It is not enough to look at increments in nominal terms; the real test is whether they preserve purchasing power. In practice, that decision is shaped by multiple forces inside the firm: revenue and profitability, workforce size, the urgency of retention, and leadership's risk appetite. For our analysis, we benchmark increments against annual CPI from the Economic Survey of Pakistan.

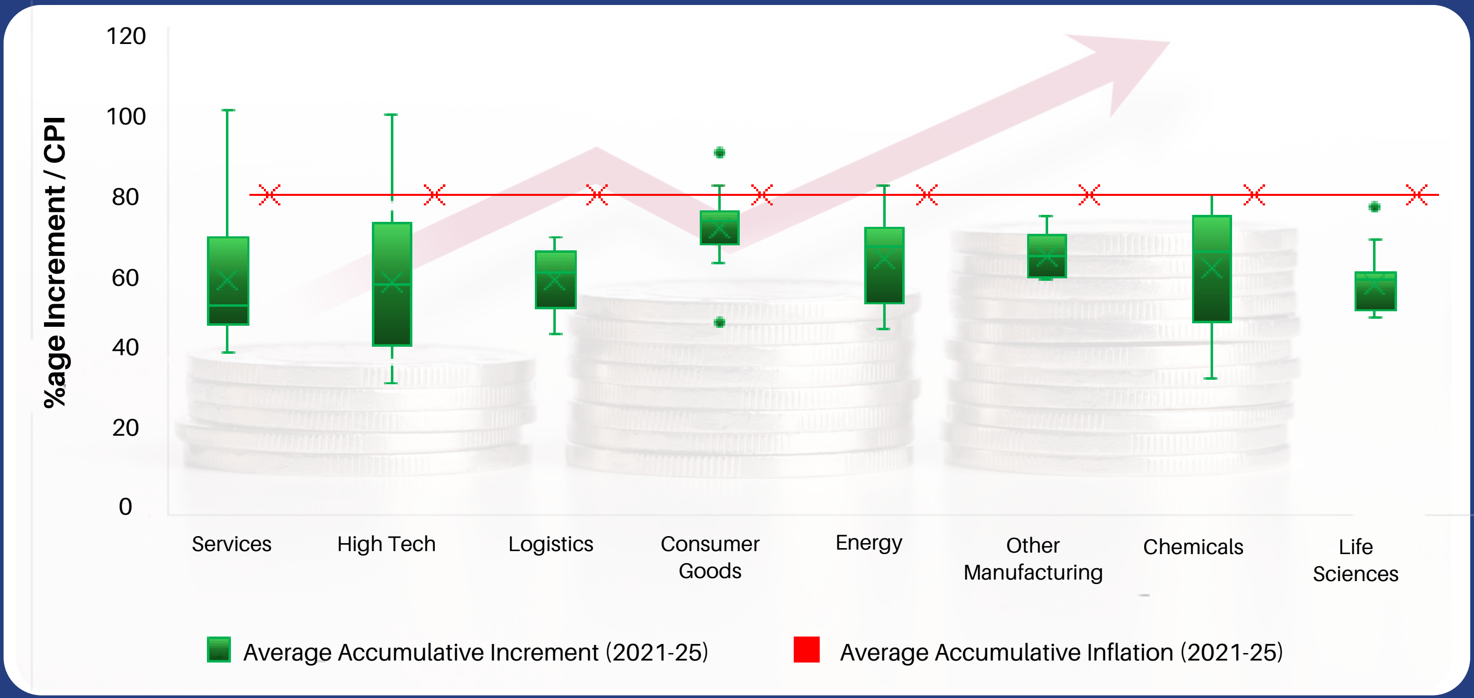
From 2021 to 2025, inflation surged and then eased: 8.9, 12.2, 29.1, 23.9, and 4.6 percent. Average salary increments rose in response, but more gradually: 9.5, 10.2, 14.4, 15.2, and 13 percent. Cumulatively, prices increased by about 78.7 percent while pay rose by about 62.3 percent, leaving a real income erosion of roughly 16.4 percentage points over the five-year period. Notably, 2025 is the first year in this cycle when the average increment exceeded annual inflation, offering modest reprieve but not enough to close the gap built up earlier.

This disconnect likely reflects deliberate cost containment, uncertainty in planning horizons, and the lag between inflation shocks and reward cycles. In the sections that follow, we test how much of this gap is explained by sector economics by linking increments to revenue trends and margin realities across the largest sample sectors, while treating smaller cohorts as directional context.



Sector Wise Increment & Inflation Correlation:

This box and whisker view stacks each sector's cumulative increment to CPI ratio for 2021 to 2025 against a red reference line at 79 percent, the point at which pay has fully kept pace with cumulative inflation. Boxes show the middle fifty percent of company outcomes, whiskers show the full range, and dots mark outliers.



Big Picture.

Across sectors, the typical firm falls below 79 percent, which signals persistent real pay erosion throughout the period. The spread within each sector, however, is substantial. Companies that reach or beat the benchmark tend to pair stronger margins and cash flow with explicit retention priorities and tighter alignment between reward cycles and inflation.

- **Consumer Goods** sits closest to the inflation bar. Most firms cluster in the high sixties to mid-seventies, with a few breaking above 79.
- **Energy** shows wide dispersion. Several firms approach the benchmark and a few exceed it, but many remain below the mid-sixties.
- **Chemicals** is volatile. Outcomes range from the thirties up to the mid-seventies, with a meaningful share still short of full inflation cover.
- **High Tech** spans the broadest range from the low thirties to nearly one hundred. The median is in the high fifties, so only leaders clear the line.
- **Other Manufacturing** is mid pack, centered around the low to mid-sixties with limited upside beyond the benchmark.

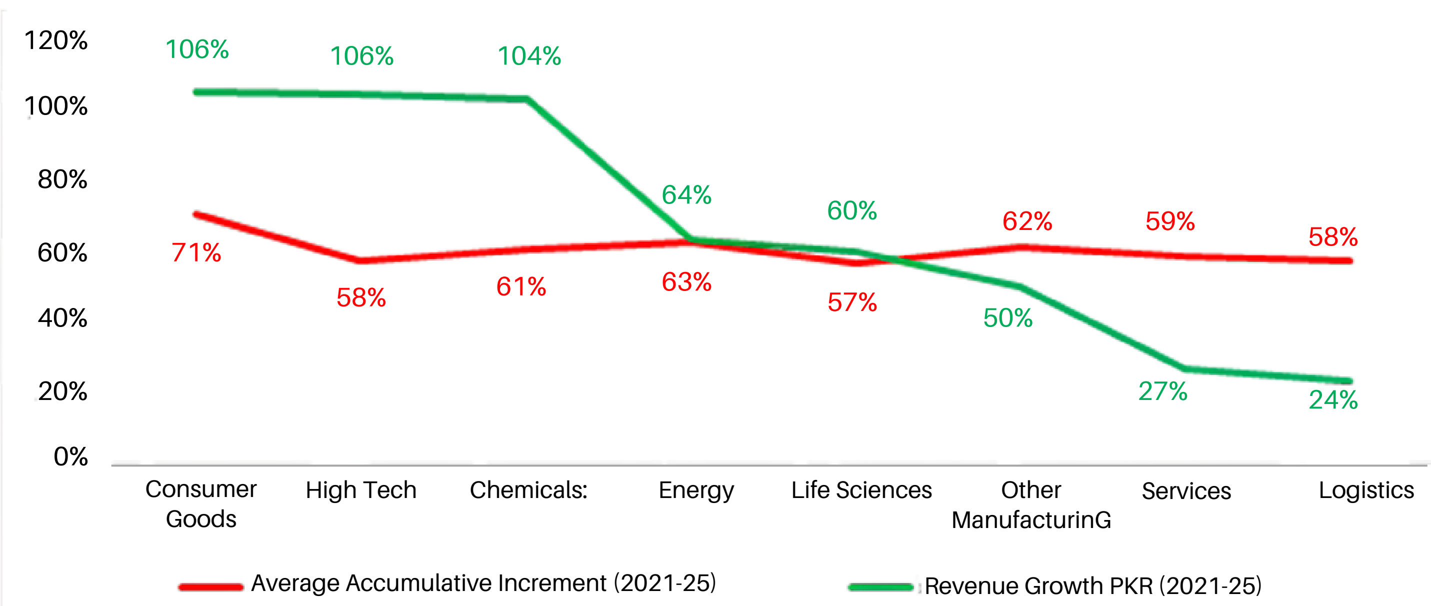
- **Logistics** clusters in the mid to high fifties with little evidence of firms reaching 79.
- **Services, non financial** is wide but low centered, median near fifty, and only a handful of companies near the benchmark.
- **Life Sciences** is the most compressed, typically in the low to high fifties with occasional points near the line.

So what?

Across the market, increments often trailed inflation, but sector economics and firm choices created pockets of resilience. Where companies neared CPI, it typically reflects stronger margins, sharper retention pressure, or deliberate pay-for-inflation policies. For CHROs and CFOs, the benchmark is clear: aim to move your sector position up the distribution toward or above the CPI line by aligning reward cycles with revenue visibility, profitability, and mission-critical talent needs.

Sector Wise Revenue Growth & Increment Trends

The picture is uneven. From 2021 to 2025, several sectors grew revenues strongly in PKR but did not translate that growth into proportionate pay.



Consumer Goods:

106%
Revenue up

71%
cumulative increment

Revenue up ~106%, average cumulative increment ~71%, still below the 79% CPI benchmark. Pricing power exists but demand is price sensitive, and many inputs are FX linked, while global margin guardrails at multinationals can cap increment pools.

High Tech:

106%
Revenue up

58%
cumulative increment

Revenue up ~106%, increments ~58%. A sizable export share lifts PKR revenues as the rupee weakens, yet firms face USD pegged vendor costs and prioritize reinvestment, so broad based pay catch up lags.

Chemicals:

104%
Revenue up

61%
cumulative increment

Revenue up ~104%, increments ~61%. Feedstocks are often imported, and margins swing with oil and energy tariffs and FX availability, creating working capital strain that curbs reward flexibility.

Energy:

64%
Revenue up

63%
cumulative increment

Revenue up ~64%, increments ~63%. Oil imports and regulated electricity tariffs mean top line growth does not translate to margin gains, with circular debt, pass through timing, and capacity payment structures constraining cash flow.

Life Sciences:

60%
Revenue up

57%
cumulative increment

Revenue up ~60%, increments ~57%. Regulated price caps and heavy reliance on imported APIs push FX shocks onto margins, so firms prioritize supply continuity and compliance over full inflation matching.

Other Manufacturing:

50%
Revenue up

62%
cumulative increment

Revenue up ~50%, increments ~62%. Exposure to imported inputs and volatile power and gas tariffs drives uneven margins, so many target increments to bottleneck skills rather than across the board increases.

Services non-financial

27%
Revenue up

59%
cumulative increment

Revenue up ~27%, increments ~59%. Labor is the dominant cost and client pricing adjusts slowly, so companies maintained a cost-of-living floor to retain delivery and clients facing talent despite margin compression.

Logistics:

24%
Revenue up

58%
cumulative increment

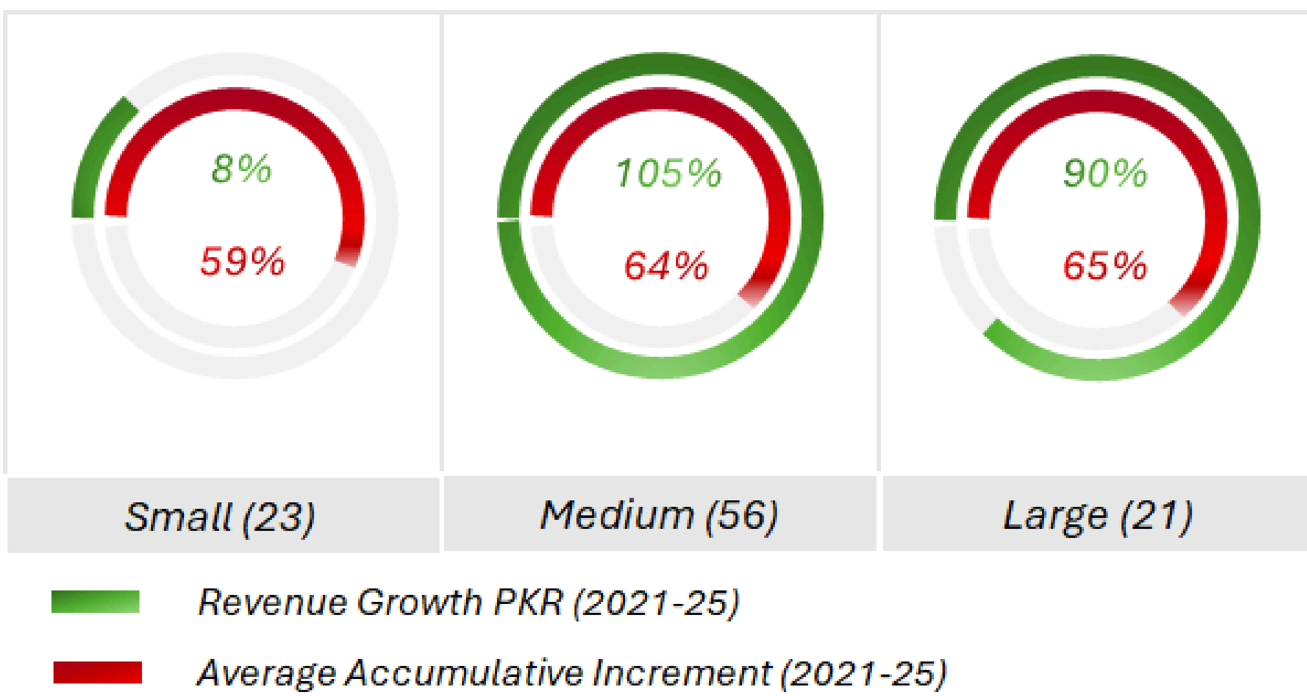
Revenue up ~24%, increments ~58%. Fuel and FX move costs more than prices can adjust, and congestion and security add variability, yet firms raised pay to hold drivers, handlers, and planners, accepting thinner margins.

What this implies:

Across the large samples, the link between revenue growth and increments is weak. Even where revenue growth exceeded cumulative CPI, average increments typically stayed below the 79% CPI benchmark, reflecting cost containment, margin volatility, and planning lags. Where increments outpaced revenue growth, it signals retention imperatives and a minimum cost of living commitment.

Organization Size, Revenue Growth & Increment Trends:

Company size shapes pay choices, but not always in the way you might expect. Using Mercer's organization size index (1 to 3 small, 4 to 7 medium, 8 to 11 large), we compared cumulative revenue growth and cumulative salary increments from 2021 to 2025 across 23 small, 56 medium, and 21 large firms. Large firms dominate the sample by scale, contributing the bulk of total revenue and employing nearly thirty thousand people, yet increments do not simply rise with size.



What the Graph Depicts:

- **Small firms:** Increments about 59 percent against revenue growth of only 8 percent. Despite limited top line momentum, small firms still granted meaningful raises, likely to hold on to critical talent and preserve a cost of living floor.

- **Medium firms:** Increments about 64 percent with revenue growth around 105 percent. This is the fastest growing group by revenue, but the gap to increments suggests a tilt toward reinvestment, cash preservation, and selective pay actions rather than across the board catch up to inflation.

- **Large firms:** Increments about 65 percent with revenue growth near 90 percent. Big employers shared gains, but broadly in line with medium firms, pointing to disciplined reward governance and attention to margins and liquidity.

What it means:

- **Size is not destiny.** Cumulative increments are clustered in a narrow band from the mid fifties to low sixties across all sizes, even as revenue outcomes diverge sharply.

- **Retention floors matter for smaller firms.** With modest revenue growth, small companies still moved pay, signaling a need to protect key roles and prevent turnover to larger competitors.

- **Prudence at scale.** Medium and large firms converted strong revenue growth into only moderate pay growth, reflecting capital needs, FX linked input costs, and the desire to keep room for investment while inflation remained volatile.

Currency Devaluation lens

All figures are in PKR. With the rupee moving from roughly 163 to 280 per USD over the period, about a 72% depreciation, revenue looks flat in USD terms and average salaries decline in USD terms, intensifying the real income squeeze for globally scarce skills. Given the rupee's depreciation over the period, many input costs rose faster than PKR revenues, compressing perceived profitability. That pressure helps explain why even fast growing medium and large firms did not translate outsized revenue gains into proportionally higher increments.

Conclusion and Way Forward:

From 2021 to 2025, topline growth and pay outcomes often moved in different directions. Several sectors such as Consumer Goods, Chemicals, and Energy delivered strong revenue gains and comparatively higher increments, yet the typical firm still trailed cumulative CPI of about 79. On average, employees experienced 16.4 percentage points of real income erosion across the period.

Patterns by size were surprisingly uniform. Medium firms balanced growth with reward and emerged as the most responsive group. Large firms sustained steady but cautious increment levels, reflecting governance, cash discipline, and exposure to FX linked costs. Small firms, despite limited scale, kept pace with meaningful raises to defend retention and delivery.

The implication is clear. Pakistan's reward architecture needs sharper differentiation by sector economics, cost structure, and talent scarcity, not just a single market number. A better playbook pairs data on revenue and margins with CPI benchmarks, uses targeted adjustments for mission critical roles, and times cycles to reduce the lag between inflation shocks and pay decisions. Abacus can help build that playbook by designing sustainable, sector sensitive compensation frameworks that protect purchasing power, reinforce performance, and support long term resilience.

ABACUS CONSULTING

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