Hungary’s labour market sends mixed signals

The latest wage growth data came in very strong, as two minimum wage increases were incorporated into December’s data. At the same time, the latest unemployment rate ticked up, which might put some downside pressure on wages going forward

16.4% Gross earnings growth

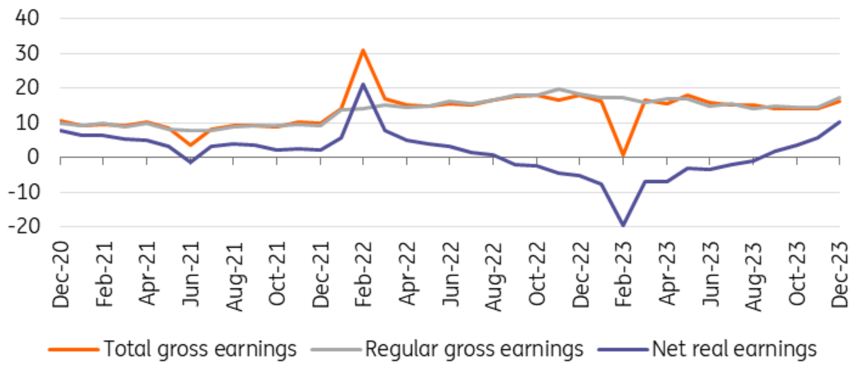
ING Forecast 15.1% / Previous 14.1%

Higher than expected

The unusual timing of the minimum wage increase distorts December's data

According to the latest wage statistics published by the Hungarian Central Statistical Office (HCSO), the pace of year-on-year (YoY) average wage growth in Hungary accelerated significantly in December. However, this is not surprising. The 16.4% wage increase (for the full range of employers) includes two minimum wage increases. Firstly, the change in January 2023 and secondly, the 15% and 10% minimum wage and guaranteed minimum wage increases brought forward from 2024 to December 2023.

Nominal and real wage growth (% YoY)



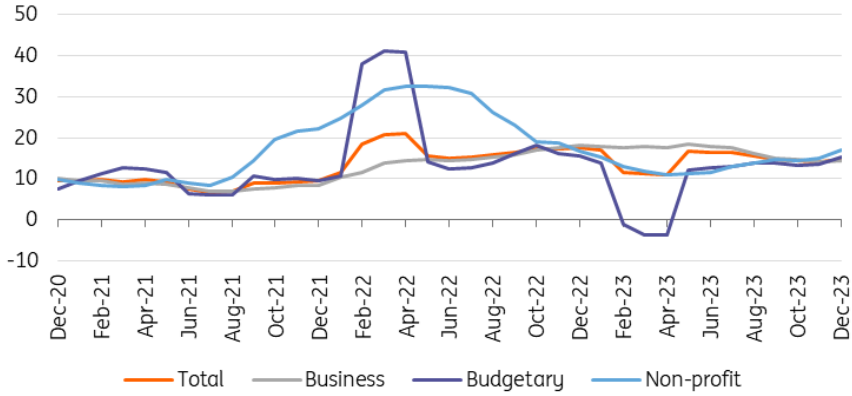
Source: HCSO, ING

In addition, premium payments may have been made, but this is likely to have been mainly for higher earners. This suggests that, despite increases in the minimum wage and the guaranteed minimum wage, which put pressure on wages mainly for lower earners, median wages rose at a slower pace (by 16%). Moreover, there was no acceleration between November and December in this regard.

It is also interesting to note that although there was a bonus effect in the wage data, the bonuses paid may have been smaller than a year earlier. This is suggested by the fact that regular earnings were 17.3% higher compared to a year earlier, which is also higher than the average wage growth (16.4%).

The weakening of the bonus effect should also not have come as a surprise to anyone, given that, on the one hand, the Hungarian economy had a fundamentally bad year in 2023. On the other hand, as inflationary pressures increased at the end of 2022, many companies decided to give their employees one-off bonuses to improve their living conditions. The aim was to improve the financial situation of employees without imposing a long-term increase in wage costs on companies.

Wage dynamics (three-month moving average, % YoY)



Source: HCSO, ING

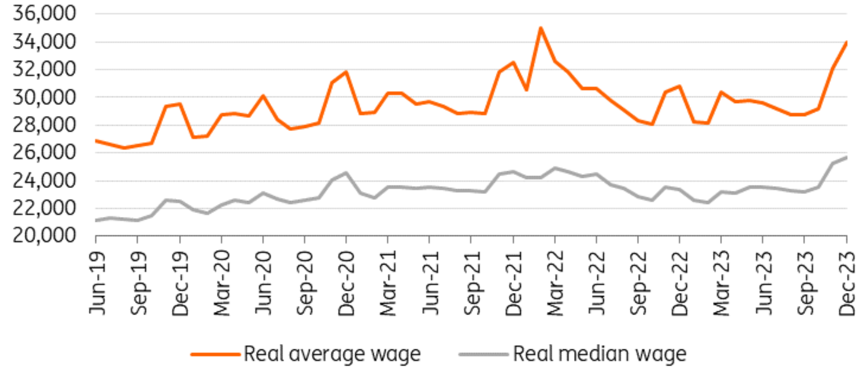
The detailed data also shows that the public sector experienced above-average wage growth momentum at the end of last year, mainly as a result of increasing wage outflows in human health and social care. In the private sector, the pace of wage growth accelerated almost across the board. At the same time, wage growth was particularly strong in some sectors, which may be partly due to an increase in one-off payments.

These sectors are energy, finance and insurance, accommodation, and construction. The first two are perhaps less surprising, but the latter two do not typically pay large year-end bonuses, so the minimum wage effect may have been stronger here, given the relatively high number of low earners in both construction and accommodation.

As inflation continued to fall in December and average wage growth accelerated, real wage growth has now exceeded 10% on an annual basis. Moreover, purchasing power at 1990 prices has risen to such an extent that the real wage gap caused by extreme inflation appears to have already been closed. While in the autumn, the purchasing power of wages was still in line with 2020-2021 levels, fast-forward to year-end, and purchasing power has risen to near-record levels again.

The last time real wage levels were this high was in the months leading up to the 2022 election. In our view, the situation is deceptive, however, as the December 2023 wage data already cumulates the impact of two minimum wage increases. One from the agreement at the beginning of the year and one from the wage increase brought forward from 2024. So although we see a markedly positive change in the latest data, it is only a temporary bump, a statistical effect.

The level of average and median real wages (1990 CPI adjusted HUF)



Source: HCSO, ING

It will be more important to see what happens to wages in the early part of this year. What we are seeing in many cases is that workers are keen to see larger wage increases this year, arguing that this is necessary to compensate for the fall in real wages over the past two years. However, companies are not necessarily open to this. Especially given that inflation was already below 4% at the beginning of the year. This puts workers in a difficult bargaining position.

For multinational companies, the wage agreement story is also influenced by FX characteristics. Whereas before they could afford to raise wages in view of the drastic depreciation of the forint (as their wage costs hardly increased in euro terms), it is now very difficult for affiliates to push through double-digit wage increases in forint terms with the stable forint, as this means a visible cost increase for employers even when converted into euro. All this suggests that the real wage growth of around 10% we are now seeing may not be sustainable for a significant part of the workforce in the private sector, but even the 6-7% increase in purchasing power expected by the government seems rather optimistic at the moment.

4.6%

Unemployment rate (Nov-Jan)

ING Forecast 4.5% / Previous 4.4%

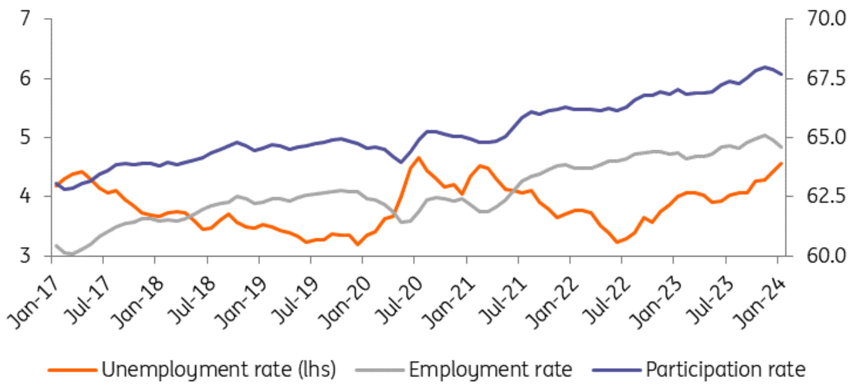
Higher than expected

A bad start to the year for the labour market

According to the latest unemployment statistics published by the Statistical Office, a real change is taking place in the domestic labour market, and it is not a positive one. The model estimate data for the first month of the new year showed a further deterioration in the unemployment rate (4.5%). Meanwhile, the official three-month moving average of this labour metric (based on survey) rose to 4.6%. On this basis, the number of unemployed rose again significantly to over 220,000 on the basis of the two statistics. This is an increase of almost 14% compared to the average in 2023.

The last quarter has seen major changes, especially in employment. The positive trend since mid-2021 has thus been broken and it can now be said that the crisis of the past year or so has not gone completely unnoticed in the labour market. In the case of the unemployment rate, the deterioration has been going on for some time and, apart from a (seasonal) improvement in the summer of 2023, a slow, trend-like deterioration in the unemployment rate has been observed since the spring of 2022.

Historical trends in the Hungarian labour market (%, 3m moving average)

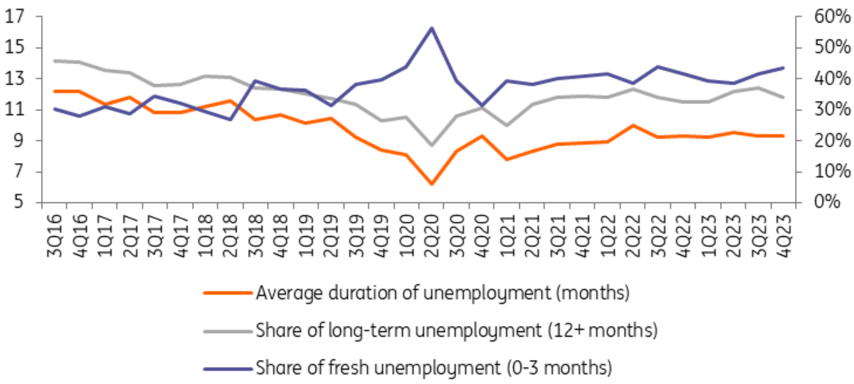


Source: HCSO, ING

Looking at the monthly data, perhaps the most important change is that we find deteriorating indicators across the board. On the one hand, the number of labour market participants fell by around 10,000. At the same time, the number of unemployed rose by almost 15,000. This already shows that there has been a very significant fall in the number of people in employment: a drop of 25,000.

The decrease in employment can no longer be attributed to seasonal effects, as there are now 60,000 fewer people in work than at the peak in September. Looking at the economy as a whole, companies' willingness to hire seems to have eased considerably. Moreover, statistics show that half of those who lose their jobs also leave the labour market and become inactive.

Unemployment by job search duration



Source: HCSO, ING

We expect further slow erosion in the domestic labour market over the rest of the year. The majority of companies will continue to insist on retaining staff, but there will be an increasing number of companies that will be forced to rationalise and eventually reduce staff numbers as a result of falling demand. However, the latest confidence indices show an improving trend in most sectors.

At the same time, the labour market tends to follow changes in the real economy with a considerable lag. In other words, the positive data of the past one or two months will probably not be reflected in a more favourable labour market performance until the second half of the year. We therefore expect employment and unemployment data to deteriorate slightly until the middle of the year, before improving in the second half. For the year as a whole, the unemployment rate should therefore be around 4.5%.

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