

Hungarian labour market shows some softening

Recent data suggests that people are returning to the labour market as a result of rising inflation, but are finding it harder to get a job. The uncertain economic outlook is impacting wages, with real wage growth expected to slow sharply in 2025



Recent data on the Hungarian labour market presents a less optimistic outlook. Employment and unemployment trends indicate a reduction in labour market tightness, while delays in ramping up production at new factories suggest weaker employment prospects for the year. This easing of the labour market is impacting average wage growth, which is slowing across nearly all sectors. Consequently, with wages revised downward and inflation revised upward, we expect real wage growth to slow sharply in 2025.

4.4%

Unemployment rate (Dec-Feb)

ING Forecast 4.4% / Previous 4.3%

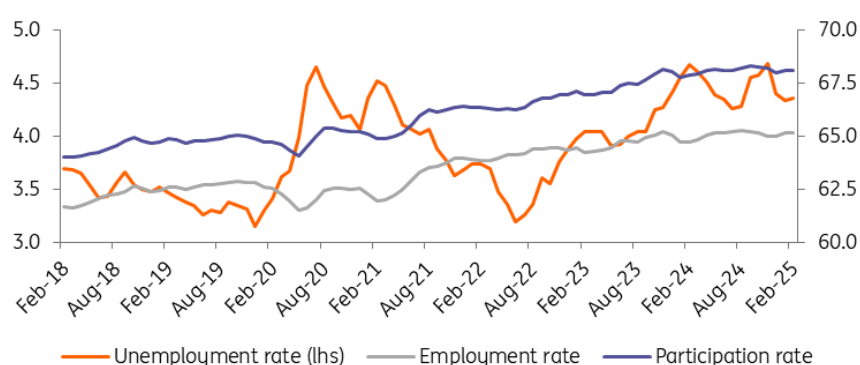
As expected

Similar trends to the cost-of-living crisis in the labour market

The latest labour market statistics from the HCSO did not, in principle, provide any major surprises, with the monthly model projection for February 2025 indicating an unemployment rate of 4.5%. Meanwhile, the official, survey-based three-month moving average unemployment rate has also moved in a similarly upward direction. It now stands at 4.4% for the December-February period. Both indicators show a slight deterioration of 0.1ppt. This is broadly in line with what we might have expected from the seasonal patterns. As for the number of unemployed, the two statistics suggest that the group was around 214-220,000.

Looking at the detailed data, we see that the number of inactive persons fell by more than the significant decline in the population in February. This difference was reflected in the number of people participating in the labour market, which increased compared to the previous month. Despite the improvement in the participation rate, the number of people entering the labour force has increased the pool of unemployed.

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



Source: HCSO, ING

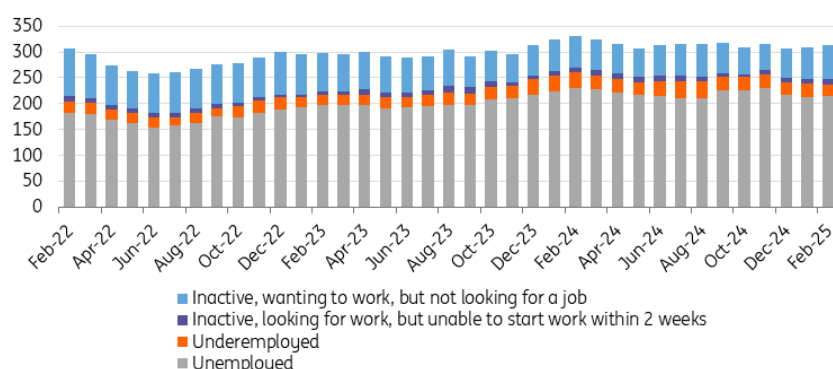
In our view, this suggests two things: on the one hand, the rising inflationary environment is again acting as a stimulus to labour market participation. On the other hand, it also suggests that people returning to the labour market are no longer able to find employment immediately, given the declining number of job vacancies. This is all the more the case as the monthly estimate of employment itself has fallen slightly again.

So, for the second month in a row, we are seeing what we used to see during the cost-of-living crisis. In other words, the number of labour market participants, i.e. labour market activity, is rising in parallel with the pick-up in inflation. The slight decline in the labour force is consistent with the dynamics of labour hoarding and the economic outlook. In the absence of a significant improvement in the outlook in the short term, the manufacturing sector in particular has started to rationalise and slowly reduce the labour force it has been reserving.

We are only at the beginning of this possible wave of downsizing, but the indicator of the potential labour reserve (which includes not only the unemployed but also the underemployed and the inactive who do not meet the official definition of the unemployed but are themselves classified as such) has now started to creep up and now stands at 313,000. This also means that labour market

tensions appear to be easing somewhat.

The potential labour reserve ('000, 3-m moving avg)



Source: HCSO, ING

In addition, the completion of major investments in car and electric vehicle battery production planned for this year may be further delayed, implying weaker employment prospects than before and an unemployment rate hovering around current levels this year. Such weaker employment prospects may translate into a softer labour market and less pronounced wage growth in the near future.

10.4%

Average wage growth (January)

ING Forecast 9.5% / Previous 11.0%

Higher than expected

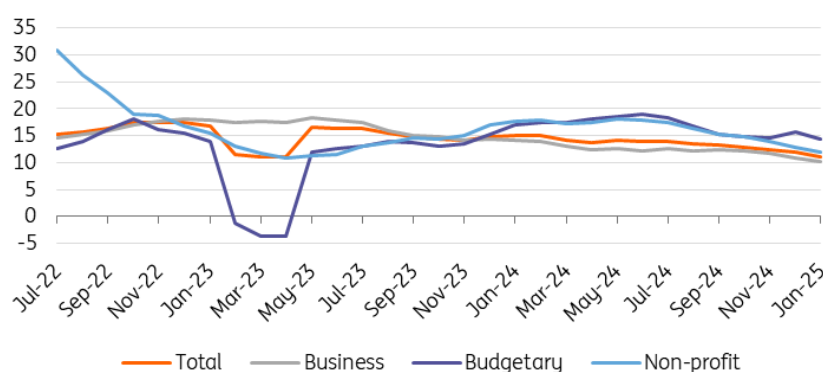
Hungarian wage growth in line with the trend

According to the latest data from the Hungarian Central Statistical Office (HCSO), the slowdown in wage growth in the Hungarian economy continued in January, meaning that today's data point is also in line with the longer-term trend and the softening labour market. Compared to the market consensus, which expected single-digit growth in January, wage growth was stronger at 10.4% YoY.

This January's wage dynamics showed the weakest first-month growth rate since 2021. More importantly, the slowdown in wage growth has been accompanied by rising inflation, which is increasingly eroding the change in the purchasing power of wages. In numerical terms, this means that average real net wages have risen by 4.6% year-on-year.

Of course, this is still higher than the historical average (a little over 3%), but it also suggests that if the double-digit real wage growth of recent years has not allowed the volume of consumption to catch up with the pre-crisis trend line, the slowing increase in the purchasing power of disposable income makes this even less likely.

Wage dynamics (3-month moving average, % YoY)

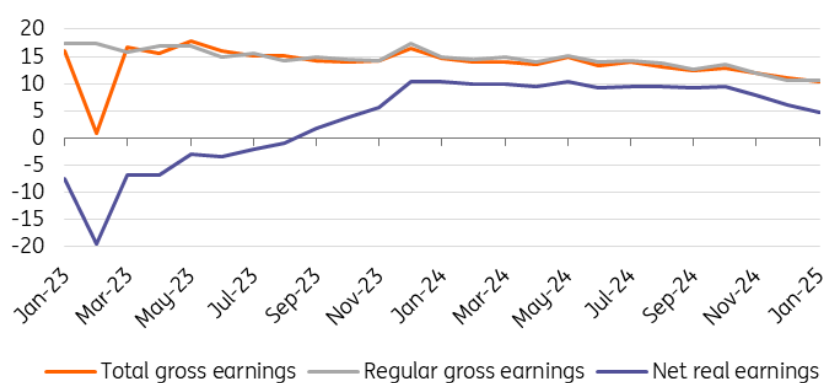


Source: HCSO, ING

Looking at the January data in more detail, although the slowdown seems more pronounced in the public sector, the high wage dynamics in December were rather a one-off wage increase. Thus, the 12% wage growth in this sector in January is in line with the general slowdown.

In the private sector, the pace of wage growth remained in the single digits for the second month in a row. The slowdown in wage growth has been more pronounced in logistics and finance. However, the overall sectoral picture is still distorted by bonus payments at the end of last year, so it is difficult at this stage to assess which areas are still feeling the impact of a much lower minimum wage increase than last year, and which areas have seen more subdued wage dynamics due to weak growth prospects.

Nominal and real wage growth (% YoY)



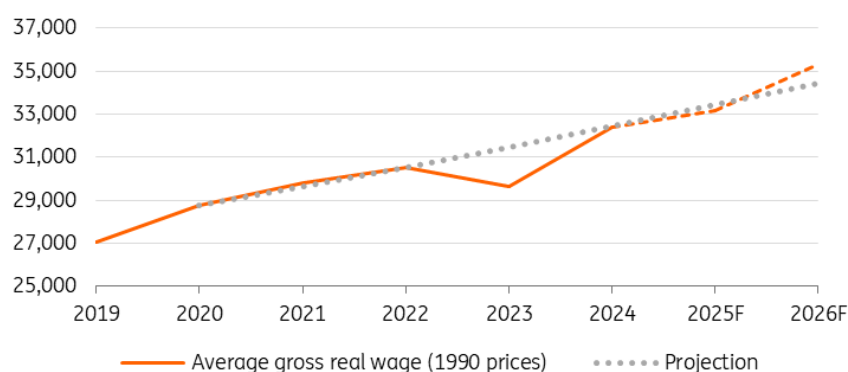
Source: HCSO, ING

As far as this year is concerned, January's wage dynamics do not yet have much influence on the picture for the year as a whole, since in recent years we have seen a significant share of companies switching to spring (March-April) wage setting. With this in mind, it will only be possible to be more certain about wage developments this year once the first three to four months are known. However, there is a strong likelihood that the slowdown in wage growth will continue in the coming months, with a more pronounced slowdown in the corporate sector from the spring

months onward.

Of course, government wage agreements and minimum wage increases will offset this to some extent. All in all, we expect average wage growth for the economy as a whole to be around 8%. Downside risks are that business confidence indices will remain weak, job vacancies will fall, and, more generally, the tightness in the labour market will continue to ease. This is more likely to lead to a stronger moderation in wage dynamics.

The level of average gross real wage (1990 CPI adjusted HUF)



Source: HCSO, ING

With average inflation expected to be 5.4% in 2025, according to our latest estimate, the rate of real wage growth for the year as a whole could be around 2.5%. In other words, the big question this year is whether consumer confidence will recover in such a bleak situation and use some or a large part of the household savings available for consumption. Failure to do so is clearly a negative risk for economic growth this year.

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