# Accelerating Hungarian wage growth cannot keep up with inflation

Average wage growth accelerated in August due to additional, intra-year wage increases. However, real wage growth is on the brink of sinking into negative territory

**0.9%** Real wage growth (YoY)

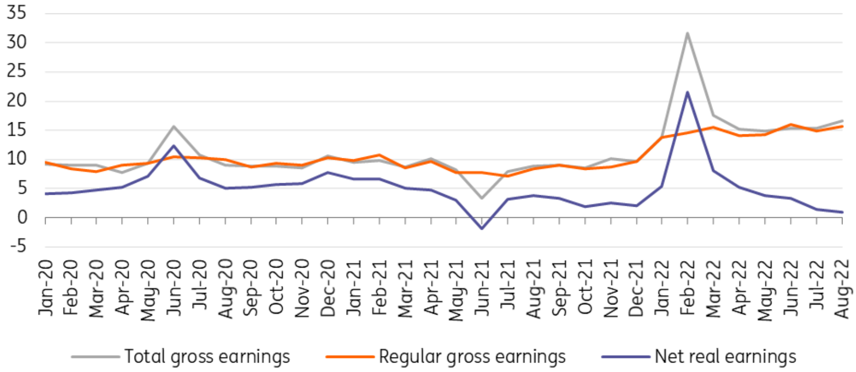
ING forecast 0.3% / Previous 1.4%

Typically, double-digit wage growth would generate a lot of talk about a rosy economic outlook and wage convergence. Unfortunately, this is not the case today.

Let's take a look at the actual data from Hungary.

Gross average wages increased by 16.6% year-on-year in August, causing a minor upside surprise. Net average wages showed an even stronger rise (17.3%) due to the changes in the personal income tax system for those below the age of 25. If we check the development in regular wages (thus getting rid of the impact of one-off payments and bonuses), we can see clearly that underlying wage growth strengthened in a significant manner as well, showing a 15.6% year-on-year increase.

## Nominal and real earnings (% YoY)

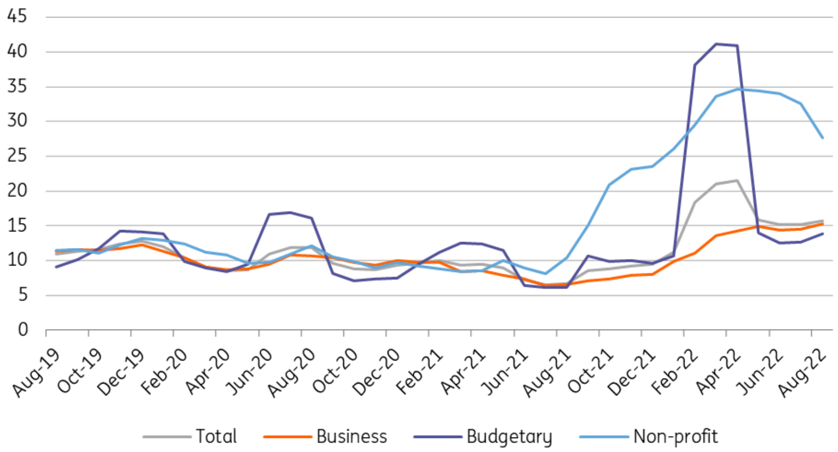



Source: HCSO, ING

Looking at the data in more detail, we can see that wage growth in the private and public sectors did not show a material difference in August, coming in around the average reading. Meanwhile, due to educational institutions being reclassified to the non-profit sector, wage growth here remained well above average as wage settlements are still impacting salaries. However, as this impact is slowly lessening, wage growth has started to decelerate in this sub-sector.

Looking at the corporate sector's wage developments, we see that wage growth came in above the average reading in the primary and secondary sectors (agriculture and industry). The primary sector has been facing a labour shortage due to strong demand because of seasonal work, driving wages higher. Manufacturing and construction are still being cushioned by a high level of orders, thus there is some room for further wage increases. When it comes to the tertiary sector (services), the differences are much bigger in wage growth. In those sectors, where for example tourism is important, the labour shortage drove wages higher in August.

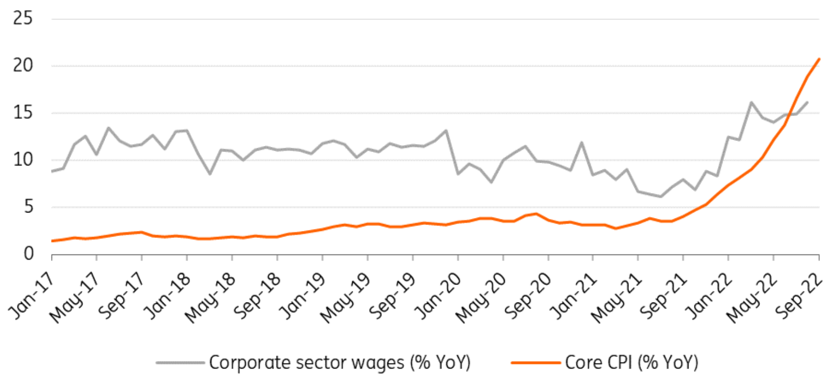
## Wage dynamics (3-month moving average, % YoY)




Source: HCSO, ING

However, as this seasonal impulse is going to fade and aggregate demand will shrink as we are sliding into a recession, the services sector will get the first hit. All the cost-side pressures and diminishing revenues won't leave room for wage hikes. We therefore expect some layoffs. However, recent experience suggests that there is a flow of workers between the services sector and industry – meaning people take jobs in manufacturing who were previously working in the services sector – thereby limiting the hit to the labour market. Moreover, considering the level of wages in these sectors, the composition effect will drive wages higher, if employment will rise in industry and decrease in services.

## Core inflation and wages in the corporate sector (% YoY)




Source: HCSO, ING

But even with this, we can't expect real wage growth to remain in positive territory. In August, it was 0.9% year-on-year, but we saw a significant jump in inflation in September. In this regard, we see a drop in purchasing power in the remainder of the year. Due to the high real wage growth during the first half of the year, this year's real wage growth will, on average, remain in positive territory. We are not overly optimistic about next year, however. Inflation will prove sticky (partially because of the wage-push inflation), so we expect negative real wage growth in 2023. Although this will be painful, it is necessary to see a downtrend in inflation.

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