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)

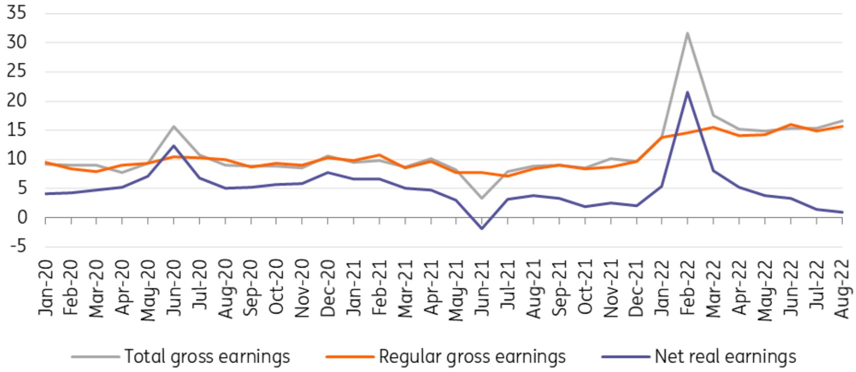
ING forecast 0.3% / Previous 1.4%

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)

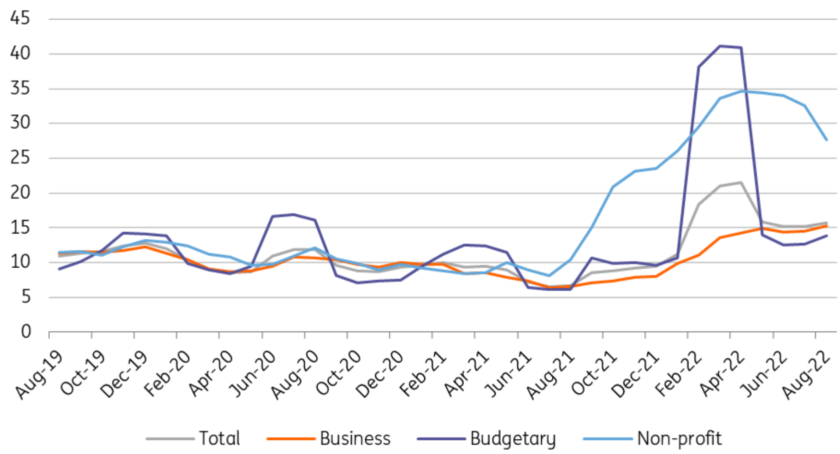


Source: HCSO, ING

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.

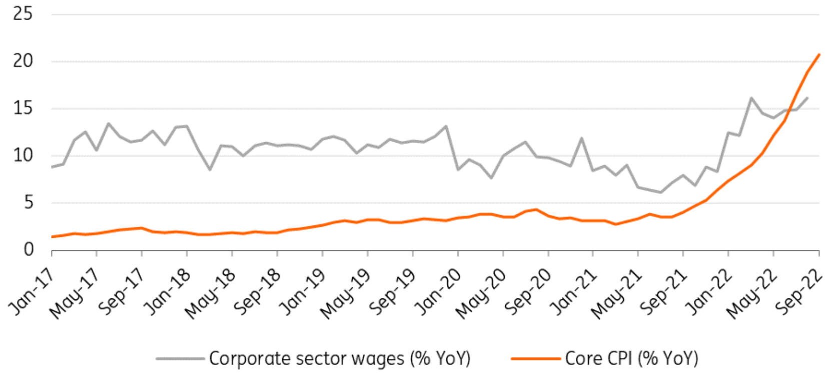
Wage dynamics (3-month moving average, % YoY)



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.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.