High inflation in Hungary motivates people to look for work

The labour market has continued its gradual deterioration. The falling demand for labour is just one of the driving forces behind rising unemployment. The other factor is inflation

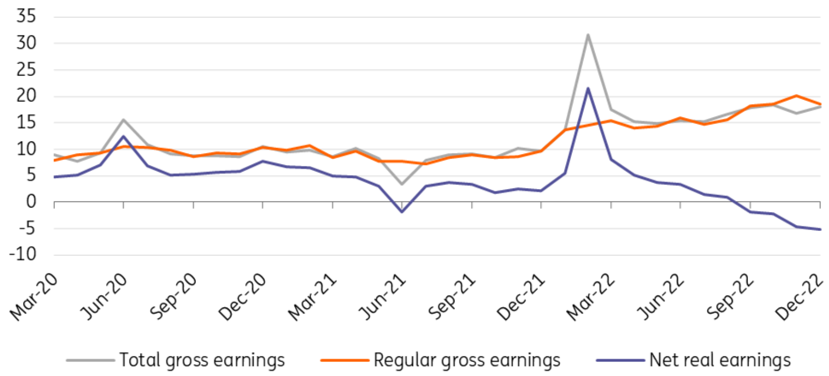
Labour market remains resilient

The Hungarian Central Statistical Office (HCSO) has released the latest set of labour market data (wages and unemployment rate). Wage growth ticked up in December yet again as year-end bonuses in some sectors pushed earnings higher. But, despite that, real wage growth continued to sour, showing a drop in purchasing power for four months now. Companies in the meantime have continued the reassessment of their labour needs, translating into shrinking employment. But the cost-of-living crisis has encouraged more people to join the labour market, moving the unemployment rate even higher compared to what lay-offs suggest.

Strong underlying wage growth holds on

Gross average wages increased by 18.1% year-on-year in December 2022. Clearing the data of the impact of the usual year-end one-off payments and bonuses, we see some deceleration in the underlying wage growth to 18.6%, which is still remarkably high. In general, strong wage growth suggests companies are still trying to compensate employees to somewhat counterbalance the negative purchasing power impact of high inflation. Unsurprisingly, gross real wages fell by 5.1% on a yearly basis in December, due to the 24.5% headline inflation. This has been the fourth month in a row that purchasing power drops. With the upward move in inflation in January, and due to the slow descent, real wage growth could remain in negative territory during the vast majority of the first three quarters in 2023.

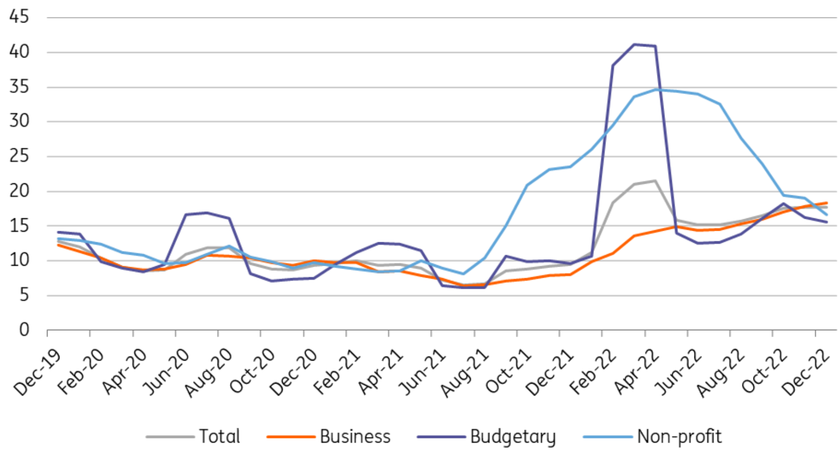
Nominal and real wage growth (% YoY)



Source: HCSO, ING

Wage growth in the private sector came in at 18.3% YoY, showing some deceleration, while salaries rose by 17.6% in the public sector over a year after a remarkable acceleration in December. The latter is due to the usual year-end bonus payments in the public sector. Considering wage growth has remained so elevated, we can see that companies are hoping for a short-lived crisis and are still investing in labour.

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



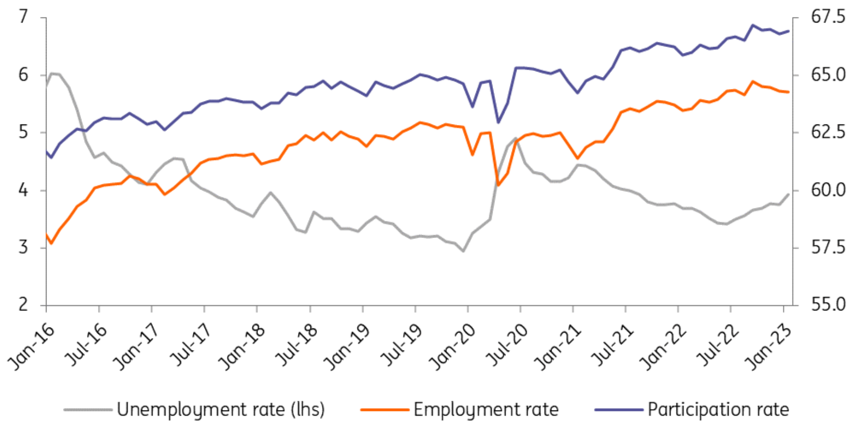
Source: HCSO, ING

However, a recent survey made by Randstad pointed out that in order to deal with a possible recession, 62% of the respondents said their company would restructure and reassess the workforce needs. Forty-eight per cent of the companies said they would introduce a hiring freeze during a critical period. In this regard, the recent slowdown in private-sector wages could be explained by this.

High inflation impacts labour supply

Employment data also underscores the results of the survey. The employment rate has been on a gradual downward trend, showing a 64.3% rate in January 2023. This is a result of a trend-like drop in the number of employed. However, there is some asynchrony between employment and unemployment data. The monthly gain in the number of unemployed is more than the employment statistics suggest. As a result, the unemployment rate came in at 3.9% on a monthly basis and showed a 4.0% three-month moving average. The number of unemployed reached almost 192k, a number not seen since mid-2021.

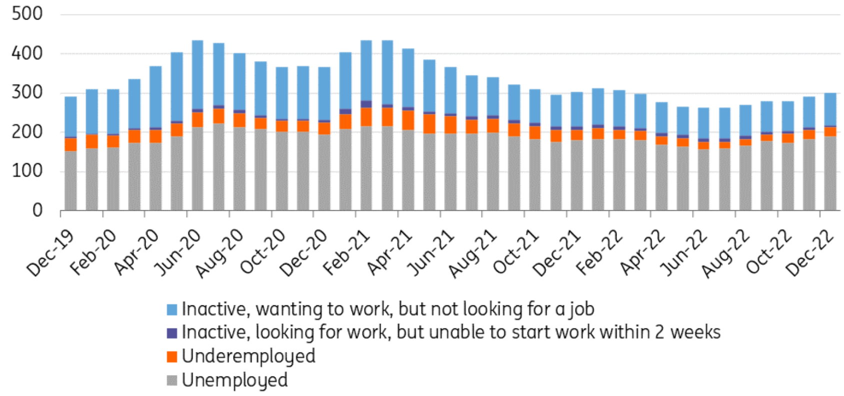
Labour market trends (%)



Source: HCSO, ING

Our explanation behind the discrepancy lies in the participation statistics. The number of labour market participants increased again. This suggests that high inflation encourages people to start actively seeking jobs. As a result, official unemployment is rising at a faster pace than layoffs. This phenomenon is clearly visible in the detailed statistics of the potential labour force as well. The number of inactive wanting to work has been on an uptrend since autumn. Moreover, non-participants looking for work but unable to start within two weeks reduced close to record-low levels, suggesting that people are getting more flexible if it means a way out of the cost-of-living crisis.

The potential labour reserve ('000)



Source: HCSO, ING

Labour market outlook

In all, after the summer peak in the labour market, there has been a steady deterioration in labour statistics. Companies have started to adapt to rising costs and more and more leaders are seeing downsizing as an adequate reply to the recent challenges. In addition, more people may decide to actively look for work in order to cope with the drop in their purchasing power. In the short run, we see these trends continuing.

Based on our recent forecast, the Hungarian economy may remain in technical recession at the beginning of 2023. We see yet another drop in real GDP on a quarterly basis followed by a gradual recovery. Against this backdrop, we see the unemployment rate peaking around 4.5% in the summer months. An improving economic outlook and rising demand for labour in the second half of the year may put pressure on wages again. Thus, we expect a 15% average wage growth this year with upside risks. This could lead to positive real wage growth from late 2023, which may stimulate the domestic inflation pressure in the Hungarian economy further, keeping the monetary policy on alert.

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