Hungarian labour market remains a stronghold for growth

The latest set of data makes it clear that wage growth and a drop in unemployment are supporting the economy during these hard times. The only caveat remains the inflationary pressure

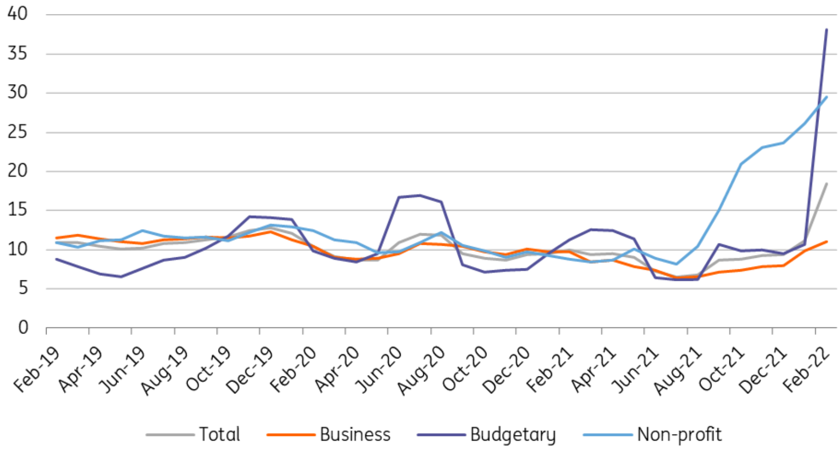
Workers on an assembly line at an Audi factory in Hungary

Labour market in recent days

The Hungarian Central Statistical Office released the latest set of labour market data and it was not short of positives in terms of the impact on GDP growth.

Earnings statistics for February showed a very large increase in wages. On an annual basis, wages rose by almost 32% on average. However, this is not a consequence of general wage pressure but rather a one-off effect. The government distributed a six-month salary bonus for defence and law enforcement personnel in February. As the headline wage data takes into account not only regular earnings, but also bonus payments and one-off benefits, it's not so surprising to see such a statistic.

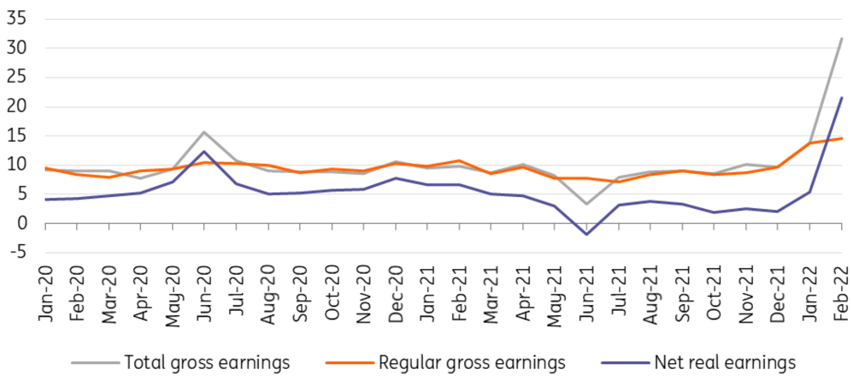
Wage dynamics (3-month moving average, % YoY)



Source: HCSO, ING

To understand the underlying wage growth, however, it is better to check the developments of regular gross average earnings (without premiums, bonuses, one-month special allowances, etc.). February brought a 14.5% year-on-year wage increase which seems much more realistic. We can also get a more accurate picture of wage developments if we look at the median value of gross earnings. According to these statistics, there was a 14.6% yearly increase in wages.

Total and regular wages (% YoY)



Source: HCSO, ING

The statistics on wages on a sector basis include one-off benefits as well. Thus, it is hardly surprising that wages rose by 12.2% in the corporate sector in contrast with the 93.4% YoY growth in the public sector. In this regard, underlying wage developments, like the minimum wage increase and the labour shortage are keeping market-based wages in double-digit territory.

And it seems that labour shortages will remain a key driver of salaries going forward, as the number of unemployed fell to 176,000, a rate of 3.6% in March. Compared to last year, this is a decrease of 0.4 percentage points. The last time when the unemployment rate was so low was in early 2020 and now, we are close to the record seen at the end of 2019.

The improvement in the labour market is not just a statistical phenomenon, as the number of employed has increased as well. The pool of labour market participants has expanded further, which in practice means that those returning to the labour market from inactivity have not spent much time being unemployed. The latest set of data makes it clear that wage growth and a drop in unemployment are supporting the economy during these hard times.

Labour market trends (%)

Source: HCSO, ING

Labour market outlook

In our view, the labour market situation continues to provide a favourable environment for economic growth in the short run. Recent data suggests that Hungary's labour market may be close to full employment and that the already significant labour shortage will cause even more serious headaches for companies as production chains recover and supply constraints ease. We continue to believe that the majority of employers see the disruptions as temporary and that this will not materially affect their longer-term workforce plans. Thus, we continue to expect a tight labour market in 2022, driving wages up.

As a result, our expectation is that this year will bring strong double-digit (around 15%) wage growth on average, thanks to wage settlements, one-off benefits, a minimum wage increase and the labour shortage. Data supports our assumption that government transfers in February dramatically raised household disposable income, thus further widening the gap between demand and supply. And the supply problem seems to be exacerbated by another wave of Covid in China. Overall, inflationary pressures will remain significant and grow further on the demand side in the near term, leading to substantial increases in inflation and a moderation in real wage growth. While nominal wages should increase nearly 15% amid inflation of 10%, we expect a real wage increase of only 5% in 2022.

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