Hungarian labour market remains strong

Amid all the uncertainties and downside risks, there is one part of the Hungarian economy we don't have to worry about. The unemployment rate has remained one of the rare positives

Construction workers in Budapest, Hungary

3.8%

Unemployment rate

ING forecast 3.9% / Previous 4.2%

Better than expected

After a negative surprise in January, the unemployment rate in Hungary corrected quickly in February to 3.8%. In nominal terms, it means roughly 185,000 people are unemployed based on official statistics. Both the rate and the nominal figure are matching the fourth quarter average, thus the January increase in unemployment was an anomaly, or even just a seasonal move.

What is also positive is that the improvement in the unemployment rate reflects more than a statistical improvement. The number of employed people was able to increase to a greater extent than the number of participants in the labour market. So we can talk about a real strengthening of the labour market.

Labour market indicators (%)

Source: HCSO, ING

Unlike in other areas of the economy, it seems we don't have to talk about any negative headlines or major risks. In our view, the labour market situation remains favourable for economic growth. Nevertheless, the war in Ukraine and the sanctions imposed on Russia will affect the performance of the economy through a number of channels. In such a situation the behaviour of households (drop in confidence, restrained consumption) is much more decisive than fluctuations in a tight labour market.

Before the war, we pointed out that labour shortages could increase significantly as global value chains gradually recover and supply constraints ease. Unfortunately, as a result of the developments in Ukraine, global value chains have suffered another major blow. We think it is highly likely that the shortage of raw materials and equipment will remain the primary drag on growth, and lack of labour won't be the main issue when it comes to raising production levels.

At the same time, we continue to believe that the vast majority of market participants expect only temporary disruptions, thus it will not materially change or impact their mid- or long-term workforce plans. The first set of data to challenge or support our view will come next week as Eurostat will release its latest set of soft data (confidence and sector indicators), while the details of Hungarian manufacturing PMI could shed some light on corporates' employment plans as well. We believe that incoming data will back our view that the demand-supply mismatch will remain in the labour market in 2022, with an ongoing tight labour market driving wages and inflation upwards.

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