

Hungarian labour market shows no fear of recession

The latest set of labour data suggests employers are still hopeful that recent challenges won't last long and won't have a recessionary impact

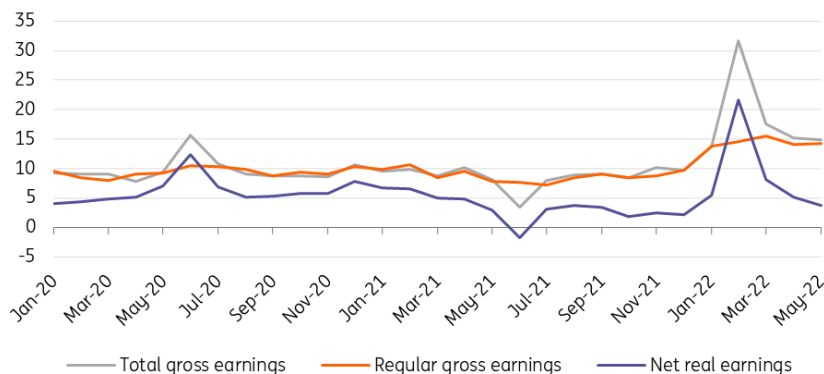


Wage growth remains in double-digit territory

The Hungarian Central Statistical Office (HCSO) released the latest set of labour market data (unemployment rate, wages) and we can't see any signs of a cool down. In fact, Hungary is still at full employment with wage growth posting a double-digit increase.

Gross average wages increased by 14.9% year-on-year in May, showing only a minor slowdown compared to the previous month's growth rate. To get a clearer picture, we can look at regular wages (which exclude one-off payments and bonuses) and the median wage growth. Regular wages increased by 14.3% on average in May, while the median gross wage rose by 14.5% on a yearly basis. All of the metrics show a strong underlying wage dynamic, resulting in positive real wage growth despite a strong rise in inflation.

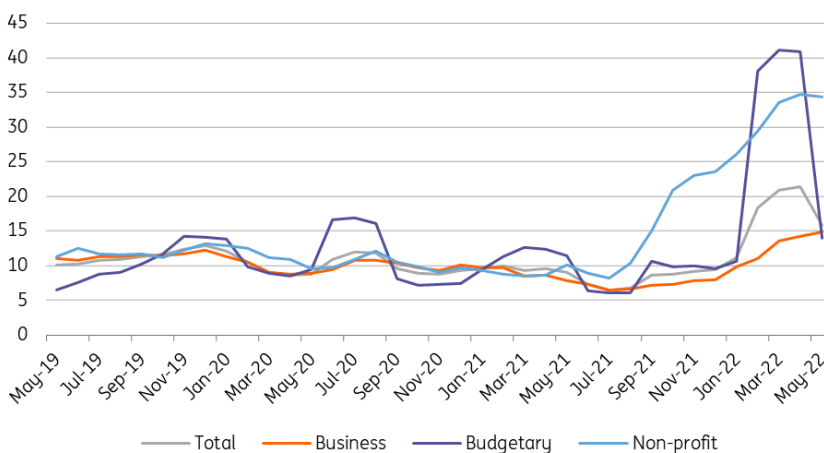
Nominal and real wage growth (% YoY)



Source: HCSO, ING

Looking at the details, wage growth in the private sector came in at 14% YoY, roughly matching the average seen in the first four months of 2022. Salaries rose by 12.8% in the public sector over a year. Meanwhile, due to educational institutions being reclassified as part of the non-profit sector, wage growth here remains on the extreme side: above 34% over a year. In this regard, we can't see any significant change in the structure of the wage increases. A 20% increase in the minimum wage, wage settlements in the public sector, and labour shortages remain the main drivers.

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



Source: HCSO, ING

Hungary reaches full employment

Speaking of which, the June employment data points to further tightening in the labour market. The number of unemployed fell to 160,000 corresponding to an unemployment rate of 3.3% in June. These figures are now really close to the lowest levels on record seen in late 2019. We are quite confident that Hungary has reached full employment again.

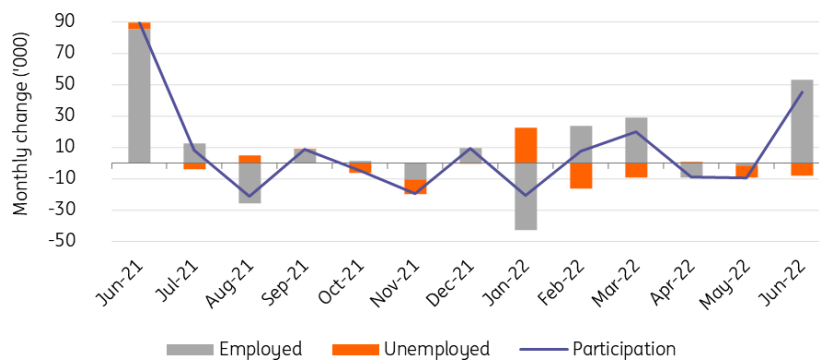
Labour market trends (%)



Source: HCSO, ING

Compared to the previous month, the number of labour market participants rose by 45,000, reaching almost 4.9 million in June. This increase was fully absorbed by the labour market, indicated by the fact that the number of employed increased even more than that (+53,400). With the start of the summer seasonal work, labour demand has increased mainly in agriculture and tourism-related sectors. While the significant improvement in June is partly related to seasonality, the underlying trend in the labour market remains clearly favourable.

Monthly developments of the main indicators



Source: HCSO, ING

All that glitters is not gold

And with that, we have reached the point where we need to talk about the flip side of this. Although the overall picture of the Hungarian labour market is quite rosy, recent data is extremely important from several perspectives. On the one hand, employment and unemployment trends still haven't shown any sign that employers have started to adjust to a gloomier economic outlook. Though the labour market typically follows and does not predict what is to come in the economy (being a lagging rather than a leading indicator in this respect), uncertainty and a deteriorating outlook have been with us for months (war, sanctions, energy crisis, high inflation etc.).

Despite these factors, the labour market in Hungary appears to be moving in a counterintuitive

direction; it is strengthening and tightening further. In our view, starting with the positives, this could mean that a possible adjustment in the labour market to the recessionary environment will start from an extremely favourable situation. The (perhaps exaggerated) optimism of companies could mean that there is a significant gap between supply and demand in the labour market and that the labour shortages will further stimulate wage growth in this possibly severe (but at least challenging) economic situation. This could further strengthen the already elevated inflation through a wage-price spiral and increase the risk of a hard rather than soft landing.

Excessive optimism could very quickly turn to excessive pessimism, pushing companies to overreact to the situation as they face a toxic mix of significantly elevated wage bills and suddenly disappearing demand for their products and services, generating a significant profit margin squeeze. Such an outcome could bring a rapid and large-scale labour market adjustment in the worst case scenario. In other words, we are in a situation, where excessive optimism and (false) confidence could turn into something quite bad.

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 <http://www.ing.com>.