Hungarian labour market story remains positive

The latest labour market data for August did not result in any notable shifts. The prevailing tightness of the labour market is prompting companies to exercise caution when considering workforce rationalisation, thereby limiting the potential for unemployment to rise

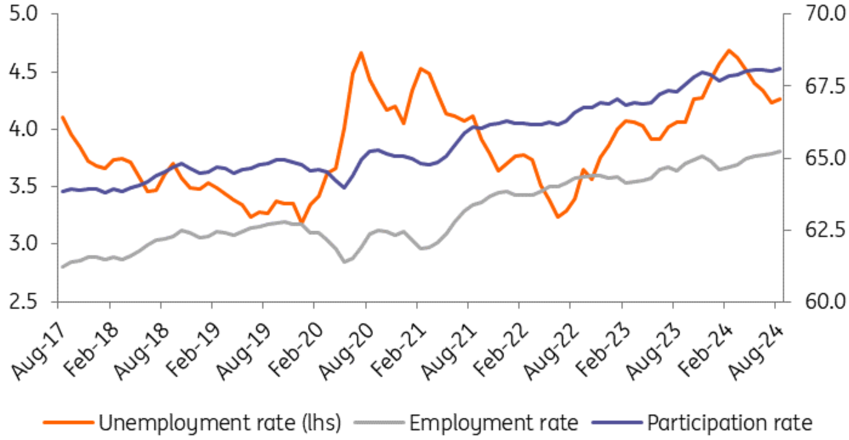
4.3%

Unemployment rate (Jun-Aug)

ING Forecast 4.2% / Previous 4.2%

According to the latest labour market statistics from the Hungarian Central Statistical Office (HCSO), there has been no significant change in the trend in the labour force, with the model estimate predicting a stable unemployment rate of 4.2% in August 2024. Meanwhile, the official three-month moving average survey rate rose to 4.3%, showing a small deterioration of 0.1ppt. The data is broadly in line with our expectations. As for the number of unemployed, both statistics show that the size of the group remained stable at around 210,000.

Historical trends in the Hungarian labour market (%, 3-month moving average)

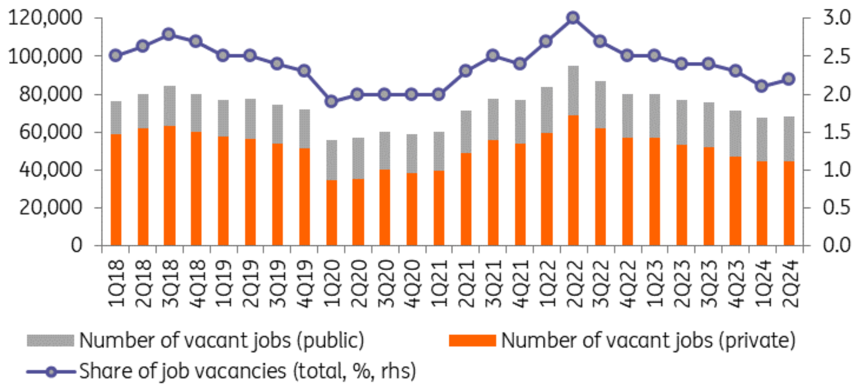


Source: HCSO, ING

The detailed data shows that the number of people in employment fell by almost 17,000 in August, while the number of inactive people rose by about the same amount. The number of unemployed therefore remained stable. This probably reflects some parallel phenomena. On the one hand, the layoffs are likely to have affected the lower-paid, lower-skilled labour force, which tends to live only on seasonal jobs and thus returns to inactive status after being made redundant. On the other hand, with labour demand still high in some sectors, newly laid-off skilled workers would have had little trouble finding a new job, keeping the unemployment rate virtually stable. In addition, of course, some of the long-term unemployed may also have left the labour market.

The picture is less exciting for the three-month moving averages, which show only minimal changes compared to the previous period. But they are also broadly positive, with unemployment remaining broadly unchanged as employment and labour market participation both rose. Against this backdrop, we maintain our view that the claim that labour market tensions are easing is no longer true. Indeed, data for the second quarter shows that the share of job vacancies in the economy has increased, while unemployment has been on a slowly declining trend.

Number of job vacancies and the job vacancies rate in Hungary



Source: HCSO, ING

The labour market has therefore recovered faster than expected, while new production capacity coming on stream is encouraging other firms to retain labour. So even though the business outlook is not the best at the moment, some companies are holding on to their workforce. Around 15% of the companies surveyed are holding on to staff beyond their planned future capacity, essentially creating a kind of 'hidden' unemployment. However, it is precisely because of the tight labour market, rising wages and the increasing time and cost of recruiting that companies tend to ride out the tougher months by retaining staff.

The labour market will be shaped by two forces in the coming months. First, fewer seasonal jobs could mean a small drop in employment and a small rise in unemployment. The weak performance of industry is increasing the probability of layoffs. Orders are falling and planned capacity expansions are being scaled back. If the recovery in construction and services is sustainable, these sectors might be able to take on the staff made redundant after the peak of seasonal jobs. This could lead to a slight overall improvement in the coming months, provided that the domestic market continues to grow. By the end of the year, the unemployment rate is expected to be close to 4.2%.

Author

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

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Disclaimer