Hungary's labour market continues to improve

The strengthening momentum in the labour market continued in May, with the employment rate reaching an all-time high. Going forward, we expect this positive trend to prevail, which may keep wage growth elevated

4.4%

As expected

Unemployment rate (Mar-May)

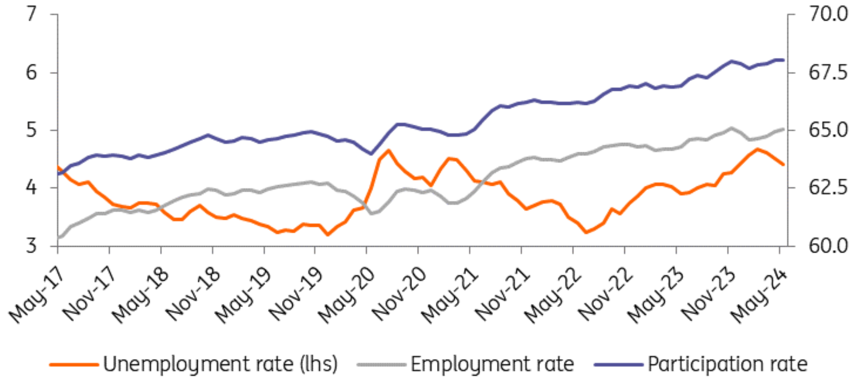
ING Forecast 4.4% / Previous 4.5%

According to the latest unemployment statistics from the Hungarian Central Statistical Office (HCSO), the slow but trend-like positive change in the labour market observed since the beginning of the year has continued, as evidenced by an improvement of 0.1ppt to 4.4% in the official three-month moving average survey rate covering the period March to May.

At the same time, the model estimate showed the monthly unemployment rate falling to 4.3% in

May, which matches our own expectations. As far as the number of unemployed is concerned, both statistics show a significant decline and the number of unemployed was around 210-220,000.

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

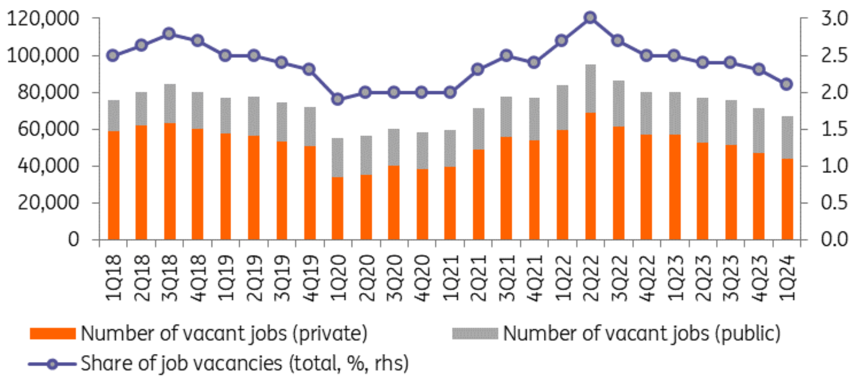


Source: HCSO, ING

The detailed data also shows that the number of people participating in the labour market fell in May, partly due to a decline in the population and partly due to an increase in the number of inactive people. As a result of the population decline, the employment rate reached a new high of 65.2% in May. The participation rate also remained at an all-time high. Meanwhile, we see that the number of unemployed fell by roughly the same amount as the number of labour market participants, while the change in the number of employed was well within the margin of error. So this time the improvement in the labour metrics is more about people dropping out of the labour market rather than an outright increase in labour demand.

Of course, it is not worth drawing far-reaching conclusions from one month's data. In all, the demand for labour seems to be holding up, with employment expanding for the fifth month in a row, albeit at a slower pace. A broadly similar positive trend can be seen in the official three-month moving average data. In other words, as the Hungarian economy is recovering from recession, the state of the labour market is improving somewhat at the economy-wide level.

Number of job vacancies and the job vacancies rate in Hungary



Source: HCSO, ING

The latest labour market data brings us a step closer to answering the question of why wages in the private sector are still rising so dynamically, while surveys had predicted wage growth of 5-10% this year. The labour market has recovered faster than expected, while new production capacity coming on stream soon will encourage firms to retain workers.

It is also true, however, that the number of vacancies is falling, but this is mainly due to the elimination of vacancies and to a lesser extent to the filling of vacancies. In addition, firms' resilience to rising labour costs may also be helped by the accumulation of substantial liquidity in a seemingly uncertain economic environment and the investment of spare resources in labour rather than capital.

In our view, in the coming months, the labour market will be shaped by two forces. On the one hand, seasonal employment will increase as the summer approaches, which should help to continue the slow improvement in the unemployment rate. This could also be the case if the nascent recovery in construction is indeed sustained.

However, this contrasts with the weak performance of the manufacturing sector, where there is increasing talk of working hours being rationalised as the level of orders falls. This is still mainly a matter of making more flexible use of working hours, but some layoffs have already taken place in the sector.

All in all, a slight improvement is expected in the coming months, provided that the favourable trends in the domestic market continue. By the end of the year, the unemployment rate could fall to around 4.2% or even slightly lower.

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