Hungarian labour statistics point to pipeline price pressures

The latest set of labour data has strengthened our view that there is more to come on inflation, as the real disposable income of households continues to grow

The number of participants in the Hungarian labour market is growing

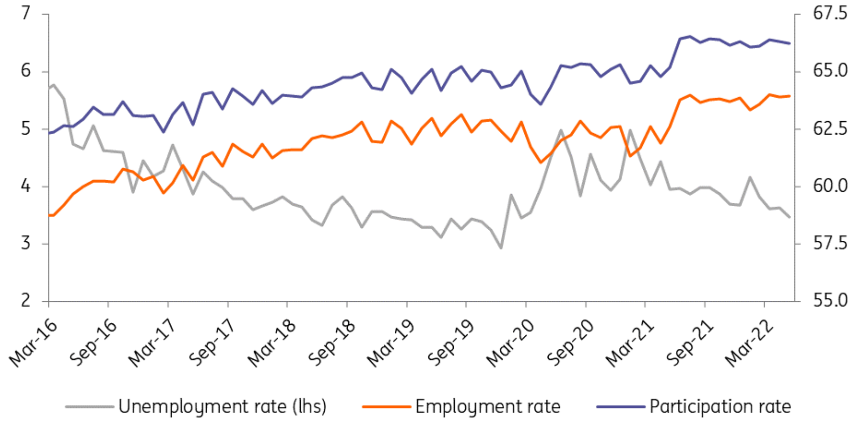
The Hungarian Central Statistical Office (HCSO) has released the latest set of labour market data (job vacancies, unemployment rate, wages) which are not short of positive developments from the real economy point of view. On the other hand, they all suggest that with Hungary being close to full employment, there is no chance of an easing in pipeline price pressures.

Unemployment rate close to record low

In May, the number of unemployed fell to 169,000, corresponding to an unemployment rate of 3.5%. The last time we saw such a low number in late 2019/early 2020, Hungary was suffering from a chronic labour shortage.

The trend of recent months is clear: the number of participants in the labour market is growing, boosting the employment rate and reducing the number of unemployed as well. In our view, the labour market situation continues to provide a favourable environment for economic growth. However, an increasing proportion of companies are struggling with labour shortages. According to the latest official data, the number of job vacancies in Hungary (87,000) approached its previous record in the first quarter of this year.

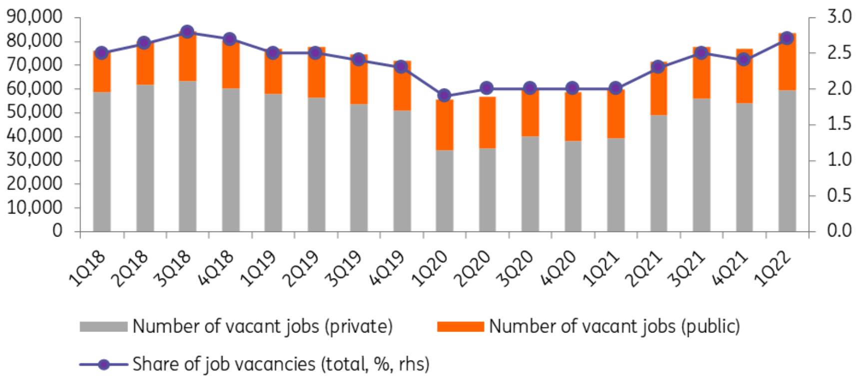
Labour market trends (%)



Source: HCSO, ING

All this means that the domestic labour market is becoming tighter: fewer unemployed people are able to choose between a growing number of vacant jobs. This is expected to translate into an additional increase in labour costs for companies if they want to hire a new employee or wish to keep their own. This continues to exacerbate wage outflows in the economy.

Job vacancies in Hungary



Source: HCSO, ING

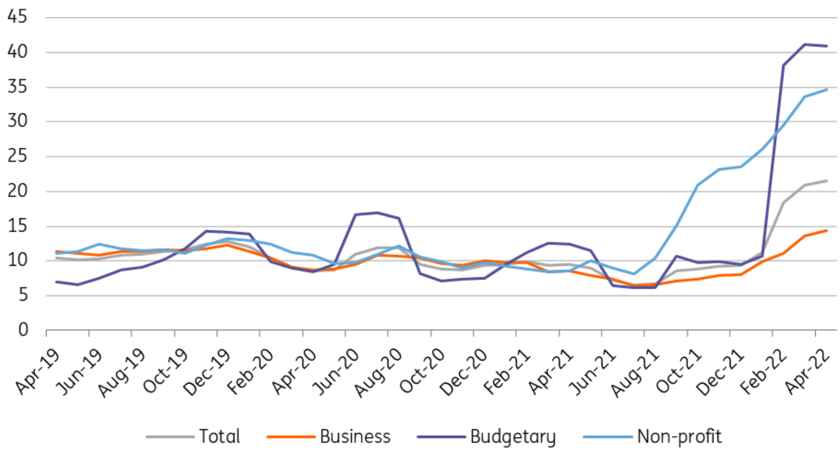
Strong wage outflow supports consumption

Gross average wages increased by 15.2% year-on-year in April 2022, showing yet another significant rise. Though it shows some deceleration compared to the previous two months, the data was affected by a major jump in bonus payments. Without bonuses, regular wages increased by 14.1% on average in April and the median gross wage almost reached HUF 400,000.

There is one new element in the details: wage growth in the private sector exceeded the statistics seen in the public sector: 14.5% vs 12%. Meanwhile, due to educational institutions being reclassified as part of the non-profit sector, wage growth here remains on the extreme side: above

35% over a year. Back in the private sector, wages have risen above the average in those sectors where labour shortages are more acute and/or they are employing a higher share of low-skilled workers earning minimum wages (which was increased by 20% from January). These sectors are construction, wholesale and retail trade, logistics, accommodation, and hospitality.

Wage growth in Hungary (3-month moving averages, % YoY)



Source: HCSO, ING

Tight labour market keeps prices on an upward trend

As we said above, the latest set of labour market data all point in one direction: Hungary has probably reached full employment. Household consumption may continue to be bolstered by strong real wage growth, projecting a sustained persistence of demand-driven inflation. While households are smoothing their consumption (that is, they are using their savings to pay for their usual consumption in quantity and quality) despite rising inflation, we can hardly expect a negative impact on the price pressure.

Inflation risks stemming from the labour market are still on the upside. All this clearly paves the way for tighter monetary policy during the remainder of this year. Over the longer term, even if supply-side shocks ease, as long as the labour market remains tight, demand-driven inflation will remain with us, and the HUF may need to be strengthened significantly to (at least partly) compensate this driver of inflation.

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