Hungarian real wages drop amid sky-high inflation

Despite a 16.1% rise in average gross wages on a yearly basis, inflationary pressures have caused a decline in real wages for five consecutive months. Looking ahead, the drop in purchasing power will continue well into the second half of the year

We do expect real wage growth to turn positive but at the same time, this won't be a major catalyst for economic activity

16.1%

Gross earnings growth

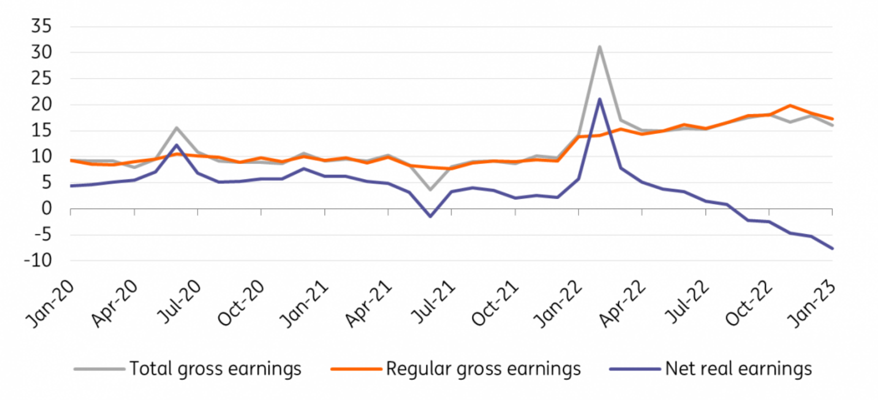
ING Forecast 16.0% / Previous 17.9%

Higher than expected

The Hungarian Central Statistical Office (HCSO) has released the latest wage data which shows that real wage growth was negative for the five consecutive months up to and including January. Based on data across a full range of employers, gross wages rose by 16.1% on an annual basis, while net wages increased by 16.0%. Average regular gross earnings (adjusted for non-recurrent payments) show a more significant wage outflow, as the key figure decelerated from 18.4% at the end of last year to 17.3% in January. This suggests that the moderation in gross wage growth is mainly due to weaker one-off payments at the beginning of 2023.

As positive as these figures look, the purchasing power of wages has nevertheless declined, with real wages shrinking by 7.6%, as inflation (which hit 25.7% in January) continued to dampen households' purchasing power. January is the fifth consecutive month in which real wage growth has been negative, and we believe that this trend will continue at least until the end of this summer.

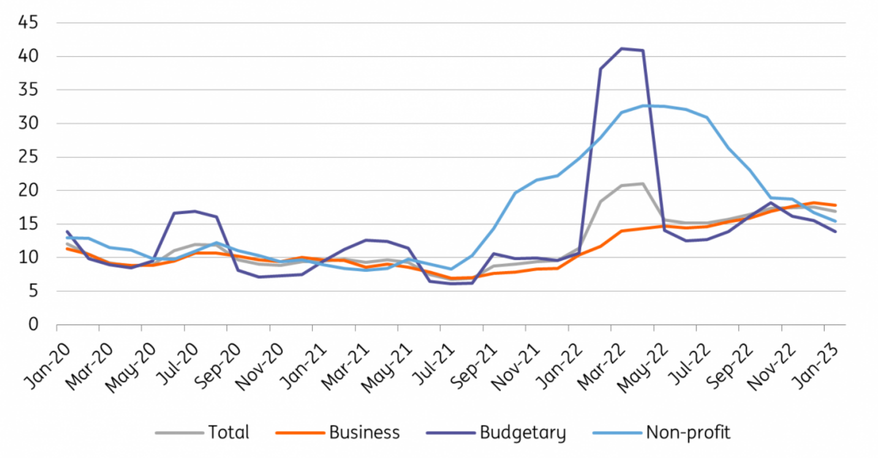
Nominal and real wage growth (% YoY)



Source: HCSO, ING

In the private sector, growth of gross earnings (including bonuses) somewhat moderated in January, with average wages in this sector rising by 17.0% on a yearly basis. Given that median earnings rose more dynamically, by 18.9% year-on-year, this indicates that companies were mainly adjusting the salaries of lower earners in the light of high inflation, which peaked in January. In contrast, gross earnings in the public sector slowed to 13.6% YoY, after the uptick in December's data when bonus payments were allocated.

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



Source: HCSO, ING

Historically, the wage growth dynamics in January have been a great indicator of the full-year average wage growth. Thus, the 2023 full-year wage growth could be somewhere around 16.0%. However, considering this year's specificities (high uncertainty regarding growth and inflation), this figure is likely to be more towards the lower end of the forecast range as we see upside risks. As many companies will only sign new wage agreements in the spring, we believe that January's data did not entirely reflect wage adjustments due to sky-high inflation. On top of this, wage settlements in the public sector during the year indicate the same upside risk, so at the moment we see the pace of wage growth for the full 2023 year at around 16.0-17.0%.

Despite this remarkably high wage growth we still expect consumers' purchasing power to fall as we see full-year inflation at 18.5-19.0%. Against this backdrop, we continue to believe that the tight labour market poses an upside risk to inflation. In this respect, we would like to point to the expected turnaround in real wage growth in the second half of this year, when the pace of wage growth will likely again exceed the inflation rate. At the same time, the economy will be recovering from the current technical recession and companies' demand for labour could pick up again.

In such a situation, companies may resort to repricing sooner, given the improving economic outlook and rising purchasing power. For this reason, we believe that the big challenge for the National Bank of Hungary will not be to bring inflation down to single-digit levels, but to achieve the 3% inflation target in 2024 despite inflationary pressures looming from the labour market. Going forward, we continue to see a substantial risk of inflation remaining stuck at persistently high levels.

Lastly, we would like to mention that February's wage data will be very alarming at first sight, but yearly base effects will be the main culprit behind the extremely high drop in real wages. A year ago, in February 2022, law enforcement workers received so-called "arms money", (on average this equates to six months of gross wages), which artificially inflated wage growth numbers. This February, base effects will reverse, so we expect a very significant drop in terms of real wage growth, but this should rebound to a relatively modest negative level from March onward.

Starting from January 2023, the Hungarian Central Statistical Office will rely on data provided by a full range of employers. Before this methodological change occurred, wage data were collected from enterprises with at least five employees only, from all budgetary institutions and from non-profit organisations with a significant impact on employment. The narrowing of the scope of employers (enterprises with at least five employees) has previously been justified by the need to keep the reporting burden at a reasonable level.

As of today, a long enough time series is available for the whole circle of employers, so this circle can get into the focus of data communication. The difference between the main indicators calculated for the two reference circles is not significant.

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