

Hungary's unemployment does not budge

Even though economic activity has been deteriorating lately, the unemployment rate remained unchanged. Nevertheless, the economic climate indicates that a gradual slide will continue in the coming months



Workers at a construction site in Budapest, Hungary

4.1%

Unemployment rate (Jan-Mar)

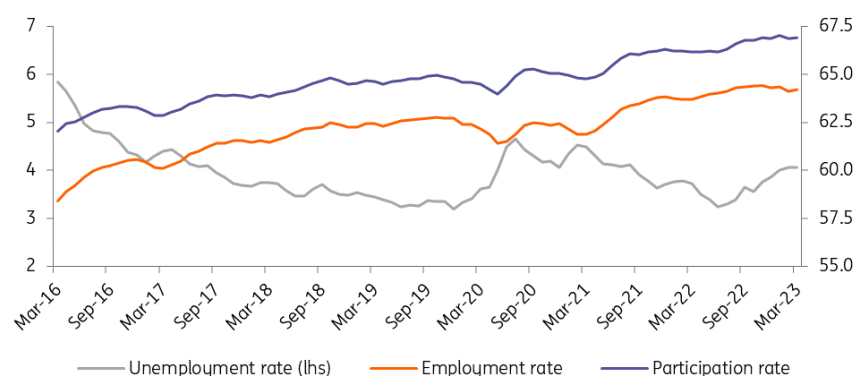
ING Forecast 4.2% / Previous 4.1%

Better than expected

The Hungarian Central Statistical Office (HCSO) released the latest employment data, which shows that amid the ongoing technical recession, the unemployment rate remained unchanged. Both the unemployment rate (coming from a model estimation by HCSO) and the three-month moving average (which is the official and internationally comparable data) remained steady. The former stabilised at 4.0% in March, while the latter stayed the same at 4.1% in the January-March

window. This was a somewhat surprising development against the backdrop of deteriorating hard data releases, but we can think of a few reasons that support the better-than-expected reading.

Labour market trends (% , 3m moving avg)

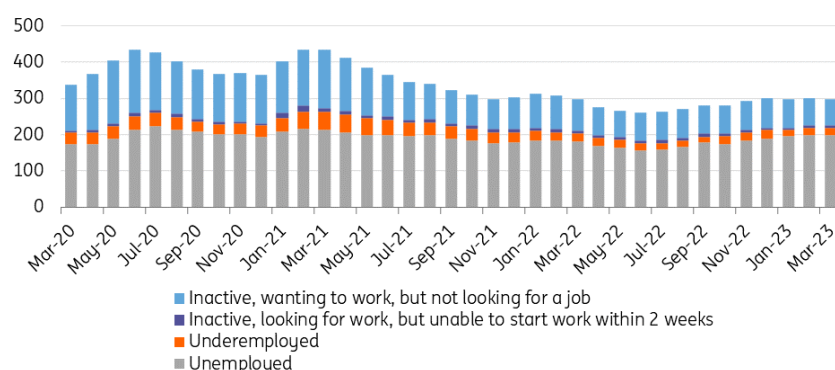


Source: HCSO, ING

Judging by the monthly data it is evident that there has been a substantial increase in the number of labour market participants as compared to the previous month. This suggests that more and more people are returning from inactivity and starting to actively look for work. Although new job seekers may have faced difficulties in securing employment in the preceding month, estimates for March indicate that individuals returning to the labour market are finding employment with some lag. This trend may also be observed in the recent increase in the estimated monthly employment figures, which have exceeded 4.7 million once more. This suggests that industries experiencing labour shortages and exhibiting optimism regarding future prospects (potentially due to higher order books compared to the previous year) are able to accommodate the influx of new labour supply emerging in the labour market.

According to the official three-month moving average data, the unemployment rate has been exhibiting a gradual and consistent upward trend since mid-2022, with minimal fluctuations. Therefore, the labour market remains stable without any major disruptions. Companies have responded differently to the ongoing technical recession, refraining from making panicked decisions to reduce their workforce. The prudence is perhaps also a reflection of companies' confidence in a swift economic rebound, while knowing that in a situation of general labour shortage, it will be much more difficult to replace now redundant workers when they are needed.

The potential labour reserve ('000, 3-m moving avg)



Source: HCSO, ING

Going forward, we expect no change in trend regarding the gradual weakening of the Hungarian labour market. Our forecast suggests that the Hungarian economy was in a technical recession at the beginning of 2023 and that this will have a similar impact on labour market developments in the second quarter as before. Therefore, we expect a slow and steady rise in the unemployment rate until mid-year, with the rate peaking around 4.5%. As a gradual recovery of the economy could begin in the second half of the year, we expect a meaningful decline in the unemployment rate only towards the end of the year. In our view, this will be supported by a resurgence in labour demand due to an improving economic climate.

Nevertheless, the surge in labour demand could put further upward pressure on wages. In the context of the expected disinflationary developments, this could already ensure positive real wage growth in the last quarter of the year, and even as early as September. However, it remains uncertain whether positive real wage growth will stimulate domestic demand in the economy, given that households have been relying on reserves to maintain consumption. In our view, it is more likely that households will opt to replenish their depleted reserves, rather than fuel consumption, leading to a potentially gloomier growth outlook. Simultaneously, we think that there is less likelihood of additional inflationary pressures stemming from positive real wages.

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 www.ing.com.