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.

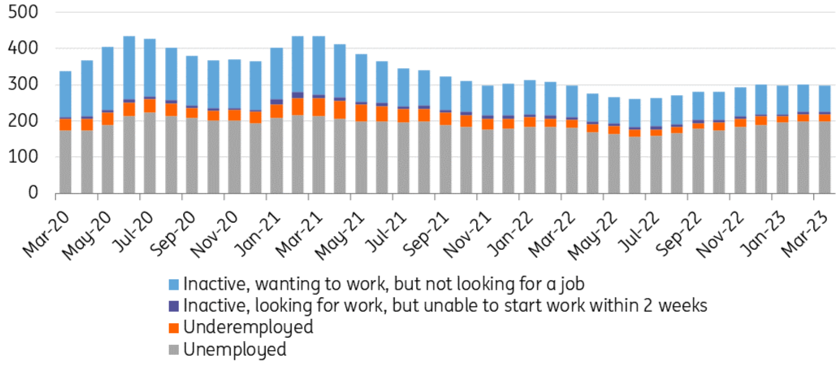
Labour market trends (%, 3m moving avg)

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.

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