Hungarian unemployment edges up

We are seeing rising unemployment in Hungary as businesses implement hiring freezes. The coming months will bring further weakening with a possible turnaround during the second half of 2023

Workers at a construction site in Budapest, Hungary

4.1%

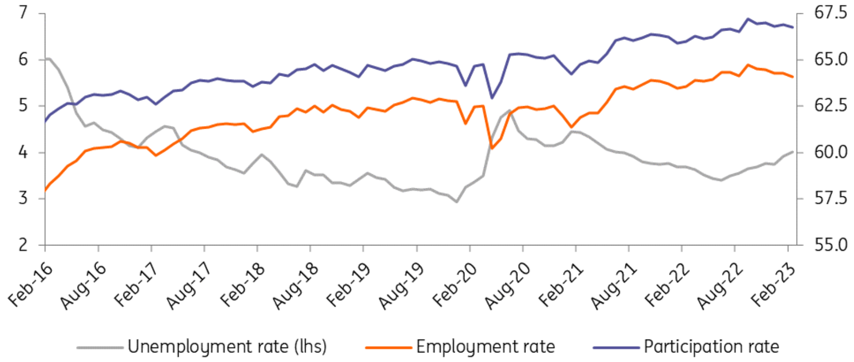
As expected

Unemployment rate (Dec-Feb)

ING Forecast 4.1% / Consensus 4.1%

The Hungarian Central Statistical Office (HCSO) has released the latest employment data, which shows signs of a gradually weakening labour market. This is hardly surprising, given the Hungarian economy has been in a technical recession for the last two quarters, and it is increasingly likely that GDP growth will register a contraction in the first quarter of this year as well. The unemployment rate (coming from a model estimation by the Statistical Office) increased to 4.0% in February, while the three-month moving average (which is the official and internationally comparable data) jumped to 4.1% in the December-February window, a rate not seen since early 2021.

Labour market trends (%)

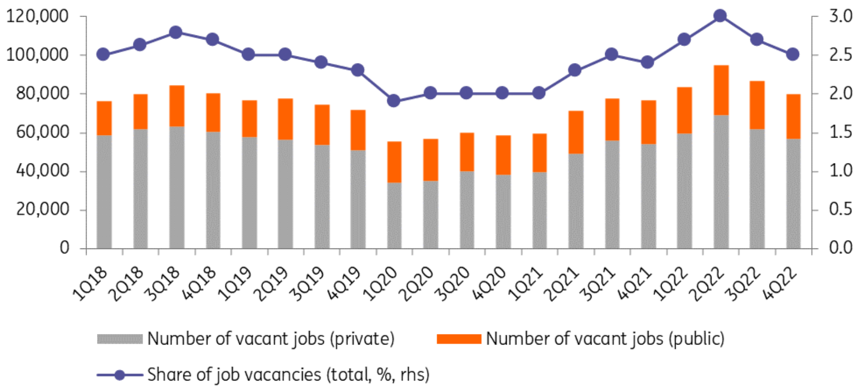


Source: HCSO, ING

Looking at the official (three-month moving average) data over a longer time period, the picture remains unchanged; the employment rate is falling, albeit at a slow pace. Businesses (especially in energy- and labour-intensive sectors) have therefore started to adapt to the changing environment to reduce their costs. The number of unemployed is also rising, as some of the workers that have been made redundant cannot find new jobs immediately due to geographical and/or skillset mismatches, in addition to the falling number of job openings.

The number of labour market participants also remains substantially higher than a year earlier. As we pointed out in our previous note, this development indicates that another source of the rise in unemployment is high-flying inflation. More and more people are returning to the labour market, starting to actively look for work, matching the official definition of being unemployed. However, the rising supply of labour is not necessarily meeting the demand. Roughly half of firms have enacted a hiring freeze in the current economic climate, so those who are showing up as new job seekers won't be able to immediately find jobs.

Job vacancy dynamics



Source: HCSO, ING

Looking ahead, we expect no change in trend regarding the gradual weakening of the Hungarian labour market. We expect that the share of vacant jobs will decline due to a combination of hiring freezes and the removal of existing but unfilled positions. Thus, the upcoming months' labour dynamics will much more reflect a marked slowdown in the recruitment process, rather than mass firings. Our forecast suggests that the Hungarian economy could remain in a technical recession in early 2023 and we expect stagnation in the second quarter. In such an environment, we have a hard time imagining a sudden turnaround in the labour market.

A gradual recovery of the economy could take place in the second half of the year, which suggests that the unemployment rate could continue to rise at a slow pace, peaking somewhere around 4.5%. We expect a decline in unemployment only towards the end of the year, as the economic outlook clearly improves, which could be accompanied by a pick-up in labour demand. On the other hand, rising demand for labour accompanied by the still tight labour market could put upward pressure on wages, which could further fuel the domestic inflation pressure in the Hungarian economy.

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