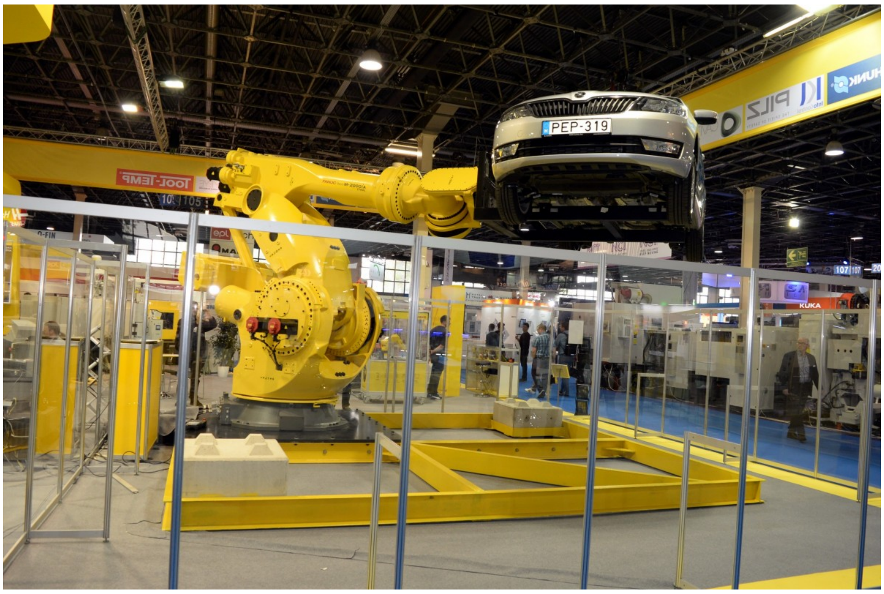
Hungarian wage growth picks up again

Wage growth is on the rise again, mainly in the private sector. The impact of the labour shortage is growing

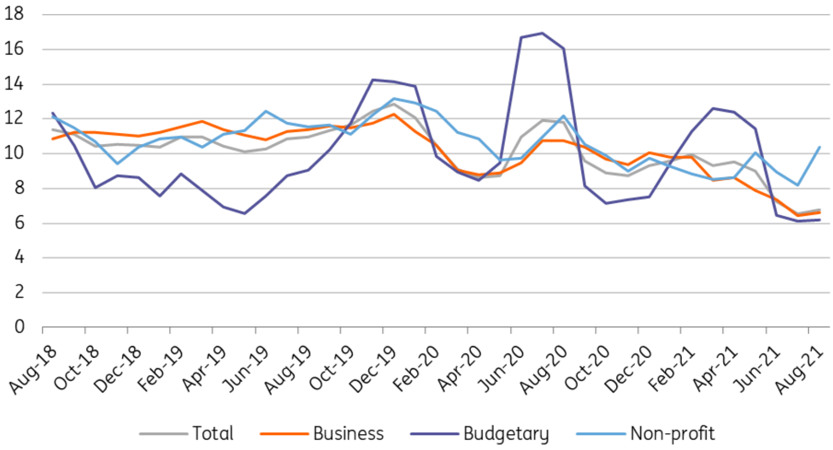


An industrial robot machine in action at an exhibition in Hungary

Wage dynamics in the Hungarian economy saw further growth, according to the Hungarian Central Statistical Office data. Both gross and net nominal wages increased by 8.9% year-on-year. The main driver of the high wage growth remains the public sector where wage settlements have been setting the tone for 2021.

Against this backdrop, wage growth came in at 10.7% YoY in the public sector. In contrast, salary growth in the private sector was more moderate, showing a 7.2% yearly rise. At the same time, this is a stronger increase what we saw in the previous month, while public sector wage growth slowed. In this respect, the private sector was responsible for the change in the pace of the average wage increase.

Wage dynamics (3-month moving average, % YoY)



Source: HCSO, ING

Based on the detailed data, we can easily identify the areas where wage dynamics have picked up. First of all, there is agriculture. The number of employees in this sector is still 2% lower than a year ago and lags 6% behind the pre-crisis level. As the demand for seasonal workers has increased, the labour shortage has pushed corporates to pay higher wages. On a yearly basis, salaries in agriculture increased by almost 9%.

The remarkable 15% YoY increase in mining is rather a phenomenon of a low base probably tied to the lack of one-off payments last August. Unsurprisingly, and with ever-growing demand in the construction sector, companies are facing significant wage pressure. The nearly 9% wage growth reflects that. On the other hand, although wage outflows in the accommodation and food service sector grew, its 7.1% growth is still below the private sector average - the sector continues to show an increasingly negative wage gap when compared to the national average.

As the 2022 minimum wage talks are ongoing and the parties are getting close to an agreement, next year's wage developments will be interesting. The deal will likely contain a roughly 20% minimum wage increase, for both skilled and unskilled labour. Although this will likely be accompanied by a cut in the social contribution tax (probably to 11.5% from 15.5%) to compensate employers, we still believe that such a strong minimum wage increase will place an enormous burden on companies. As this is not just about minimum wage earners. This increase is set to create significant wage congestion around the level of the median wage, so pushing employees earning around that level to demand higher salaries, especially in a labour shortage situation.

> The demand-supply frictions in the labour market, as well as the supply chain issues which are also affecting capital goods, are further reducing the rom for manoeuvre for companies. In our view, this will result in a significant inflation pressure. Against this backdrop, we move our inflation forecast up to 4.9% in 2021 and to 4.5% in 2022.

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