Hungarian wage growth remains strong

Wage outflows remained strong in May against the backdrop of higher bonus payments. Nevertheless, real wages have fallen for the ninth consecutive month, and we expect a turnaround only around September this year

17.9%

Higher than expected

Gross earnings growth

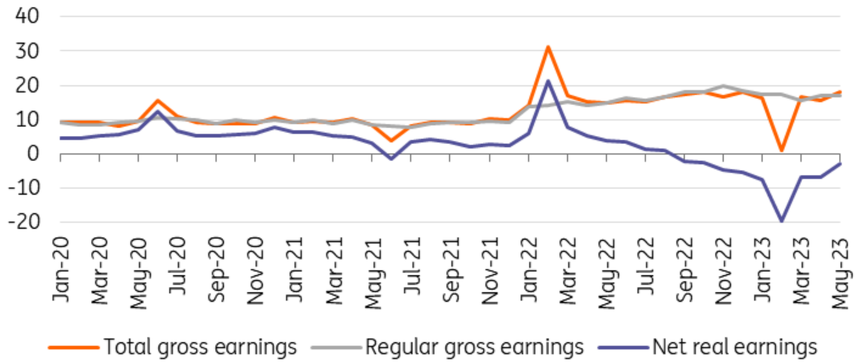
ING Forecast 16.7% / Previous 15.5%

The Hungarian Central Statistical Office (HCSO) has just released May's wages data, which highlights that wage outflows remained quite strong, with average gross wages rising by 17.9% year-on-year. However, the yearly based figure surprised both the market consensus and our own expectations, as we had anticipated lower bonus payments. In this regard, regular gross earnings rose by 16.9% in May remaining virtually unchanged from the growth rate recorded in April.

Median wage growth in May was 17.8%, which is just slightly lower than the growth rate of average gross wages. In our view, this might indicate that the increase in non-regular gross earnings is now more evenly spread across income deciles. On top of this, the fact that the pace of wage growth picked up significantly in some sectors compared with the previous month also points to a 'bonus effect'. These sectors include financial services and the energy industry, with the latter also topping the ranking of sectors in terms of the pace of wage growth in May.

Dynamic wage growth can likewise be observed in sectors where labour shortages remain significant, such as manufacturing, agriculture, and logistics.

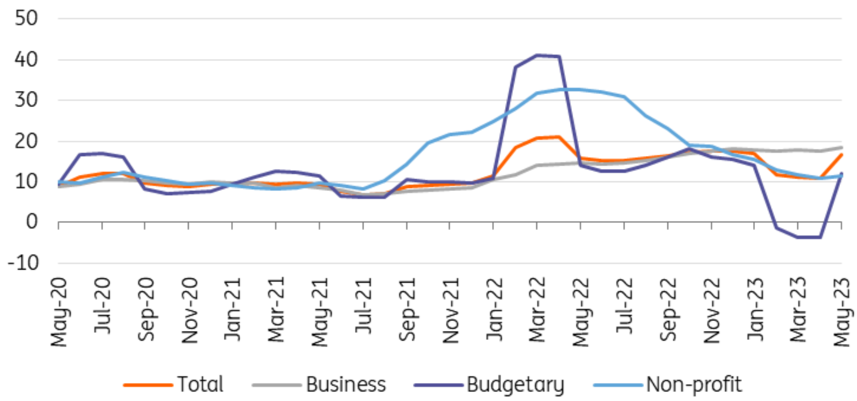
Nominal and real wage growth (% YoY)



Source: HCSO, ING

As positive as these figures look, the purchasing power of wages has nevertheless declined, with real wages shrinking by 3% in May, as high inflation continued to dampen households' purchasing power. However, there has been a notable improvement compared to previous months, as real wages have fallen by 6.9% both in March and April. Nevertheless, May is the ninth consecutive month in which real wage growth has been negative, and we believe that this trend will continue for a while with a turnaround possible around September this year.

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



Source: HCSO, ING

Going forward, we expect the 2023 full-year wage growth to be around 15-16%. As cumulative average wage growth was 13.2% in the first five months of the year, we expect some strengthening for the rest of the year. One reason for this is the wage agreement reached during the year for some parts of the public sector. In addition, as the economy slowly recovers in the second half of the year, demand for labour may pick up and push up the pace of wage growth further.

Despite the 15-16% full-year average wage growth, we expect household purchasing power to continue to fall for most of the year. As per our latest forecast, we expect inflation to average around 18% for the full year, and thereby real wages to fall by 2-3% on an annual basis. However, as inflation will display a downward-sloping trajectory this year, we believe that the story of real wages will follow a similar profile. In our view, positive real wage growth could return towards the end of the year, most likely as early as September.

The main question remains whether this will fuel consumption and thus elevate inflationary risks, or boost savings and thereby lower growth prospects. In our view, the latter is more likely, given that households have already tapped into their savings significantly to offset the impact of extreme inflation. This is the reason we believe that the forthcoming positive income shock at the end of the year implies less upside impact on inflation and more downside on growth.

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