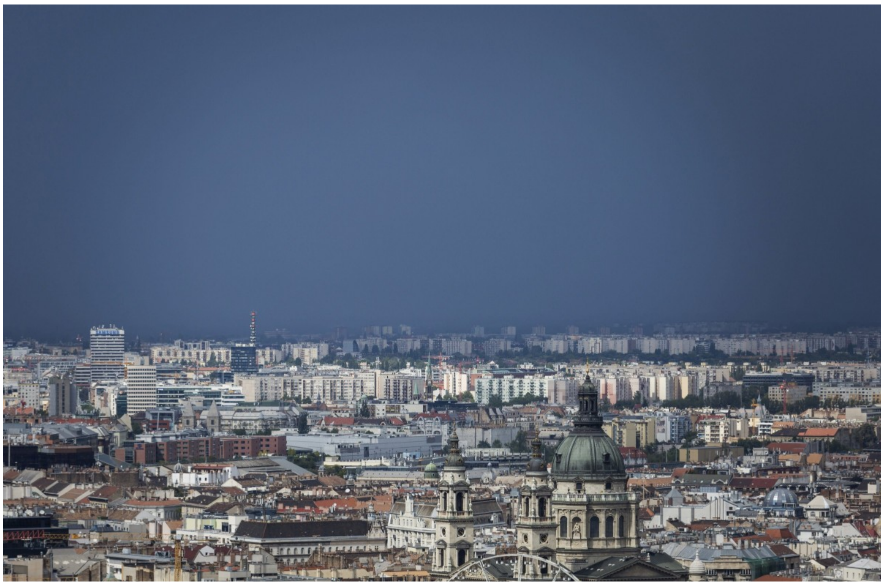
Hungarian wage growth slides on composition effects

Wage outflows have moderated on the backdrop of composition effects but still remain strong. Real wages have fallen for 11 consecutive months, but even after a turnaround, the impact on consumption will be limited



A solid recovery in domestic demand is set to be a slow and gradual process for Hungary

15.2%

Gross earnings growth

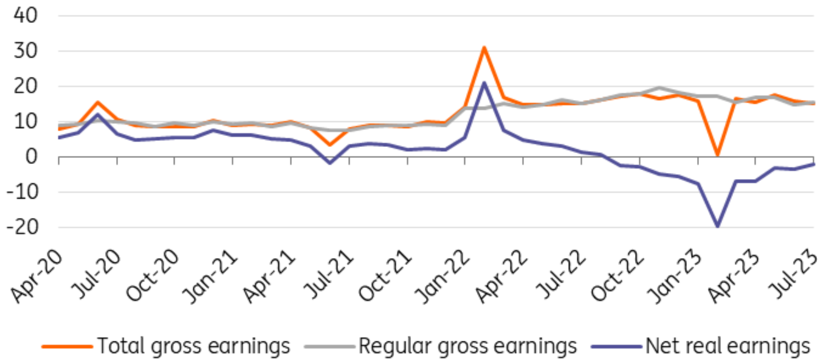
ING Forecast 16% / Previous 16%

Lower than expected

The Hungarian Central Statistical Office (HCSO) has just released July's wage data, which highlights that wage outflows remained quite strong, with average gross wages rising by 15.2% year-on-year. However, the yearly figure was lower than both last month's reading and our own expectations, as we had anticipated higher bonus payments. Regular gross earnings rose by 15.6% YoY, accelerating from last month and exceeding the growth rate of gross earnings in July.

This indicates that bonus payments were weaker than in the previous year, which wouldn't be surprising given the current state of the economy. At the same time, it is also possible that some companies have started to incorporate one-off elements (bonus payments) into employee's base salaries (regular gross earnings). This theory is also supported by the fact that median wage growth accelerated to 16.3% YoY in July. In our view, this type of conversion from bonus payments into regular gross earnings is more likely to be the case for lower earners, hence the significant acceleration in median wage growth.

Nominal and real wage growth (% YoY)

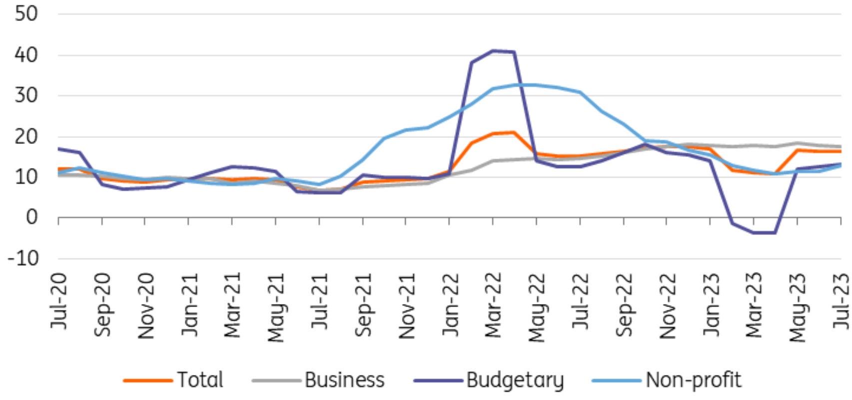


Source: HCSO, ING

Our view is reinforced by the fact that median wage growth has substantially outpaced the growth rate of gross earnings in the private sector. However, both indicators show a moderation in the rate of wage growth, while the figure for the public sector increased. The narrowing of the gap between the two sectors suggests that bonus payments in the private sector are diminishing (turning into regular earnings), while in the public sector, some one-off payments may have been made in July.

The slowdown in private sector wage dynamics may also be due to the composition effect. An increase in the number of seasonal workers is pulling down the average nominal wage in the economy as a whole and in many cases, even the average wage statistics for the sectors concerned. Both in June and July, these dynamics were evident in the economic branches of agriculture and accommodation. Wage outflows have also slowed somewhat in industry as well.

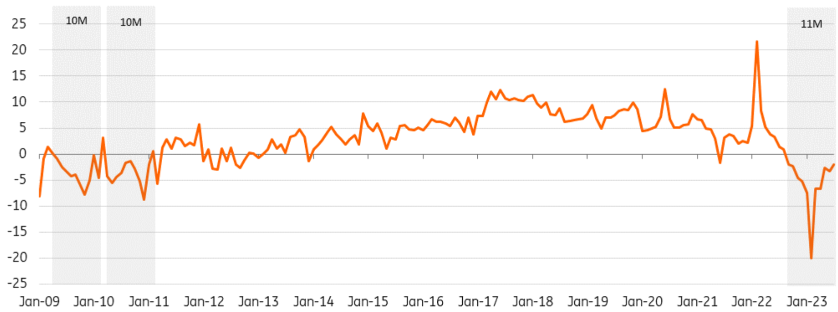
Wage dynamics (three-month moving average, % YoY)



Source: HCSO, ING

While inflation slowed further in July, real wages continued to fall as average wage growth also slowed. As a result, household purchasing power fell by 2% compared with a year earlier. With the latest July data available, we can conclude that this is the longest streak – 11 months in total – of negative real wage growth in the recent setup of wage data calculation (going back to 2008).

Average real wage growth in Hungary (% YoY)



Source: HCSO, ING

Wage data are documented for companies with at least 5 employees, downloaded from the Hungarian Central Statistical Office. The first two shaded areas represent 10 months in which real wage growth was negative, while the third shaded area shows the current environment of negative real wage growth, which consists of 11 months so far.

Moving forward, real wage growth is likely to flip back to positive by the end of summer or by September at the latest. However, we would caution against relying on this for a rapid recovery in consumption, as the household confidence index currently sits at a decade-low. This is understandable, as inflation remains well above desirable levels at a time when a large proportion of households have used up many of their savings over the past year and a half to maintain their standard of living.

All of these factors lead us to believe that households will not suddenly go on a spending spree just because one statistic has turned from negative to positive. In our view, the recovery in domestic demand will be a slow and gradual process.

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