

Snap | 26 February 2021 Hungary

Hungary: Bad signs in the job market

It was just a matter of time before we saw a serious impact on the labour market from the second wave of Covid-19. The January data suggests a slump in growth in 1Q, despite the latest upside surprise in wages



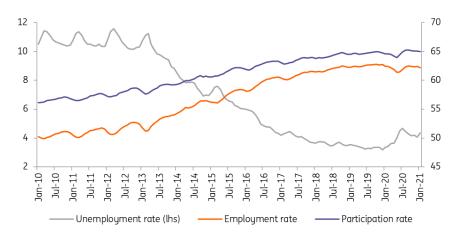
Workers on an assembly line at an Audi factory in Hungary

The Hungarian Central Statistical Office changed its methodology calculating the labour market statistics, in accordance with new international statistical regulations. This translates into higher employment statistics in the new time series which was recalculated from 2009 to now.

The new methodology didn't affect the labour market story at all. The second wave of Covid-19 impacted the jobs market with a delay, as was the case with the first wave. In December, we said the labour market remained resilient, but the January data paints a much worse picture. The unemployment rate jumped to 5%, showing a 0.8ppt increase compared to the previous month. The worsening itself was expected as the National Employment Service data for January showed a significant jump in the number of jobseekers.

Snap | 26 February 2021 1

Labour market trends (%)

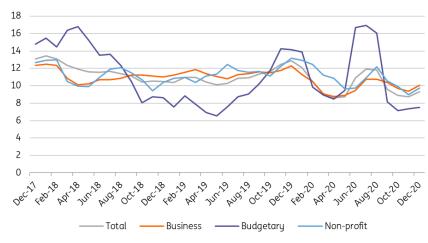


Source: HCSO, ING

So the incoming employment statistics suggest a challenging first quarter for the Hungarian economy. Moreover, as we are on the brink of a third wave, we expect a further worsening of employment statistics in the coming months. Real disposable income of households is expected to show a marked deterioration on the employment side as well as from the wages side.

Some might say that with the upside surprise in wages in December, the situation is not that bad at all. But to tell the truth, the latest wage data is misleading. First of all, the 10.6% YoY wage growth in December 2020 was mainly driven by one-off payments and bonuses. This is quite a surprising outcome considering the economic performance last year. Wage growth in the public sector slowed to 7% YoY, while in the corporate sector it was almost 12% YoY. At first sight, this looks pretty good.

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



Source: HCSO, ING

However, if we compare these wage statistics to the retail sector performance in December, something is not right. We should not see a 4% YoY drop in retail sales with such strong wage growth. In our view, precautionary savings may increase significantly, cutting back spending

Snap | 26 February 2021 2

despite the strong income data. On the other hand, wage data only counts those workers who are working full-time. During the second wave of Covid-19, we saw a jump in part-time working, especially in sectors that have been hit by the containment measures (mainly services). In addition, wages in these sectors are much lower than the national average. This means a positive composition effect, which drives wages higher, while the reality shows a worsening income situation.

The sound December data might be partially a technical issue, partially a one-off jump due to premiums and bonuses. On top of that, we know now that the minimum wage increased only 4% YoY and due to lengthy negotiations, this was first used in February, so there will be a marked slowdown in wage growth in the coming months.

Against this backdrop, we expect a rather difficult first quarter from a labour market perspective, which will also affect the pace of GDP growth. Considering the latest data, we do not consider it likely that the dynamic GDP expansion seen in the fourth quarter can be repeated. Moreover, in the light of supply disruptions in the automotive industry, which may even have temporarily affected unemployment data, it is even more difficult to imagine dynamic economic growth at the beginning of the year.

Author

Peter VirovaczSenior Economist, Hungary
peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.

Snap | 26 February 2021 3