Hungary: Decent wage growth in July

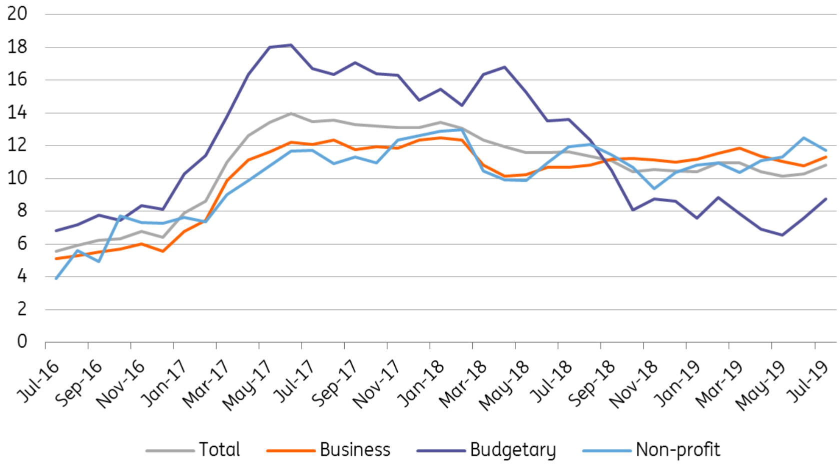
Wage growth remained strong in July, mainly driven by the business sector. Despite the worsening external environment, corporate employment intentions are still high, driving employment and thus further wage increase

Source: Shutterstock

The Hungarian average gross and net wages remain strong in July, reaching a 10.7% year-on-year increase.

The pace of growth even showed a slight acceleration compared to June, and also exceeded the average of 1H19. Actually, the decent reading was the product of two offsetting factors. While wages in the business sector showed an almost 12% YoY increase, it was counterbalanced by the 7.1% yearly growth in the public sector, despite the general wage increase in healthcare. Since September 2018, the business sector has been outperforming the public sector in terms of wage growth.

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

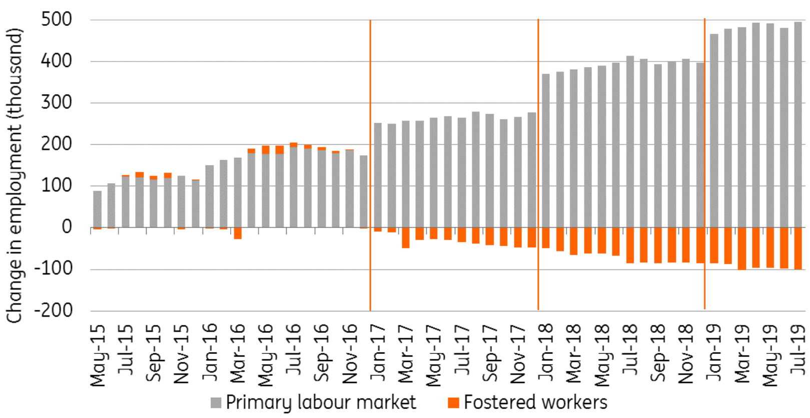


Source: HCSO, ING

Wages in the manufacturing and construction sector, as well as in agriculture and the retail sector (which have been most severely hit by labour shortage) increased well above the average. This basically supports the view that the process is mainly driven by the tight labour market, while the reduction of social contribution tax in July just added to it. The expensive labour force is weighing more and more on product and service prices, as productivity lags behind nominal wage increase.

When it comes to employment, it showed a seasonal increase in July, while the yearly average is really close to full employment. The number of all workers rose by only 0.5% since January, while employment dynamics in the primary labour market was almost twice as strong. This means that both unemployment and the number of fostered workers could decrease in the period, providing some extra human resource for companies to hire, while at the same time reducing costs and rising tax income for the budget.

Labour market trends



Source: HCSO, ING

There is three level shift in the time series (Jan-17, Jan-18 and Jan-19) due to methodological and data source changes

However, even if the tight labour market and the double-digit wage growth remain with us for the rest of the year, there are some ominous signs of the looping negative effects of the worsening external environment. A couple of domestic companies have announced cutbacks, some have cancelled or delayed investments, mainly due to global uncertainties.

Yet overall these haven't really had a huge impact on the macro level, the labour market sentiment is still rather optimistic, with a strong corporate employment intention.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

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