Hungary: Initial labour market shock may be over

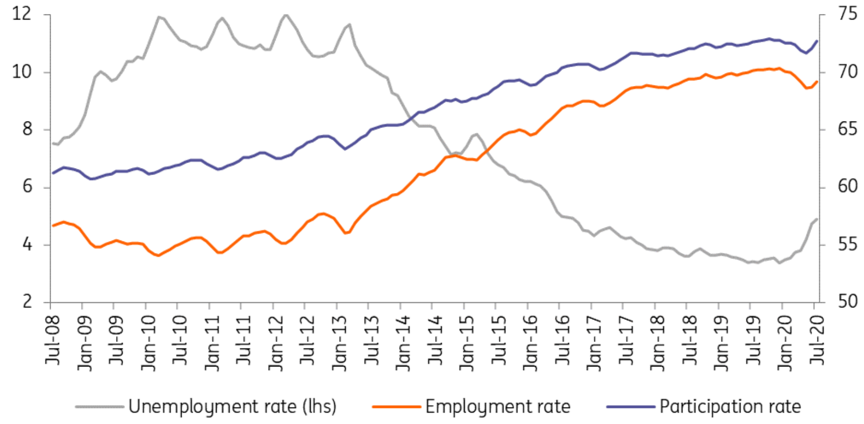
The July labour market data shows improvement as the initial shock of the Covid crisis fades. However, question marks remain over possible second round effects

Workers on an assembly line at an Audi factory in Hungary

Labour market data in Hungary is getting better at reflecting reality. Perhaps more important, it's simply getting better. The latest official data covers the May-July period, meaning that the impact of reopening is more reflected in the data. The Statistical Office released the standalone July dataset, too.

The official unemployment rate (May-July) sits at 4.9% in the 15-64 age group, only 0.2 percentage points higher than the previous figure. On a yearly basis, this means a 1.5ppt higher rate of joblessness. The last time we had an almost 5% unemployment rate was back in mid-2016. The number of unemployed people on average was 223,000. According to the administrative data of the National Employment Service, the total number of registered jobseekers was above 378 thousand in the May-July period, on average.

Labour market trends (%)



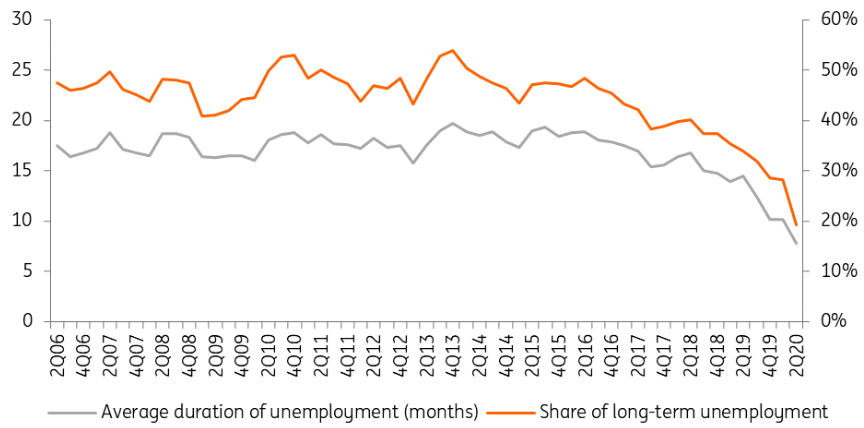
Source: HCSO, ING

Thus, interpreting the data remains cumbersome, with many inconsistencies in each data source. Presumably, it is still typical that many people who actually lost their job did not meet the statistical-methodological conditions to be classified as unemployed. However, the data is getting better at reflecting reality as the number of economically inactive people has fallen significantly again, and this change is broadly in line with the decrease in the number of unemployed and the increase in the number of employed.

This also shows that many people returned to the labour market in July and according to the official calculation of the HCSO, the unemployment rate stood at 4.7%, i.e. it decreased compared to June. Therefore it seems that the initial shock in the labour market has dissipated and a gradual improvement is on the way. However, there are some clouds above.

The new set of data also shows that people are finding it very difficult to find a job in three months (the duration that an unemployed person is entitled to job seeker's allowance). The average duration of unemployment was nine months in 2Q20, with 19% of the unemployed population looking for a job for at least a year, meaning they were long-term unemployed.

Long-term unemployment



Source: HCSO, ING

Government subsidies in the labour market run out at the end of the summer and by year-end. Despite another economic stimulus package in the pipeline, we have seen the number of new Covid-cases rising rapidly, which could trigger another set of lockdown measures. In addition, revenue shortfalls due to the reduced level of orders are putting increasing pressure on the manufacturing and construction industries. All of this could bring huge uncertainty in the labour market and could easily push the unemployment rate higher due to second round effects.

Author

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