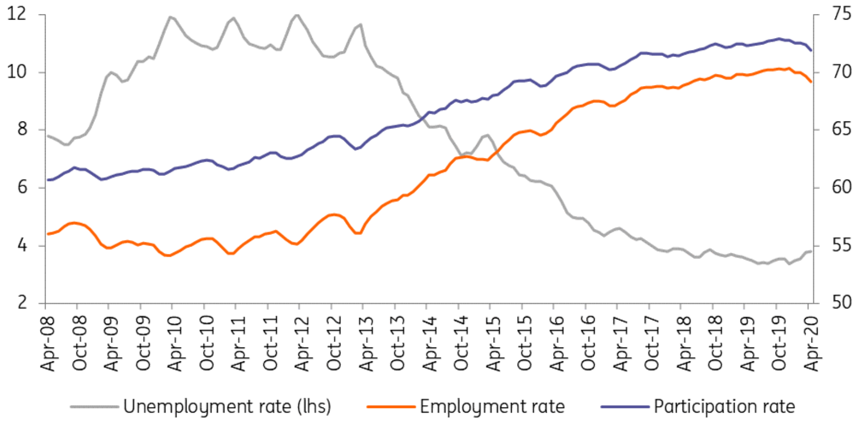
Hungary: Steady labour market data is an illusion

Official labour market statistics paint a rosier picture than the reality. The unemployment rate could be around 6% by now. Wage data doesn't include those who are now working part-time due to the Covid crisis, so purchasing power is increasing less than wage growth

Before we talk about the official unemployment rate, we need to talk about the flaws around the statistics. First of all, this data covers the average of a three-month period. So, when we are talking about the April unemployment rate, it covers February-April. Moreover, this survey – to make it suitable for international comparison – is based on the International Labour Organisation (ILO) definition. This counts unemployed people as those who have lost their jobs, are actively seeking work and/or could start a new job within two weeks. It's clear that in such a crisis of lockdowns and curfews, these definitions make it impossible to measure unemployment.

Against this backdrop, the official 3.8% unemployment rate in April hardly paints a realistic picture. However, the Statistical Office revealed that in February-March, 129,000 jobs were lost. Add to this the previous 170,000 and we are looking at 300,000 unemployed people. According to the administrative data of the National Employment Service, the total number of registered jobseekers increased to 331,000. All in all, this could mean that the realistic unemployment rate could be around 6%.

Labour market trends (%)



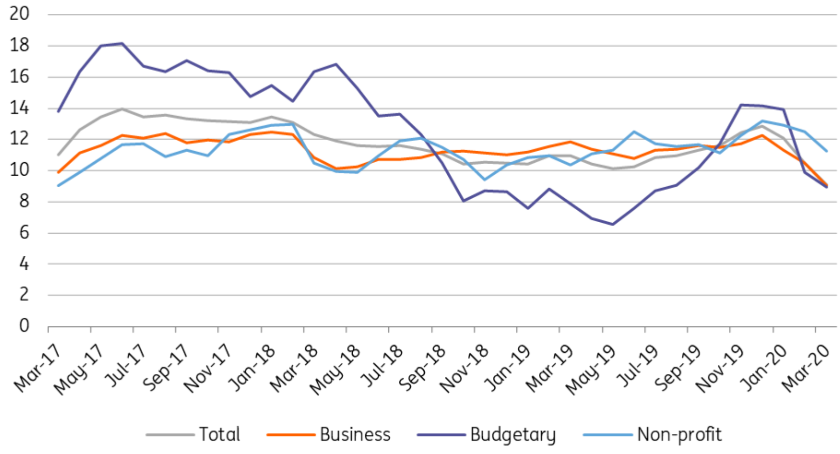
Source: HCSO, ING

Looking forward, the unemployment rate is expected to increase significantly in the coming months. Even if we see economic activity improving in the second half of the year, the labour market will lag behind. As a result, we expect the unemployment rate to stand at around 7-8% by the year-end.

As with unemployment, wage statistics are also flawed in the current environment, making it more difficult to understand the full story. Hungarian average gross and net wages rose by 9.0% year-on-year in March, showing a 0.1ppt slowdown compared to the February reading. The last time Hungary posted single-digit wage growth in three straight months was in 2016. However, 9% wage growth still looks pretty solid and should be more than enough to support consumption.

Looking at the detail, wage growth in the private sector slowed somewhat to 9% YoY in March. Public sector workers enjoyed faster wage growth, earning 8.7% more than a year ago, on average. The latter is due to a wage agreement in public administration, defence and compulsory social security. These figures are far from terrible.

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



Source: HCSO, ING

The reality, however, is that wage statistics cover only those who are working full-time. One important development of the Covid-19 crisis is/was that a lot of people who worked full-time are now working only part-time. This means they are earning less and have less money to spend. So, despite official statistics suggesting that purchasing power has remained untouched, in reality, it has fallen significantly. According to the latest data from the government, 120,000 people (~3% of labour force) have applied for the "Kurzarbeit" programme.

Looking forward, despite official statistics which are expected to show 8-9% year-on-year wage growth in the coming months, purchasing power will increase at a much slower pace or even stagnate. In addition, as consumer behaviour tends to change in a crisis situation, with increased savings and a drop in the propensity to consume, wage data will hardly reflect what we can expect in household consumption. To put it plainly, labour market statistics are an illusion.

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