

Hungary: Potential labour reserve shrinks to new low

The unemployment rate stands at 3.6%, in line with full employment. And the potential labour reserve has fallen, pushing companies to spend more on wages and capex



Source: Shutterstock

3.6%

Unemployment rate

Consensus (3.6%) / Previous (3.6%)

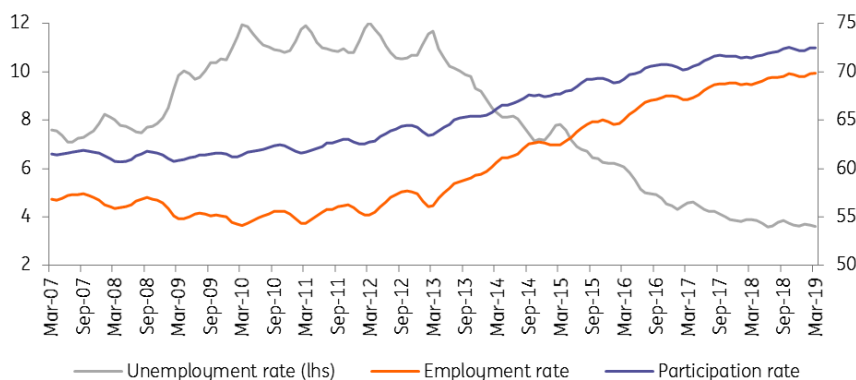
As expected

The unemployment rate of the 15–64 age group was at 3.6% in March 2019, showing a 0.3 percentage point drop compared to a year ago. In this respect, the unemployment rate has remained stable for nearly 12 months, suggesting that Hungary has reached full employment—taking into consideration the recent structure of the labour market.

All of the major labour market indicators suggest we are at the peak and can expect only marginal improvements going forward. However, the positive trend has continued on the primary labour market while the number of fostered workers (who are working in state-financed, low skilled jobs

for less than the minimum wage) decreased to a multi-year low of 120k. For reference, the number of unemployed people is at a record low 166k.

Labour market trends (%)



Source: HCSO, ING

Looking forward, due to the significant decrease in the potential labour reserve, we see hardly any significant improvement in 2019. According to the latest report by the Hungarian Central Statistical Office, the labour reserve dropped by 50k from a year ago to 310k (out of which 10% is underemployed, so they've already been counted in the participation rate). Against this backdrop, we see the unemployment rate stabilising around 3.6%, as long as economic policy fails to address the geographical and skills mismatch between supply and demand in the labour market. A positive result of the tight labour market is that the continued labour shortage will push companies to increase their capital expenditures, thus enhancing productivity, while they offer higher wages to keep or hire labour.

Author

Peter Virovacz

Senior 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 <http://www.ing.com>.