

Hungary: The 'legacy' wage growth continues

After an extreme increase in June, wage growth dipped back to 'normal' levels in July - that's if you call a double-digit salary increase 'normal' in the middle of a crisis



Source: Shutterstock

10.8%

Gross average wages (YoY)

Previous 15.6% / Consensus 14.1%

Worse than expected

Both gross and net wages rose by 10.8% year-on-year in July 2020, a significant deceleration from the 15.6% YoY wage increase in the previous month. That extraordinary wage increase was largely related to a one-time extraordinary allowance of HUF 500,000 allocated to healthcare workers, so the slowdown was well anticipated. The July wage growth is much closer to the underlying dynamics shown by regular wages. The data adjusted for one-off payments and bonuses, so regular gross earnings, shows an increase of 10% YoY in July.

It is still strong especially amidst a significant crisis which is making strong waves through the labour market. However, a large part of this wage growth is just a legacy or carry-over from the beginning of the year. The government increased minimum wages by 8% in January. Companies faced a labour shortage as the economy was booming last year, and the outlook was bright. Then Covid happened and companies were stuck with their decisions.

But back to the July data. The slowdown is mainly due to the one-off effect in June. That said, the labour market did start to strengthen in July, with the unemployment rate decreasing and employment increasing. Since the May nadir, most jobs created have been in the low-wage sectors, so the composition effect is also affecting the average wage data.

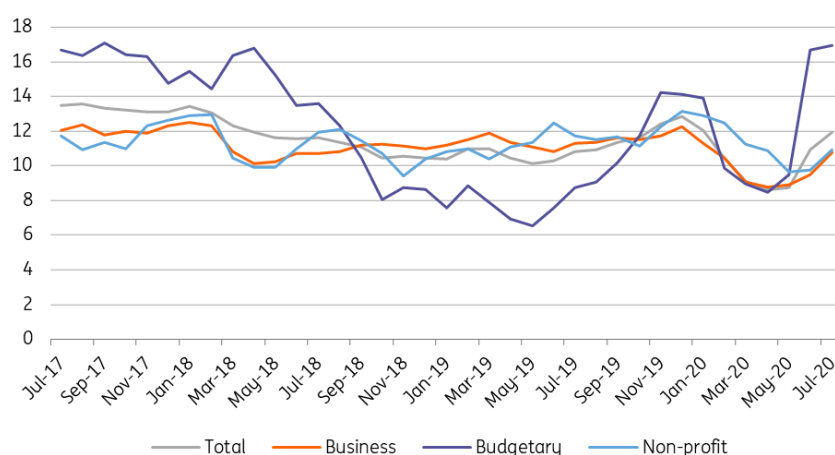
Job openings affect mainly below-average earners



Source: HCSO, ING

Against this backdrop, wages decreased in the accommodation sector, while in the majority of private sectors we saw an acceleration in wage growth. The 11.5% YoY wage increase on average in the business sector in July has been the highest this year. Wages have risen significantly especially in agriculture (seasonal jobs) and construction. In the public sector, wages increased by 10.4% on a yearly basis, which contains a new 10% wage increase from July in education.

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



Source: HCSO, ING

Looking forward, the near-double-digit growth may persist until the end of the summer due to labour market programmes. The 10% wage increase seen in the first seven months of 2020 could be sustained in the remainder of the year. But as the second-round effects of the first wave of Covid-19 are seen and a second wave spills over to the real economy, wages will be first in line to absorb the shock. So, after (near) double-digit wage growth in 2020, next year's wage growth could be much weaker.

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