Hungary: Unemployment at record low

Hungary's unemployment rate has room to improve further but the pace is likely to slow

Source: Shutterstock

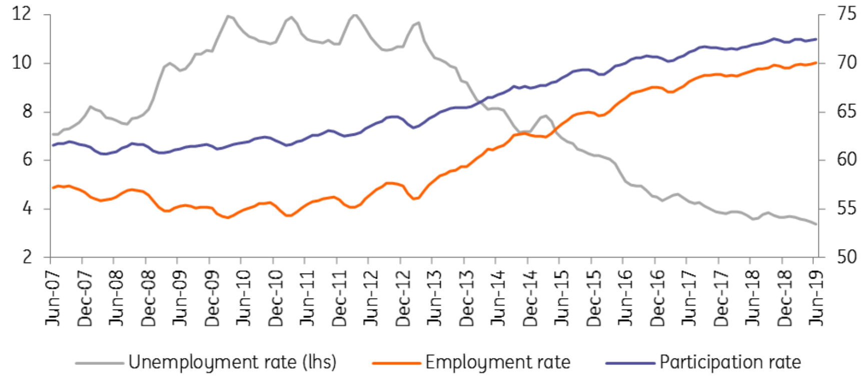
3.4%

Unemplyoment rate

15-64 age group

The unemployment rate of the 15–64 age group came in at 3.4% at the end of 1H19, showing a 0.2 percentage point decline in 12 months. While this marks a new record low level, the improvement is marginal. The better-than-expected reading is due to falling unemployment among women while joblessness among men stagnated. This suggests that the potential labour reserve is clearly depleting and even a marginal improvement will be really challenging. Moreover, if we add the expected domestic and global slowdown into the picture, the labour market might stop showing any improvement at all quite soon.

Labour market trends (%)



Source: HCSO, ING

The structure of the labour market also supports our view that the continued improvement will stop sooner rather than later. The number of workers on the primary labour market increased further by 84.5k year-on-year. This is a good number but still significantly lower than that registered in previous years. The number of fostered workers (who are working in state-financed, low skilled jobs for less than the minimum wage) dropped to 108.7k, another sign of a depleting potential labour reserve. Moreover, among the 155k unemployed, almost 36% has been trying to find a job for more than a year, meaning that there is a glaring structural mismatch in the labour market.

> Looking forward, we do not see any structural improvement in the labour market in the remainder of the year, meaning that the unemployment rate will likely hover around recent levels. We could see some seasonality-related improvements, but trend-wise we see a stabilisation before a slowdown in economic activity takes its toll on the labour market. In the short term, the mismatch between skills and regionals remains an effective barrier while in the longer run, demand for labour will become the main obstacle for further improvement. However, as long as the mismatch remains the main issue, we see a strong push for wage growth and increased capital expenditure in the business sector.

Author

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