Hungary: Wages strong, but savings will fuel consumption

Wage growth slowed somewhat in March but remains quite strong. However, consumption will be fuelled by savings accumulated during the lockdown

Workers on an assembly line at an Audi factory in Hungary

8.7% Wage growth (YoY)

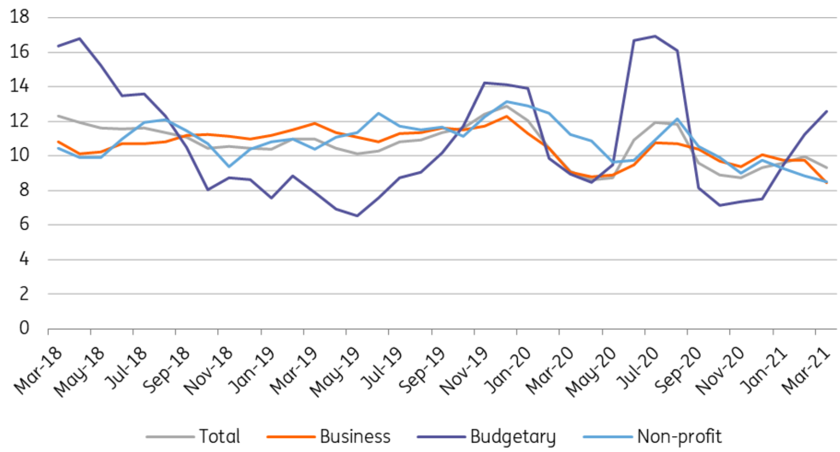
ING forecast 9.6% / Previous 9.8%

Lower than expected

Yesterday we saw the unemployment rate increasing in Hungry mainly due to a delayed reaction from the third Covid wave in labour market statistics. March wages data also showed some weakening, but it is far from being serious. Gross and net wages increased by 8.7% year-on-year on average, a tad below the market consensus. This shows a deceleration compared to previous months' figures. This slowdown stems from regular wage growth, as we saw this decelerating too.

The overall strong wage growth is still being fuelled by ongoing public sector wage settlements. Due to planned wage hikes in certain sectors of government – including pay raises for doctors, judges, prosecutors, and employees of nurseries – the growth of average wages in the budgetary sector (11% YoY) exceeded that of the national economy in March.

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



Source: HCSO, ING

In the private sector, wages increased by 8% year-on-year on average, which also reflects a deceleration. This strong growth in earnings is quite surprising considering the economic situation of the past year and the fact that the minimum wage increased by just 4% in 2021. There are green shoots in the private sector which are pushing up the average: construction, information, communication and real estate sectors top the wage growth list. This is hardly surprising given certain adjustments brought on by the pandemic and the infrastructure and housing market support from the government.

Looking forward, we still expect a softening in the average wage growth in the short run. This will be driven by the composition effect. With the reopening of the economy, labour demand will increase in low earning sectors such as tourism, hospitality, arts and recreation. This will drag down the national average of wages. On the other hand, wage settlements in the public sector will continue and eventually pick up in the second half of the year. All things considered, wage growth might be around 9% on average in 2021.

> Despite the still-strong wage growth, we think that savings will be the main factor behind the rebound in economic activity in the coming months. As the economy has reopened, households will be able (and willing) to use their savings accumulated during the lockdown. Against this backdrop, the dynamics of this pent-up demand will be defined by the unspent income in the last year, not by the current wage increase.

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