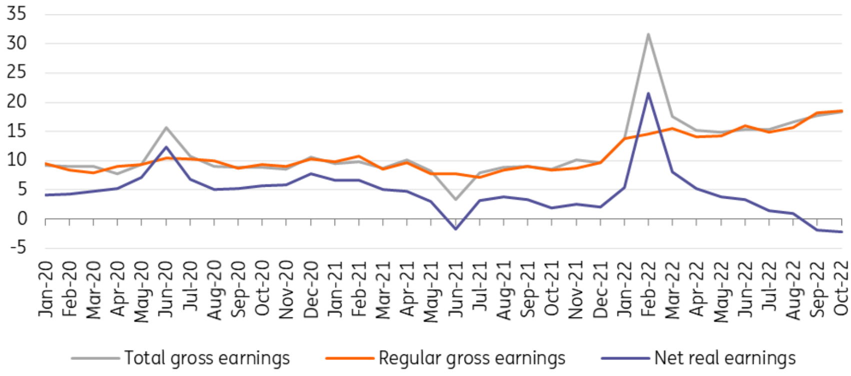
Hungary's labour market holds up well; bad news for inflation

The labour market has shown signs of weakening since the summer. But this deterioration is too slow to result in a strong and sudden anti-inflationary shock

The biggest market in Budapest

The Hungarian Central Statistical Office (HCSO) released the latest set of labour market data (wages and unemployment rate) in early January. Wage growth from October suggests that employers are adapting to the strong inflation environment, giving unscheduled, additional wage increases to keep labour in place. In parallel, unemployment statistics reflect that there are still more sectors facing labour shortages than sectors suffering from cost pressures.

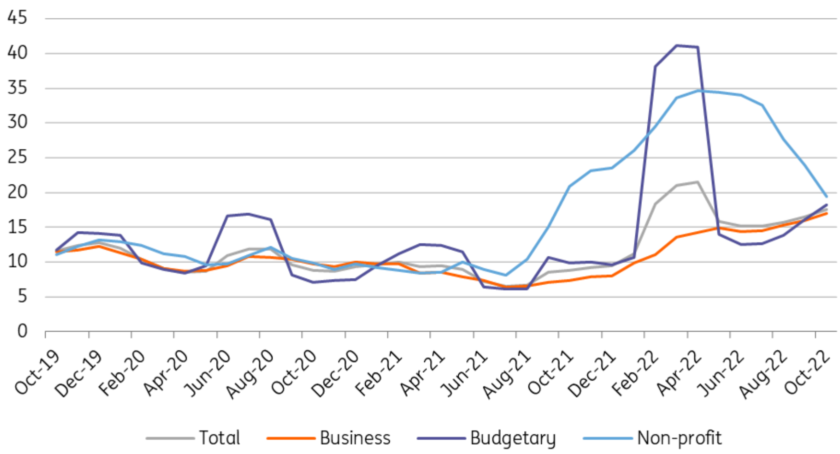
Nominal and real wage growth (% YoY)



Source: HCSO, ING

Gross average wages increased by 18.4% year-on-year in October 2022. If we remove the impact of one-off payments and bonuses, we see roughly similar underlying wage growth (18.5% YoY). This suggests that recent inflation-related wage adjustments are built into base salaries. However, despite the strong underlying wage increase, surging inflation is erasing more and more from the nominal rise. Real wages fell by 2.2% on a yearly basis in October due to the more than 20% headline inflation. With the expected move higher in inflation (possibly peaking only in March 2023), real wage growth could turn into deep negative territory, dragging down consumption during late 2022 and the first half of 2023.

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

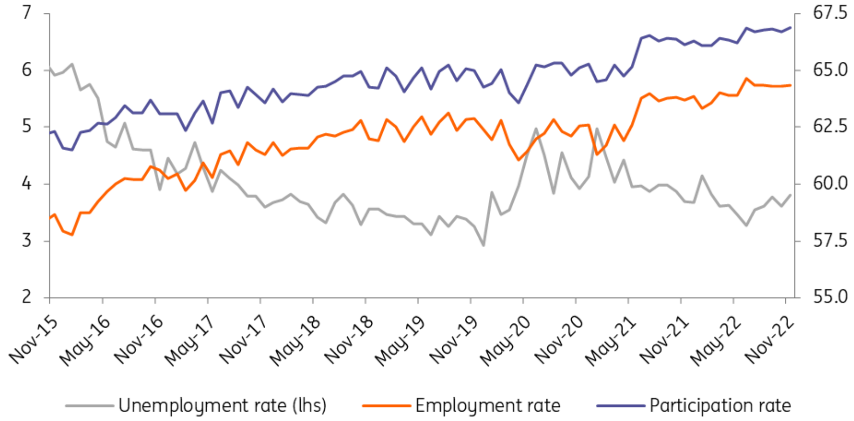


Source: HCSO, ING

Wage growth in the private sector came in at 18.2% year-on-year, significantly higher than the year-to-date average. Salaries rose by 18.6% in the public sector over a year. In this regard, there is a general sense of wage increase, though the private sector wage growth can be seen as remarkable, considering all the cost-related pressures here. This explains a lot about the health of the Hungarian labour market during a cost-of-living crisis.

Employment data points to a steady labour market. The employment rate has been pretty much unchanged for five months now. The November unemployment rate came in at 3.8%, alternating between this and 3.6% for four months now. Though this is significantly higher than the 3.3% nadir in June, it is hard to say that this is an earth-shattering or ground-breaking change. The labour market is weakening only in incremental steps.

Labour market trends (%)

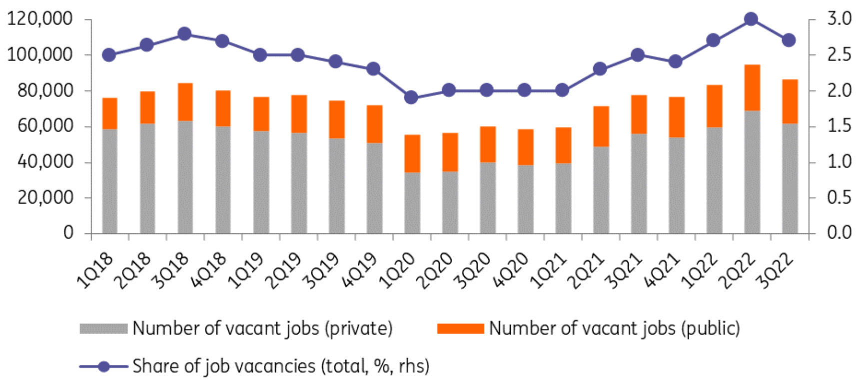


Source: HCSO, ING

Reading through the details, we can see that fluctuations in the labour market have increased in recent months. This may partly be the result of a bifurcated economy. While certain sectors (e.g. services) are reacting to the constantly changing economic environment with layoffs, other sectors (e.g. manufacturing) are able to partially absorb these workers. While the energy shock is impacting service providers more, the high level of new orders and the capacity expansions are keeping labour needs alive in manufacturing.

It is also interesting that the number of participants in the labour market increased in November on a monthly basis. This did not lead to an increase in employment but rather increased the number of unemployed. We conclude from this that due to the intensified pressure on household budgets, more and more people are becoming active job seekers, increasing the statistical number of unemployed.

Number of job vacancies and job vacancy rate



Source: HCSO, ING

Despite the recent resiliency, if employers realise that difficulties are mounting (still high costs accompanied by lower demand for their products and services), more companies will be forced to start an extensive labour market adjustment. To put it more simply, they will try to save on costs by downsizing and thus will try to maintain their profitability despite the expected decrease in revenues. Accordingly, we expect the unemployment rate to rise further, and to peak around 4.5% during mid-2023. However, this hardly qualifies as a significant labour market adjustment or deterioration. The Hungarian labour market will remain tight and labour shortages will be there in some parts of the economy, thus we can't see the job sector providing a sizable anti-inflationary shock in a 20%+ inflation environment.

Author

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

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