

## Hungary's real wage growth still stuck in 12-month slump

Nominal wage growth was strong in August, but it wasn't enough to end the negative streak in real wages. Next month will bring a turnaround, but we are unlikely to see statistical data change the mindset of consumers



We do expect real wage growth to turn positive but at the same time, this won't be a major catalyst for economic activity

# 15.2%

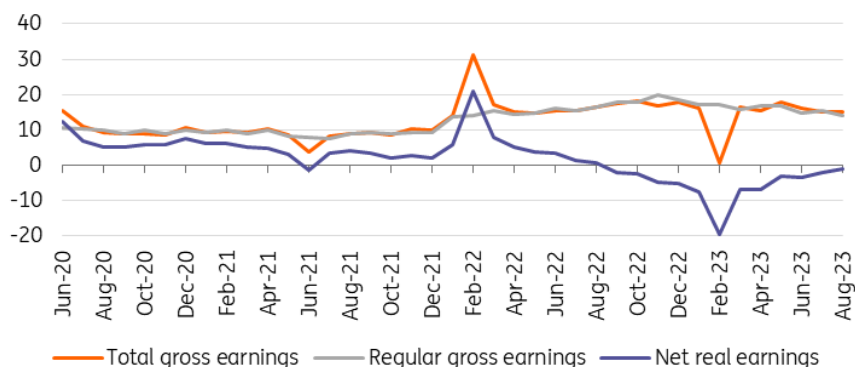
## Gross earnings growth

ING Forecast 15.3% / Previous 15.2%

Better than expected

According to the Hungarian Central Statistical Office (HCSO), wage growth remained robust in August. Average gross wages rose by 15.2% year-on-year, the same as in July. The incoming data was broadly in line with our own view, but a little higher than the market consensus. The underlying story is a little less rosy, however, as regular gross earnings (which exclude bonuses and one-off payments) rose 14.1% YoY, slowing from the previous month.

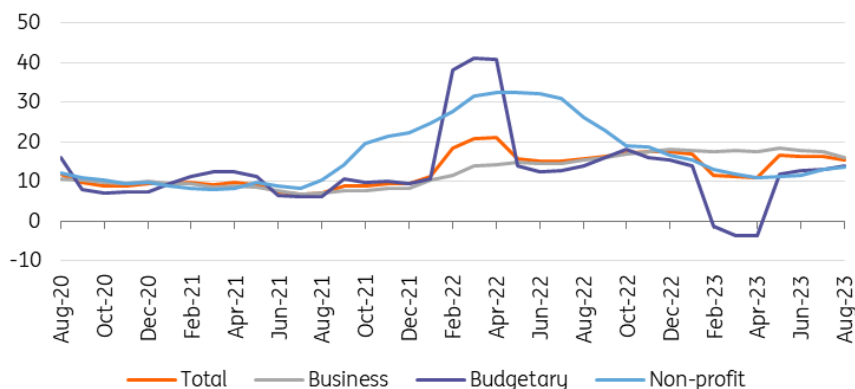
## Nominal and real wage growth (% YoY)



Source: HCSO, ING

This time we can't blame the composition effect for the difference between the growth rate of the full wage and the regular wage. The number of people in employment fell slightly compared with the previous month, but the sectoral structure showed only incremental, and therefore negligible, differences. As a result, wage growth remained more or less unchanged between July and August in both the public and private sectors and in the non-profit sector of the economy.

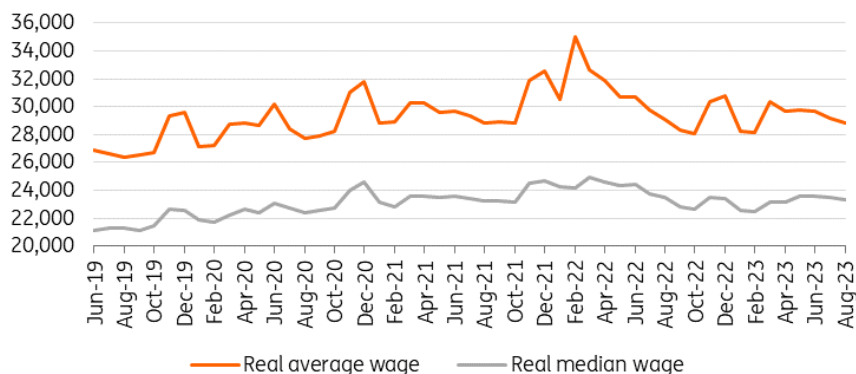
## Wage dynamics (three-month moving average, % YoY)



Source: HCSO, ING

While the median wage increased by 15.6% on a yearly basis, the nominal level remained unchanged at HUF 450,000 for the third month in a row. The picture is also clouded by the fact that real wage growth has been negative for 12 consecutive months, although it has improved recently. This is the result of an ongoing disinflation process, while wage growth has remained quite strong. However, this phenomenon gives little comfort when we look at the level of average and median real wages. The slump in inflation-adjusted wage levels explains why we haven't seen an improvement in retail sales or consumption.

## The level of average and median real wages (1990 CPI adjusted HUF)



Source: HCSO, ING

We used a price index with a base year of 1990 to calculate real wages.

Inflation slowed further in September to 12.2% YoY, and we expect wage growth to remain at around 15-16% YoY. As a result, we expect real wage growth to turn positive. However, we do not believe that this increase in household purchasing power will be a major catalyst for economic activity. First of all, although consumer confidence has improved since the beginning of 2023, it is still at a level seen around 2013. In this respect, even if consumers hear in the news that "real earnings have risen again on an annual basis" - i.e. that inflation has risen at a slower annual rate than wages - this news is not going to make people rush to the shops and start spending. A statistic in itself won't change households' attitudes or perceptions about their financial situation and living standards.

This is all the more true as the price-adjusted average and median wages are still hovering around their 2021 levels. Put simply, the extreme inflationary environment has led to a three-year setback in consumer purchasing power. Against this backdrop, the recovery in purchasing power and consumption will be slow and gradual, in our view.

### Author

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

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