Hungary's unemployment rate hits highest level since mid-2020

The unemployment rate continued to edge higher and now sits at the highest level since mid-2020. Tightness in the labour market has therefore continued to ease, with a reversal of the recent trend only expected in the second half of this year

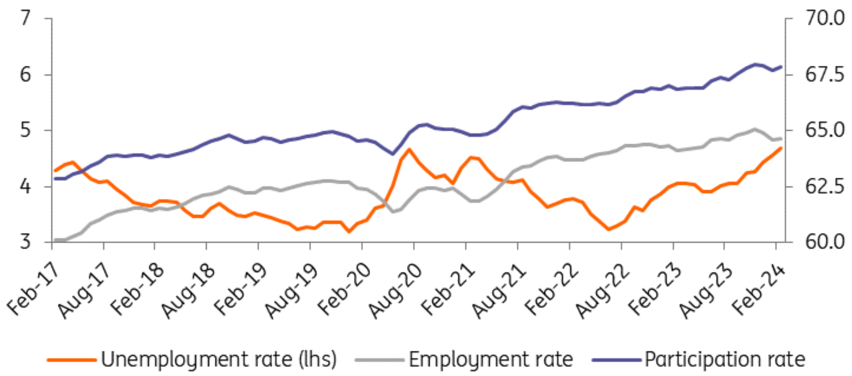
4.7% Unemployment rate (Dec-Feb)

ING Forecast 4.7% / Previous 4.6%

According to the latest unemployment statistics from the Hungarian Central Statistical Office (HCSO), the negative momentum in the Hungarian labour market has continued, with the model estimate for February 2024 showing a further deterioration in the unemployment rate (4.6%). Meanwhile, the official statistics used for international comparison, the three-month moving average, rose to 4.7%. The last time the unemployment rate was this high was in mid-2020. In terms of the number of unemployed, both statistics show an increase, with the number of unemployed rising to almost 230,000. This represents an increase of 48%, or 75,000 people, on the record low seen in the spring of 2022. Thus, since that peak in labour market strength, there have been two waves of slow, gradual deterioration in the labour market situation.

The only bright spot in the latest labour market statistics is that the rise in the unemployment rate in February was for the 'right' reason. In practice, this means that some of the labour force moved from inactive (non-participant) status to active job-seeking status. Accordingly, the activity rate rose by 0.1 percentage points to 67.8% in the December-February period, again close to the record level. The number of people in employment also increased slightly, meaning that a small proportion of those returning from inactivity were able to find a job.

Historical trends in the Hungarian labour market (%, 3-m moving average)



Source: HCSO, ING

However, at the peak of labour market tightness, we saw that in a similar situation (so during an increase in the number of labour market participants), they were able to enter the workforce base with virtually no problems, as they returned to employment rather than to the status of job seekers. The structural change now underway also suggests that labour market tightness is easing further, with firms' demand for labour gradually decreasing. Moreover, the share of new unemployed remains high, i.e. those who lose their job today are less likely to find a job within three months.

It is important to note that the changes observed in the latest labour market data are in many cases within the statistical margin of error. Against this backdrop, we think it is worth waiting to see whether the slight improvement in activity and employment rates will become permanent or whether it is only a temporary, one-off change.

Looking ahead, we expect a further slow erosion of the domestic labour market in the coming months. The majority of companies will continue to insist on retaining staff, but there is a clear upward trend in the number of companies that are forced to rationalise and eventually reduce staff numbers due to falling (mainly external) demand. This is not a domestic phenomenon, but a global one. It therefore appears that the slowdown in economic output growth has been somewhat slower than usual to feed through to the real economy, but has finally arrived.

The second half of the year may bring some stabilisation, and perhaps even the beginning of an improvement, in Hungarian labour market data. This is suggested by the latest confidence indices, which show an improving trend in most sectors. However, as we can see, the labour market typically follows changes in the real economy with a considerable lag. In other words, the improved economic performance expected for the first half of this year will probably not be reflected in companies' labour market decisions until the second half of the year. As a result, we expect employment and unemployment data to deteriorate slightly until the middle of the year, before improving in the second half. For the year as a whole, the unemployment rate should therefore be around 4.5%.

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