# Labour hoarding persists in Hungary

September brought a tiny weakening in official labour market statistics. However, the changes have been so gradual that the unemployment rate has remained unchanged and is still stubbornly low despite Hungary's economic difficulties

4.1%

Unemployment rate (Jul-Sep)

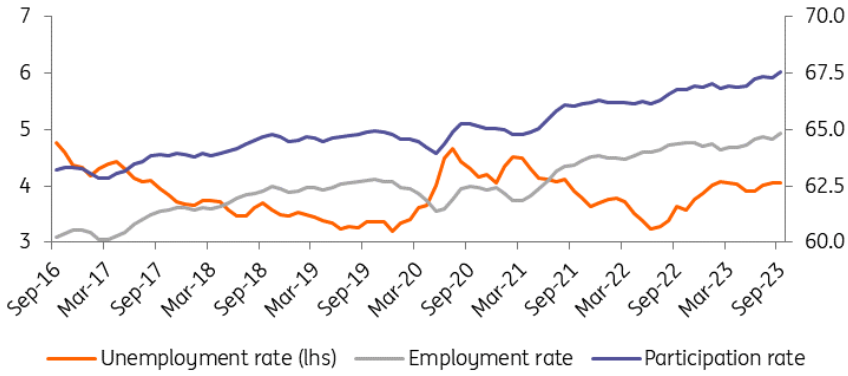
ING Forecast 4.0% / Previous 4.1%

## Unemployment rate remains stubbornly low

According to the latest unemployment statistics from the Hungarian Central Statistical Office (HCSO), only a minimal change was seen in Hungary's labour market in September. The model estimate for the ninth month of the year showed a slight improvement (3.9%) in the unemployment rate. Meanwhile, the official three-month moving average of the unemployment rate (based on the survey) remained unchanged at 4.1%. Against this backdrop, the number of those unemployed is estimated to be between 190,000 and 200,000.

Unemployment rates are still significantly higher than a year ago. However, given that the overall performance of the Hungarian economy remains weak – even if the underlying expectation is that the third-quarter GDP data will show that the period of technical recession is likely to have ended – the latest series of labour market data can be considered very positive overall.

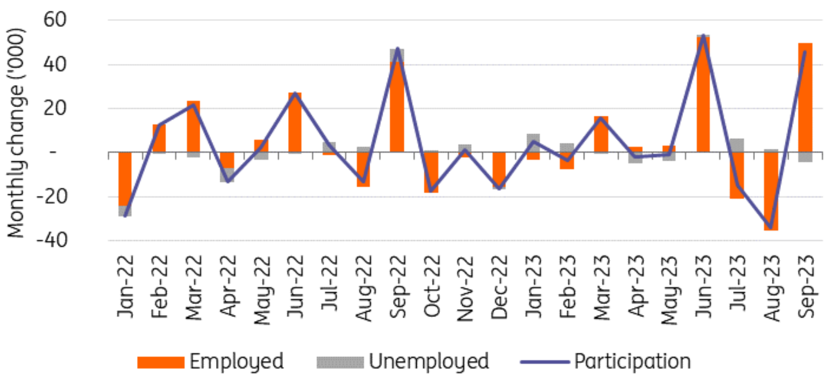
## Historical trends in the Hungarian labour market (%, 3-m moving average)




Source: HCSO, ING

Looking at the monthly data, perhaps the most important change is that the number of non-participants fell sharply by around 47,000, while the number of employed persons rose by 45,500. At the same time, those entering the labour market found jobs straight away, with the number of people in employment rising by almost 50,000 in one month and the number of those unemployed falling slightly by almost 4,000. This suggests that seasonal and technical effects may be the main drivers behind the changes. We find it hard to believe that such a large labour market spill-over has taken place in one month – all the more so given that the labour market data for September are in line with those for June and July. It is therefore likely that the weakening of the labour market in August can be seen as an anomaly.

## The monthly changes in the main labour market statistics




Source: HCSO, ING

On this basis, we do not consider the slight change in the labour market indicators to contain any meaningful extra information. Overall, our picture of the Hungarian labour market has not changed – it remains close to full employment and we still see persistent labour shortages.

## We don't see major changes in the strength of the labour market ahead

We expect similar volatility in the unemployment rate in the coming months, without any structural change. Companies will continue to insist on retaining staff or even hoarding, having learned from the shocks of recent years that it is quite difficult to expand the workforce in a recovery period in an economy with a general shortage of labour. The Hungarian economy is also on the verge of recovery – that is, if disinflation continues to target and EU funds are available soon to draw down to support economic performance.

We continue to see inflation as the biggest risk to the labour market. The backwards-looking inflation expectations based on the recent history of inflation and the government's desire to achieve positive real wages could push companies towards higher wage increases. The question is whether employers will be able to absorb these wage increases in the face of external inflationary shocks without further price increases.

Our calculations suggest that companies will need to increase labour productivity by 2-3% to avoid a price-wage spiral, based on the roughly 10% wage increase forecasted in 2024. Encouragingly, the repricing of energy contracts at the end of this year promises cost reductions, which may give companies more room to raise wages without profit margin pressure. In addition, the declining but still high interest rate environment may also encourage more efficient investment. If consumption does not explode even if inflation falls sharply (and we see only a slow recovery), a gradual increase in domestic demand is also likely to prevent a renewed rapid rise in prices. The risk of a wage-price spiral therefore remains alive given the tight labour market, but we see a good chance of avoiding it for the time being.

### Author

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