Labour hoarding keeps wage growth high in Hungary

Hungary's average wage growth slowed in August, primarily due to a deceleration in the public sector. However, the tight labour market and labour hoarding continue to sustain high wage dynamics

13.1% Average wage growth (YoY, August)

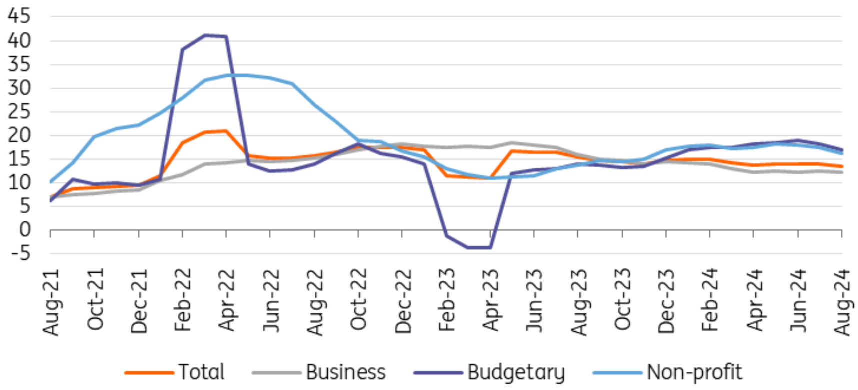
ING Forecast 13.6% / Previous 13.9%

According to the latest data from the Hungarian Central Statistical Office (HCSO), the annual growth rate of average wages remained above 13% in August 2024. Although this is a slight downside surprise compared to the market consensus, there have been positive and negative surprises in previous months, suggesting it is likely due to general volatility.

Today's data point is in line with the longer-term trend of a slow but steady moderation in the pace of wage growth since the beginning of the year. Indeed, August's wage dynamic has been the lowest so far this year. However, the fact that it is still above 13% year-on-year is still very high compared with expectations at the beginning of the year (that salary growth would be well into single digits by the second half of the year).

The reason wage dynamics remain so high is because the labour market is getting tighter. The unemployment rate is falling, and recent surveys show that job vacancies have started to rise again. While this seems somewhat at odds with recent economic performance indicators, the phenomenon of labour hoarding may provide an explanation here.

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



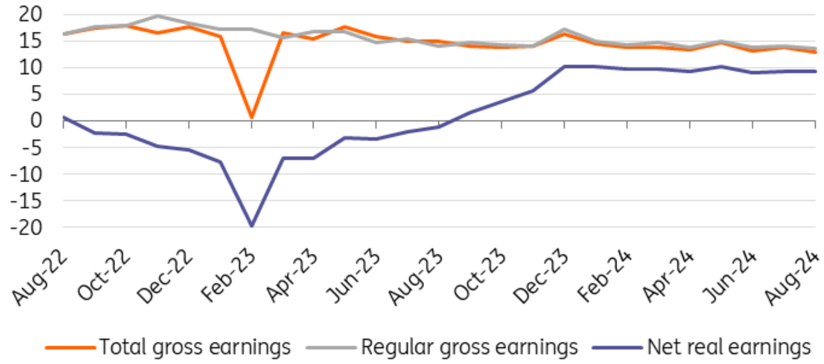
Source: HCSO, ING

Looking at the August data in more detail, the slowdown in average wage growth was mainly due to wage developments in the public sector. Here, the pace of wage growth slowed to 14.4% YoY from 17.5% YoY in the previous month. The effects of the larger wage adjustment in the public administration sector a year earlier are now being felt. So base effects are playing a role here.

In the non-profit sector, wage dynamics remained unchanged compared to the previous reading, while in the corporate sector there was only a slight slowdown. Average wages in this sector rose by 12.5% on an annual basis in August, while median wages increased at a slower pace.

Looking at individual sectors, wage growth accelerated in agriculture as seasonal work picked up but slowed in construction and manufacturing. Notably, industrial employment fell below 800,000 for the first time since April 2021, meaning that the sector continues to shed jobs and firms are eager to lay off higher-earning workers.

Nominal and real wage growth (% YoY)

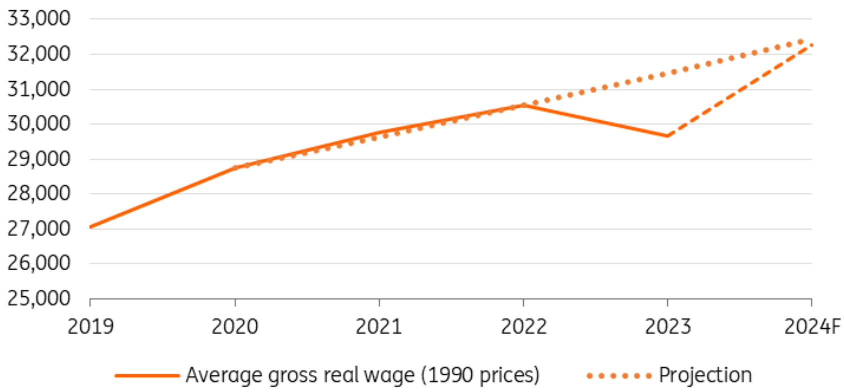


Source: HCSO, ING

The gap between the national level average wage and the median wage has continued to narrow, which may be partly due to the increase in the minimum wage and the retreat of the shadow economy. In addition, growth in regular earnings has been somewhat more dynamic than data with bonuses, so (at least partially) the development of one-off payments is likely behind the slowdown in wage growth in some areas of the private sector. The growth rate of real earnings remained unchanged at 9.4% YoY in August, which is quite high. As much as the high wage dynamics in the real economy can bring about positive changes, it also points to risks.

Based on the data, we believe that wage growth in the corporate sector could remain well above 10% for the rest of the year and even above 13% for the economy as a whole, taking into account changes in the public and non-profit sectors. This, together with a gradual unwinding of households' caution and stronger consumption, could increase firms' pricing power and willingness to reprice. However, this is essentially a reflection of inflation risks next year rather than this year.

The level of average gross real wage (1990 CPI adjusted HUF)



We expect average wage growth of around 13% this year and average inflation of 3.8% in 2024. For the year as a whole, real wage growth could therefore be close to 9%. While this looks very strong, it would only mean that, on top of last year's fall in real wages, the purchasing power of average wages would be just under 6% higher than the real wage level in 2022. In other words, we would still prefer to characterise this year's developments as wage catch-up in light of the sharp fall in 2023.

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