

Hungary's labour market remains tight

The latest labour market data did not change the bigger picture for Hungary, with only marginal changes seen in the major statistics. Seasonal employment could help the labour market in the coming months, but this contrasts with the weak economic performance of industry



Workers at the the Budapest-Belgrade railway in Kiskunhalas, Hungary

4.6%

Unemployment rate (Aug-Oct)

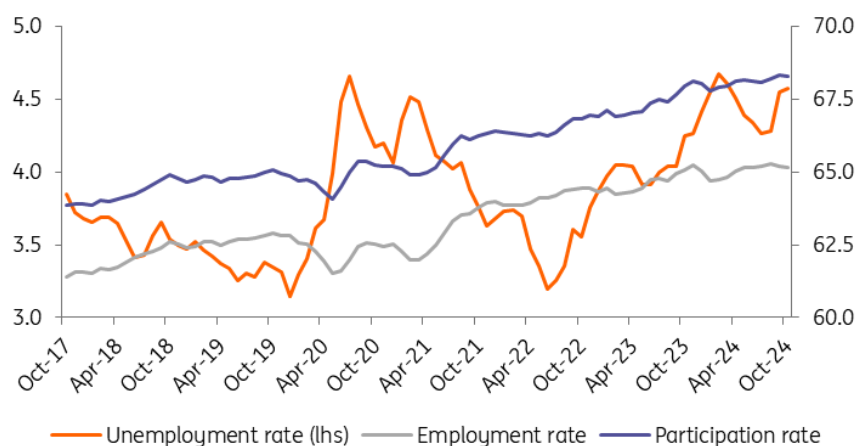
ING Forecast 4.6% / Previous 4.6%

According to the latest labour market statistics from the Hungarian Central Statistical Office, there has been no significant change in the big picture for Hungary. The model estimate showed a stagnant unemployment rate of 4.5% in October 2024. Meanwhile, the official three-month moving average survey rate remained unchanged at 4.6%. The data is broadly in line with our expectations. As for the unemployment number, the two statistics put the size of the group at around 220,000-225,000.

The detailed data shows that, in October, the number of persons in employment fell minimally and

within the margin of error, while at the same time the number of inactive persons fell slightly. The latter is likely to be due to population decline and retirement. This is supported by the fact that, in addition to the decline in inactivity, all other indicators – i.e., the number of those unemployed, the number of those employed and the number of persons in employment – also fell in comparison with the previous month.

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



Source: HCSO, ING

The picture is only slightly more interesting for the three-month moving average. The decrease of 4,500 in the number of persons in employment can be explained partly by the population decrease (-2,600) and partly by the return to inactivity (+1,900). Meanwhile, the number of people in employment fell by 5,500, about a fifth of which showed up as an increase in the unemployment figure. All of this suggests that it was mainly the disappearance of seasonal work that was responsible for the slight fall in employment. There is no sign of any serious structural change in the labour market. Against this background, we maintain our view that the labour market is tight, which has a significant impact on wage decisions.

That process could be reinforced by new production capacity, which will encourage firms to retain labour. Despite the fact that the business outlook has once again turned gloomy (judging by the latest confidence indicators), some firms are therefore holding on to their workforces. Almost 20% of the companies surveyed are holding on to staff beyond their planned future capacity, creating a kind of 'hidden' unemployment. However, it is precisely because of the tight labour market, rising wages and the increasing time and cost of recruiting that firms tend to ride out the tougher months by holding on to staff. The question is how much buffer companies have if the weakness of the Hungarian economy is prolonged or if the economic situation deteriorates further.

In the coming months, the labour market will be shaped by two forces. On the one hand, seasonal employment may increase in the remaining winter months, which could contribute to a gradual improvement in the unemployment rate. A pick-up in the construction sector (suggested by improving order books) and continued growth in services sector could help improving the labour market outlook too. However, these contrast with the weak performance of industry, where there is increasing talk of a rationalisation of working hours due to a fall in orders, scaling back of

planned capacity expansions or even lay-offs. All in all, only a slight improvement can be expected in the coming months. By the end of the year, the unemployment rate could be close to 4.3%.

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