Labour shortages drive wages higher in Hungary

Wage growth continues to accelerate, driven by sectors that are experiencing labour shortages and strong demand

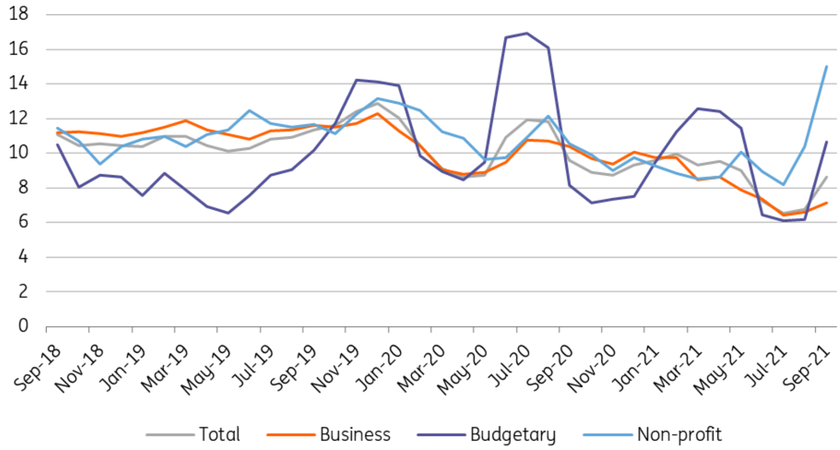
9.1%

Gross nominal wage growth (YoY)

ING forecast 9.1% / Previous 8.9%

Hungarian wages accelerated further in September, with both gross and net nominal wages rising by 9.1% year-on-year. The structure of wage growth has become somewhat more balanced than before. Wage growth rates in the public and private sectors have converged. Salaries rose by 9.4% YoY in the public sector, mainly driven by wage settlements, though the rate has slowed. In contrast, wage growth in the private sector picked up significantly to 8.0% YoY. So the increase in average wage growth in September is clearly due to the changes in the private sector.

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



Source: HCSO, ING

Wage growth in the smaller sectors, for example in mining and construction, was above average while growth was weaker in sectors with a large number of employees (e.g. manufacturing). When it comes to the services sector, the information-communication and real estate sectors have seen outsized wage growth, though this is hardly a surprise. At the same time, after a long time, wage growth in the accommodation and hospitality sectors came in above the national average, reaching a rate of almost 10% YoY in September. This shows that the sectors with the strongest wage growth are those that are experiencing labour shortages and strong demand.

During the fourth quarter, we see wage growth remaining elevated, perhaps showing some further acceleration, mainly due to labour shortages. But what's more interesting is how wage growth will be shaped by the 20% increase in minimum wages next year (both for skilled and unskilled labour). Despite the government giving some tax cuts in parallel (e.g. 4ppt payroll tax cut), we see the cost pressures as more complex. Businesses will face higher costs from transportation, energy and input prices in addition to the minimum wage increases.

Therefore, we continue to see a serious risk of extraordinary price increases both for products and services at the beginning of 2022. Of course, this won't affect this year's average inflation which we see at 5.0% YoY but does provide significant upside risk to next year's inflation. We see the 2022 average CPI at 4.8% YoY with major upside risks. In this respect, we can't rule out that inflation will eat up a much larger part of the high nominal wage growth than is expected now and could be even higher than this year's average.

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