# Unemployment rate drops further than expected in Hungary

Recent labour market data shows that demographic decline and voluntary exits are key factors to watch out for. Meanwhile, gloomy macroeconomic conditions are leading to redundancies and reduced employee bargaining power, potentially limiting future wage growth


A bleak outlook is prompting companies to consider downsizing in Hungary

**4.3%** Unemployment rate (March-May)

Previous 4.4%

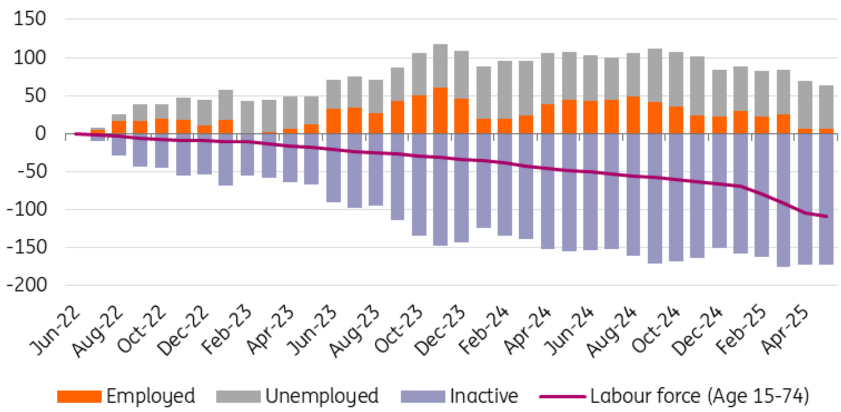
The latest labour market statistics from the Hungarian Central Statistical Office suggest that the situation is more positive than expected as of May. The model estimate shows that the unemployment rate declined to 4.3%, rather than stagnating as anticipated. Meanwhile, the official three-month moving average survey rate moved in a similar direction by a similar 0.1ppt. This indicator therefore stands at 4.3% for the March-May period. In terms of the number of those unemployed, the two statistics suggest that this group comprises around 210-212,000 people.

However, recent improvements merely mask the fact that the labour market is, in many respects, at a multi-year low.

A closer look at the monthly data reveals that the working-age population (people aged 15-74) has continued to shrink. Half of the 5,000-person decline occurred within the labour force, while the other half occurred among inactive individuals. So while the number of unemployed people fell by 5,000, approximately half of this decline is attributable to demographic trends, with employment rising by only 3,000. This represents a slight improvement following the fall in employment of around 35,000 seen in the previous month.

Examining the three-month averages, i.e., the official statistics, reveals that the change in employment was minimal and remains close to the lowest level seen in two years. While the number of unemployed people has fallen to a one-year low, the number of those in the labour force has fallen further to a two-year low, according to the latest data.

## Changes in the labour market since mid-2022 ('000, 3-m moving avg)

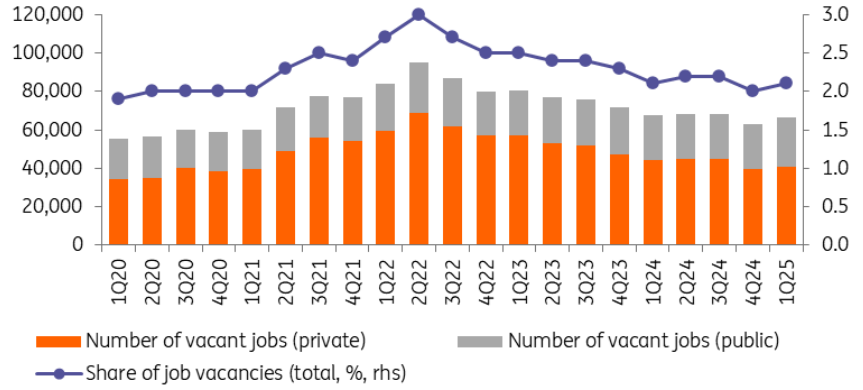



Source: HCSO, ING

Supply constraints are becoming increasingly effective in the Hungarian labour market. The combination of the demographic decline and people voluntarily leaving the labour market is still keeping the market tight. At the same time, however, demand can no longer be described as buoyant. In fact, the latest news suggests that downsizing is ongoing; consider the recent example of Dunai Vasmű (which was once the country's largest metallurgical and mechanical engineering company).

In turn, the Hungarian economy's stagnation since mid-2022 is slowly but surely starting to affect the labour market. Various confidence indices and company surveys increasingly indicate that companies are not planning to expand, but rather to downsize. The growth outlook is bleak, and the ongoing lack of demand is prompting even those who have been hoarding labour to make redundancies. Furthermore, due to geopolitical and tariff uncertainties, CATL has officially announced that the second phase of its investment in Debrecen will not proceed. Consequently, only a third of the originally announced production capacity will be realised.

## Number of job vacancies and the job vacancies rate in Hungary




Source: HCSO, ING

Overall, these trends suggest that labour market tensions are easing, and that should be the case both now and in the future. However, this is weakening workers' bargaining power. The most obvious manifestation of this is the predicted decline in future wage growth rates. While recent wage statistics have revealed some positive surprises, particularly in the corporate sector, the coming months will show whether this was an anomaly in an overall downward trend or whether we need to reconsider the wage bargaining process. In light of the recent data, we do not change our labour market forecast. This suggests that the unemployment rate could remain at around 4.4-4.5% for the rest of the year, although the risks clearly point towards further labour market weakness.

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