

Real wage growth in Hungary remains elevated

Wage growth accelerated again in July as wage outflows in the corporate sector increased. We still see latent inflation risks stemming from the tight labour market and strong real wage growth, but this is more of a story for 2025



City commuters in Budapest, Hungary

13.9%

Average wage growth (July)

ING Forecast 13.0% / Previous 13.3%

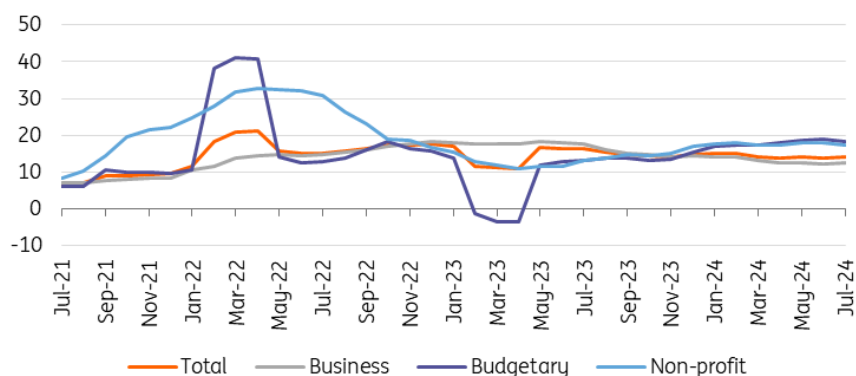
Better than expected

In contrast with June's release of the Hungarian Central Statistical Office (HCSO), which came as a negative surprise, July's wage data provided a positive surprise. On an annual basis, average wages rose by 13.9%, well above the market consensus. It therefore appears that there is still no significant slowdown in wage dynamics, as the latest figure is in line with the average seen in the first half of this year. So far, there are no signs of the expected slowdown in the second half of the

year and the pace of earnings growth remains well above expectations at the start of the year.

The reason that wage dynamics are likely to remain so high is that the tightness of the domestic labour market is not easing, and instead is becoming increasingly severe. The unemployment rate is falling and recent surveys show that the number of job vacancies has started to rise again. At first glance, this seems somewhat at odds with economic performance indicators. However, the phenomenon of labour hoarding and the increasing proportion of the population spending their income in foreign online shops or shopping abroad could explain this.

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



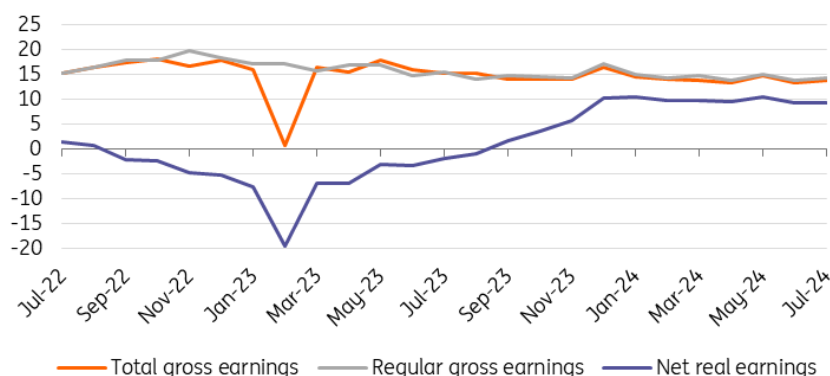
Source: HCSO, ING

Looking at the July data in more detail, the acceleration in average wage growth was mainly driven by wage developments in the corporate sector. After a 'weak' performance in the previous month, the rate of wage growth in the business sector was 12.7% year-on-year. Median earnings in this sector rose even more sharply compared to June. This suggests that wage pressures were more pronounced among lower earners.

The picture becomes more nuanced when looking at the sectoral breakdown. Here we see that it was mainly in mining and quarrying, water supply and waste management where wages accelerated significantly on a monthly basis. It may well be that one-off payments and bonuses are more likely to be behind this phenomenon, as recent changes in labour demand would be unlikely to justify such a large jump. Seasonal hiring as well as labour shortages also led to accelerating wage growth in accommodation and food services.

The pace of wage growth remains above average in both the public and the non-profit sectors. However, the growth rate of average earnings has slowed down in both sectors in July. It decelerated to 17.5% YoY and 15.8% YoY respectively.

Nominal and real wage growth (% YoY)



Source: HCSO, ING

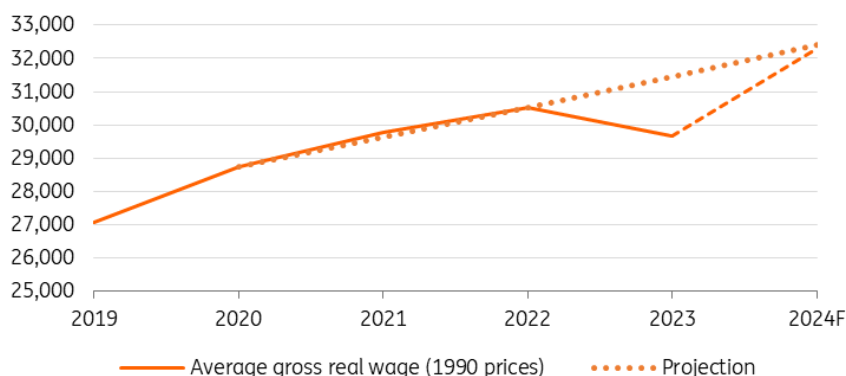
The gap between average and median wages has continued to narrow, which may be partly due to the increase in the minimum wage and the fall of the shadow economy (where workers who are registered as minimum wage earners, but are also getting undeclared pay in cash, receive more money through official means than under the table).

In addition, growth in regular earnings was only slightly more dynamic than in the data with bonuses in the previous period, so it is likely that (at least in part) the development of one-off payments is indeed behind the positive surprise in the corporate sector and in turn, overall wage growth. The growth rate of real earnings was 9.4% in July, which is considered quite high. Here we reiterate our long-standing view that strong wage dynamics can trigger positive changes in the real economy but also signal risks.

Based on the data, we expect wage growth to remain above 10% in the competitive sector for the rest of the year and could even remain around 13% for the economy as a whole, taking into account changes in the public and non-profit sectors. This, combined with a possible unwinding of household caution and stronger domestic demand, could also increase firms' repricing power and willingness to do it.

This kind of latent inflation risk is something that we believe the central bank should add to its risk map for the inflation outlook when considering its future interest rate decisions over the monetary policy horizon (six to eight quarters). In our view, there are a lot of "ifs" for this type of risk to materialise, and we don't see any of these "ifs" materialising this year. So this is essentially a question of inflation risks for next year rather than this year.

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



Source: HCSO, ING

We expect average wage growth of around 13% this year and average inflation of 3.8% in 2024. For the year as a whole, therefore, real wage growth could 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 around 6% higher than the real wage level in 2022. In other words, we would still prefer to characterise this year's development as a wage catch-up in view of the sharp decline in 2023. Another reason we think this year's increase in purchasing power on top of possibly another strong year in 2025 could pose an inflationary risk for next year.

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