Seasonal work pushes labour market participation rate to record high in Hungary

Despite weak domestic demand, the Hungarian labour market has remained resilient and received a boost from seasonal work. With rising seasonal demand for labour, supply is moving up too due to the cost-of-living crisis

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3.9%

Unemployment rate (Apr-Jun)

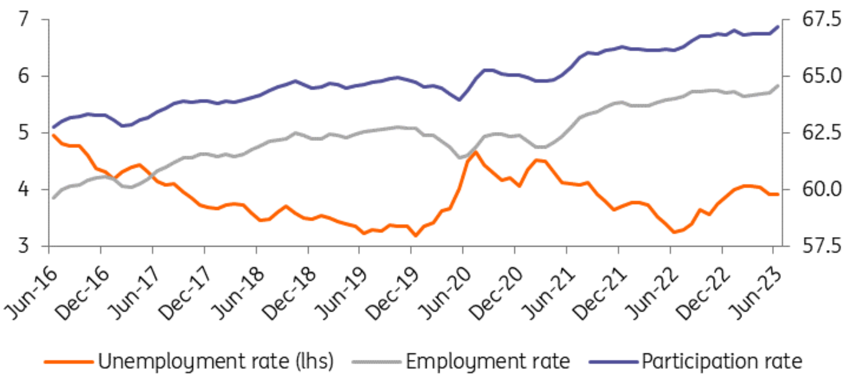
ING Forecast 3.8% / Previous 3.9%

As expected

According to the latest unemployment statistics from the Hungarian Central Statistical Office (HCSO), there were no significant changes in the labour market between May and June. Both the model estimate for the month of June (3.8%) and the official, survey-based three-month moving average unemployment rate (3.9%) were unchanged from the previous month. On this basis, the number of unemployed in the country remains at around 190,000. These indicators are still above their levels of a year ago, but it is still quite unusual to see such favourable labour market indicators after three consecutive quarters of technical recession.

This is true even if we expect Hungary to emerge from the technical recession in the second quarter of 2023. This will not be due to an improvement in the structural health of the economy but rather helped by a one-off effect: a good performance in agriculture on last year's low base and on favourable weather conditions.

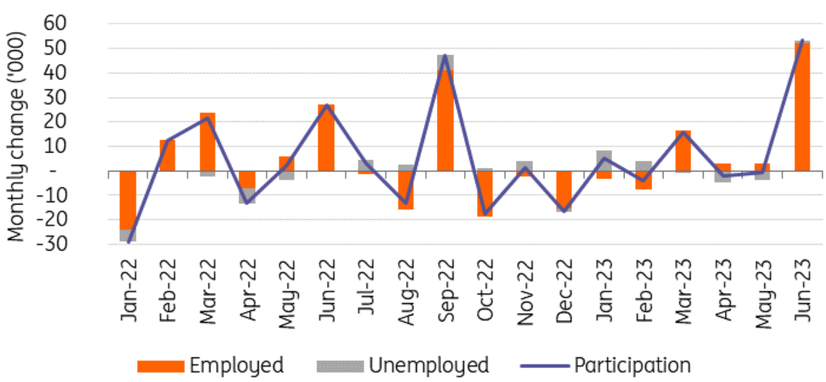
Labour market trends (%, 3m moving avg)



Source: HCSO, ING

Looking at the monthly labour data, perhaps the most important change is that the number of people in employment increased significantly, by around 50,000 month-on-month. This increase was not due to the absorption of the unemployed, which is why the unemployment rate did not change despite the rise in employment. Rather, the increase in employment was fuelled by an increase in labour market participation. This is not surprising given the experience of recent years: with the start of seasonal work in the summer, especially in agriculture and tourism, the demand for labour increases significantly. Accordingly, both the three-month average indicator and the monthly model estimate show record-high participation rates in Hungary.

Monthly change in main labour indicators



Source: HCSO, ING

On the one hand, agricultural performance appears to be much better than in previous years (mainly due to favourable weather conditions), which could provide additional demand for workers. On the other hand, tourism – especially foreign tourism – is also more buoyant than in recent years. Foreign guests spent 13% more at tourist accommodation establishments during January-May 2023 than in the same period of the previous year. This could also increase the demand for labour. But all this would be in vain if there were no supply. And the supply side of the labour market is being boosted by an extremely high inflation environment.

Looking ahead over the next few months, the Hungarian economy may slowly regain its footing in the second half of the year as the seasonal effects fade in the labour market. Against this backdrop, labour market indicators may weaken somewhat in the second half of the year before improving again. Even if there is a pick-up, the unemployment rate could peak in the vicinity of 4%, in our view.

What is a blessing can also be a curse

Although the still-tight labour market and the resulting high wage growth can keep the Hungarian economy broadly afloat and prevent it from falling into a deeper recession, it could cause problems when the real economy starts to recover.

At the moment, the biggest drag on the Hungarian economy is extremely high inflation. By the autumn, however, headline inflation could fall below the level of wage growth. The renewed expansion of purchasing power could even lead to a rapid recovery in consumption and thus to a renewed increase in companies' pricing power.

For the time being, we see this as a moderate risk, given that a large part of the population has depleted its savings, so the focus is likely to be on replenishing funds. However, if the return of real wages to positive territory is faster and stronger than expected, the risk of a price-wage spiral could increase in parallel. This could lead to a new price shock in the Hungarian economy in an inflationary environment still well above the 3% inflation target. This could turn a blessing into a curse, as a persistently high inflation environment cannot be part of a sustainable macroeconomic path.

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