Wage growth is cooling in Hungary, but risks persist

Average wage growth slowed markedly in June, reaching its lowest level in 2024. However, with private sector wage growth expected to remain in double digits for the rest of the year, risks to services inflation remain

13.3%

Lower than expected

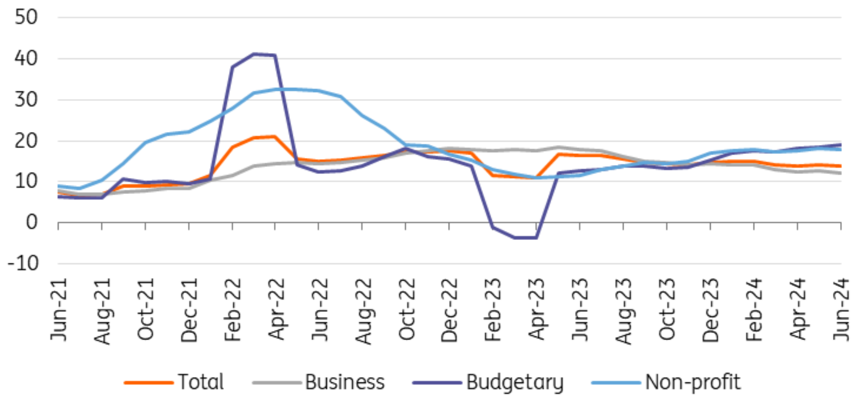
Average wage growth (June)

ING Forecast 15.8% / Previous 14.8%

June saw the first drop in wage growth figures so far this year, with the year-on-year (YoY) index slowing to 13.3%. In fact, the data on wage growth for June from the Hungarian Central Statistical Office (HCSO) were below all analyst expectations. This also confirms that the positive surprise in May – which was quite significant – was an isolated case and that the June figure is already in line with the slow downward trend in wage growth observed in recent months. Although the June figure is the lowest recorded in 2024, it still signals dynamic wage growth and is well above the pace expected at the start of the year.

We have already pointed out that the loosening of the labour market has stalled, as the increase in the number of full-time employees confirms. On an annual basis, the number of employees is still lower than a year ago, but looking at the one-month changes, the number of employees has gradually increased since January 2024. The demand for labour on the part of companies continues to put employees in a good bargaining position, with new entrants and job changers able to negotiate higher wages than expected at the start of the year.

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

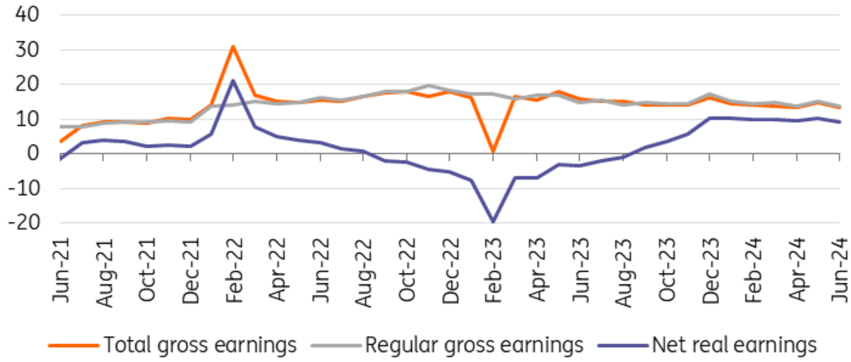


Source: HCSO, ING

Looking at the June data in more detail, the slowdown in average wage growth (and the negative surprise) was mainly due to wage developments in the private sector. The rate of wage growth in the corporate sector was "only" 11.4% in June, which has been the lowest rate since the end of 2021 when the growth rate was in the high single digits. By contrast, the pace of wage growth in both the public and non-profit sectors remains rapid. In the former, the annual rate of wage growth has accelerated to 18.8%, while in the non-profit sector it has slowed to 17.3%, although the latter segment represents only a small proportion of the workforce.

As far as the private sector is concerned, the positive surprise back in May was mainly due to one-off payments, as industry experienced an unusually sharp slowdown in June, but the trend in growth returned to the slowing trend line seen before May. By contrast, wage growth accelerated in sectors characterised by seasonal work, such as agriculture, accommodation and food services.

Nominal and real wage growth (% YoY)



Source: HCSO, ING

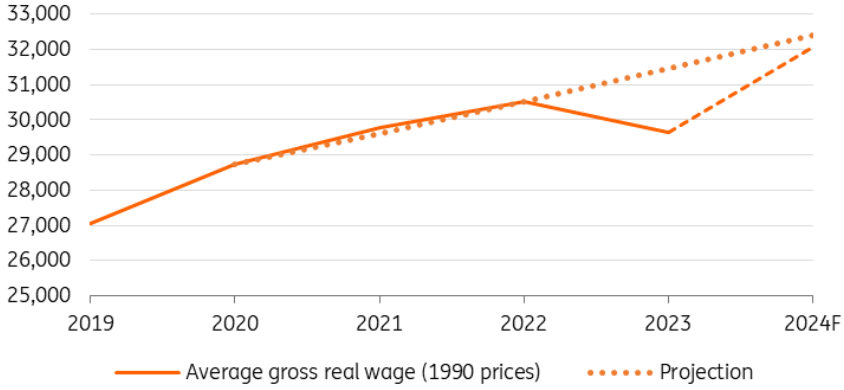
The gap between average and median wages has continued to narrow, which may be partly due to the increase in the minimum wage and the fall of the shadow economy (where workers who are registered as minimum wage earners, but are also getting undeclared pay in cash, receive more money through official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

In addition, growth in regular earnings is now also more dynamic compared to the figure, which includes bonuses, therefore it is likely that (at least in part) the development of one-off payments is behind the slowdown in private wage dynamics. The growth rate of real earnings has also slowed considerably and is back in the single digits (9.3%). However, this remains an extremely high-paced salary increase.

As much as high wage dynamics can bring about positive changes in the real economy, they also signal risks. Based on the latest figure, we believe that wage growth in the private sector could remain above 10% for the rest of the year, which could be as high as 12-13% for the economy as a whole, considering changes in the public and non-profit sectors, too. This, together with an inevitable retreat in households' propensity to save and stronger domestic demand, could increase firms' pricing power and willingness to reprice.

In our view, despite today's negative surprise, the central bank should closely monitor wage developments as well as services inflation in its future interest rate decisions.

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



Source: HCSO, ING

For 2024 as a whole, we expect average wage growth to be around 12-13%, while we expect average inflation to be around 4%. This means that we could see real wage growth of approximately 8% in 2024. 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 5% higher than the real wage level in 2022. In other words, we would still prefer to characterise this year's developments as wage catch-up, given the sharp fall in 2023.

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