

UNDERLYING LABOUR MARKET IMPROVEMENT STARTED, BUT IS WEAKER THAN HEADLINE DATA SUGGEST

7 February 2014

- **A cursory look at the Hungarian labour market shows an impressive picture:** activity and employment are at all-time high levels and they are on upward trend. Unemployment has also significantly decreased in recent months, from 11.2% (at the beginning of 2013) to 9.3% in December.
- **The indicators of the underlying labour market processes suggest a much less rosy picture** (Charts 4-5): while it is seen that after a long period of stagnation, some improvement started in Q3 and Q4 – but this is weaker than headline data suggest. The gap between the growth in the underlying and in the headline employment over the recent half year (3rd and 4th quarter) can be explained mainly (65%) by public works (unusual in the winter season).
- This means that labour market uncertainty, which mainly determines saving-investment decisions in the household sector, remained high. **This is the reason why the massive improvement in headline labour market indicators is not in line with consumption's growth** (stagnant) **or with net borrowing** (falling again and close to its all-time low level in Q4 2013). **This fragile increase is also consistent with the sluggish growth in non-farm GDP** (see Chart 4 in [our GDP Report](#)).
- **This moderate improvement can be hardly labelled as undisputedly sustainable, as it is not broad-based** at industry level. The growth in core employment is mainly the consequence of the rising demand for labour in construction and manufacturing. The former can easily prove to be temporary as it is mainly related to pre-election public investments and to the run-up of projects funded from EU money due to the end of the seven-year budgetary period (see our [Business Cycle Report](#)). In the case of manufacturing, the driver of growth is the automotive and related industries (due to the new capacities), while output stagnates in the rest of manufacturing. Besides the LFS statistics suggest much stronger pick-up in manufacturing employment than institutional employment statistics do. Productivity in manufacturing decreases moderately and fluctuates around the level reached in 2008, which also suggests that there is only limited room for further employment growth in this industry.
- The development of the labour market's flow indicators also suggests that the perceived labour market uncertainty remained high. First, the number of people recently laid off has decreased only marginally and remained around all-time highs (Chart 7). Second, the natural negative correlation between new employment and new unemployment in the non-farm private sector has broken, so new employment does not stabilize the number of existing workplaces. This phenomenon can be a consequence of the rising fluctuation, which increases households' perceived labour market uncertainty.
- Wage dynamics in the private sector also started to accelerate in recent months. The improvement came mainly from manufacturing, while wage growth in the market service sector remained stable at a very modest level. In our view, wage acceleration has certain limits in the current environment. With profitability decreasing, headline and underlying consumer inflation at all-time low levels (see our [report on Inflation](#)), companies could restore their profitability only through lower employment and/or moderate wage dynamics. So with productivity in the non-farm private sector on a slight downward trend since beginning of 2011, we cannot count on a noticeable improvement in the "actual" labour market conditions.

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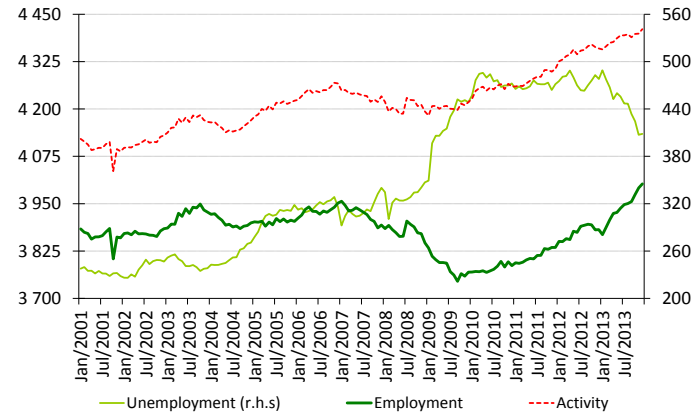
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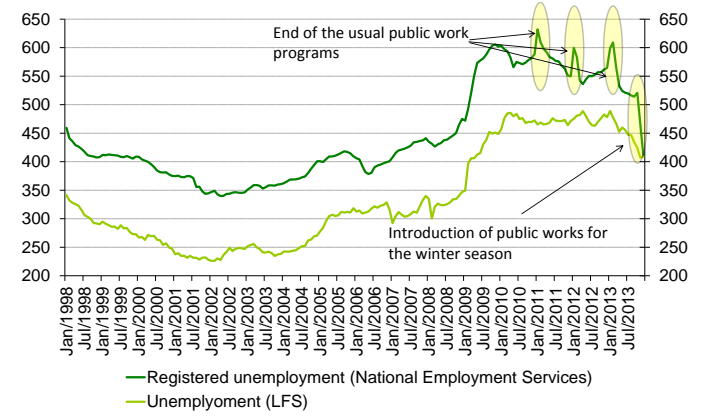
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Chart 1: Summary chart of labour market
(LFS, monthly, SA, ths. people)



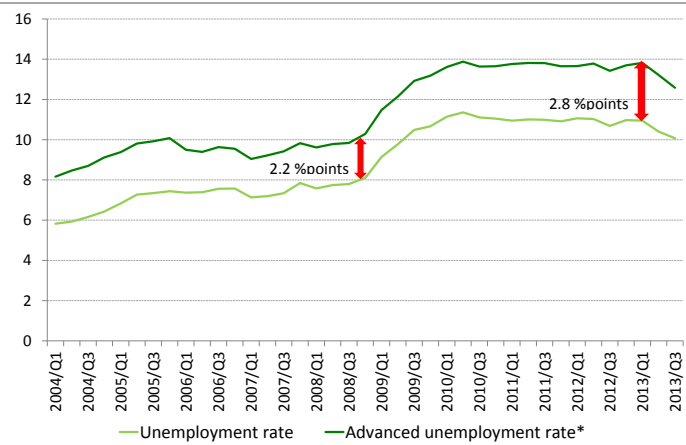
Sources: CSO, OTP Research

Chart 2: Unemployment
(monthly, SA, ths. people)



Sources: CSO, National Employment Services, OTP Research

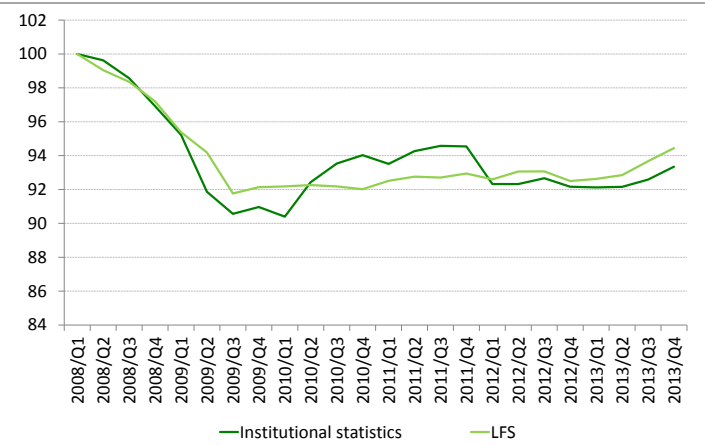
Chart 3: Different types of free labor capacity measures
(quarterly data, SA, %)



Sources: CSO, OTP Research

*: unemployed plus inactive population not seeking work as they think no jobs are available

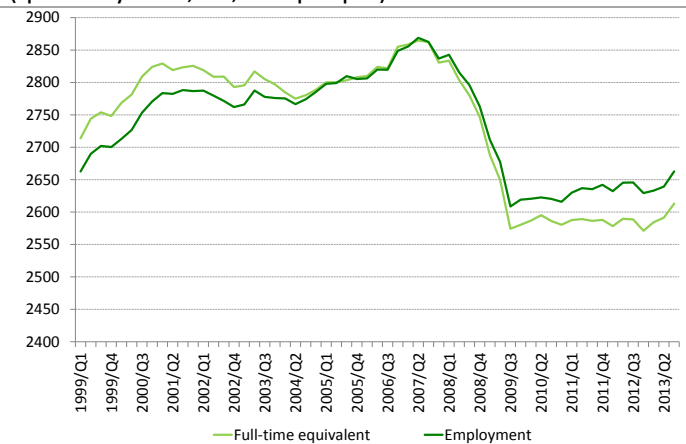
Chart 4: Comparison of different indicators of non-farm private sector's employment* (quarterly data, SA, 2008 Q1=100)



Sources: CSO, OTP Research

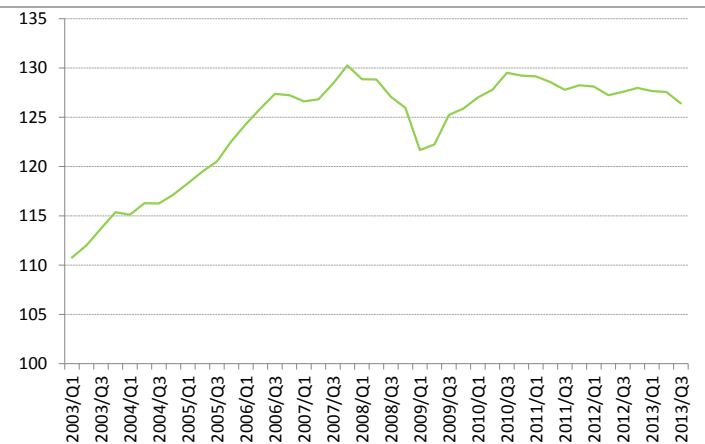
*: LFS statistics filtered from employees who work abroad

Chart 5: Employment and full-time equivalent employment in the non-farm private sector
(quarterly data, SA, ths. people)



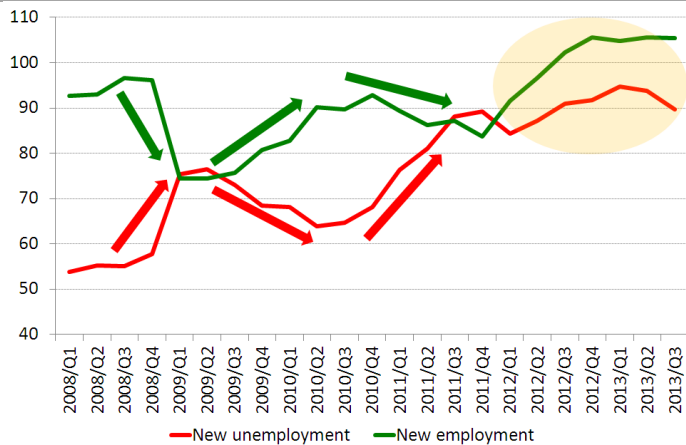
Sources: CSO, OTP Research

Chart 6: Productivity in the non-farm private sector
(2000=100)



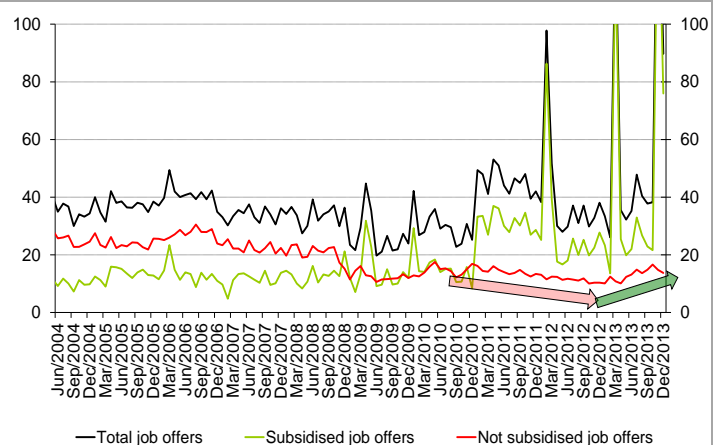
Sources: CSO, OTP Research

Chart 7: New unemployment and the new employment in the non-farm private sector* (quarterly data, SA, ths. people)



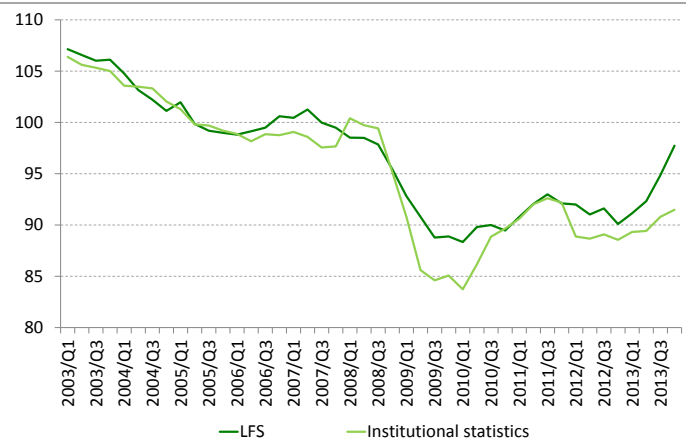
Sources: Eurostat, OTP Research
* latest data: 2013/Q3

Chart 8: Job vacancy (monthly data, SA, thousand)



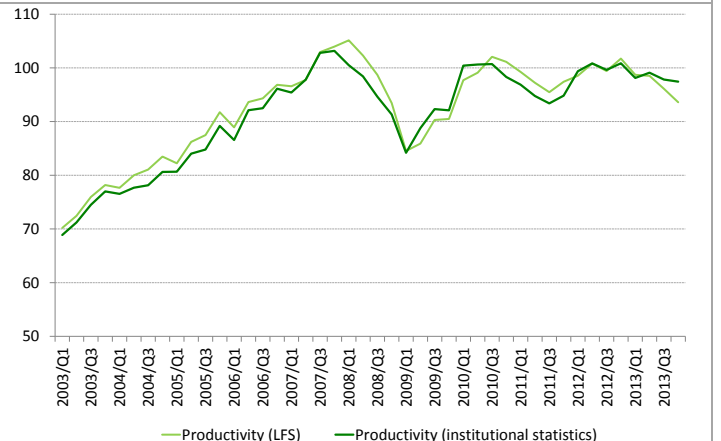
Sources: National Employment Services, OTP Research

Chart 9: Comparison of different indicators of non-farm manufacturing employment* (quarterly data, SA, 2005=100)



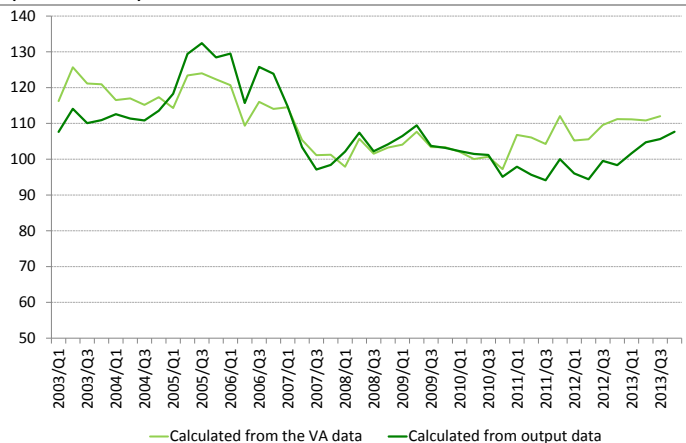
Sources: CSO, OTP Research

Chart 10: Productivity in the manufacturing (2010=100)



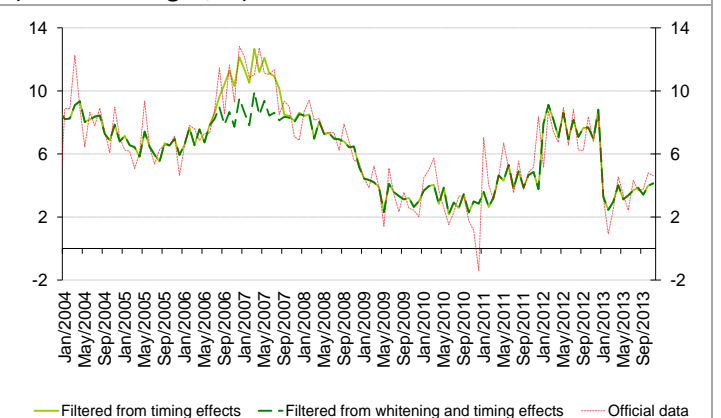
Sources: CSO, OTP Research

Chart 11: Productivity in the construction (2010=100)

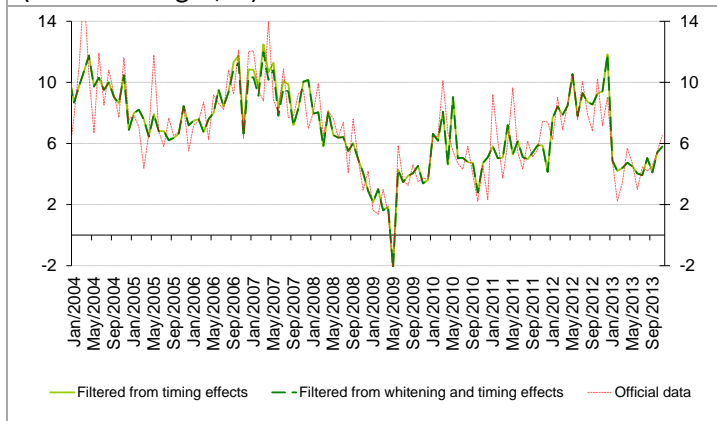


Sources: CSO, OTP Research

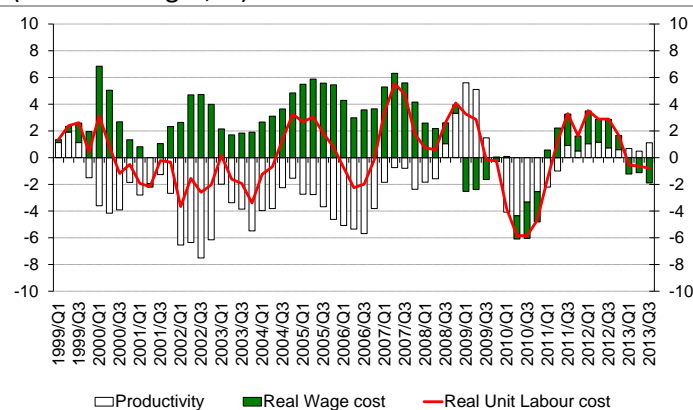
Chart 12: Wages in the private sector* (annual changes, %)



Sources: CSO, OTP Research
*: w/o financial intermediation

Chart 13: Wages in the manufacturing
 (annual changes, %)


Sources: CSO, OTP Research

Chart 12: Real ULC in the non-farm private sector*
 (annual changes, %)


Sources: CSO, OTP Research

*: positive RULC means worsening profitability

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