Salary Projections For 2017

Salaries, for most companies, are the largest single item in the annual budget. Getting it right is important. Pay too much – money wasted. Pay too little – risk being uncompetitive and increased turnover.

Most years, we review major salary intention surveys and provide our clients and friends with our best estimate of what will be happening in the following year. This information is important when developing a reliable budget that is built on good information.

For 2017, the consensus for salary budget increases in Canada is:

Salary Budget Increases		
	2016	2017 (proj)
Non-Management	2.89%	2.90%
Management	2.92%	2.97%
Officer/Executive	2.93%	3.00%
Inflation (July 2016)	1.26%	1.9 - 2.0%

These figures are a generally similar to the last few years. Prior years have centred around 3.0%, with few organizations differing by more than +/- 0.2%. In Canada there are small regional differences. The western provinces trending a little higher than the east, although low oil prices and (we suspect) the problems in Fort McMurray have taken a toll. If you need more details regarding a specific market, please contact us.

Salary budgets usually include provision for both normal annual adjustments, and special situations such as promotions that require special attention.

Many companies also review their salary policies annually, or every two years. The surveys indicate that salary policy (or structure) will increase roughly in line with anticipated inflation, although this years figures are a little above inflation:

Salary Structure Changes		
	2016	2017 (proj)
Non-Management	2.62%	2.60%
Management	2.64%	2.63%
Officer/Executive	2.61%	2.61%
Inflation (July 2016)	1.26%	1.9 - 2.0%

Inflation from Bank of Canada

Most companies monitor the CPI consumer price inflation index and adjust their compensation policies relative to the CPI movement, unless they have a particular problem.

A. Michael Hiles & Associates Inc. • 118 Charnwood • Beaconsfield (QC) • H9W 4Z3 Phone: (514)-573-3012 • Fax: (514)-500-0402
www.hilesassociates.com • e-mail: mhiles@hilesassociates.com

It may be useful to comment further about what these figures mean. When we state that salary budgets will increase by 2.9% next year, this not the same as saying that the average employee will receive a 3% increase. The salary budget takes into consideration a variety of wage adjustments. The most important is the (usually) annual adjustment most employees receive, often linked with an annual performance review. There are other types of salary adjustments – employees are sometimes promoted, and get an increase at the same time. Employees leave the organization, and sometimes the replacement employee is paid more than the leaver. Additionally, jobs are reassessed and found to be undervalued, and an upward adjustment adds to the overall wage bill. Occasionally adjustments are required due to compliance requirements under a Pay Equity law.

In fact, the annual increase that most employees receive – in the absence of some other factor – tends to be close to inflation. In the recent past, this has tended to be in the 1.5% to 2.0% range. In our professional travels we see companies use a variety of approaches to distribute wage increases (there are many ways of doing this exercise, some good, many sub-optimal). The better ones try to reflect current salary vs. the market, and some measure of performance. Thus an employee who is performing well and is being paid low in the range will get a larger increase than his/her counterpart at the other end of the performance/pay spectrum. This all, on average, turns out to be something like inflation.

Using annual salary reviews to motivate employees is difficult when managers have little money available. A salary increase of 2.5% is not likely to be an incentive that will influence top performing employee behaviours. We have been counselling our clients to base their policy on assuring that employees are paid correctly each pay period during the year. Make sure everyone is paid equitably compared to their colleagues, on their contribution to the company's success, and the external market. Then, communicate that policy to employees – assure that everyone knows that the reward for excellent performance is to be paid fairly (and perhaps generously) every time their pay is deposited in their bank accounts. Let employees know that top performance is rewarded 52 weeks per year – compensation is not a lottery that happens only once each year, with a serendipitous outcome.

What do we mean by correct pay? The question is more complicated than it first appears. Three simple questions are a good place to start. Ask yourself:

- What would my employee earn if he/she went to another company to do roughly the same job?
- What would we have to pay to replace the employee?
- How much would we be willing to pay to retain this employee if he/she announced that they were leaving?

Answers to these questions are not all that easy to come by. Even when good survey data is available there is rarely an unambiguous answer – judgement plays an important role.

We are reluctant to make compensation and any HR matter more complex than necessary. But managing this important part of your business operations on the back of an envelope carries important risks.

We can provide additional information and details regarding 2017 salary projections, and we would be happy to discuss any issue concerning effective compensation management or any HR issue.

A. Michael Hiles & Associates Inc. • 118 Charnwood • Beaconsfield (QC) • H9W 4Z3 Phone: (514)-573-3012 • Fax: (514)-500-0402
www.hilesassociates.com • e-mail: mhiles@hilesassociates.com