Looking Forward: Projected Salary Increases for 2010

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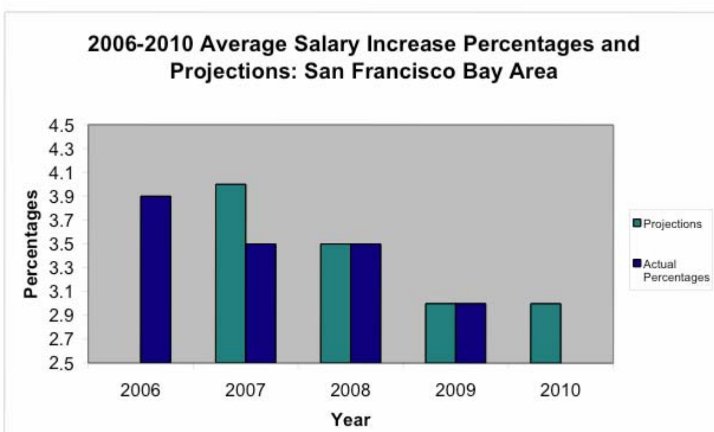
This is the time of year at which many employers are thinking about what salary increases to budget for the coming year. In this volatile economy, the question is both more pertinent and more difficult to answer than in other, more “normal” years.

Prior to 2009, we routinely recommended annual salary increase budgets in the 3.5% – 4.5% range based on projected survey data and feedback from our clients. 2009 has broken that trend as we entered, endured, and currently appear to be recovering from one of the worst economic downturns since the Great Depression.

The chart below displays data gleaned from pre-publication statistics from the *CompAnalysis 2009 Greater S.F. Bay Area Compensation Survey* (www.salarysurveys.com). As indicated on this chart, projected salary increase budgets for 2009 were about 3.0% and actual increases were about the same. It is important to note that these figures are averages of reported actual increases granted, and do not include any zero increases. These figures, therefore, do not reflect the impact of salary freezes.



Entering 2010, it appears that most S.F. Bay Area companies are planning to be heading back toward "normalcy." The early projections indicate that employers will budget in the range of 2.5% – 3.5%.

As we near the end of this year, other, national surveys are reporting that actual 2009 increases have been in the 1.8% – 2.2% range, clearly reflecting the economic situation. Nationally, some projections for 2010 are roughly 2.8%. Not all of these sources indicate whether the projections include zero increases, so the numbers need to be viewed as less than certain and/or accurate. It may be that the inclusion of zero increases account for these percentages being lower than those shown the chart above.

We are currently aging our survey data by an annualized labor market inflation factor of 2.8%. However, as we saw last year, these data are just projections and should not be the only thing taken into consideration as you start to set salary budgets for next year.

The most important thing to remember is that salary increases should achieve two things: (1) retain those valuable employees who help your company achieve its goals, and (2) result in actual wages and salaries that are consistent with the values of the individual jobs themselves. Such practices will assure that your pay practices are both cost-effective and competitive.