AUGUST 2021

2022 Salary Budgets in a Dynamic Environment

At least once a week, Foundations Consulting gets asked some version of the same question: "What are you seeing as far as base salary increase budgets for next year?"

For over a decade, that's been a relatively easy question to answer. Salary increase surveys have routinely predicted salary increases of about 3%. Occasionally we'd see a 2.9% or a 3.1% for a specific geographic region or subset of the labor market, but 3% was a pretty safe bet.

This year feels different for a number of reasons.

1) COVID-19. The impact of COVID-19 is ongoing and significant. Entire articles have been, and will continue to be, written about the impact of COVID-19 on the economy and labor market.

The pandemic shook up labor markets with significant challenges on both the supply and demand sides of labor, changed employees' priorities and their expectations from employers, and forced many organizations to embrace remote work.

The pandemic also placed a spotlight on essential workers and stagnation in wages for these critical jobs. While the short-term impacts of COVID have been significant, the long-term impact on the labor market pandemic has yet to be seen.

2) Inflation. Inflation has been a non-issue for many years. In July, the core Consumer Price Index (CPI) rose 4.5%, the largest increase since September 1991 and well above the initial estimate of 3.8%. Inflation is now higher than recent average base salary increases and will put pressure on wages.

3) Real wage growth. From June 2020 to June 2021, wages and salaries increased 3.5% according to the U.S. Bureau of Labor Statistics. So far, these increases have been primarily in the hospitality and retail industries, but that may change as wage growth spreads to other sectors of the economy.

The three issues above make it difficult to predict salary increase budgets for next year. In addition, the timing of when survey data is collected and reported is particularly challenging this year. Many salary increase surveys collect data in April through June and report the results in September and October. Even though there are only a few months from when the data are collected to when they are reported, a lot has changed since April. We will likely continue to experience significant change that may impact salary planning for 2022.

SALARY SURVEY DATA

For most national salary surveys, the lag between collecting and reporting data is even longer. Most survey vendors collect compensation data in the first three or four months of the year and report the results of the survey in the fourth quarter of the year.

When the compensation data were collected earlier this year, much of the country was still in a state of lockdown, vaccines were in short supply, and the economy was struggling. We are now in a different place and by the time the survey data are published, things will have changed yet again. (Hopefully for the better.)

So what is an organization to do?

- **Keep participating in and assessing the results of reputable compensation surveys.** The more organizations that participate in surveys, the better the survey results. Many survey vendors are conducting pulse or supplemental surveys to update survey results. These pulse surveys will be important in understanding on-going changes in the labor market.

- **Monitor local labor market conditions.** Pay attention to your local labor market conditions. If local fast food restaurants are advertising starting wages of $16 an hour, recognize that will impact your organization as well. If you are competing for the same pool of talent, the impact will be immediate, but even higher paying jobs across industries will likely eventually be impacted.

- **Revisit your compensation strategy.** As market conditions change, a robust, up-to-date compensation strategy can guide decision-making and help prioritize actions needed to remain market competitive.

- **Monitor turnover rates and exit interview data.** Monitoring turnover rates to quickly identify when and where turnover is occurring, and reviewing exit interview data to understand the impact compensation is having on voluntary turnover will provide valuable data to use when allocating your salary budget.

- **Consider a two-step approach to salary increases in 2022.** If you normally grant salary increases in the first quarter of 2022, it may be prudent to budget for a possible second round of salary increases mid-year.

By this time next year, we should have a better understanding of the long-term impact of COVID-19, inflation and how wages have been impacted. Planning for a second round of salary increases will give your organization the flexibility to respond to changing market conditions.

- **Pay attention to internal equity.** You may find it necessary to offer higher starting salaries in order to fill open positions. When hiring new employees, pay attention to internal equity and ensure your current employees, particularly high performers, are paid equitably, or you may find yourself facing increased turnover.

SUMMARY

In a rapidly changing environment, having a clear compensation strategy and good data is a competitive advantage. The next year will test all of us as we respond to changes and position our organizations for continued success.

Foundations Consulting has over 80 years of combined experience helping organizations navigate compensation challenges. Contact us to talk about how we can help you navigate 2021 and beyond.

Meet the Foundations CONSULTING TEAM


BETH OSTREM
651-282-8718
beth.ostrem@
farmcreditfoundations.com


AMY RYAN
651-282-8498
amy.ryan@
farmcreditfoundations.com


HEATHER BINGER
651-282-8807
heather.binger@
farmcreditfoundations.com


CLAIRE BRANDENBURG
651-282-8449
claire.brandenburg@
farmcreditfoundations.com