

SPECIAL REPORT ON SALARY FORECASTS 2007

What should you forecast this year in terms of salary increases for your management, professional and hourly paid employees? What adjustments are expected in salary scales? You will find answers to these questions in the leaflet we have published once again this year, with the cooperation of the best firms that consult on remuneration in Québec. We would like to thank these companies and congratulate them on their work.

Readers will find answers to a number of other questions, including which types of job, industrial sectors and provinces will receive the largest salary increases.

Human resources consulting firms also report on trends in variable pay and profit-sharing plans. Lastly, the reader will be able to get an idea of the question of the moment: the impact that recent increases in oil prices will have on salaries.

Pleasant reading!

The Conseil du patronat du Québec would like to thank the following firms for participating in the preparation of the 2007 salary forecasts

AON *Groupe-conseil Aon*

MORNEAU
SOBECO

MERCER

Human Resource Consulting

 **Watson Wyatt**


**TOWERS
PERRIN**

SERVICES RH

Aon Consulting 2007 Pay Increase Survey

The 2007 Pay Increase Survey conducted by Aon Consulting gathered data from mid-August to mid-September from 234 Canadian organizations employing close to 725,000 people.

RESULTS

According to the survey, salaries in Canada are expected to increase by 3.3% in 2007. The average forecasted salary structure increase in 2007 is 2.5%, which is comparable to the 2006 average salary structure increase of 2.4%.

The forecasted 2007 salary increase of 3.3% represents the average value of individual pay increases. This increase includes the salary structure increase in cases where it was fully applied to individual salary, as well as merit pay increases and automatic progressions within a salary scale. Average 2006 pay increases were 3.2%, which is exactly in line with the Aon survey forecast last year.

RESULTS BY PROVINCE

Salary increase forecasts in Canada are similar from one province to another (from 3.1% to 3.3%), with the exception of British Columbia and Alberta where the forecast increases are 3.5% and 3.7% respectively. We believe that the Alberta forecast is conservative since our sampling for that province generally consists of organizations with national operations and no Alberta-based gas and oil companies. A recent Aon study examined the impact of the hot labour market in Alberta and confirmed that organizations in this province are rising to this challenge by rethinking and making innovative changes to their benefits, compensation and reward packages.

RESULTS BY EMPLOYEE GROUP

The average 2006 salary increases in Canada ranged from 2.7% to 3.6% among the various employee groups, while salary structures increased from 2.3% to 2.4%. The 2007 forecasts range from 2.8% to 3.5% for salaries and 2.4% to 2.5% for salary structures. Table 3 presents the detailed results of the forecasts by employee group, including average and median values (50th percentile).

Table 1: Overall results

	Average Forecasted 2006 Pay Increase	Average Actual 2006 Pay Increase	Average Forecasted 2007 Pay Increase
Salary	3.2%	3.2%	3.3%
Salary structure	2.3%	2.4%	2.5%

Table 2: Results by province

	No. of org. ⁽¹⁾	2006 Increases		2007 Forecasts	
		Salary (average)	Salary Structure (average)	Salary (average)	Salary Structure (average)
Canada	234	3.2%	2.4%	3.3%	2.5%
Alberta	67	3.4%	2.3%	3.7%	2.5%
British Columbia	62	3.2%	2.3%	3.5%	2.7%
Manitoba	41	3.1%	2.4%	3.3%	2.5%
New Brunswick	36	2.7%	2.2%	3.1%	2.5%
Newfoundland and Labrador	29	2.9%	2.3%	3.3%	2.5%
Nova Scotia	42	3.0%	2.6%	3.2%	2.6%
Ontario	108	3.1%	2.3%	3.1%	2.4%
Prince Edward Island	16	2.7%	2.3%	3.3%	2.7%
Quebec	145	3.2%	2.3%	3.2%	2.4%
Saskatchewan	34	3.1%	2.5%	3.3%	2.6%

⁽¹⁾ Since an organization may have operations in more than one province, the numbers do not add up to the overall sample total.

TABLE 3: 2007 FORECASTS BY EMPLOYEE GROUP

Employee Group	Salary			Salary Structure		
	No. org.	50 th (1)	Average	No. org.	50 th (1)	Average
Executive	153	3.5%	3.5%	120	2.5%	2.5%
Manager and professional	198	3.4%	3.4%	167	2.5%	2.5%
Technical and administrative	194	3.1%	3.4%	167	2.5%	2.5%
Union hourly	77	3.0%	2.8%	66	2.5%	2.4%
Non-union hourly	106	3.0%	3.1%	94	2.5%	2.4%
All groups combined (rounded off)			3.3%			2.5%

⁽¹⁾ The 50th percentile means that 50% of the organizations in the sample fall above or below this value.



The Morneau Sobeco Survey on Compensation Trends and Projections for 2007

The Morneau Sobeco survey on trends and projections in compensation and employee benefits for 2007 is based on data collected from 353 organizations representing some 990,000 employees across Canada. The survey was conducted between June and August 2006 and results were released in September 2006. The opposite tables summarize some of the main findings with respect to cash compensation.

In Canada, the average salary increases expected for 2007 are the highest of the past 5 years and range from 3.1% for operation or production employees to 3.6% for executives. The average salary structure increase expected for 2007 for all employee categories is 2.5% for three of the employee categories covered by the survey and 2.4% for executives. The average projected budget for 2007 salary increases is 3.4%, including individual progression; for half of the participants, this budget is increased by an additional average provision of 0.8% of total payroll for special adjustments and promotions. The highest salary increases are expected in Western Canada, for executives, with an average increase of 3.9%.

In Quebec, salary increases will be 3.3% for executives and 2.8% for operation or production employees. The opposite table shows the anticipated increases in Quebec for these two employee categories in 21 sectors or sub-sectors covered by the survey. One-hundred ninety-eight participants with employees in Quebec are included in the survey results for Quebec as a whole.

Furthermore, the incidence of annual cash bonus programs has been increasing for five years, particularly for operations and production employees. The opposite tables show anticipated cash bonuses in 2007 for Canada as a whole, for two different sizes of participating organizations. The differences in this area are sharper for executive functions.

Salary increase, by employee category, Canada (%)

Employee category	Projection 2006	Real 2006	Projection 2007
Executives	3.3	3.5	3.6
Management and professional employees	3.2	3.0	3.4
Technical and administrative personnel	3.1	3.0	3.3
Operation or production employees	2.9	2.7	3.1

Expected average annual increase for 2007 in Quebec, by industry sector (%)

Industry sector	Executives		Operation or production employees	
	Structures	Salaries	Structures	Salaries
Overall results	2.4	3.3	2.3	2.8
Agriculture, forestry, fishing and hunting	2.2	2.3	2.0	1.9
Mining and oil and gas extraction	n.d.	2.9	n.d.	2.5
Utilities	2.9	3.5	2.3	2.8
Manufacturing	2.5	3.4	2.3	2.8
Food, beverage and tobacco manufacturing	2.8	3.0	2.0	2.5
Paper or wood product manufacturing	2.2	3.1	2.0	2.4
Chemical or allied product manufacturing, excluding pharmaceutical products	2.7	3.9	2.5	3.0
Pharmaceutical manufacturing	2.3	4.1	2.1	3.9
Fabricated metal product manufacturing	2.3	3.6	2.3	2.6
Wholesale trade	1.9	3.0	n.d.	2.6
Retail trade	2.4	3.7	2.0	2.7
Transportation and warehousing	2.3	2.9	1.8	2.9
Finance and insurance	2.2	3.1	2.2	3.1
Credit intermediation and related activities	1.6	3.1	1.0	3.2
Insurance carriers and related activities	2.3	3.1	2.3	3.0
Professional, scientific and technical services	2.4	4.7	2.3	2.7
Information system design and related services	2.5	5.7	2.8	2.8
Arts, entertainment and recreation	n.d.	5.0	n.d.	3.8
Accommodation and food services	n.d.	3.5	n.d.	3.5
Other services (except public administration)	2.2	2.5	2.6	2.6
Public administration	n.d.	3.3	n.d.	3.3

Target and maximum bonuses as a % of salary, participants with more than \$1,000 million in operating revenue, Canada

Employee category	Target bonus as % of salary	Maximum bonus as % of salary
Executives	33	56
Management and professional employees	16	26
Technical and administrative employees	8	10
Operation or production employees	6	8

Target and maximum bonuses as a % of salary, participants with less than \$100 million in operating revenue, Canada

Employee category	Target bonus as % of salary	Maximum bonus as % of salary
Executives	24	26
Management and professional employees	12	14
Technical and administrative employees	6	10
Operation or production employees	6	7

MERCER

Human Resource Consulting

2007 COMPENSATION PLANNING SURVEY FOR NON-UNION EMPLOYEES

Information in the tables below has been extracted from Mercer's 2007 Compensation Planning Survey for Non-Union Employees. Data was gathered as of June 2006, from 409 organizations across Canada.

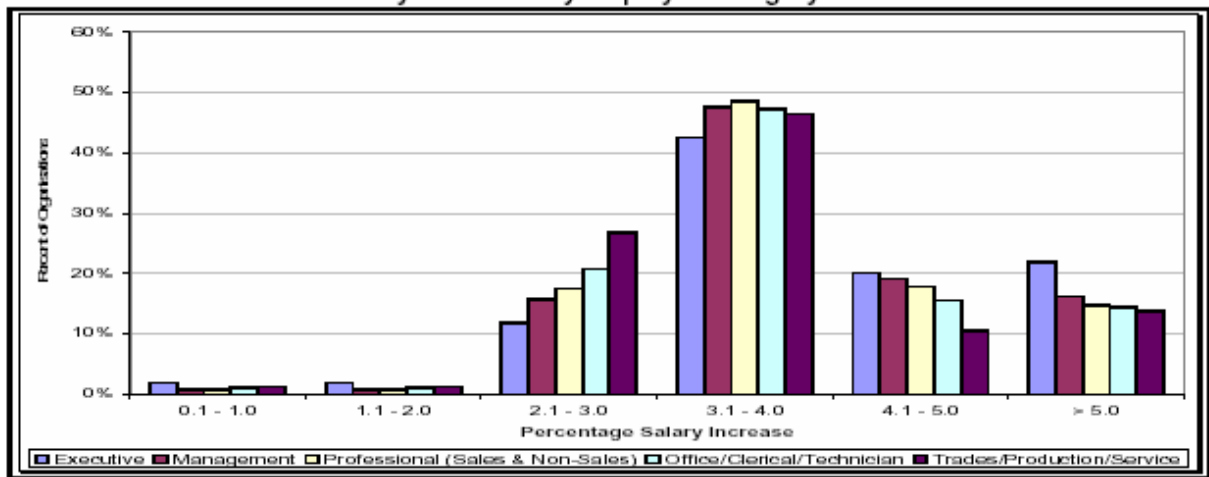
The following table shows the percentage of salary increases and salary structure increases in the private sector in 2006 (actual) and 2007 (projected).

	Executive	Management	Professional (Sales & Non-sales)	Office/Clerical/Technician	Trades/Production/Service	All employees
Salary increases						
2006 (actual)	4.1%	3.8%	3.7%	3.6%	3.4%	3.7%
2007 (projected)	3.9%	3.7%	3.7%	3.6%	3.4%	3.7%
Salary structure increases						
2006 (actual)	3.0%	2.7%	2.6%	2.6%	2.6%	2.7%
2007 (projected)	2.7%	2.6%	2.6%	2.6%	2.6%	2.6%

As shown above, the pay and scale increase planned for 2007 are comparable to those awarded in 2006. Moreover, as in 2005, we noticed a difference of 0.8 to 1.2% between the pay and scale increases, indicating that organizations allocate some of their payroll for employees to move up within their pay scale.

The following table shows the expected distribution of the pay increases by job category. No organization reported projected salary freezes in 2007. Finally, the most common trend of organizations in the sample is planned salary increases of between 3.1% and 4.0% in 2007, across all employee categories.

Salary increases by employee category



Alberta leads the way with projected salary increases of 3.9%, followed by British Columbia (3.7%), Manitoba/Saskatchewan (3.6%) and Ontario (3.5%). In Quebec, projected increases are 3.4% excluding Montreal which is of 3.3%.

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Watson Wyatt's Salary Forecasts for 2006 – 2007

Outlook and trends

Canadian employees can expect pay raises of 3.5 per cent next year, according to findings from Watson Wyatt's *Annual Canadian Salary Survey*. This study's 38th edition was conducted by questionnaire earlier this year and included results based on data from 380 participating organizations -of different sizes, geographical regions and activity sectors- representing more than 1 million employees.

The continuous growth of the Canadian economy, combined with historically low unemployment rates, are forcing employers to take a closer look at their compensation practices to ensure they're able to attract and retain top talent in an increasingly competitive environment. Given these conditions, we expect that actual salary increases will likely exceed respondents' forecasts.

Pay vs. performance

As employers face mounting pressure to provide competitive monetary compensation, they are also turning to complementary strategies to better engage employees and tie pay to performance.

In 2006, the majority of respondents (89 per cent) confirmed they have short-term incentive plans in place, slightly higher than the 88 per cent in 2005 and 86 per cent in 2004. Additionally, 85 per cent indicated that merit increases (based on performance) are a factor when determining their annual salary-increase budget.

But while Canadian employers are indeed tying pay to performance, the difference in merit increases between average-performing employees and top performers remains limited – at 3.1 per cent and 5.6 per cent, respectively (compared to 2.9 per cent and 5.4 per cent in 2005).

The move to differentiate compensation of low- versus high-performing employees is starting to take hold in Canada, as employers become more strategic about tying pay to performance. However, the survey findings reveal there is room for further improvement as the current difference in merit-pay increases is not particularly significant.

Key HR issues

The looming talent crunch and departure of baby boomers from the workforce have brought 'key -talent recruitment' and 'succession planning' to the top of employers' agendas in the short- and mid-terms, respectively. Additionally and perhaps most notably, is the emergence of 'employee engagement' to the top five issues list. Canadian employers are starting to realize the importance of complementing HR strategies beyond compensation to attract and retain talent. With the expected high demand for skilled labour, employers that do not fully and effectively utilize a comprehensive approach to talent retention may find themselves losing top-performers to the competition.

Key human resource issues faced by survey participants (in ranked order):

One-to-Two Years	Three-to-Five Years
Recruiting Key Talent	Succession Planning
Leadership Development	Leadership Development
Succession Planning	Recruiting Key Talent
Performance Management	Employee Engagement
Employee Engagement	Performance Management
Benefits Strategy	Benefits Strategy

Salary increase breakdown

The survey also provides interesting insights on the heated Canadian labour market for various industry sectors and geographic regions. For the first time in many years, the public sector is nudging ahead of the private sector with a 3.6 per cent forecasted salary increase.

Professional/business services also continue to feel the pressure of high labour demand as evidenced by the above average (4.4 per cent) base salary increase this sector experienced in 2006.

Breakdown of base salary increases across the main categories covered in the survey:

	2006 Actual	2007 Forecast		2006 Actual	2007 Forecast
City / Regional Breakdown			Sector / Industry Breakdown		
All Canada	3.6	3.5	Private Sector-For Profit	3.6	3.5
Calgary	3.8	3.9	Public Sector	3.6	3.6
Toronto	3.5	3.4			
Vancouver	3.5	3.5	Retail	3.2	3.3
Montreal	3.3	3.3	Manufacturing Non-durable	3.4	3.4
			Manufacturing Durable	3.3	3.4
SW Ontario	3.3	3.3	Finance	3.8	3.7
Other Ontario	3.2	3.2	Professional/Business	4.4	3.8
Manitoba	3.4	3.3			
Saskatchewan	3.5	3.4			
Atlantic	3.5	3.4			



2006 SALARY MANAGEMENT SURVEY

Each year, Towers Perrin conducts a survey of current salary management practices and trends in the Canadian marketplace. This year, 337 organizations participated in the survey.

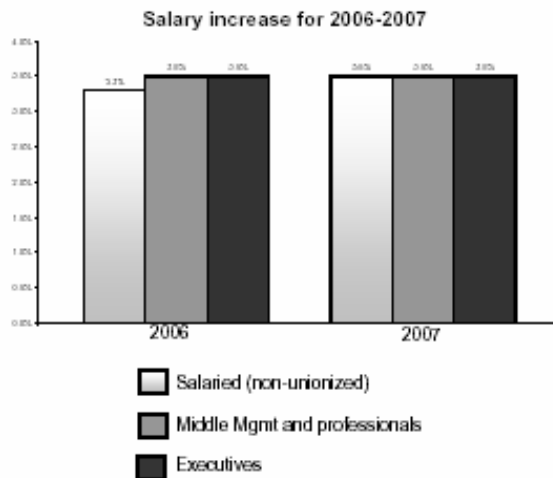
The following data have been extracted from the report issued in September 2006 and were analyzed for three employee groups (Salaried, Management & Professional and Executive).

Note: 0% increases and adjustments are included in the data.

Report Highlights

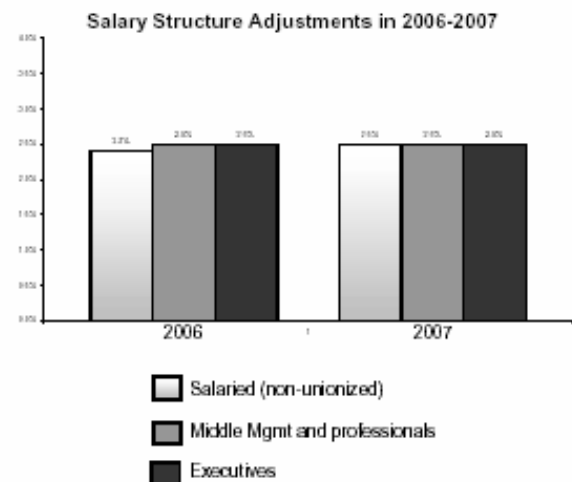
Salary Increases in 2006-2007

Percentage of the average salary increase granted in 2006 and anticipated in 2007 by the 337 participating organizations (by employee group).



Salary Structure Adjustments in 2006-2007

Salary structure average variation rates in 2006 and average rates anticipated in 2007 by the 337 participating organizations (by employee group).



Conclusions

Salary Increase

- In 2006, an increase was received by 98% of Salaried, 97% of Management & Professional and 92% of Executive employees, all industries combined.
- In 2007, 0% of participating organizations do not anticipate giving an increase to Salaried, 1% to Management & Professional employees and 3% of companies do not anticipate giving an increase to Executive employees.

Salary Structure Adjustments

- In 2007, 10% of participating organizations do not anticipate adjusting salary structures for Salaried employees, while 11% of the organizations do not anticipate adjusting Management & Professional salary structures and 15% do not anticipate adjusting Executive salary structure.

Annual Incentive Plans

- 91% of survey participants offer annual incentive plans to at least one employee group.
- In 2006, the average budget for annual incentive awards was equal to 24.7% of the payroll for Executive employees, 12% for Management & Professional employees and 7% for Salaried employees.



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