

SPECIAL REPORT ON SALARY FORECASTING 2006

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 this leaflet that we have published once again this year, with the cooperation of the best of Quebec's firms that consult on remuneration. 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 thanks the following firms for their participation in the preparation of the salary projections for 2006 :

- Groupe-conseil Aon
- Morneau Sobeco
- Mercer, Human Resource Consulting
- Watson Wyatt
- Towers Perrin

Aon Consulting's 2006 Survey on Salary Increase Forecasts

2005 INCREASES AND 2006 PROJECTIONS FOR MAIN JOB CLASSES

The results of the Aon Consulting 2006 survey on salary increase forecasts were compiled from the responses of 205 Canadian organizations, who were asked about their budgeted salary increases for 2006 and the actual salary increases they granted in 2005.

HIGHLIGHTS

History repeats itself in 2006

We can expect the 2006 salary increases to be in line with those granted in 2005.

Salaries

According to our national survey, Canadian organizations expect average salary increases in 2006 to be 3.2%, i.e. the same as those granted in 2005.

Salary scales

Salary scales are expected to increase by an average of 2.3% in 2006. In 2005, the salary scales increased, on average, by 2.2%.

By province

In Quebec, salaries should increase by 3.0% in 2006, a percentage that is slightly under the national average, while those in Ontario should increase, more or less, by that same national average (3.1%). Organizations in the Western provinces, however, expect to grant increases that are above the national average (3.5%).

Level of position	2005 Real Increases					
	Salary Increases (%)			Scale Increases (%)		
	Org.	50 th	Average	Org.	50 th	Average
Executive	155	3.4	3.9	97	2.3	2.3
Director	165	3.1	3.4	130	2.3	2.2
Manager	181	3.2	3.3	143	2.3	2.1
Supervisor/Specialist	170	3.0	3.2	137	2.3	2.1
Professional	167	3.0	3.2	139	2.3	2.2
Support	188	3.0	3.1	149	2.3	2.2
Sales	106	3.0	3.1	82	2.0	2.0
Hourly rate – Unionized	77	2.7	2.6	57	2.5	2.4
Hourly rate – Non-unionized	113	2.9	2.7	83	2.3	2.2
All levels combined			3.2			2.2

Level of position	2006 Forecasts					
	Salary Increases (%)			Increase in Scales (%)		
	Org.	50 th	Average	Org.	50 th	Average
Executive	143	3.3	3.4	103	2.5	2.3
Director	154	3.0	3.3	131	2.3	2.3
Manager	168	3.0	3.3	137	2.3	2.3
Supervisor/Specialist	160	3.0	3.3	135	2.3	2.3
Professional	159	3.0	3.3	135	2.3	2.3
Support	172	3.0	3.2	141	2.4	2.3
Sales	99	3.0	3.2	81	2.0	2.2
Hourly rate – Unionized	70	3.0	2.7	59	2.5	2.5
Hourly rate – Non-unionized	104	3.0	2.8	84	2.3	2.3
All levels combined			3.2			2.3

CHANGE 2005-2006 – SUMMARY

	2005 FORECAST	2005 ACTUAL	2006 FORECAST
Structure (scales)	2.5	2.2	2.3
Budget (salaries)	3.3	3.2	3.2

CHANGE 2005-2006 – BY PROVINCE

	2005			2006	
	Org.	Budget	Structure	Budget	Structure
National	205	3.2	2.2	3.2	2.3
Quebec	72	3.1	2.1	3.0	2.1
Ontario	72	3.1	2.3	3.1	2.3
Western provinces	58	3.4	2.2	3.5	2.5

INFLATION AND SALARY INCREASE FORECASTS

What impact will the oil crisis have on inflation and the Canadian economy as a whole? These are issues of concern for many organizations. Several experts believe that the oil price increases may have an impact on the global consumer price index since oil and its by-products play a major role in the production and delivery to market of many consumer products. Others expect the economy to slow down as a result of higher interest rates and the consumers' more conservative spending following oil price increases. Before the current crisis, the rate of inflation for 2005 and 2006 was expected to be approximately 2.0%, i.e. the same as the CPI increase for the 12-month period ending in July 2005. The 2006 salary increases should therefore remain what they were before the oil crisis. Some organizations may grant higher raises should the rate of inflation increase faster than expected, but others whose production costs have already been impacted by the higher oil prices will undoubtedly want to limit salary increases. Overall, we expect organizations to behave with caution by staying on course and taking a wait-and-see attitude toward the economy's fluctuations. The upcoming economic indicators, once published, should provide a better assessment of the situation.

For more information, please contact Bertrand Lambert, at (514) 845-6231.



The Morneau Sobeco survey on compensation trends and projections for 2006 is based on data collected from 301 organizations representing some 800,000 employees across Canada. The survey was conducted between June and August 2005. The detailed survey results were released in September 2005. The following tables summarize some of the main findings with respect to cash compensation.

In Canada, the average salary increase expected for 2006 ranges from 2.7% for unionized hourly employees to 3.3% for executives. The average salary structure increase expected for 2005 for all employee categories is 2.4% and 2.5% for executives. The average projected budget for 2006 salary increases is 3.2% including individual progression, a budget that is increased for half of the participants by an additional median provision of 1.0% of total payroll for special adjustments and promotions.

On the national level, salary freezes will be less frequent in 2006; some 10% of respondents reported salary structure freezes.

The highest salary increases are expected in Western Canada for executives, with an average increase of 3.5%. In Quebec, salary increases will be 3.3% for executives and 3.0% for non-unionized hourly employees. The following table shows the anticipated increases in Quebec for these two employee categories in 24 sectors or sub-sectors covered by the survey. One hundred seventy-eight participants with operations in Quebec are included in the Quebec overall results.

Cash bonuses expected in 2006 by operating revenue category and number of employees, regions in Canada, and/or industry sectors are presented in the detailed survey report.

The Morneau Sobeco survey on compensation trends and projections for 2006

Salary increase, by employee category, Canada

Employee category	Projection 2005	Real 2005	Projection 2006
Executives	3.2%	3.0%	3.3%
Management and professional employees	3.1%	3.0%	3.2%
Technical and administrative employees	3.0%	3.0%	3.1%
Non-unionized hourly employees	2.9%	3.0%	3.0%
Unionized hourly employees	2.5%	2.7%	2.7%

Expected average annual increase for 2006, by industry sector

Industry sector	Executives		Non-unionized hourly employees	
	Structures	Salaries	Structures	Salaries
Overall results – Quebec	2.3%	3.2%	2.1%	3.0%
Agriculture, forestry, fishing and hunting	1.3%	2.7%	1.3%	2.7%
Utilities	2.9%	2.9%	2.5%	3.3%
Manufacturing	2.3%	3.1%	2.2%	2.9%
Food, beverage and tobacco manufacturing	2.3%	2.8%	2.3%	2.8%
Paper or wood product manufacturing	2.7%	2.7%	2.0%	2.2%
Printing and related support activities	2.5%	3.6%	n/a	3.0%
Chemical or allied product manufacturing	2.4%	3.2%	2.5%	3.1%
Pharmaceutical manufacturing	1.8%	4.0%	2.3%	3.5%
Fabricated metal product manufacturing	2.5%	3.1%	2.5%	2.7%
Machinery manufacturing	2.5%	3.0%	2.5%	3.0%
Electrical equipment, appliance and component manufacturing	2.8%	3.4%	2.8%	3.4%
Furniture and related product manufacturing	2.1%	2.4%	2.1%	2.4%
Wholesale trade	2.3%	3.0%	2.7%	3.1%
Retail trade	2.5%	3.3%	2.1%	2.9%
Transportation and warehousing	2.7%	2.9%	2.5%	2.7%
Information and cultural industries	n/a	3.7%	n/a	3.0%
Finance and insurance	2.4%	3.4%	2.0%	3.1%
Credit intermediation and related activities	2.5%	3.6%	2.0%	2.5%
Insurance carriers and related activities	2.5%	3.6%	2.2%	3.4%
Non classified finance	1.9%	3.0%	1.9%	3.0%
Professional, scientific and technical services	1.8%	3.3%	1.8%	3.9%
Accommodation and food services	2.0%	3.4%	1.0%	3.0%
Other services (except public administration)	2.1%	3.2%	2.8%	3.4%
Public administration	2.7%	2.9%	2.3%	2.8%



The most important human resource issues facing employers for 2006 continue to be health care costs and pension costs. Hot skills retention and recruitment, employees' appreciation of benefits and performance measurement are other key issues. Some employees will see their share of the cost of health care benefits increase as close to 20% of employees indicated their intention to introduce or increase employee cost sharing.

2006 COMPENSATION PLANNING SURVEY FOR NON-UNION EMPLOYEES

Information in the tables below has been extracted from Mercer's 2006 Compensation Planning Survey for Non-Union Employees. Data was gathered between mid-July and mid-August 2005, with 384 organizations across Canada participating. We also provide the actual data for 2005.

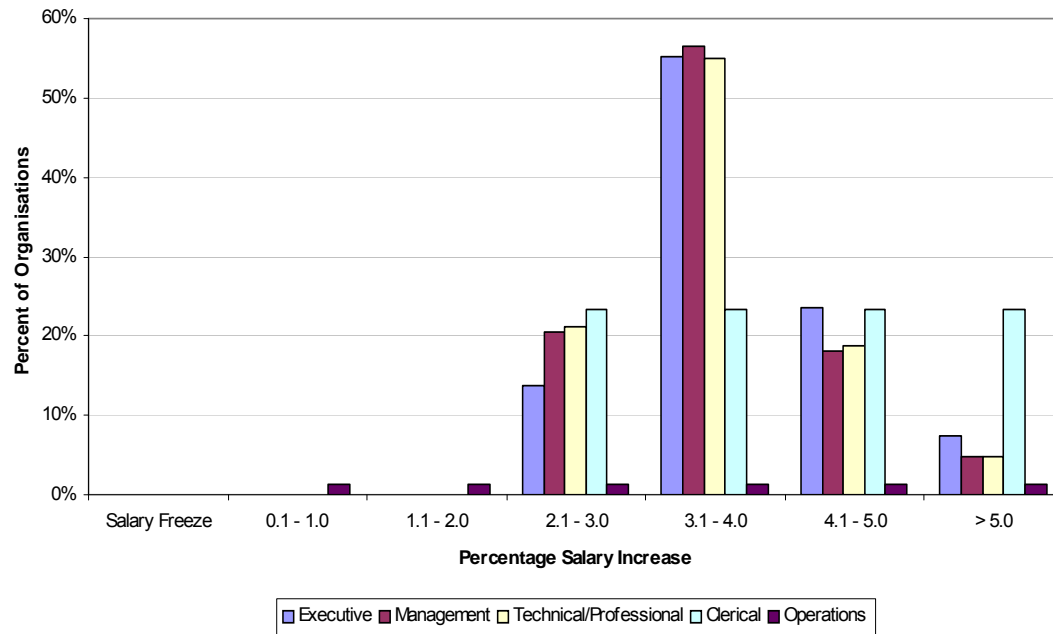
The first table shows the percentage of salary increases and salary structure increases in the Canadian private sector in 2005 and 2006. As shown, the pay and scale increases planned for 2006 are almost identical to those awarded in 2005.

Moreover, as in 2005, we notice a difference of 0.6% to 1.1% between the pay and scale increases, indicating that employees can move up within a pay scale.

The last table shows the expected distribution of the pay increases by job category. Very few organizations will freeze salaries in 2006. The vast majority of organizations will likely grant increases close to the predicted average.

	Executive	Management	Professional/ Technical	Clerical	Operations	All
Salary increases						
2005 (actual)	3.7%	3.4%	3.4%	3.3%	3.2%	3.4%
2006 (projected)	3.6%	3.4%	3.4%	3.3%	3.3%	3.4%
Salary structure increases						
2005 (actual)	2.6%	2.6%	2.6%	2.5%	2.6%	2.6%
2006 (projected)	2.6%	2.6%	2.5%	2.5%	2.5%	2.5%

Salary increases by employee category



For the third consecutive year, Alberta leads the way with projected salary increases of 3.5%, similar to British Columbia (excluding the Greater Vancouver area), followed by Manitoba, Saskatchewan and Vancouver (3.4%). In Quebec (excluding the Greater Montreal area), Ontario, and the Atlantic Provinces, projected increases are 3.3%, while organizations in the Greater Montreal area plan to grant salary increases of 3.2%.

For more information, please contact Marie-Lise Phaneuf, at (514) 841-6772 or Marc Chartrand, (514) 8804.

Survey conclusions

The Annual Canadian Salary Survey indicates that 2005 may be a turning point in salary increase trends. After three consecutive years of declining salary increases, there is a slightly higher level of increase in 2005 at 3.3%, compared to 3.2% the previous year. The trend towards higher increases is also reflected in employers' forecasts for 2006, with forecast salary increases of 3.3%, up from the 3.1% predicted for 2005.

However, salary increases are still modest, indicating that companies are still being cautious in how they manage fixed payroll costs. The Consumer Price Index (CPI), which is one of the determining factors when preparing the salary budget, has been affected by recent increases in oil prices. While Statistics Canada initially predicted a CPI of 1.8% for 2005, the rate has been revised upwards and could reach 2.2% by year-end.

Although many companies are thinking of increasing their salary scales to a level similar to the CPI, i.e. 2.6%, a quarter of them are not planning any adjustments. It will be interesting to see if Canadian companies can find ways to achieve productivity gains that will allow them to continue to grant salary increases above the Consumer Price Index without reducing their profitability.

In 2005, the percentage of respondents who indicated they have a short-term incentive plan was up slightly to 88%, compared to 86% in 2004. But while Canadian employers are indeed tying pay to performance, the difference in merit increases between average employees and top performers is not substantial – at 2.9% and 5.4% respectively.



Watson Wyatt's salary forecast for 2005 – 2006: Outlook and trends

Watson Wyatt's 37th Annual Canadian Salary Survey presents results based on data for 395 benchmark positions in 422 participating organizations, including 158 that have operations in Quebec. These data were collected in the spring of 2005.

Summary of results

- **Salary increases granted in Canada in 2005:** 3.3% (excluding 0% increases);
- **Forecast salary increases for 2006:** 3.3% (excluding 0% increases);
- **Forecast salary range adjustments for 2005:** 2.6% (excluding 0% adjustments).

Portion of the budget spent on salary increases in Canada – 0% increases excluded

Increases	Hourly paid employees	Office staff	Professionals / Technicians	Middle managers	Executives
Actual increases in 2005	3.1%	3.2%	3.3%	3.4%	3.6%
Forecast increases in 2006	3.1%	3.2%	3.3%	3.3%	3.4%

Salary range adjustments in Canada – 0% adjustments excluded

Adjustments	Office staff	Professionals / Technicians	Middle managers	Executives
Actual adjustments in 2005	2.6%	2.7%	2.7%	2.7%
Forecast adjustments in 2006	2.6%	2.6%	2.6%	2.7%

- The banking and financial sector, as well as the professional business services sector, granted the highest salary increases in 2005, namely 3.7%, but expect their increases to be similar to those in other sectors in 2006.
- The salary increases observed this year in the manufacturing sector (both durable and non-durable goods) are down from last year, and the high technologies sector is also close to the national average.
- The gap in base salaries between the public and private sectors has closed. For the past few years, government has been obliged to offer competitive compensation in order to attract qualified workers. However, it may be difficult to sustain such increases, given the pressure on public finances.
- Companies are developing more total rewards strategies. As a result, there is no significant difference between the salary increases in major Canadian centers.
- The gap between the salary increases given to executives and hourly paid employees has narrowed. Twice as many companies do not expect increases in their executives' base salary compared to those for other job classes in 2005 and 2006.

Trends and best practices

- Organizations that invest in their human capital may create a considerable competitive advantage and generate better returns for their shareholders. The "best practices" that have the greatest impact on results are: excellent recruiting methods, employee professional development, total rewards approach, managing employee turnover and communication.
- Organizations are increasingly formalizing their variable compensation practices: the percentage of companies that have a formal variable compensation plan rose from 78% in 2001 to 87% in 2005. However, a significant percentage of companies – 50% – still use subjective or discretionary objectives, which are more difficult to measure.
- Although 34% of the participating organizations used long-term incentive programs, this percentage jumps to 79% among publicly traded companies.
- In the next two to five years, human resources departments will focus on developing leaders, succession planning and performance management to make sure there is a link between performance and recognition so that they can reward their top performers and differentiate them from less productive employees.

2005 SALARY MANAGEMENT SURVEY

Each year, Towers Perrin conducts a survey of current salary management practices and trends in the Canadian marketplace. This year, 270 organizations participated in the survey.

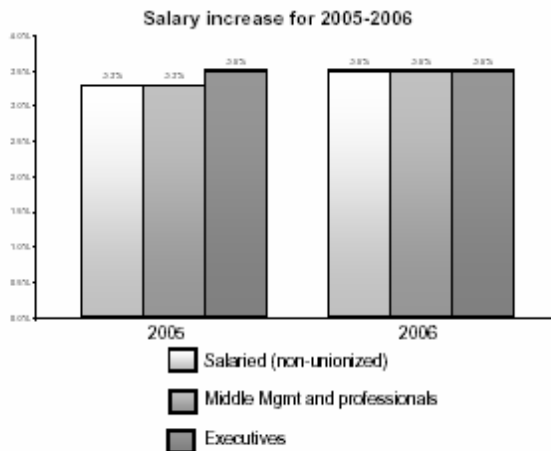
The following data have been extracted from the report issued in September 2005 and were analyzed for three employee groups (Salaried, Management & Professional and Executive).

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

Report Highlights

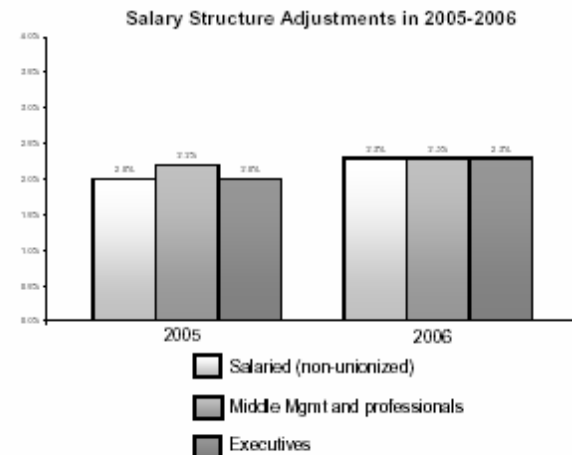
Salary Increases in 2005-2006

Percentage of the average salary increase granted in 2005 and anticipated in 2006 by the 270 participating organizations (by employee group).



Salary Structure Adjustments in 2005-2006

Salary structure average variation rates in 2005 and average rates anticipated in 2006 by the 270 participating organizations (by employee group).



Conclusions

Salary Increase

- In 2005, an increase was received by 91% of Salaried, 91% of Management & Professional and 92% of Executive employees, all industries combined.
- In 2006, 3% of participating organizations do not anticipate giving an increase to Salaried or Management & Professional employees, and 6% of companies do not anticipate giving an increase to Executive employees.

Salary Structure Adjustments

- In 2006, 13% of participating organizations do not anticipate adjusting salary structures for Salaried employees, while 13% of the organizations do not anticipate adjusting Management & Professional salary structures and 21% do not anticipate adjusting Executive salary structure.

Annual Incentive Plans

- 89% of survey participants offer annual incentive plans to at least one employee group.
- In 2005, the average budget for annual incentive awards was equal to 23.6% of the payroll for Executive employees, 12.4% for Management & Professional employees and 7% for Salaried employees.

For more information, please contact Jean-François Vernier, Senior Consultant, Compensation & Performance Management at (514) 982-2111.



2075, University Street
Suite 606
Montreal (Quebec)
H3A 2L1
Tel.: (514) 288-5161 /
1-877-288-5161
Fax: (514) 288-5165
www.cpq.qc.ca