ECONOMIC RESEARCH INSTITUTE

National Compensation Forecast

June 2017

2017 National Compensation Forecast

Each quarter, ERI examines the rates at which salaries have increased and provides guidance on expected rates of increase for the upcoming year. These rates are calculated using ERI's Salary Assessor and ERI's Salary Increase Survey & Forecast. Please find details on these analyses on the following pages.

As of April 1, 2017, salaries increased at a slightly higher rate than the previous quarter, ending on January 1, 2017. However, it should be noted that the actual increase for April is below the expected increase for April. For April, 2017, salaries were expected to grow at a rate of .55% per quarter throughout 2017, but April showed an actual increase of .49%.

There are two possible conclusions that could be drawn from these results. First, it is possible that salary growth is slowing. The second possibility is that larger salary increases will be coming later in the year. In considering economic conditions, the second possibility appears to be a more likely scenario. Specifically, decreasing unemployment tends to put upward pressure on salary growth. As labor becomes more scarce, employers must compete to attract talent, and higher compensation is one strategy that organizations use to acquire the talent they need. For this reason, ERI is expecting quarterly rates of growth higher than .55% in the coming quarters. Please see the graphics on the following pages for details on these analyses.

ERI's analyses on compensation growth are different from other measures of growth. These figures represent actual and projected salary growth for base compensation only. Other sources include data on the cost of benefits and incentives, as well as base compensation. By simplifying the analysis and focusing only on the fundamental component of compensation (base compensation), ERI hopes to provide a cleaner picture of how compensation is growing in the United States.

Overall Trends

Overall, participants in the Salary Increase Survey & Forecast are expecting slightly higher increases for 2017 than 2016. Also of note, actual growth increased in 2016 from 2015, though it is still lower than 2014. April salaries have increased by.45% *(see Table 1)* over the January 1 data release. This is an increase over the January 2017 increase of .36% To put this into context, the average quarterly growth over the past 20 years has been .78% *(see Table 2)*. Over the same 20-year period, the average April increase has been .79%.

	Percent Increase
2017 Projected Increase (Budget)	3.06%
2017 Projected Increase (Structure)	2.20%
2016-2017 Actual Increase	2.16%
January 2017 Actual Increase	0.45%

***Table 1*. Current projected and actual increases.**

	20-year	10-year	5-year	1-year
Average Quarterly Increase	0.78%	0.66%	0.59%	0.54%
Average January Increase	0.79%	0.60%	0.49%	0.45%
Average Yearly Increase	2.99%	2.60%	2.36%	2.16%

***Table 2*. Historical actual increases.**

To stay on target to reach the expected 2017 structure growth rate of 2.2%, salaries will have to grow at an average rate of .55% per quarter or 1.1% over 6 months. Salaries in January and April grew at a combined rate of .81%, which is lower than expected. However, the fact that salaries from January and April grew at a slower rate does not necessarily mean that overall growth is slowing. Salary growth may fluctuate from one quarter to the next. Indeed, the October version of this report showed a yearly growth rate that was above the expected growth rate. However, salaries did increase between January and April. To stay on track to match the expected growth rate of 2.2% the next two quarters will need to grow at a rate of .89% per quarter.

It should be noted that the data in the Salary Assessor may be expected to follow the 2017 structure increase instead of the budget increase. Since the Salary Assessor tracks how much structures move within organizations as opposed to budget increases. Because of this, comparisons are made to the 2017 structure figures instead of the 2017 budget figures.

Overall Trends by Year

Please refer to *Figure 1* below, which has three lines. Two lines (red and blue) represent projected salary increases from ERI's Salary Increase Survey & Forecast and the black line represents actual changes in salary reported in ERI's Salary Assessor. The red and blue lines represent what survey respondents expected to happen in a given year (collected in the previous year) and the black line represents what actually happened in a given year. By comparing these three lines, we can see the extent to which expectations met up with reality. As noted earlier, the actual movement (black line) is expected to follow the structure increase (red line). This is because salary surveys generally capture the movement of salary structures within organizations instead of measuring the salary increase of individual employees.

An examination of where the reality of salary movement (black line) has departed from the expected trend line (red line) gives us information regarding how salaries might move in the future. Specifically, the past three years have seen actual salaries grow at a rate that is higher than expectations from the previous year. However, over the past two years actual salary growth (black) has been more in line with expected growth (red). Because of this, it may be more likely that actual salary growth will follow the expected growth estimates for 2017.

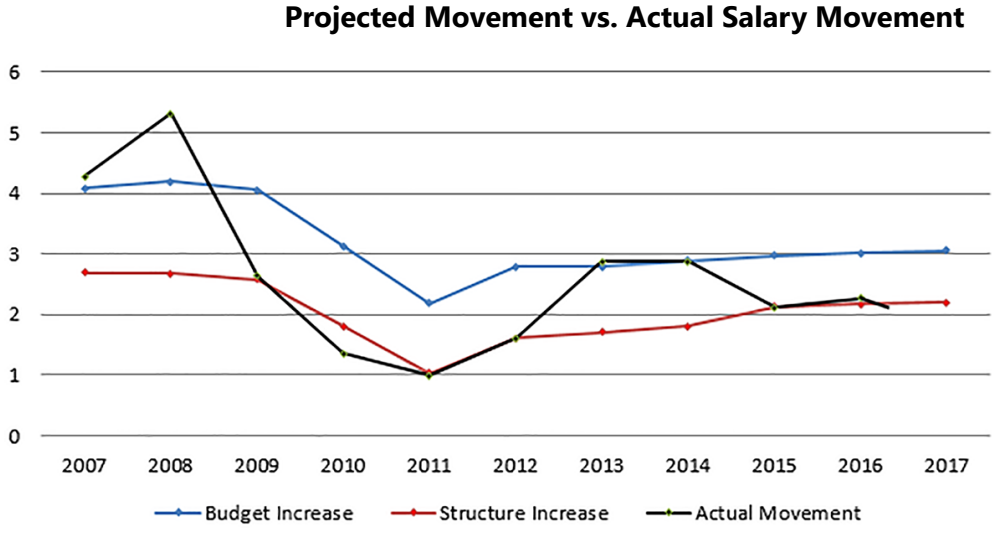
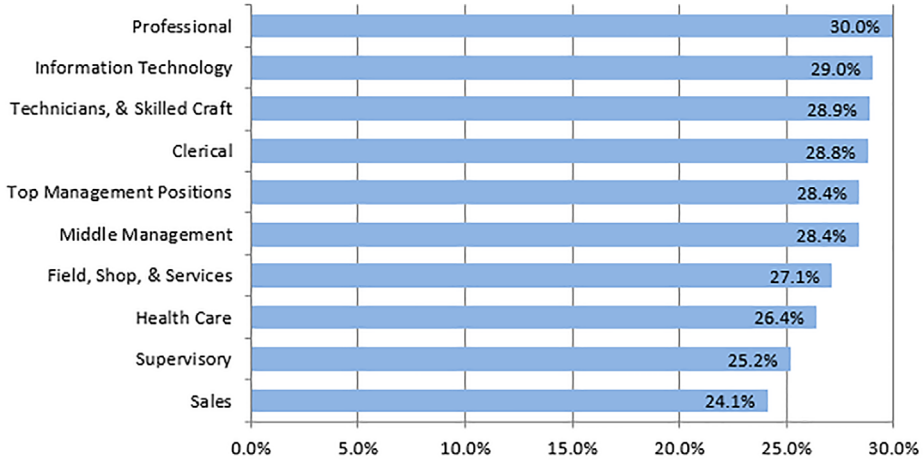


Figure 1. Overall Trends. **2017 Budget Increase (3.1%), 2017 Structure Increase (2.2%), 2016 Actual Increase (2.3%). Annualized Actual April 2017 (2.1%) Source: ERI Salary Increase Survey & Forecast and ERI Salary Assessor.**

10-Year Trend by Category

While it's valuable to know how all occupations are moving in this economy, it is also useful to know how different types of occupations move relative to each other and across time. Not all occupations grow at the same rate, and not all occupations grow at the same rate across time. *Figure 2* reveals the total growth experienced by across a 10-year period. If we break all occupations down into 10 categories it becomes clear that some occupations are growing at a faster rate than others. Specifically, Professional employees appear to have seen the highest level of growth, whereas Sales occupations have seen the slowest growth. It should be noted that Professional employee growth surpassed Information Technology in the past quarter due to a drop in information Technology.

Figure 2. **Total salary growth by occupational category 2007-20017. Source ERI Salary Assessor.**



2016 Mean Salary by Category

Table 3 reveals the actual growth rates for different occupational categories in the past three years and also provides information on whether the occupational category is seeing increased or decreased growth over the past three years. It is important to note that, just because an occupational category has decelerating growth, it does not mean that the trend will continue. All occupations may be expected to see salary growth over time, so an occupational category that has been down for a while may be more likely to see growth in the near future.

Occupational Category	Mean Salary	2016-2017	2015-2016	2014-2015	3-YR Growth	3-YR Trend
Top Management	$162,490	2.1%	1.9%	3.3%	2.3%	↘
Middle Management	$100,501	2.6%	2.8%	3.2%	2.7%	→
Supervisory	$76,659	2.5%	2.6%	2.9%	2.6%	→
Health Care	$111,887	2.3%	3.1%	3.2%	2.7%	→
Information Technology	$87,060	2.9%	2.9%	3.5%	2.9%	↘
Professional	$82,804	1.9%	2.6%	3.8%	2.7%	↘
Sales	$59,136	0.8%	4.2%	0.8%	1.9%	↘
Technicians and Skilled Craft	$58,989	2.2%	2.6%	2.9%	2.5%	↘
Field, Shop, & Services	$42,916	2.5%	2.7%	2.8%	2.6%	→
Clerical	$39,881	2.1%	2.1%	2.5%	2.1%	↘

Table 3. **Mean salaries by occupational category (April 2017). Note: Year ranges represent 1 year starting in April of the higher year (e.g. 2016-2017 represents April 1, 2016 to April 1, 2017).**

Occupational Categories

In the process of examining the growth of compensation data on a national basis, the data were broken into 10 specific occupational categories to study changes in compensation at a more granular level. The populations of these categories are illustrated in *Figure 3* below.

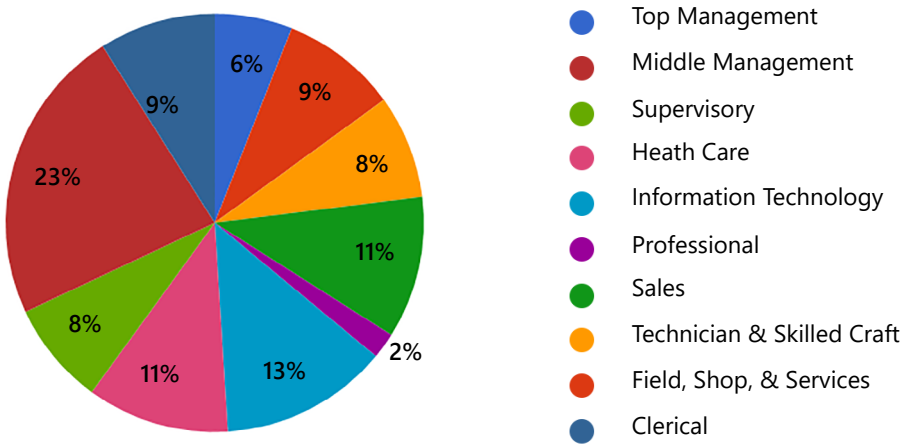


***Figure 3* illustrates each category's percentage as it relates to the total number of occupations.**

About the National Compensation Index and 2017 Forcast

The **National Compensation Index** is designed to capture salary changes across a broad range of jobs found in the United States economy. This index shows how national compensation has changed over the ten years prior to the time of publication: June 2017. The data contained in this report are derived from quarterly results published in ERI's Salary Assessor, a professional compensation tool used widely across the public and private sector, including most Fortune 500 organizations. For a full discussion of the product's methodology, please see the Salary Assessor methodology.

The specific data used in this report represent 1,482 distinct occupations, which were consistently surveyed across the twenty years covered by this report. These occupations range from the lowest paid occupation that ERI surveys (Dishwasher) to the highest paid (CEO) and represent mean base salary. Data are first examined on an aggregate basis before being broken down into 10 occupational categories. The data for the 2017 Forecast comes from data submitted to ERI's Salary Increase Survey & Forecast.

In coming quarters, ERI will continue to track and report on the trends that exist in the compensation landscape.

Please email Jonas Johnson at jonas.johnson@erieri.com with questions or comments.

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