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Planning Global Compensation Budgets for 2019



As we prepare for 2019 global financial budgeting, it is helpful to take a look at both the historical trends in salary increases and some key local economic factors, like unemployment rates, changes in GDP, and inflation. Moreover, we consider broader global trends for various economic groups to help place those increases and factors in context for the short-term (2018-2019) and medium-term (2020 into the next few years). We start by looking at some of the global outlook trends identified by International Monetary Fund (IMF) researchers in the recently released World Economic Outlook report¹.

Outlook

Overall, we are seeing a strong broad-based short-term outlook with balanced risks and a mixed, generally declining, medium-term outlook.

At 3.8%, global growth in real gross domestic product (GDP) in 2017 was the strongest since 2011. With financial conditions still supportive, global growth is expected to increase to 3.9% in both 2018 and 2019. GDP growth in the second half of 2017 was above 4% and exceeded forecasts in the October 2017 World Economic Outlook in many locations.

This positive momentum will eventually slow due to aging populations and lackluster productivity in advanced economies. The medium-term outlook is mixed in emerging market and developing economies, with a more favorable outlook in emerging Asia and Europe than in Latin America, the Middle East, and sub-Saharan Africa.

Inflation

With the upturn in oil prices since September 2017, headline consumer price inflation has picked up again.

Core inflation — that is, inflation rates when fuel and food prices are excluded — generally remains soft and is expected to vary across the advanced economy group. In most advanced economies, core inflation remains below target but appears to be edging up in response to stronger demand.

With supply effects and stronger demand putting upward pressure on commodity prices, plus a strengthening global outlook narrowing output gaps, headline inflation is picking up. Core inflation is expected to rise gradually as wage dynamics start reflecting tighter labor markets.

Headline inflation rates in advanced economies are projected to rise to about 2% in 2018–2019 from 1.7% in 2017.

¹ International Monetary Fund. 2018. World Economic Outlook: Cyclical Upswing, Structural Change. Washington DC, April.

Risks

Risks in the short-term are balanced, but trend to the downside in the medium-term.

Beyond the next few quarters, risks to the growth outlook are skewed to the downside. Concerns include a possible buildup of financial vulnerabilities as financial conditions remain accommodative; an erosion of support for global economic integration that could spur an inward shift in policies; and a host of noneconomic risks, including geopolitical tensions (most notably in east Asia and the Middle East), political uncertainty shifting policy (such as upcoming elections in Brazil, Colombia, Italy, and Mexico), and climate change (causing immediate economic and humanitarian costs and potentially leading to migration flows).

Projected 2019 Salary Increases by Country and Historical Trends

An analysis of projections of 2019 salary trends across 72 countries was conducted to support businesses in next year's salary increase budgeting. Table 1 presents some selected results of these analyses – a full table of the results is available in ERI's [Salary Increase Survey & Forecast](#). These tables also include the IMF's updated research on 2017, 2018, and 2019 actuals/projections for unemployment, growth in GDP, and change in the consumer price index (CPI). This advanced look at 2019 salary increase projections is based on ERI Economic Research Institute's extensive database and advanced analytics, plus global historical trends and projections. Data from government resources, publications, and over 25,000 companies were assessed in this review.

Table 1. Projected and Historical Salary Increase Rates and Selected Economic Factors for a Sample of 17 Nations (of 72 Available)

		Unemployment Rate ³			Real GDP ³			Consumer Price Indices ³			Salary Increase ²		
		% Labor Force			% Change from Previous Year			% Change from Previous Year			% Change from Previous Year		
		2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Americas	Argentina	8.1	7.7	7.5	2.5	2.5	3.2	26.9	17.8	15.4	28.0	26.0	25.0
	Canada	6.5	6.3	6.2	3.0	2.1	2.0	1.6	1.8	2.2	3.0	3.0	3.1
	Costa Rica	8.1	7.9	7.6	3.8	3.8	3.6	1.7	2.9	3.0	5.1	5.0	5.2
	Venezuela *	26.4	29.8	37.4	-12.0	-6.0	-6.0	652.7	2349.3	12874.6	238.0	*	*
Asia Pacific	Hong Kong	2.6	2.6	3.1	3.5	2.7	3.2	2.0	2.2	2.1	4.2	4.2	4.2
	New Zealand	4.9	4.6	4.6	3.5	3.0	2.9	2.2	2.0	2.1	3.1	3.0	3.1
	Pakistan	6.0	6.1	6.1	5.3	5.6	4.7	4.1	4.8	5.2	10.7	10.0	10.5
	Vietnam	2.3	2.3	2.2	6.3	6.3	6.5	4.4	4.0	4.0	9.7	9.5	9.6
Europe, Middle East, Africa	Algeria	11.7	13.2	11.8	1.5	0.8	2.7	5.5	4.4	7.6	6.3	6.3	6.5
	Bulgaria	6.6	6.4	5.8	3.6	3.2	3.1	1.1	1.4	2.1	4.0	4.0	4.1
	Denmark	5.8	5.8	5.6	1.9	1.8	1.9	1.0	1.4	1.7	2.6	2.6	2.7
	Ireland	6.4	5.9	5.2	4.1	3.4	4.0	0.4	1.5	1.3	2.4	2.5	2.5
	Kazakhstan	5.0	5.0	5.0	3.3	2.8	2.8	7.3	6.5	5.6	8.4	8.3	8.2
	Lithuania	7.0	6.5	6.8	3.5	3.5	3.0	3.5	2.0	2.2	3.6	3.5	3.4
	Qatar	0.3 ⁴	0.4 ⁴	0.2 ⁴	2.5	3.1	2.7	0.9	4.8	3.5	4.8	4.8	4.7
	Tunisia	13.0	12.0	14.8	2.3	3.0	2.9	4.5	4.4	6.1	6.5	6.5	6.7
Uganda	2.4 ⁴	2.4 ⁴	2.3 ⁴	4.4	5.2	5.8	5.8	5.6	4.3	6.8	6.8	6.7	

* Venezuela - Hyperinflation budget projected at 33-60% of inflationary rates for budgeting purposes only (local currency). Check with local resources and legal counsel prior to implementation.

² ERI Economic Research Institute

³ International Monetary Fund. 2018. World Economic Outlook Database - April 2018

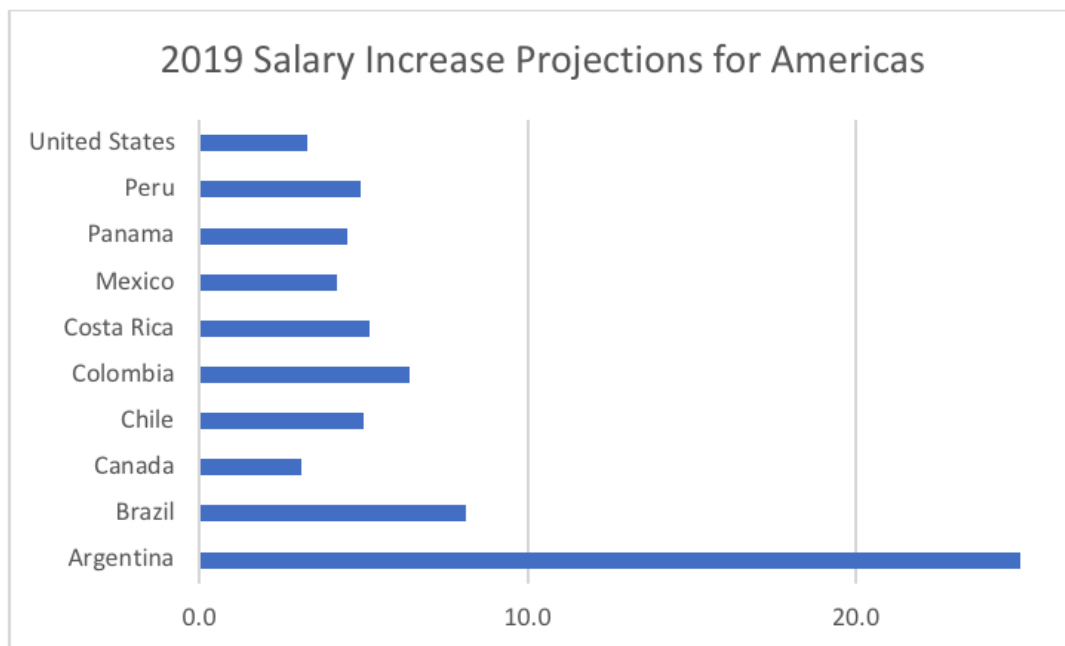
⁴ International Labour Organization. Unemployment Rate - ILO modelled estimates, November 2017

Key Observations Across All Countries

Americas

In North America, following an increase in inflation and favorable financial policies, the United States salary increase rate is expected to increase over the 2018 rate. Canada is projected to show a slight uptick, while Mexico a decline. Of the countries tracked in South America, the median increase is higher than overall North America at 6.4%, but half of the tracked countries are showing declining increases from the prior year.

Hyperinflation still remains a problem in two countries: Argentina and Venezuela. In the latter, inflation is so extreme that planning increases on an annual basis is likely insufficient; an annual projected growth rate is not reported here to emphasize this issue. In Argentina, inflation has been decreasing over the last few years, but still remains high.

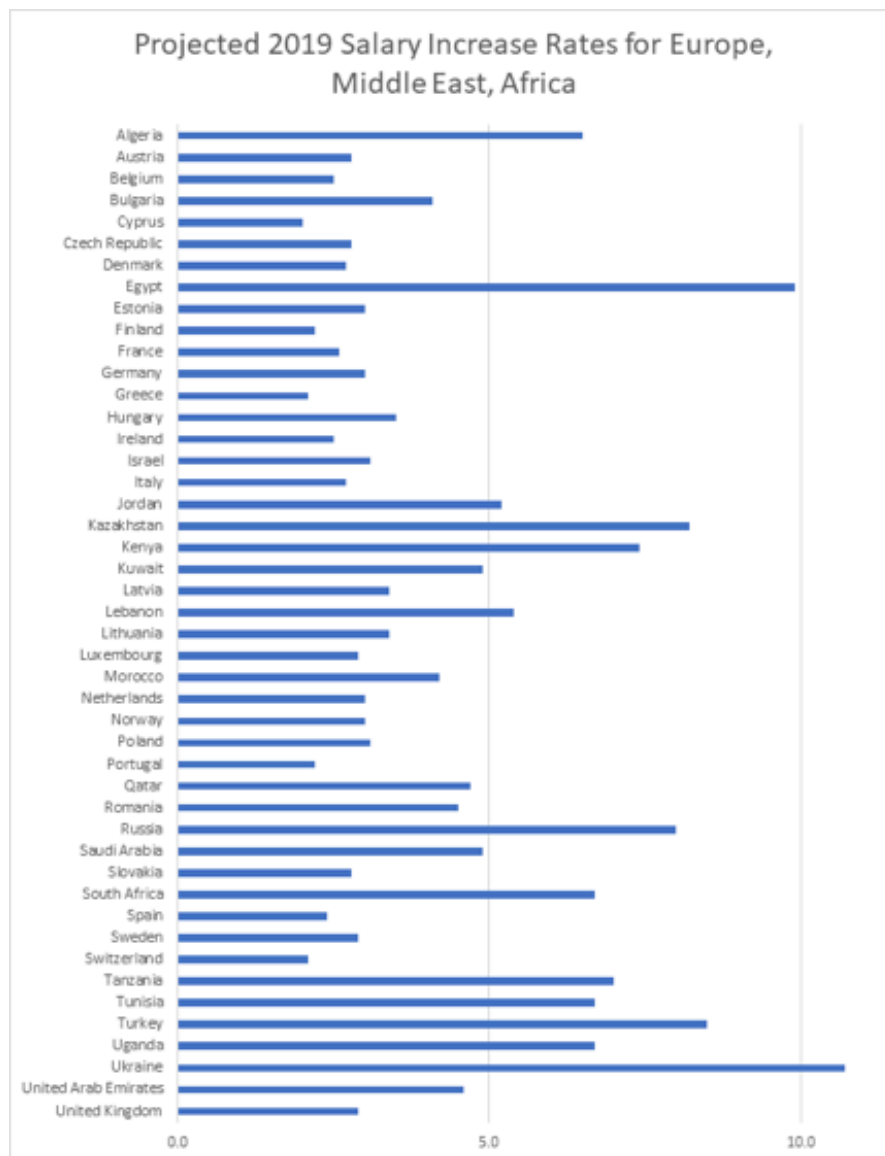


EMEA - Europe, Middle East, Africa

The median increase in Europe is just 2.85%. However, two-thirds of the tracked countries are either constant or showing gains over the prior year.

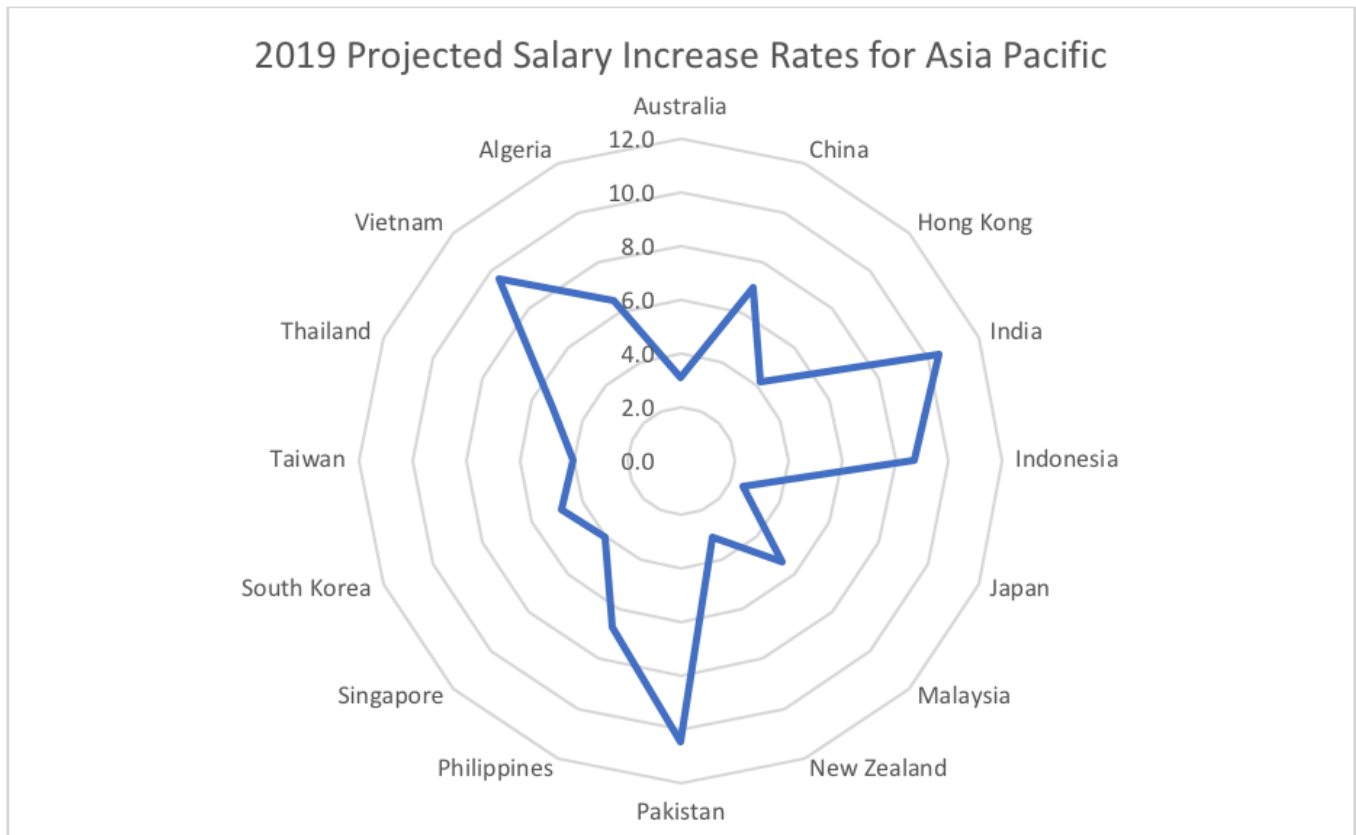
In Europe, Turkey is currently trying to avoid a collapse in its currency. Populist movements in Italy are a potential issue that could affect Italy's relationship with the Euro and EU. Brexit is scheduled for March 2019, and issues for the UK such as a customs union with the EU and the Irish border remain unresolved – increasing the likelihood of a hard Brexit in which the UK would give up full access to the single market and prioritize British control over its borders. A hard Brexit could have negative economic effects that impact the projections provided here.

Although we only track eight countries in Africa, half of those are showing declines in projected salary increases over the prior year. That being said, the overall median increase of 6.7% was the highest across all continents.



Asia

Countries across Asia show a median increase of 5.2% with a rather large spread from 2.5% (Japan) to 10.5% (Pakistan). Almost half of the countries tracked are showing gains from the prior year.



Summary

The 2019 projections indicate that salary increase budgets across the 72 countries have a median increase of 4.2%, with the middle 50% of all increases ranging from 2.9% to 6.7%. Consistent with the World Economic Outlook's strong global forecast for 2019, the salary increase projections are steady or increasing for two-thirds of the countries tracked.

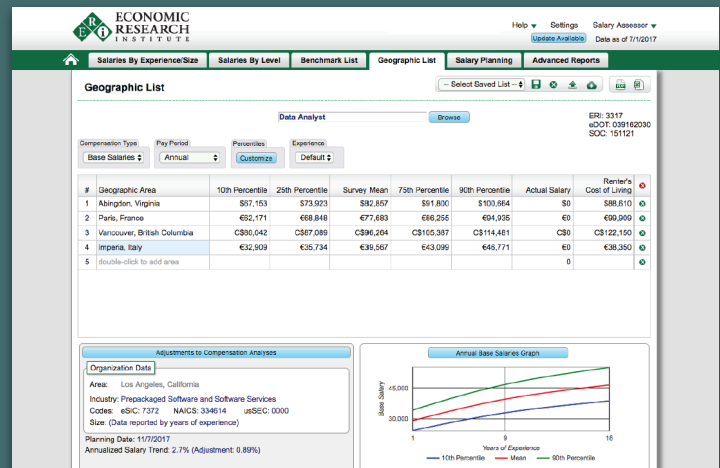
Despite the large number of advancing increases, the magnitude of these increases is not large, with 95% being 0.2% or less. Along these lines, the IMF also observes that "wage growth ... remains tepid in most advanced economies, moving broadly in line with labor productivity when measured in real terms." In advanced economies, the most prevalent salary increase projections are in the 2% to 4% range.

High inflation economies continue to require close observation and, as needed, action to ensure compensation programs remain up-to-date.

The IMF also observes that, with the combination of general slow wage growth and increasing inflation, "more than a quarter of emerging market and developing economies are projected to fall further behind advanced economies in terms of standard of living over the next five years."

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