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Employers increasing salaries as talent shortage and inflation persist

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Employers across the country are increasing wages and projecting future salary bumps into their budgets amid inflationary pressure and a continuing talent shortage that shows little sign of easing in the near future.

At the Mississauga-based construction giant EllisDon, for example, baseline salaries for employees have gone up significantly over the past year to match inflation, and the company is projecting a similar increase next year. "The amount of turnover that we have gone through … is astronomical. To say that it has been challenging would be an understatement," said Paul Trudel, senior vice-president of people and culture at EllisDon.

EllisDon employs close to 4,000 people. A third of the company's work force is unionized. According to Mr. Trudel, EllisDon has had to hire new employees at the top of the usual salary range just to get people to accept jobs – and as a result, baseline salaries for existing employees have to be raised as well to prevent them from leaving for other employers.

Opinion: Canada's government-driven labour market recovery is unsustainable

Canada's unemployment levels have been some of the lowest on record over the past six months, hovering between 4.9 per cent and 5.4 per cent. Job vacancy rates reached an all-time high of 5.9 per cent in the second quarter of 2022, meaning there is a historically high number of jobs available in the labour market right now versus people to do them. The mismatch is particularly acute in the food services, accommodation and construction sectors, Statistics Canada data indicate.

"There are offers coming in for our employees from other construction companies, developers and from the consulting world and they are being offered huge salaries," Mr. Trudel said. "Then there's also our hourly workers, who can take on multiple jobs instead because of the gig economy. So we're battling many challenges within our work force at the same time," he added.

A recent report from the global consulting and data analytics giant Mercer surveyed roughly 550 organizations across 15 industries in Canada, and it found that employers had budgeted 3.4 per cent for merit-based salary increases and 3.9 per cent for total compensation increases in their budgets for 2023.

The survey also found that in the first six months of 2022, per capita pay had increased by 4 per cent on average – with the biggest increases in the high tech, life sciences and manufacturing sectors (above 5 per cent). In banking and financial services, employers were adjusting salary structures to account for a 3.1-per-cent wage increase in 2023, on average.

Elizabeth English, a principal at Mercer Canada, pointed out that while compensation budgets were much higher than in recent years, planned increases will still fall short of year-over-year inflation, which reached a 40-year high of 8.1 per cent in June.

“Historically, companies have often relied on the competition for talent, not inflation, in shaping their compensation strategies. But because of inflation, we found that 34 per cent of businesses are considering ad-hoc, off-cycle wage reviews to combat turnover, compared to 19 per cent in March, 2022, in our last survey,” she said.

Indeed, Mercer’s findings correspond with recent survey results from the global employment agency Robert Half, which found that 42 per cent of employers in Canada are offering higher starting salaries to recruit skilled professionals, and 79 per cent of managers who have increased base salaries for new hires in the past year have also adjusted the pay of current staff.

To some extent, employers have found themselves in a wage-increase spiral of sorts. New hires have often been paid premiums, and employers anticipate having to increase salaries for existing staff, according to Ms. English. “They’re using the 2023 budget to address some of the pay equity issues from 2022,” she said.

In a survey of more than 17,000 businesses across the country earlier this year by the Canadian Chamber of Commerce, 45 per cent of businesses said they expected to increase wages by an average of 8.1 per cent in 2022.

“It’s clear that we have witnessed a great re-waging, driven by inflationary pressures but also the intense competition to attract and retain talent. And we expect that to continue,” said Patrick Gill, senior director of operations and partnerships at the Ottawa-based organization.

The average hourly wage in Canada increased 5.4 per cent in August, compared with the previous year, but wage gains by unionized and non-unionized workers still lagged the inflation rate.

The chamber’s most recent survey, for the third quarter of 2022, showed inflation and the talent shortage were still central concerns for businesses – 60 per cent cited rising inflation as their biggest challenge, and 39 per cent said recruiting skilled employees was a massive obstacle.

Janet Candido, a long-time human resources professional who runs a consulting business in Toronto that advises employers on HR issues, told The Globe and Mail she is increasingly encountering employees who are demanding wage increases that match inflation. “I had to deal with an employee, who works in financial services, who wants an 8-per-cent salary increase, after getting a 5-per-cent salary increase last year. The employer told her, ‘Look, we can’t do that, but we can give you more time off.’ But I am fully expecting the employee to start looking for other jobs,” Ms. Candido said.

One way employers are navigating the demand for higher salaries is to offer better benefits and higher bonuses, Ms. Candido said. “I’m seeing HR professionals getting more creative with compensation packages. They are expanding health spending accounts, or improving mental-health benefits.”

At EllisDon, Mr. Trudel said the company is taking proposals from insurers for a better employee benefits package that will ultimately increase total compensation, even if it is not in the form of a base salary hike. The construction company is also looking to offer better top-up pay for parental leave.

“We already give employees a solid benefits package and shares in the company. But to compete in this market, we are going to have to do more,” he said. “Sometimes, you have to spend money to make money. And we have made a conscious decision as a company to do that.”

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