
With Inflation on the Rise, the Latest Salary Data Reflects Higher Than Normal Increases

According to recent data from Aon's Salary Increase and Turnover Study, overall salary budgets are rising around the world at a rate far beyond recent memory, reinforcing the current employee-driven market and demand for talent. But, given the uncertain economy and rising inflation, will this trend last?

Overall salary increase budgets have risen by half a percentage point or more in key markets, reaching the highest numbers we've seen for decades. The United States (U.S.) and India are leading with a median of 4.6 percent and 10 percent increases, respectively. Voluntary turnover rates are also high, further indicating the reality that it is still very much an employee-driven labor market.

Given this dynamic, companies are offering incentives and higher pay to lure and retain workers. Despite rising inflation and economic headwinds on the horizon, data from Aon's most recent [Salary Increase and Turnover Study](#) shows robust salary increases for this year's budgets, as reported during the first half of 2022. However, with market challenges growing day-by-day, companies are more likely to proceed with caution and could modify the budget plans they report in the second half of 2022.

This article takes a closer look at what organizations across the globe are doing to help businesses make informed workforce decisions that ensure they are spending both wisely and competitively for the future.

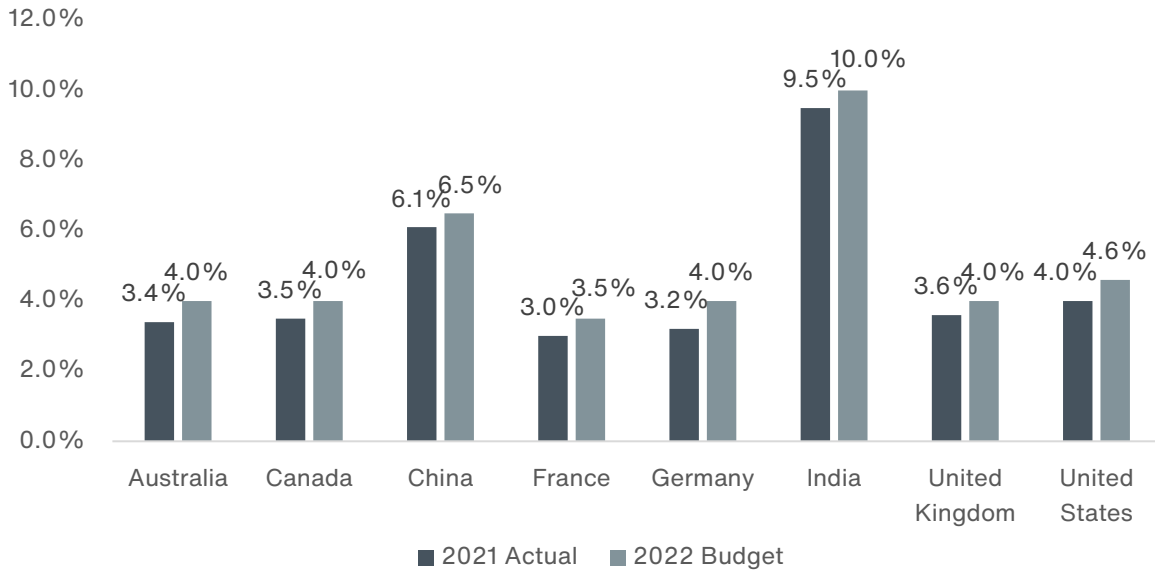
Significant Increases in Overall Salary Budgets for 2022 vs. 2021

On the whole, the job market remains very competitive. Candidates are being hired at higher salaries, raising the bar for compensation levels of existing employees. When examining our global survey data of nearly 2,000 employers across 112 countries from 2021 to 2022, overall salary budgets – including merit, promotion and adjustments – are increasing around the world. Are such increases sustainable?

Recent discussions with several of our large technology clients suggest that many businesses, having already delivered strong 2022 salary increases, do not plan to immediately offer more compensation to employees. Those who will provide increases later in the year, including preliminary 2023 strategies, anticipate reviewing budgets with a keen eye on the impact inflation is having on employees, labor costs and operating margins.

The chart below compares the median undiluted data (companies that are providing increases) for 2021 and 2022 for key regional markets.

Figure 1 – Median Overall Salary Increase Budget: 2021 Actual vs. 2022 Budget

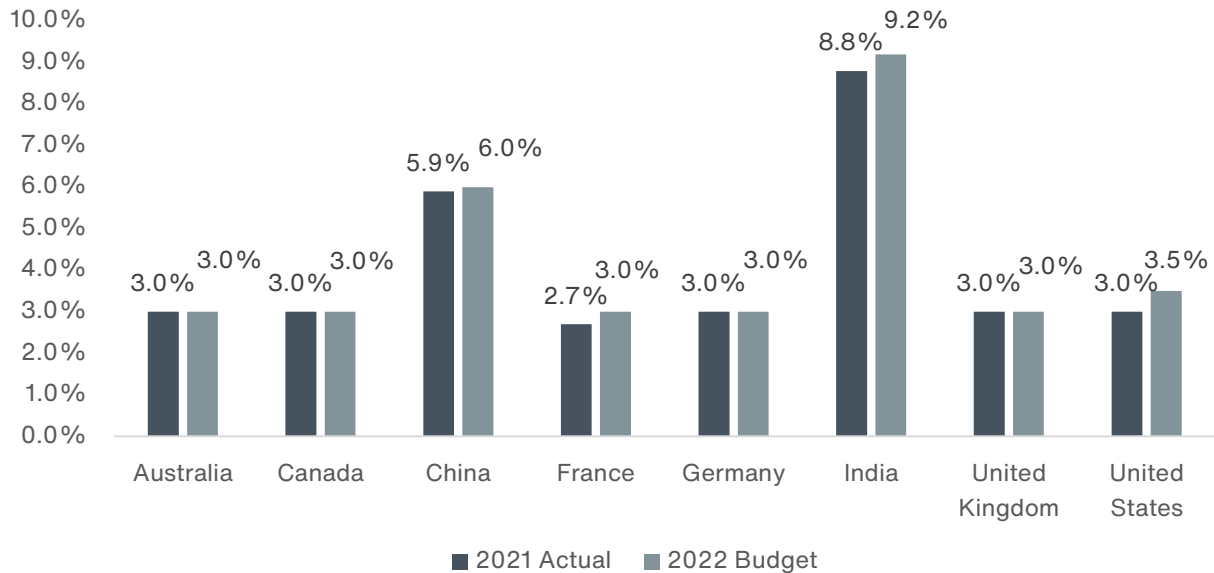


Source: Aon’s Salary Increase and Turnover Study – First Edition, May 2022

*All data represented is the median (50th percentile) and undiluted (excluding zeros)

Specific budgets for merit, promotion and adjustments are reported by a subset of organizations since many companies do not establish special “buckets” for each of these separately reported purposes (which don’t show as much movement as the overall figures). Out of these categories we see the largest merit increase budgets, primarily in the U.S. and India, surging by more than a half percentage point on average. Although less significant in other countries, the trend upward is still clear. Money for salary increases is much larger this year and has changed at a rate far beyond recent memory.

Figure 2 – Median Merit Salary Increase Budget: 2021 Actual vs. 2022 Budget



Source: Aon’s Salary Increase and Turnover Study – First Edition, May 2022

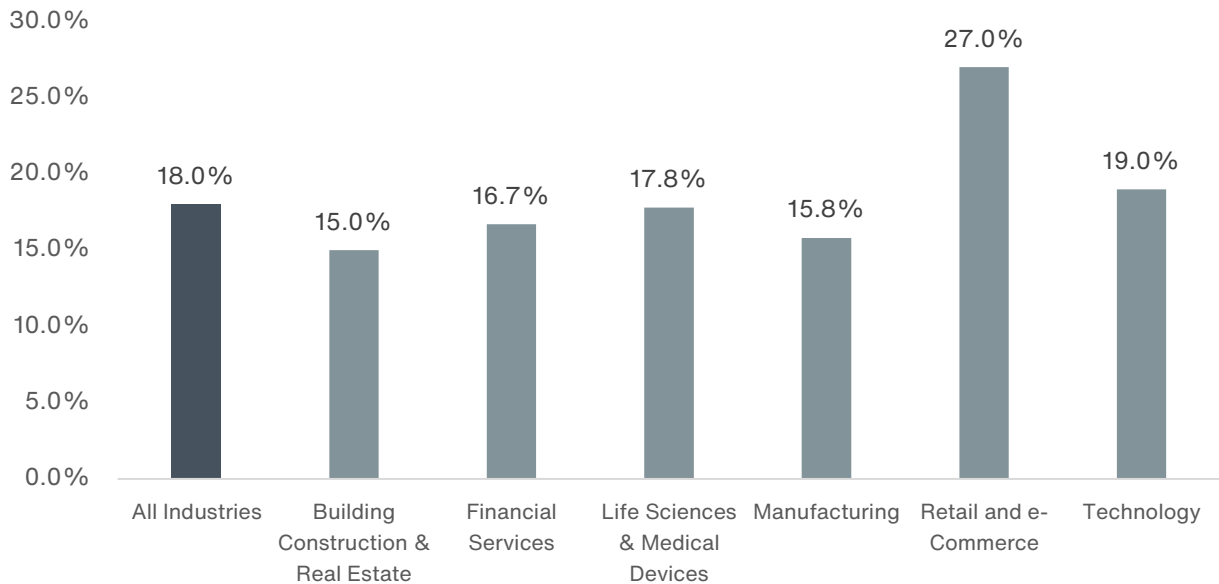
*All data represented is the median (50th percentile) and undiluted (excluding zeros)

In the U.S., approximately 11.8 percent of the surveyed population is getting promoted at an average salary increase rate of 9.1 percent, which means 1.1 percent of payroll is being spent on promotions. This is not a significant shift from years past, indicating that the growing budgets we are seeing are being predominantly used towards special adjustments to help underpaid individuals get fair compensation. This comes as no surprise given the recent push for [pay equity audits](#) and other diversity, equity and inclusion (DE&I) initiatives.

Turnover Rates Remain High, Along with Expectations for Growth

The sudden switch to remote work encouraged employees to re-evaluate personal and professional considerations, leading to increased levels of voluntary turnover – or what many are calling the Great Resignation. While this has already been an existing trend, when examining the average headcount for the year, overall turnover continues to rise. However, increases in rates of voluntary turnover are likely to decline due to growing concerns over inflation, stock market declines and the prospect for a recession. Contrastingly, during the pandemic, we saw higher involuntary turnover as employers were responding to a slowdown or uncertainty in their business. Overall, retail and e-Commerce had the highest turnover rates (27 percent) among industries measured.

Figure 3 – Median Turnover in Calendar Year 2021: All Industries vs. Individual Sectors



Source: Aon’s Salary Increase and Turnover Study – First Edition, May 2022

*All data represented is the median (50th percentile) and undiluted (excluding zeros)

People are leaving on their own terms, indicating the power of the employee in the current market. Combined with the reality that firms are hoping to grow their workforce, it is clear that the demand for talent remains. However, the anticipated economic slowdown should give companies pause about over-reacting to reported trends. Individual situations vary and business conditions must be factored into all future decisions on pay increases.

“Full year 2021 U.S. voluntary turnover rates released in this edition were within one percent of the rates projected using data from previous editions.” explains Tim Brown, partner and global technology sector leader in Aon’s Human Capital Solutions practice. “This suggests that the rate of increase in voluntary turnover stabilized in the second half of 2021. The trend may even turn downward in the second half of 2022, if slower economic growth and recession fears cause employees to think more cautiously about changing jobs.”

For now, we are still seeing fairly aggressive hiring trends, especially in India and the U.S. Nearly one-third (32 percent) of companies surveyed in India and 40 percent in the U.S. are actively planning and recruiting to grow their organization in the next 12 months – more than 10 percentage points higher than the next most aggressively hiring locations of the United Kingdom and Canada.

More specifically, 24 percent of U.S. companies plan to increase their workforce by more than 15 percent over the next year. This number is simply unrivaled around the world. Even with looming economic uncertainty, businesses in this region are determined to grow their headcount and make up

for the talent they've lost. Therefore, firms must continue to reevaluate competitive pay packages to attract and retain the skills they need.

Next Steps

The market is fluid and volatile, but it's certainly still hot. Turnover levels remain high and as a result, companies are allocating substantial increases to their salary budgets. However, it's important to remember that there isn't a one-size-fits-all approach to keep up with fluctuating market trends. Technology companies are different than life sciences companies, which are different from consumer goods and so on. Hardware companies are even different than software companies. While in the past, a 3 percent increase was considered status quo each year, this is no longer the case. Each industry and company will have its own unique fact pattern, making it imperative for employers to consistently analyze the market, study the available data and determine their own best path forward.

Our current efforts are to measure the market again now to gain market-leading insights on 2022 budget plans and projects for the year ahead. Participation for the second edition of the 2022 Salary Increase and Turnover Study is now open. [Click here](#) to complete your submission and receive a complimentary copy of the results.

For additional insights or questions, please write to one of our human capital experts at humancapital@aon.com.

Author Contact Information

Tim Brown
Partner, Human Capital Solutions
Aon
+1.650.248.1302
tbrown@aon.com

Karen Haack
Director, Human Capital Solutions
Aon
+1.847.442.3746
karen.haack@aon.com

About Human Capital Solutions

Aon's human capital business provides leaders with a powerful mix of data, analytics and advice to help them make better workforce decisions. Our team, spanning 2,000 colleagues in more than 30 countries, includes the firm's rewards, talent assessment, and performance & analytics practices. To learn more, visit humancapital.aon.com.

About Aon

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

This article provides general information for reference purposes only. Readers should not use this article as a replacement for legal, tax, accounting or consulting advice that is specific to the facts and circumstances of their business. We encourage readers to consult with appropriate advisors before acting on any of the information contained in this article.

The contents of this article may not be reused, reprinted or redistributed without the expressed written consent of Aon. To use information in this article, please write to our team.

© 2022 Aon plc. All rights reserved