

Use of SEPH earnings data for contract escalation

Statistics Canada neither encourages nor discourages the use of SEPH data for contract escalation purposes, but can offer advice of a purely statistical nature on the limitations associated with the use of its data.

The Survey of Employment, Payrolls and Hours (SEPH) earnings statistics are sometimes used in the public and private sectors to index various types of labour costs, usually through contractually set pricing formulae.

SEPH publishes a wide range of earnings estimates, many of which are not advisable for pricing purposes. Generally speaking, it is preferable **to avoid** using series for highly disaggregated industry groupings (4 digit of the NAICS), as well as those estimates specific to class of worker, that is hourly, salaried or other employees, as these series are based on a relatively small sample. Canada trend and level estimates for a given industry are usually more stable than their Provincial/Territorial counterparts. Users should always consider available quality indicators and the number of employees relevant to the earnings series they are interested in.

It is important to note that changes in average earnings reflect a number of factors, including wage growth, changes in composition of employment by industry, occupation and level of job experience, as well as average hours worked per week – not to mention sampling variability. As an attempt to observe earnings over time while controlling for changes in hours and employment, Statistics Canada produces Fixed Weighted Index (FWI) data. This approach is closer to the concept of a labour or employment cost index as used in other countries, but does not control for other factors that can impact on earnings. The FWI is only available at higher levels of aggregation, does not include overtime earnings and does not include earnings data from employees on commission or paid by a piece rate.

In addition, the use of month-over-month changes to escalate costs should be avoided in favour of year-over-year movements based on annual averages. If monthly calculations are required, moving averages of several months should be strongly considered.

Any indexing formula should also take into account the fact that the survey data undergoes periodic revision. **Users should always use current and complete data series.**

For more information, contact us (toll-free 1-800-263-1136; STATCAN.infostats-infostats.STATCAN@canada.ca).