



The Hudson Report

Employment and HR Trends

New Zealand | July – December 2006

Part One | **EMPLOYMENT EXPECTATIONS**



Hudson

*From great people
to great performanceSM*

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About Hudson

Hudson is a worldwide leader in the provision of specialised recruitment, managed services and talent management solutions.

Through this diverse service offering Hudson works with a variety of employers to attract, select, engage and retain the people they need to succeed.

Hudson is a division of Hudson Highland Group Inc (NASDAQ: HHGP) one of the world's leading professional recruitment, retained executive search and talent management solution providers.

More information about Hudson is available at
www.hudson.com

Introduction

Based on nation-wide research, the Hudson Report uncovers and analyses the hiring expectations of New Zealand companies over the coming six months and provides insights into a range of topical human resource issues currently impacting business.

While a number of surveys currently in the marketplace cover hiring intentions and job vacancies, there is a real gap in knowledge and data around broader human resources issues and trends. The Hudson Report fills this gap by publishing Part 2 of the report which covers a variety of areas including performance management, learning and development and career planning.

The core findings of Part 1 are built on the premise that the expectation to increase or decrease net staffing levels represents a significant indication of employers' optimism for the growth of their organisations.

This document frequently refers to the term "net effect" in relation to employment expectations. The current "net effect" is arrived at by subtracting the expected decrease in employee numbers from the expected increase in staff levels.

Summary of Findings

Employment Expectations

The Hudson survey of permanent hiring expectations for the six months to December 2006 has recorded positive sentiment. The survey of 1,705 clients showed a positive net effect of 36.0%. While positive net effects have been recorded across all industries and regions the results represent a decrease of 0.6pp on our previous survey and is the lowest level of sentiment recorded in two years.

Positive net effects were recorded across all regions surveyed. The Lower North Island has again recorded the highest level of optimism; net positive 42.6%, followed by the Upper North Island; net positive 32.4% and the South Island; net positive 27.5%.

The Hudson survey indicates a positive outlook across all industries for the coming six months. Industries that have indicated a more positive sentiment than the national average include:

- Information Technology (+54.1%)
- Financial Services / Insurance(+48.4%)
- Construction / Property / Engineering (+47.7%)
- Government (+46.3%)
- Professional Services (+45.2%)

Small, medium and large employer groups have all recorded an optimistic permanent staffing outlook for the six-month period July – December 2006. Small organisations (<20 employees) with net positive 42.7% recorded a 4.5pp decrease in positive sentiment when compared to our previous survey. Medium-sized organisations (20-200 employees) with +36.7% recorded a 1.9pp decrease, while large organisations (>200 employees) with +34.3%; showed a slight increase of 1.1pp on the results of our June – December 2006 survey.

Of the employers surveyed, a net +17.5% indicated that they intend to increase their contracting/temporary workforce over the July – December 2006 period. This represents an increase of 1.6pp when compared to our previous survey. The Upper North Island recorded the highest net positive result; +19.6%, with the South Island and Lower North Island recording a net positive 15.4% and 15.6% respectively.

Permanent Employment Expectations

The Hudson survey of permanent employment expectations for the six months to December 2006 shows positive sentiment.

The result of the survey of 1705 clients shows that a net positive 36.0% of employers indicated an intention to increase permanent employment levels over the coming six months. This represents a negative movement of 0.6pp when compared to our previous survey (six months to June 2006). At a net positive effect of 36.0% this represents the lowest level in over two years.

A further analysis of the responses shows that, of all employers surveyed, 44.9% indicated that they anticipate an increase in current permanent staffing levels over the July – December 2006 period, with a further 8.9% expecting a reduction in permanent staffing

numbers. So, while the net positive figure has declined over the last six months, this is due to an increase in the number of employers who intend to maintain staffing levels at current levels as opposed to an increase in the number of employers who said they anticipate permanent employment levels to be lower in six months time.

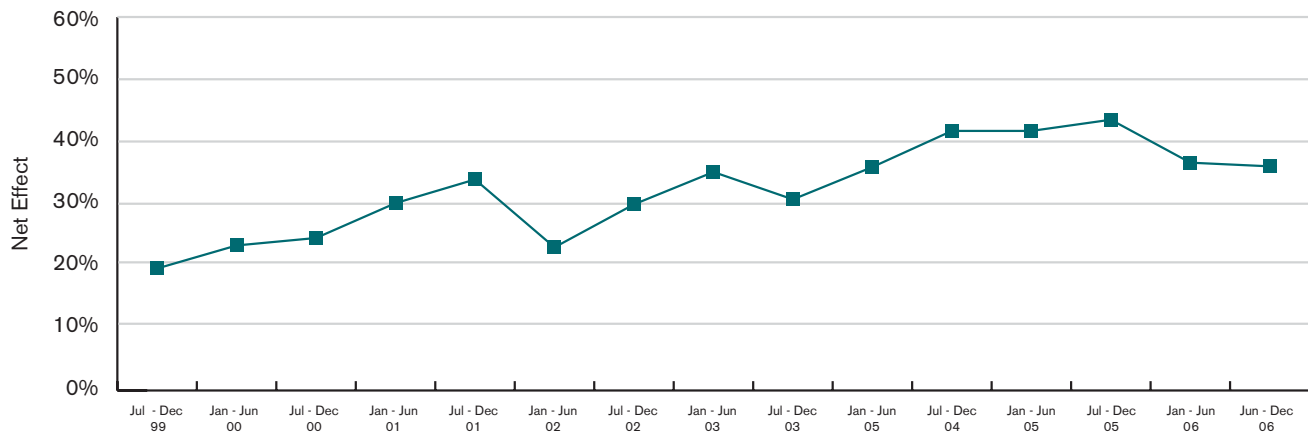
The survey shows, and anecdotal evidence from our clients reinforces, that employers are more cautious about the future than over the previous two-year period. While the economy is slowing there are also short-term inflationary pressures being experienced by the economy that is having an effect on the hiring intentions of managers. Historically, high oil prices are feeding into the CPI inflation index and the continuing robust performance of the resource fuelled Australian economy, which is drawing skilled

members of the workforce across the Tasman, is continuing to exert upward pressures on wage rates.

Positive net effects were recorded across all regions surveyed, with the highest level of optimism recorded for the Lower North Island (+42.6%), followed by the Upper North Island (+32.4%) and the South Island at +27.5%

When compared to our previous survey only the Lower North Island has recorded sentiment in excess of six months ago. At net positive 42.6% this is 4.3pp up on our previous survey. The results for the South Island show a negative movement of 9.7pp when compared to the January to June 2006 period and the Upper North Island shows a reduction of 2.8pp on six months ago.

National Permanent Employment Expectations (July 1999 - Dec 2006)



Permanent Employment Expectations

By Industry

The Hudson survey indicates a positive outlook across all industries for the period July – December 2006. Five of the 17 industries surveyed recorded outlooks higher than the national average of net positive 36.0%. These include:

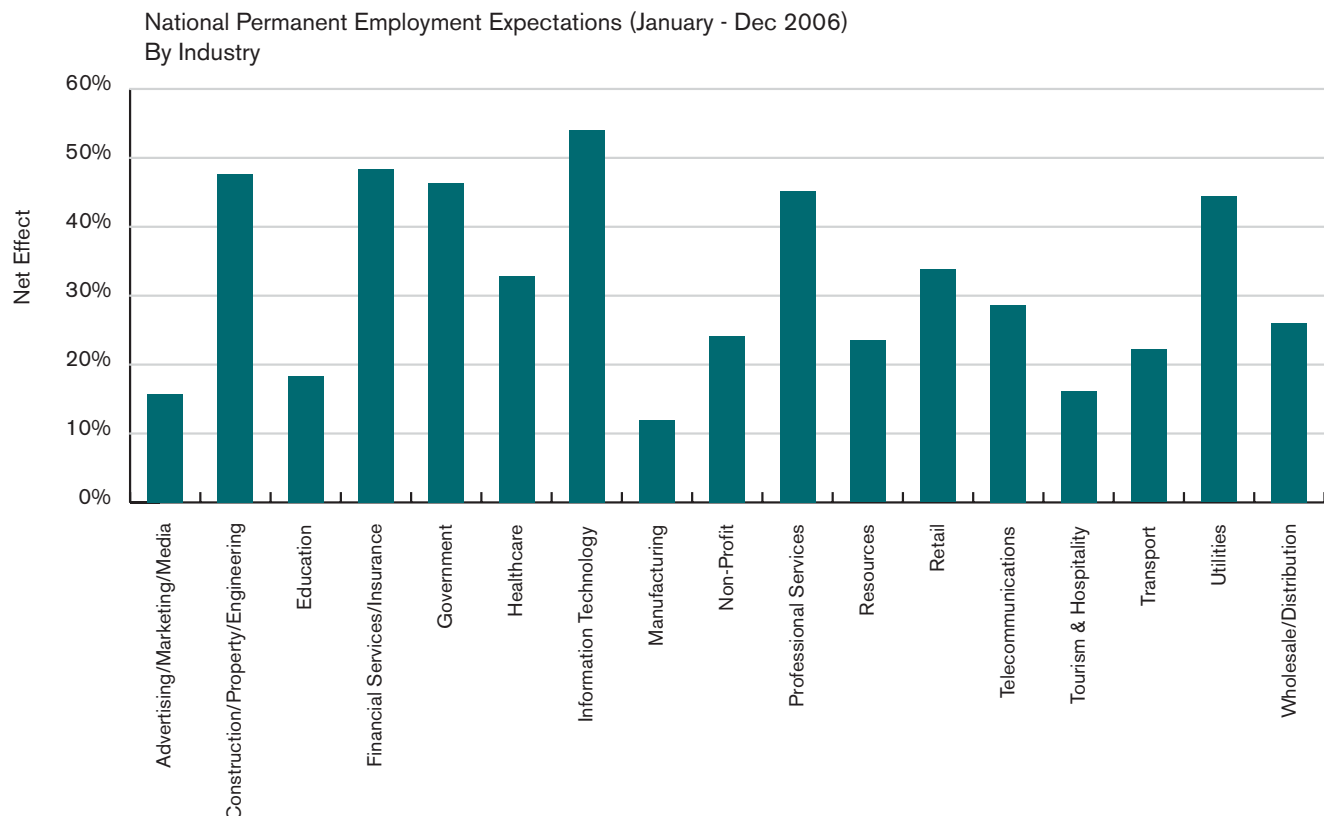
- Information Technology (+54.1%)
- Financial Services / Insurance (+48.4%)
- Construction / Property / Engineering (+47.7%)
- Government (+46.3%)
- Professional Services (+45.2%)

There have been large positive movements from the Financial Services / Insurance sector, up 13.6pp and the Government sector up 8.8pp, while significant negative movements have

been recorded by the Transport sector, down 22.8pp, the Advertising sector is down 17.3pp, the Tourism & Hospitality sector down 14.2pp and the Manufacturing sector, down 12.3pp.

The Information Technology sector continues to be the most positive segment of the economy. A net positive 54.1% of employers stating that they intend to increase employment levels over the coming six months. While this is marginally down, 1.7pp down on our previous survey, the result continues to indicate an extremely positive outlook for the coming six months in this sector and is 18.1pp above the national average.

The Construction/Property/Engineering industry continues to record strong results significantly in excess of the national average. While recording a negative 5.7pp movement on our last survey the sector remains, at net positive 47.7%, 11.7pp above the national average.



Permanent Employment Expectations

By Organisation Size

There continues to be a significant variation in optimism levels in regard to permanent employment expectations depending on size of the organisation. Small organisations, with a net positive 42.7% of employees indicating an intention to increase permanent employment levels, are 6.7pp above the national average. At a net positive 36.7% medium-sized employers are slightly above the national average while larger organisations, with a result of a net positive 34.3% are 1.7pp below the national average.

Movements on our last survey results are:

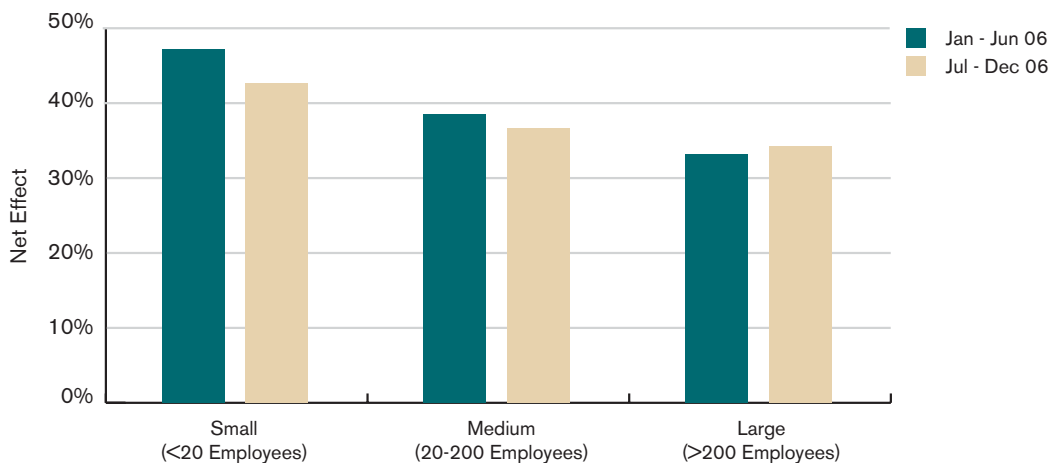
Small Organisations – 4.5pp

Medium Organisations – 1.9pp

Large Organisations +1.1pp

Hudson has observed that large companies have been experiencing hiring freezes driven by events such as organisational restructures. However, small businesses have remained more buoyant due to their flexibility, niche market focus and value-add rather than commodity offering.

Permanent Employment Expectations by Organisation Size:
Comparison with Previous Survey Period



Permanent Employment Expectations

By Region – Upper North Island

Employees surveyed from the Upper North Island have recorded a positive outlook with regard to permanent employment expectations of +32.5%. This is 2.8pp lower than our last survey. Of the employers surveyed, 42.2% expect to increase staff numbers over the coming six months compared with 9.8% who anticipate a reduction in current staffing levels.

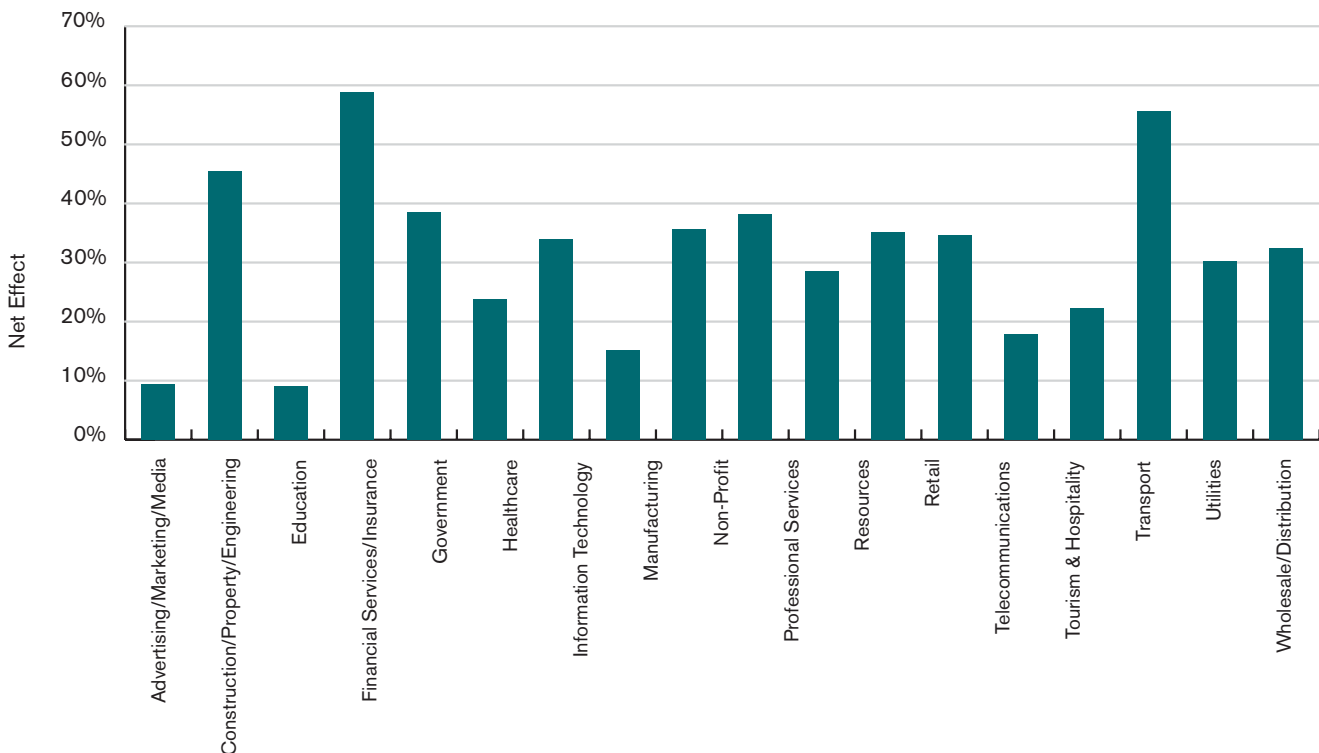
The most buoyant outlook was recorded for the Financial Services /Insurance sector, with a net positive outlook of 58.9%. Only 4.3% of

Financial Services/Insurance companies surveyed indicated that they foresee a decline in permanent employments levels over the next six months. This is the highest level of optimism recorded for the sector in over four years.

Other industries showing levels of optimism more positive than the regional average include:

- Construction/Property and Engineering (+45.5%)
- Professional Services (+38.2%)
- Retail (+35.2%)

Upper North Island Permanent Employment Expectations (July - December 2006)
By Industry



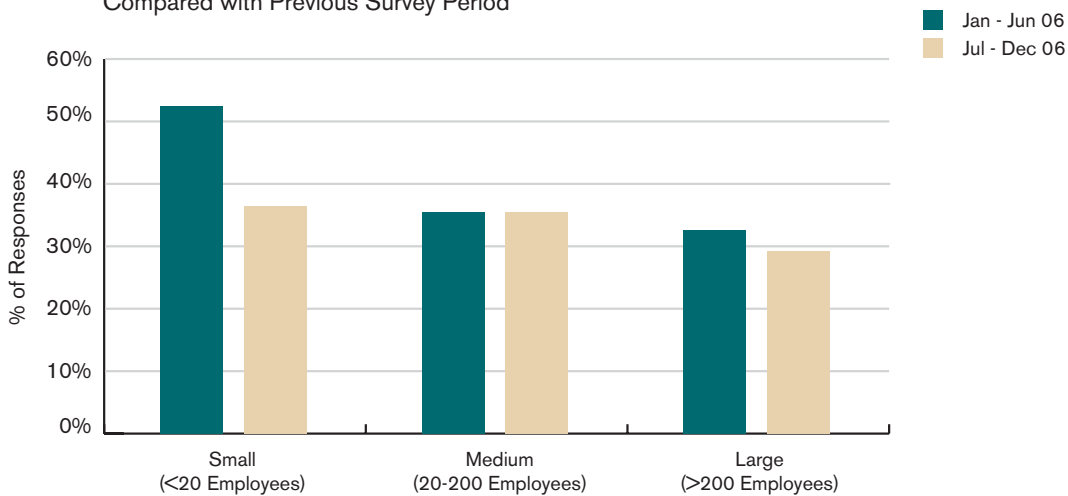
Permanent Employment Expectations

Sentiment in the Advertising/Marketing /Media sector has collapsed, with a net positive 9.4% indicating an intention to increase permanent employment levels; this is a significant 35.5pp negative movement on our last survey.

The highest expectation of employment growth, by organisation size in the Upper North Island was recorded by small-sized organisations (<20 employees) with a net positive expectation of 36.5% of respondents indicating an intention to increase permanent employee levels, however, these results reflect a 15.9pp decrease on our last survey.

Optimism among medium-sized organisations (20-200 employees) has remained at levels of our previous survey at a net positive 35.5%. Large organisations (>200 employees) recorded a decrease in sentiment, with a net positive 29.3% of respondents intending to increase permanent employment levels. This is 3.3pp down on our last survey.

Upper North Island Permanent Employment Expectations by Organisation Size:
Compared with Previous Survey Period



Permanent Employment Expectations

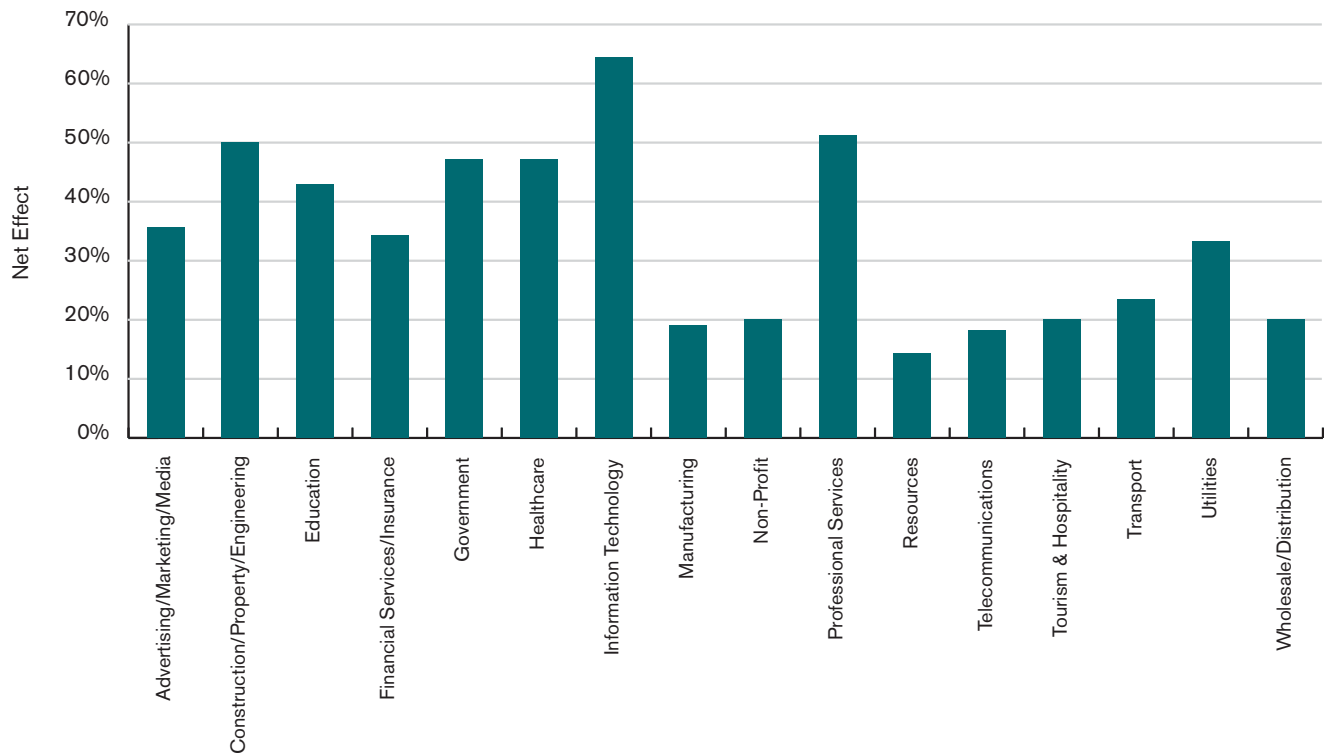
Lower North Island

A net positive 42.6% of employers in the Lower North Island indicated that they intend to increase permanent employment levels. This represents the most optimistic of any of the regions and, with a positive 4.3pp movement when compared against our previous survey, is the only region to show an increase when compared to our last survey.

Of those employers surveyed, 49.5% expect to increase permanent staffing numbers over the coming six months compared with 6.9% who anticipate a reduction in current staffing levels.

The Lower North Island employers surveyed are weighted towards the Government, Financial Services / Insurance, Professional Services and Information Technology sectors.

Lower North Island Employment Expectations (July - December 2006):
By Industry



Permanent Employment Expectations

The Information Technology sector continues to be the most positive of all sectors in the region. With a net positive 64.5% of employers indicating an intention to increase permanent employment levels over the coming six months, the Information Technology sector has recorded a 2.9pp positive movement when compared to our previous survey. This is the most optimistic result for this sector in over four years. A notable 69.7% of employers surveyed indicated that they intend to increase employment levels over the coming six months with only 5.3% indicating an intention to reduce their permanent employment levels.

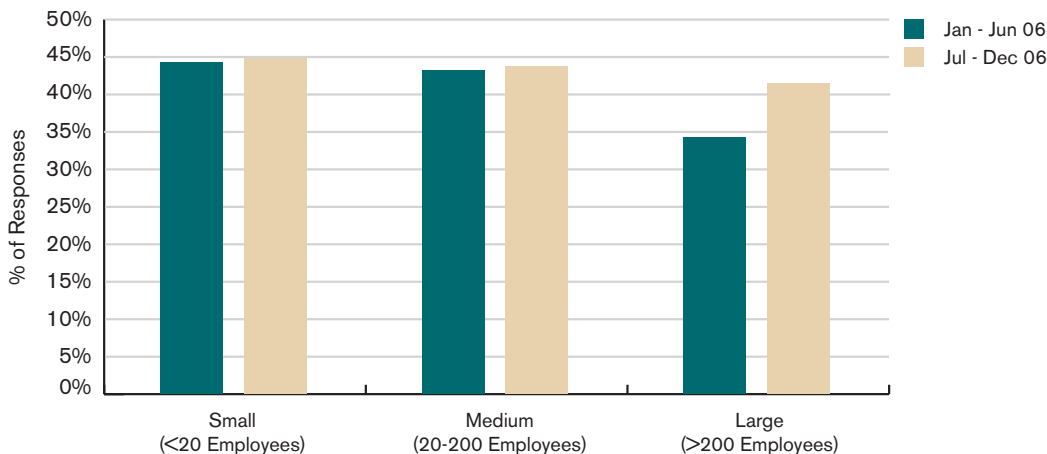
The Professional Services sector has recorded a significant increase in sentiment since six months ago. With a net positive 51.2% of respondents stating they would increase employment levels over the coming six months. This is a 9.1pp positive movement on our previous survey.

All organisation sizes have recorded decreases in levels of sentiment when compared to six months ago. Small organisations (<20 employees) are the most positive segment with a net positive 44.8% of employers indicating

an intention to increase permanent employment levels. This result is 0.5pp up on six months ago.

Medium-sized employers (20-200 employees) also recorded a positive movement of 0.5pp, resulting in a net positive 43.7% of employers indicating they intend to increase permanent staffing levels. With a net positive 41.5% of large organisations (>200 employees) indicating positive sentiment this represents the largest movement, 7.2pp, on six months ago.

Lower North Island Permanent Employment Expectations by Organisation Size: Comparison with Previous Survey Period



Permanent Employment Expectations

South Island

With a net positive 27.5% of employers indicating an intention to increase employment levels over the coming six months this represents a 9.7pp negative movement on six months ago. The South Island is the least optimistic of all regions surveyed. This is the lowest level in over two years for the region.

The Manufacturing sector, with a net -2.2% indicating that they would decrease employment reflects the view that more employers stated that they would decrease permanent levels than those who stated they would increase permanent levels.

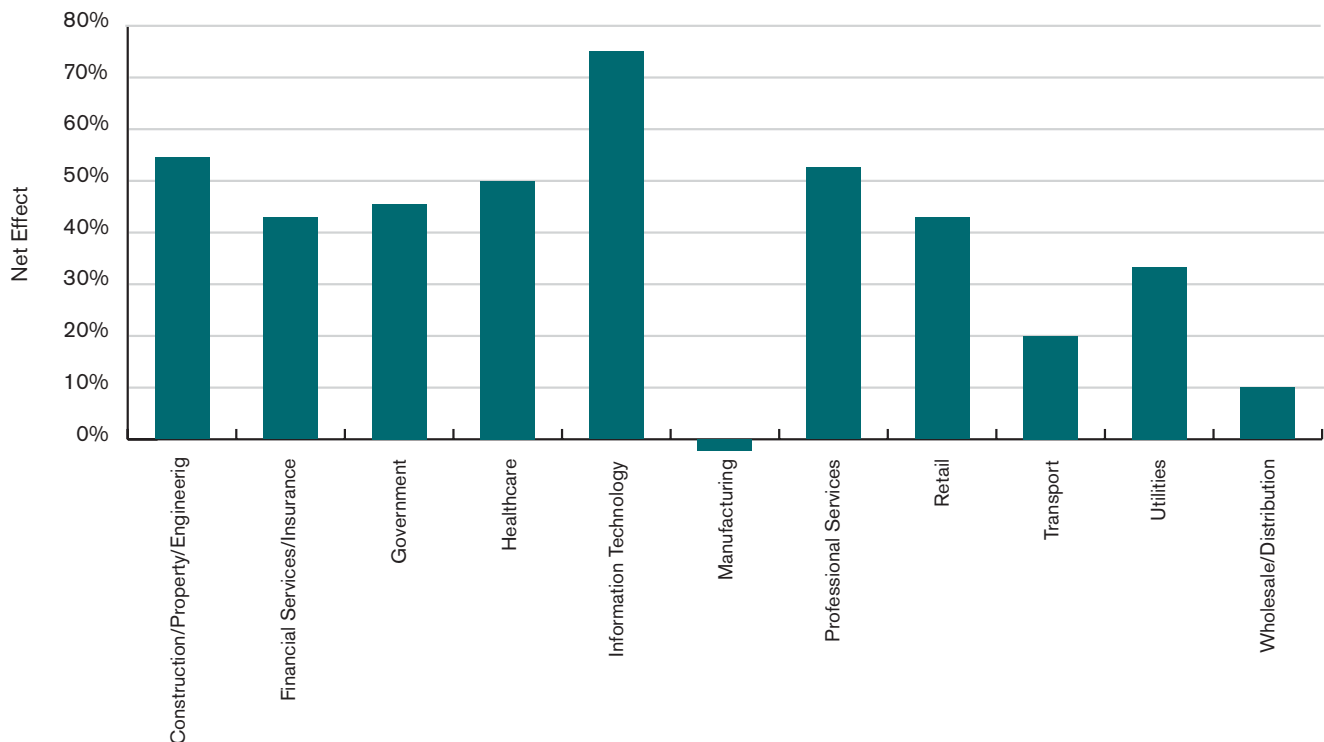
However, the Professional Services sector remains upbeat with a net positive 52.6pp indicating that they will increase employment levels in the latter half of the year.

Of the South Island employers surveyed, 40.1% expect to increase current staffing levels, compared with 12.6% who anticipate decreasing current levels over the next six months. 47.3% of employers anticipate leaving their workforce steady.

The skills shortage continues unabated with the South Island continuing to see the loss of talent to the UK and the North Island.

Employers in the South Island are being more cautious regarding major hiring campaigns and appear to be replacing only critical people in their organisation. Some have been put on a hiring freeze but do not envisage much (if any) in the way of lay offs or redundancies. However, some industries have been forced to downsize and we have seen closures in industries ranging from food through to manufacturing. The results of this can be seen in our survey where a net -2.2% of respondents in the Manufacturing sector anticipate a decrease in permanent employment levels over the coming six months.

South Island Permanent Employment Expectations (July - December 2006)
By Industry



Permanent Employment Expectations

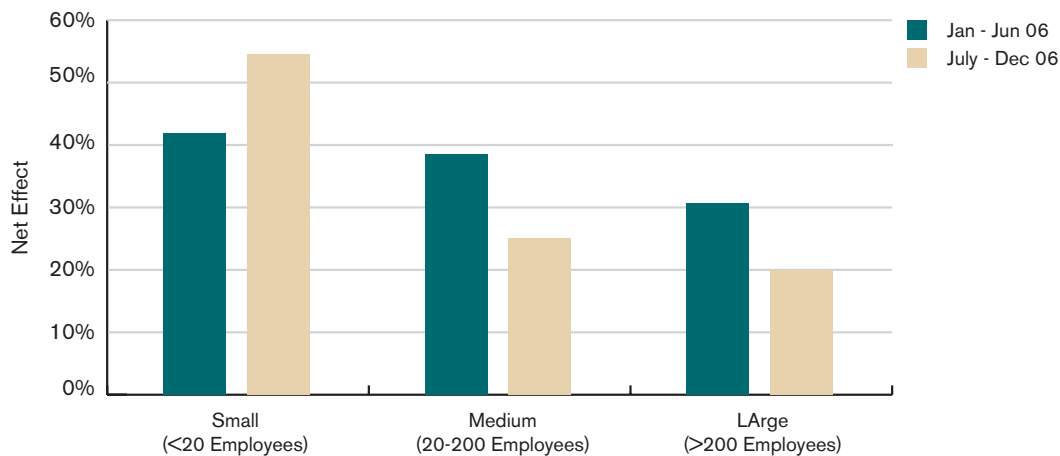
With a net positive 52.6% of employers in the Professional Services sector indicating an intention to increase employment levels over the coming six months, this sector continues to be the most positive sector in the region.

Breaking down the results by organisation size, we see that the South Island's most positive group of employers continues to be small organisations (<20 employees). A net positive 54.5% of respondents indicated they are going to increase permanent employee levels. This is a significant 12.7pp above our previous

survey and 27pp above the regional average and double the result on this time last year.

Medium-sized organisations (20-200 employees), at net positive 25.0%, and large organisations (>200 employees), net positive 20.0%, have recorded negative movements of 13.6pp and 10.7pp respectively in relation to our last survey.

South Island Permanent Employment Expectations by Organisation Size: Comparison with Previous Survey Period

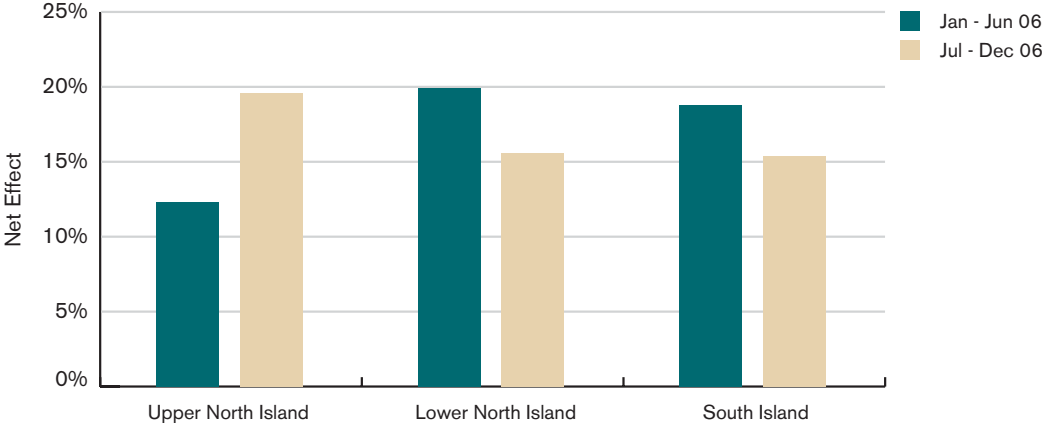


Contracting/Temporary Workforce

Of the employers contacted during our survey, 30.6% indicated that they will increase their contracting/temporary workforce over the coming six months, compared with 13.1% who intend to reduce their contracting/temporary workforce. Meanwhile, 56.3% of employers expect to maintain their contracting/temporary workforce at current levels. The resulting net effect is a positive 17.5%. This is 1.5pp higher than our previous survey.

The Upper North Island recorded the highest net positive result at 19.6%. This is 7.3pp higher than our previous survey. The Lower North Island, at net positive 15.6%, has recorded a result showing a negative movement of 4.3pp. The South Island, with a net positive 15.4% indicating that they will reduce contracting/temporary numbers over the next six months, has recorded the lowest level of the three regions.

Contract/Temporary Employment Expectations by Region: Comparison with Previous Survey Period

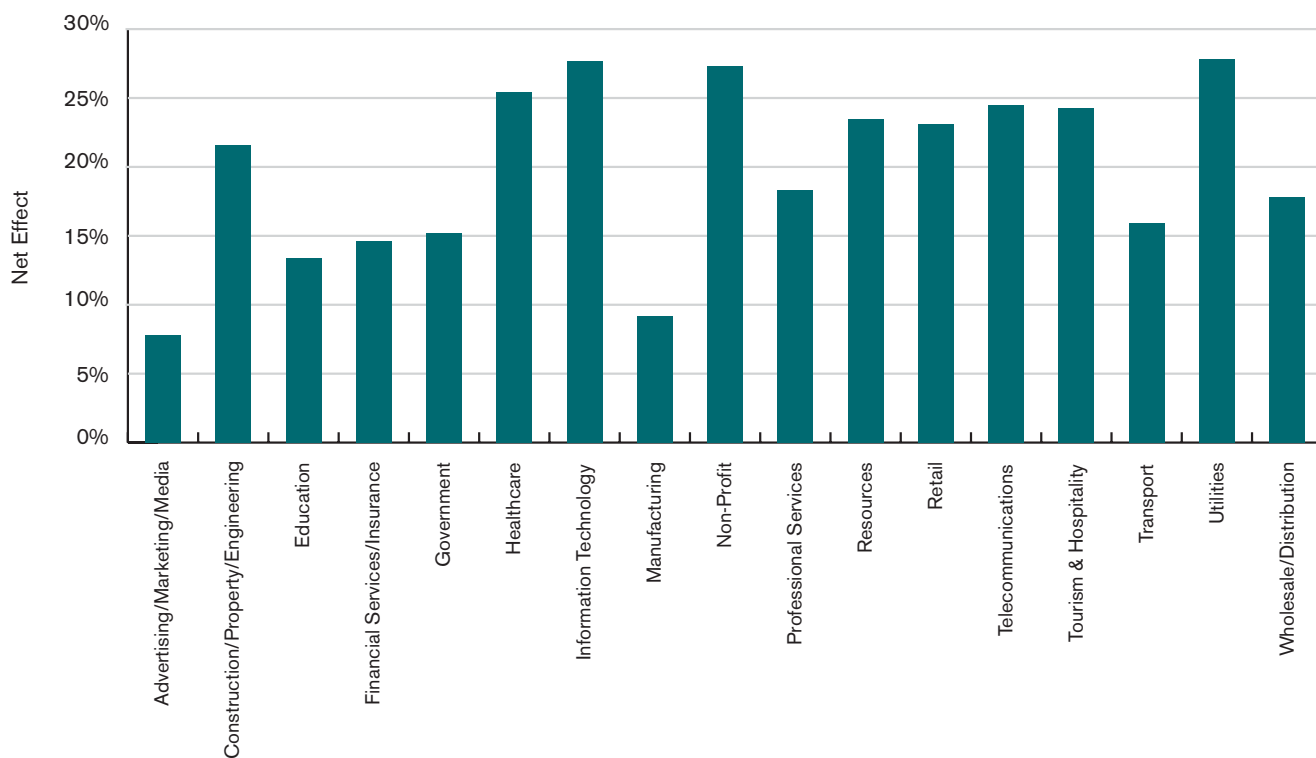


Contracting/Temporary Workforce

A breakdown by industry shows that employers in the Information Technology sector continue to show the most optimistic outlook with regard to contracting/temporary employment levels. With a net positive effect of 27.7% indicating that they will increase contracting levels over the July – December 2006 period, this is 0.5pp lower than our last survey.

This is followed by the Telecommunications (+24.5%) and Tourism & Hospitality (+24.3%) sectors. Only five of the seventeen sectors have recorded sentiment lower than our previous survey. The Advertising/Marketing/Media sector, at a net positive effect of 7.8%, has recorded the biggest decline in sentiment since January, with a negative movement of 9.8pp.

Contract/Temporary Employment Expectations (July - December 2006)
By Industry



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