



The Hudson Report

Employment and HR Trends

New Zealand | January - June 2006

Part One | **EMPLOYMENT EXPECTATIONS**



Hudson

*From great people
to great performanceSM*

Table of Contents

Introduction	3
Summary of Findings	4
Permanent Employment Expectations	5
By Industry	6
By Organisation Size	8
By Region	8
Upper North Island	8
Lower North Island	10
South Island	12
Contracting/Temporary Workforce	14
Your Points of Contact	16

About Hudson

Hudson is a worldwide leader in the provision of specialised recruitment and human resource consulting services.

Through its recruitment and human resource consulting divisions, 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 human capital 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, along with 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 focusing on HR and employment issues relevant to business leaders.

Complimenting its coverage of the job market in Part 1, Hudson releases Part 2 of the Hudson Report that 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

The Hudson survey of permanent hiring expectations for the six months to June 2006 has recorded positive sentiment. The survey of 2,261 clients showed a positive net effect of 36.6%. While positive net effects have been recorded across all industries and regions the results represent a decrease of 6.9pp 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 recorded the highest level of optimism (+ 38.3%), followed by the South Island (+37.1%) and the Upper North Island (+35.2%).

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 (+55.8%)
- Construction/Property/Engineering (+53.4%)
- Telecommunications (+45.1%)
- Professional Services (+45%)
- Transport (+45%)

Small, medium and large employer groups have all recorded an optimistic permanent staffing outlook for the six-month period January - June 2006. Small organisations (<20 employees) with +47.2% recorded an 3.9pp

increase in positive sentiment when compared to our previous survey. Medium-sized organisations (20-200 employees) with +38.5% recorded a 5.8pp decrease, while large organisations (>200 employees) with +33.2%; showed a significant 9.7pp decline on the results of our June - December survey.

Of the employers surveyed, a net 16% indicated that they intend to increase their contracting/temporary workforce over the January - July 2006 period. This represents a decrease of 3.2pp when compared to our previous survey. Meanwhile, 27.8% of companies indicated that they increased contract numbers while 11.9% decreased numbers. The Lower North Island recorded the highest net positive result (+19.9%), with the South Island and Upper North Island recording a net positive 18.8% and 12.3% respectively.

Permanent Employment Expectations

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

The survey of 2,261 clients yielded a positive net effect of 36.6%. This represents a negative movement of 6.9pp when compared to our previous survey (six months to December 2005). At a net positive effect of 36.6% this represents the lowest level in two years.

While the results represent a large drop on our previous reports, they are reflective of a more cautious approach by employers over the short term, rather than a negative outlook. Nearly half the decline of 6.9pp can be accounted for by the percentage of employers who are intending to maintain staffing levels, which has increased by 3.3pp. The percentage of clients indicating an intention to decrease permanent employment levels over the coming six months has increased by only 1.6pp.

Specifically, of all employers surveyed, 44.8% indicated that they anticipate an

increase in current permanent staffing levels over the January - June 2006 period. This compares with 8.2% who expect a reduction in current permanent staffing numbers.

The General Election does appear to have contributed to a loss of confidence among hiring managers, but we would describe it more as a 'pause' than a downturn. Hiring managers are cautious and uncertain rather than negative or pessimistic. Indeed, if we compare levels of sentiment with those expressed by employers in Australia, New Zealand employers have and continue to remain, significantly more optimistic about the immediate future than their trans Tasman neighbours.

Hudson's view is that, in an uncertain political and economic climate, organisations are being responsibly cautious.

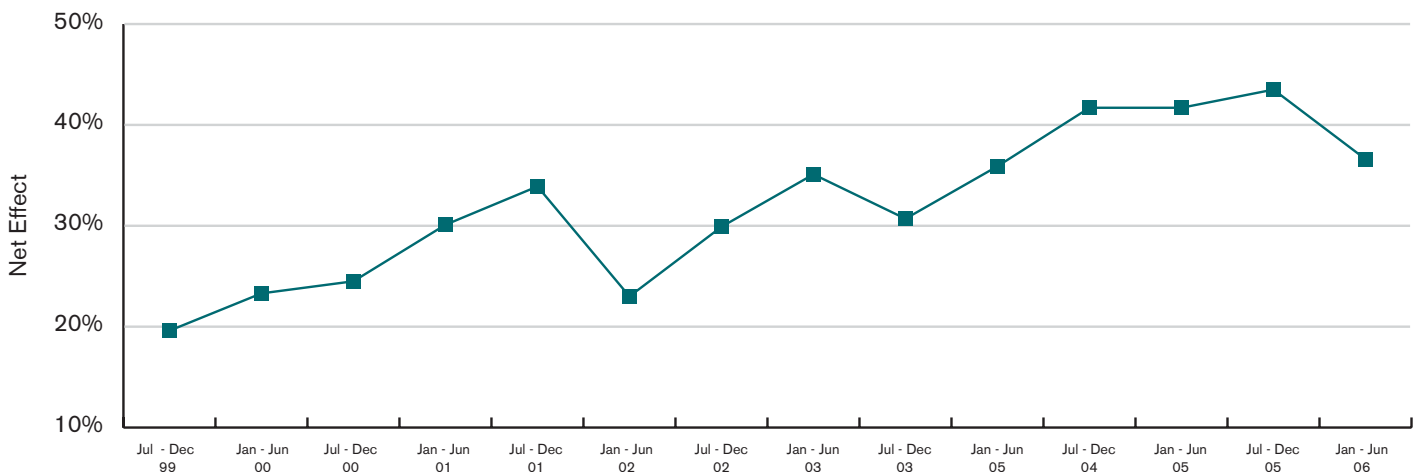
Positive net effects were recorded across all regions surveyed, with the highest level of optimism recorded for the Lower North Island (+38.3%),

followed by the South Island (+37.1%), the Upper North Island (+35.2%).

When compared to our previous survey the results for the South Island show a more positive outlook, up 1.4pp on the July to December period. The outcomes for the Upper and Lower North Island are less optimistic than six months ago with negative movements of 8.7pp and 8.3pp respectively.

Persistently tight capacity constraintsⁱ were one of the principle factors in the decision by the Reserve Bank to raise the Official Cash Rate to 7%. With the unemployment rate at historically low levels of 3.7%, the lowest in the OECDⁱⁱ, the sourcing of skilled staff by employers remains a critical issue, which in some cases is restricting the ability of firms to expand. As a result of this the retention of key members of staff by companies must remain a key focus for employers.

National Permanent Employment Expectations (July 1999 - June 2006)



ⁱ Reserve Bank New Zealand – 27 October 2005

ⁱⁱ Household Labour Force Survey – 11 August 2005

Permanent Employment Expectations

By Industry

The Hudson survey indicates a positive outlook across all industries for the period January - June 2006. Seven of the 17 industries surveyed recorded outlooks higher than the national average of net positive 36.6%.

These include:

- Information Technology (+55.8%)
- Construction/Property/Engineering (+53.4%)
- Telecommunications (+45.1%)
- Professional Services (+45%)
- Transport (+45%)

However, when compared to the Hudson Report covering the July - December 2005 period, only two groups expressed more positive sentiment than previously. What is most surprising however is, given the recent increase in oil, that the transport sector has recorded the

highest increase of any sector when compared to our last survey.

Sectors that recorded higher levels of sentiment than six months ago are:

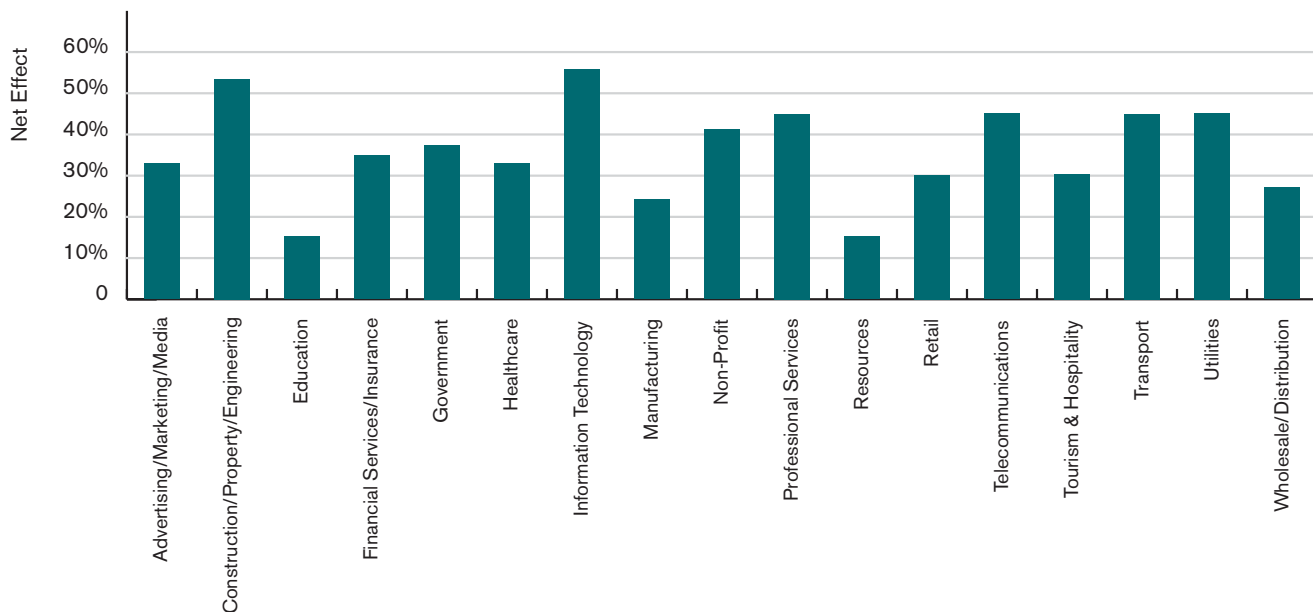
- Transport (+12.4pp)
- Advertising/Marketing/Media (+2.6pp)

The Information Technology sector is the most positive segment of the economy. A net positive 55.8% of employers stating that they intend to increase employment levels over the coming six months. While 7.1pp down on our previous survey, the result indicates an extremely positive outlook for the coming six months by employers in this sector.

The Construction industry continues to record strong results significantly in excess of the national average. A net positive 53.4% of respondents indicate that they will increase permanent

employment levels over the first six months of 2006. This is the second highest sentiment recorded by any sector of the economy. However, with the anticipated rise in interest rates, as the Reserve Bank attempts to apply the brakes in the housing marketⁱⁱⁱ, confirmed in late October it is not surprising that the result is 11.7pp lower than our previous survey.

National Permanent Employment Expectations (January - June 2006)
By Industry



ⁱⁱⁱ Reserve Bank New Zealand – 27 October 2005

Permanent Employment Expectations

By Organisation Size

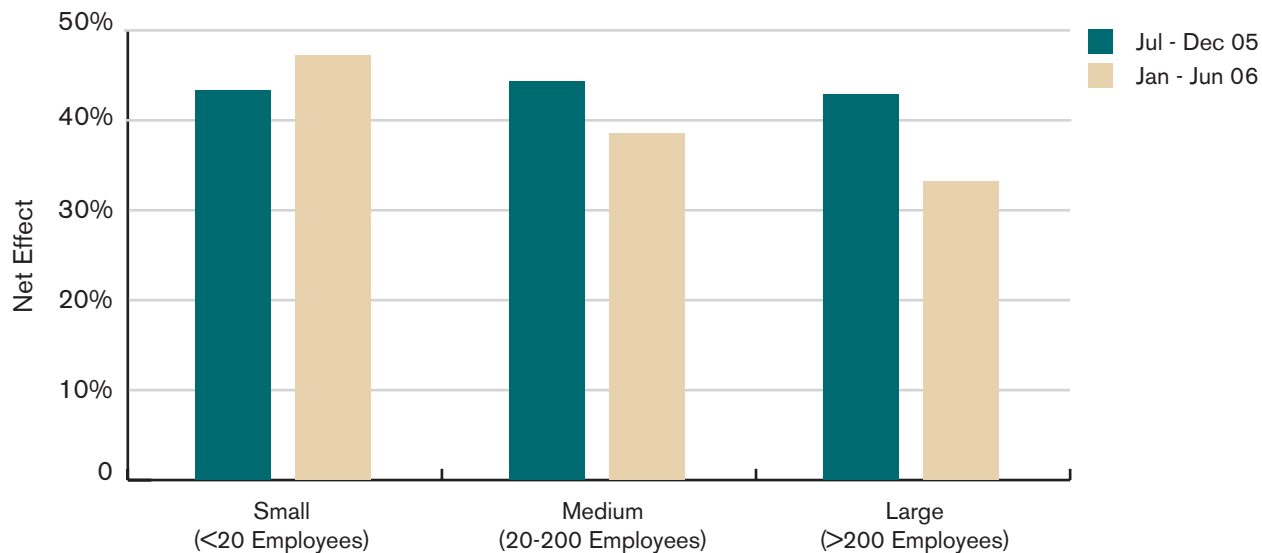
There is a significant variation in optimism levels in regard to permanent employment expectations depending on size of the organisation. Small organisations, with a net positive 47.2% of employees indicating an intention to increase permanent employment levels, are 9.6pp above the national average. At a net positive 38.5% medium sized employers are slightly above the national average while larger organisations, with a result of a net positive 33.2% are 3.4pp below the national average. Movements on our last survey results:

- Small Organisations +3.9pp
- Medium Organisations -5.8pp
- Large Organisations -9.7pp

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.

These results are the most positive in six years for the small sized organisations.

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 +35.2%. This is 8.3pp lower than our last survey. Of the employers surveyed, 44% expect to increase staff numbers over the coming six months compared with 8.7% who anticipate a reduction in current staffing levels.

A buoyant outlook was recorded for the Construction/Property/Engineering sector, with a net positive outlook of 50.6%. Only 4.9% of Construction companies surveyed indicated that they foresee a decline in permanent

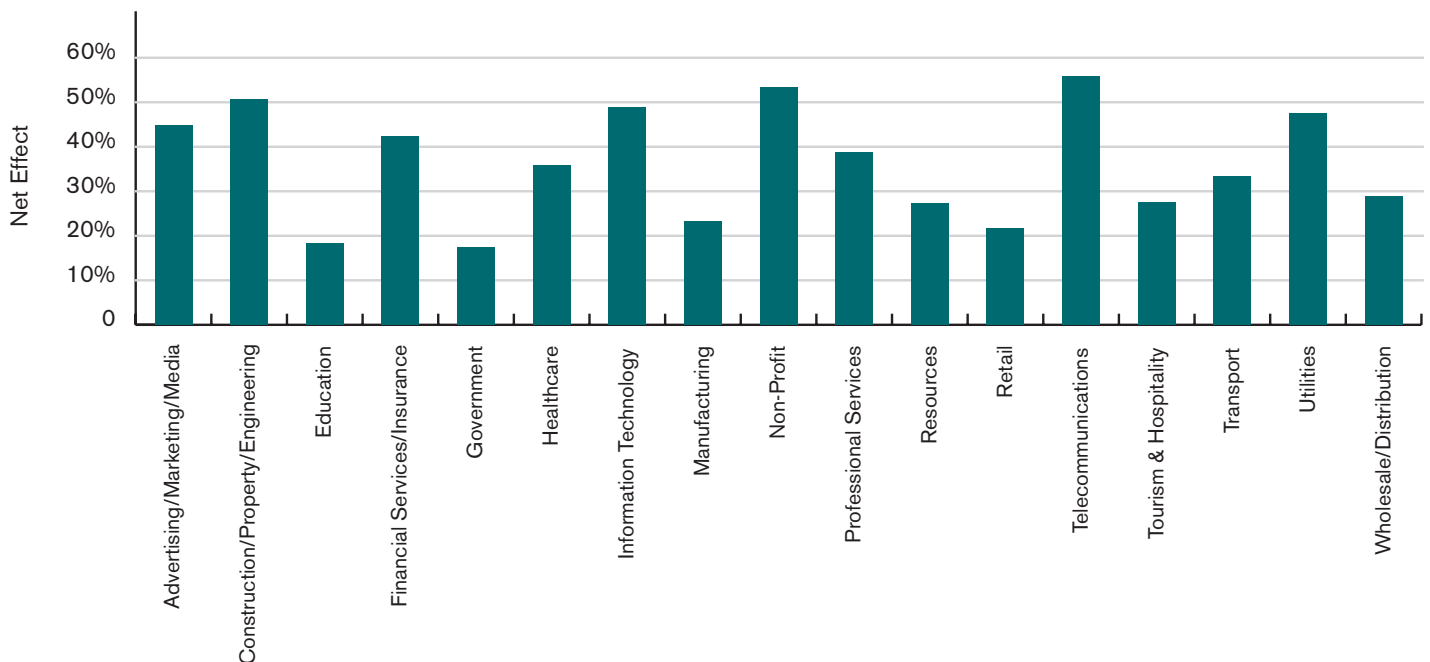
employments levels over the next six months.

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

- Telecommunications (+55.9%)
- Information Technology (+48.9%)
- Advertising/Marketing/Media (+44.8%)
- Financial Services (+42.3%)
- Professional Services (+38.7%)

The Advertising sector, with a net positive 44.8% indicating an intention to increase permanent employment levels, is the only sector in the Upper North Island that has recorded a positive movement, +9.7pp on our last survey.

Upper North Island Permanent Employment Expectations (January - June 2006)
By Industry



Permanent Employment Expectations

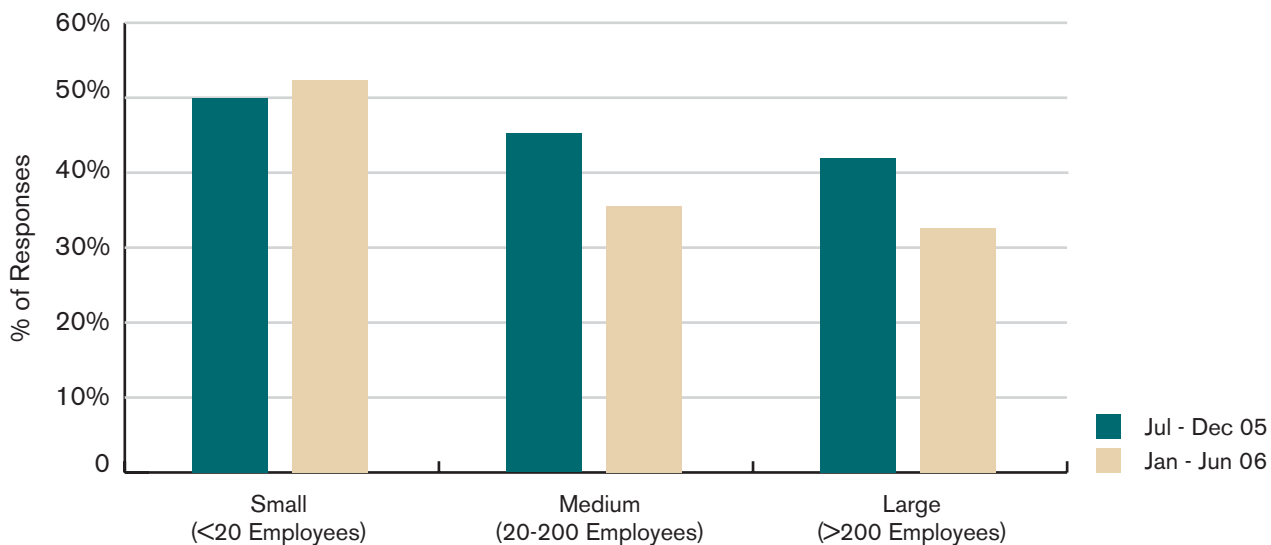
While the remaining industry segments have recorded levels of sentiment lower than our last survey, these declines have to be viewed in light of the fact that our last survey results were the highest on record for several industries. We view these survey results and levels of optimism as more consistent with the economic conditions that exist at present.

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 52.4% of respondents indicating an intention to increase permanent employee levels, these

results reflect a 2.4pp increase on our last survey. This is the highest level of confidence employers of this size have had indicated in over six years of surveying.

Optimism among medium sized organisations (20-200 employees) has declined from our previous survey. The net positive 35.5% result represents a fall of 9.7pp on our previous survey. Large organisations (>200 employees) recorded a similar decrease in sentiment, with a net positive 32.6% of respondents intending to increase permanent employment levels. This is 9.4pp 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

Lower North Island employers recorded net positive 38.3% of employers indicating that they intend to increase permanent employment levels. While this is the most optimistic of any of the regions, the result is a negative 8.3pp movement when compared against our previous survey.

Of those employers surveyed, 45.4% expect to increase permanent staffing numbers over the coming six months compared with 7.1% who anticipate a reduction in current staffing levels.

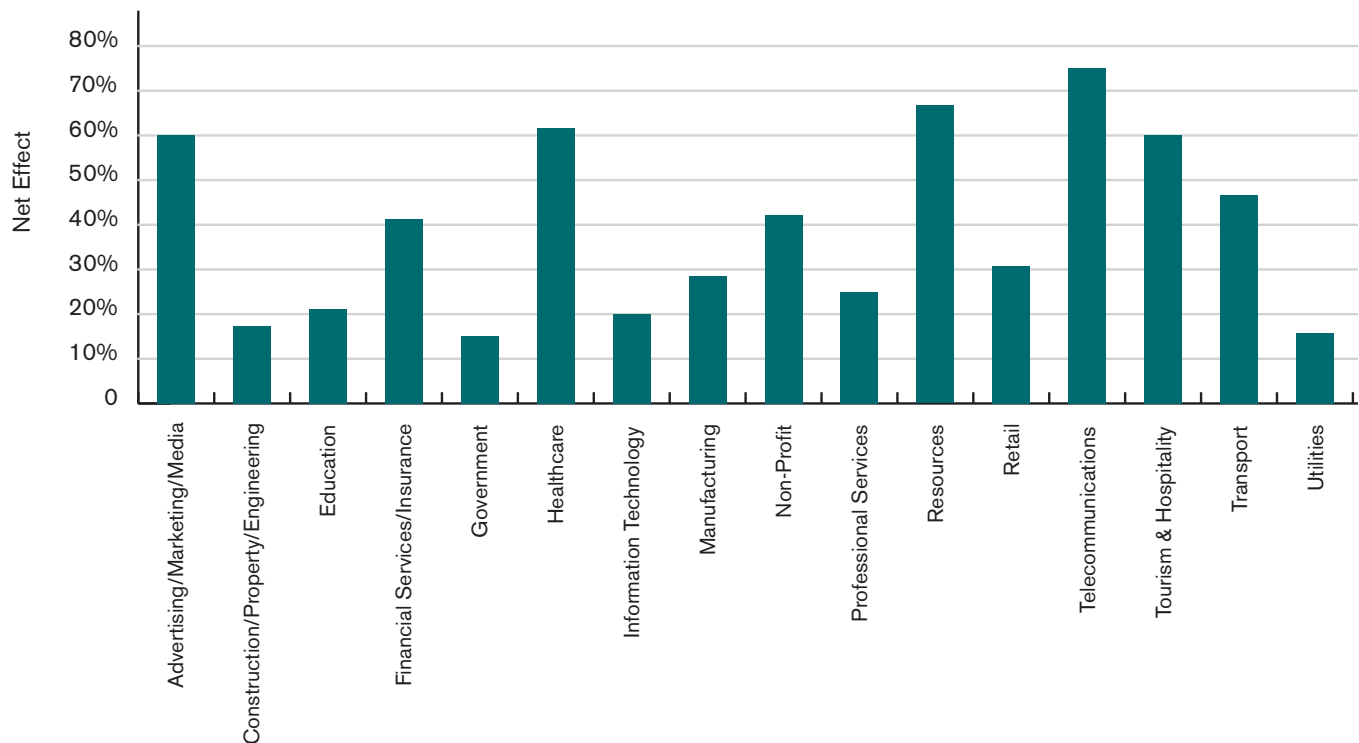
Whilst the stalled final result of the Election caused some hesitation in hiring, in reality we feel it has had little to no impact on true hiring needs. It did however appear to reduce confidence of many hiring managers as to what the future would hold for their businesses. Hudson believes that this uncertainty has been reflected in the 8.3pp downturn in hiring expectations for the region. We expect Wellington to be most cautious about Election issues and this again is reflected in the result.

The Lower North Island employers surveyed are weighted towards the

Government, Financial Services/ Insurance, Professional Services and Information Technology sectors.

With a net positive 61.6% of employers indicating an intention to increase permanent employment levels over the coming six months, the Information Technology sector remains the most buoyant of sectors in the Lower North Island. Indeed only 1.8% of respondents in the IT sector indicated that they intended to reduce permanent employment levels over the first half of 2006.

Lower North Island Employment Expectations (January - June 2006):
By Industry



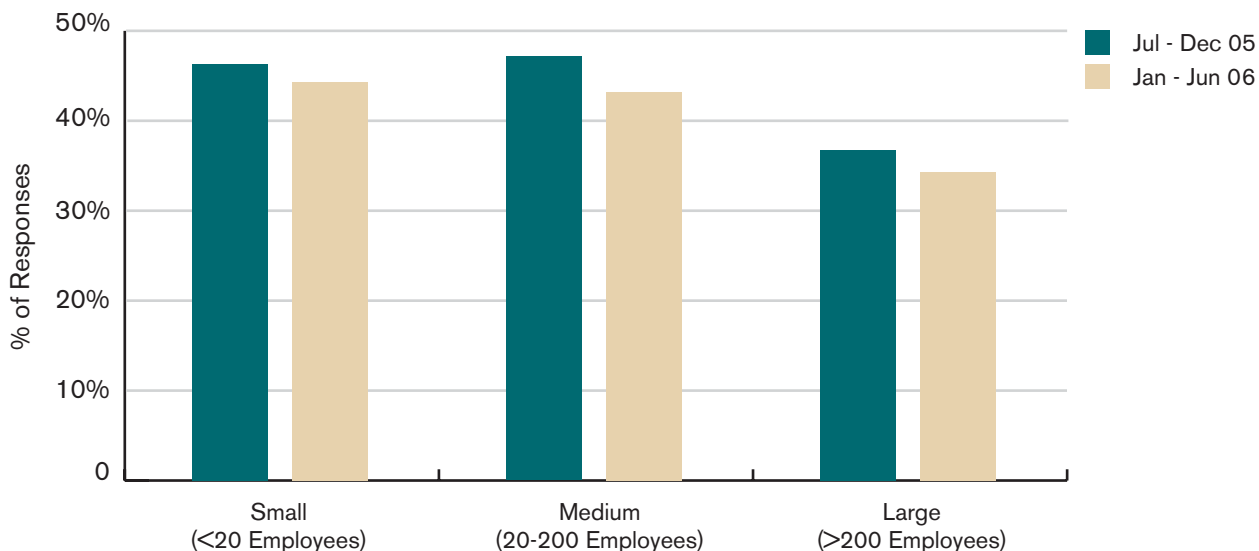
Permanent Employment Expectations

The Professional Services sector is one of the only major sectors to record an increase in sentiment over six months ago. With a net positive 42.1% of respondents indicating that they intend to increase permanent employment levels over the coming six months, this shows a 0.4pp positive movement on our last survey.

Medium sized employers (20-200 employees) recorded a negative movement of 3.9pp, resulting in a net positive 43.2% of employers indicating they intend to increase permanent staffing levels, while a net positive 34.3% of large organisations (>200 employees) indicated positive sentiment. This is 2.4pp down on six months ago.

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 44.3% of employers indicating an intention to increase permanent employment levels. This result is 2.1pp down on six months ago.

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



Permanent Employment Expectations

South Island

The South Island is the only region to have recorded an increase in employer sentiment over six months ago. With a net positive 37.1% of employers indicating an intention to increase employment levels over the coming six months this represents a 1.4pp positive movement on six months ago. Significant increases on our previous survey have been recorded in the Healthcare sector, up 10pp, Professional Services sector, up 13.3pp and Manufacturing sector up 15.9pp.

This is the first time since the July - December 2003 period that South Island sentiment is above the national average.

Of the South Island employers surveyed, 46.6% expect to increase current staffing levels, compared with 9.4% who anticipate decreasing current levels over the next six months. Forty four per cent of employers anticipate leaving their workforce steady.

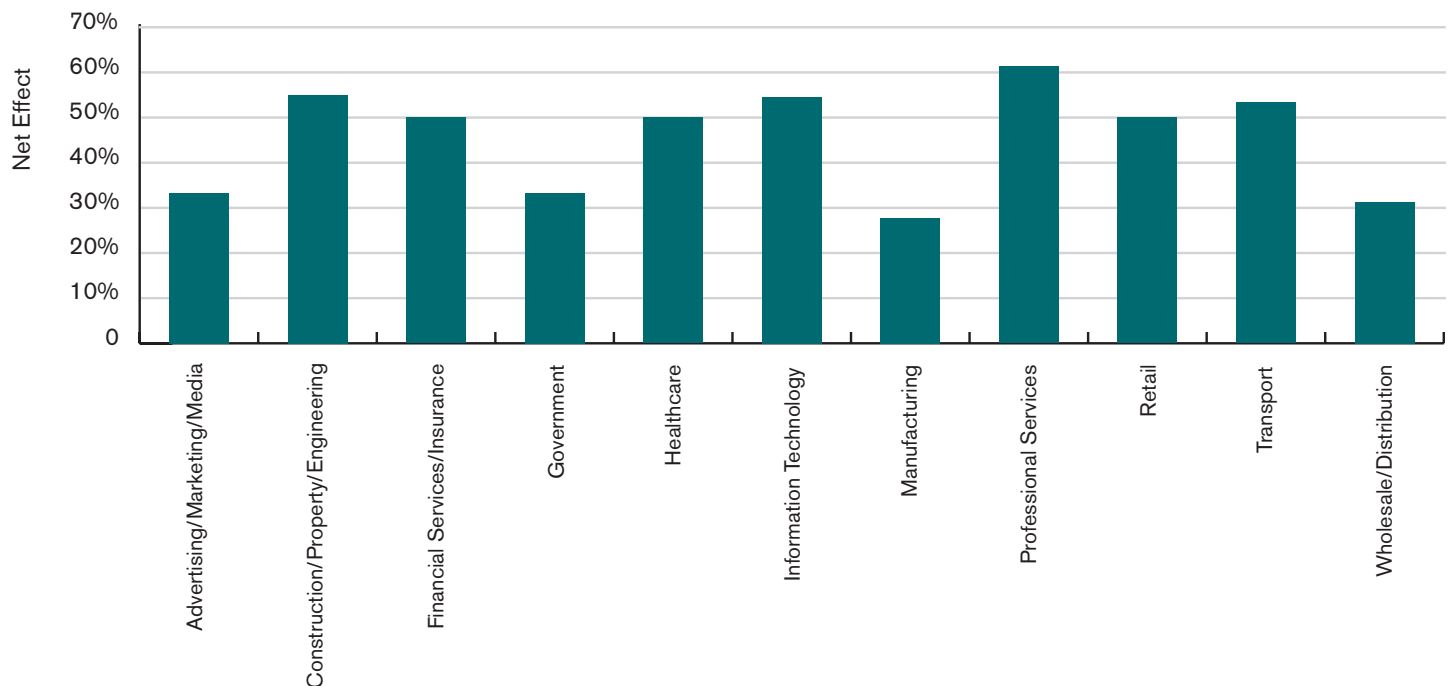
The skills shortage continues unabated with the South Island continuing to see the loss of talent to the UK and the North Island. The retention of staff is increasingly becoming a critical issue for organisations in the region.

The manufacturing industry in the South Island has recorded a significant increase in positive sentiment. A net positive 27.8% of employers stated they intended to increase employment levels

over the next six months. This result is 15.9pp higher than our last survey. However, some sizeable manufacturing organisations have been through radical restructures in recent times, and anecdotal evidence suggests that they may have been too aggressive when downsizing, bringing about the need to rebuild their work force. The net effect is that organisations are still below staff levels enjoyed some 6-12 months ago.

With a net positive 61.3% 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. We are seeing steady growth in smaller financial services companies as they

South Island Permanent Employment Expectations (January - June 2006)
By Industry



Permanent Employment Expectations

benefit from the void being created by the larger lenders who are being more prudent and less likely to entertain high-risk debt.

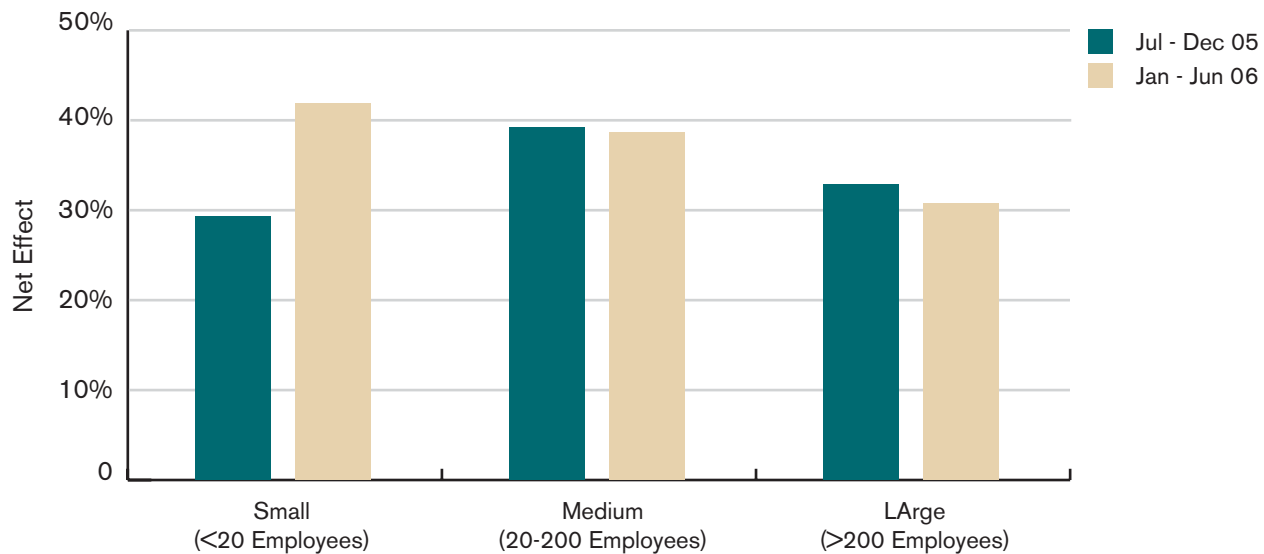
The demand for CA qualified accountants with up to five years' practical experience continues to be high, with the shortage of talent arguably the worst in 20 years. The overseas market, particularly the United Kingdom, is still highly appealing.

Breaking down the results by organisation size, we see that the South Island's most positive group of

employers is small organisations (<20 employees). A net positive 41.9% of respondents indicated they are going to increase permanent employee levels. This is a significant 12.6pp above our previous survey and 4.8pp above the region average.

Medium-sized organisations (20-200 employees), at net positive 38.6%, and large organisations (>200 employees), net positive 30.7%, have recorded negative movements of 0.6pp and +2.2pp respectively in relation to our last survey.

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



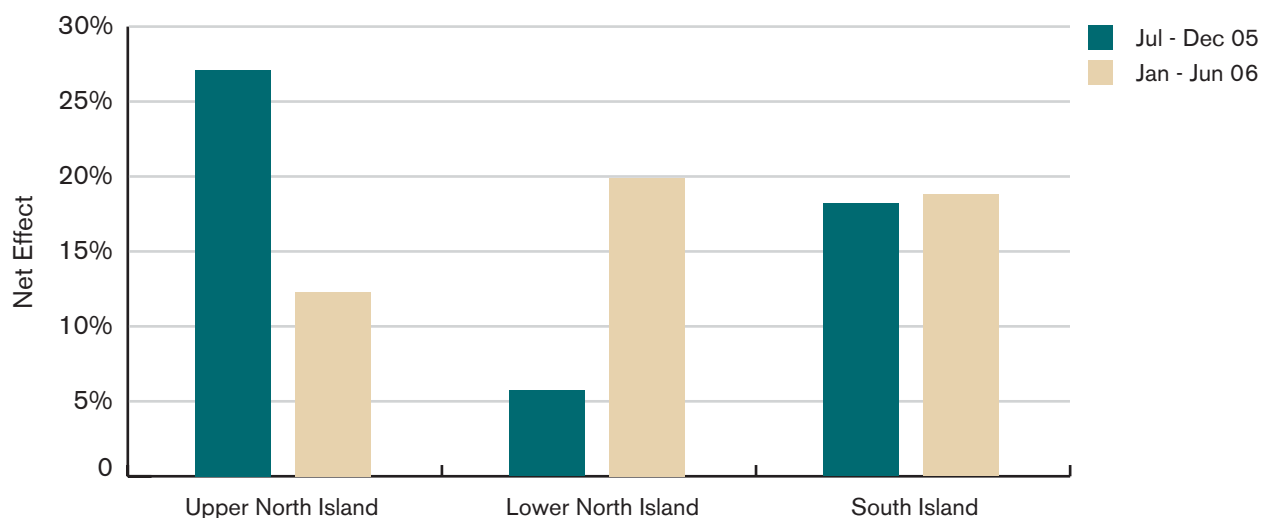
Contracting/Temporary Workforce

Employment Expectations

Of the employers contacted during our survey, 27.8% indicated that they will increase their contracting/temporary workforce over the coming six months, compared with 11.9% who intend to reduce their contracting/temporary workforce. Meanwhile, 60.3% of employers expect to maintain their contracting/temporary workforce at current levels. The resulting net effect is positive 16%. This is 3.25pp lower than our previous survey.

The Lower North Island recorded the highest net positive result at 19.9%. This is 14.2pp higher than our previous survey. The South Island, at net positive 18.8%, is broadly in line with our previous survey, showing a negative movement of 0.6pp. The Upper North Island has contracted significantly. At a net positive 12.3% this is 14.8pp lower than our survey covering the July - December 2005 period.

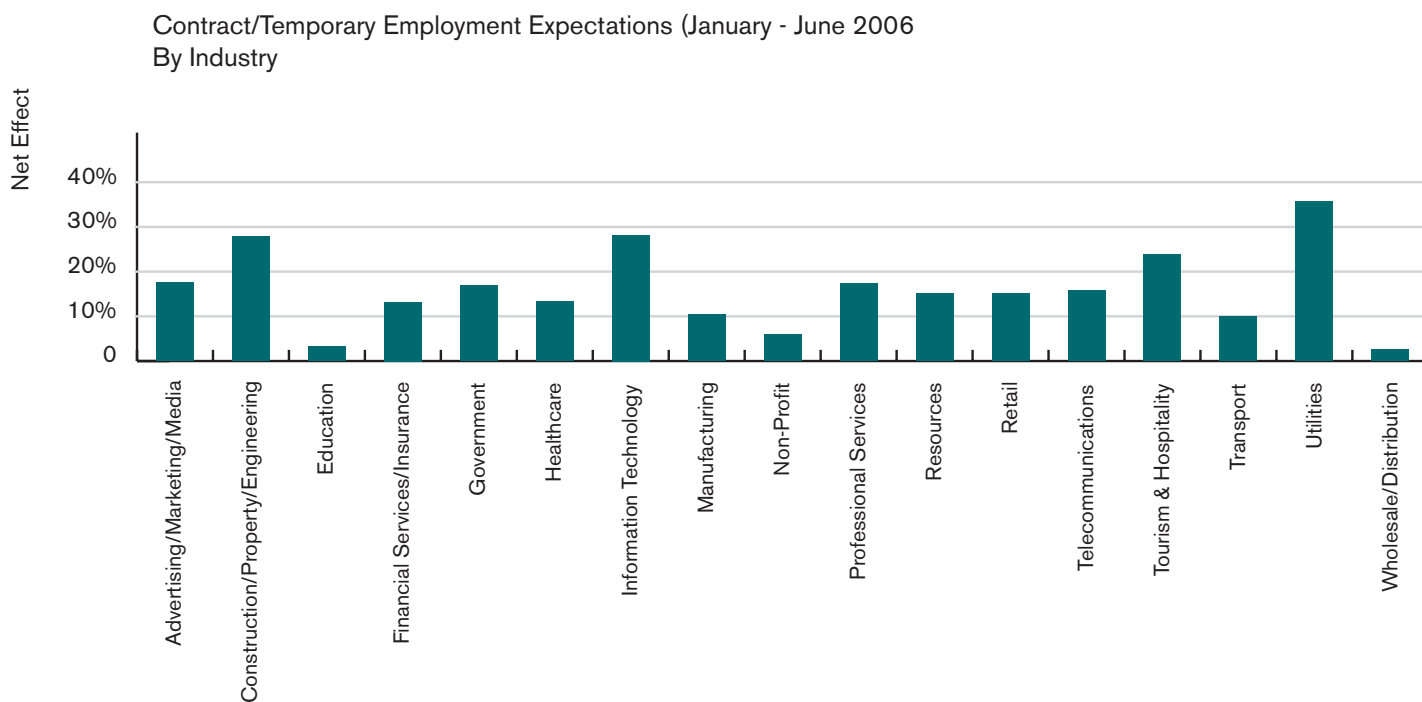
Contract/Temporary Employment Expectations by Region:
Comparison with Previous Survey Period



Contracting/Temporary Workforce

A breakdown by industry shows that employers in the Information Technology sector, despite retracting from our last survey, have recorded the most positive sentiment. With a net positive effect of 28.2% indicating that they will increase contracting levels over the January to June period. This is 7.7pp lower than our last survey.

This is followed by the Construction/Property/Engineering (+27.8%) and Tourism (+23.9%) sectors.



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