



July - September 2009

Hudson



The Hudson Report

Hiring and HR Trends
CHINA

Introduction



The Hudson Report is a quarterly survey of forward-looking employer hiring expectations. The report in Asia covers China (Beijing and Shanghai), Hong Kong and Singapore and combines the expectations of nearly 2,000 key employment decision-makers in these three markets.

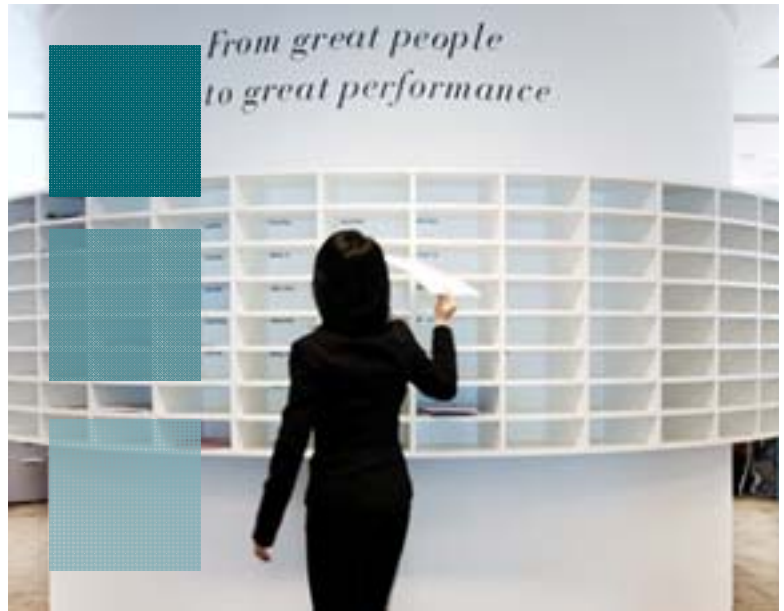
Participants in this survey are primarily executives at multinational firms and were personally surveyed in May this year by Hudson consultants.

The Hudson Report receives extensive media coverage and acknowledgment from politicians, commentators and business leaders. In the years since its release in Asia in 1998, *The Hudson Report* has established a reputation as a key business and economic indicator, based on the premise that the expectation to increase or decrease staffing levels reflects employers' optimism about their markets.

HUDSON

Hudson (NASDAQ: HHGP) is a leading provider of permanent recruitment, contract professionals and talent management services worldwide. From single placements to total outsourced solutions, Hudson helps clients achieve greater organisational performance by assessing, recruiting, developing and engaging the best and brightest people for their businesses. The company employs nearly 3,000 professionals serving clients and candidates in more than 20 countries. More information is available at hudson.com.

Key findings



“ALTHOUGH HIRING EXPECTATIONS HAVE NOW FALLEN FOR FOUR CONSECUTIVE QUARTERS, THEY REMAIN HIGHER THAN IN THE OTHER MARKETS SURVEYED IN ASIA.”

MARK CARRIBAN, MANAGING DIRECTOR, ASIA

Hiring expectations are still falling and this survey of over 600 executives across key business sectors shows that 27% expect to increase headcount in Quarter Three (Q3) 2009, compared with 30% in Q2 2009.

KEY FINDINGS

- Despite this continuing decline, hiring expectations in China are still higher than in the other Asian markets surveyed;

- Across all the sectors surveyed, just 16% of respondents expect Asia's economy to begin recovery by the end of this year and 39% say they are unsure about the economic environment;
- Employee motivation & retention are seen as the most critical people-related issues to be addressed over the next twelve months;
- The economic downturn is having an impact on salaries for new managerial hires, with 31% saying they can negotiate lower starting salaries, up from 8% in Q3 2008;
- The extent of salary reduction is fairly limited, however, and 80% say they are reducing starting salaries by 10% or less.

Permanent hiring expectations



EXPECTATIONS STILL FALLING

Hiring expectations continue to fall in China, though there are significant variations between the sectors surveyed. Overall, 27% of respondents say they will increase hiring this quarter, down from 30% in Q2 2009. More positively, the proportion of respondents planning to cut headcount has fallen from 21% to 12% during the same period. Expectations are still higher in China than in the other markets surveyed in Asia, though the gap has narrowed significantly.

Manufacturing & Industrial

The Manufacturing & Industrial sector reports both the highest expectations and the greatest increase compared to the previous quarter: 34% plan to grow headcount this quarter, compared with 21% in Q2 2009. The proportion of respondents anticipating reduced hiring has almost halved, from 31% in Q2 2009 to 16% this quarter. Hiring expectations fell sharply in the first half of this year, as an immediate response to the global downturn, and a correction now appears to be taking place. Strong performance in the chemical sector in particular is boosting confidence and the government's stimulus package to support key industries such as automotive is also having a positive effect.

IT & T

Among IT&T firms, 33% of respondents expect to hire more staff, up from 25% the previous quarter. Major new 3G projects by certain leading telecoms operators are creating substantial opportunities in this sector.

Banking & Financial Services

Expectations in the Banking & Financial Services sector are almost unchanged. The 28% who anticipate headcount growth in Q3 compares with 27% who gave this response in the previous quarter. However, the proportion saying they will shed staff is much lower - just 6%, compared with 20% in Q2 2009. Banks' hiring plans are being driven by growing expectations of economic recovery and new staffing requirements created by extensive restructuring and consolidation.

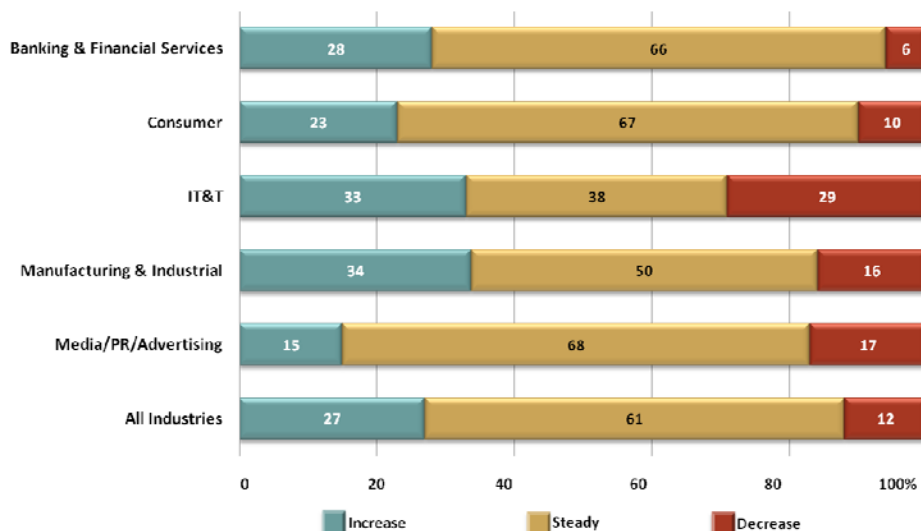
Consumer

Expectations are falling sharply in the Consumer sector. Just 23% expect to grow headcount, down from a very high 41% in Q2 2009. Continuing uncertainty has affected consumer spending and many companies are freezing hiring plans and cutting job openings. However, the proportion of respondents forecasting a headcount reduction is declining, from 14% to 10%, which suggests that hiring expectations may start to recover.

Media/PR/Advertising

Expectations among Media/PR/Advertising companies are lower than in any other sector and the rate of decline is greater: 15% of respondents expect to hire more staff, a sharp fall from 39% the previous quarter. At 17%, the proportion of respondents planning to reduce headcount is greater than the number who expect to hire more. Many agencies are losing business as their clients impose budget restrictions but demand for in-house PR roles, particularly in internal communications, remains relatively steady.

Permanent hiring expectations in China



Source: The Hudson Report, China - Q3 2009

Permanent hiring expectations over time



LOWEST EXPECTATIONS SINCE 2001

Hiring expectations are now at their lowest level since Q4 2001. The decline in expectations over the past year is particularly marked. Across all sectors, the proportion of respondents forecasting headcount growth this quarter has fallen by more than half since Q3 2008, from 55% to 27%. Over the same period, the proportion planning to make staff cuts has grown from 2% to 12%.

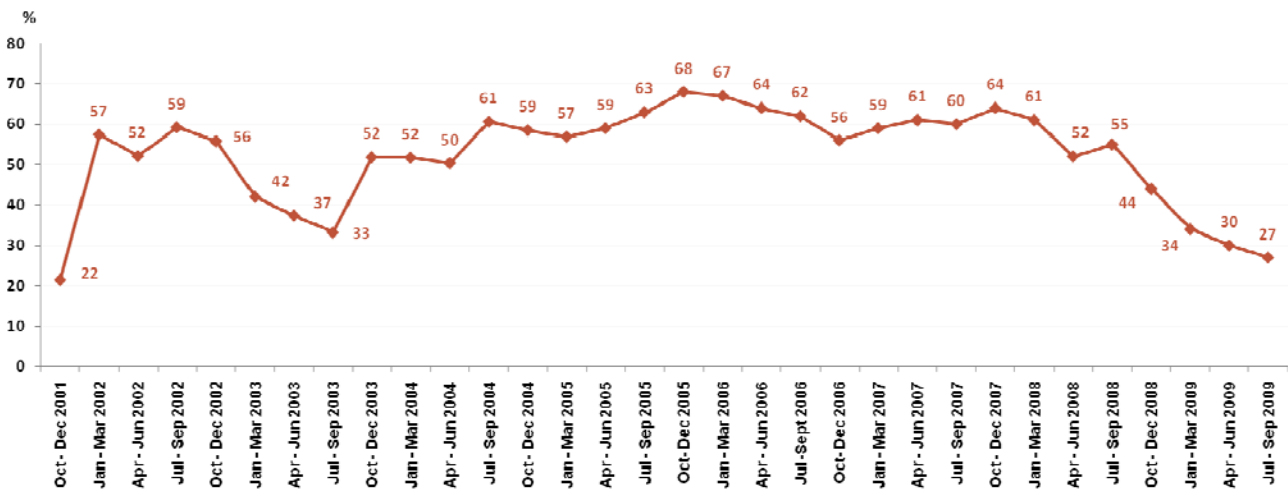
The Media/PR/Advertising sector reports the most dramatic year-on-year change in expectations. Just 15% say they will hire more staff, a severe fall from 54% in Q3 2008. Most firms in this sector were extremely busy with Olympic-related projects a year ago and the current figures reflect both the end of this work and the continuing impact of the global recession.

The end of Olympic-related work has also affected Consumer companies. In Q3 2008, 60% said they would grow headcount, compared with just 23% this quarter.

The other sector reporting a substantial year-on-year decline in hiring expectations is Banking & Financial Services: the 64% forecasting expanded recruitment a year ago has fallen to 28% now. This sector grew rapidly through most of 2008, as banks expanded both their retail and investment activities.

The IT&T sector reports by far the smallest fall in hiring expectations year-on-year, from 38% in Q3 2008 to 33% this quarter. However, the proportion of respondents expecting to make staff cuts has risen sharply over the same period, from 0% to 29%. This suggests that some segments of the industry are doing well and still hiring actively - as with the 3G projects noted earlier - while others are facing a steep decline in business volume.

Expectation to hire over time - China



Source: The Hudson Report, China - Q3 2009

Expectations for Asia's economic recovery



NEARLY HALF EXPECT RECOVERY BY MID-2010

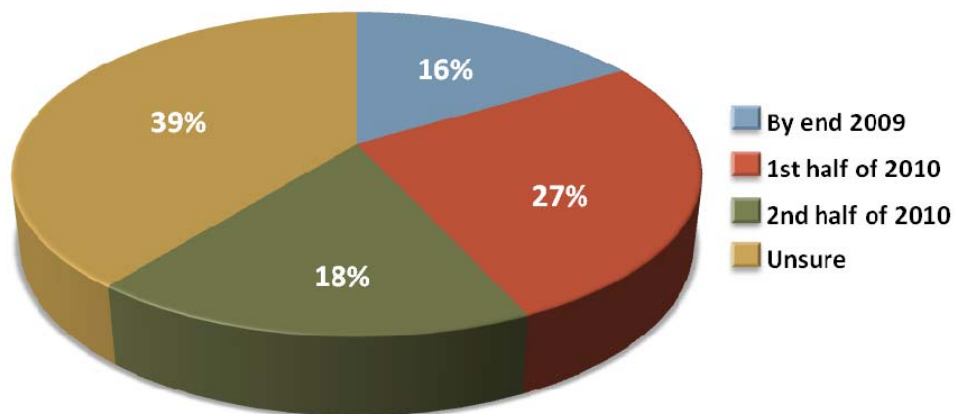
Respondents were asked when they expect Asia's economy to begin recovery, given the current market climate. Across all sectors, 16% foresee recovery by the end of this year and a further 27% during the first half of 2010. However, 39% say they are unsure when recovery will take place. This is a much higher figure than for the other markets surveyed in Asia.

The Manufacturing & Industrial sector appears to be the most optimistic, with 24% expecting the economy to recover this year and a further 26% by mid-2010. Many companies are making substantial investments in R&D, with a view to creating products for a potentially huge domestic market. The continuing upward trend in the Purchasing Managers Index (PMI) is also boosting confidence in this sector.

Media/PR/Advertising firms are also positive about the prospects for recovery: 17% forecast that it will start by the end of 2009, while a further 33% expect recovery during the first half of next year. Agencies are aware that some of their clients are starting to focus on marketing initiatives again and are allocating resources for PR and advertising.

The most conservative approach to economic recovery is taken by the IT&T sector, where more than half of respondents - 53% - say they are unsure. Just 28% anticipate recovery by mid-2010, a much lower figure than for any other sector. IT companies are dependent on projects initiated by other sectors and it can be hard to define when recovery will take place.

Recovery of Asia's economy



Source: The Hudson Report, China - Q3 2009

Critical people-related issues



MOST CRITICAL ISSUES ARE MOTIVATION AND RETENTION

Employee motivation & retention are seen as the most critical people-related issues to be addressed over the next year, being mentioned by 22% of respondents across all sectors. Career development, communication and enhancing leadership competencies are also regarded as critical: they are cited by 15%, 14% and 14% respectively.

At 23%, the Banking & Financial Services sector has the highest proportion of respondents raising employee motivation & retention as key issues. Extensive internal restructuring has created some uncertainty and concern over job security in this sector and banks are focusing on enhancing staff morale. Career development and enhancing leadership competencies are also seen as particularly important.

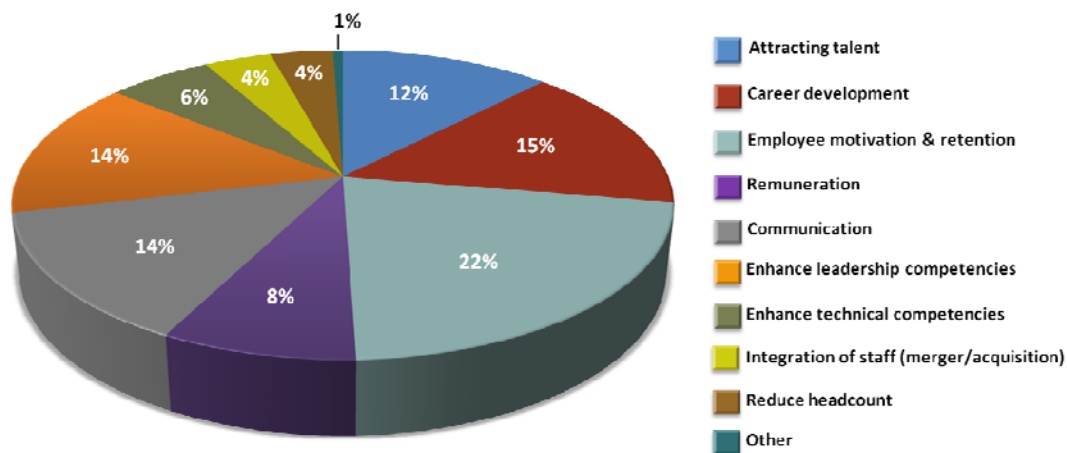
The Consumer sector has the highest proportion of respondents who see career development and attracting talent

as critical issues, cited by 18% and 16% respectively. Companies in this sector often experience a shortage of talent, even in a challenging business environment and are constantly concerned with acquiring and developing talented staff.

In the Media/PR/Advertising sector, 21% of respondents attach high priority to enhancing leadership competencies. When business is scarce, it is vital for executives in this industry to be equipped with strong leadership skills, as they have to develop and reinforce valuable client relationships.

IT&T is the only sector where the proportion of respondents mentioning remuneration and reducing headcount reaches double figures - 13% and 10% respectively. This suggests that companies in certain areas of IT are keen to attract and retain professionals for key projects while others are still having to shed staff.

Most important people-related issues in the next 12 months



Source: The Hudson Report, China - Q3 2009

Salaries for new managerial hires



ECONOMIC CLIMATE IS AFFECTING STARTING SALARIES

Respondents were asked if the current economic climate means that they can negotiate lower starting salaries for managerial hires. Overall, 31% say that they can do so, the lowest figure for the markets surveyed in Asia. However, this represents a substantial increase from when this question was last asked, in Q3 2008. Then just 8% said they were able to reduce salaries for new managerial hires.

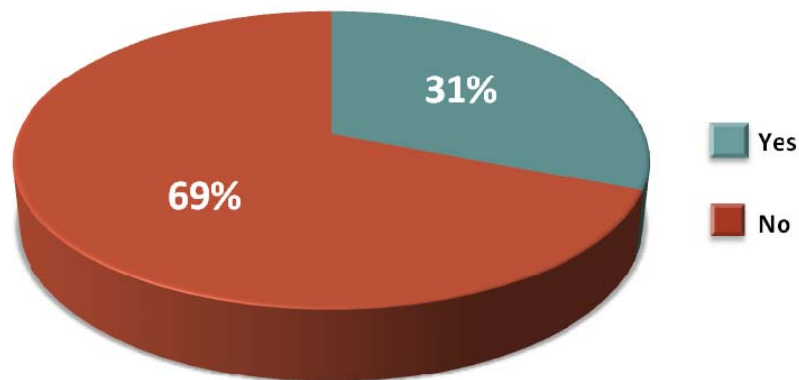
Nearly half of respondents - 47% - among Media/PR/Advertising firms are able to attract new managerial candidates while offering lower starting salaries. Many agencies are experiencing cash flow issues as new business opportunities decline and they are trying to save money by reducing salary levels. Salaries for in-house PR and

communications positions have been less severely affected.

At 43%, the IT&T sector also has a very high proportion of respondents saying that salaries for new managerial hires are falling. Although major new projects are taking place in some areas, this sector has the highest proportion of employers planning to make staff cuts and this is exerting a downward pressure on new hire salaries.

Negotiating lower starting salaries is more difficult in the Banking & Financial Services sector. Just 20% of respondents report that they are able to do so. Despite the effects of the global financial crisis, some key parts of this sector are short of talent and banks are prepared to offer attractive packages for critical staff. It should be noted, however, that even in this sector, the proportion of respondents saying they can reduce new hire salaries has grown significantly from 6% in Q3 2008.

Negotiation of lower salaries for new managerial hires



Source: The Hudson Report, China - Q3 2009

Extent of reduction in new managerial salaries



SALARY REDUCTIONS ARE RELATIVELY SMALL

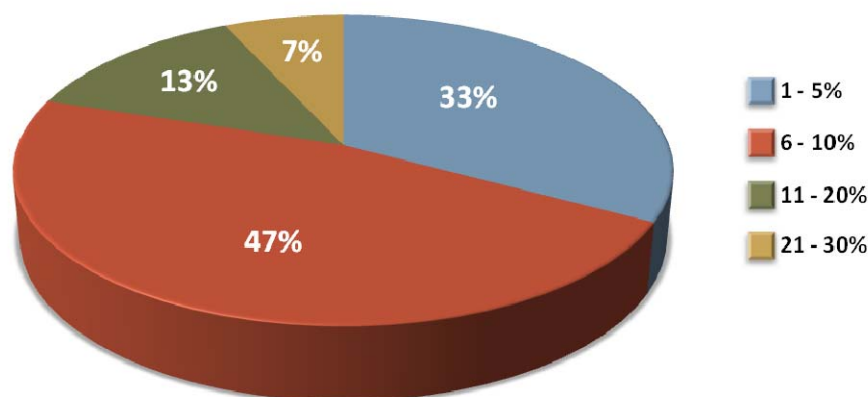
Even where respondents say they can negotiate lower starting salaries for managerial hires, the extent of the reduction is relatively limited. Across all sectors, 33% report reductions of between 1-5% and a further 47% say they can cut starting salaries by 6-10%. Only 7% are achieving reductions of more than 20%.

The smallest reductions are reported by the Banking & Financial Services and Manufacturing & Industrial sectors. In both areas, 39% say they are reducing starting salaries by 1-5% and 45% respondents are able to lower salaries by 6-10%.

The banking sector is relatively talent-short, as banks develop the services they offer in China, while manufacturing companies are keen to attract talented staff as the effects of the stimulus package begin to be felt.

The IT&T sector has by far the highest proportion of respondents who are able to negotiate reductions in starting salaries of more than 10%: 44% say that new hires are accepting 11-20% reductions, while a further 12% say that starting salaries are down by 21% or more. As noted, demand for IT professionals is patchy and specialists in some areas are recognising that they must accept significant salary reductions.

Gap between salary expectation and offer



Source: The Hudson Report, China - Q3 2009

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