Hudson

The Hudson Report

Hiring and HR Trends

Hong Kong

January – March 2008

From great people to great performance℠

Introduction

The Hudson Report is a quarterly survey of forward-looking employer hiring expectations. The Report in Asia covers Japan, Hong Kong, Shanghai and Singapore and now combines the expectations of over 2,500 key employment decision-makers in these four markets.

Participants in this survey are primarily executives at multi-national firms and were personally surveyed by Hudson consultants familiar with them and their industry sectors.

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.

In total, The Hudson Report now combines the expectations of almost 6,000 employment decision-makers in Asia Pacific from all major industries across a range of organisational sizes.

© Hudson Global Resources (Hong Kong) Limited 2008

Key Findings

"Hiring expectations continue to rise and most sectors have a positive outlook. But continuing pay inflation appears to be unsustainable. Salaries and bonuses are rising fast without any corresponding improvement in staff turnover rates."

Gina McLellan, Hong Kong Country Manager, Hudson

Hiring expectations are still going up and are now at their highest level since Q3 2006. In this survey of 683 executives in key business sectors, 58% expect to increase hiring in Quarter One (Q1) 2008, up from 54% the previous quarter.

- Expectations are also rising year-on-year: the 58% forecasting headcount growth this quarter compares with 54% in Q1 2007;
- Salaries for new managerial hires are rising sharply, with 59% of respondents saying they expect to increase starting salaries by more than 10%;
- Bonuses are also on an upward trend: 30% of respondents expect to pay more than 20%;
- Higher salaries and bonuses are having little impact on staff turnover, with 39% experiencing turnover rates of more than 10%, a slight increase from 37% in Q1 2007;
- Overall, 16% of respondents expect the current credit crunch to affect their hiring plans, the highest figure reported in Asia.

Permanent hiring expectations

Hiring Expectations Still Rising

Hiring expectations continue to rise: 58% of respondents across all sectors forecast increased hiring, up from 54% the previous quarter.

IT & T

Expectations are highest in the IT&T sector, where 85% of respondents plan to grow headcount this quarter. Many banks are now undertaking upgrades and new projects, boosting demand for developers and support staff. Demand is particularly strong for professionals with both technical and financial products expertise.

Legal

The Legal sector also reports high expectations, with 65% of respondents saying they will increase hiring. The growth of private equity deals is boosting demand for experienced lawyers in the areas of M&A, Corporate and Capital Markets.

Banking & Financial Services

The Banking & Financial Services sector remains positive: 60% forecast headcount growth this quarter, compared with 59% in Q4, 2007.

Banks are seeking talented professionals in a range of areas, including investment banking, middle office product support and back office operations.

Manufacturing

Manufacturing companies report a slight decline in hiring expectations, from 48% in Q4 to 46% this quarter. Some organisations have not yet finalised their hiring plans. Staff in demand include project managers, merchandisers and sales professionals.

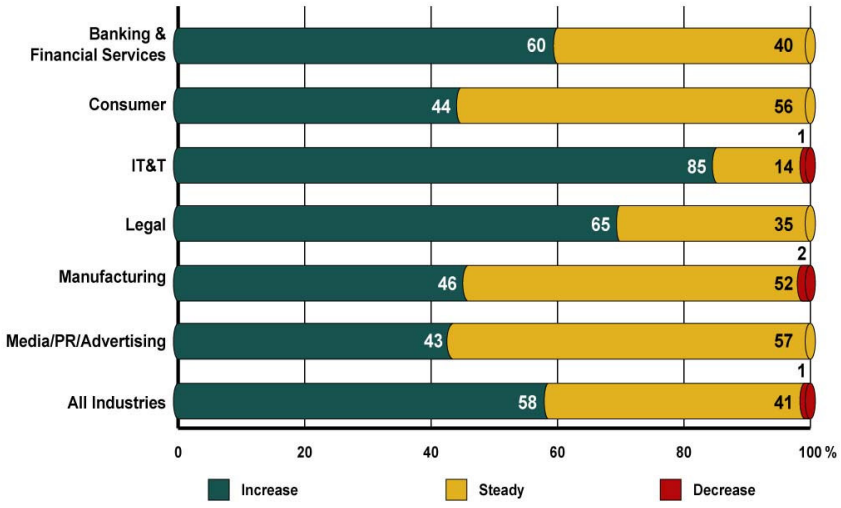
Consumer

Expectations are sharply up in the Consumer sector, where 44% of respondents plan to hire more staff. This compares with 37% the previous quarter. FMCG companies are recruiting for sales and marketing and logistics roles and rapid expansion in the hospitality sector is also creating demand.

Media/PR/Advertising

After a substantial rise in expectations in Q4, there is some consolidation in the Media/PR/Advertising sector. The proportion of firms forecasting headcount growth has fallen slightly to 43%, from 46% in Q4. Professionals with account management experience are highly sought after.

Permanent hiring expectations in Hong Kong



Permanent hiring expectations over time

Steady Upward Trend

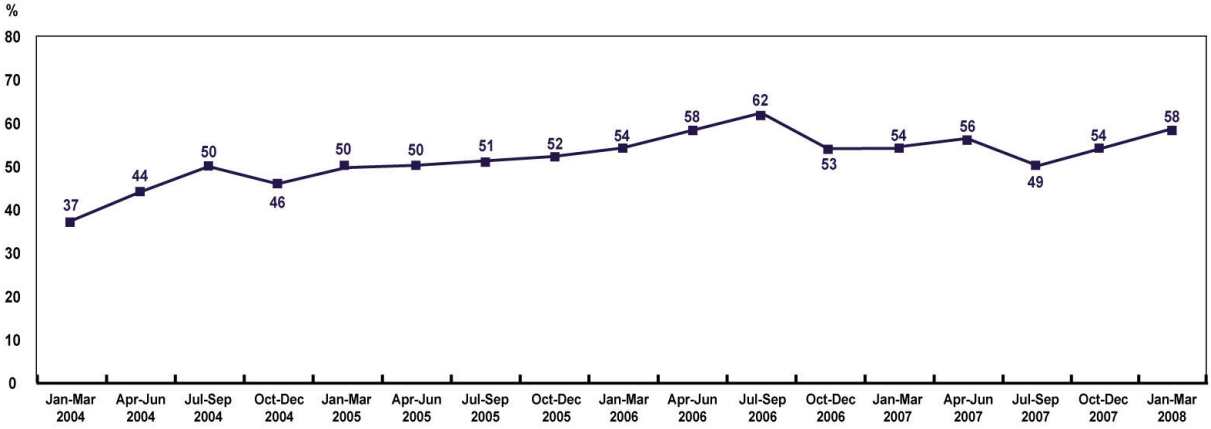
Expectations are also rising over the longer term. The 58% of respondents across all sectors who forecast headcount growth this quarter compares with 54% in Q1 2007. Overall, expectations are now at their highest level since Q3 2006.

The IT&T sector again reports the highest year-on-year growth in hiring expectations. A significant proportion of recruitment in this sector is for IT professionals with financial expertise, driven by the large number of banks upgrading their systems.

The Manufacturing sector remains positive year-on-year: 46% plan to increase headcount in Q1, up from 42% a year ago. Many companies are investing heavily in logistics and quality management, creating strong demand for professionals in these areas.

Media/PR/Advertising firms report the steepest decline in expectations over the past year. This sector is becoming more fragmented, into such areas as outdoor, TV and digital. Growing focus on digital media is boosting recruitment in this area, while more traditional media is experiencing a period of consolidation.

Permanent increased hiring expectations over time in Hong Kong



Each quarter, apart from asking about hiring expectations, we select survey topics that indicate how businesses expect to cope with their environment. This quarter we asked about salary increases, bonuses, staff turnover and the potential impact of the current credit crunch.

Salary increases for new hires

Increases For New Hires Rising Sharply

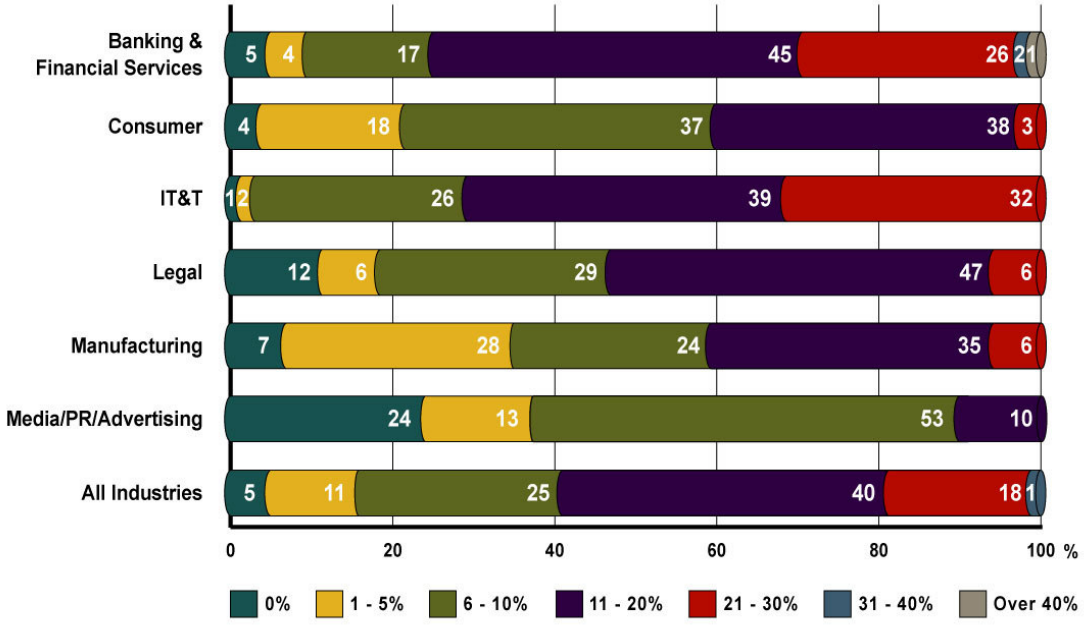
Respondents were asked about the average increases they expect to pay to attract new managerial hires. Across all sectors, 59% say that they have to pay increases of more than 10% and 19% expect to pay increases of more than 20%.

This represents a sharp increase over the past year. In Q1 2007, 50% of respondents expected to pay increases of more than 10% to new managerial hires, and 13% said they had to pay over 20%. It appears unlikely that increases of this magnitude will be sustainable over the longer term.

Pay increases for new hires are particularly high in the IT&T sector, with 32% of respondents expecting to pay increases of more than 20%, up from just 6% a year earlier. A severe shortage of financial IT specialists and high demand from banks are combining to push salaries up.

The Media/PR/Advertising sector reports the lowest increases for new hires: 90% say that rises will be limited to 10% or less. Nearly a quarter – 24% – say that they are not planning any salary increase to attract new hires.

Pay increase to attract managerial staff



Year-end discretionary bonus

Higher Bonuses Likely

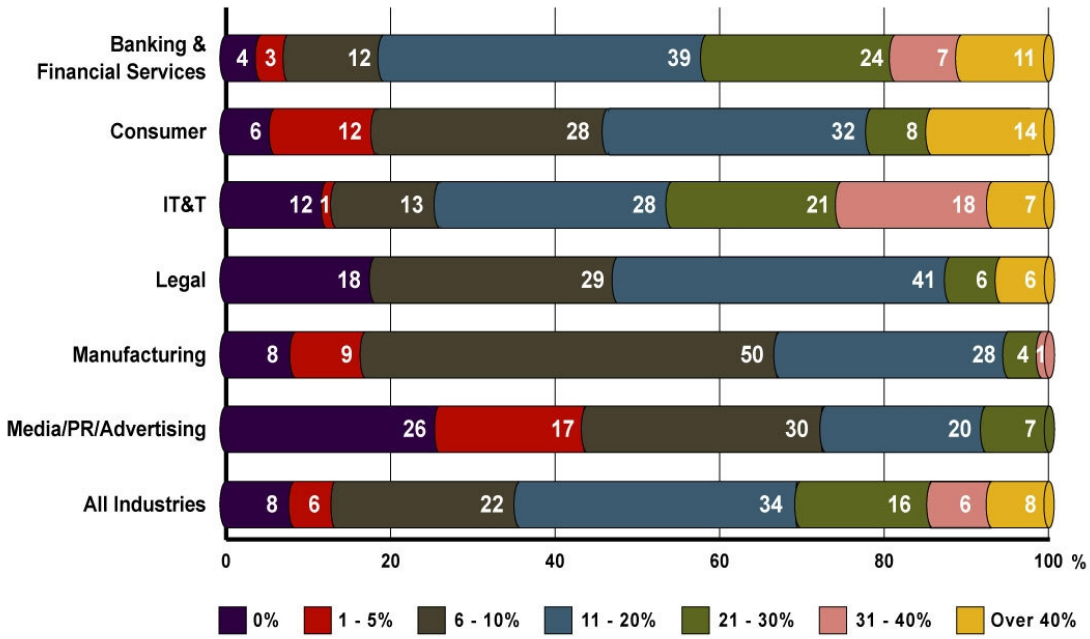
Respondents in all sectors propose to pay higher discretionary bonuses than in Q1 2007, in some cases significantly higher. Overall, 64% anticipate paying bonuses of more than 10% and 30% expect bonuses to be more than 20%. These figures compare with 54% and 28% a year earlier.

At 30%, Hong Kong has a higher proportion of respondents proposing to pay bonuses of over 20% than any other market in Asia.

Bonus payments are rising fastest in the IT&T sector, where 46% of respondents are proposing to pay bonuses of over 20%, up from just 6% in Q1 2007. One quarter of the respondents expect to pay more than 30%, while none did so last year. This increase is being driven by the shortage of candidates with financial IT expertise and by a market correction after a long period of relative underpayment in this sector.

Anticipated bonuses in the Banking & Financial Services sector remain at a high level. They are also expected to rise significantly in the Legal sector, where 12% of respondents propose to pay more than 20%, compared with just 3% in Q1 2007. These figures reflect the dearth of bilingual lawyers with extensive expertise in M&A and Capital Markets.

2007 discretionary year-end bonus



Staff turnover

No Improvement In Past Twelve Months

Respondents' responses to a question on average staff turnover rates suggest that higher salaries and bonuses are not helping companies to retain key staff. The proportion of respondents reporting turnover rates of more than 10% has risen or remained constant in every sector surveyed.

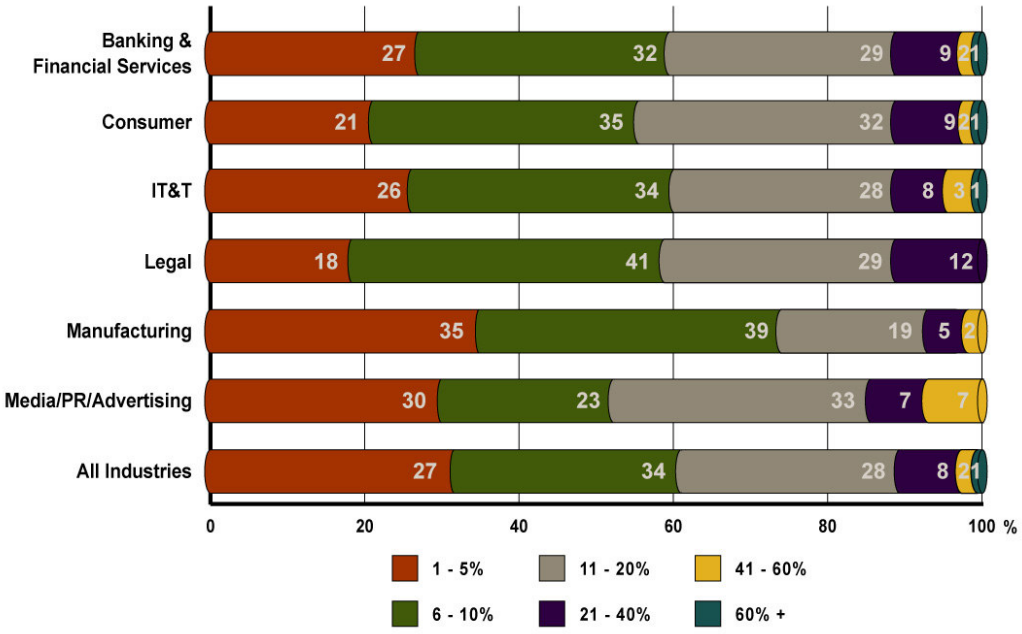
Across all sectors, 39% of respondents report staff turnover rates of more than 10% in the last twelve months and 11% report turnover of over 20%. The corresponding figures for the previous year were 37% and 10% respectively. Not only has there been no improvement in turnover rates but even a further deterioration, despite higher salaries and bonuses.

Legal firms are experiencing the steepest rise in turnover rates compared to a year ago: 41% report turnover rates of more than 10%, up from 30% a year earlier. There is an increasing trend for lawyers to move to in-house roles in investment banks and private equity firms, to obtain higher pay and more effective work-life balance.

The Media/PR/Advertising sector has the highest staff turnover, with 47% of respondents reporting rates of over 10% and 14% reporting turnover rates of more than 20%. This industry is buoyant and new players have entered the market, increasing the opportunities for candidates.

.

Average staff turnover in the last 12 months



Reasons for staff turnover

Poaching, Dissatisfaction With Pay and Limited Career Progression are Major Issues

Staff poaching is seen as the single most important factor behind staff turnover. Across all the sectors surveyed, 29% cite this issue. Dissatisfaction with salary and bonus, limited career progression and personal factors are also seen as significant reasons, being mentioned by 18%, 17% and 17% respectively.

Poaching is especially prevalent in the Banking & Financial Services and IT&T sectors, where it is cited by 35% and 30% of respondents respectively. Both sectors have high hiring expectations and employers are experiencing severe difficulties in finding talented candidates.

Dissatisfaction with salary and bonus is another important issue in the IT&T sector, being raised by 22% of respondents. As noted, salaries and bonuses are rising quickly after a long period of being relatively low and in a candidate-short market, skilled professionals know they can ask for large increases.

The Legal sector reports by far the lowest level of dissatisfaction with salary and bonus – just 9% - but has the highest proportion of respondents mentioning personal reasons and "others": 20% and 21% respectively. Achieving more effective work/life balance is an important factor in these responses.

Reasons behind staff turnover

Industry	Staff poached	Dissatisfied with salary/bonuses	Career progression limited	Personal reasons	Others	Dissatisfaction with management	Low staff morale
Banking & Financial Services	35%	17%	12%	15%	15%	3%	3%
Consumer	22%	18%	24%	18%	14%	2%	2%
IT&T	30%	22%	23%	12%	2%	6%	5%
Legal	26%	9%	15%	20%	21%	6%	3%
Manufacturing	22%	16%	19%	23%	13%	5%	2%
Media/PR/Advertising	17%	20%	17%	23%	10%	8%	5%
All Industries	29%	18%	17%	17%	12%	4%	3%

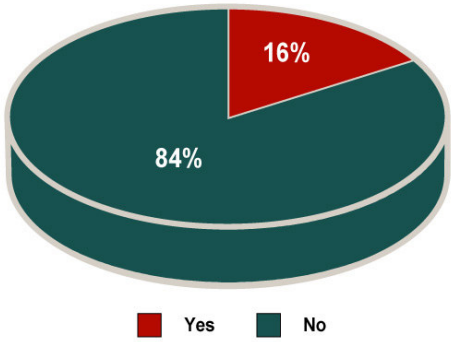
Credit crunch impact on hiring trends

Impact Expected To Be Low

Respondents were asked if they expected the current credit crunch to affect their hiring plans in Q1. Across all sectors, 16% say that the credit crunch will have an impact. This is a higher figure than for any other market surveyed in Asia.

In the IT&T, Banking & Financial Services and Legal sectors 31%, 23% and 12% say that the credit crunch will affect hiring plans. Much of the work currently being undertaken by IT&T and Legal firms is for banks, making them more vulnerable to the potential impact from the credit crunch than the other sectors surveyed.

Will the credit crunch affect hiring plans in 2008?



Credit crunch contingency plans

Response To Credit Crunch Will Be Reduced Hiring

Respondents who expect the credit crunch to affect their plans were asked what action their company would take. The most likely measure is to reduce staff hiring. Overall, 59% of respondents give this response.

This measure is most cited in the IT&T sector, with 67% of respondents mentioning it. Although reducing hiring is seen as the most important action in the Banking & Financial Services sector, reducing bonuses is also widely mentioned, with 37% citing this factor.

Contingency plans for a credit crunch

Industry	Reduce staff hiring	Reduce bonuses	Reduce budgets	Hiring freeze	Others
Banking & Financial Services	59%	37%	26%	34%	13%
Consumer	50%	50%	50%	50%	0%
IT&T	67%	24%	45%	24%	6%
Legal	0%	0%	0%	0%	100%
Manufacturing	0%	0%	100%	0%	0%
All Industries	59%	32%	32%	31%	12%

Contacts

Asia

Gina McLellan
Hong Kong Country Manager
Tel: (852) 2528 1191
gina.mclellan@hudson.com

China

Angie Eagan
Shanghai General Manager
Tel: (86 21) 2321 7888
angie.eagan@hudson.com

Hong Kong

Gina McLellan
Hong Kong Country Manager
Tel: (852) 2528 1191
gina.mclellan@hudson.com

Japan

John Tucker
Tokyo General Manager
Tel: (813) 3511 5668
john.tucker@hudson.com

Singapore

Mark Sparrow
Singapore Country Manager
Tel: (65) 6339 0355
mark.sparrow@hudson.com

www.hudson.com

From great people to great performance℠