



Tatum Survey of Business Conditions

4/1/2011

Tatum Survey of Business Conditions Summary

At April 1, the Tatum Survey reflected a mixed picture of business conditions with a somewhat negative bias to the overall trends. While in the past 30 days overall conditions were about flat with the prior month, the 60-day outlook continued to deteriorate, relatively, with the effect of driving down the **Tatum Index of Business Conditions** for the second consecutive month, from 8.3 to 6.2. The Index had peaked at 10.7 as of February 1, 2011.

The recovery is continuing but at a slow rate. The outlook is softening. The outlook is influenced by the potential effects of international developments, rising oil prices and budget concerns at the national, state and local levels.

Demographically, the Southwest region continues to be by far the strongest, due in part by the positive effects on the region of rising oil prices. International businesses (mainly exporters) continue to be strong due in part to the weakened United States. High technology and manufacturing businesses are the strongest sectors.

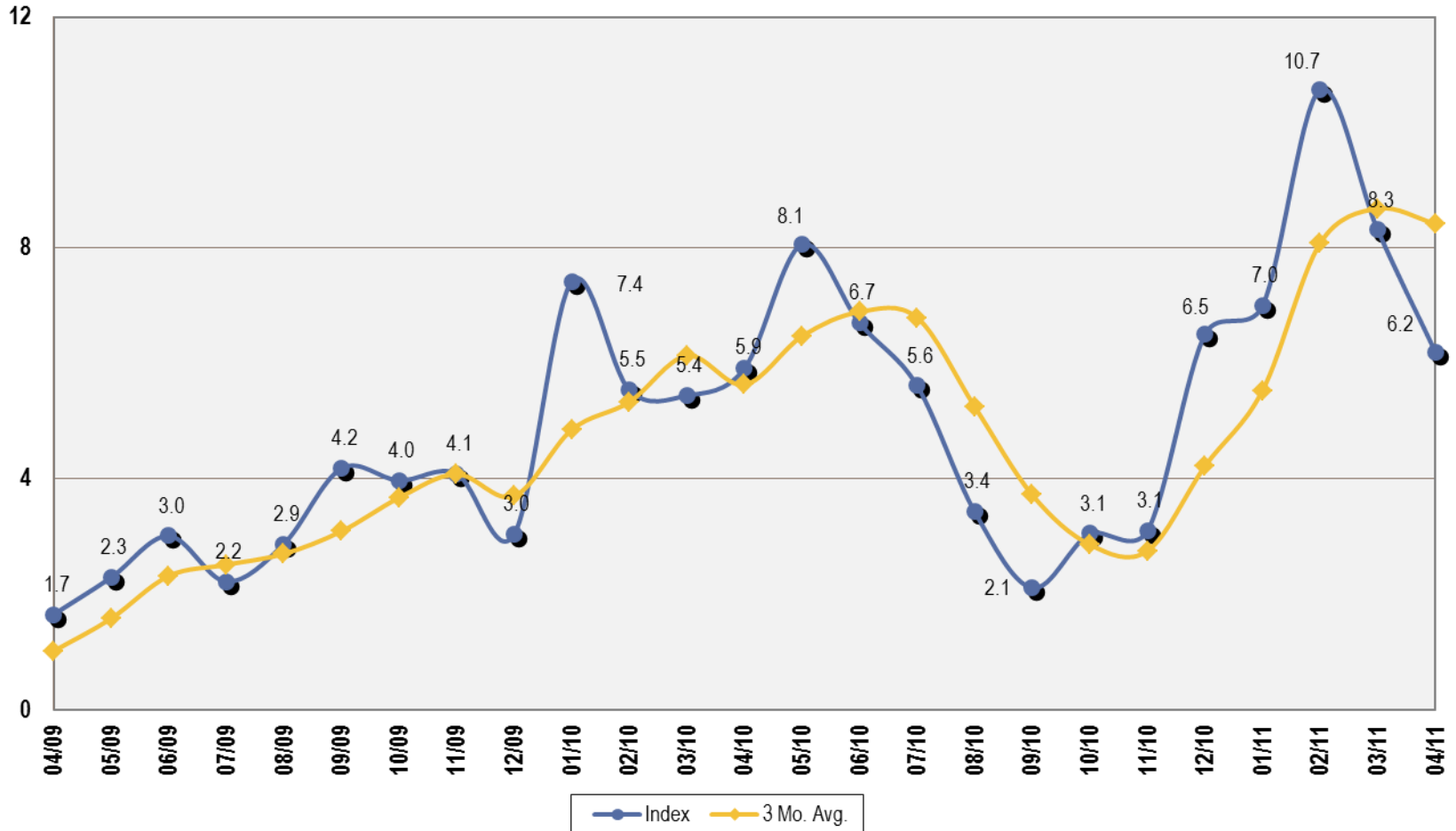
Tatum Index of Business Conditions

The **Tatum Index of Business Conditions** is a simple average of the ratio of our respondents who are reporting improvement versus those who are reporting a worsening in business conditions for the past 30 days and the next 60 days.

As of April 1st, the Tatum Index of Business Conditions declined approximately 25% to 6.2. This change reflects a negligible 5% improvement in the past 30 days and a significant 32% decline in the outlook. The ratios that make up the Index are subject to large percentage movements, but it is clear that our respondents are growing more concerned about the near-term future.

It is uncertain from our survey to what degree the soft outlook is based on concerns about external events (international finance, national and local government fiscal issues, rising commodity prices including oil) or internal analysis of customer trends and orders being received. However, order backlogs are trending down suggesting that this softness is not merely sentiment based on external events.

Tatum Index of Business Conditions



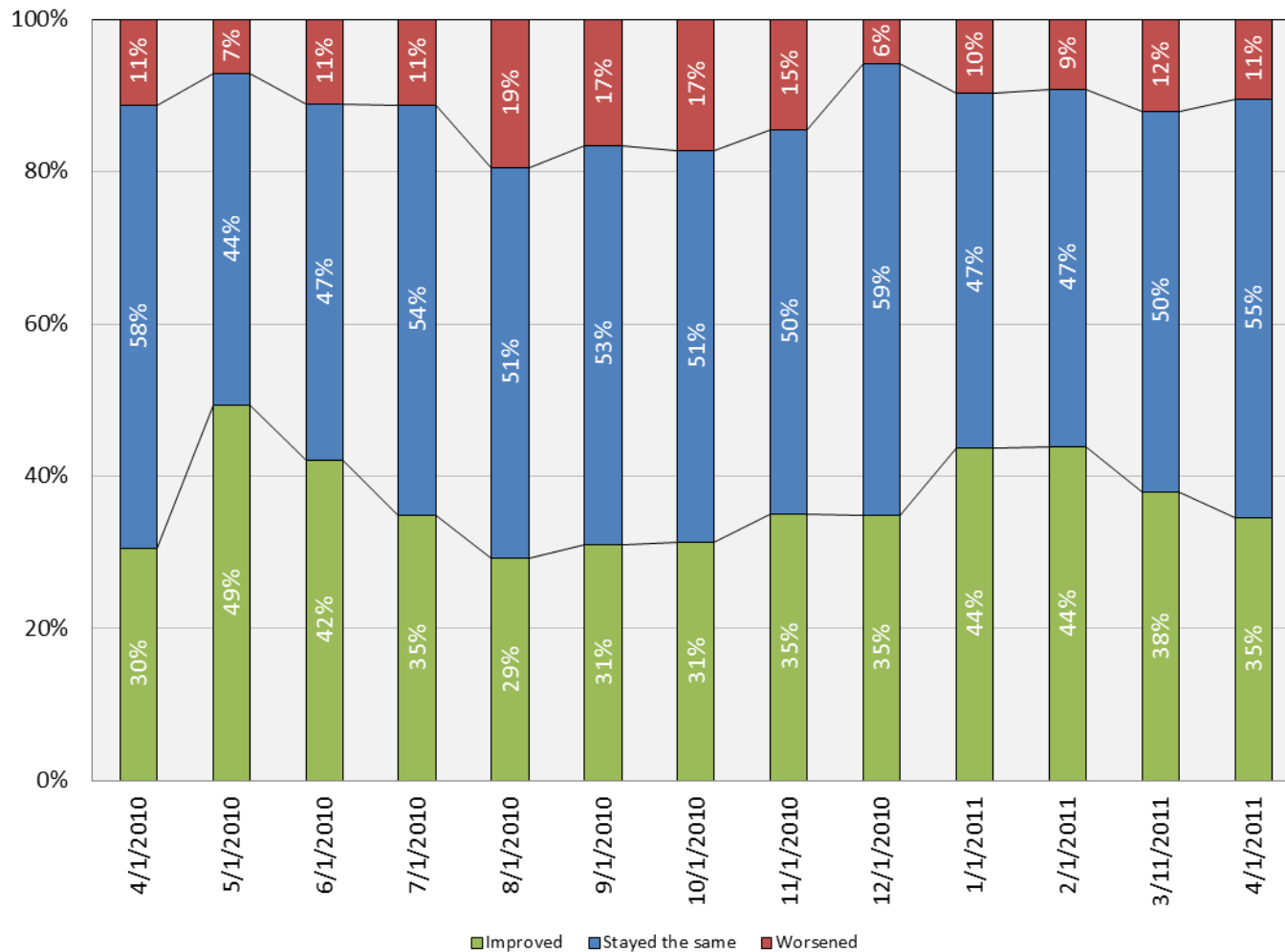
Business Conditions – Trends

In the past 30 days, business conditions:

- > **Improved for 35% of our respondents**, down from 38% in the prior month.
- > **Worsened for 11%**, a bit better than the 12% a month ago.

This is so close to last month that we are calling it flat. This means that the overall trend is in the direction of continued recovery as these levels are much better than those seen during the recession while being lower than what we see in more robust periods of favorable conditions.

Business Conditions the Past 30 Days



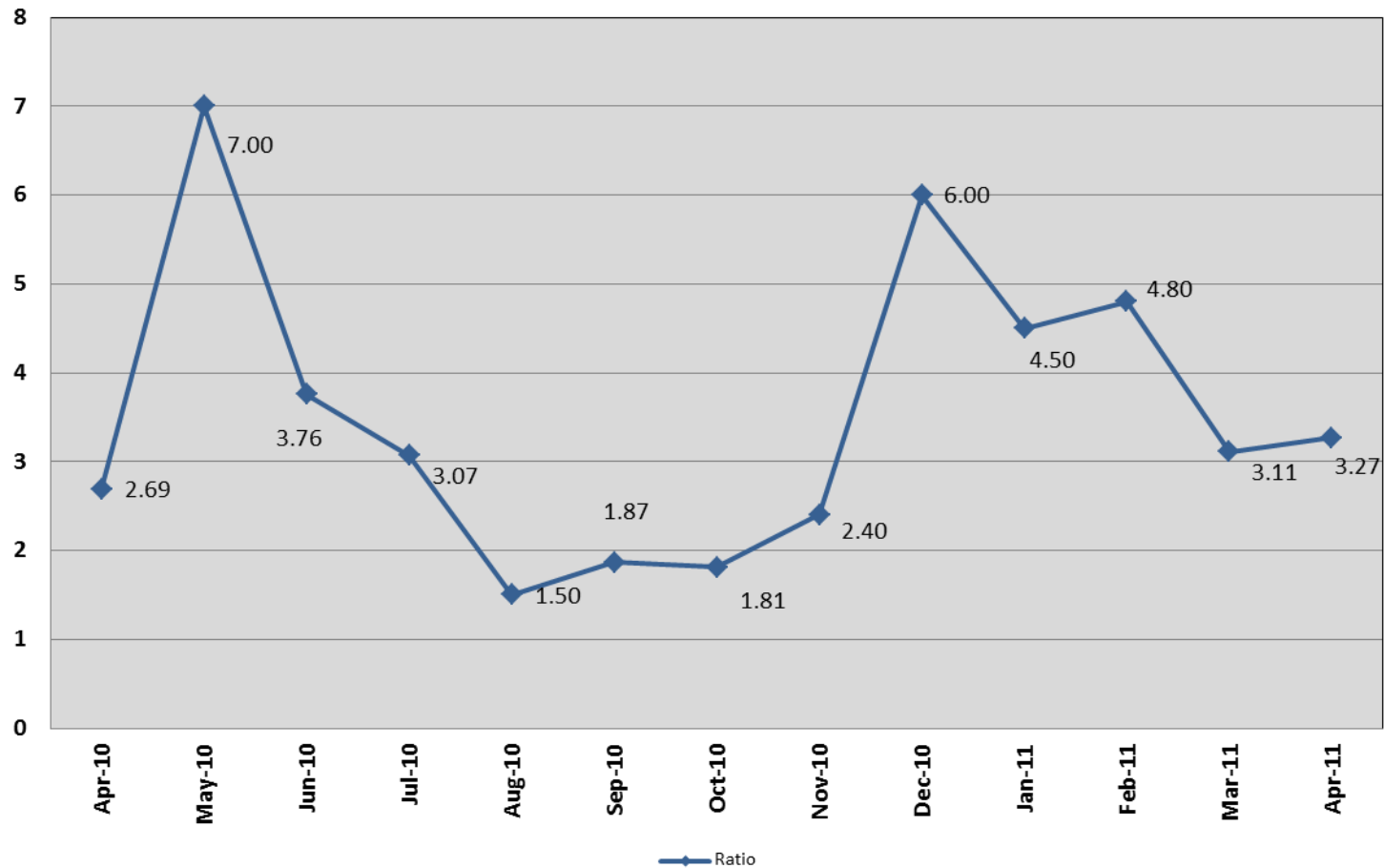
Business Conditions – Trends Last 30 Days

The ratio of “Improved-to-Worsened” in the last 30 days rose slightly to 3.3 from 3.1 reported in the prior month.

We consider this about flat with the prior month.

Business Conditions – Trends

Ratio of “Improved” to “Worsened” – Past 30 Days



Business Conditions – Trends Next 60 Days

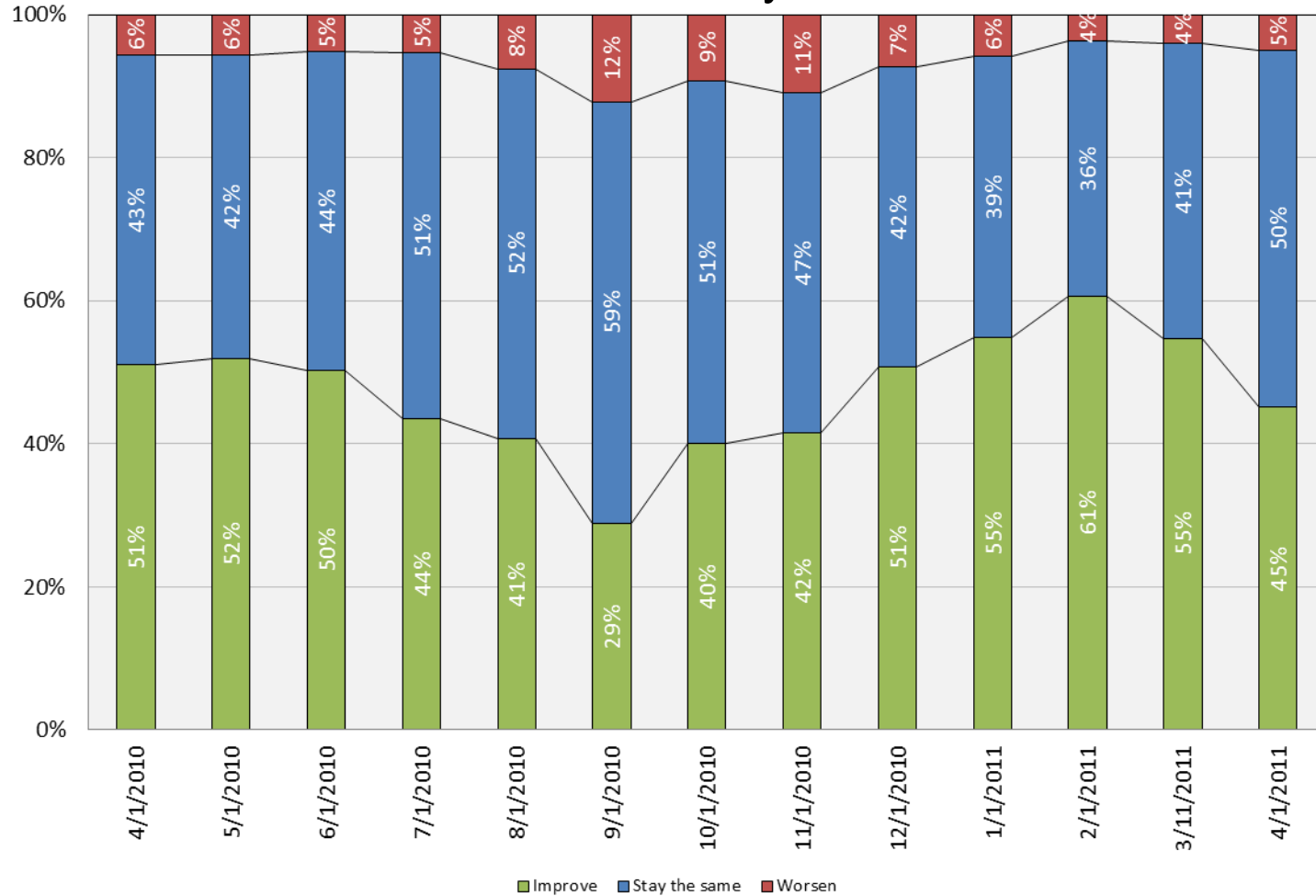
In the next 60 days, business conditions are expected:

- > ***To improve for 45% of our respondents***, down from 55% last month
- > ***To get worse for 5%***, slightly higher than the 4% of last month

This continues the downward trend seen in the past month. The soft outlook may reflect larger concerns about the potential effects of a possible national budget impasse, rising gasoline prices, state-level budget issues, international sovereign debt problems and growing instability in the Middle East and North Africa (MENA). While there is plenty to worry about, actual business conditions here in the United States continue to be on the recovery track, and time will tell if the external concerns will have a material effect on domestic consumer demand.

Business Conditions – Trends

Next 60 Days



Business Conditions – Trends Next 60 Days

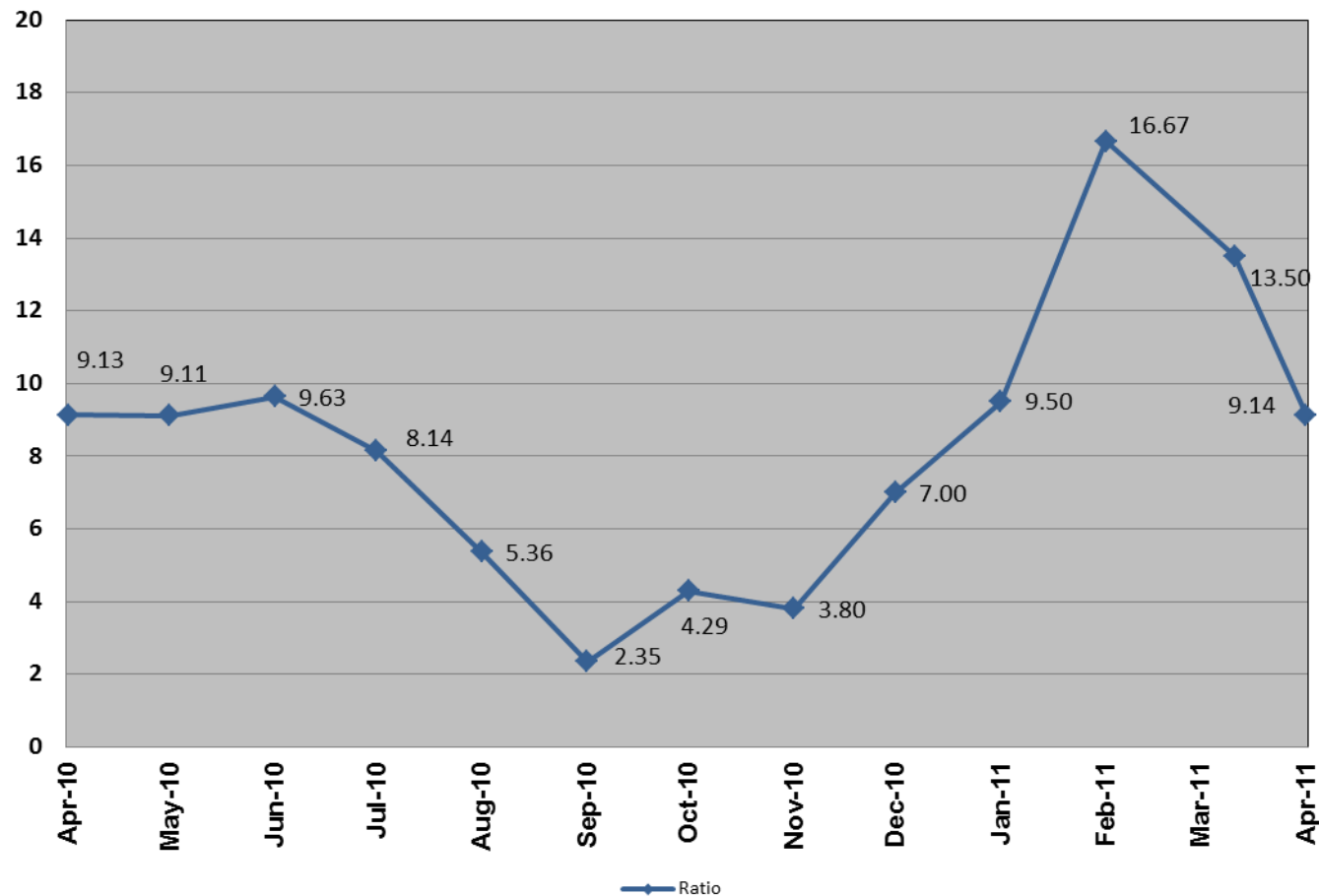
In the next 60 days:

The ratio of “*Will Improve*” to “*Will Worsen*” declined to 9.1 from 13.5. This is a very sensitive indicator, and this is the second consecutive decline since September 2010.

Relative optimism rises and falls. Business leaders’ judgments about the future are influenced not only by what they see in the flow of customer purchases and industry trends but also by the probable effects of current political, social and economic developments. Rising oil prices affect everything. Sovereign debt issues in Europe and our own States and communities, combined with rapid changes in North Africa and the Middle East have a way of combining to create a climate of uncertainty, and that affects the outlook.

Business Conditions – Trends

Ratio of “Will Improve” to “Will Worsen” – Next 60 Days



Business Conditions – Order Backlogs

In the past 30 days:

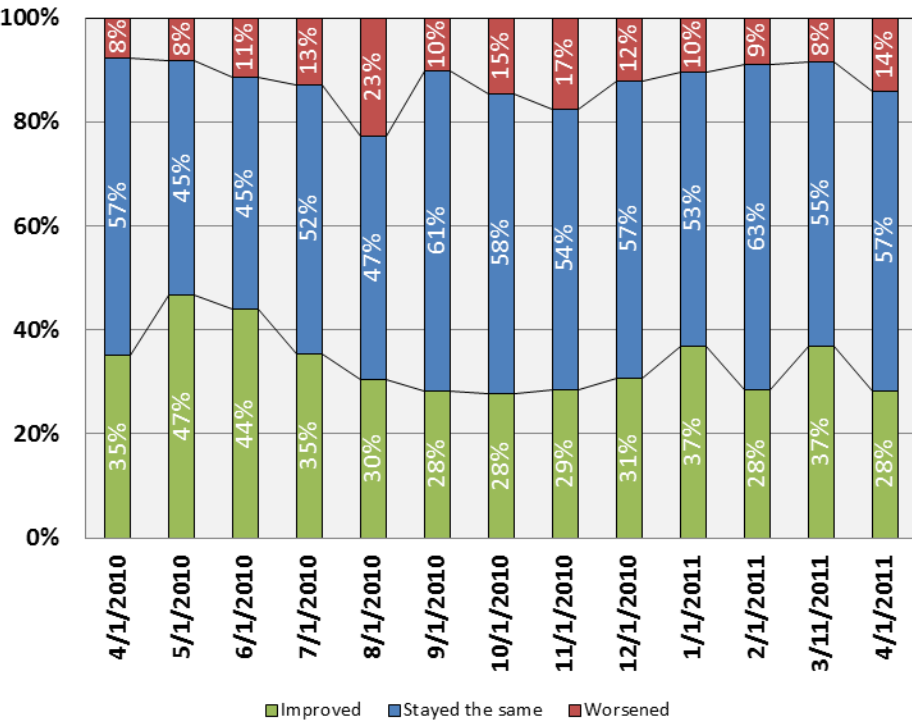
The percentage of respondents who reported an improvement in backlogs declined to 28% from 37% a month ago. The percentage reporting lower backlogs rose to 14% from 8%.

In the next 60 days:

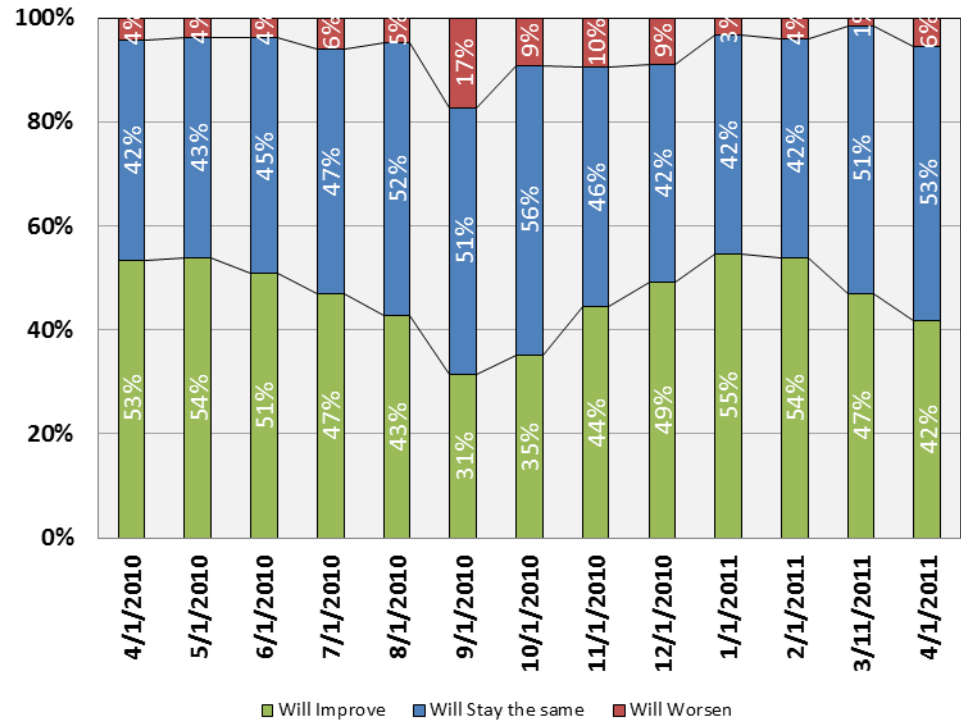
The percentage of respondents who indicated expectations of higher backlogs dropped from 47% to 42%. The “Will Worsen” percentage rose from 1% to 6%.

After looking better a month ago, order backlogs are lower both in the past 30 days and in expectations for the next 60 days. This supports the softer outlook overall.

Business Conditions – Current Results – Order Backlogs



Past 30 Days



Next 60 Days

Business Conditions – Capital Expenditure Commitments

In the past 30 days:

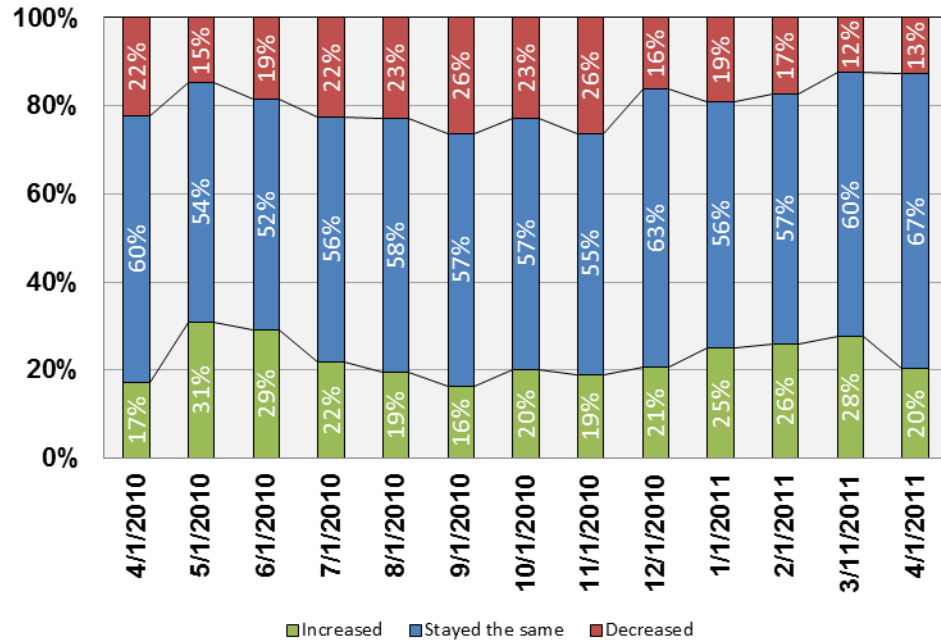
The percentage of respondents committing more on capital equipment declined from 28% to 20%. The percentage that committed less on capital equipment increased from 12% to 13%.

In the next 60 days:

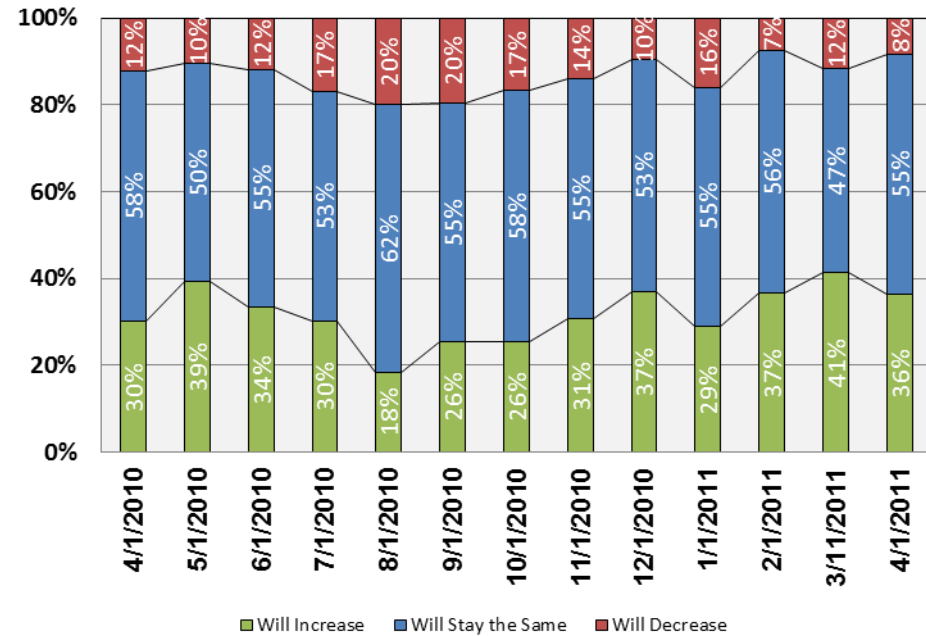
The outlook for Capital Expenditures is, again, mixed, with fewer respondents experiencing an increase in commitments and fewer also experiencing a decrease. The percentage of respondents who said they plan to commit more for capital assets in the next 60 days decreased to 36% from 41%. However, the percentage who expect to commit less decreased to 8% from 12%.

Capital expenditure commitments are made based on decisions of one or more months in the past. In the past 30 days, commitments softened. However, the outlook has turned into a mix that we interpret to be flat. We see this mix in other indicators as well, suggesting greater differentiation in outlooks in different industries and markets. That is, the recovery is less evenly distributed.

Business Conditions – Trends – Capital Expenditure Commitments



Past 30 Days



Next 60 Days

Business Conditions – Employment

In the past 30 days:

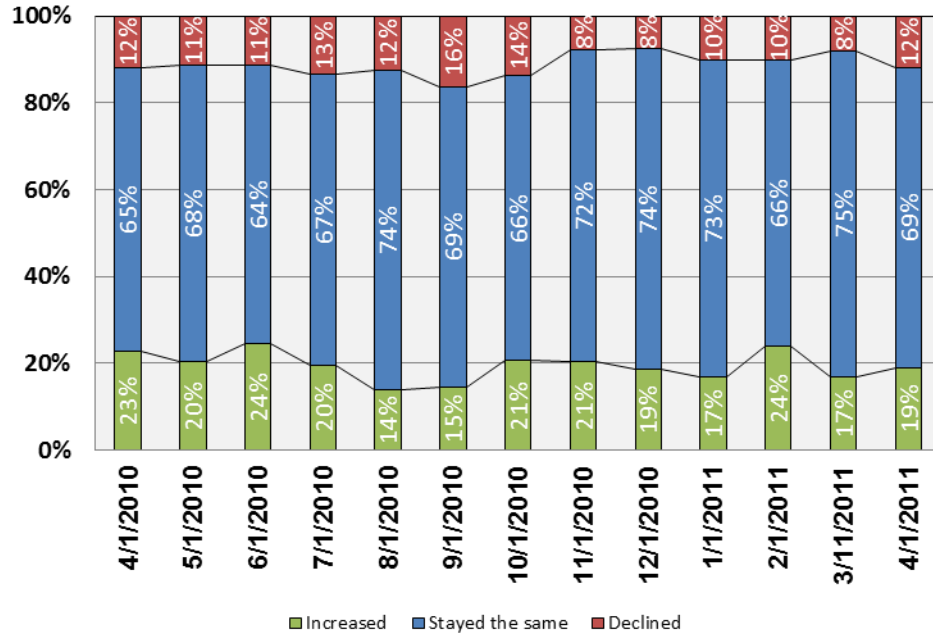
The percentage of respondents hiring more workers rose to 19% from 17%. However, the percentage that indicated they did less hiring also increased, to 12% from 8% in the prior month.

In the next 60 days:

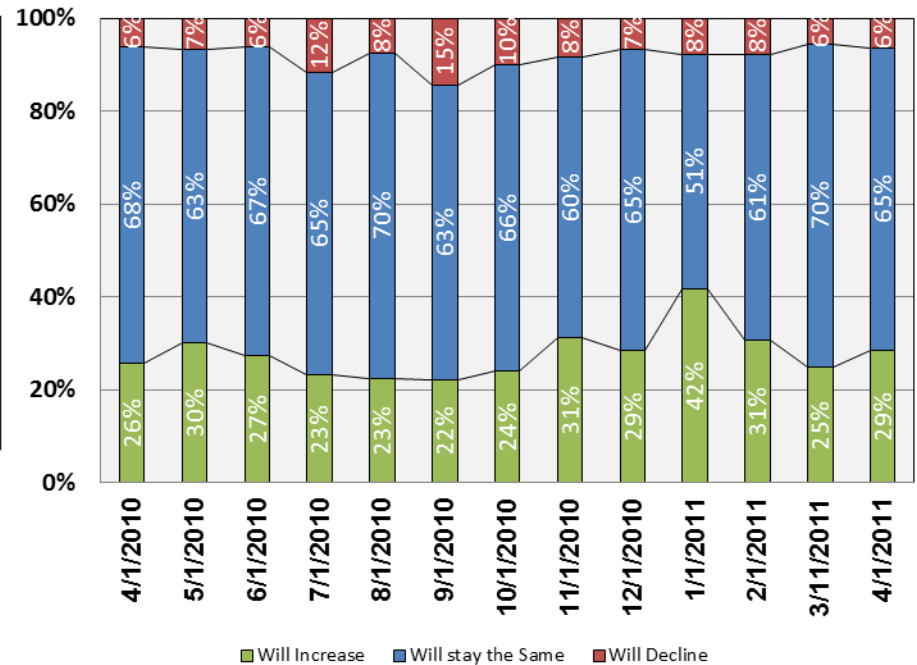
The percentage indicating they plan to increase hiring experienced an increase to 29% from 25%. The percentage who expect to reduce hiring remained flat at 6%

This mixed picture for employment shows rising new hires, and this is a refreshing indication following a number of months in which the best news was reductions in layoffs. We interpret this as an improvement in the employment situation overall.

Business Conditions – Trends - Employment



Past 30 Days



Next 60 Days

Business Conditions – Capital Availability and Pricing

The past 30 days:

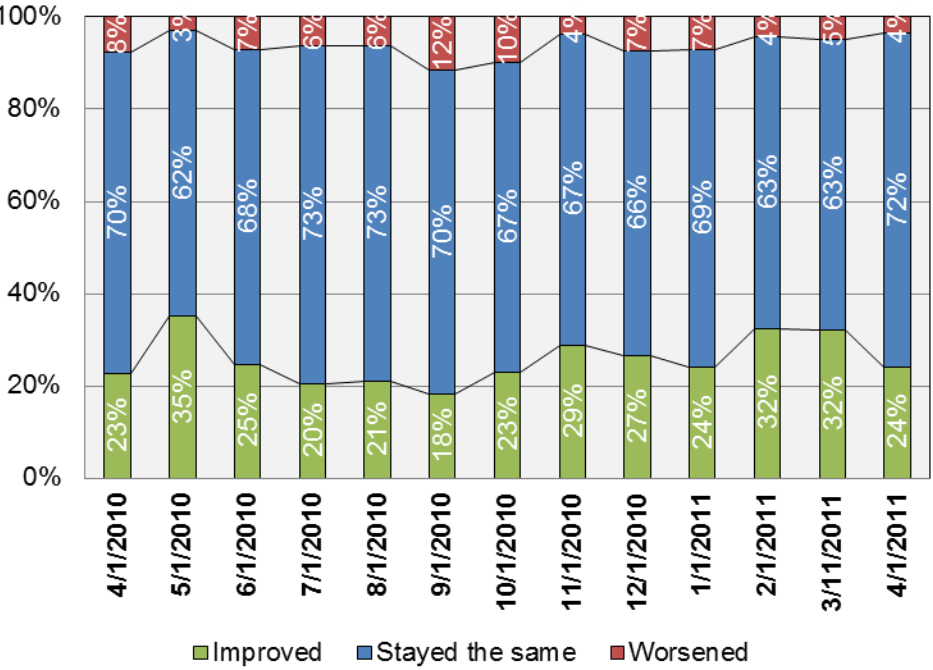
The percentage of respondents indicating an improvement in financing conditions declined from 32% to 24%. The percentage who indicated conditions were worsening declined slightly to 4% from 5%.

In the next 60 days:

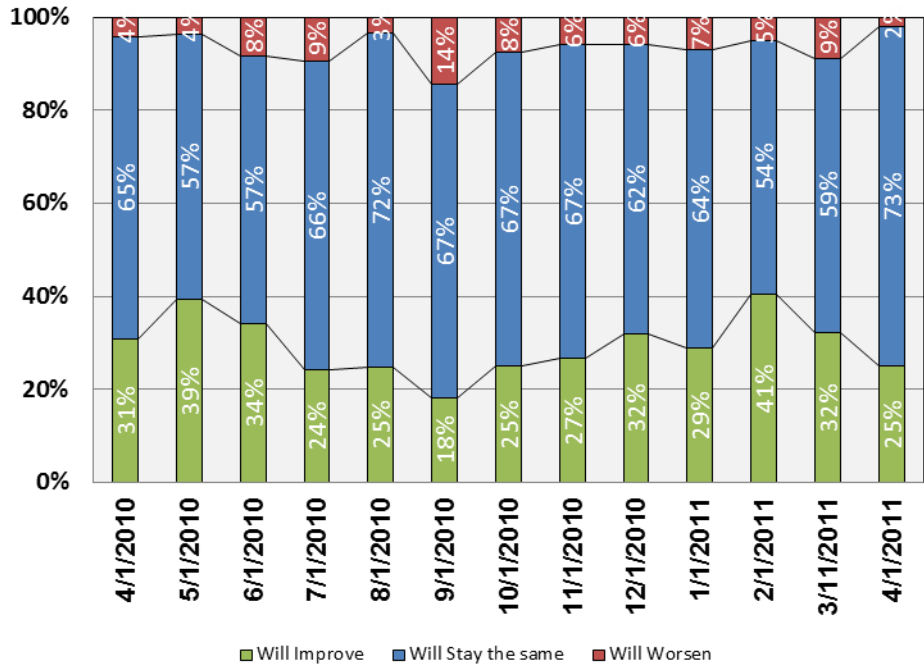
The percentage of respondents who expect improvement in financing conditions in the next 60 days declined to 25% from 32%. The percentage saying conditions will get worse declined to 2% from 9%.

We are seeing that fewer respondents are seeing conditions getting better, but at the same time, fewer are seeing financing conditions getting worse. We interpret this as a stabilization in financing conditions, without a distinct trend.

Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

Survey Participation Demographics

Industry

Services	20%
Manufacturing/Processing	25%
Health Care	14%
Technology	10%
Financial	9%
Wholesale	4%
Retail	4%
Government	4%
Construction	3%
Other	7%

Primary Geographic Markets

National	48%
Regional	20%
International	23%
Local	9%

Geographic Regions Represented (Total of 142 Responses)

Pacific	28%
Southeast	22%
Southwest	22%
Midwest	13%
Northeast	15%

Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest – Southwest

Weakest – Southeast

Industries:*

Strongest – Technology & Manufacturing

Weakest – Wholesale

Markets Served:

Strongest – International

Weakest – Regional

Company Size:

Strongest – Large

Weakest – Mid-market

* With statistically significant participation

Compiled and Analyzed by Sam Norwood – Senior Partner

Any use or reproduction of the contents of this report without the written consent of Tatum is strictly prohibited. The authors are not engaged in rendering legal, investment or other professional services by publication of this report. Information contained in this report should not be used as a substitute for professional advice, legal, investment or otherwise, on any particular issue.