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Tatum Survey of Business Conditions

8/1/2011

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Tatum Survey of Business Conditions Summary

After correctly predicting the recently-announced anemic 2nd quarter GDP growth of 1.3%, the Tatum Survey **as of August 1** has taken an ever-so-slight upturn when reporting on the immediate past and predicting the future. As our respondents report on the past 30 days the majority still state that conditions stayed the same although at the margins those experiencing improvements are up slightly.

The 60-day forward outlook experienced the same trend - while there was an increase in the portion of respondents expecting improving conditions, the majority still expect business conditions to stay the same. There is no obvious catalyst on the horizon that will stimulate economic growth.

Companies with a regional focus reported the most improvement in business over the past 30 days. The Pacific Coast region moved ahead of the Southwest in experiencing better conditions. The Manufacturing and Healthcare sectors were weak while services were relatively strong.

Tatum Survey respondents took the survey in late July, before the national debt limit debate whipped itself into a last-minute frenzy. Nevertheless, the results reflect a continued cautious attitude toward the country's economic growth prospects. Respondents are particularly pessimistic about future hiring and current and prospective capital availability.

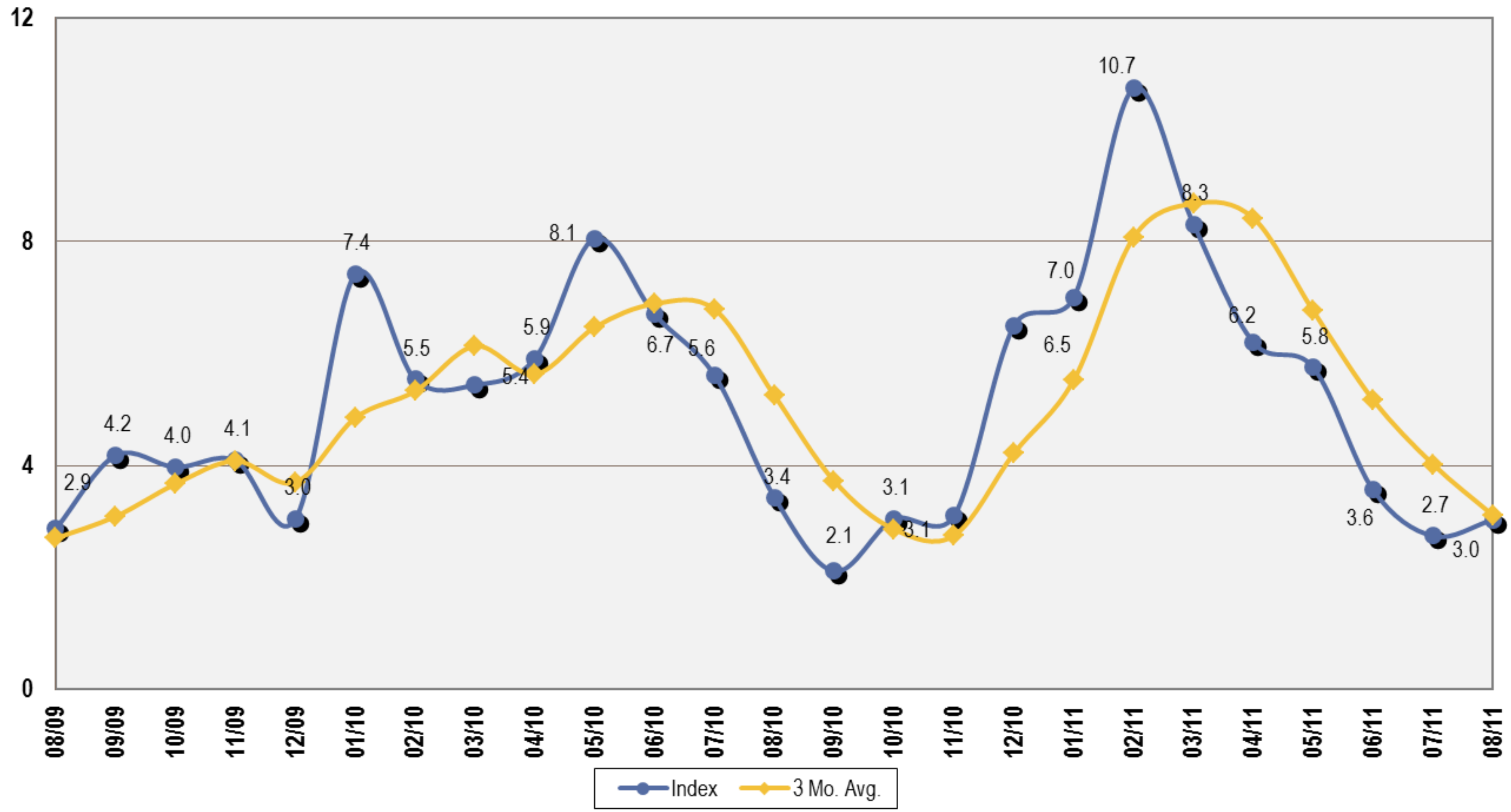
Tatum Index of Business Conditions

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 August 1st, the Tatum Index of Business Conditions improved slightly to approximately 3.0 from 2.7 a month ago, with slight upturns in reports of recent past activity as well as future outlook. After 5 months of consecutive declines, this would seem to be a positive outcome. However, in a range of 3.0 to 4.0 we have a very high correlation with near zero economic growth. Below 3.0 suggests recession in the Tatum Index, and the Index was in this range throughout the 2008-2009 recession. Since the end of the recession nearly 2 years ago, the Index has been at or above 3.0, except for the months of September 2010 and July 2011.

Our indicators were in this range briefly last summer and then pulled out in the autumn months. This month's results indicate a start towards the same trend, although less pronounced.

Tatum Index of Business Conditions



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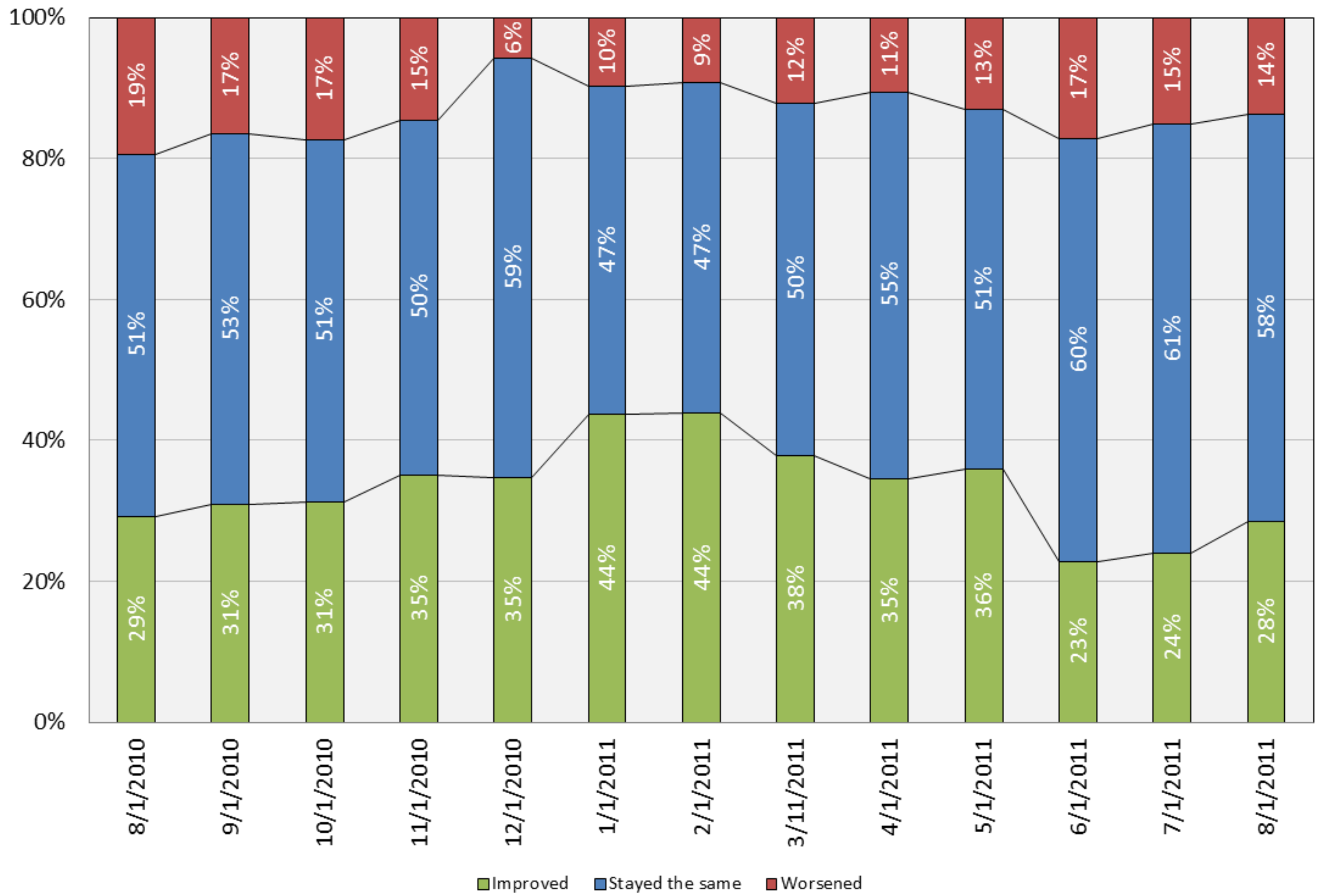
Business Conditions – Trends Past 30 Days

In the past 30 days, business conditions:

- ***Improved for 28% of our respondents,*** up from 24% in the prior month
- ***Worsened for 14%,*** a slight improvement from 15% a month ago
- ***Stayed the same for 58%,*** a decline from 61% a month ago, as these respondents moved into the Improved category

While we are encouraged by the upturn in reports of improvement, we are not out of the woods yet, with a still-strong majority of respondents reporting that business conditions remained the same.

Business Conditions the Past 30 Days

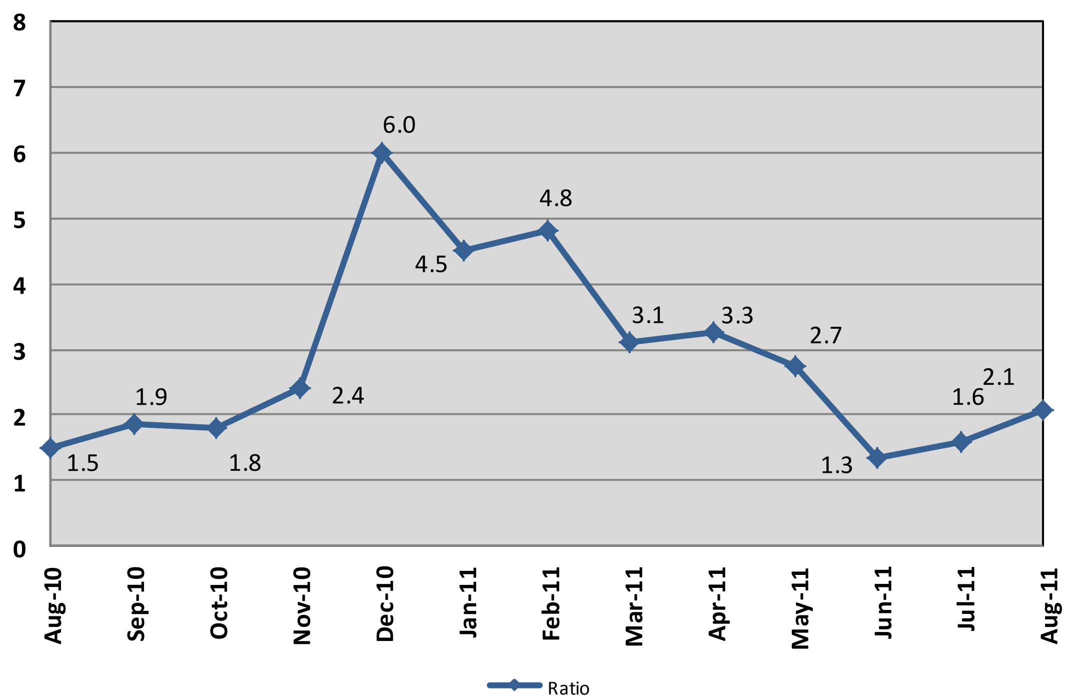


Business Conditions – Trends Past 30 Days

The ratio of "Improved-to-Worsened" in the last 30 days improved to **2.1** from 1.6 reported in the prior month.

While still in no-growth territory, this indicator improved for the second month in a row after bottoming out in June 2011.

Ratio of "Improved" to "Worsened" – Past 30 Days



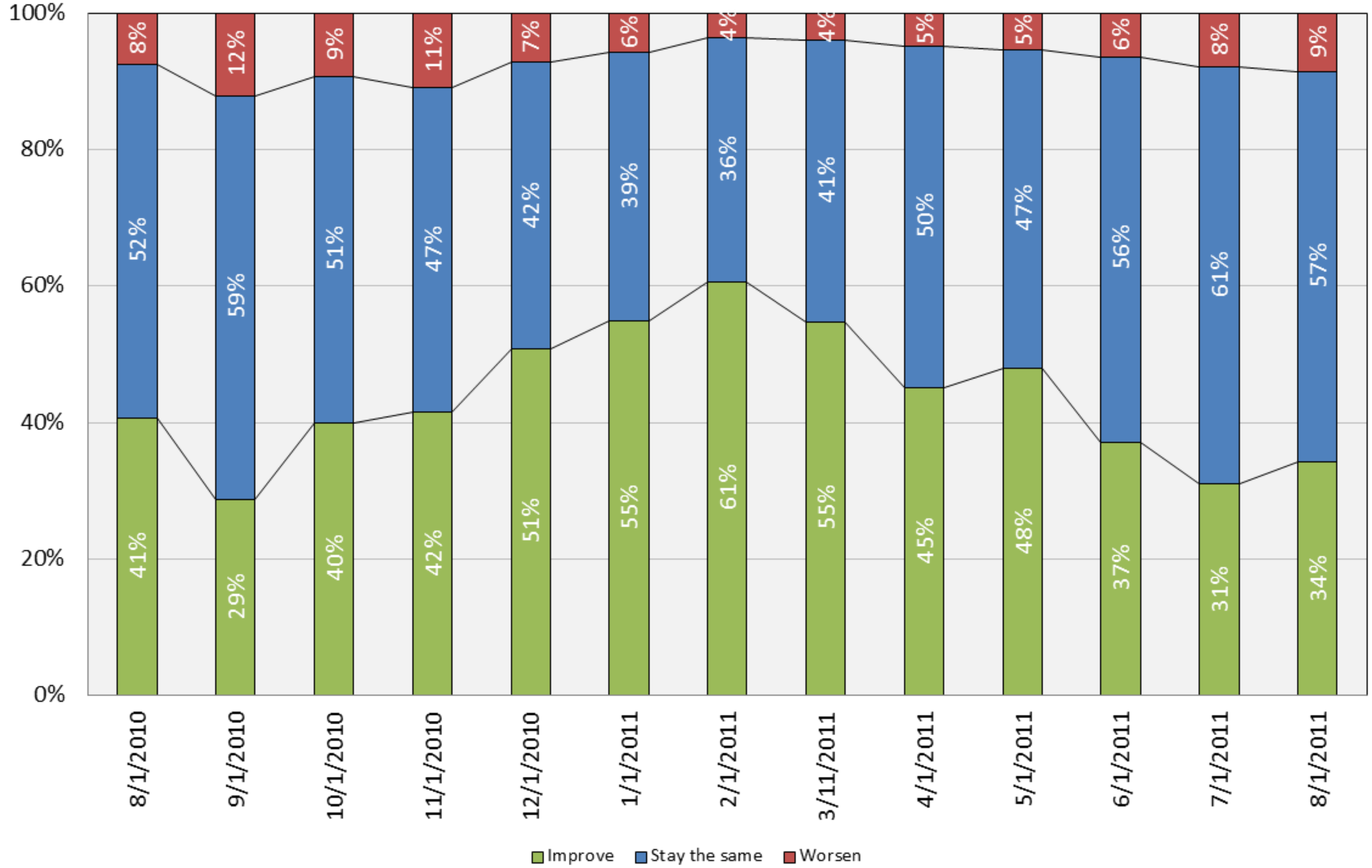
Business Conditions – Trends Next 60 Days

In the next 60 days, business conditions are expected:

- **To improve for 34% of our respondents,** up from 31% last month.
- **To get worse for 9%** compared to 8% last month.
- **To stay the same for 57%,** a decline from 61% a month ago, as these respondents moved into the Improved expectations category

The outlook nearly mirrors the reports of the past 30 days. While we note an improvement in expectations, the majority still expect "more of the same."

Business Conditions – Trends Next 60 Days

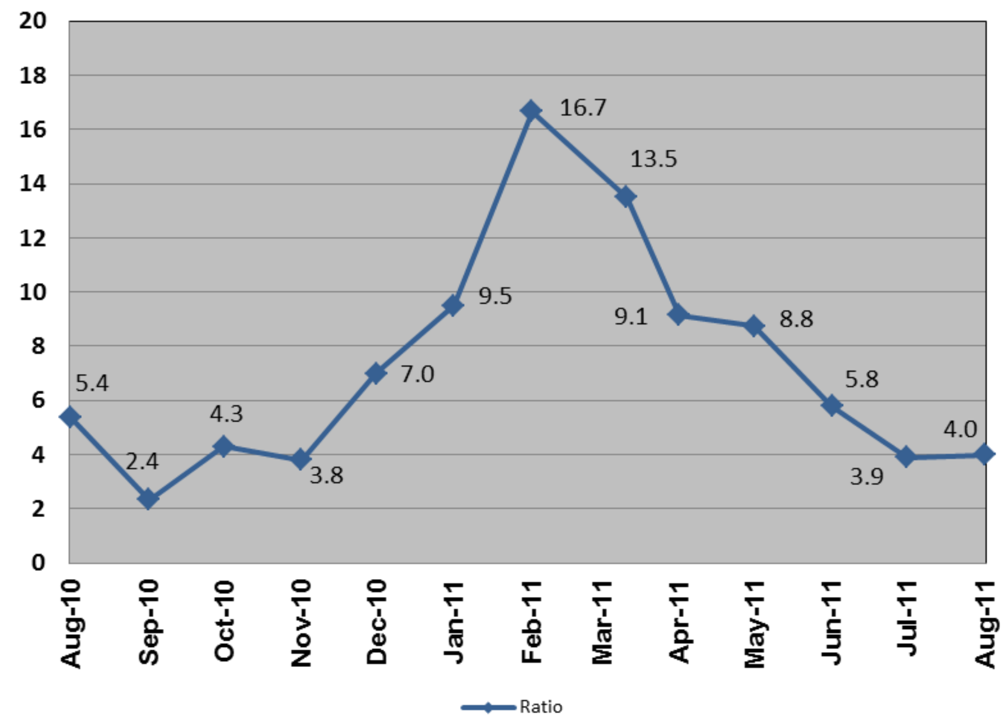


Business Conditions – Trends Next 60 Days

The ratio of *"Will Improve" to "Will Worsen"* for the next 60 days improved slightly to **4.0** from 3.9.

This continued weak trend reflects the "wait and see" attitude of our respondents.

Ratio of "Will Improve" to "Will Worsen" – Next 60 Days



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Business Conditions – Order Backlogs

In the past 30 days:

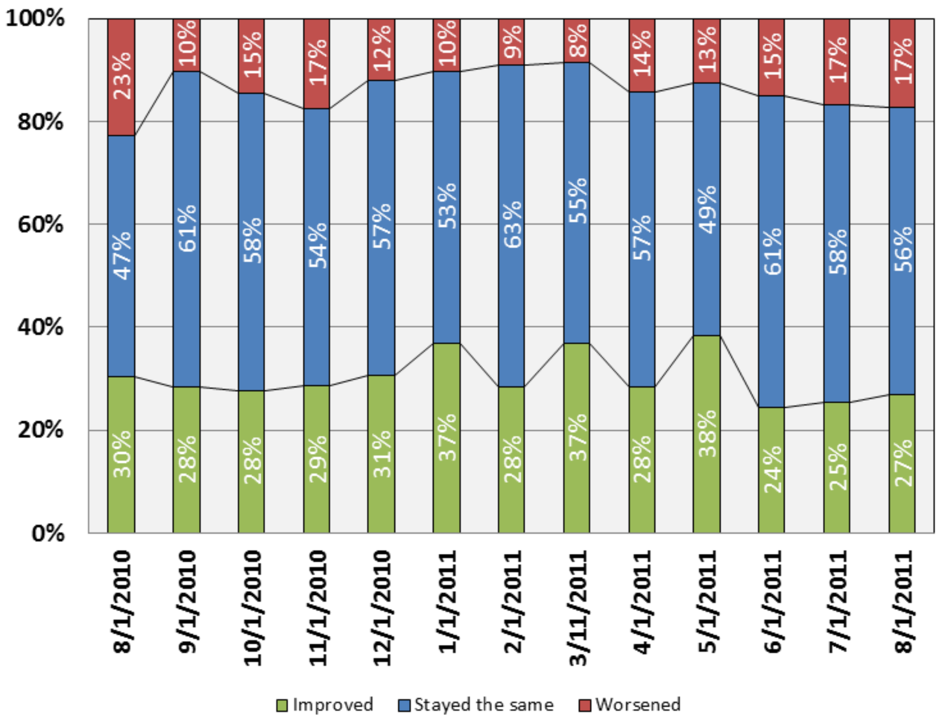
The percentage of respondents who reported an improvement in backlogs rose slightly to **27%** from 25% a month ago. The change came from a decline in those reporting that backlog stayed the same. The percentage reporting lower backlogs was unchanged from last month at **17%**.

In the next 60 days:

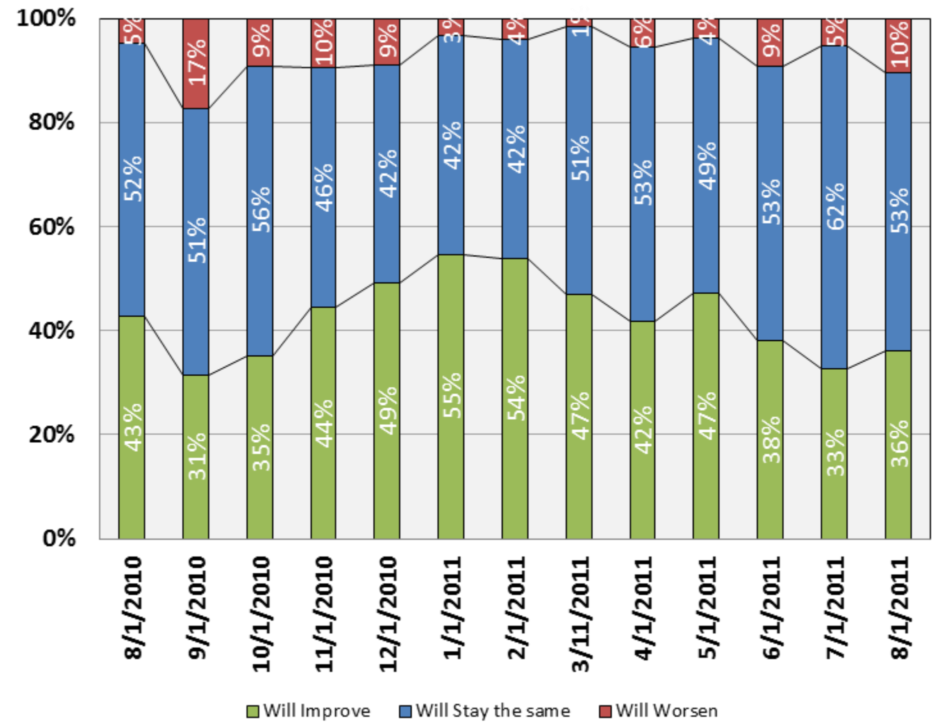
The percentage of respondents who indicated expectations of higher backlogs increased to **36%** from 33%. The "Will Worsen" percentage deteriorated to **10%** from 5%. Respondents indicating *no* change in the outlook for backlogs decreased to 53% from 62%.

For the past 30 days we see a slight improvement, but the outlook is flat.

Business Conditions – Current Results – Order Backlogs



Past 30 Days



Next 60 Days

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Business Conditions – Capital Expenditure Commitments

In the past 30 days:

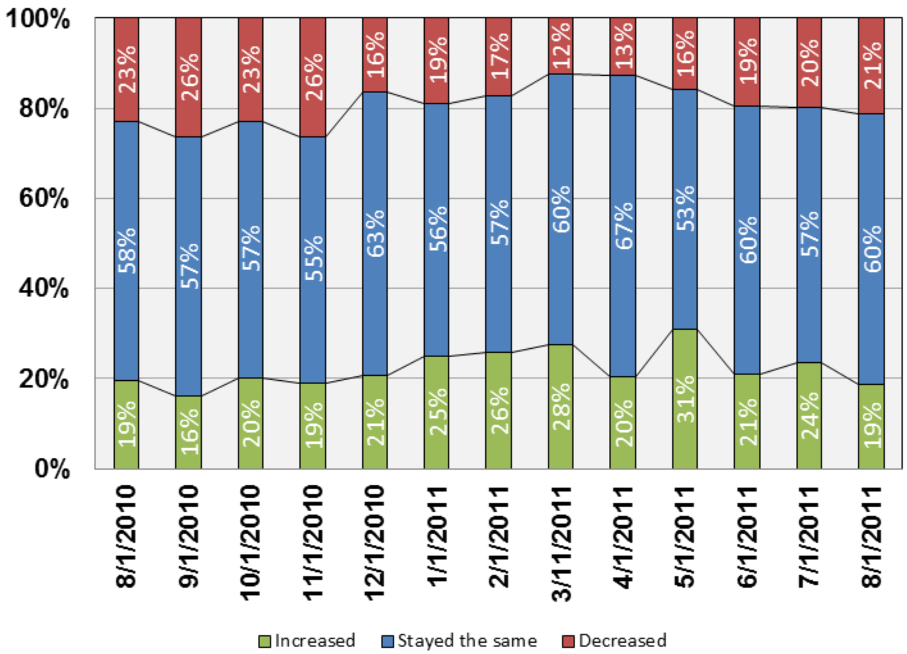
The percentage of respondents committing more on capital equipment **decreased to 19%** from 24%. The percentage that committed less on capital equipment increased slightly to 21% from 20%.

In the next 60 days:

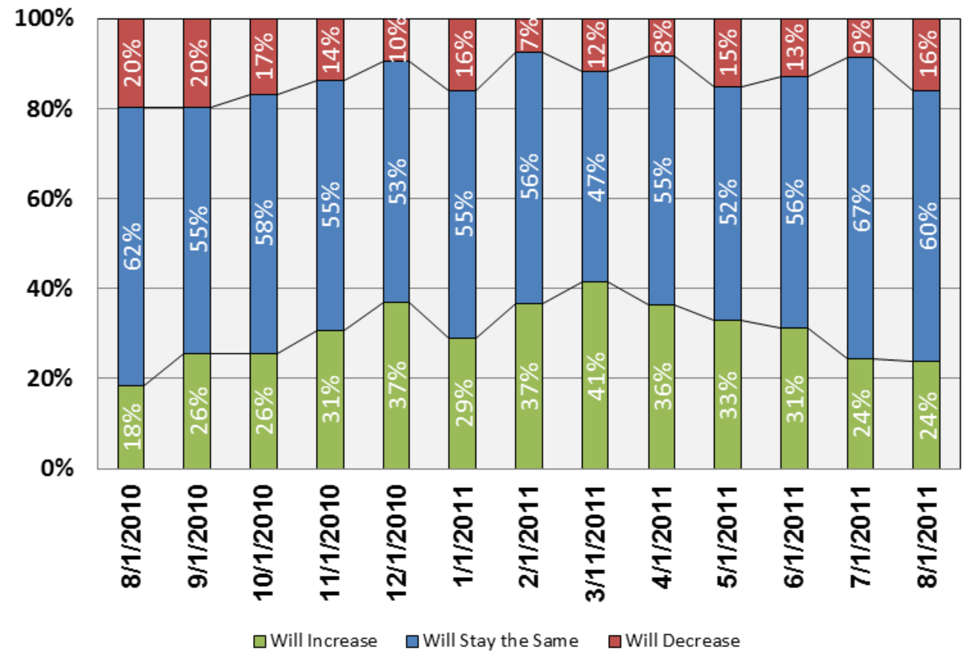
The percentage of respondents who said they plan to commit more for capital assets in the next 60 days **stayed flat with last month at 24%,** and the percentage who expect to commit less worsened to 16% from 9%.

This trend seems in line with the cautious, "wait-and-see" attitude that we note in our survey respondents. Our history of the 60-day outlook has shown that it is capable of dramatic upswings, but cap-ex and hiring are the two actions that require confidence in the outlook.

Business Conditions – Trends – Capital Expenditure Commitments



Past 30 Days



Next 60 Days

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Business Conditions – Employment

In the past 30 days:

The percentage of respondents hiring more workers increased slightly to **21%** from 20%. The percentage that indicated they did less hiring also increased to **13%** from 11% in the prior month.

In the next 60 days:

The percentage indicating they plan to increase hiring decreased significantly to **18%** from 24%. The percentage who expect to reduce hiring increased to 16% from 9%.

This outlook is particularly alarming in its magnitude. We think this reflects both a soft outlook in the economy and uncertainties in a variety of forms. The elimination of the threat of near-term federal default has ameliorated one uncertainty that was still undecided during the survey time period. The focus now turns to growth in the economy, or lack thereof.

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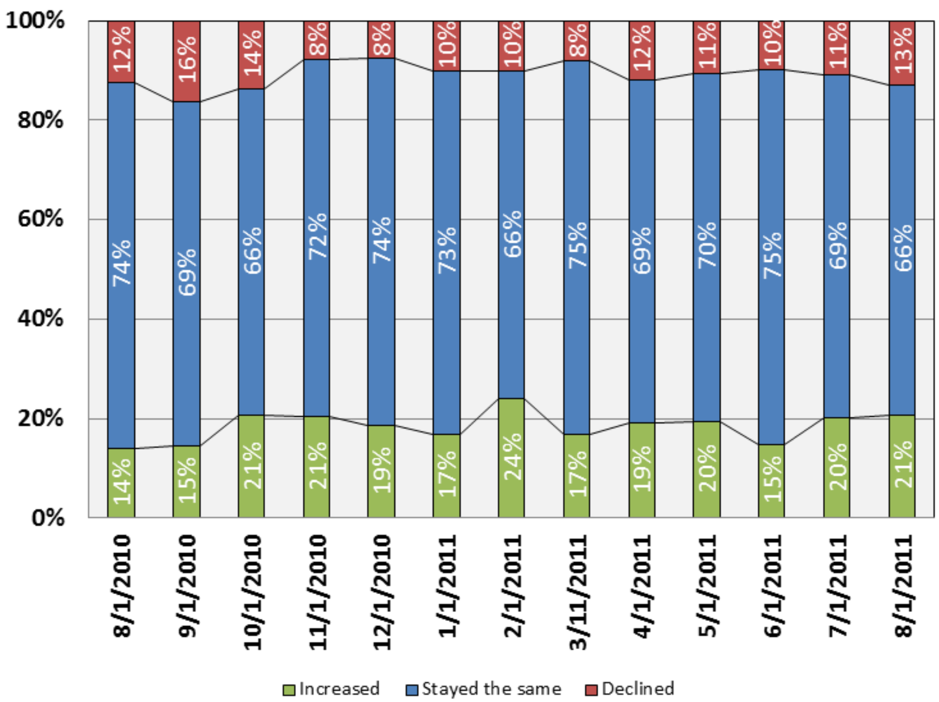
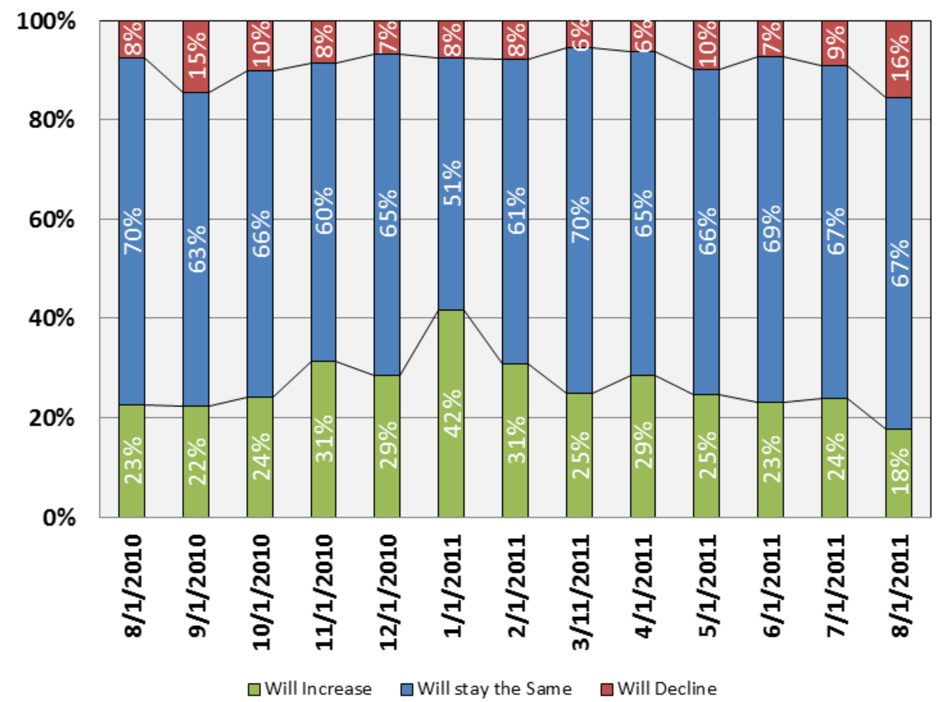
Business Conditions – Trends - Employment



Past 30 Days



Next 60 Days

Business Conditions – Capital Availability and Pricing

The past 30 days:

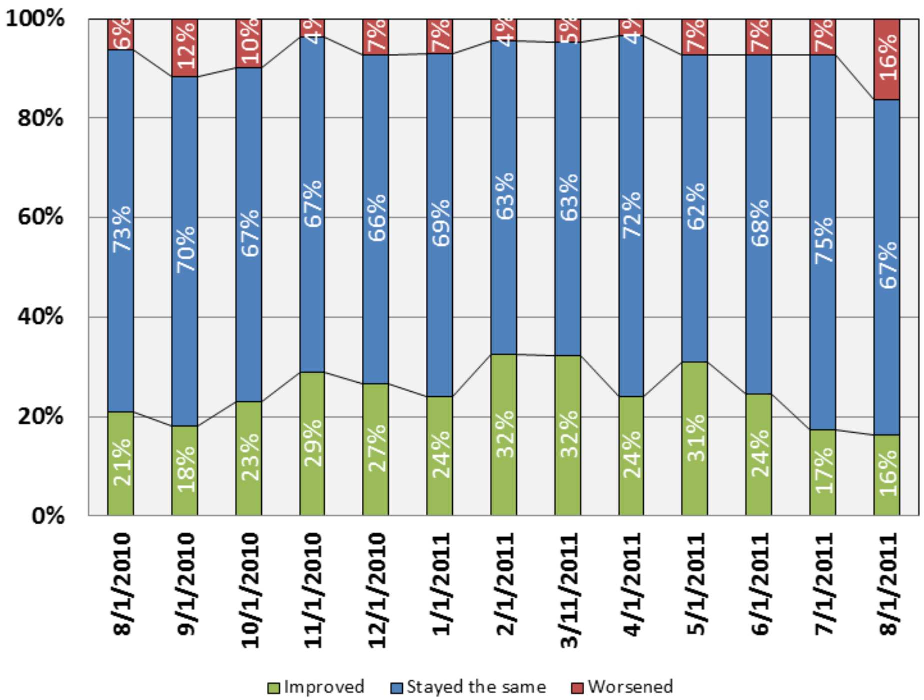
The percentage of respondents indicating an improvement in financing conditions declined slightly to **16%** from 17%. The percentage who indicated conditions were worsening rose significantly to **16%** from 7%.

In the next 60 days:

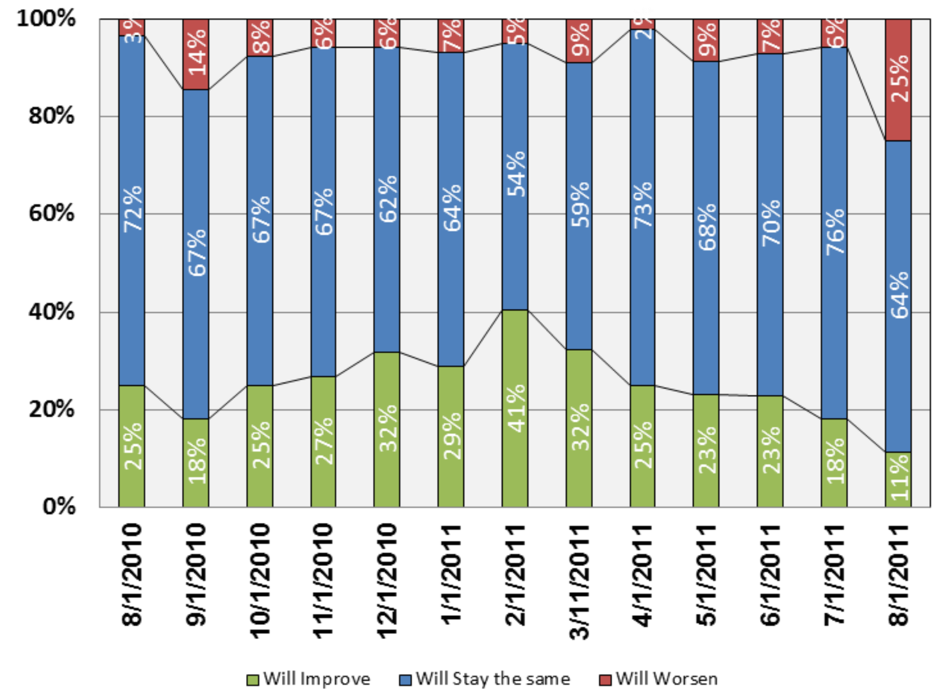
The percentage of respondents who expect improvement in financing conditions in the next 60 days declined significantly to **11%** from 18%. The percentage saying conditions will get worse increased significantly to **25%** from 6%.

This is the most pessimistic result in the entire survey. Our respondents report a tightening of credit in the recent past and they then project that it will continue and may even get worse in the upcoming months. Lenders seem to be as uncertain and cautious about the near term future as the rest of us. While increasing the Federal debt ceiling, the legislation did nothing to raise expectations of an improving economy.

Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

Survey Participation Demographics

Industry

Manufacturing/Processing	28%
Services	16%
Technology	12%
Financial	12%
Health Care	10%
Wholesale	7%
Retail	4%
Construction	3%
Government	1%
Other	7%

Primary Geographic Markets

National	44%
International	24%
Regional	23%
Local	9%

Geographic Regions Represented (Total of 116 Responses)

Pacific	30%
Southwest	28%
Southeast	22%
Midwest	11%
Northeast	9%

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Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest – Pacific

Weakest – Southeast

Industries:*

Strongest – Service

Weakest – Healthcare & Manufacturing

Markets Served:

Strongest – Regional

Weakest – National

Company Size:

Strongest – Large

Weakest – Small

* With statistically significant participation

Compiled and Analyzed by
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