Survey of Business Conditions

02.01.2009

Tatum Survey of Business Conditions Summary

As of February 1, the changes from a month ago are relatively minor. Conditions remain severely recessionary. The lagging indicators, Employment and Capital Expenditure Commitments, continue to deteriorate. The leading indicator, Order backlogs, however, is rising somewhat.

The Tatum Index of Business conditions improved slightly, increasing to .59 from .53---the third month in a row it has increased. This Index could indicate the low point in business conditions has been reached.

The headlines are about employment layoffs and lower earnings, both of which are resulting from the dramatic drop in consumer spending that began in September 2008. While we would expect employment and capital spending to continue to be severely depressed in coming months, The Tatum Survey is suggesting that actual overall business conditions have probably already bottomed out. Recovery will be slow until capital funds become more available and consumer spending begins to improve.

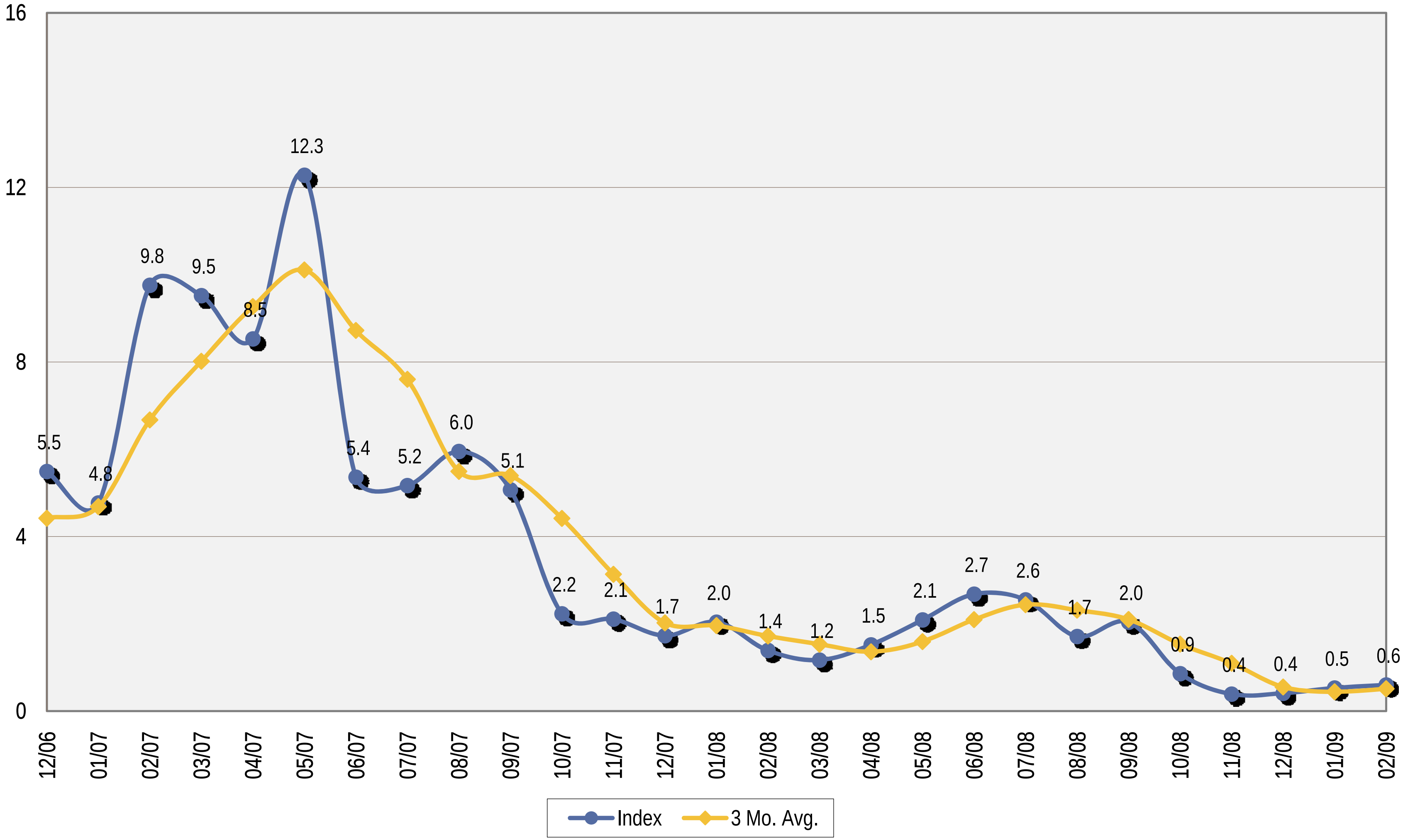
Tatum Index of Business Conditions

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 February 1st, the Tatum Index of Business Conditions increased for the *third* month in a row to **.59** from .53 reported last month. The three-month moving average is below 1 for the third month in a row, but did manage to increase to **.51** from .44 reported last month.

When this Index is at or below 1.0 we believe it is a reliable indicator of Recession. The up-tick in the Index was driven by increases in both the results for the last 30 days and the 60-day outlook. On a percentage basis, the past 30 days showed a 32% improvement. This is the third consecutive month in which the outlook has improved.

Tatum Index of Business Conditions



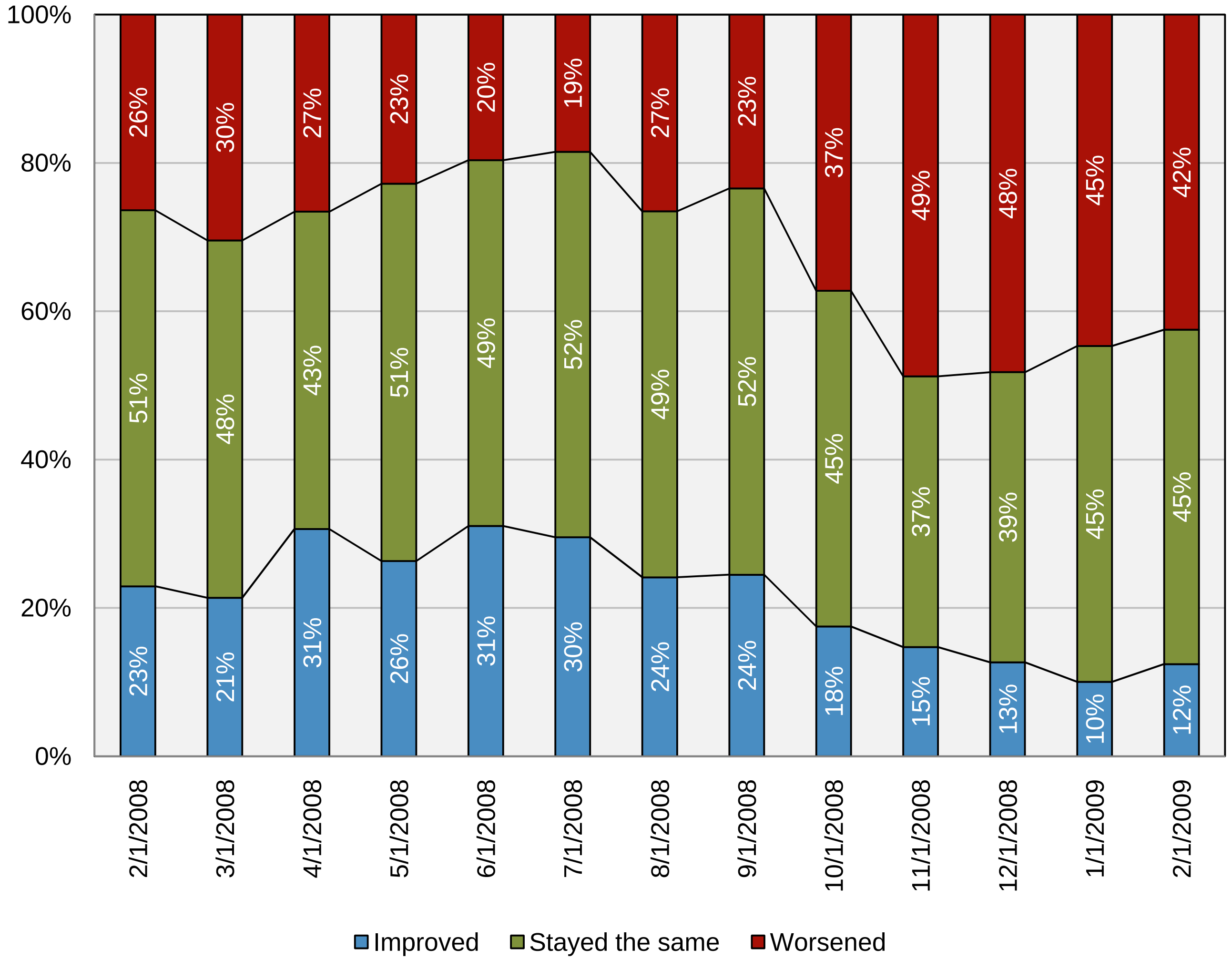
Business Conditions - Trends

In the past 30 days business conditions:

- *Improved for 12%* of our respondents, up from *10% a month ago.* This is the fifth month in a row the "improved" percentage has been in the teens, indicating very poor conditions.
- *Worsened for 42%* of our respondents, down from 45% last month. This is the third month in a row this measurement improved.
- *Stayed about the same for 46%* compared to 45% last month.

While conditions are obviously recessionary, our respondents are reporting less deterioration during the month of January, in contrast to the headlines in the public media.

Business Conditions the Past 30 Days



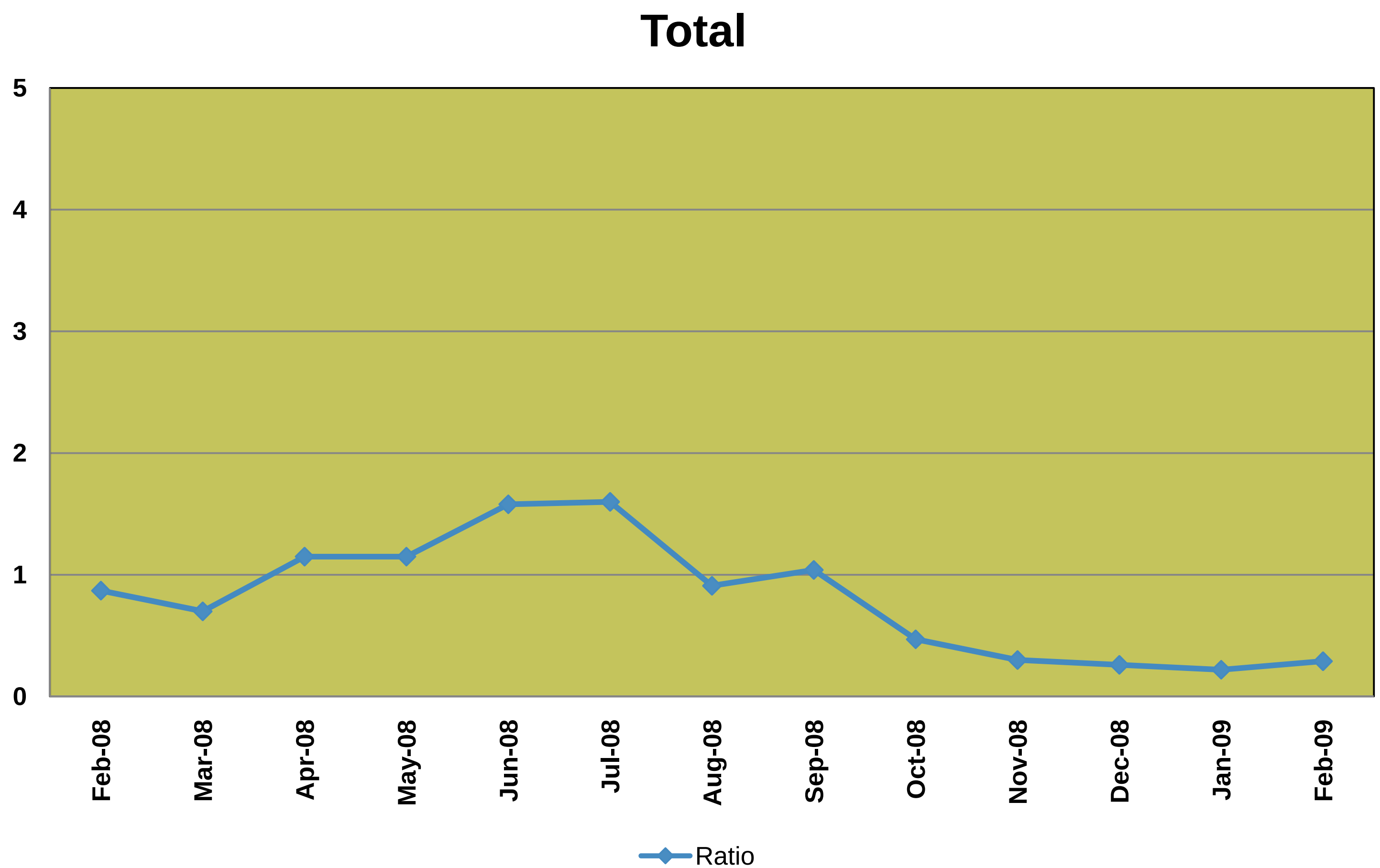
Business Conditions - Trends

The ratio of "Improved-to-Worsened" in the last 30 days increased from .22 to .29. This is the fifth month in a row the ratio has been below 1, our indicator of Recessionary conditions. On a positive note it broke the string of four consecutive months of decreases.

The positive result for the month was driven by more respondents indicating conditions improved during the month, while the number of responses indicating conditions worsened stayed the same.

Business Conditions - Trends

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



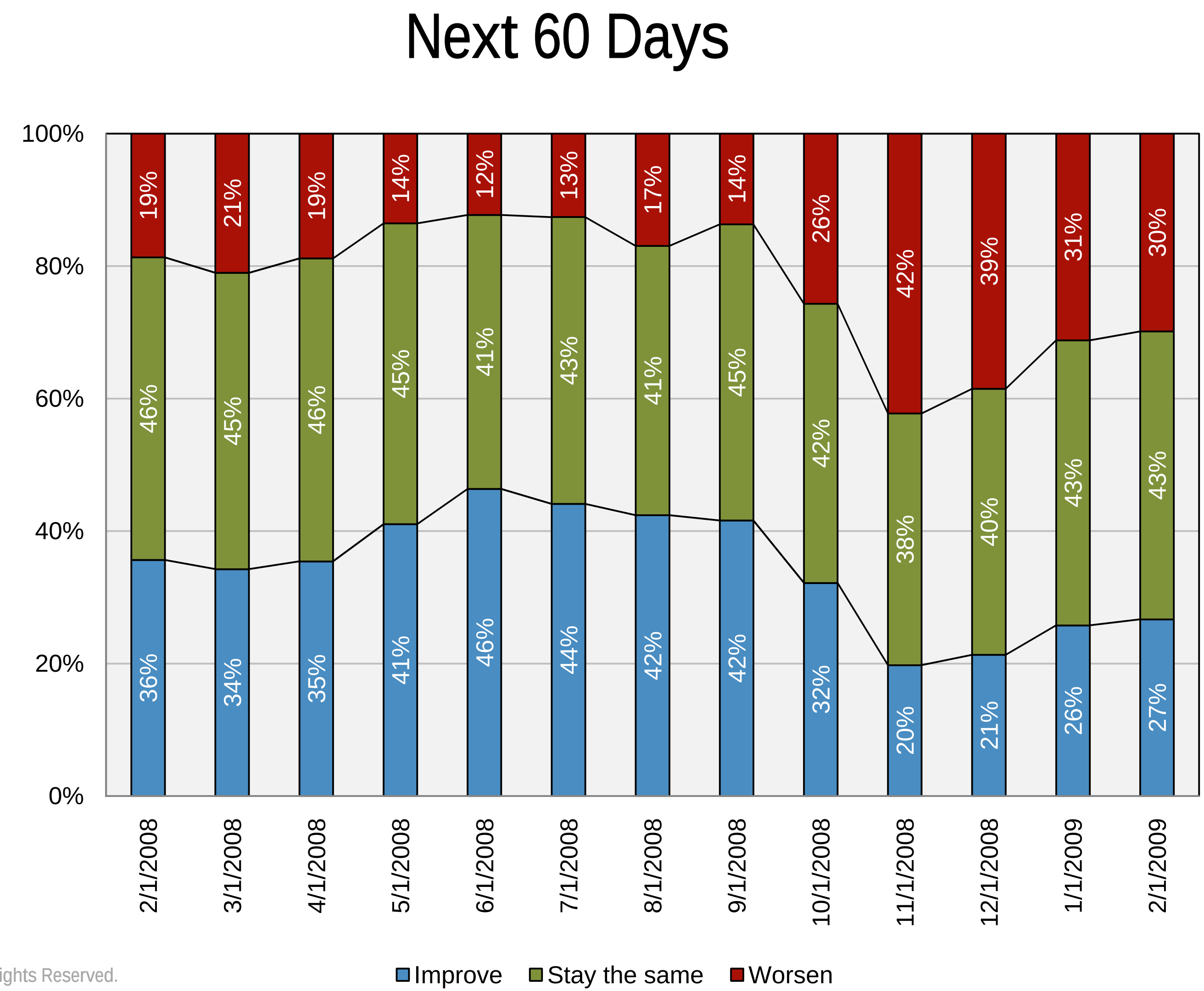
Business Conditions - Trends

In the next 60 days, business conditions are expected:

- *To improve for 27%* of our respondents compared to the 26% reported last month.
- *To get worse for 30%* of our respondents compared to the 31% reported last month.
- *To remain about the same at 43%* the same as last month.

The outlook did not change statistically from last month. Relative to a healthy economy, these results are very subdued, suggesting that, while conditions may not deteriorate materially further, the road to recovery is not yet in sight.

Business Conditions - Trends



Business Conditions - Trends

In the next 60 days:

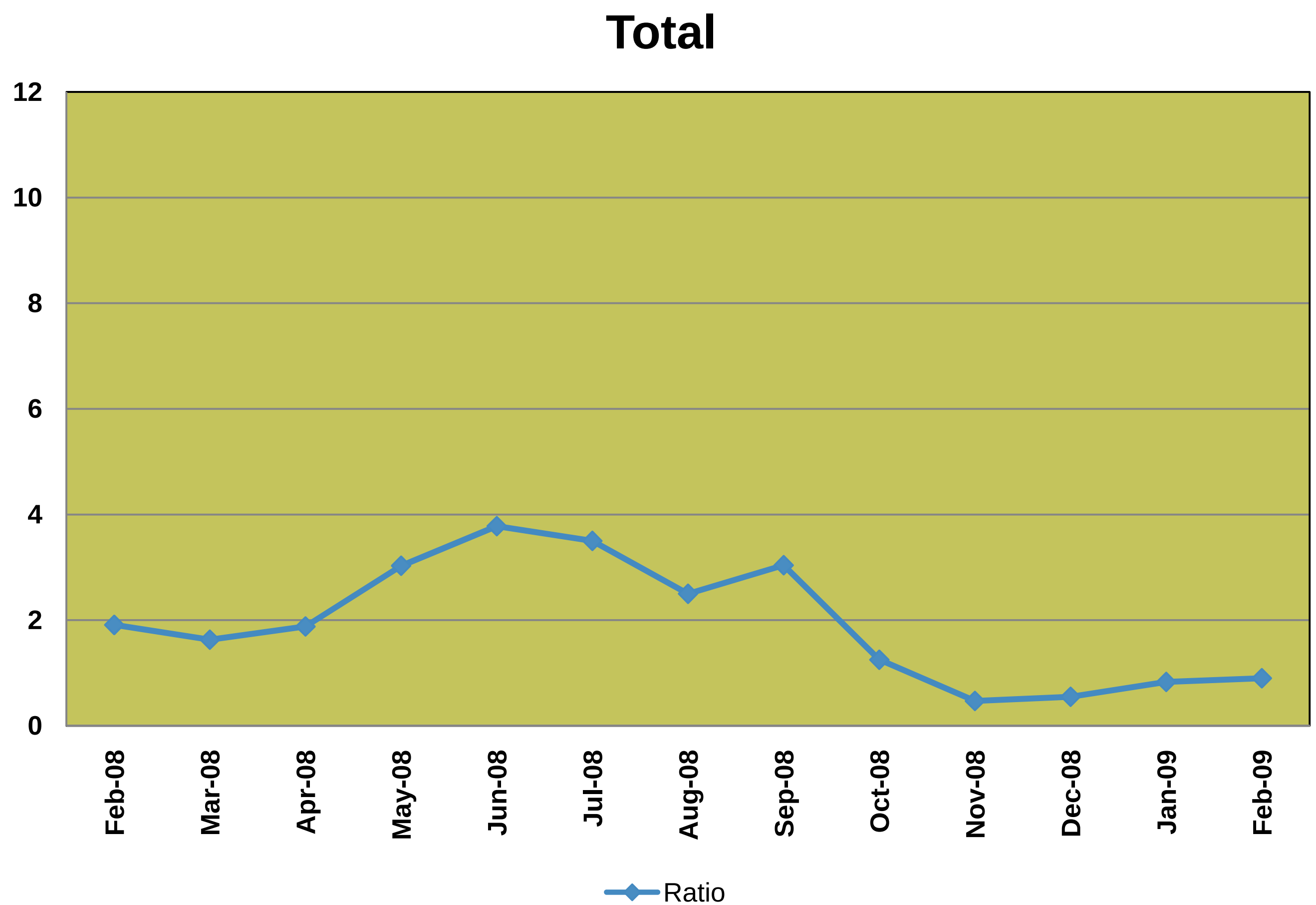
The ratio of *"Will Improve" to "Will Worsen"* improved to .89 versus the .83 reported last month.

This is a very sensitive measurement that can shift dramatically. Therefore the 3-month moving average index of business conditions makes it easier to see the overall trend.

This is the fourth month in a row the index has increased ever so slightly. The increase remains very small, but it is in the right direction.

Business Conditions - Trends

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



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Business Conditions – Current Results

Order Backlogs

In the past 30 days:

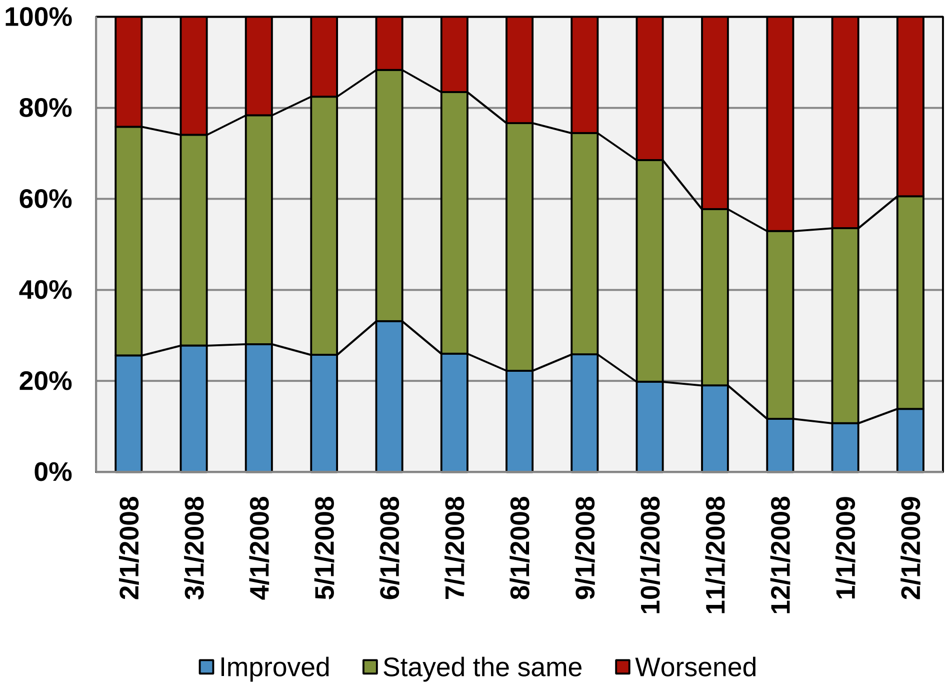
The percentage of respondents who reported an improvement in backlogs increased from 11% last month to **13%** as of February 1. The percentage reporting lower backlogs decreased noticeably from 46% to **38%.**

In the next 60 days:

The percentage of respondents who indicated expectations of higher backlogs increased from 28% reported last month to **30%.** The “Will Worsen” percentage decreased from 26% to **24%.**

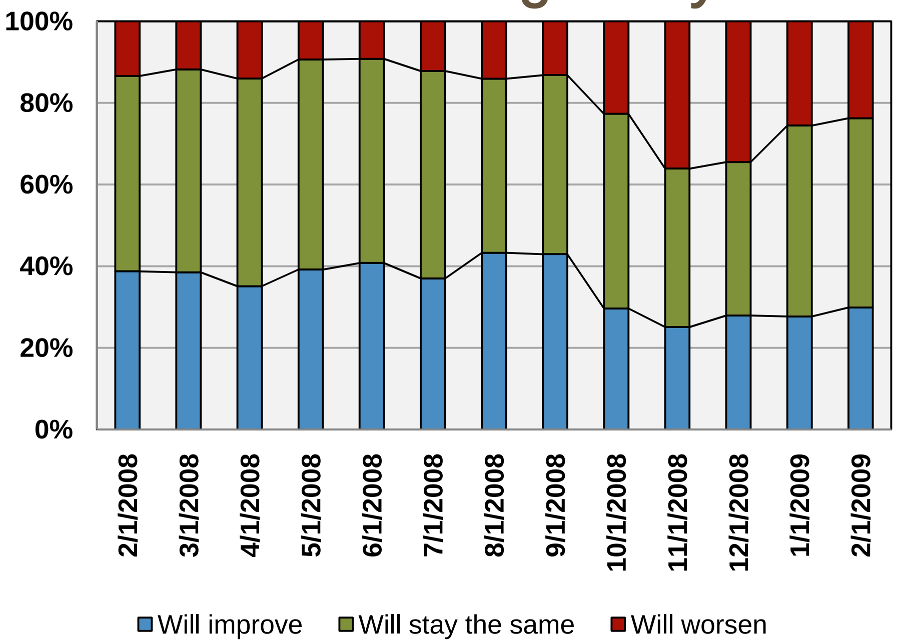
The results for both time periods improved with the percentage responses being both higher that conditions got better or will get better, while the percentage saying conditions worsened or will get worse dropped. These results are consistent with those related to the questions about general business conditions.

Business Conditions – Current Results



Past 30 Days

Order Backlog Analysis



Next 60 Days

Business Conditions – Current Results

Capital Expenditure Commitments

In the past 30 days:

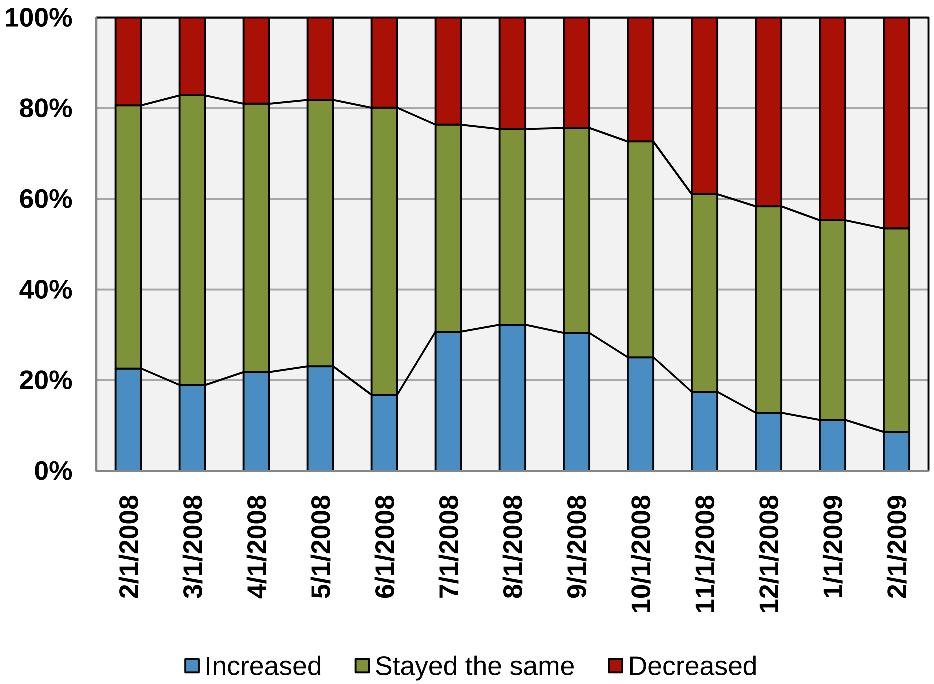
The percentage of respondents committing more on capital equipment decreased from 11% to **9%.** The percentage that committed less on capital increased slightly from 45% reported last month to **46%.**

In the next 60 days:

The percentage of respondents who said they plan to commit more for capital assets in the next 60 days decreased from 17% to **16%.** The percentage who expected to commit less dropped slightly from 37% reported last month to **35%.**

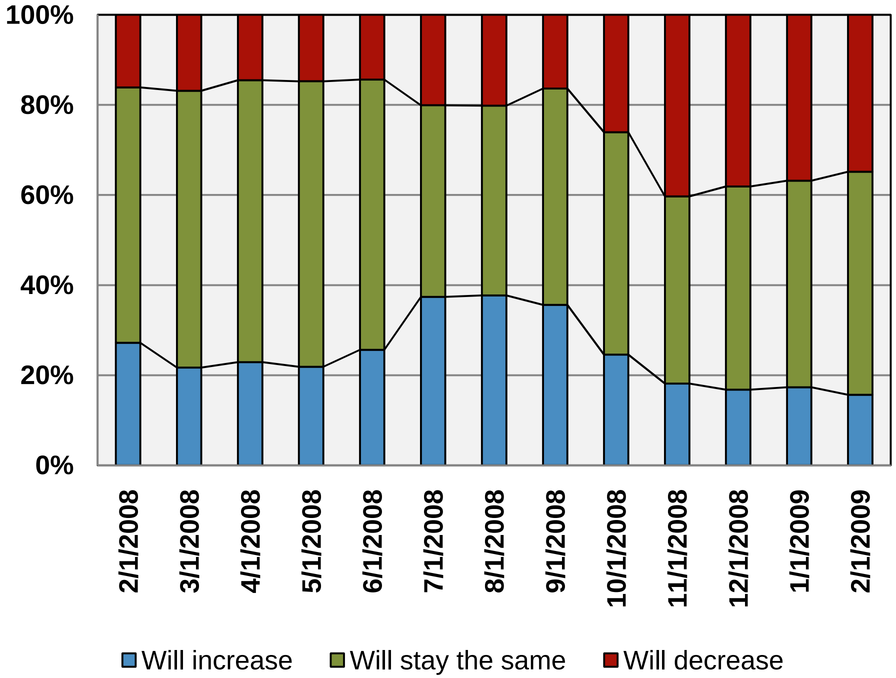
For the first time ever the percentage saying capital expenditure improved during the last 30 days was in single digits. For the fourth month in a row the percentage saying they plan to spend more on capital goods in the next 60 days remained in the teens. This is bad news for the capital goods sector.

Business Conditions – Trends



Past 30 Days

Capital Expenditure Commitments Analysis



Next 60 Days

Business Conditions – Current Results

Employment

In the past 30 days:

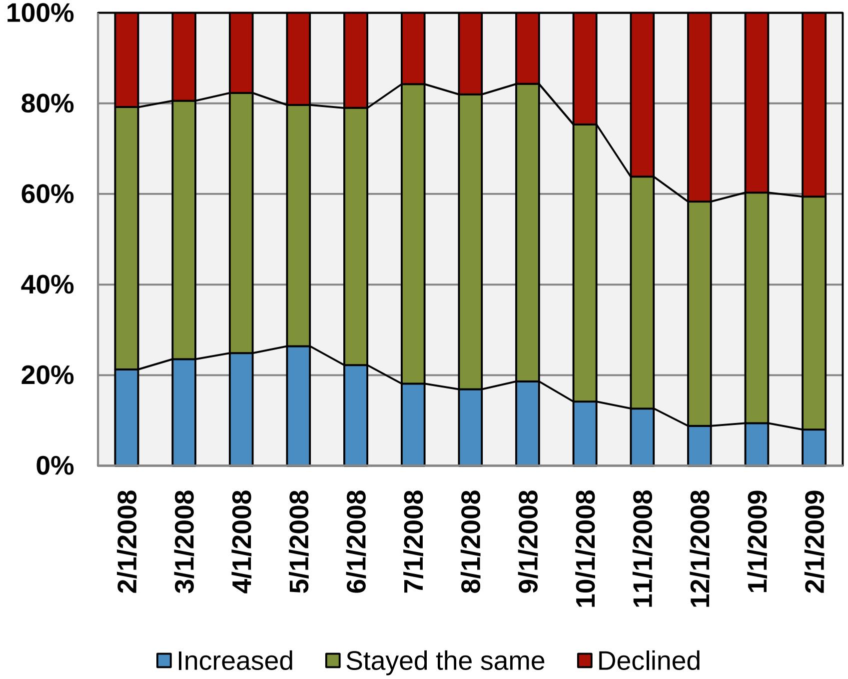
The percentage of respondents hiring more workers decreased from 9% reported last month to **7%.** The percentage that indicated they did less hiring decreased slightly from 40% to **39%.**

In the next 60 days:

The percentage indicating they plan to increase hiring decreased from 11% reported last month to **10%.** The percentage who expect to reduce hiring went from 33% to **34%.**

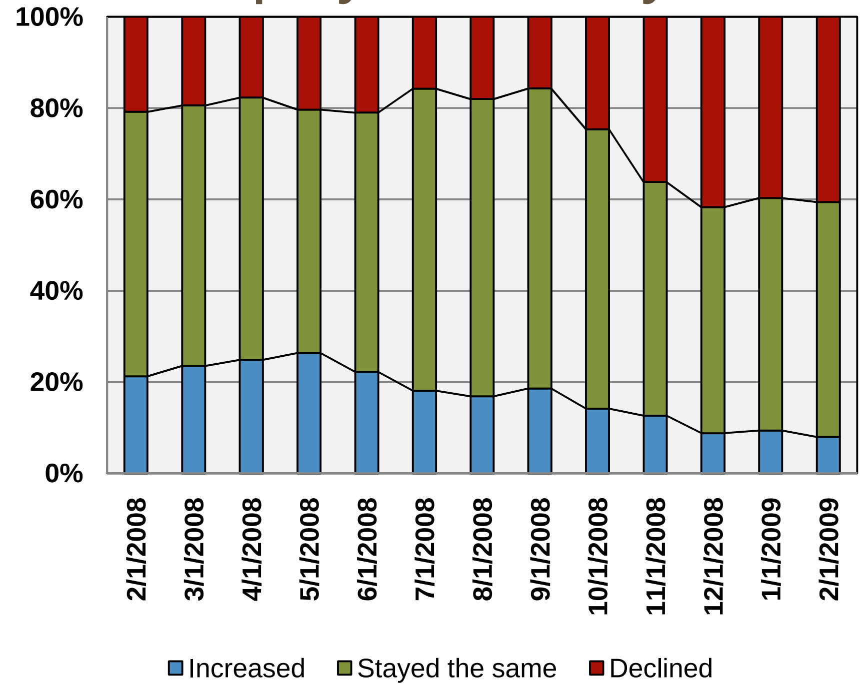
As with capital expenditures, the responses for employment remain dismal. Businesses are reducing expenditures and cutting back on the number of employees in response to slack demand throughout the economy.

Business Conditions – Trends



Past 30 Days

Employment Analysis



Next 60 Days

Business Conditions – Current Results

Capital Availability and Pricing

The past 30 days:

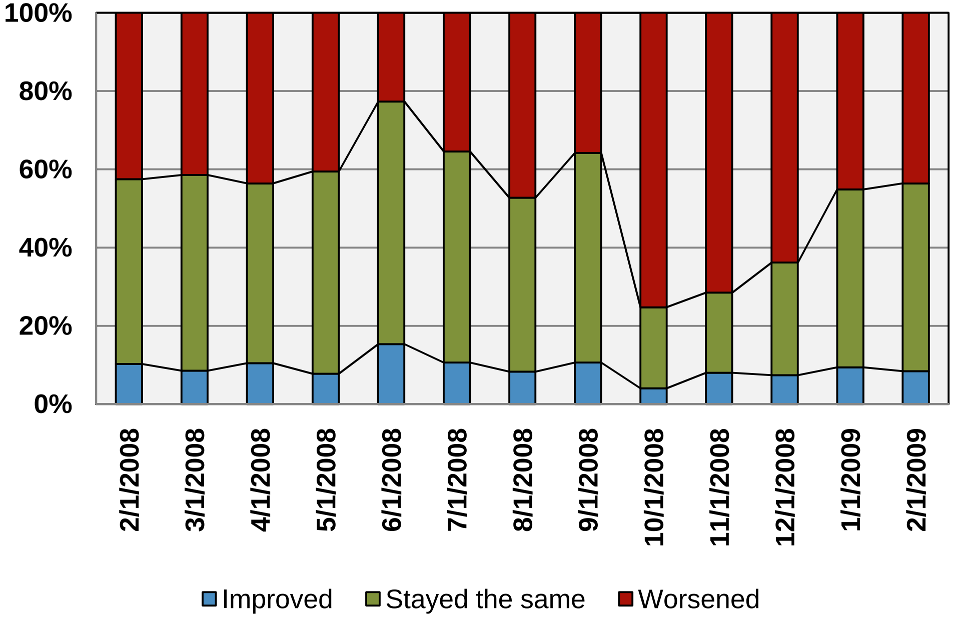
The percentage of respondents indicating an improvement remained at 9%.The percentage who indicated conditions worsened decreased from 45% reported last month to 43%.

In the next 60 days:

The percentage of the respondents who expect improvement in financing conditions in the next 60 days decreased from 28% to 23%. The percentage saying conditions will get worse increased from 20% reported last month to 26%.

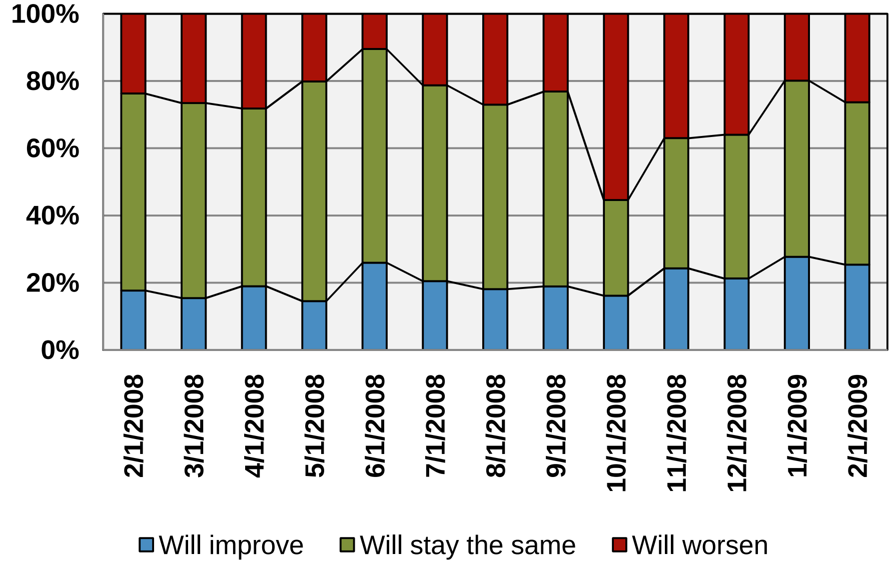
In spite of all the TARP money banks have received, our respondents saw only a slight improvement in the availability of capital during the month of January. There are two factors at work. Banks continue to face deterioration in their portfolios, forcing them to record more reserves. This shrinks the banks' capital pool for lending. More importantly, banks have developed a siege mentality and are slow to lend money, and then only to the most credit-worthy customers. Anecdotally, we hear that bank loans for acquisitions have essentially disappeared altogether.

Business Conditions – Trends



Past 30 Days

Capital Availability / Pricing Analysis



Next 60 Days

Survey Participation Demographics – Industry

Manufacturing/Processing	26%
Service	18%
Technology	15%
Healthcare	13%
Financial	6%
Retail	5%
Wholesale	4%
Bio-Tech/Life Sciences	3%
Construction	3%
Transportation	3%
Other	4%

Survey Participation Demographics - Markets/Regions

Primary Geographic Markets

Local	*12%*
Regional	*23%*
National	*37%*
International	*28%*

Geographic Regions Represented (Total of 346 Responses)

Northeast	*13%*
Southeast	*24%*
Midwest	*15%*
Southwest	*20%*
Pacific	*28%*

Survey Participation Demographic Summary

The following are on relative scales from our respondents:

<u>Regions:</u>

Strongest – Southwest & Pacific

Weakest –Northeast & Midwest

<u>Industries*:</u>

Strongest – Service & Technology

Weakest – Manufacturing/Processing & Retail

* With statistically significant participation

<u>Markets Served:</u>

Strongest – National

Weakest – Local & Regional

<u>Company Size:</u>

Strongest – Pre-Revenue, Small, Mid-Size

Weakest – Large

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