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Tatum Survey of Business Conditions
7/1/2011

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Tatum Survey of Business Conditions Summary

At July 1, the Tatum Survey conveyed relatively flat indications for the immediate past but growing uncertainty about the future. As our respondents report on the past 30 days, they are generally flat with slight improvements in capital expenditures and hiring. This suggests that economic activity is continuing at a very low rate of growth but not recession. The 60-day forward outlook is more murky as fewer of our respondents are expecting conditions to get better while, at the same time, fewer are expecting conditions to get worse.

While there are glimmers of improvement in some aspects of the past 30 days, the 60-day outlook suggests continued weakness going into the summer months.

Based on the Survey results, we are concerned that Q2 may show a lower GDP growth than Q1, which was lower than the rebounding Q4 of 2010. The outlook suggests that the next 60 days will see further deterioration.

Companies in our International Survey classification remained particularly soft this month, reflecting the global slowdown.

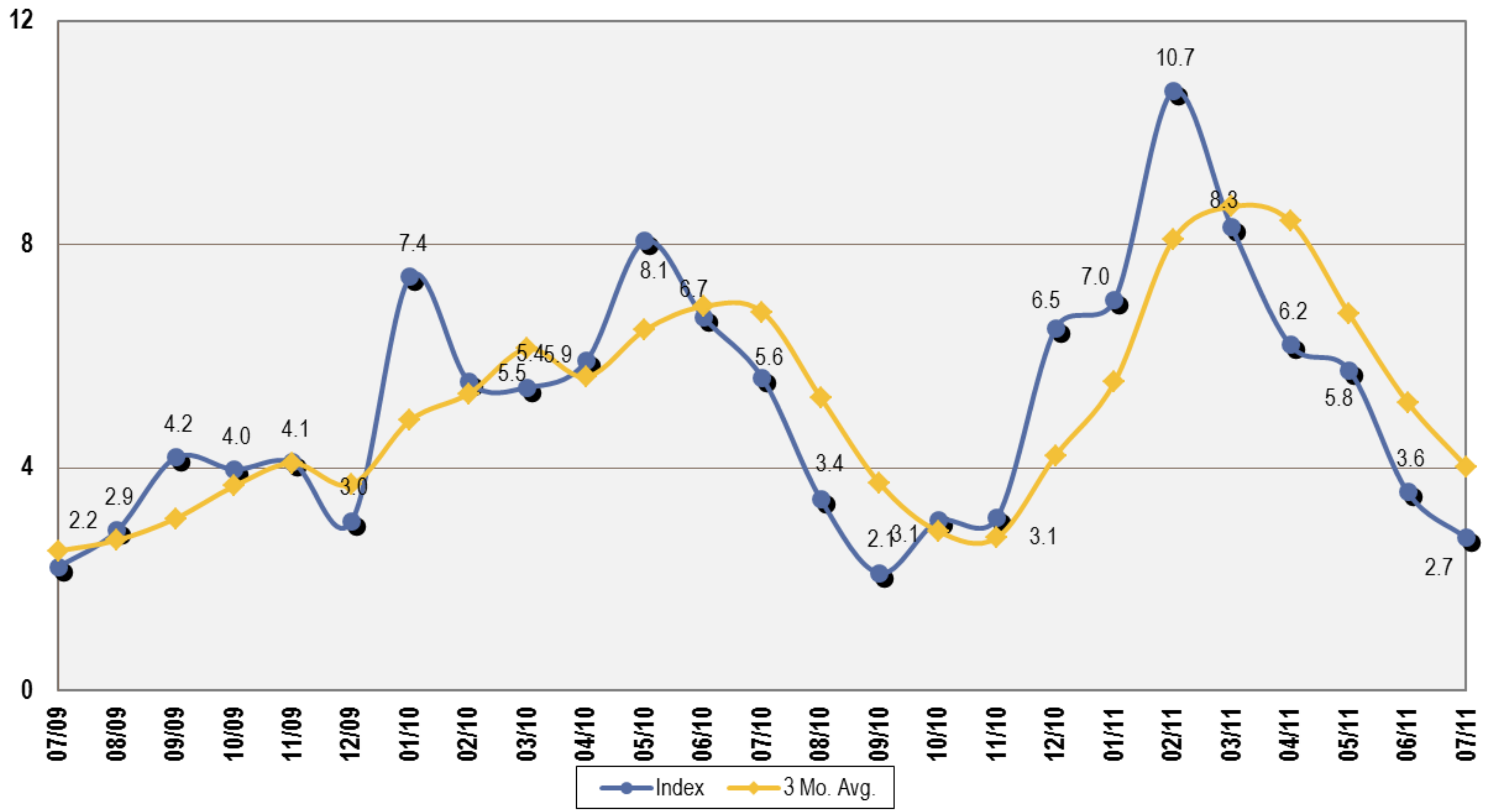
Tatum Index of Business Conditions

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 July 1st, the Tatum Index of Business Conditions declined to approximately 2.7 from 3.6 a month ago, with the decline being driven by the outlook, not the recent past. This is the 5th consecutive month of decline. 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 recent recession. Since the end of the recession nearly 2 years ago, the Index has been above 3.0, except for the month of September 2010.

Our indicators were in this range briefly last summer and then pulled out in the autumn months. While we have been concerned about the trend and are concerned about the outlook in the Survey, we believe it is about equally possible that we could again be at an inflection point in the trend. The next two months will be especially telling as to whether our economy is headed into recession or again pulling away from the brink.

Tatum Index of Business Conditions



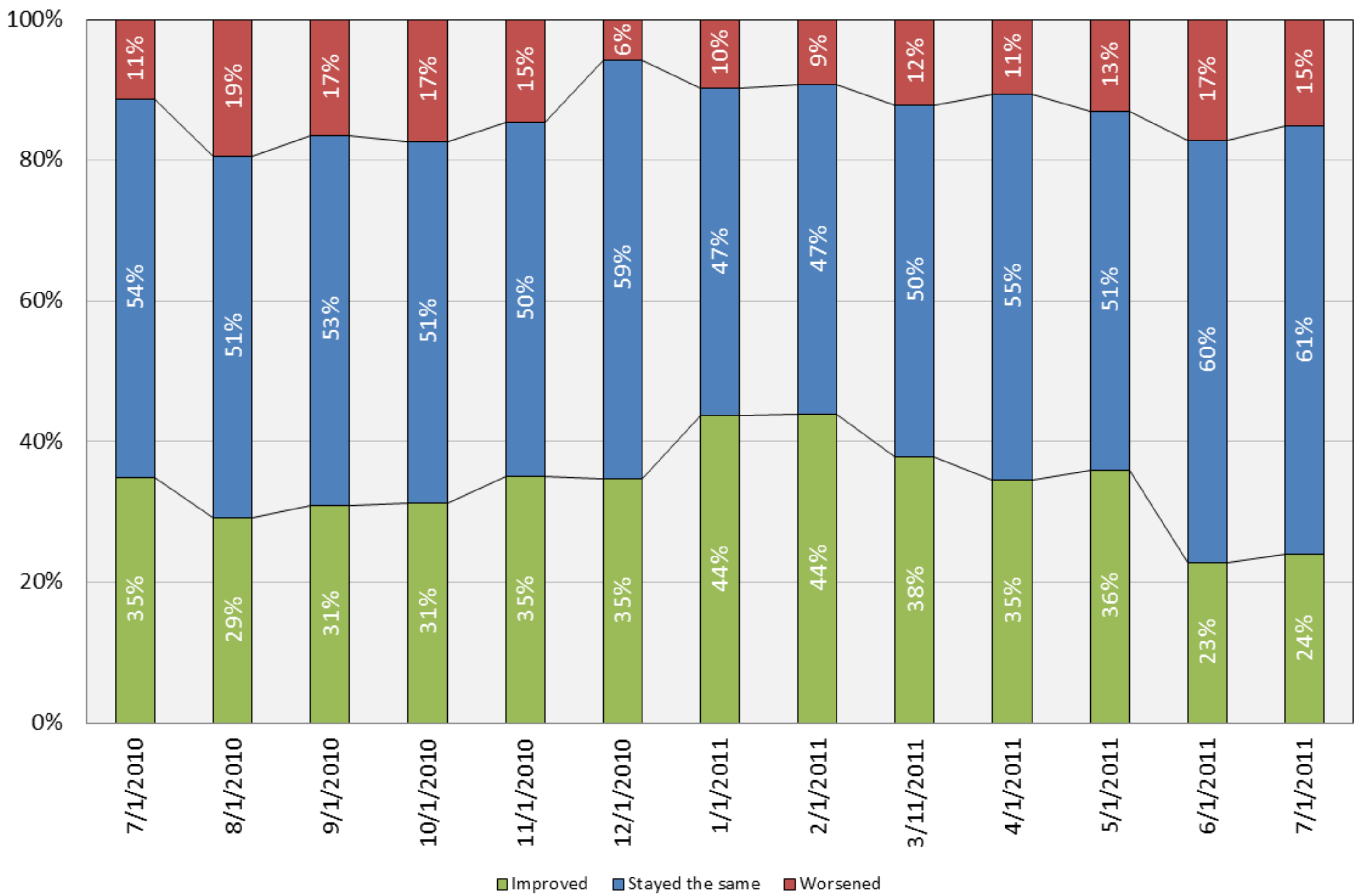
Business Conditions – Trends past 30 days

In the past 30 days, business conditions:

- ***Improved for 24% of our respondents,*** up very slightly from 23% in the prior month.
- ***Worsened for 15%,*** an improvement from the 17% a month ago.

Effectively this represents a welcome flattening from the five-month negative trend. Last summer, the bottoming out occurred in September. We would hope that next month will be better, but the 60-day outlook is not encouraging this hope.

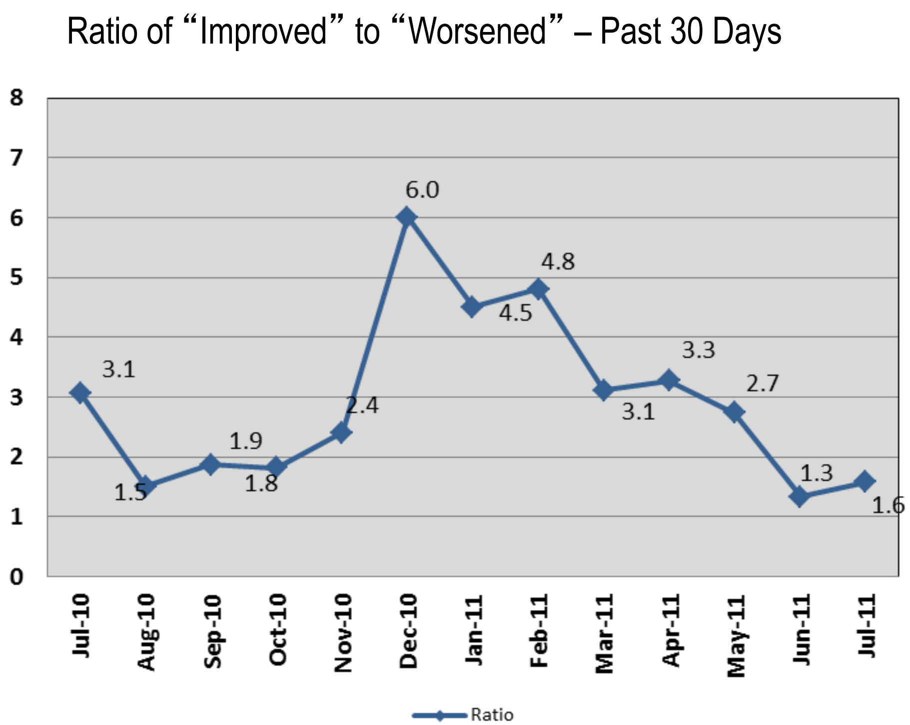
Business Conditions the Past 30 Days



Business Conditions – Trends Last 30 Days

The ratio of "Improved-to-Worsened" in the last 30 days improved slightly to **1.6** from 1.3 reported in the prior month.

While still in no-growth territory, this indicator at least took a slight turn for the better as of July 1. Note that the 30-day look-back is for the month of June.



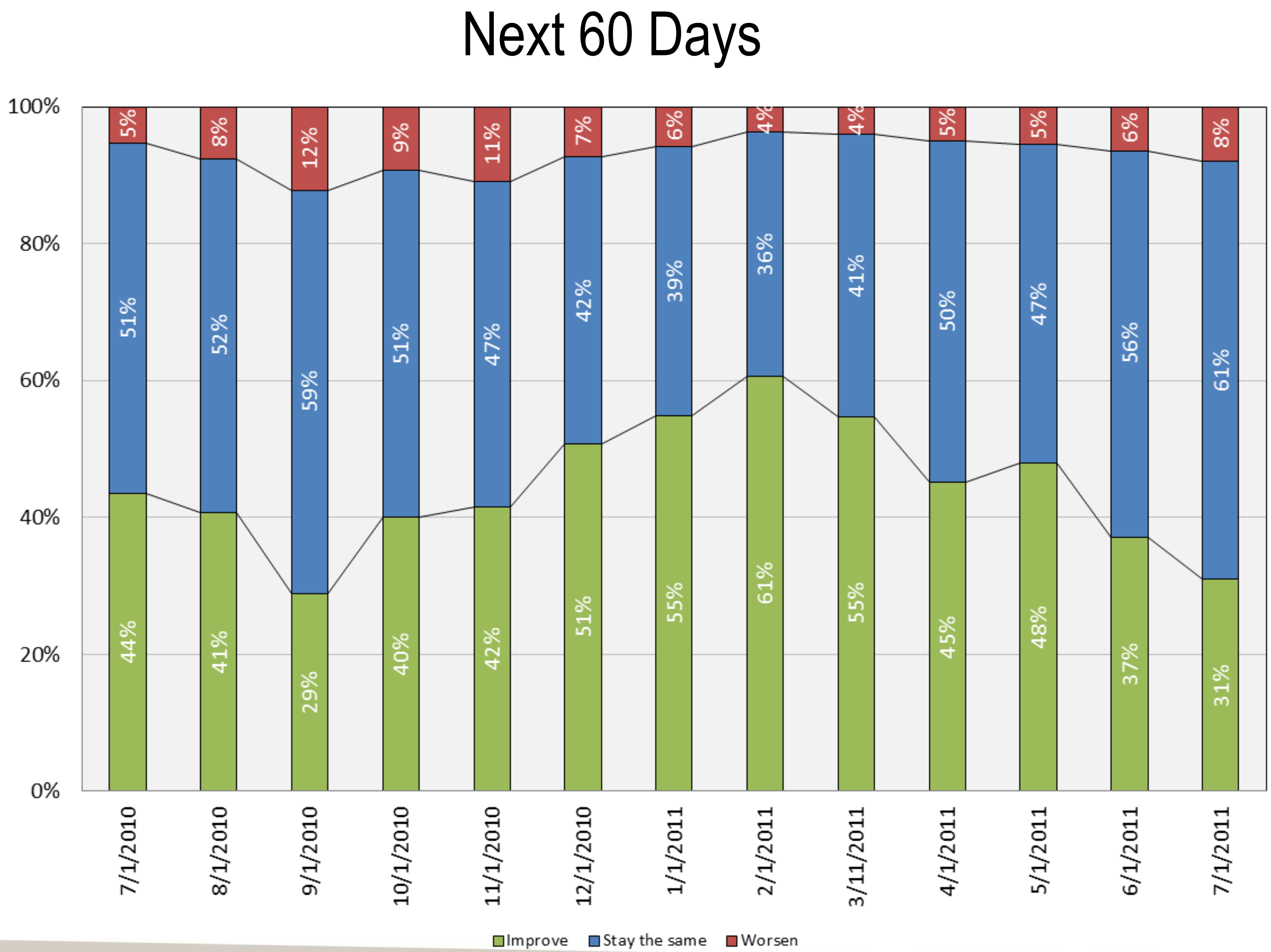
Business Conditions – Trends Next 60 Days

In the next 60 days, business conditions are expected:

- ***To improve for 31% of our respondents,*** down from 37% last month.
- ***To get worse for 8%*** compared to 6% last month.

The outlook continued to trend downward.

Business Conditions – Trends



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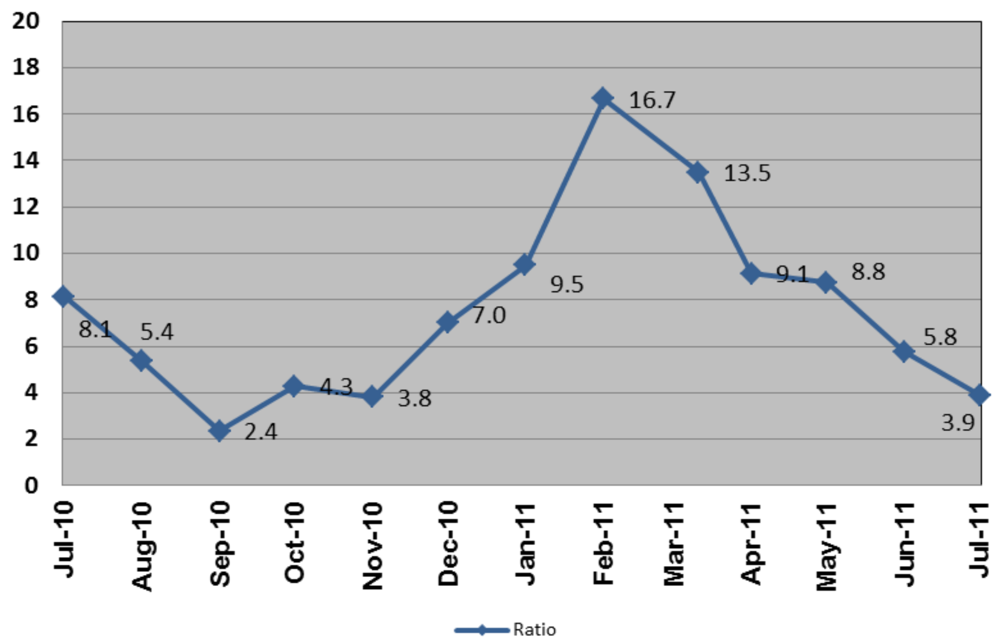
Business Conditions – Trends Next 60 Days

The ratio of *"Will Improve" to "Will Worsen"* for the next 60 days declined to 3.9 from 5.8.

Despite slightly better results in the past 30 days, our respondents remain negative in their outlook.

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



Business Conditions – Order Backlogs

In the past 30 days:

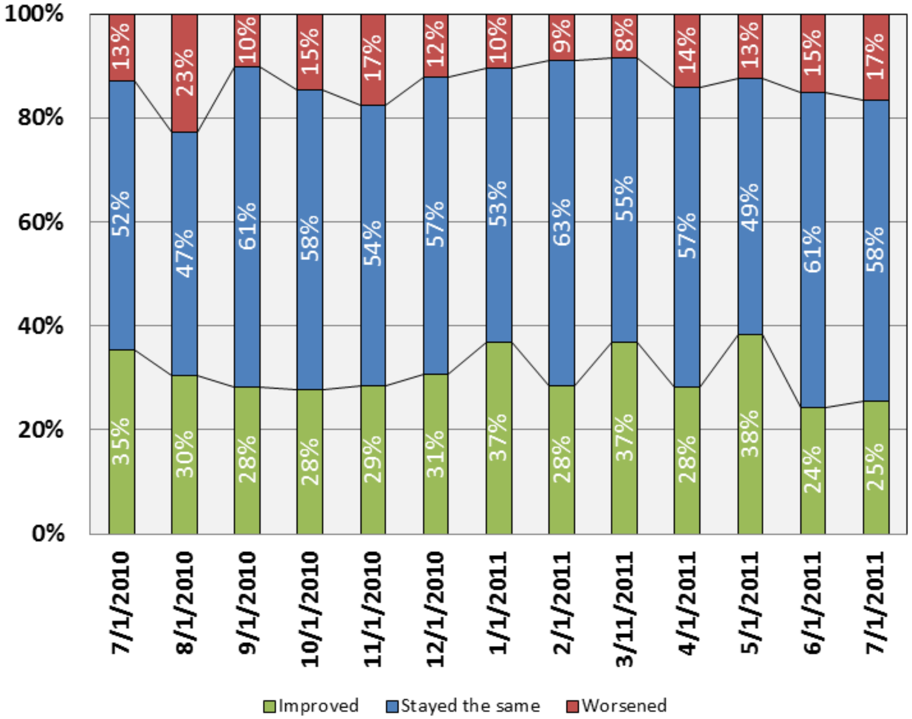
The percentage of respondents who reported an improvement in backlogs rose slightly to **25%** from 24% a month ago. The percentage reporting lower backlogs worsened to **17%** from 15%. Effectively this is flat with the prior month.

In the next 60 days:

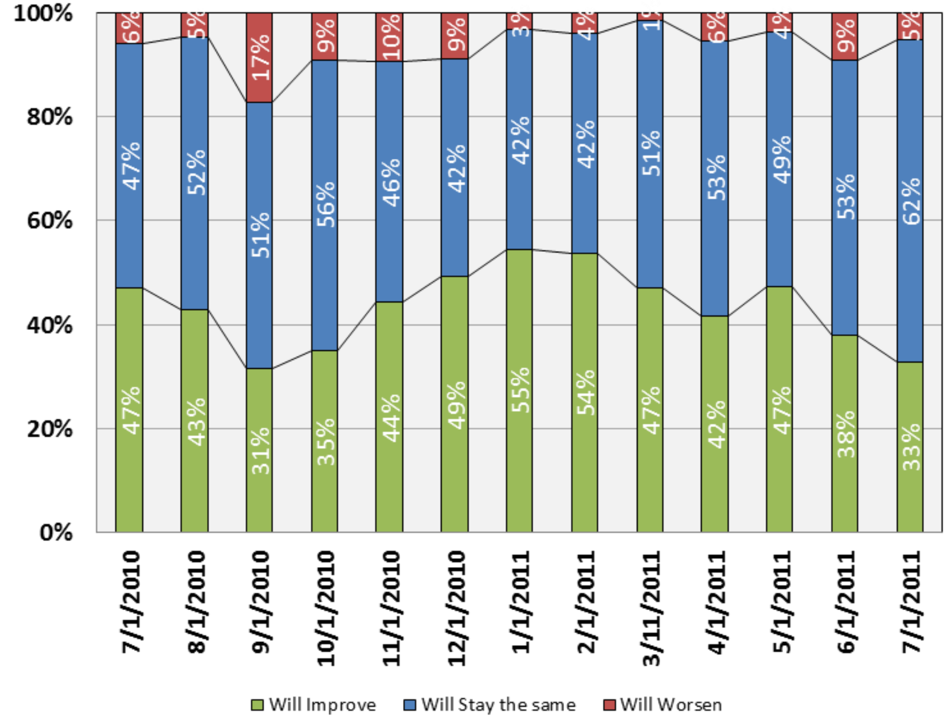
The percentage of respondents who indicated expectations of higher backlogs declined to **33%** from 38%. The "Will Worsen" percentage improved, declining to **5%** from 9%. There was a significant widening of respondents indicating *no* change in the outlook for backlogs, with the "no change" respondents rising to 62% from 53%.

In the past 30 days there was little change in overall order backlogs. However, in the 60-day outlook the trend continued to be negative.

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 **rose to 24%** from 21%. The percentage that committed less on capital equipment increased to 20% from 19%. On balance, this is a slight improvement.

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 to 24%** from 31%, and the percentage who expect to commit less declined to 9% from 13%.

While capital expenditure commitments were very slightly improved in the past month, the outlook, as with order backlogs, is best characterized as dramatically widening of the respondents who anticipate no change. Regarding the outlook, the trend of those expecting to commit more has been distinctively down for the past four months while the portion anticipating no change has increased from 47% to 67%.

Our interpretation is that the overall trend in the outlook for capital expenditure commitments has become weaker over the past four months.

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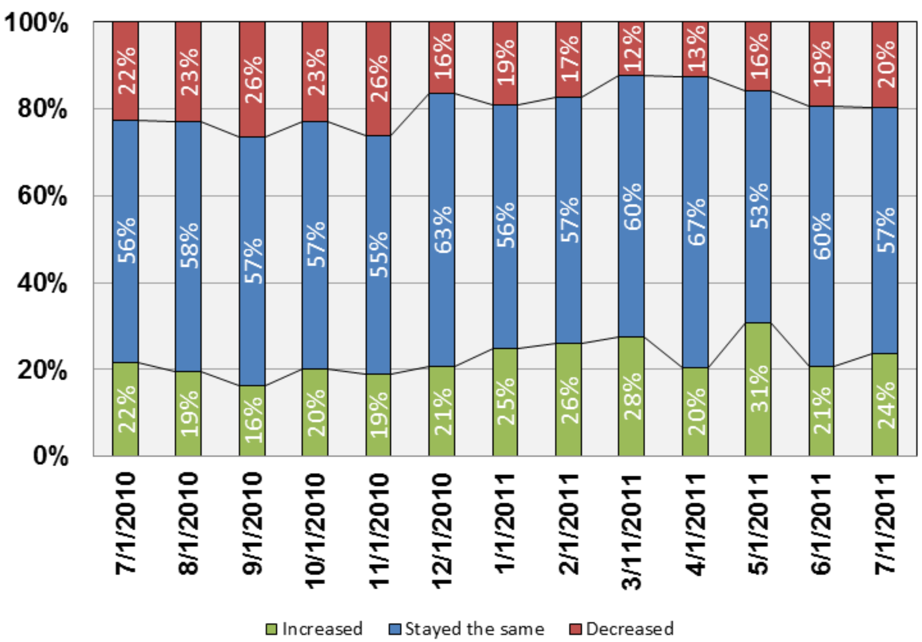
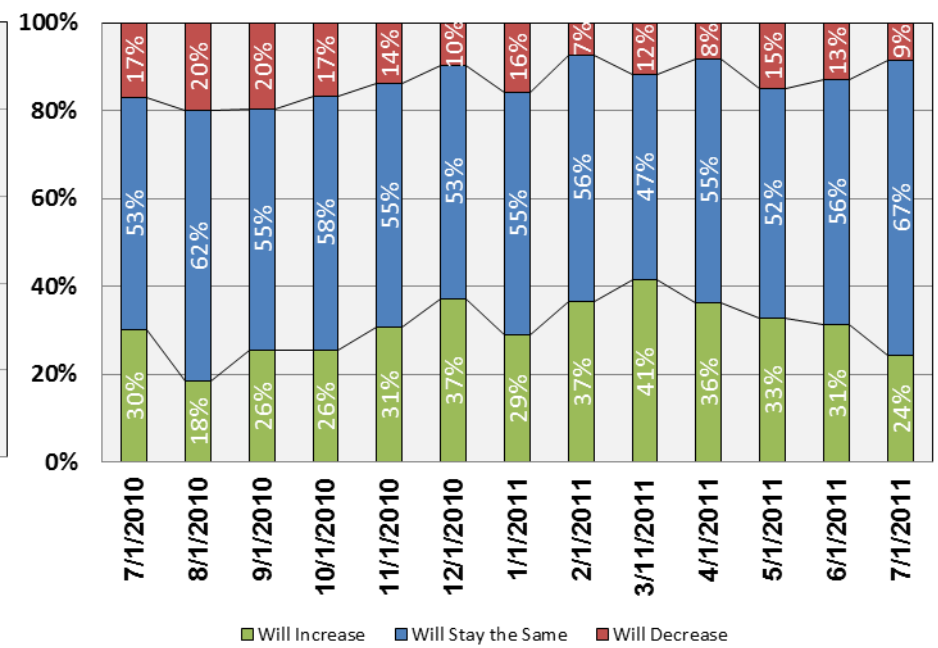
Business Conditions – Trends – Capital Expenditure Commitments



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 to **20%** from 15%. The percentage that indicated they did less hiring increased slightly to **11%** from 10% in the prior month.

In the next 60 days:

The percentage indicating they plan to increase hiring experienced an increase to **24%** from 23%. The percentage who expect to reduce hiring increased to 9% from 7%.

The employment indications have remained essentially flat for the past three to four months. There is no distinctive trend.

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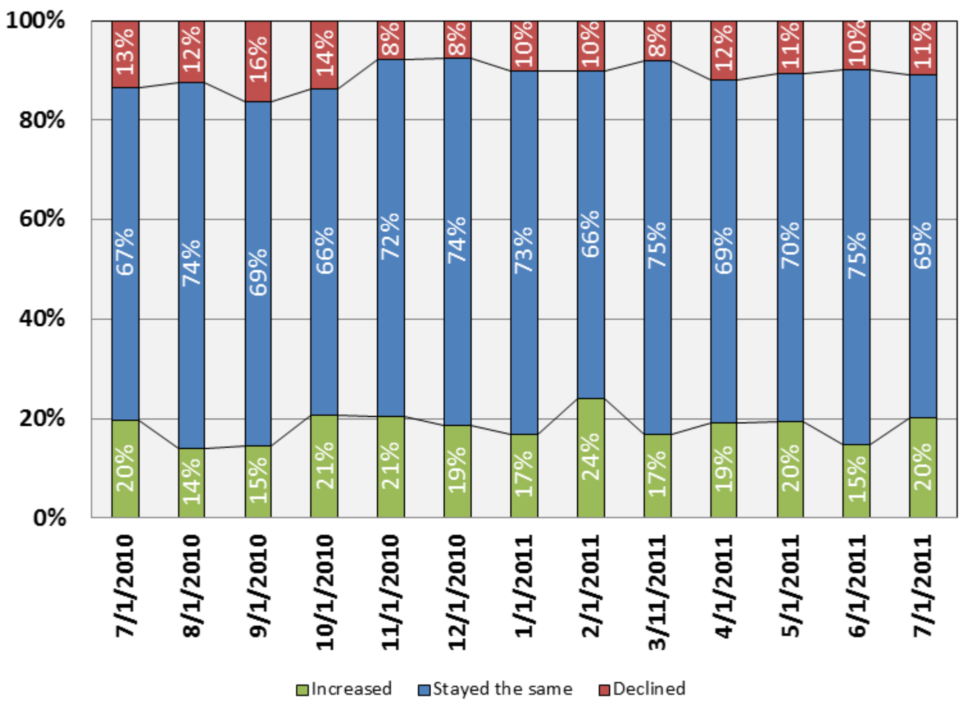
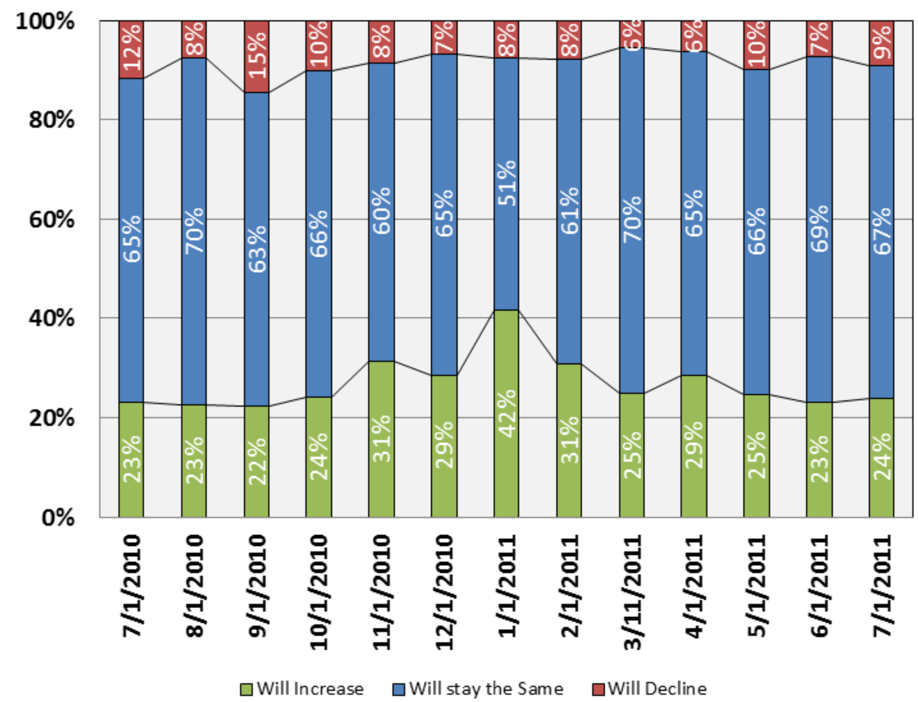
Business Conditions – Trends - Employment



Past 30 Days



Next 60 Days

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Business Conditions – Capital Availability and Pricing

The past 30 days:

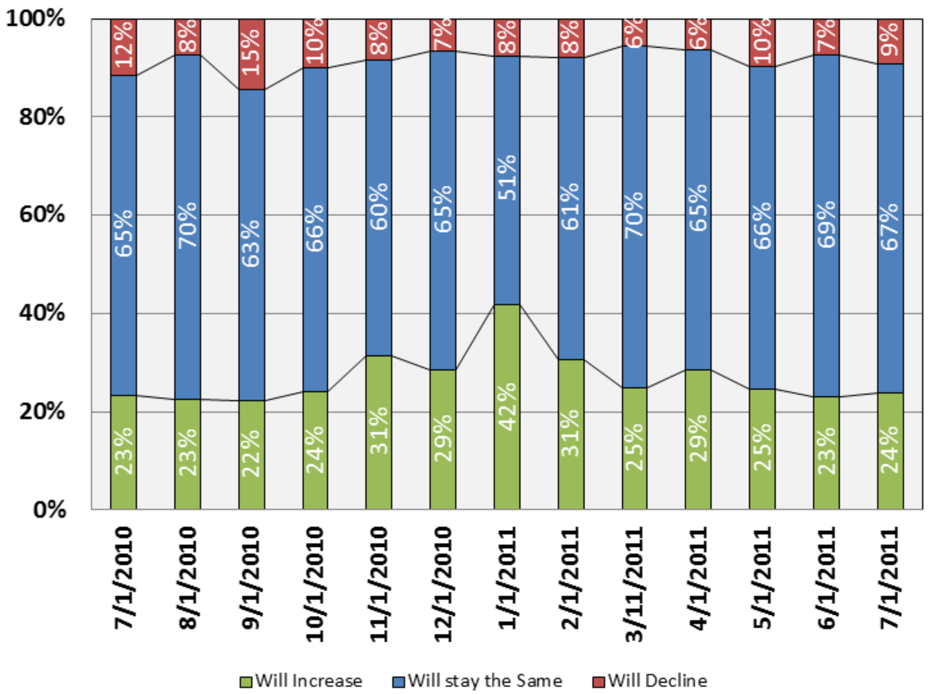
The percentage of respondents indicating an improvement in financing conditions rose slightly to **25%** from 24%. The percentage who indicated conditions were worsening also rose slightly to **9%** from 7%.

In the next 60 days:

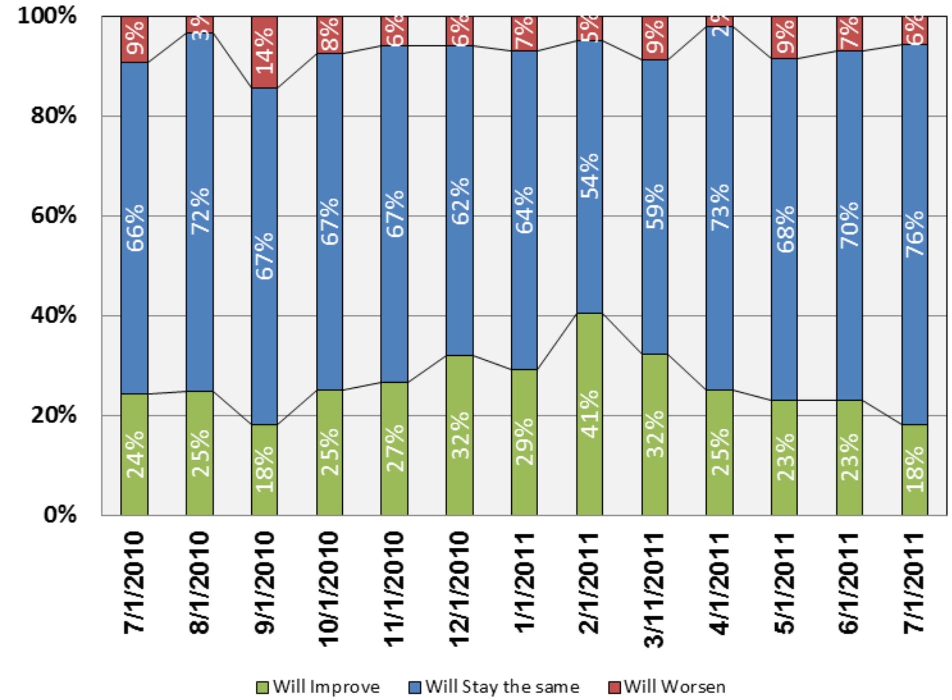
The percentage of respondents who expect improvement in financing conditions in the next 60 days declined to **18%** from 23%. The percentage saying conditions will get worse declined slightly to **6%** from 7%.

Our respondents have reported very little change in actual financing conditions in the past 5 months. However, the outlook has deteriorated and become more uncertain as can be seen by the broadening of the middle (declining expectations for improvement and a slight decline also in the proportion expecting financing to get worse).

Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

Survey Participation Demographics

Industry	
Services	16%
Manufacturing/Processing	25%
Health Care	17%
Technology	12%
Financial	9%
Wholesale	4%
Retail	3%
Government	1%
Construction	5%
Other	8%

Primary Geographic Markets	
National	47%
Regional	20%
International	25%
Local	8%

Geographic Regions Represented (Total of 140 Responses)	
Pacific	30%
Southeast	21%
Southwest	26%
Midwest	14%
Northeast	9%

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Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest – Southwest

Weakest – Southeast

Industries:*

Strongest – Financial & Healthcare

Weakest – Manufacturing

Markets Served:

Strongest – National

Weakest – Regional & International

Company Size:

Strongest – Mid-Market

Weakest – Small

* With statistically significant participation

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