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Tatum Survey of Business Conditions

6/1/2011

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Tatum Survey of Business Conditions Summary

At June 1, the Tatum Survey reflected a continuing slowing in the rate of recovery, now drifting very close to returning to recession. The slowing began to register with our March 1 Survey and has continued for four months as the fragile recovery of last fall and winter seems to have lost its energy.

All of the Tatum Survey indicators are either flat or lower. Looking back 30 days, all indicators are down. The 60-day outlook, relative to the past 30 days, is less down but still suggesting continued weakness going into the summer months.

Based on the Survey results, it is clear to us that Q2 will show a lower GDP growth than Q1 which was lower than the rebounding Q4 of 2010. We wish we could report better news.

Companies in our International Survey classification turned particularly soft this month, probably reflecting the global slowdown. Domestically we anticipate the debates will intensify about whether it is time for more stimulus or reducing government spending to deal with the government debt situation.

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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 June 1st, the Tatum Index of Business Conditions declined approximately to 3.6. In a range of 3 to 4 we have a very high correlation with near zero economic growth. Below 3 is recession in the Tatum Index, and the Index was in this range from Oct 07 through August 09. Since August '09 the Index has been above 3.0 in every month except September '10; in all but 6 months (mainly last summer) of the 22 months of recovery, the Index has been above 4.0. We think the most recent 3.6 reading is a significant negative milestone.

For the first time since last summer's slump, we are concerned about the possibility of a another dip into recession.

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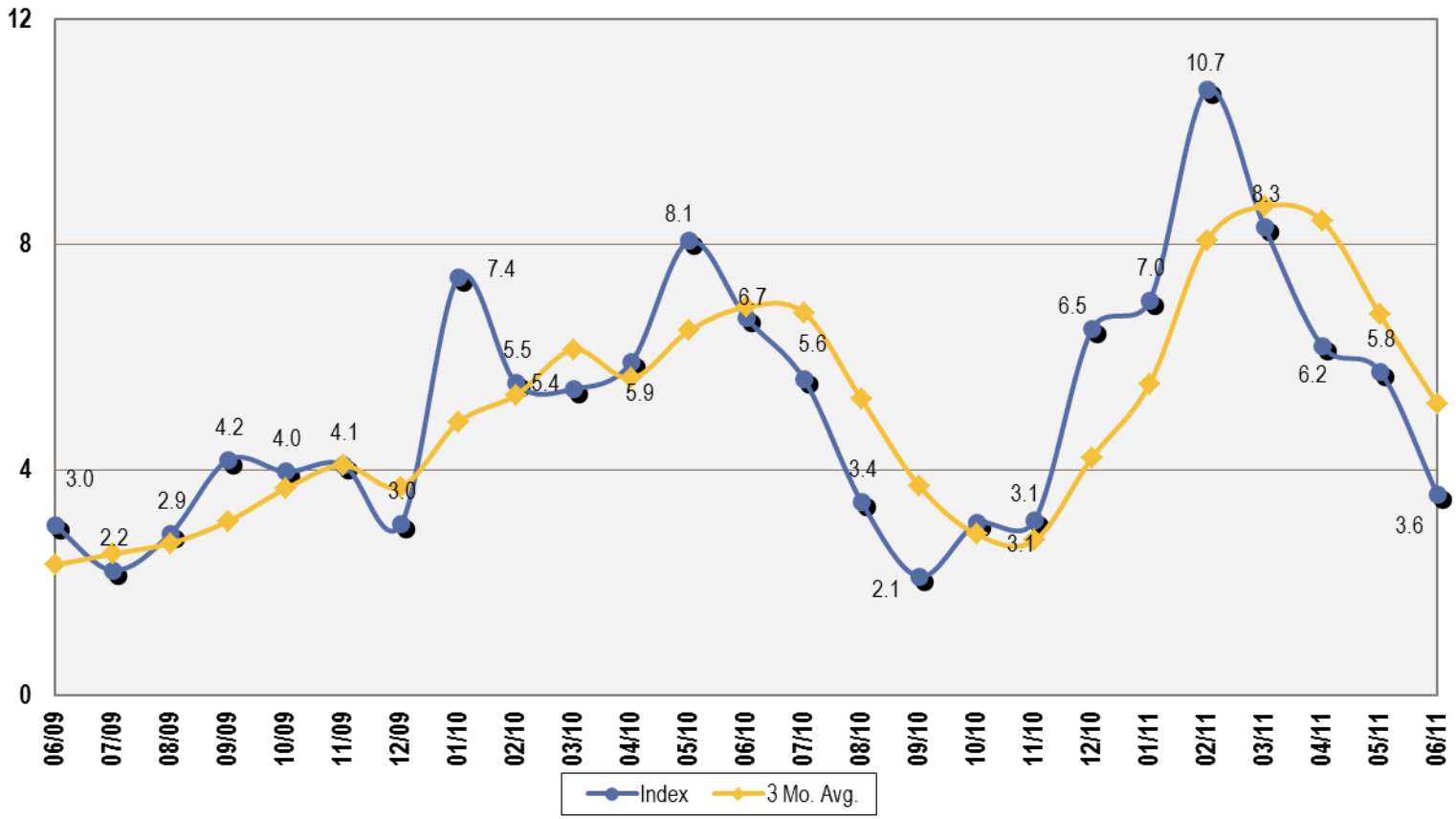
Tatum Index of Business Conditions



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Business Conditions – Trends past 30 days

In the past 30 days, business conditions:

- ***Improved for 23% of our respondents,*** down from 36% in the prior month.
- ***Worsened for 17%,*** worse than the 13% a month ago.

Business conditions clearly deteriorated in the past 30 days after 2 months of essentially flat, and uninspiring, reports. This is the most negative report on conditions that we have seen in over a year.

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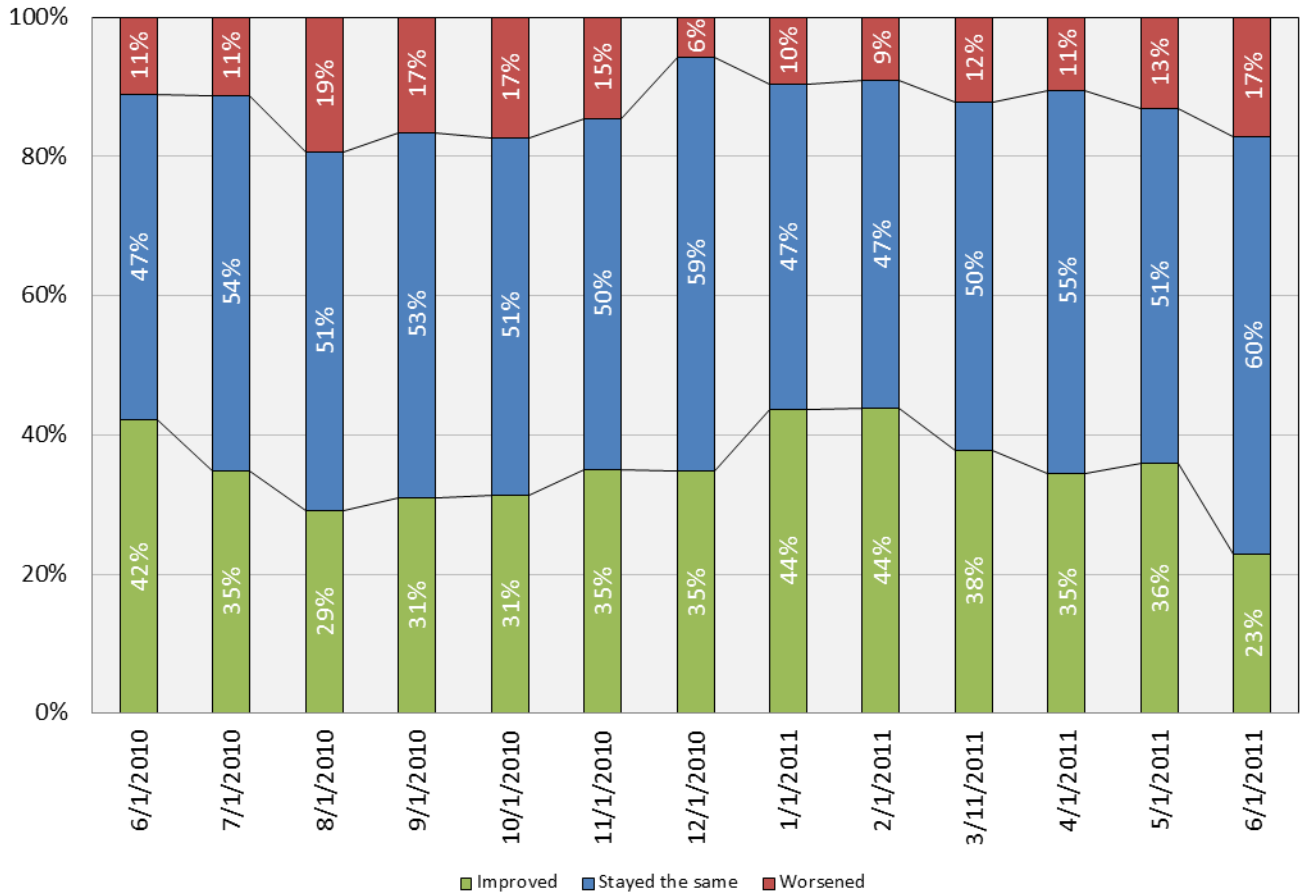
Business Conditions the Past 30 Days



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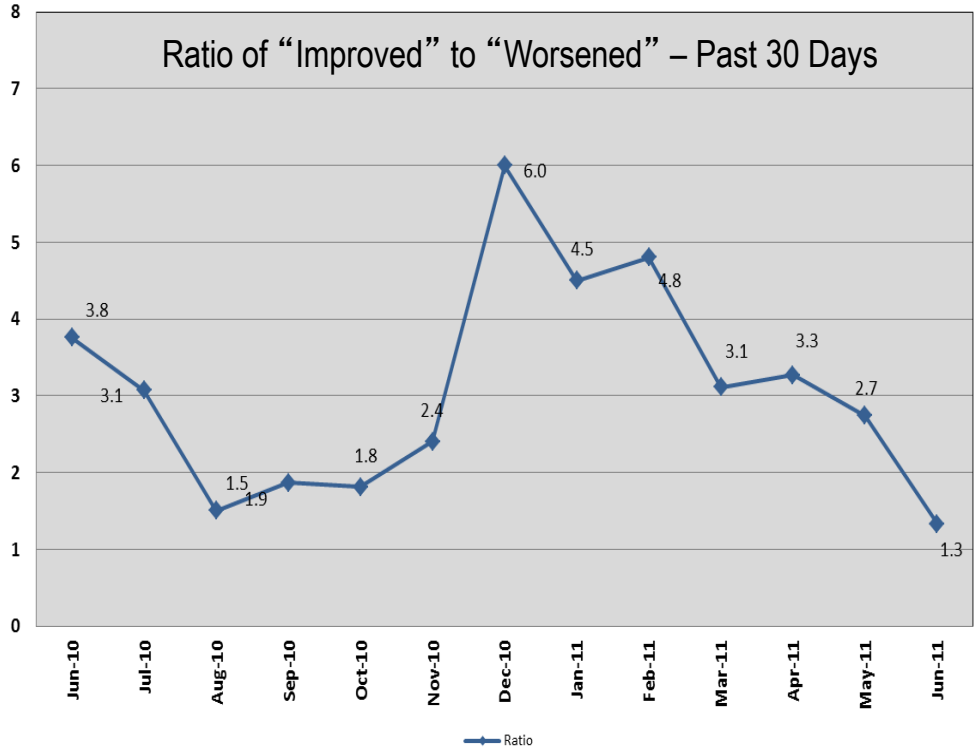
Business Conditions – Trends Last 30 Days

The ratio of "Improved-to-Worsened" in the last 30 days declined moderately to **1.3** from 2.7 reported in the prior month, extending the downward trend from the recent peak of 6.0 registered at Dec 1, 2010.

The current softness in business conditions is now more severe than the temporary dip that we saw last summer.



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Business Conditions – Trends Next 60 Days

In the next 60 days, business conditions are expected:

- ***To improve for 37% of our respondents,*** down from 48% last month.
- ***To get worse for 6%*** compared to 5% last month.

The outlook has also declined, but it is not as severe as the lowest level reached last September. There is a natural tendency to remain more optimistic at the early stage of a downturn. If conditions continue to deteriorate then the outlook will also worsen until there is a persuasive reason to anticipate a turn for the better.

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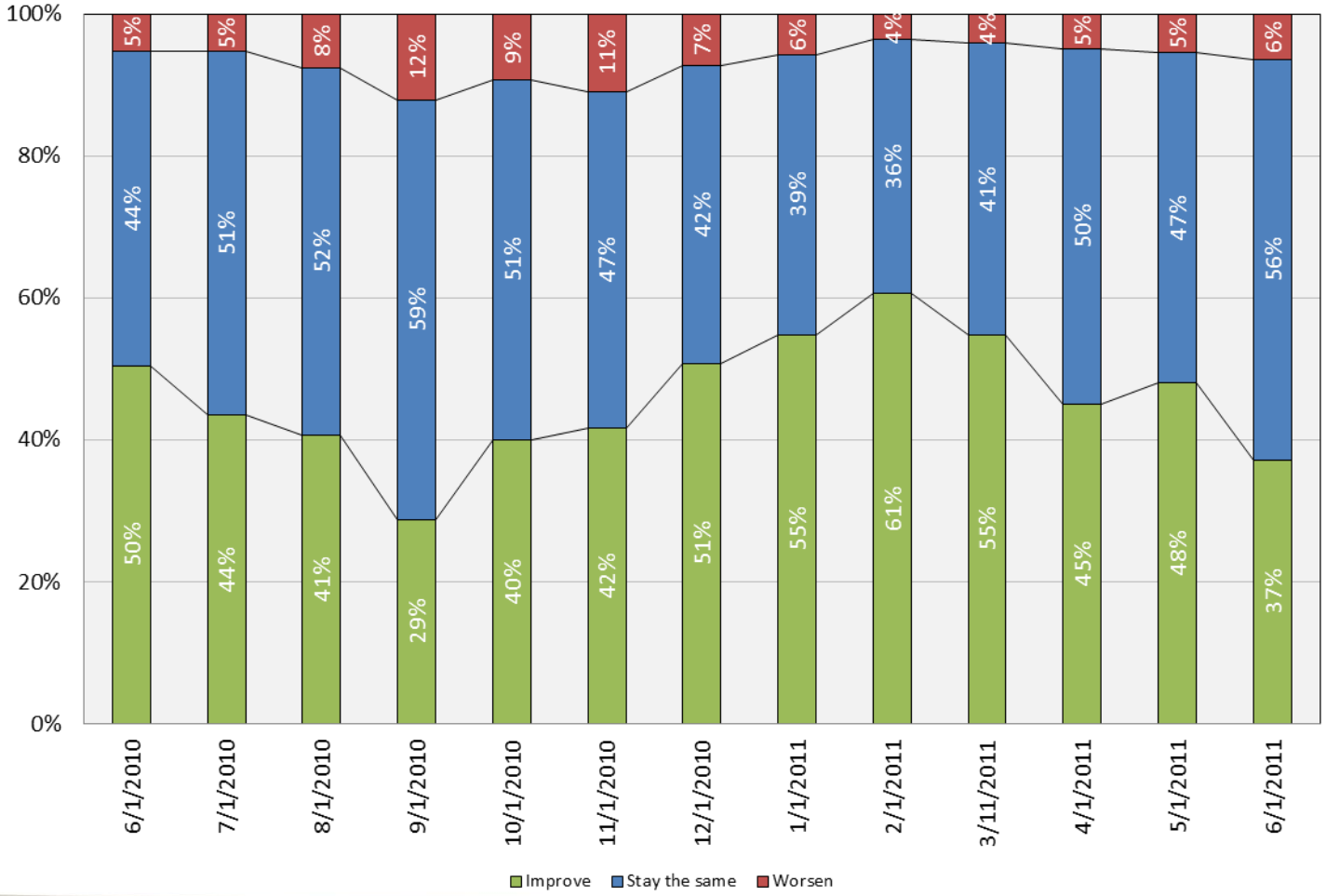
Business Conditions – Trends

Next 60 Days



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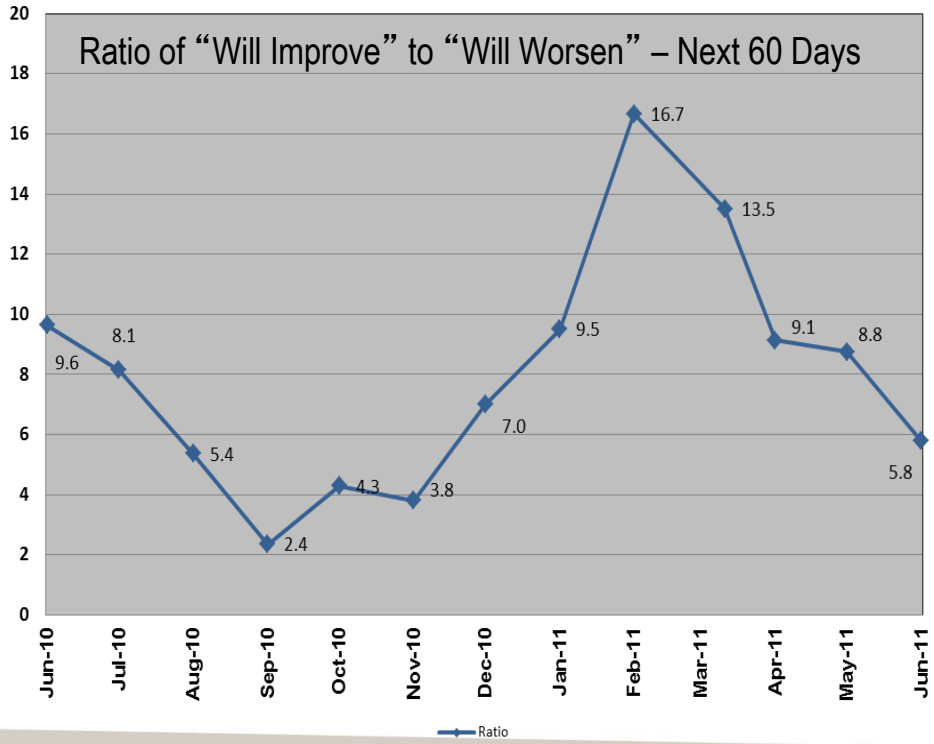
Business Conditions – Trends Next 60 Days

In the next 60 days:

The ratio of *"Will Improve" to "Will Worsen"* declined to 5.8 from 8.8.

The survey indicates that employment remains sluggish and order backlogs are weak. These results, combined with external factors such as continued declines in housing prices and the price of gas eating into consumer spending on other items, gives us little to cheer about in the near-term.



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Business Conditions – Order Backlogs

In the past 30 days:

The percentage of respondents who reported an improvement in backlogs sunk to **24%** from 38% a month ago. The percentage reporting lower backlogs worsened to **15%** from 13%.

In the next 60 days:

The percentage of respondents who indicated expectations of higher backlogs declined to **38%** from 47%. The "Will Worsen" percentage declined to **9%** from 4%.

The near-term prospects for businesses that ship and deliver services based on prior orders have worsened, although the outlook for order backlogs is not as depressed, relatively, as actual current backlogs.

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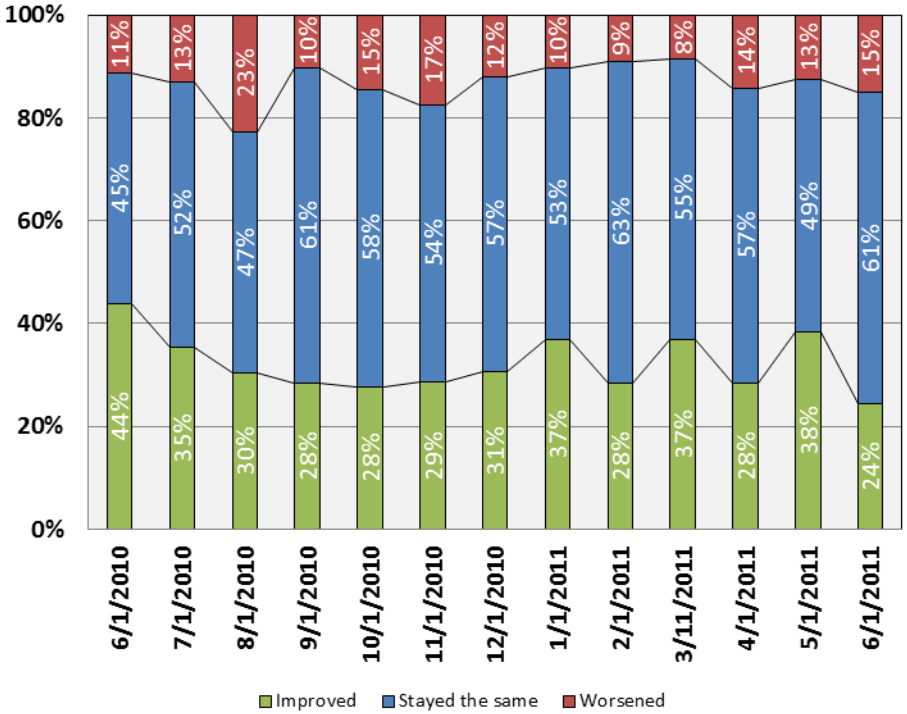
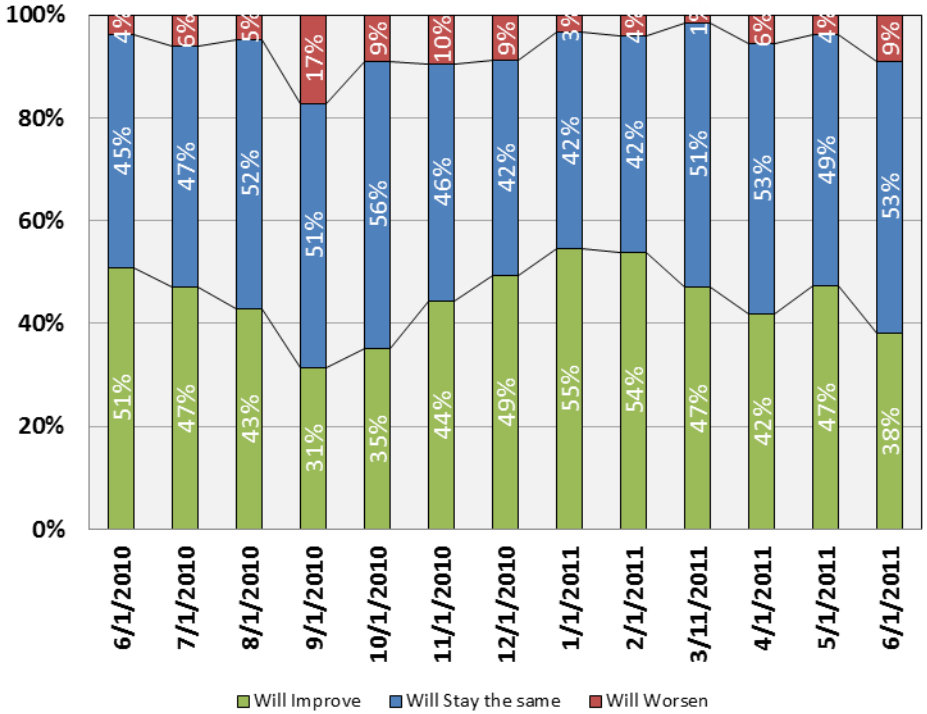
Business Conditions – Current Results – Order Backlogs



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 **declined to 21%** from 31%. The percentage that committed less on capital equipment increased to19% from 16%.

In the next 60 days:

The outlook for Capital Expenditures is encouraging compared to the experience of the past 30 days. The percentage of respondents who said they plan to commit more for capital assets in the next 60 days decreased to 31% from 33%, and the percentage who expect to commit less declined to 13% from 15%.

Capital expenditure commitments are made based on decisions of one or more months in the past. We judge this report to be worse looking back 30 days and about flat in the 60-day outlook. Cash is accumulating on the balance sheets of companies that made the tough adjustments during the recession and are currently profitable. It appears that capital expenditures being committed currently are not so much for expansion as for modernization, replacements, productivity improvements and regulatory compliance. Compared to other indicators, these commitments are relatively holding up.

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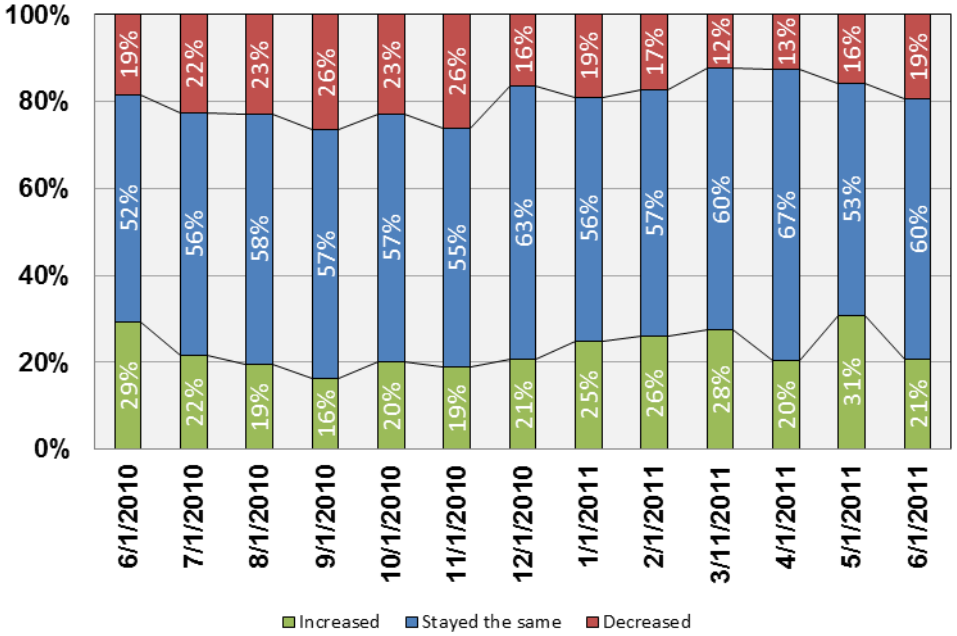
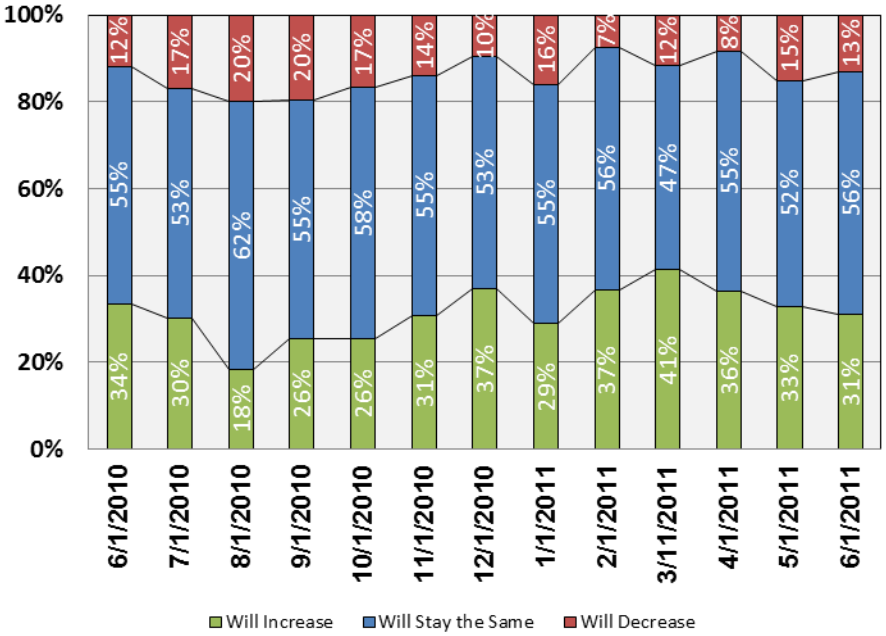
Business Conditions – Trends – Capital Expenditure Commitments



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

In the next 60 days:

The percentage indicating they plan to increase hiring experienced a decrease to 23% from 25%. The percentage who expect to reduce hiring declined to 7% from 10%.

While terminations remain flat or are actually improving slightly, the hiring of new employees is declining.

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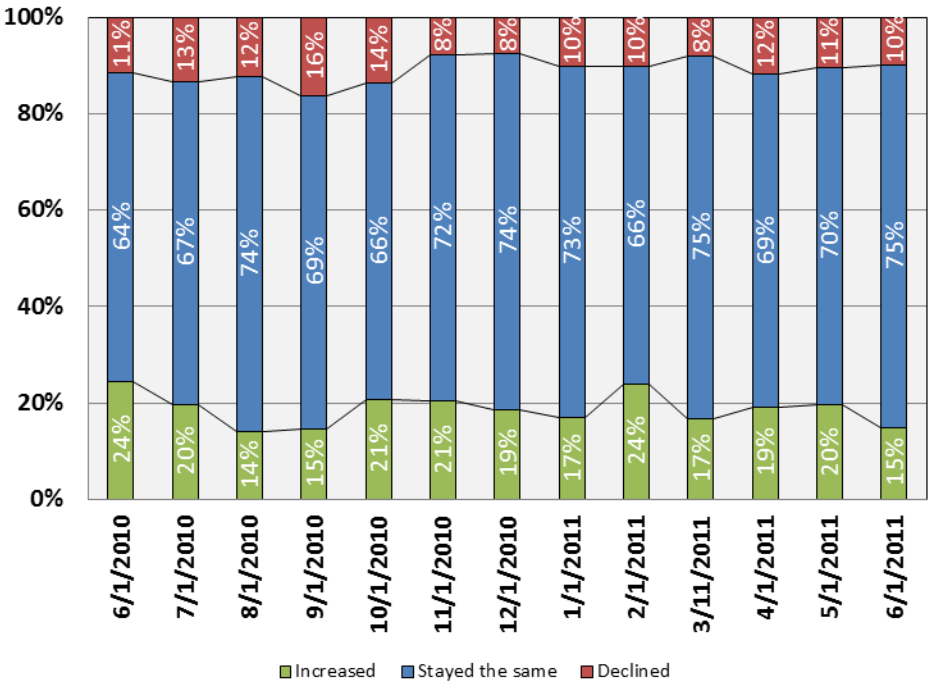
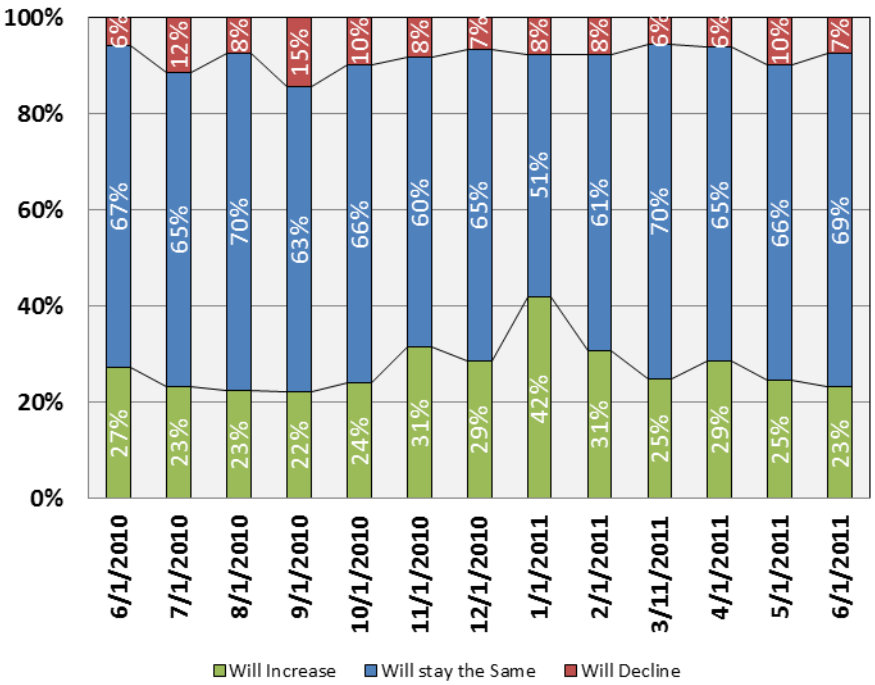
Business Conditions – Trends - Employment



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 declined to 24% from 31%. The percentage who indicated conditions were worsening remained flat at 7%.

In the next 60 days:

The percentage of respondents who expect improvement in financing conditions in the next 60 days remained unchanged at 23%. The percentage saying conditions will get worse declined slightly to 7% from 9%.

As overall conditions deteriorate, financing gets more difficult. When it starts to look like rain, the banks take away the umbrella. Equity markets have declined recently, suggesting asset values are declining. "Quantitative easing" has had little impact on financing conditions as most of the funding has remained on the balance sheets of the financial institutions.

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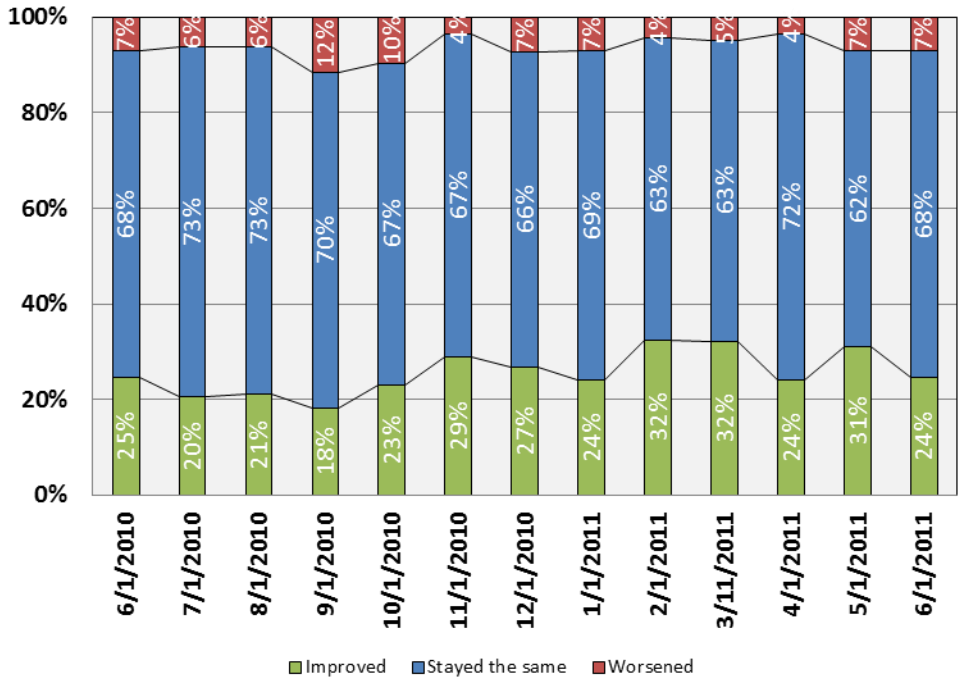
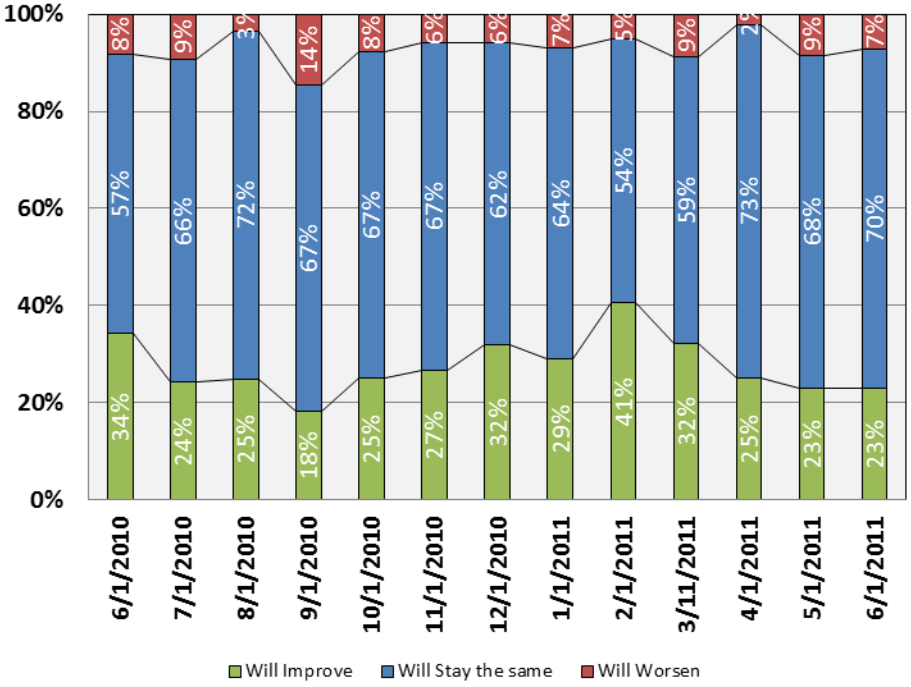
Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

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Survey Participation Demographics

Industry	
Services	17%
Manufacturing/Processing	27%
Health Care	14%
Technology	13%
Financial	9%
Wholesale	6%
Retail	3%
Government	2%
Construction	4%
Other	5%

Primary Geographic Markets	
National	49%
Regional	22%
International	22%
Local	7%

Geographic Regions Represented (Total of 140 Responses)	
Pacific	30%
Southeast	23%
Southwest	23%
Midwest	12%
Northeast	12%

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Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest – Southwest

Weakest – Pacific

Industries:*

Strongest – Healthcare

Weakest – Service

Markets Served:

Strongest –National

Weakest –International

Company Size:

Strongest – Mid-Market

Weakest – Large & Small

* With statistically significant participation

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