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Tatum Survey of Business Conditions
3/1/2011

Tatum Survey of Business Conditions Summary

At March 1, the Tatum Survey reflected a softening in Business Conditions, contrary to the trend experienced over the last several months. Both the past 30 days and the 60-day outlook softened from a month ago, causing a decline in the **Tatum Index of Business Conditions.** Despite the decline from a month ago, the Index remained the highest reading of the past two years, with the exception of February's reading.

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

Demographically, the Southwest region continues to be the strongest. International businesses and large businesses are doing much better than regional and mid-size businesses. High technology is the strongest sector.

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 March 1st, the Tatum Index of Business Conditions declined approximately 22% to 8.3. This change was driven by a 35% decline in the past 30 days and a 19% decline in the 60-day outlook. The ratios that make up the Index are subject to large percentage movements, but the direction is clear. We are witnessing a slowdown in the rate of recovery.

The Index had peaked last month based on an ebullient outlook. We believe the developments on the past month, including revolutions in the Middle East that are driving up energy prices, are taking a toll on the outlook for the recovery. There is uncertainty regarding the effects of state budget cut-backs and the political stand-off on the federal budget. The actual recovery process has slowed in recent months based on the 30-day look-back. Now the outlook is softening.

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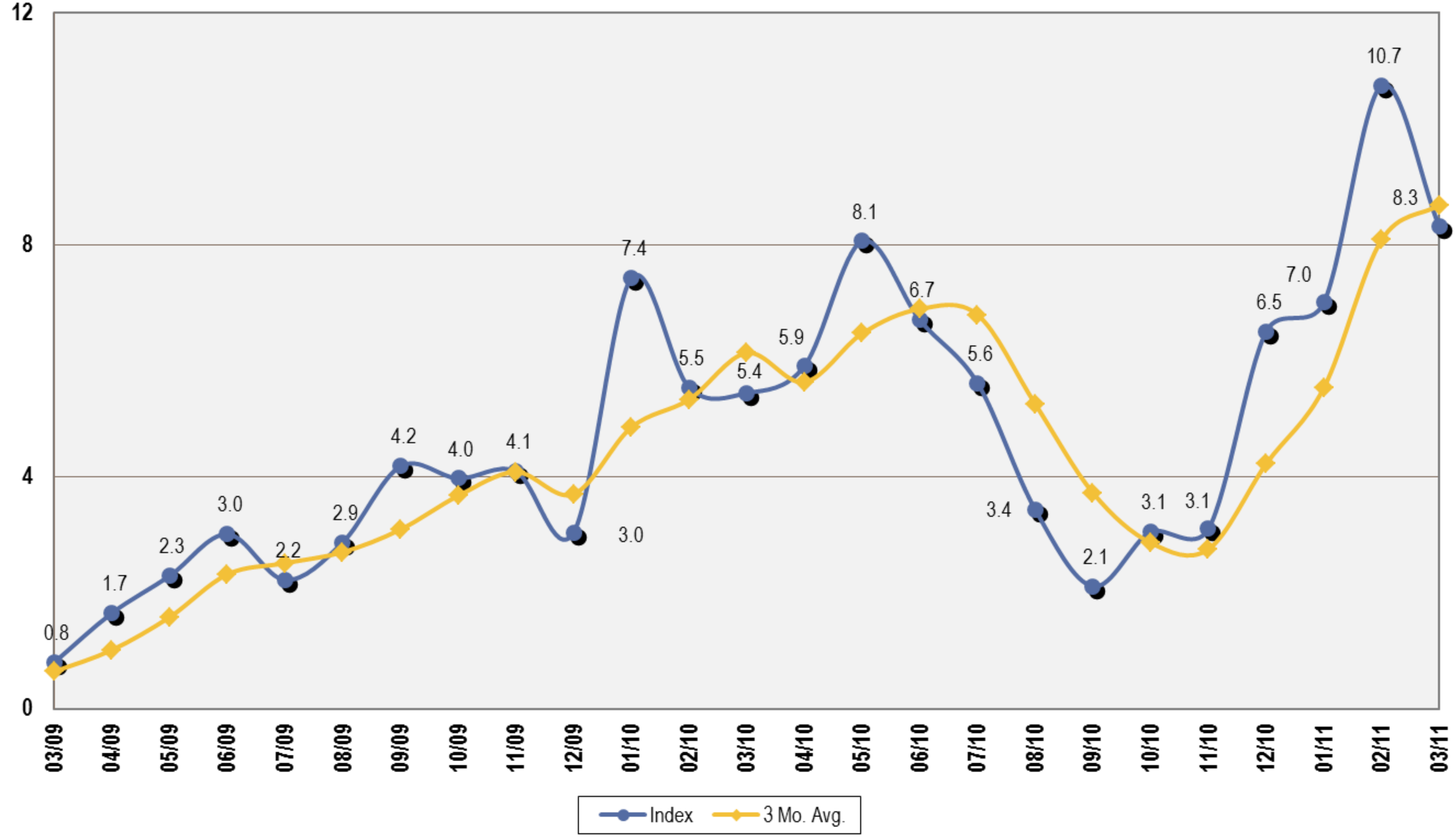
Tatum Index of Business Conditions



Business Conditions - Trends

In the past 30 days, business conditions:

- ***Improved for 38% of our respondents,*** down from 44% in the prior month.
- ***Worsened for 12%,*** from 9% a month ago.

This is the first overall decline since last summer, indicating the possible beginning of another pause in the economic recovery. One month does not make a trend, and hopefully this is just a temporary soft spot.

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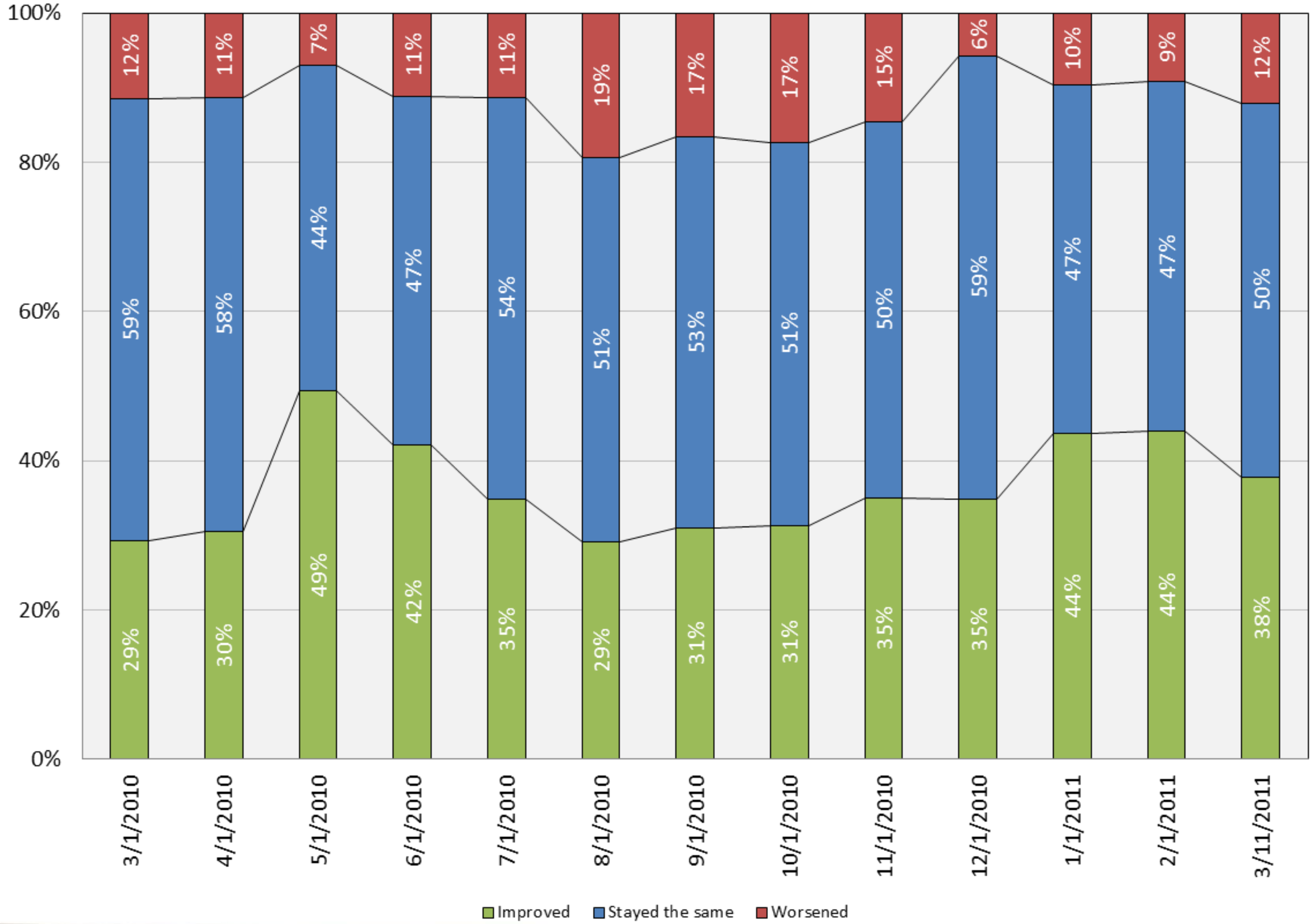
Business Conditions the Past 30 Days

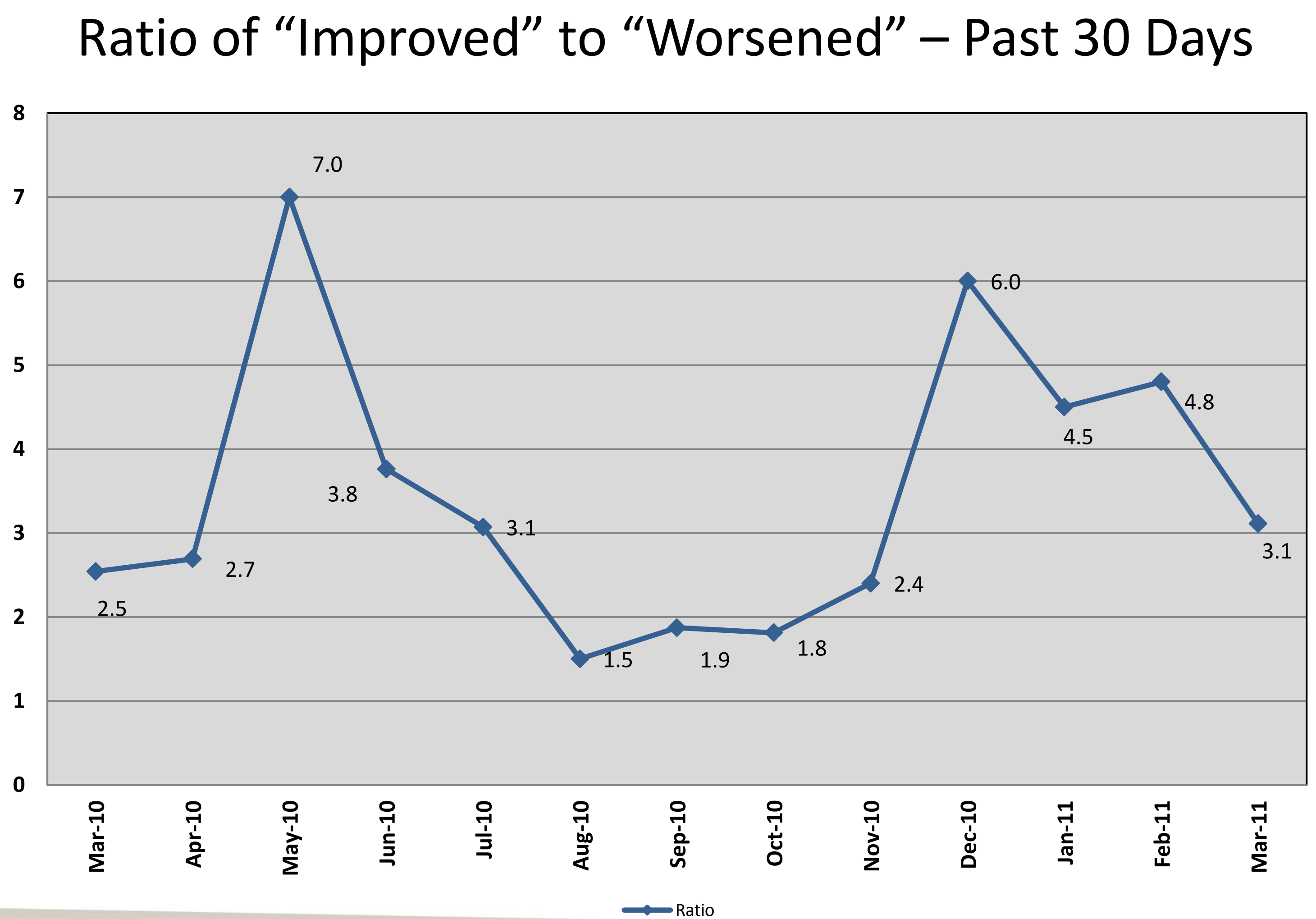


Business Conditions – Trends Last 30 Days

The ratio of "Improved-to-Worsened" in the last 30 days declined to 3.1 from 4.8 reported in the prior month.

This indicator of actual conditions extends a softening trend that began with the December Survey. We interpret the trend as meaning that the rate of improvement is slowing down, not that the recovery is going in reverse.

Business Conditions - Trends



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Business Conditions – Trends Next 60 Days

In the next 60 days, business conditions are expected:

- ***To improve for 55% of our respondents,*** down from 61% last month
- ***To get worse for 4%,*** the same as last month

This represents a substantial change from just a month ago in the outlook. We will see that the softer overall outlook is supported by individual indicators of backlogs, employment, and the pricing and availability of capital. Additionally, the uncertainties in the news, both international and domestic, and the rapid rise in the price of oil, are having an effect on the relative optimism regarding business conditions in the near future.

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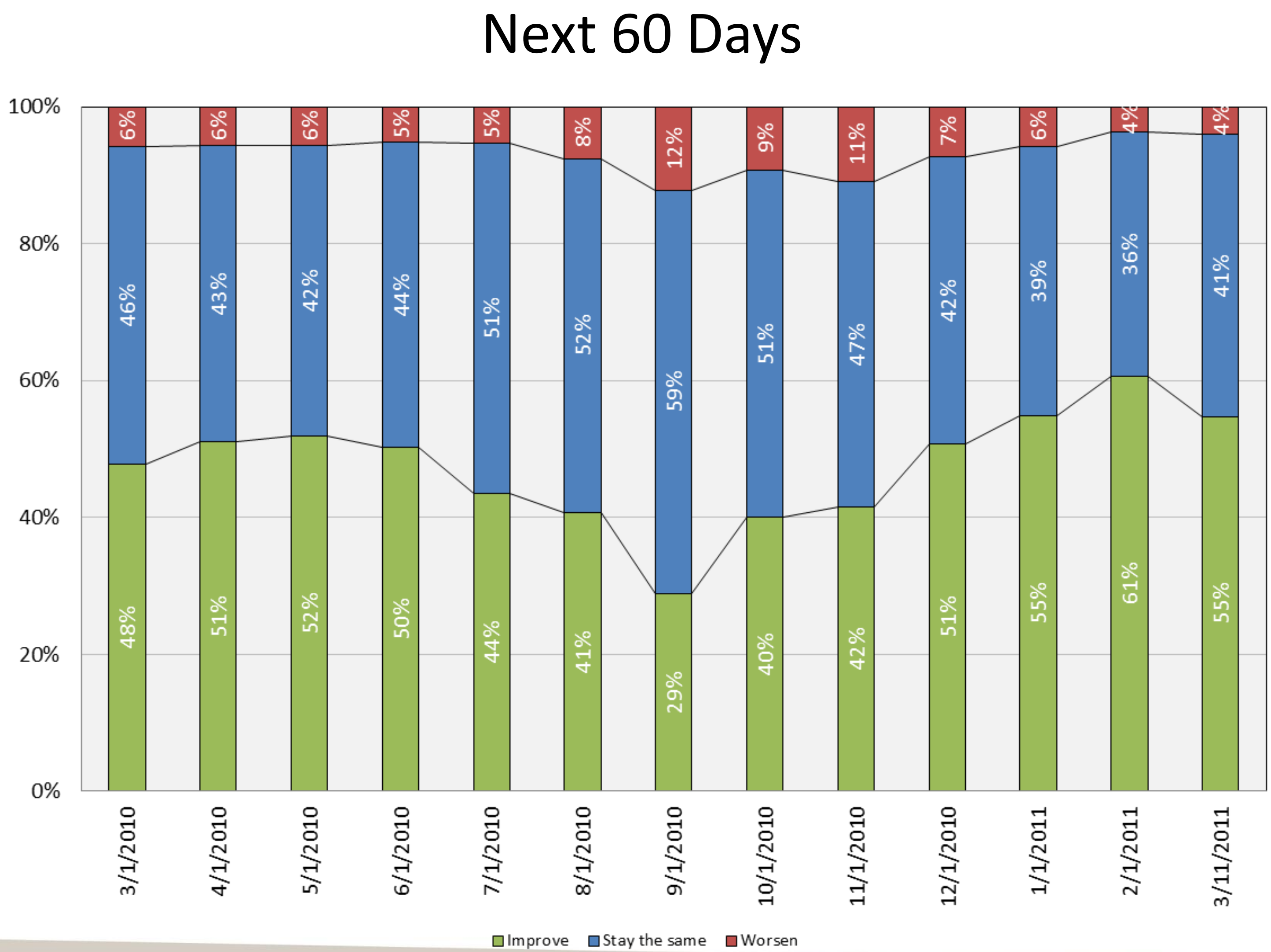
Business Conditions - Trends



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Business Conditions – Trends Next 60 Days

In the next 60 days:

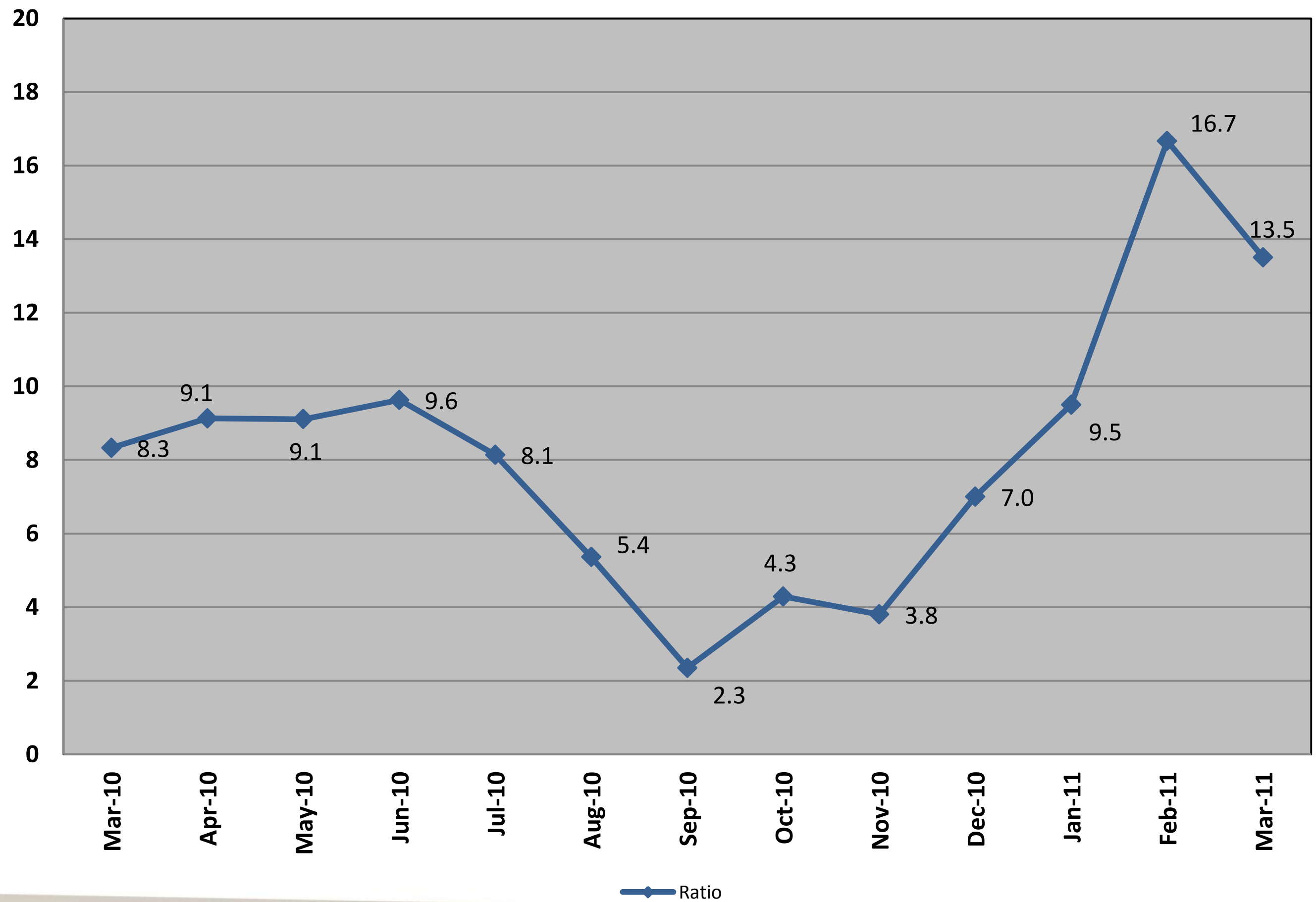
The ratio of *"Will Improve" to "Will Worsen"* declined to 13.5 from 16.7.

This is a very sensitive indicator, and this is the first time since September that it has registered a material decline.

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:

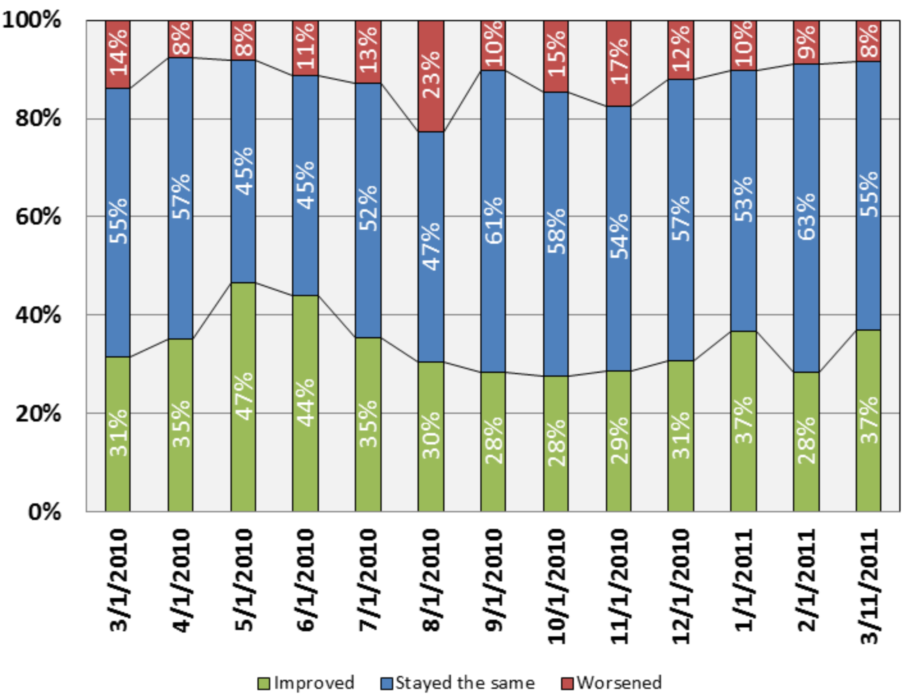
The percentage of respondents who reported an improvement in backlogs rose to 37% from 28% a month ago. The percentage reporting lower backlogs dropped to 8% from 9%.

In the next 60 days:

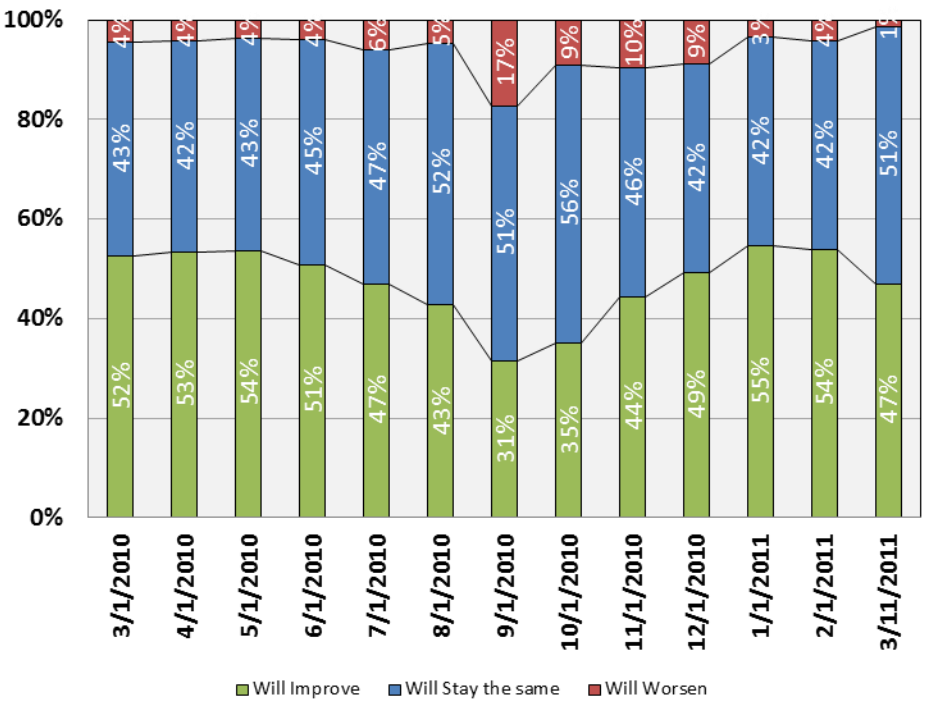
The percentage of respondents who indicated expectations of higher backlogs dropped from 54% to 47%. The "Will Worsen" percentage fell from 4% to 1%.

The backlogs indicator reversed the prior month's decline which we had interpreted as mainly a seasonal set-back. The outlook, however is weaker, contributing to the overall softer forecast. It is notable that only 1% see declines in their order backlogs.

Business Conditions – Current Results – Order Backlogs



Past 30 Days



Next 60 Days

Business Conditions – Capital Expenditure Commitments

In the past 30 days:

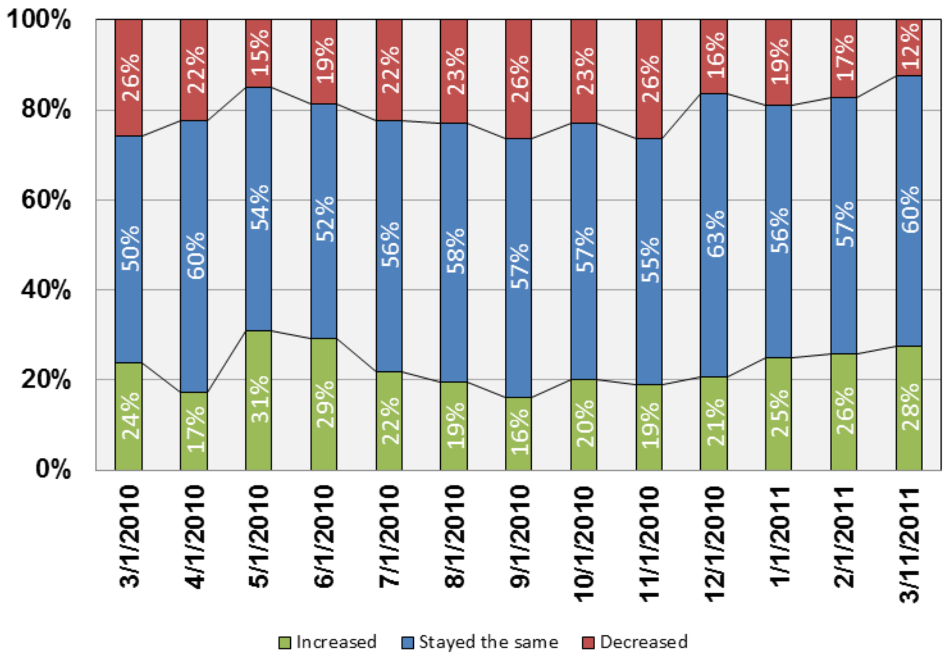
The percentage of respondents committing more on capital equipment increased from 26% to 28%. The percentage that committed less on capital equipment decreased from 17% to 12%.

In the next 60 days:

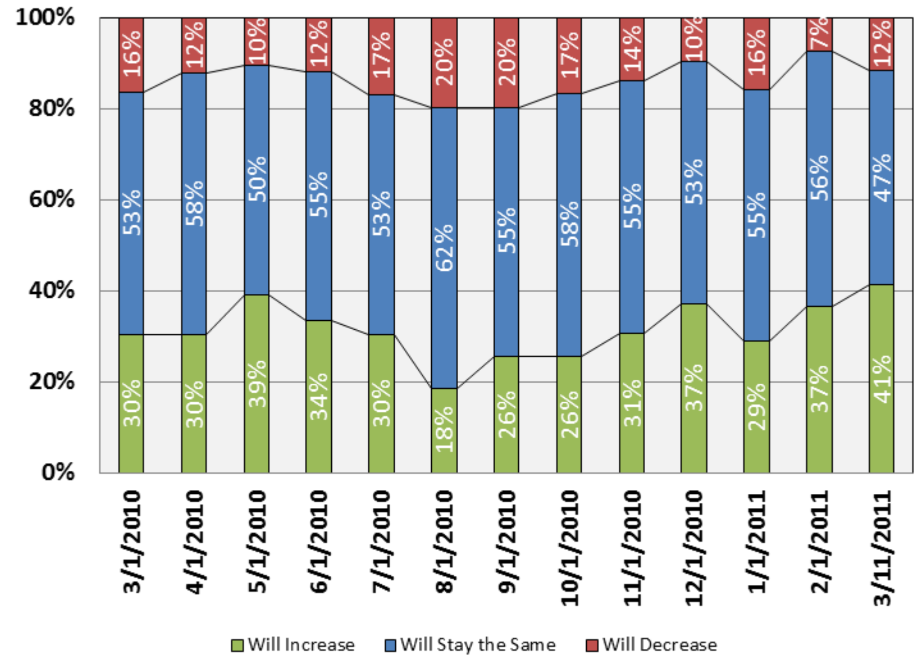
The outlook for Capital Expenditures is mixed, but slightly softer compared to last month. The percentage of respondents who said they plan to commit more for capital assets in the next 60 days increased to 41% from 37%. However, the percentage who expect to commit less increased to 12% from 7%.

Capital expenditure commitments are made based on decisions of one or more months in the past. In the past 30 days, commitments continued to improve. However, the outlook has turned into a mix of both a rise in the percentage increasing their commitments and a rise in those who plan to commit less. 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:

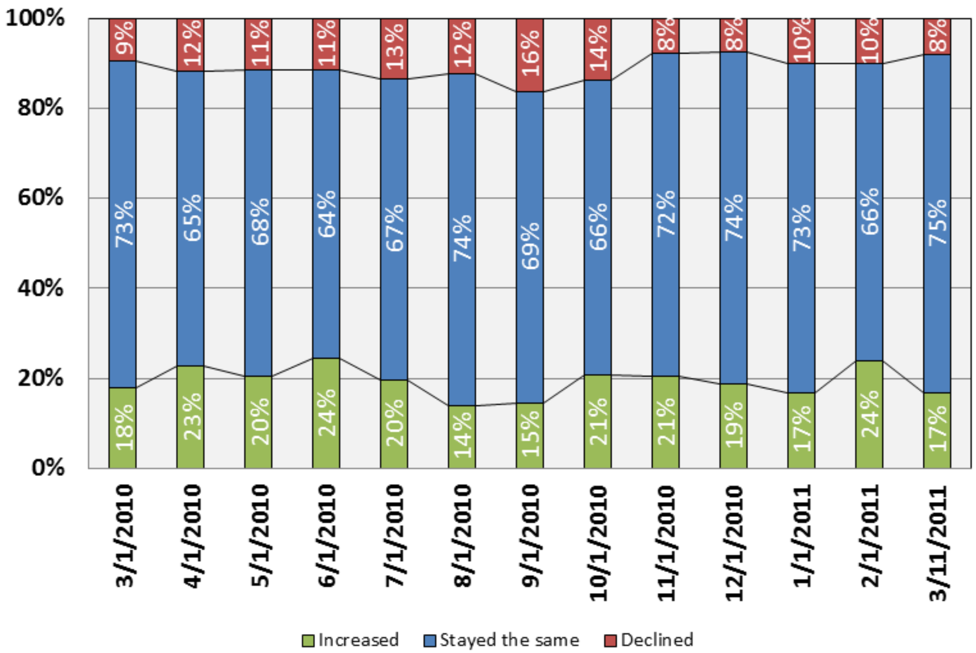
The percentage of respondents hiring more workers declined to 17% from 24%. However, the percentage that indicated they did less hiring declined to 8% from 10% in the prior month.

In the next 60 days:

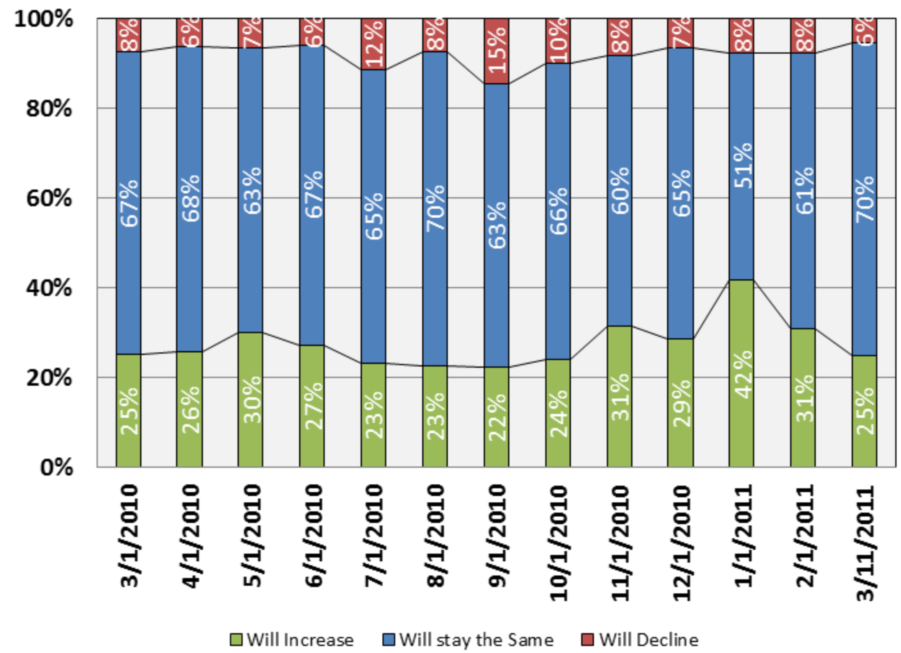
The percentage indicating they plan to increase hiring experienced a decrease to 25% from 31%. However, the percentage who expect to reduce hiring declined to 6% from 8%.

The interesting mix of statistics in employment tells us that layoffs are continuing to decline (good trend) but new hires are also declining (not good news). This situation is very consistent with a recovery that has been going on a long time, but where the rate of change is stagnating.

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 remained flat at 32%. The percentage who indicated conditions were worsening rose slightly to 5% from 4%.

In the next 60 days:

The percentage of respondents who expect improvement in financing conditions in the next 60 days declined to 32% from 41%. The percentage saying conditions will get worse rose to 9% from 5%.

There was not much change during the past 30 days in financing conditions, but the outlook has deteriorated. While the recovery is continuing, however slowly, there is rising concern that interest rates will be rising along with inflation.

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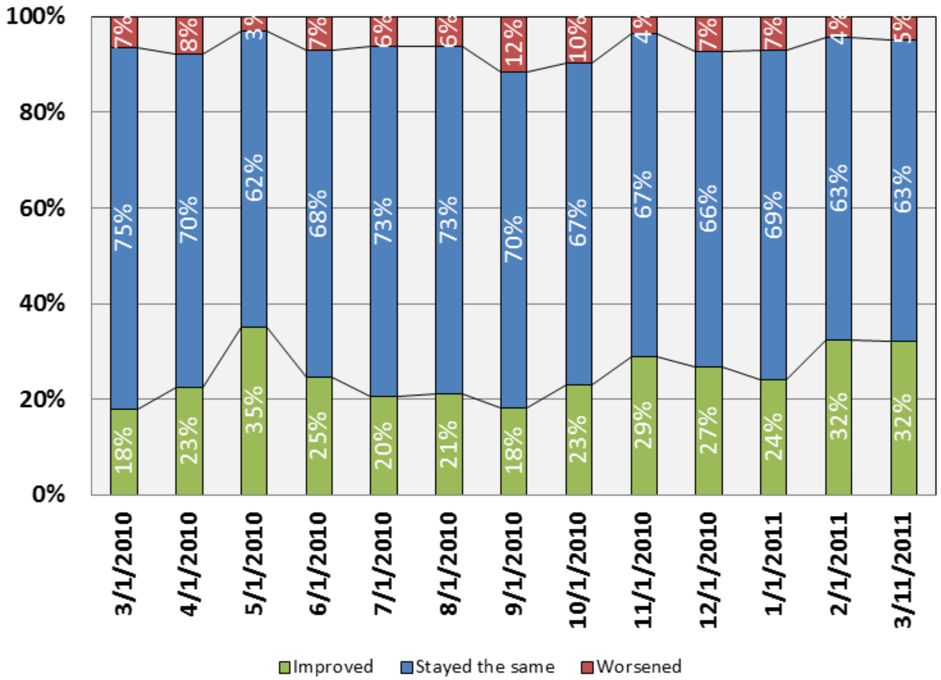
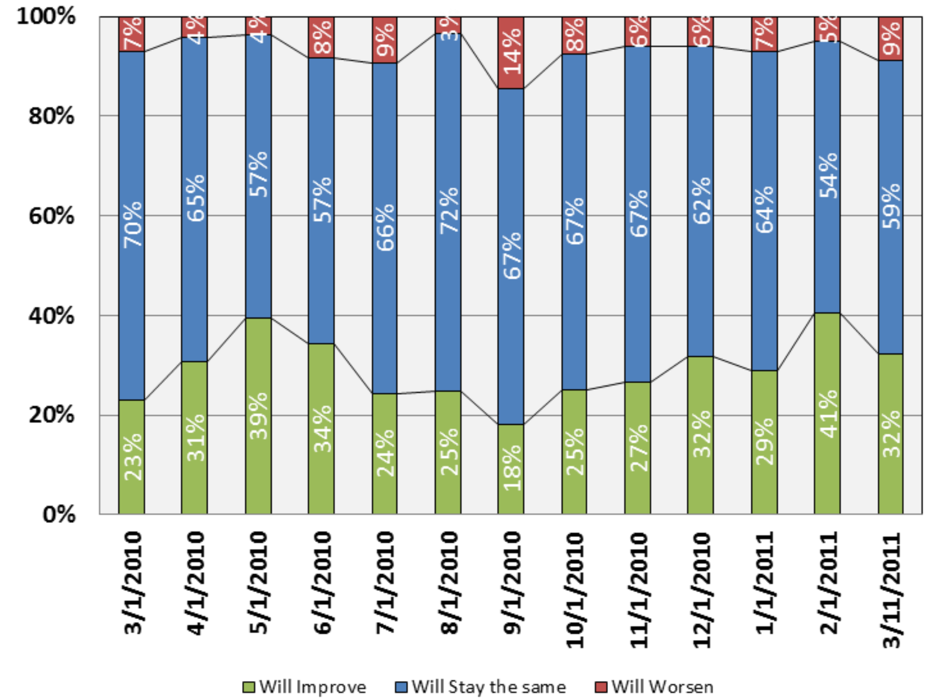
Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

Survey Participation Demographics

Industry	
Services	16%
Manufacturing/Processing	28%
Health Care	16%
Technology	13%
Financial	6%
Wholesale	4%
Retail	4%
Government	4%
Construction	3%
Other	6%

Primary Geographic Markets	
National	44%
Regional	22%
International	23%
Local	11%

Geographic Regions Represented (Total of 148 Responses)	
Pacific	22%
Southeast	27%
Southwest	24%
Midwest	13%
Northeast	14%

Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest – Southwest

Weakest – Southeast

Industries:*

Strongest – Technology

Weakest – Service

Markets Served:

Strongest –International

Weakest –Regional

Company Size:

Strongest – Large

Weakest – Mid-market

* With statistically significant participation

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Compiled and Analyzed by
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