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Tatum Survey of Business Conditions
5/1/2011

Tatum Survey of Business Conditions Summary

At May 1, the Tatum Survey reflected a continuing slowing in the rate of recovery. After peaking early in the first quarter this year, the slowing of the recovery that we noted in the past two months was extended to the current month. We saw this week that GDP growth slowed to 1.8% in Q1, consistent with our observations. The second quarter is starting out with a continuation of the slowing trend in business conditions.

We do observe that the rate of the downward slope is moderating, and this gives hope that a turn for the better may come in the summer months.

Larger national businesses are reporting stronger conditions, and the mid-sized, regional businesses are continuing to hurt the most. Technology businesses are reporting strongest segment conditions, while healthcare businesses remain in the toughest condition. The northeast and mid-west this month have displaced the southwest as the strongest region. The southeast continues to lag in business conditions vigor.

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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 May 1st, the Tatum Index of Business Conditions declined approximately 7% to 5.8. This change reflects a shift from a month ago, with a decline of 16% in the 30 day lookback (compared to a negligable gain a month ago) and a negligable decline in the next 60-day outlook (compared to a significant decline a month ago).

The broader perspective is important in particular this month, as the month-to-month changes can obscure the fundamental trend. From the peak of 6.0 at Dec 1, the 30-day lookback ratio has declined to 2.7, and from a peak of 16.7 as of Feb 1, the 60-day outlook has declined to 8.75. These components of the ***Tatum Index*** *combine for a three-month decline from a peak of 10.74 to 5.75. The current level is well above recession levels, but also far from the kind of vigor that we all would hope for and the trend direction is unfavorable.*

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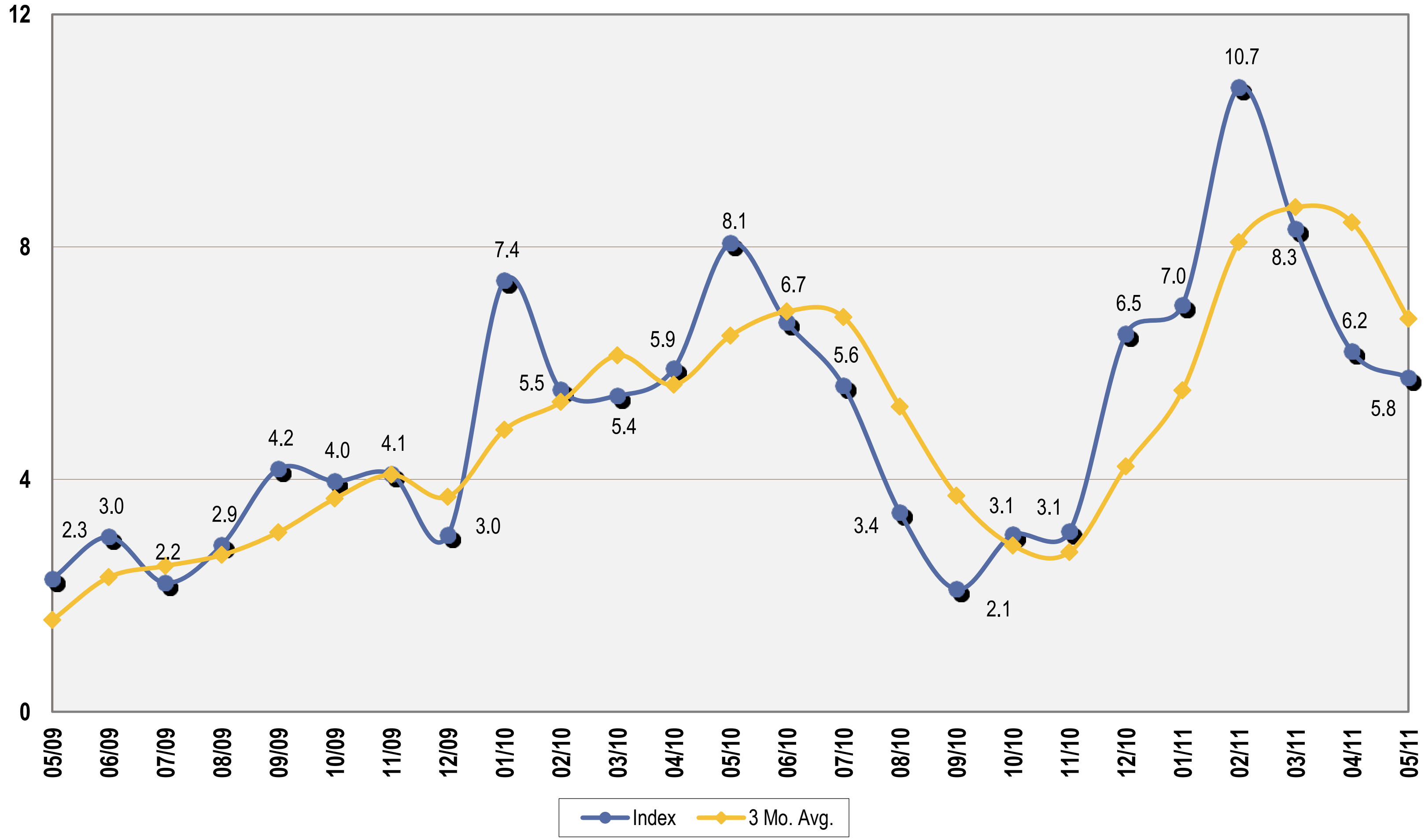
Tatum Index of Business Conditions



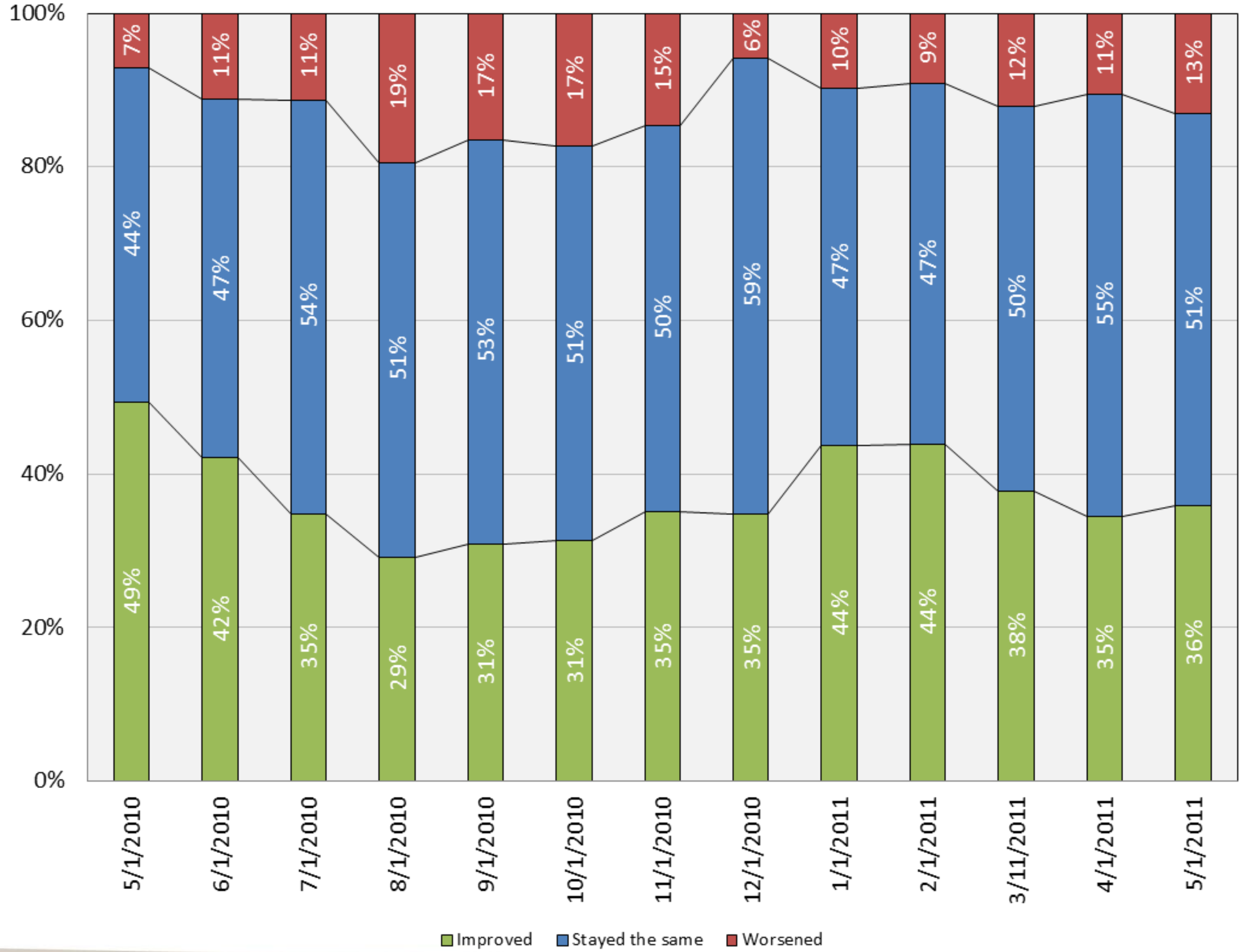
Business Conditions – Trends

In the past 30 days, business conditions:

- ***Improved for 36% of our respondents,*** up slightly from 35% in the prior month.
- ***Worsened for 13%,*** a bit worse than the 11% a month ago.

For the second consecutive month, this is so close to the prior month that we are calling it flat. This means that the overall trend is in the direction of continued anemic recovery, as these levels are much better than those seen during the recession, while being lower than what we see in more robust periods of favorable conditions.

Business Conditions the Past 30 Days



Business Conditions – Trends Last 30 Days

The ratio of "Improved-to-Worsened" in the last 30 days declined moderately to **2.7** from 3.3 reported in the prior month, extending the downward trend from the recent peak of 6.0 registered at Dec 1, 2010.

This indicates that unless conditions turn up sharply in the coming two months, the growth in the economy will be slower in Q2 than it was in Q1.

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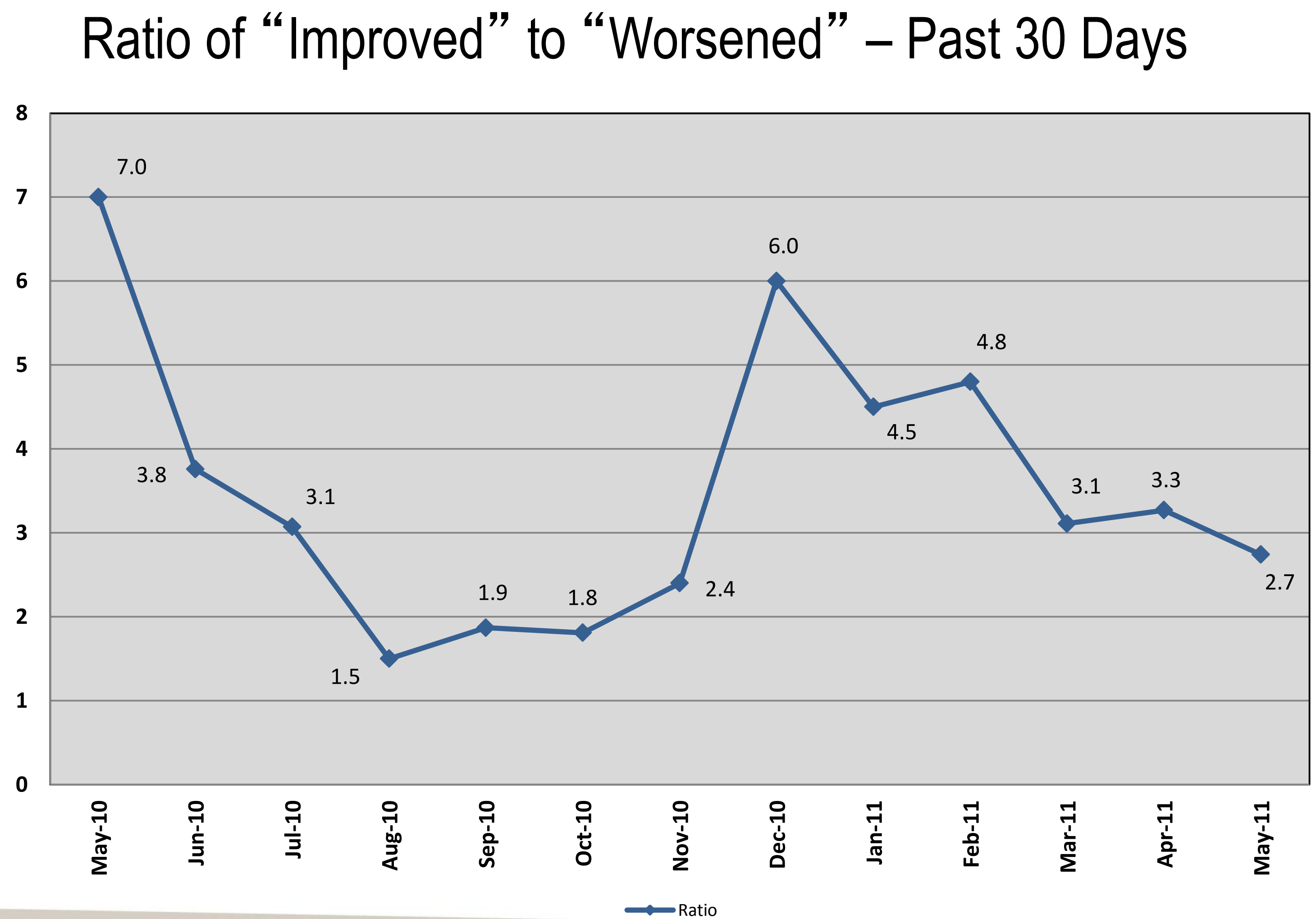
Business Conditions – Trends



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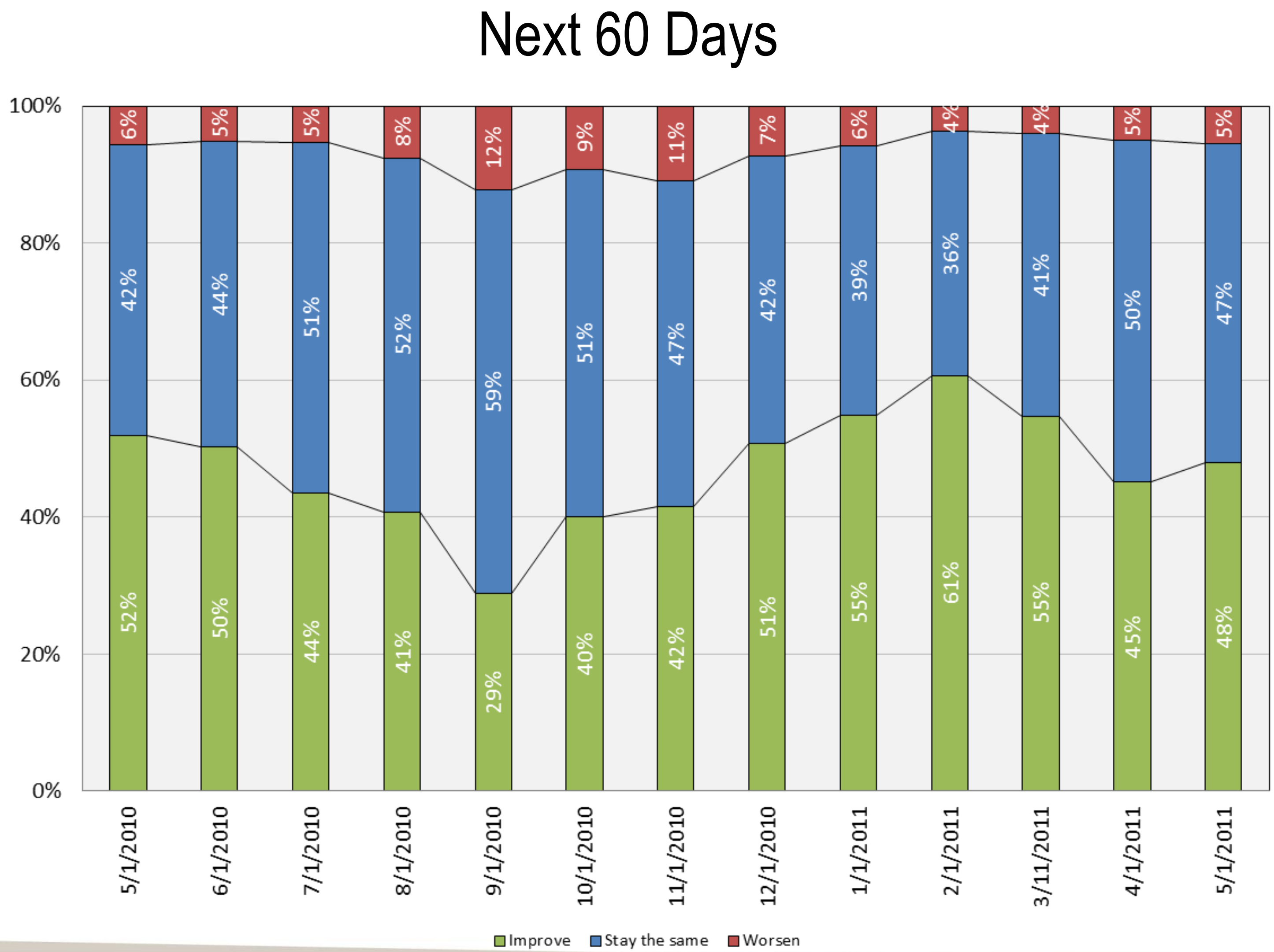
Business Conditions – Trends Next 60 Days

In the next 60 days, business conditions are expected:

- ***To improve for 48% of our respondents,*** up from 45% last month.
- ***To get worse for 5%,*** level with last month.

This is a flat indication compared to last month.

Business Conditions – Trends



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Business Conditions – Trends Next 60 Days

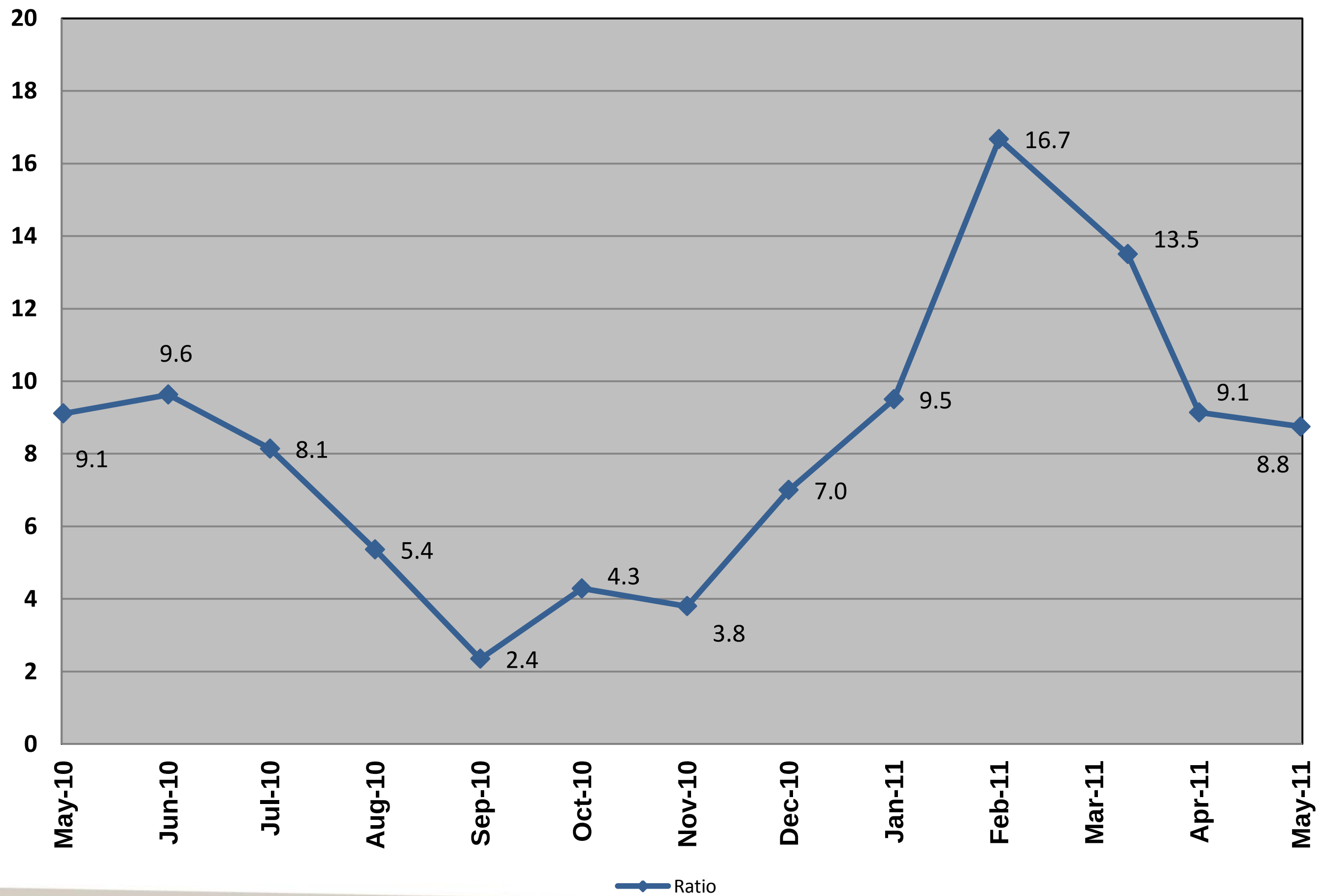
In the next 60 days:

The ratio of *"Will Improve" to "Will Worsen"* declined to 8.8 from 9.1, but effectively this is flat.

Regarding the future, there are always many factors that business people consider. Clearly the most meaningful inputs for near-term forecasts are order backlogs, customer communications, and the immediate trends. However, other considerations find their place in the mix, including news events and commentary as well as gut intuition. The latter is influenced by relative optimism and pessimism. In our survey the outlook is nearly always more optimistic than the past 30 days, but shifts month-to-month to reflect the evolution of experience and *expectations.*

Business Conditions – Trends

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 to 38% from 28% a month ago. The percentage reporting lower backlogs declined to 13% from 14%.

In the next 60 days:

The percentage of respondents who indicated expectations of higher backlogs rose from 42% to 47%. The "Will Worsen" percentage declined from 6% to 4%.

After a one-month worsening, order backlogs rose to reflect almost the exact numbers seen two months ago. This is a bright spot in an otherwise relatively moderate character of business conditions.

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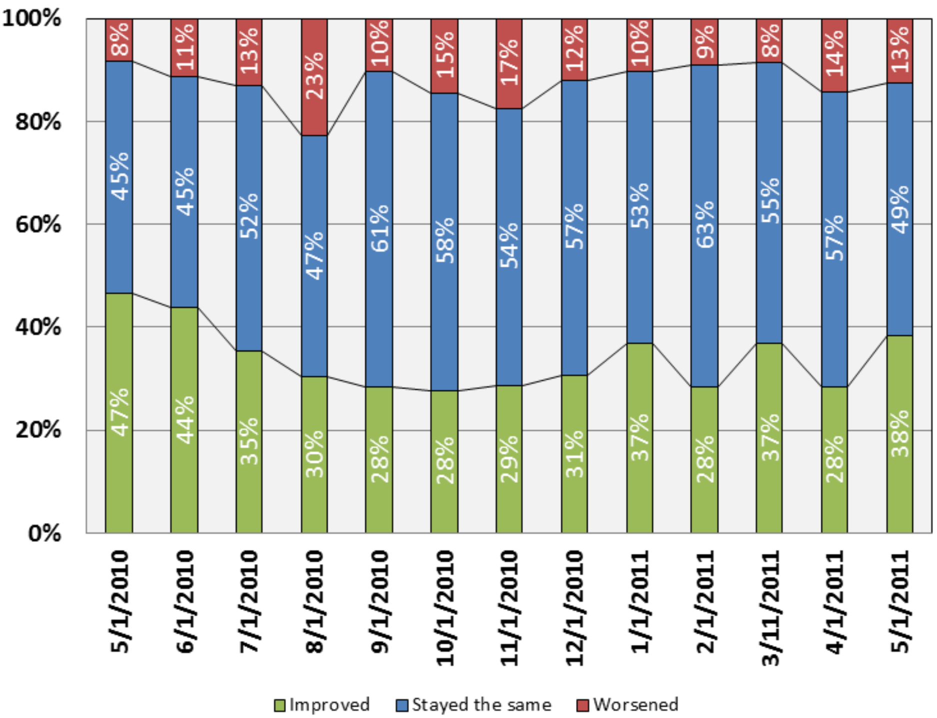
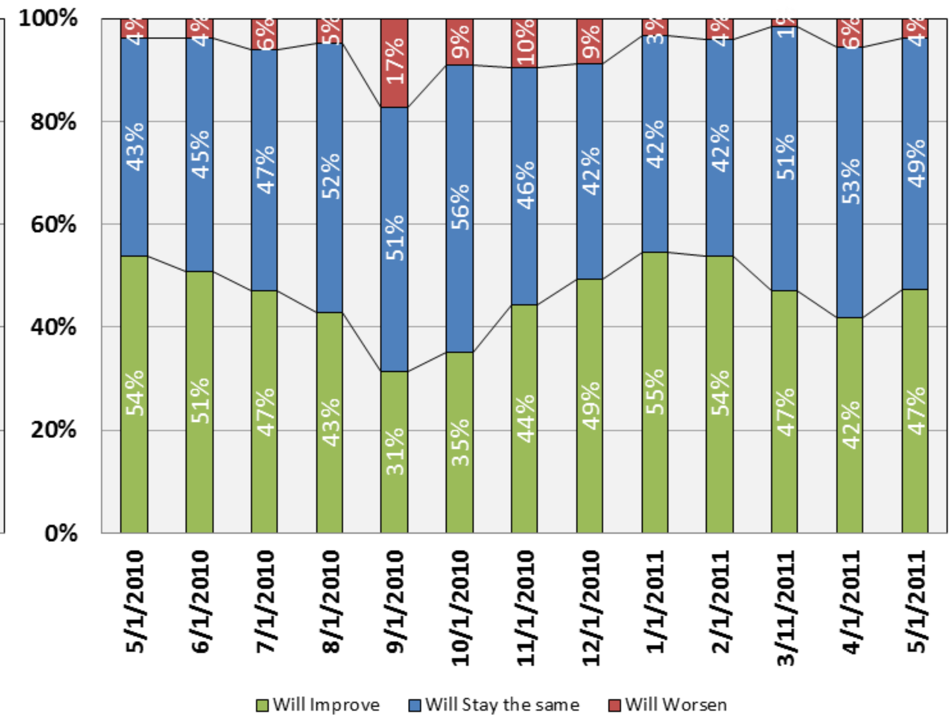
Business Conditions – Current Results – Order Backlogs



Past 30 Days



Next 60 Days

Business Conditions – Capital Expenditure Commitments

In the past 30 days:

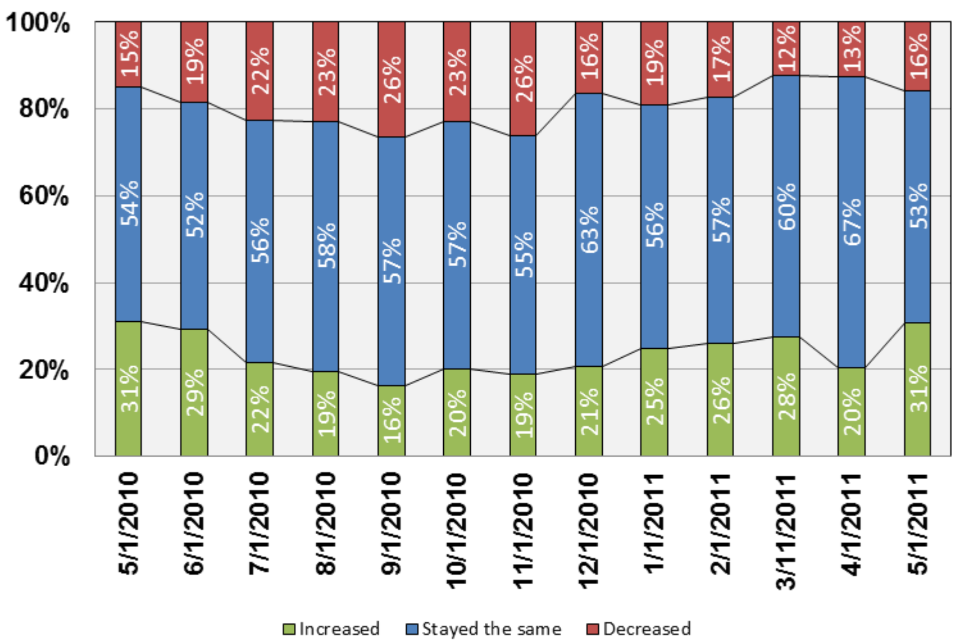
The percentage of respondents committing more on capital equipment rose to 31% from 20%. The percentage that committed less on capital equipment increased to16% from 13%.

In the next 60 days:

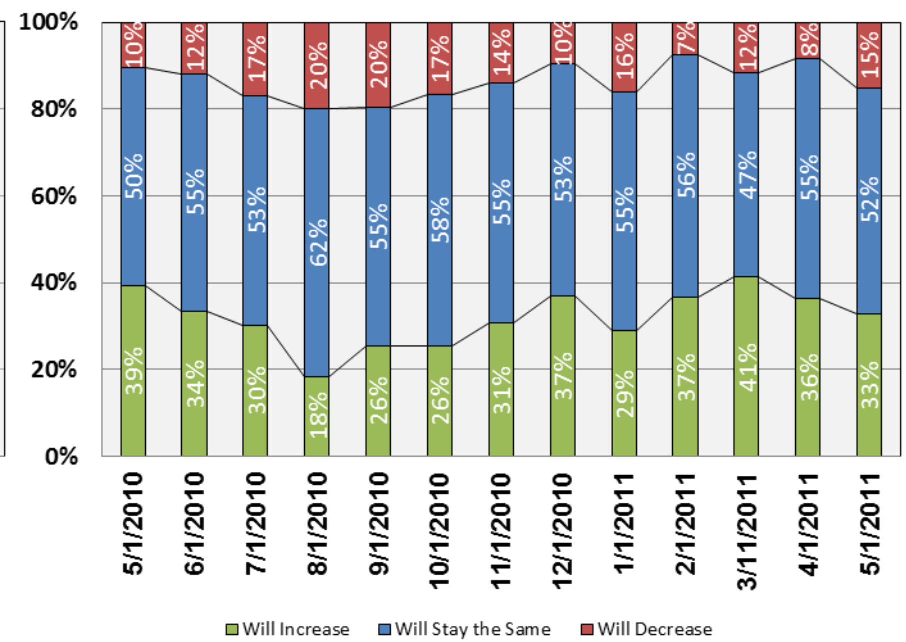
The outlook for Capital Expenditures is subdued compared to the experience of the past 30 days. The percentage of respondents who said they plan to commit more for capital assets in the next 60 days decreased to 33% from 36%, and the percentage who expect to commit less increased to 15% from 8%.

Capital expenditure commitments are made based on decisions of one or more months in the past. Our Survey indicated that more respondents increased their commitments last month, but also more respondents committed less. We will call this flat. Looking out 60 days, expectations are diminished compared to expectations in prior months. The downward slope in capex commitments is similar to the pattern last summer when growth in the economy stalled.

Business Conditions – Trends – Capital Expenditure Commitments



Past 30 Days



Next 60 Days

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Business Conditions – Employment

In the past 30 days:

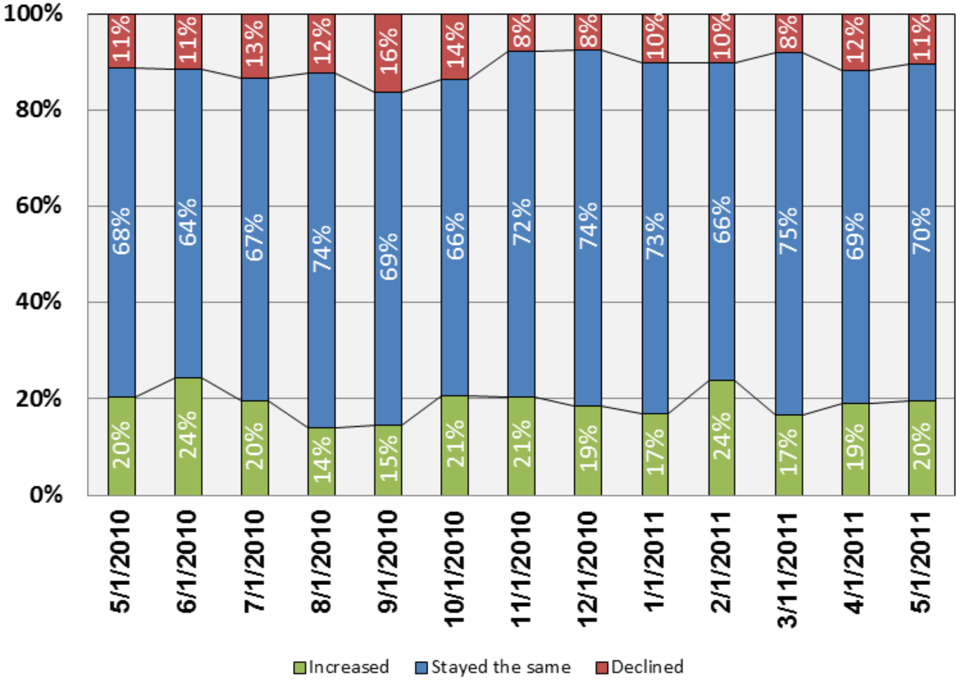
The percentage of respondents hiring more workers rose to 20% from 19%. Similarly, the percentage that indicated they did less hiring decreased to 11% from 12% in the prior month.

In the next 60 days:

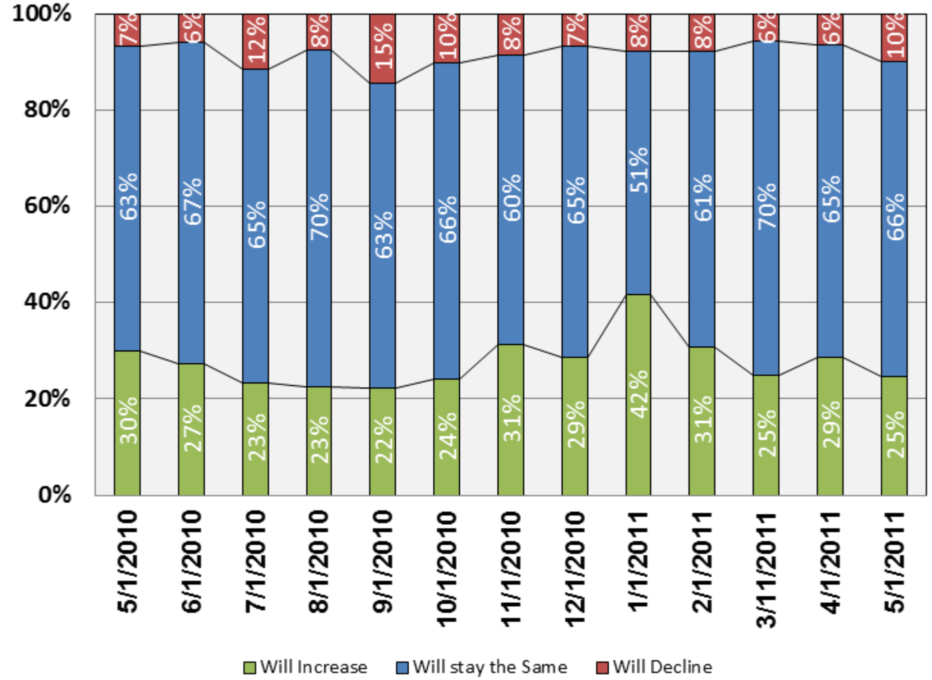
The percentage indicating they plan to increase hiring experienced a decrease to 25% from 29%. The percentage who expect to reduce hiring, unfortunately, grew to 10% from 6%.

It is likely that national employment data will be showing a flat to very slightly improving situation for the month of April, as our Survey indicates, but the outlook is disappointingly subdued.

Business Conditions – Trends - Employment



Past 30 Days



Next 60 Days

Business Conditions – Capital Availability and Pricing

The past 30 days:

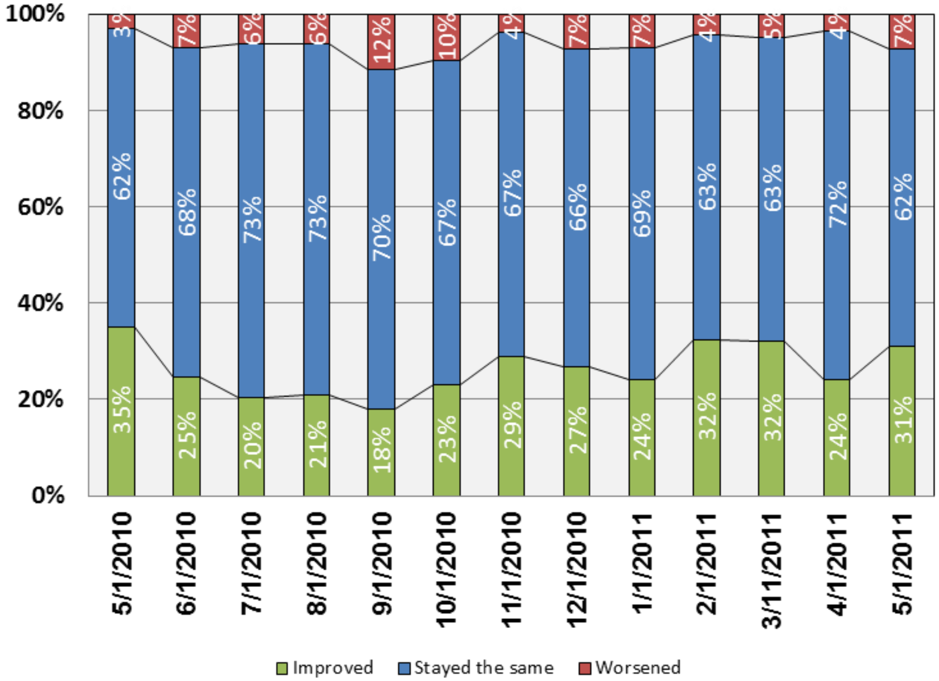
The percentage of respondents indicating an improvement in financing conditions rose to 31% from 24%. The percentage who indicated conditions were worsening also rose, unfortunately, to 7% from 4%.

In the next 60 days:

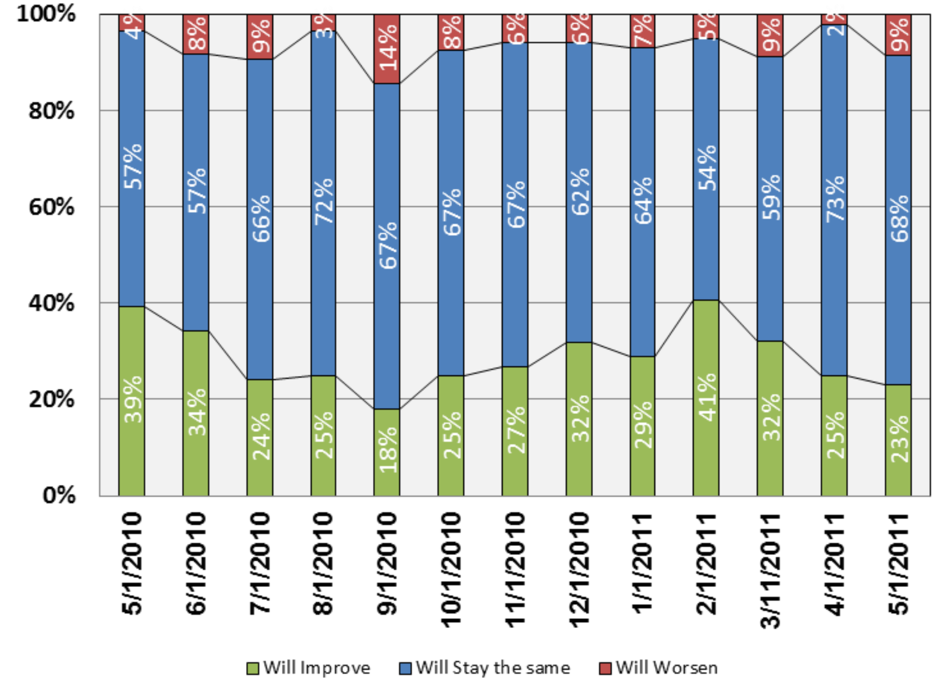
The percentage of respondents who expect improvement in financing conditions in the next 60 days declined to 23% from 25%. The percentage saying conditions will get worse rose to 9% from 2%.

Anecdotally, we hear of a relaxation of underwriting standards at the banks. This is good news to the many businesses that have been starved for operating capital for the past 3 years. We believe that the outlook includes an expectation of higher interest rates in response to inflationary pressures.

Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

Survey Participation Demographics

Industry	
Services	15%
Manufacturing/Processing	28%
Health Care	15%
Technology	13%
Financial	7%
Wholesale	4%
Retail	4%
Government	4%
Construction	4%
Other	6%

Primary Geographic Markets	
National	41%
Regional	22%
International	29%
Local	8%

Geographic Regions Represented (Total of 145 Responses)	
Pacific	28%
Southeast	19%
Southwest	26%
Midwest	15%
Northeast	12%

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Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest – Northeast & Mid-west

Weakest – Southeast

Industries:*

Strongest – Technology

Weakest – Healthcare

Markets Served:

Strongest –National

Weakest –Regional

Company Size:

Strongest – Large

Weakest – Mid-market

* With statistically significant participation

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