



Tatum Survey of Business Conditions
10/1/2011

Tatum Survey of Business Conditions Summary

Business Conditions in the month leading to **October 1** continued to decline after the downturn reported in last month's survey. This continued deterioration has soured our respondents and the 60-day forward outlook has turned negative compared to the cautious optimism shown last month. Backlogs have also deteriorated, with little optimism that they will improve in the next 60 days.

Some of our respondents are reacting to deteriorating conditions by cutting back on capital investments and hiring. Uncertainty seems to be the biggest factor, and it is feeding on itself. The most notable thematic change this month is the significant increase in those respondents experiencing and expecting worse conditions in most of the indicators, overwhelming those who are sensing steady or mildly improving conditions.

For the most part, the demographic trends were generally broad-based and negative. The Pacific coast region remained on top in experiencing better conditions, and the Northeast and Southeast virtually tied in reporting declines in business conditions. The Services sector was the strongest, and Technology and Wholesale were the weakest among the significant reporting segments.

The survey results have tumbled to the lows experienced in the last recession and indicate that in the absence of a vigorous rebound in the coming months we are soon to enter recessionary conditions once again (if we are not already there).

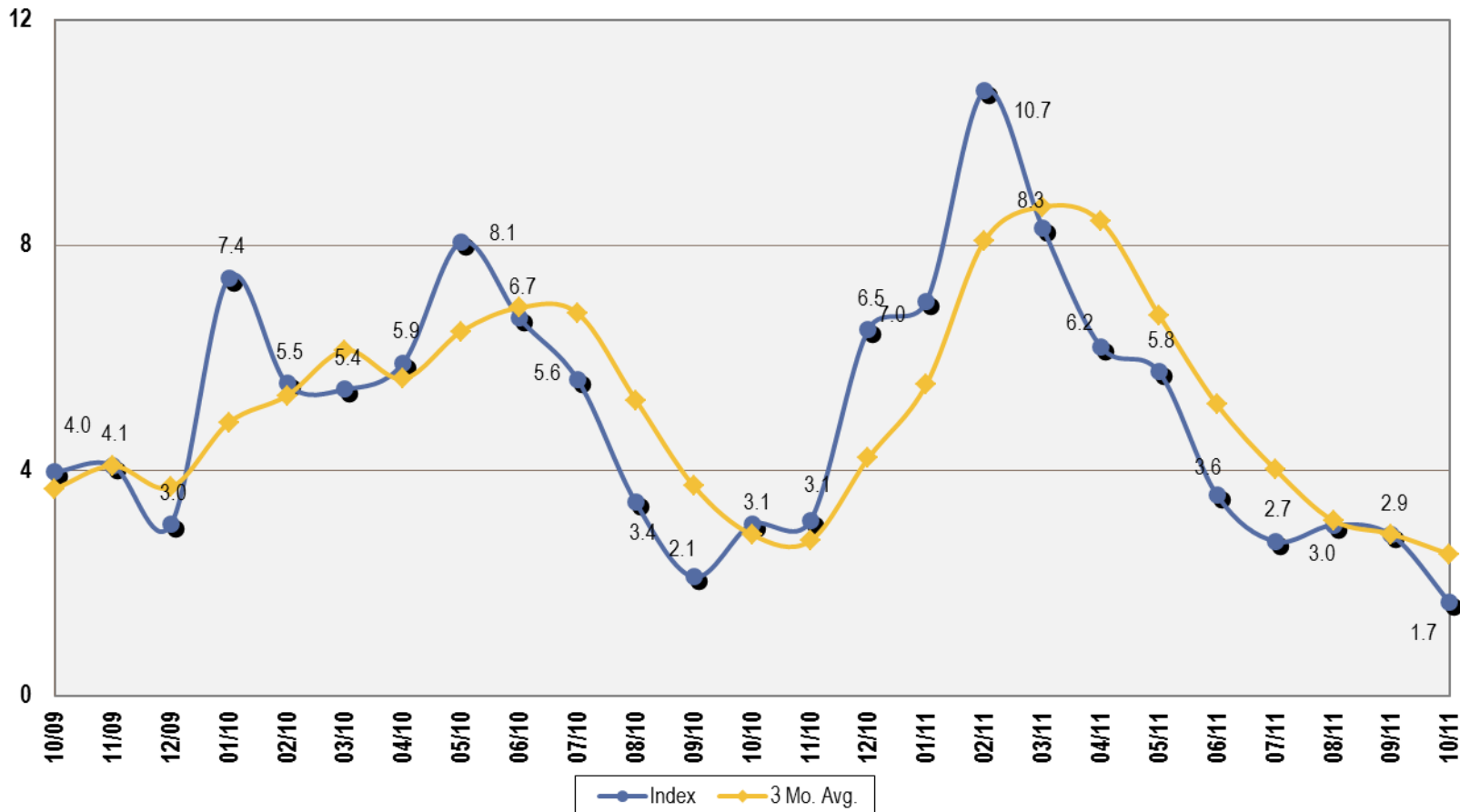
Tatum Index of Business Conditions

The **Tatum Index of Business Conditions** is a simple average of the ratio of our respondents who are reporting improvement versus those reporting a worsening in business conditions for the past 30 days and the next 60 days.

As of October 1st, the Tatum Index of Business Conditions decreased significantly to approximately 1.7 from 2.9 a month ago, a two-year low. In a range of 3.0 to 4.0, we have noted a very high correlation with near zero economic growth and below 3.0 suggests recession in the Tatum Index (the Index was in this range throughout the 2008-2009 recession).

Since the summer of 2011, the Index has gone from ranges indicating zero growth down to levels indicating recessionary conditions.

Tatum Index of Business Conditions



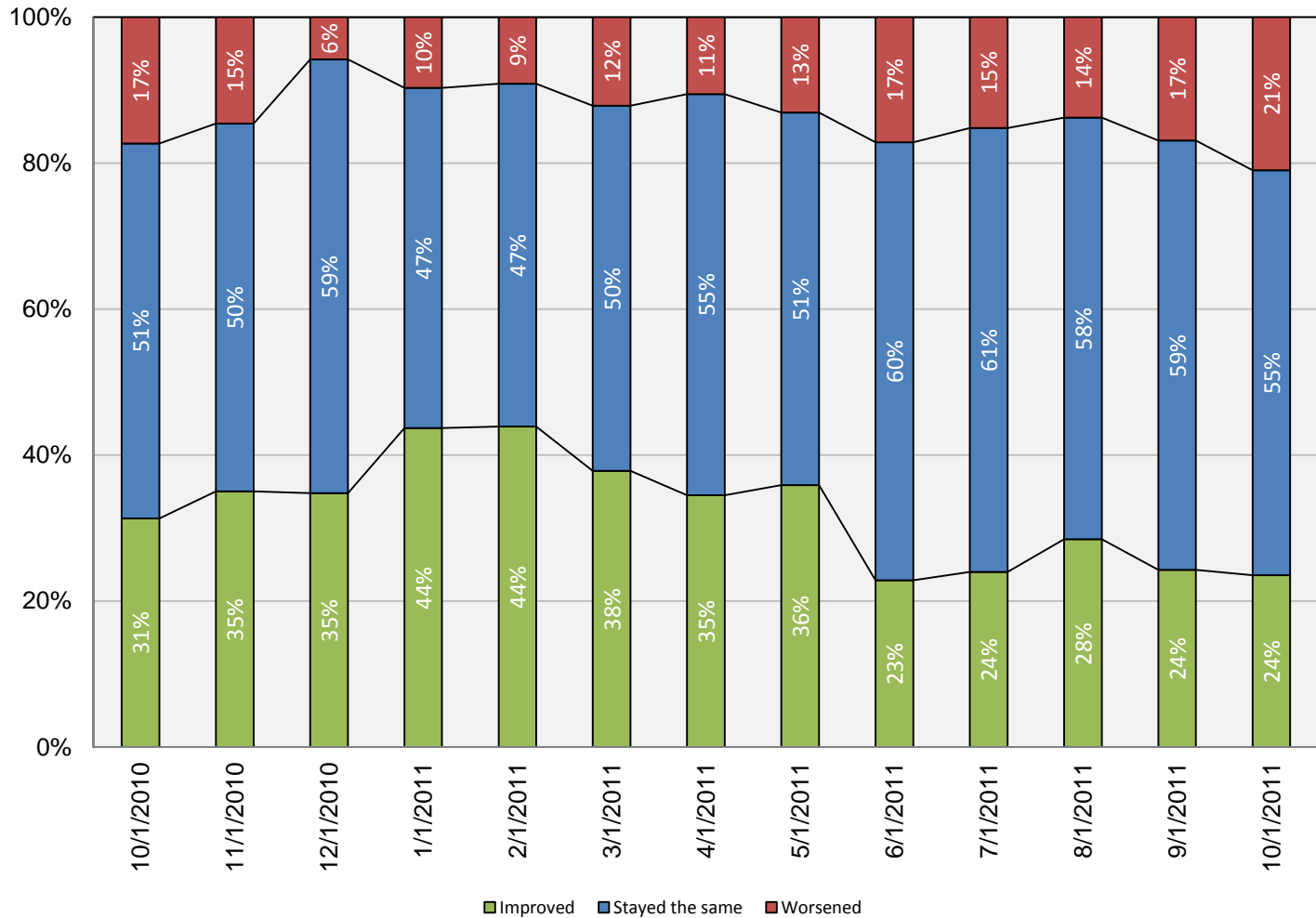
Business Conditions – Trends Past 30 Days

In the past 30 days, business conditions:

- > **Worsened for 21%**, up from 17% in the prior month.
- > **Stayed the same for 55%**, down from 59% a month ago.
- > **Improved for 24% of our respondents**, level with 24% in the prior month.

Last month was a rough month. The 21% reporting worsening trends is the highest percentage we've seen in the last 12 months. The percentage of respondents reporting improving trends remains mired at the low levels that we have seen in the previous 5 months.

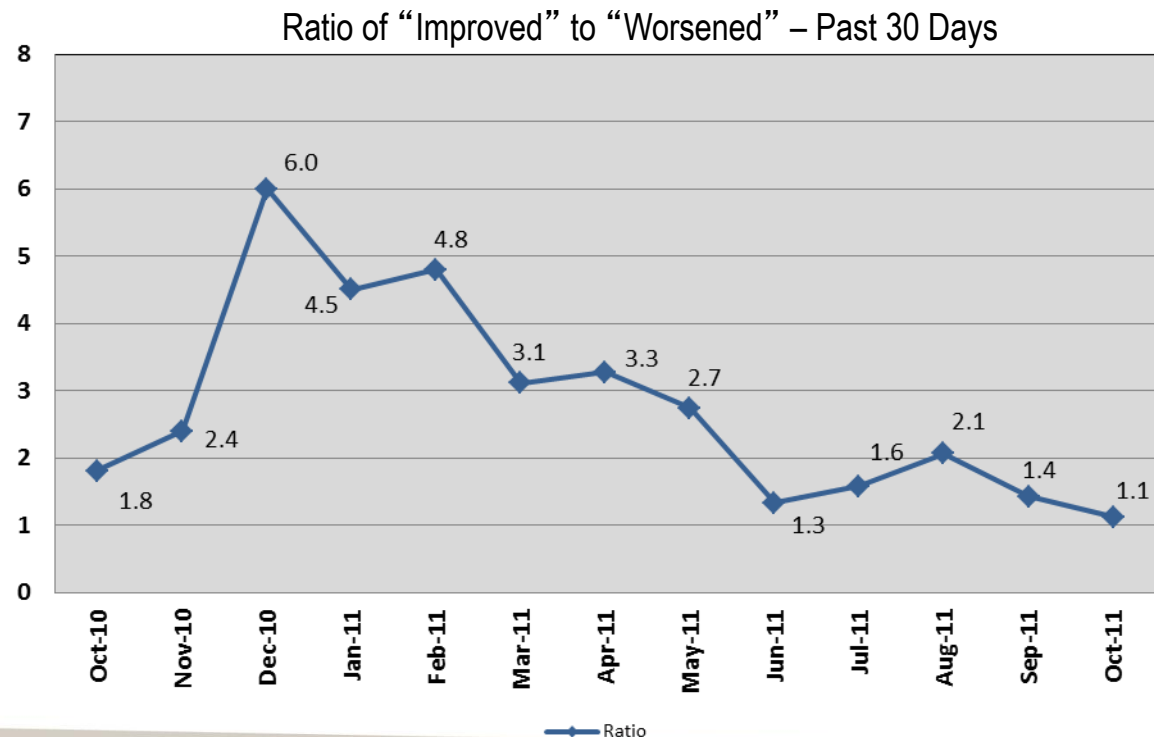
Business Conditions the Past 30 Days



Business Conditions – Trends Past 30 Days

The ratio of “Improved-to-Worsened” in the past 30 days declined to 1.1 from 1.4 reported in the prior month, continuing a precipitous decline that started in August 2011.

This ratio is now at a 12-month low after bouncing at low levels all summer.



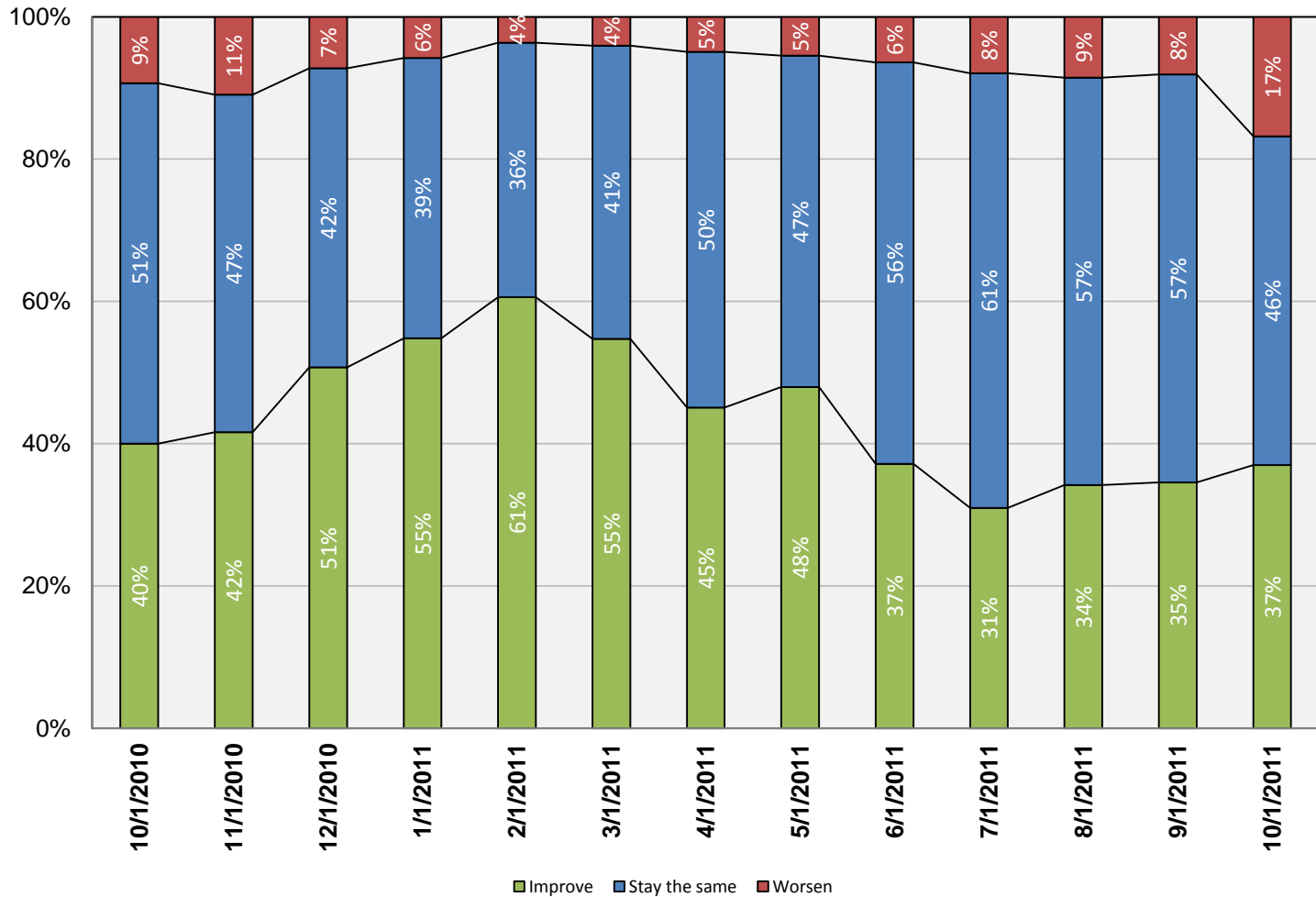
Business Conditions – Trends Next 60 Days

In the next 60 days, business conditions are expected:

- > ***To improve for 37% of our respondents***, up slightly from 35% last month.
- > ***To get worse for 17%***, a distinctive uptick from 8% last month.
- > ***Stay the same for 46%***, a significant decline from 57% last month.

Despite a slight increase in the percentage of optimistic respondents, the mood has definitely soured for the majority of respondents, who expect unchanged or worsening conditions.

Business Conditions – The Next 60 Days

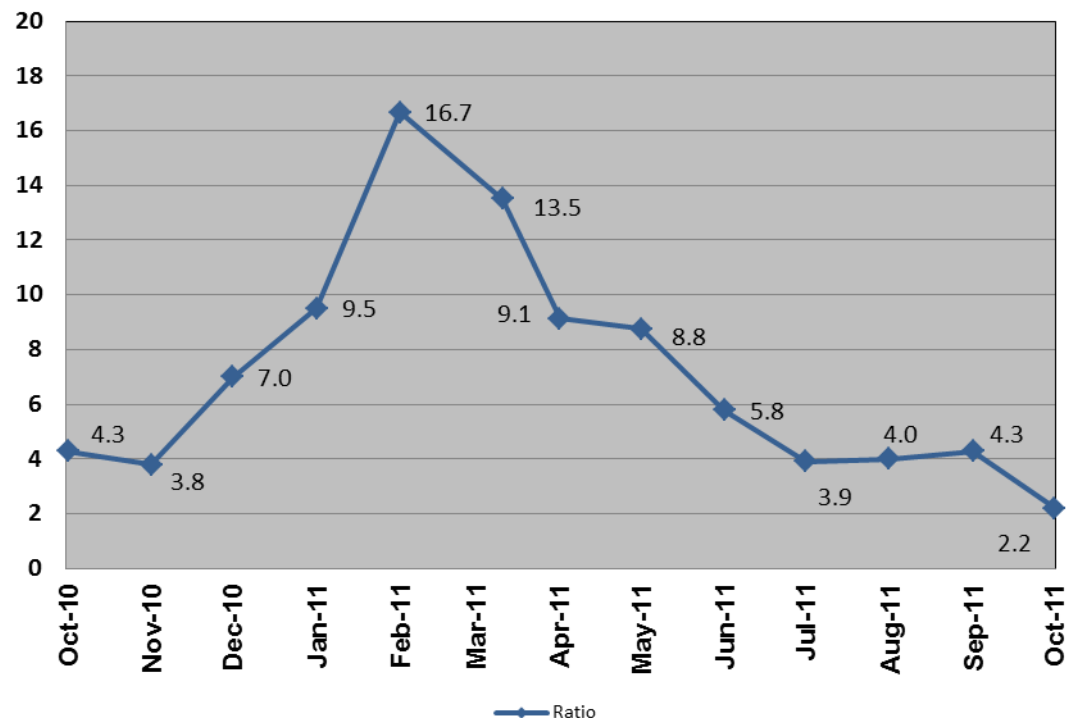


Business Conditions – Trends Next 60 Days

The ratio of “Will Improve” to “Will Worsen” for the next 60 days declined precipitously to 2.2 from 4.3.

This is a sudden drop-off from the cautious optimism that we saw in last month’s survey. The result is a 12-month low, indicating an about-face to distinct pessimism regarding the next 60 days.

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



Business Conditions – Order Backlogs

In the past 30 days:

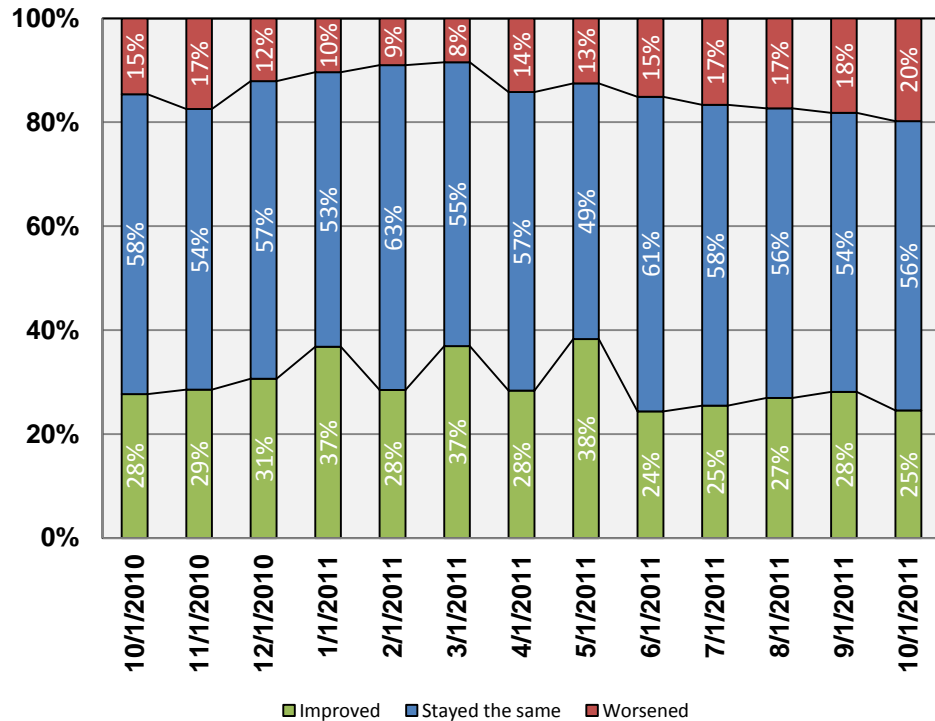
The percentage of respondents who reported an improvement in backlogs declined to **25%** from 28% a month ago. The percentage reporting worsened backlogs increased to **20%** from 18% last month.

In the next 60 days:

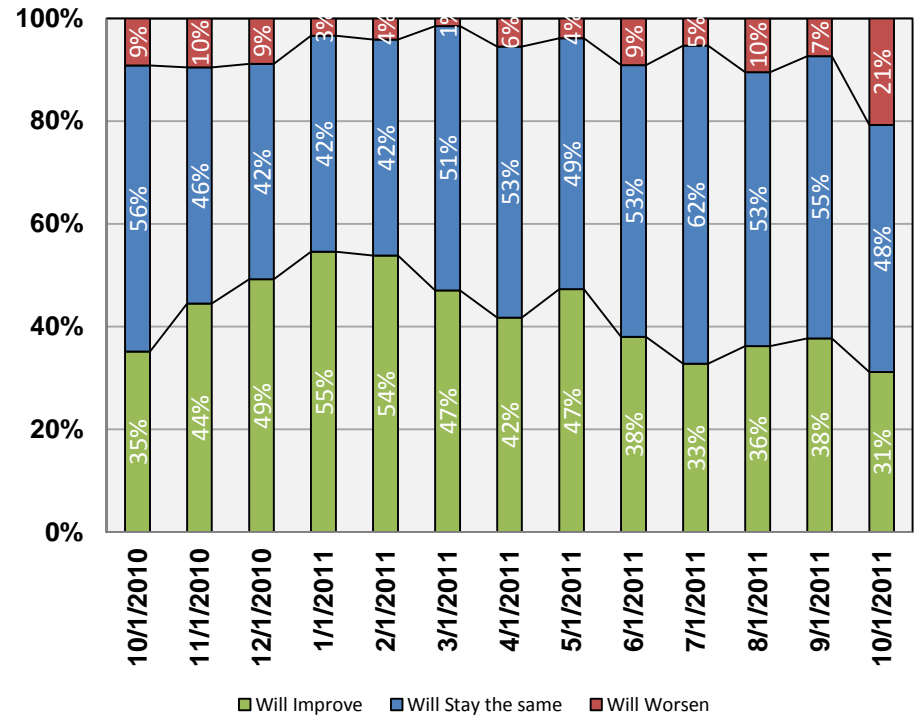
Those expecting improving backlogs decreased to **31%** from 38%. The percentage of respondents who indicated expectations of worsening backlogs increased to **21%** from 7%, a significant jump.

Backlogs got worse in the past 30 days and a significant portion of our respondents now expect this to continue in the next 60 days.

Business Conditions – Current Results – Order Backlogs



Past 30 Days



Next 60 Days

Business Conditions – Capital Expenditure Commitments

In the past 30 days:

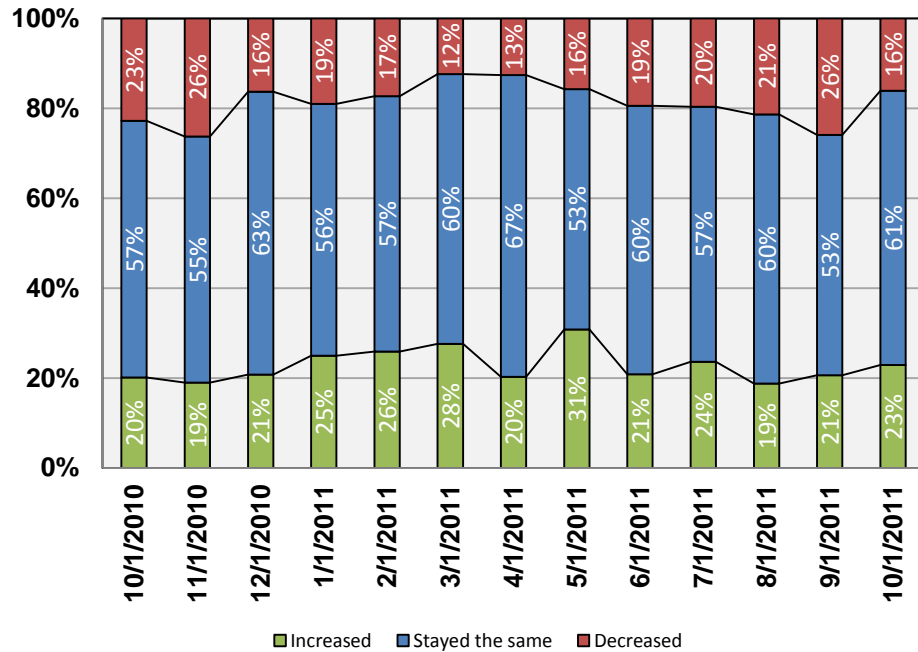
The percentage of respondents committing more on capital equipment **increased to 23%** from 21%. The percentage that committed less on capital equipment decreased to **16%** from 26%.

In the next 60 days:

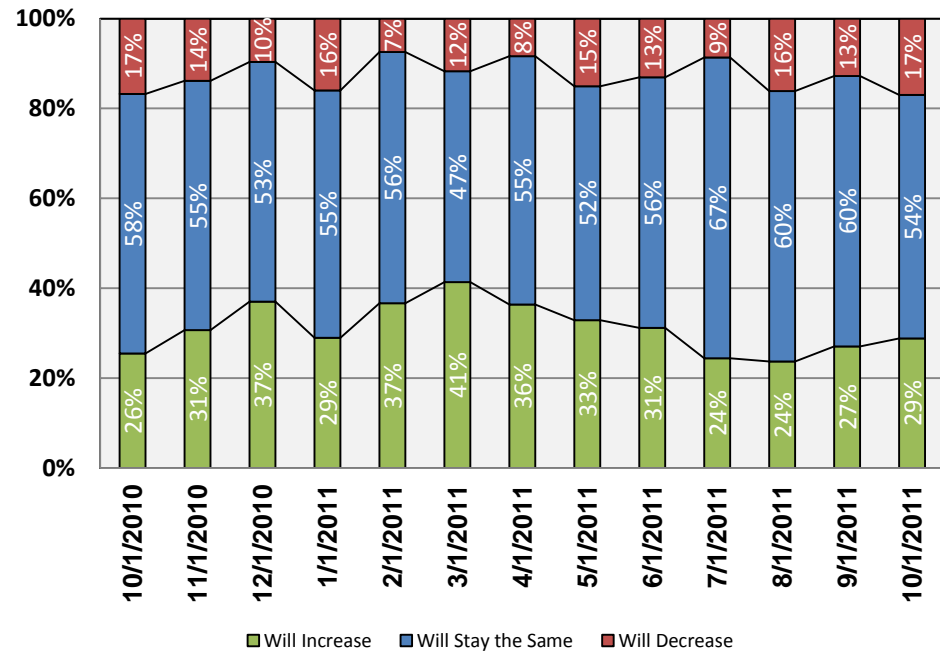
The percentage of respondents who said they plan to commit more for capital assets in the next 60 days **increased to 29%** from 27%, however the percentage who expect to commit less worsened to **17%** from 13%.

We are still seeing commitments in our respondents to maintain or increase capital investments, however, an increasing proportion are responding to the negative outlook by planning cutbacks.

Business Conditions – Trends – Capital Expenditure Commitments



Past 30 Days



Next 60 Days

Business Conditions – Employment

In the past 30 days:

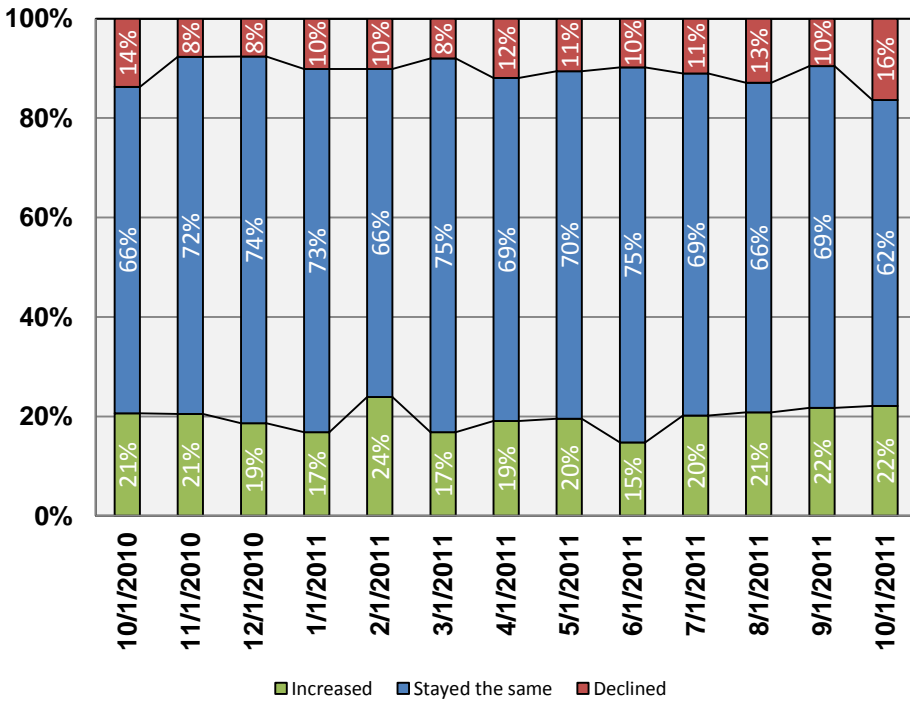
The percentage of respondents hiring more workers stayed flat at **22%**. The percentage that indicated they did less hiring worsened to **16%** from 10% in the prior month.

In the next 60 days:

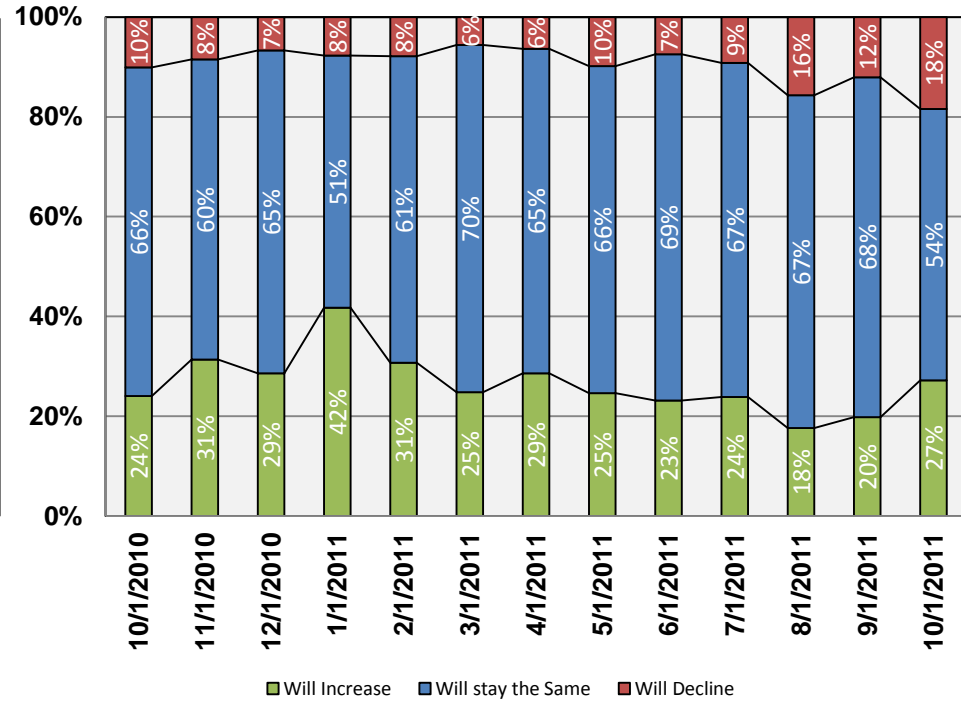
The percentage indicating they plan to increase hiring improved to **27%** from 20%. The percentage who expect to reduce hiring worsened to **18%** from 12%.

While the 60-day expected increase in hiring showed a nice jump, some of that may be related to the holiday season. It is worrisome that the 60-day outlook for reducing hiring also jumped.

Business Conditions – Trends - Employment



Past 30 Days



Next 60 Days

Business Conditions – Capital Availability and Pricing

The past 30 days:

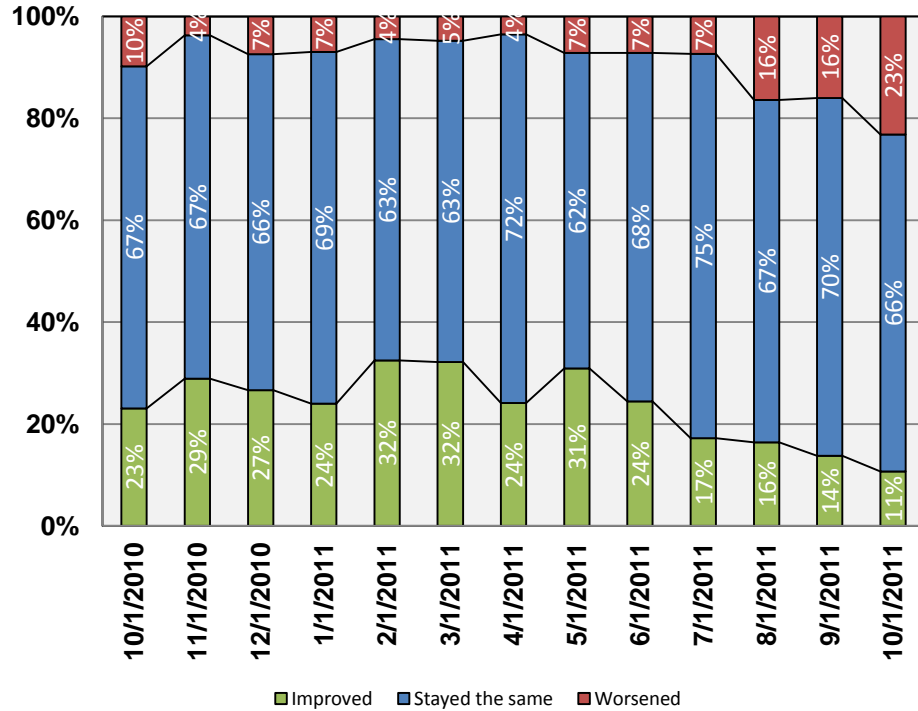
The percentage of respondents indicating an improvement in financing conditions declined to **11%** from 14%. The percentage who indicated conditions were worsening jumped to **23%** from 16% last month.

In the next 60 days:

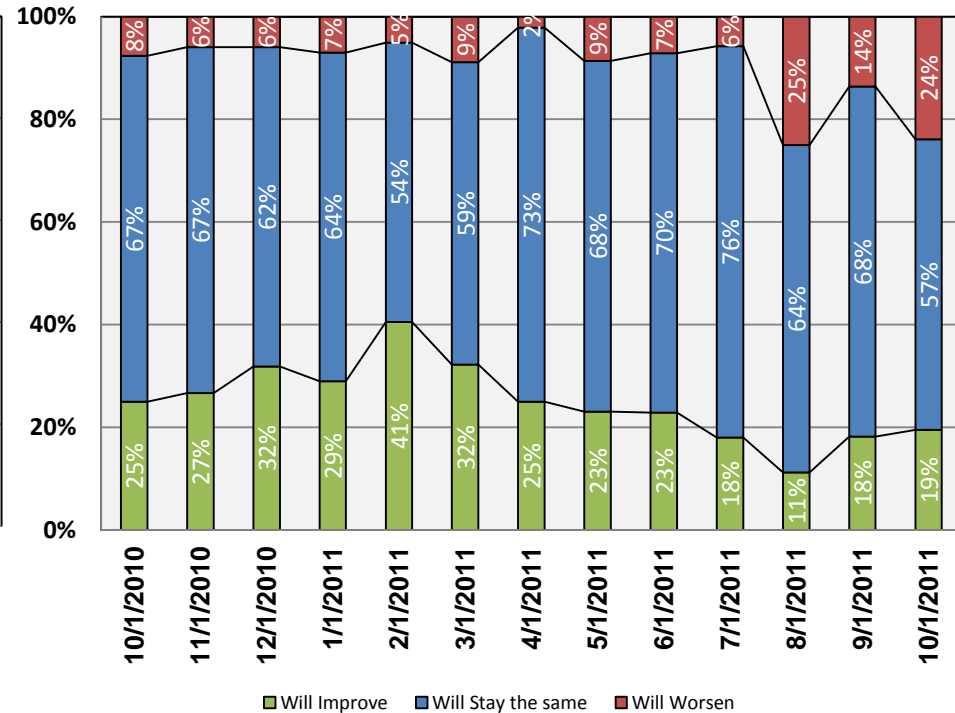
The percentage of respondents who expect improvement in financing conditions in the next 60 days increased slightly to **19%** from 18%. The percentage saying conditions will decline worsened significantly to **24%** from 14%.

Expectations of capital availability and pricing also soured in the month alongside the worsening expectations of business conditions, seeming to indicate that our respondents tie capital availability directly to the overall economic climate and their own company's results. It is reasonable to expect that as business conditions deteriorate it will become more difficult to raise equity or obtain additional loans.

Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

Survey Participation Demographics

Industry	
Manufacturing/Processing	23%
Services	19%
Health Care	16%
Technology	10%
Financial	8%
Wholesale	6%
Construction	4%
Retail	4%
Government & Other	10%

Primary Geographic Markets

National	46%
International	24%
Regional	22%
Local	8%

Geographic Regions Represented (Total of 119 Responses)

Southeast	29%
Southwest	24%
Pacific	21%
Midwest	15%
Northeast	10%

Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest – Pacific

Weakest – Northeast & Southeast

Industries:*

Strongest – Healthcare

Weakest – Technology & Wholesale

Markets Served:

Strongest – Local

Weakest – Regional

Company Size:

Strongest – Small

Weakest – Pre-revenue

* With statistically significant participation

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