



Tatum Survey of Business Conditions

9/1/2011

Tatum Survey of Business Conditions Summary

Business Conditions in the month leading to **September 1** turned downward once again after a single upward swing last month. The 60-day forward outlook, however, turned cautiously upward, with a slight increase in the portion of respondents expecting improving conditions and a slight decrease in those expecting worsening conditions. In addition, all the supporting indicators in the outlook were stronger than a month ago when there was significant uncertainty created by the debate to increase the Federal debt ceiling.

Despite the negative turn of the Survey regarding the past 30 days, our respondents seem determined to invest in capital improvements and employees, perhaps in some respect due to improving order backlogs as well as the upcoming holiday season.

This month's demographic data were particularly mixed, suggesting that conditions within each demographic segment were more varied than usual. The Pacific coast region remained on top in experiencing better conditions, and the Southwest, which had been relatively strong when oil prices were higher experienced a distinct decline in business conditions. The Financial sector was strong, while Healthcare turned weak.

Our summary is that the past 30 days indicated that our economy is continuing to weaken, and the bounce-back in the outlook from a month ago does not quite get our outlook back to as high as the depressed levels that prevailed in the months prior to August.

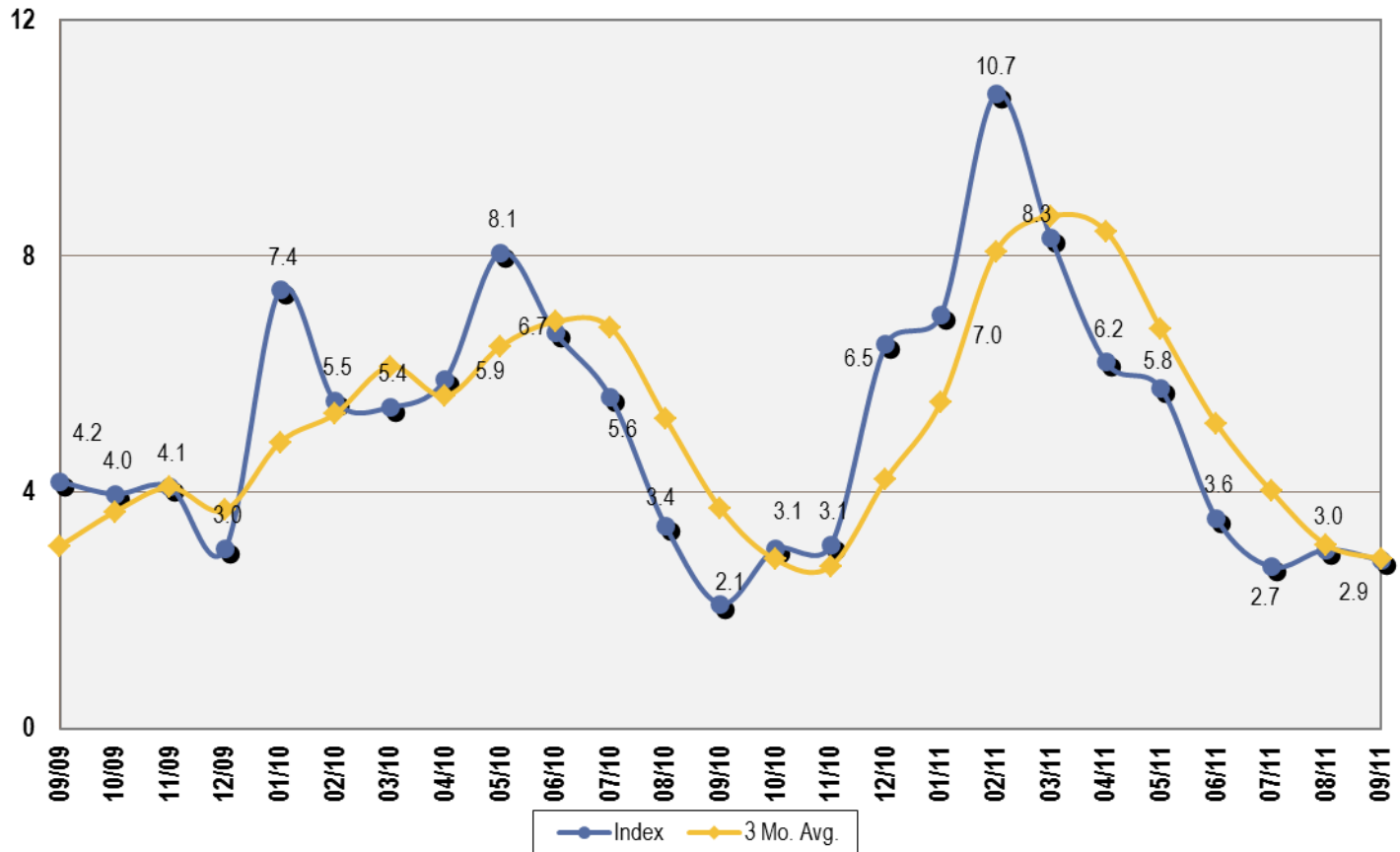
Tatum Index of Business Conditions

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 September 1st, the Tatum Index of Business Conditions decreased slightly to approximately 2.9 from 3.0 a month ago. Last month was the first increase after 5 consecutive months of decline, and now the Index has again turned lower. In a range of 3.0 to 4.0, we have 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 end of the recession nearly 2 years ago, the Index has been at or above 3.0, except for the months of September 2010, July 2011 and now September 2011.

Our indicators were in this range briefly last summer and then pulled out beginning October 1. It remains to be seen if we will see a similar upturn in the Index next month.

Tatum Index of Business Conditions



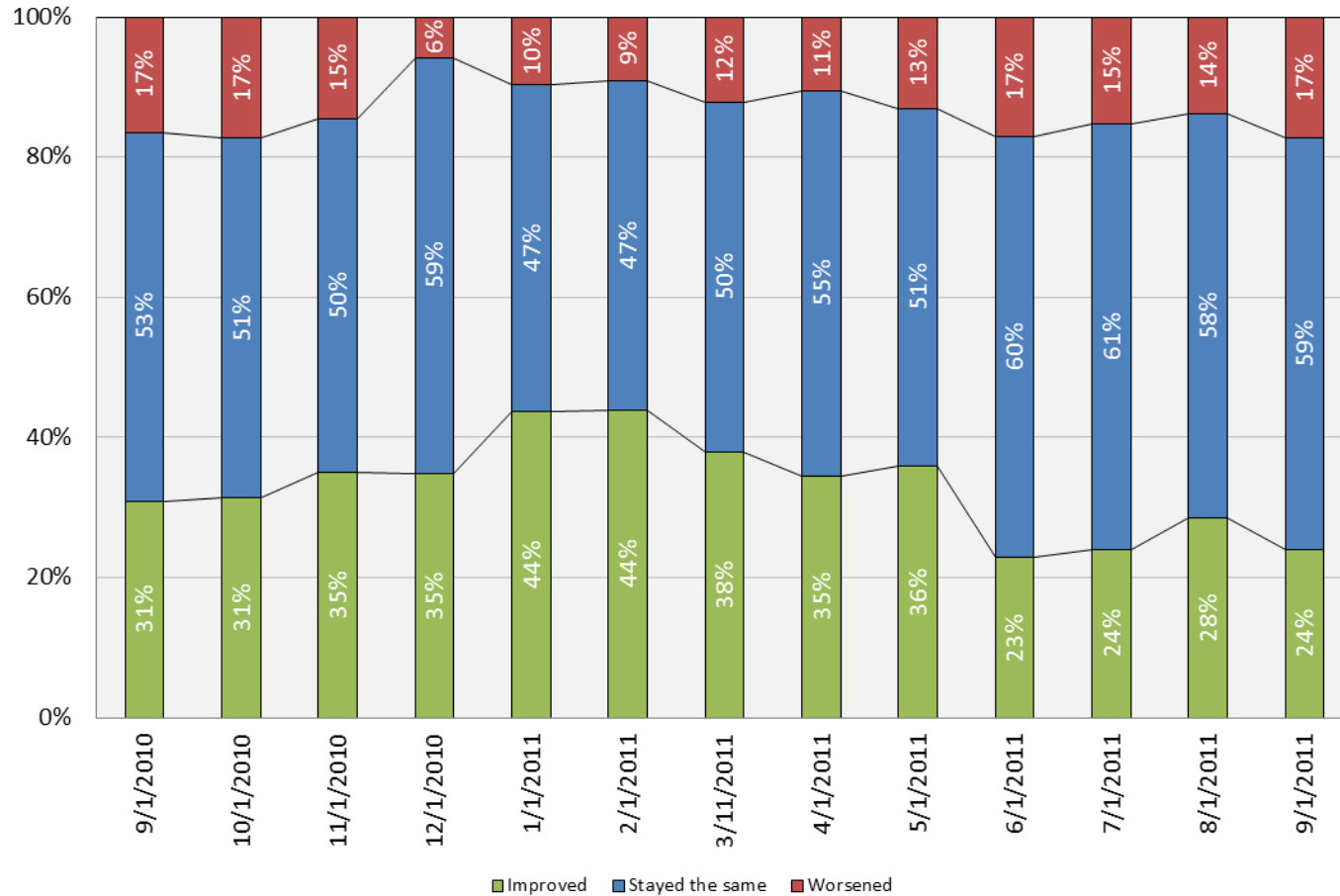
Business Conditions – Trends past 30 days

In the past 30 days, business conditions:

- > **Improved for 24% of our respondents**, down from 28% in the prior month.
- > **Worsened for 17%**, up from the 14% a month ago.
- > **Stayed the same for 59%**, slightly higher than 58% a month ago.

All three indicators highlight a lack of improvement in the last 30 days for our respondents, with a solid majority reporting flat or worsening conditions.

Business Conditions the Past 30 Days

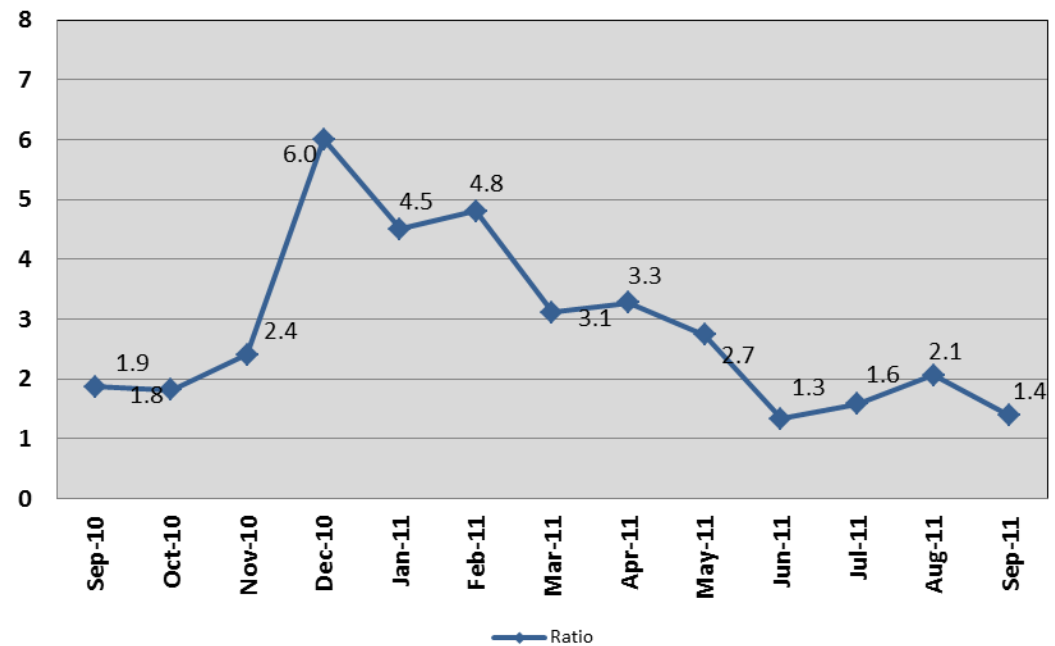


Business Conditions – Trends Last 30 Days

The ratio of “Improved-to-Worsened” in the last 30 days tumbled to 1.4 from 2.1 reported in the prior month.

After two months of slight improvements, this ratio has swung back into negative territory, reflecting the downturn in the last 30 days.

Ratio of “Improved” to “Worsened” – Past 30 Days



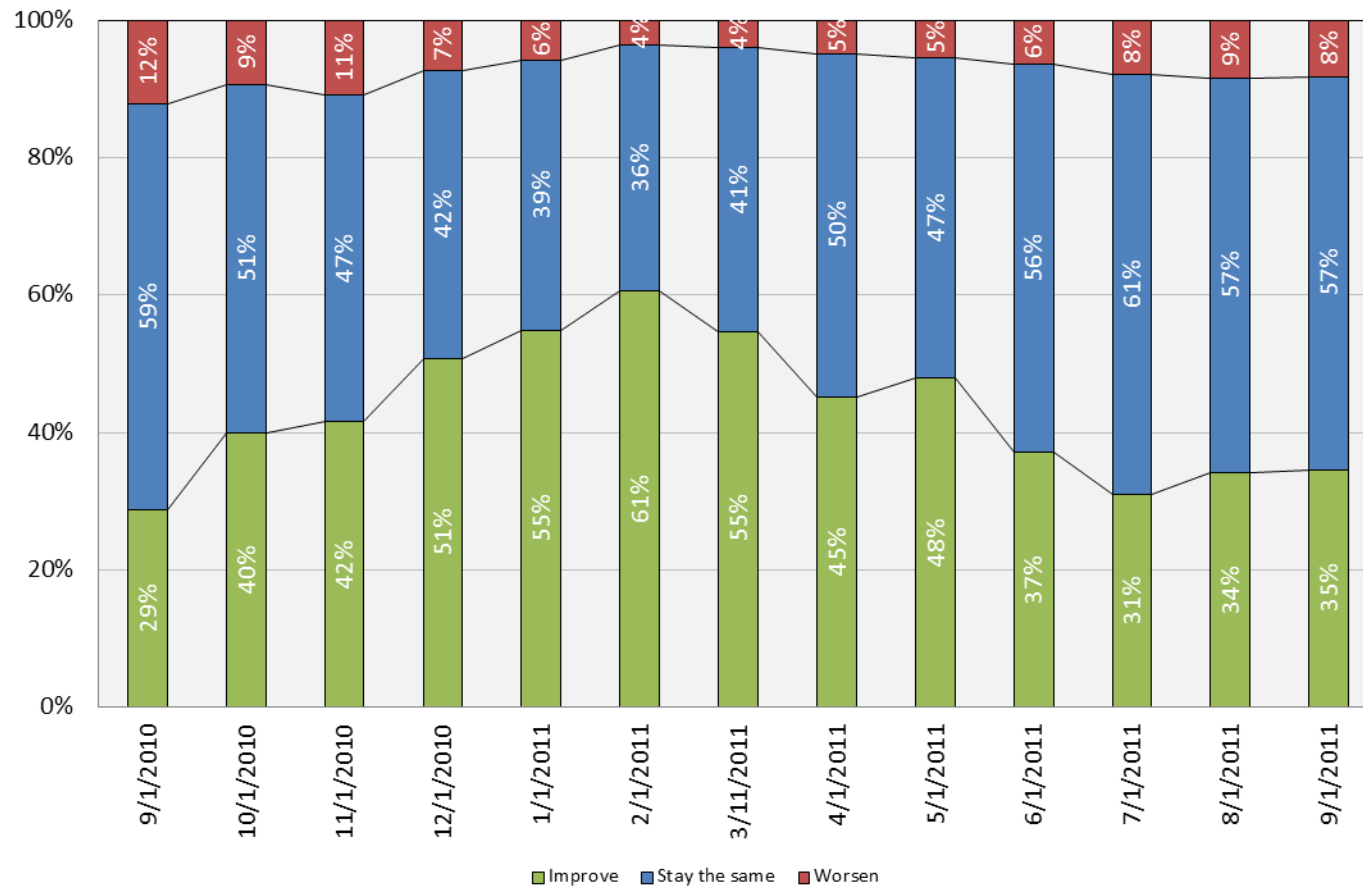
Business Conditions – Trends Next 60 Days

In the next 60 days, business conditions are expected:

- > ***To improve for 35% of our respondents***, slightly up from 34% last month.
- > ***To get worse for 8%***, slightly better than 9% last month.
- > ***Stay the same for 57%***, unchanged from a month ago.

This indicator is slightly improved from last month but hardly enough to be considered significant.

Business Conditions –the Next 60 Days

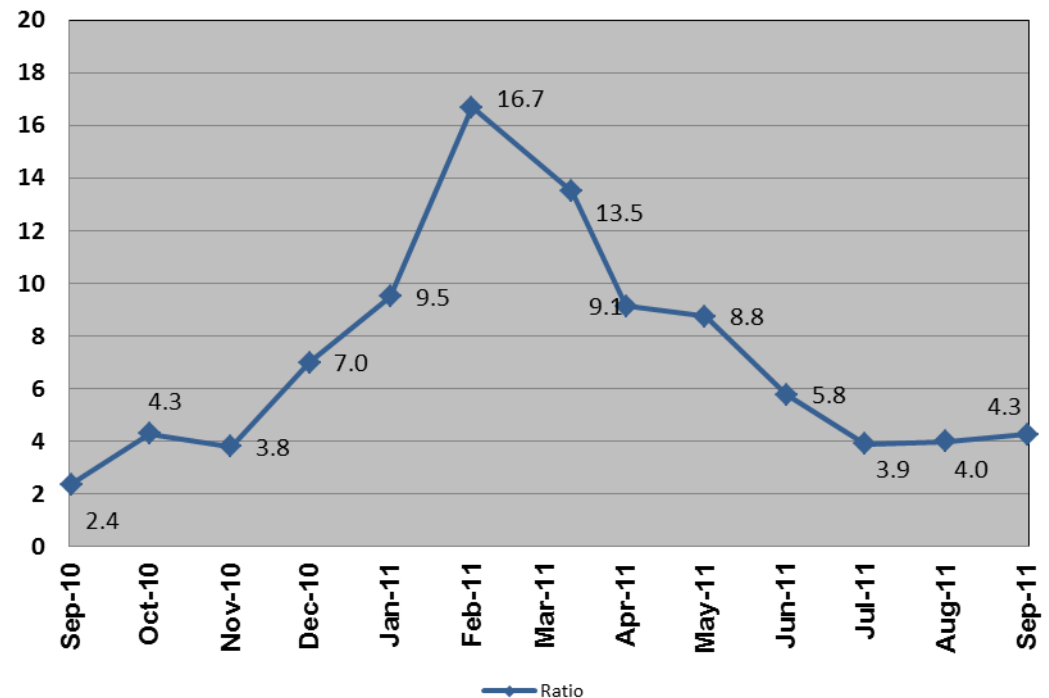


Business Conditions – Trends Next 60 Days

The ratio of “Will Improve” to “Will Worsen” for the next 60 days improved to 4.3 from 4.0.

This reflects the cautious optimism that the next 60 days will be better (or not as bad) as was predicted 30 days ago.

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



Business Conditions – Order Backlogs

In the past 30 days:

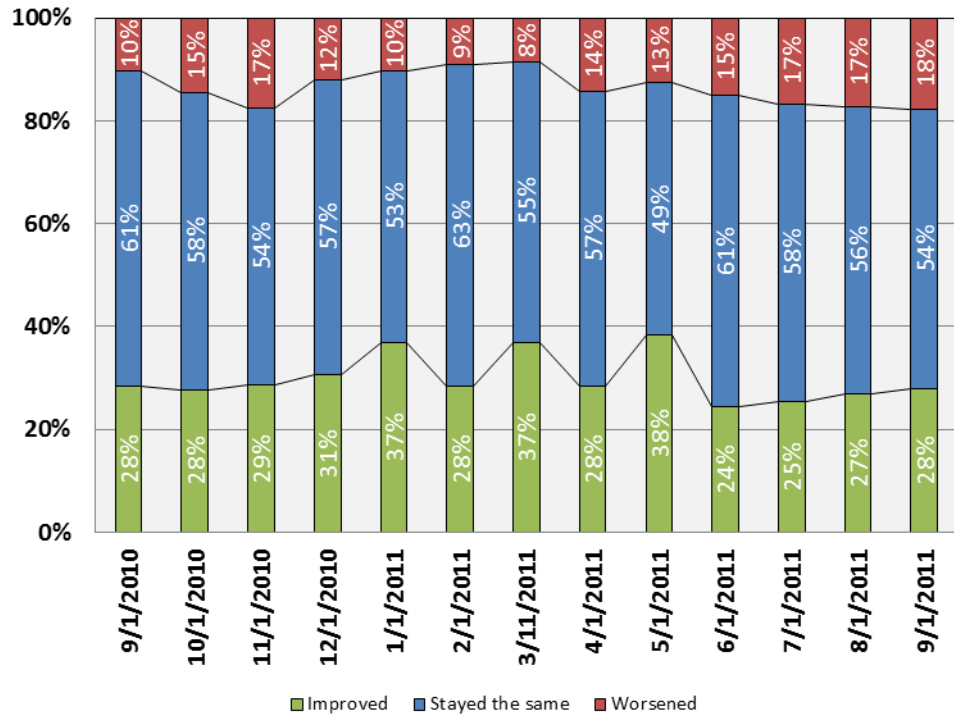
The percentage of respondents who reported an improvement in backlogs rose slightly to **28%** from 27% a month ago. The change came from a decline in those reporting that backlogs stayed the same. The percentage reporting lower backlogs was slightly higher at **18%** from 17% last month.

In the next 60 days:

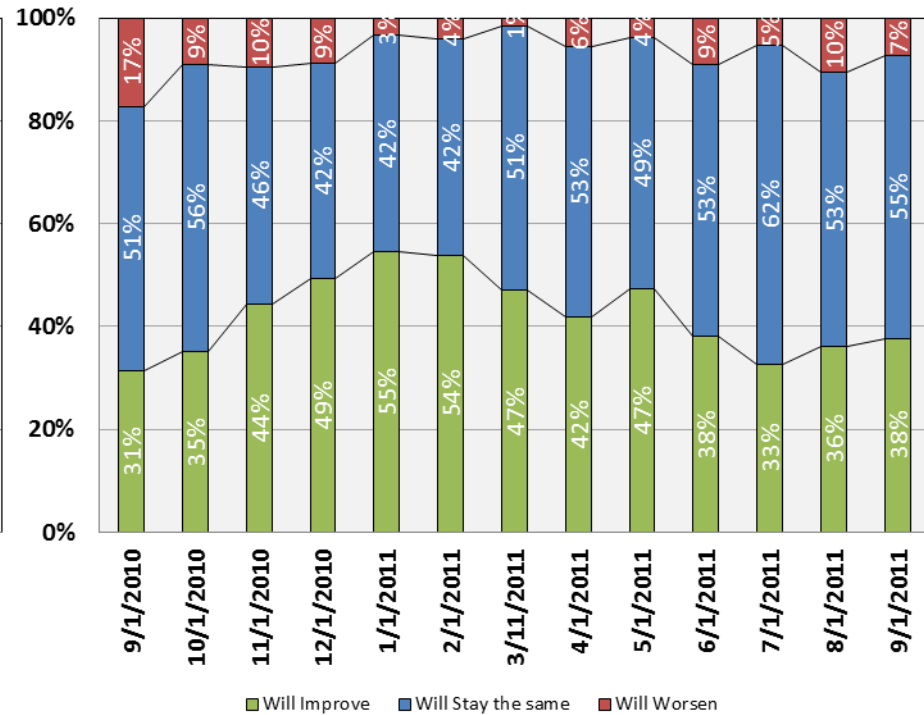
The percentage of respondents who indicated expectations of higher backlogs increased to **38%** from 36%. The “Will Worsen” percentage also got better, improving to **7%** from 10%. Respondents indicating *no change* in the outlook for backlogs increased to 55% from 53%.

While order backlogs were essentially unchanged from a month ago, the outlook for the next 60 days improved modestly.

Business Conditions – Current Results – Order Backlogs



Past 30 Days



Next 60 Days

Business Conditions – Capital Expenditure Commitments

In the past 30 days:

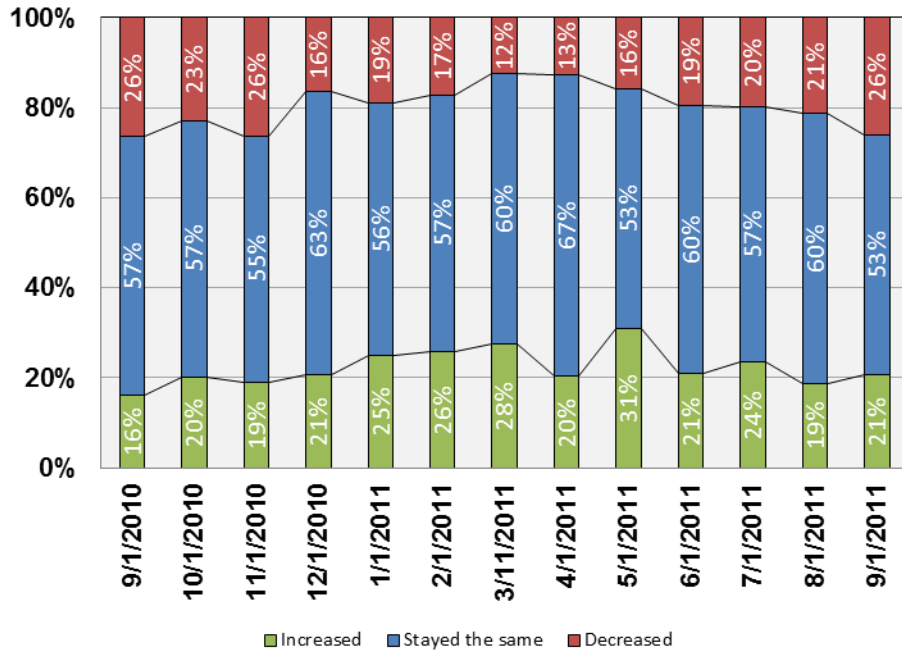
The percentage of respondents committing more on capital equipment **increased to 21%** from 19%. However, the percentage that committed less on capital equipment also increased to **26%** from 21%.

In the next 60 days:

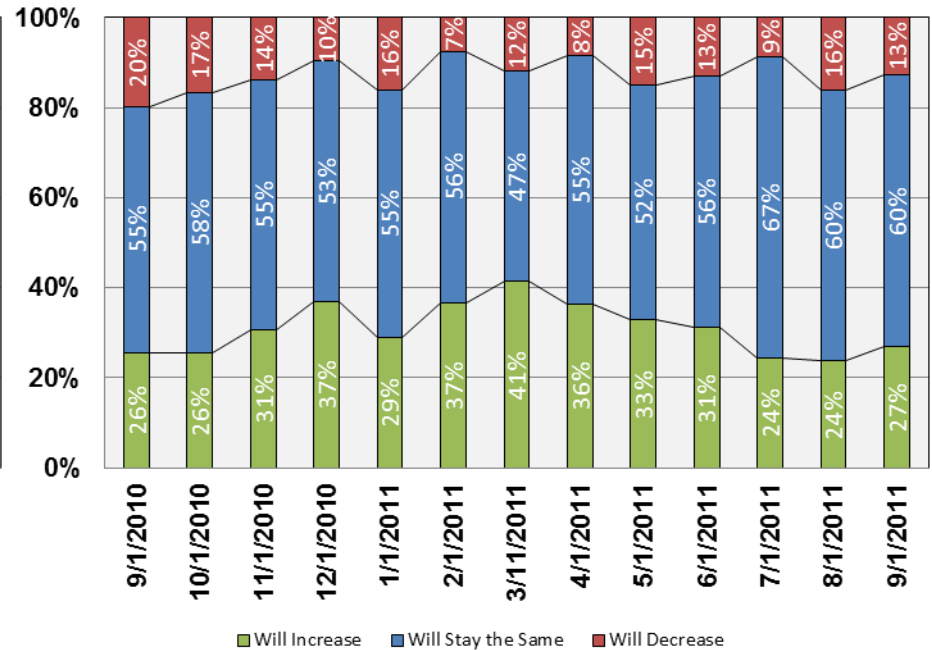
The percentage of respondents who said they plan to commit more for capital assets in the next 60 days **increased to 27%** from 24% and the percentage who expect to commit less improved to **13%** from 16%.

We believe that many commitments for new capital programs were put on hold in the late summer due in part to the uncertainties that were amplified by the debates about the Federal debt limit. With that issue settled for the near term, and with interest rates declining further, there is a modestly brighter outlook for capital spending.

Business Conditions – Trends – Capital Expenditure Commitments



Past 30 Days



Next 60 Days

Business Conditions – Employment

In the past 30 days:

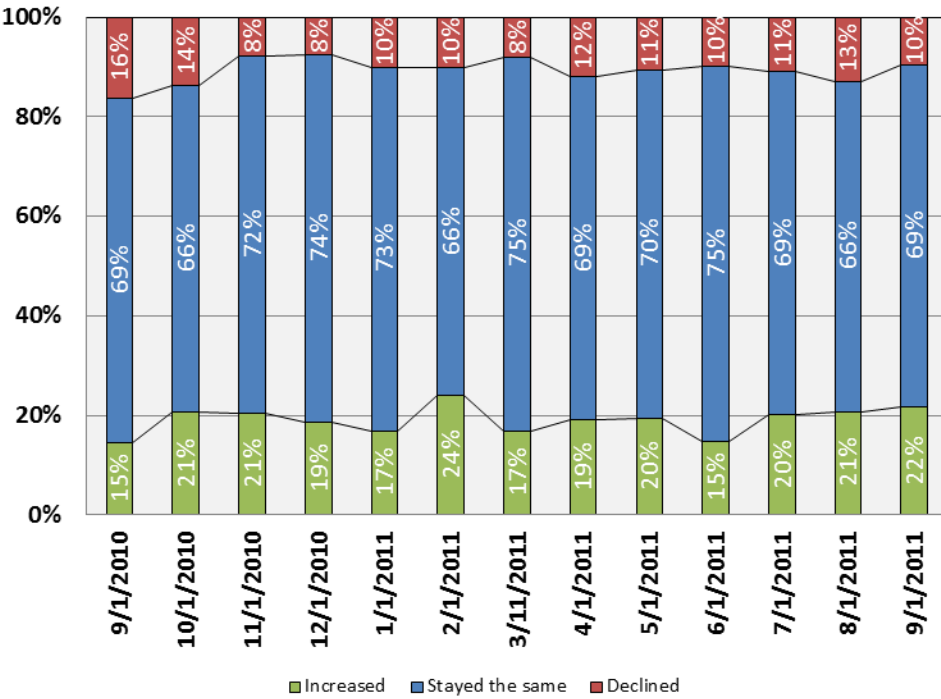
The percentage of respondents hiring more workers increased slightly to **22%** from 21%. The percentage that indicated they did less hiring improved to **10%** from 13% in the prior month.

In the next 60 days:

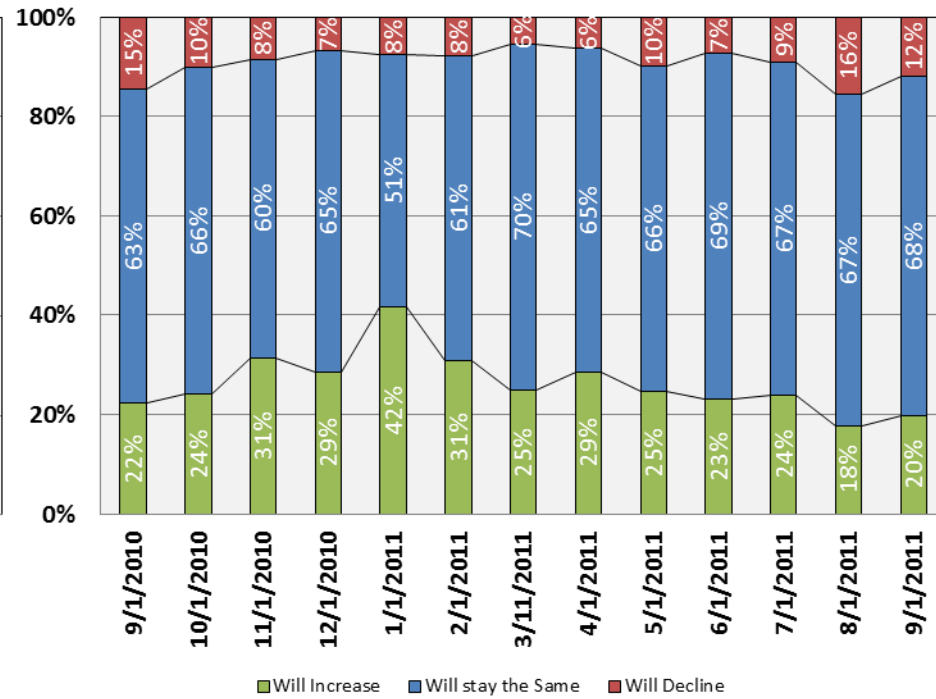
The percentage indicating they plan to increase hiring experienced improved to **20%** from 18%. The percentage who expect to reduce hiring improved to **12%** from 16%.

Both the past 30 days and the next 60 days employment outlook reflect a determination to invest in employment despite the overall general volatility and pall of uncertainty. The next 60 days also encompasses the start of the holiday season.

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 **14%** from 16%. The percentage who indicated conditions were worsening stayed flat at **16%**.

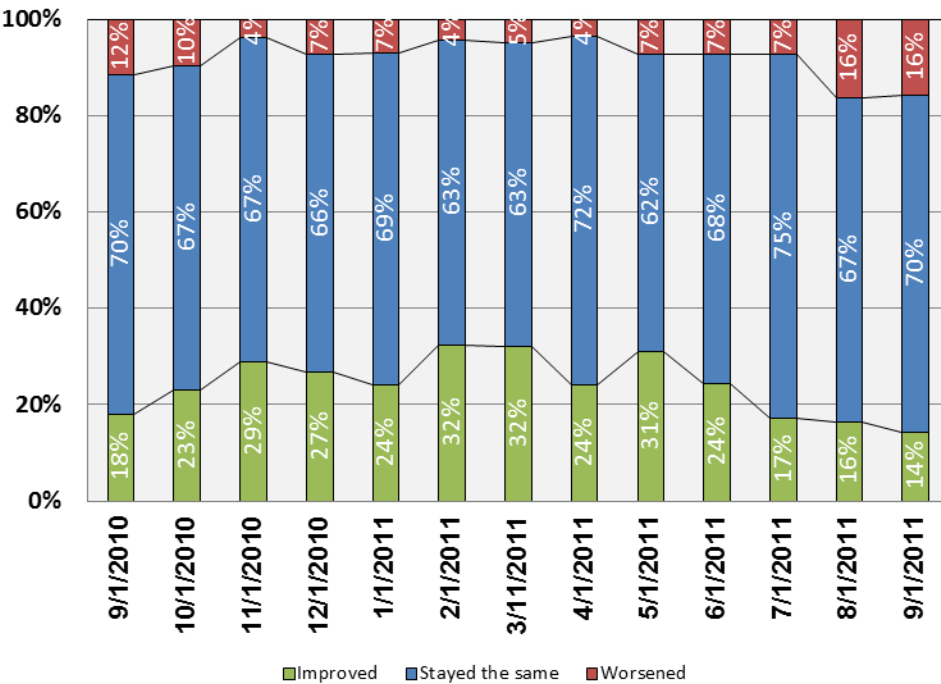
In the next 60 days:

The percentage of respondents who expect improvement in financing conditions in the next 60 days increased significantly to **18%** from 11%. The percentage saying conditions will get worse improved significantly to **14%** from 25%.

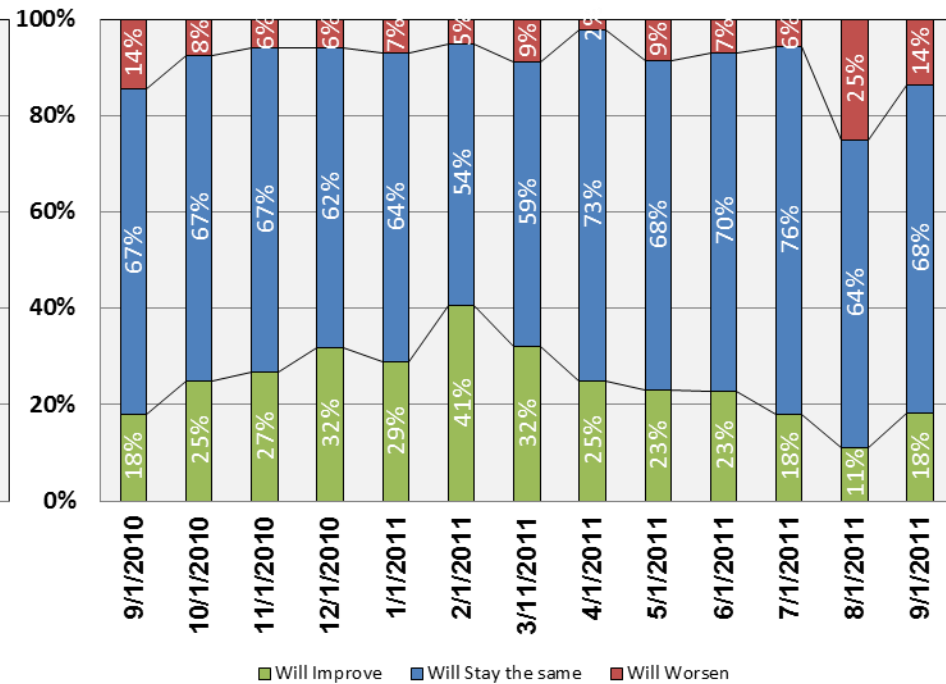
After dismal expectations in last month's survey, this month has turned around to a much improved outlook about the price and availability of financial capital. We believe that settlement of the Federal debt ceiling issue and the Fed's commitment to low interest rates have influenced this rebound in outlook.

When viewed in the perspective of the year, this month's rebound almost regained ground that was lost last month but remains below the levels of the spring and early summer.

Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

Survey Participation Demographics

Industry

Manufacturing/Processing	25%
Services	16%
Health Care	14%
Financial	11%
Technology	10%
Wholesale	6%
Construction	4%
Retail	3%
Government	3%
Other	8%

Primary Geographic Markets

National	48%
International	21%
Regional	21%
Local	10%

Geographic Regions Represented (Total of 136 Responses)

Pacific	28%
Southeast	26%
Southwest	23%
Midwest	13%
Northeast	10%

Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest – Pacific

Weakest – Southwest

Industries:*

Strongest – Manufacturing

Weakest – Healthcare & Financial

Markets Served:

Strongest – International

Weakest – Regional

Company Size:

Strongest – Mid-Market

Weakest – Small & Large

* With statistically significant participation

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