Tatum™

Create more value.

Survey of Business Conditions

01.01.2010

Tatum Survey of Business Conditions Summary

Our respondents as of January 1, 2010 are reporting **the biggest rise and strongest business conditions in over two years**. Optimism in the 60-day outlook took a leap such as we have not seen in this business cycle. While a month like this does not constitute a trend, it does come like an exclamation point following a fairly consistent, if tepid, upward trend of the past 12 months.

Reflecting this significant jump in outlook for the next 60 days, the Index of Business Conditions shows a sharp increase, going from 3.04 on December 1 to 7.42 on January 1. This Index reading is the highest recorded since May of ’07. All of our indicators, including backlogs, capital expenditures, employment, and financing conditions are consistent with and supportive of the jump in the Tatum Index of Business conditions.

To be sure, one must be cautious in reacting to a single month of data. While it is possible that January’s results indicate a real uptick in conditions, any realistic outlook for a robust sustainable recovery requires tangible evidence of hiring, freer credit and a recovery in the housing market. At this moment it looks like a <u>Happy New Year</u> compared to the past two.

Tatum

Tatum Index of Business Conditions

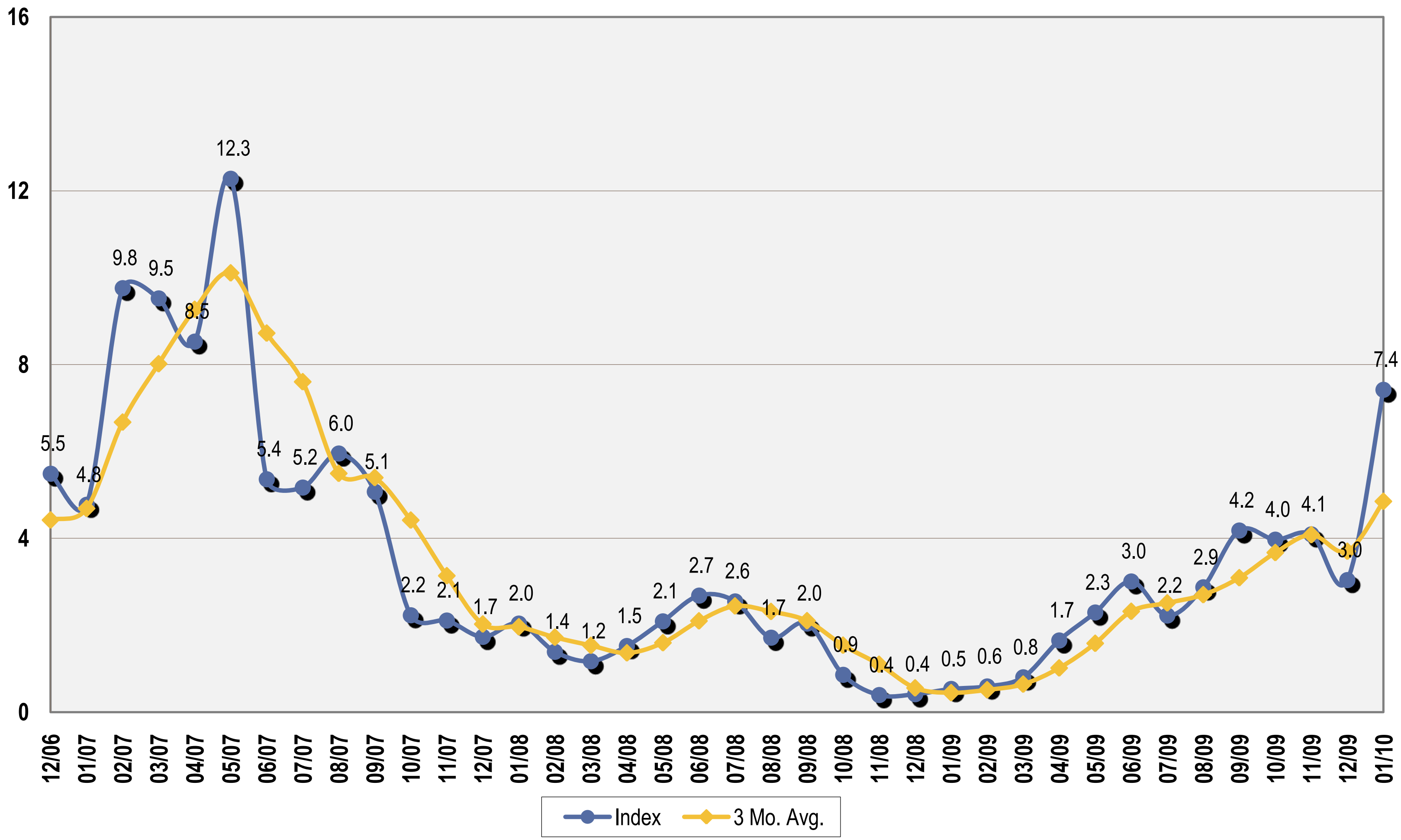
The **Tatum Index of Business Conditions** is a simple average of the ratio of our respondents who are reporting improvement versus those who are reporting a worsening in business conditions for the past 30 days and the next 60 days.

As of January 1st, the Tatum Index of Business Conditions rose significantly, from 3.04 on December 1st to **7.42**. After a one month drop in December following 11 consecutive months of gains, the three-month moving average that combines last 30 and next 60 days jumped from 3.70 to **4.85**.

The increase for the month was due to a sharp increase in the 60-day outlook ratio, supplemented by solid improvement in the ratio regarding the past 30 days. The three-month moving average increased 31% over December, the largest one-month increase since June.

Tatum

Tatum Index of Business Conditions



Tatum™

Business Conditions - Trends

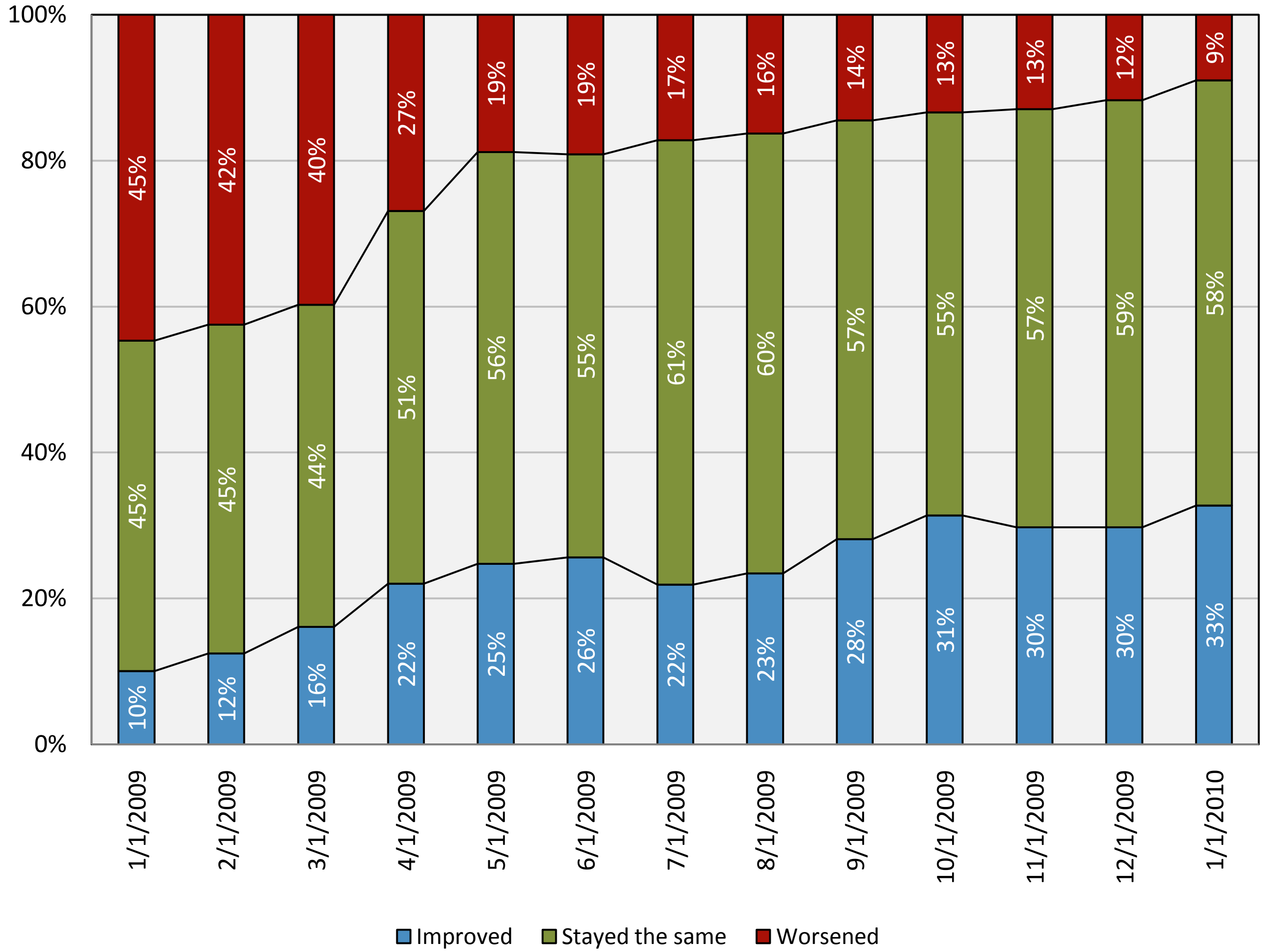
In the past 30 days, business conditions:

- ***Improved for 33% of our respondents,*** up from 30% last month
- ***Worsened for 9%,*** down from 12% last month
- ***Stayed about the same for 58%,*** virtually unchanged from 59% last month

There has been a positive change in how our participants view the past 30 days versus their view a month ago. The 33% who say that their business has improved over the last 30 days is higher than at any month-end in 2009. The 33% figure is an upward move from the narrow range of 30%-31% seen in October through December of 2009. However whether this is the first step in a takeoff toward a sustained recovery remains to be seen.

Tatum™

Business Conditions the Past 30 Days



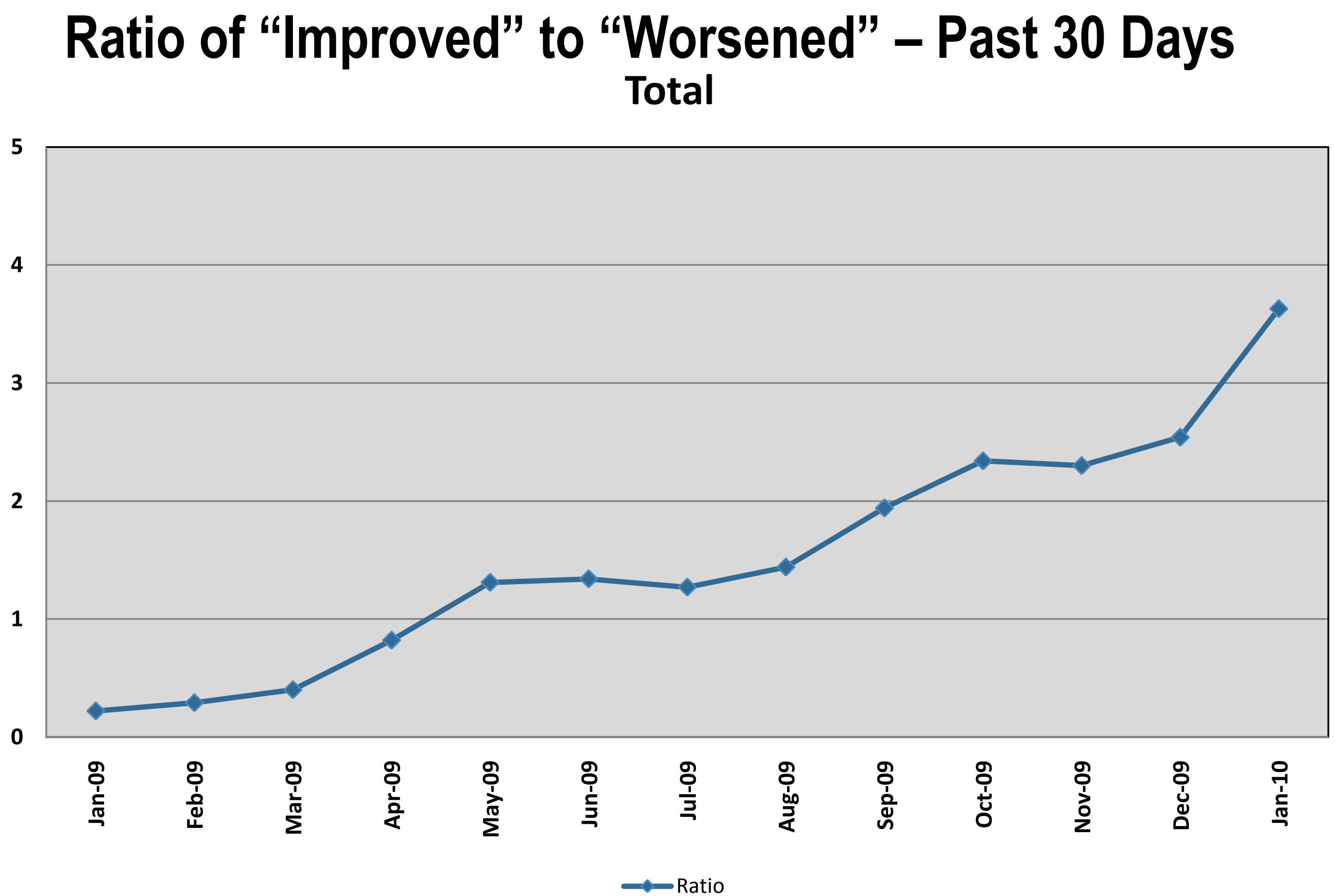
Business Conditions - Trends

The ratio of "Improved-to-Worsened" in the last 30 days rose from 2.54 to **3.63** – a solid increase, following a much smaller increase in December. January's gain is the largest jump for this indicator since it started an upward trend as of August 1.

Business conditions rose steadily on average for our participants for almost every month of 2009. The 3.63 mark for the current month represents a major increase above the low 0.22 mark of January 2009. The last year has seen a steady and substantial improvement. The large increase for January 1 might be seen as an exclamation point for a solid year of recovery in business conditions.

There are two components in the analysis of these data. One component is the absolute number and the trend of that number. The other is the first derivative of the trend, meaning the rate of acceleration or deceleration. Our data show that the combination of these two components peaked in October 2007 (two months before the Recession officially began) and reached bottom in December 2008, at least four months before there was corroborative evidence of the beginnings of a recovery.

Business Conditions - Trends



Tatum™

Business Conditions - Trends

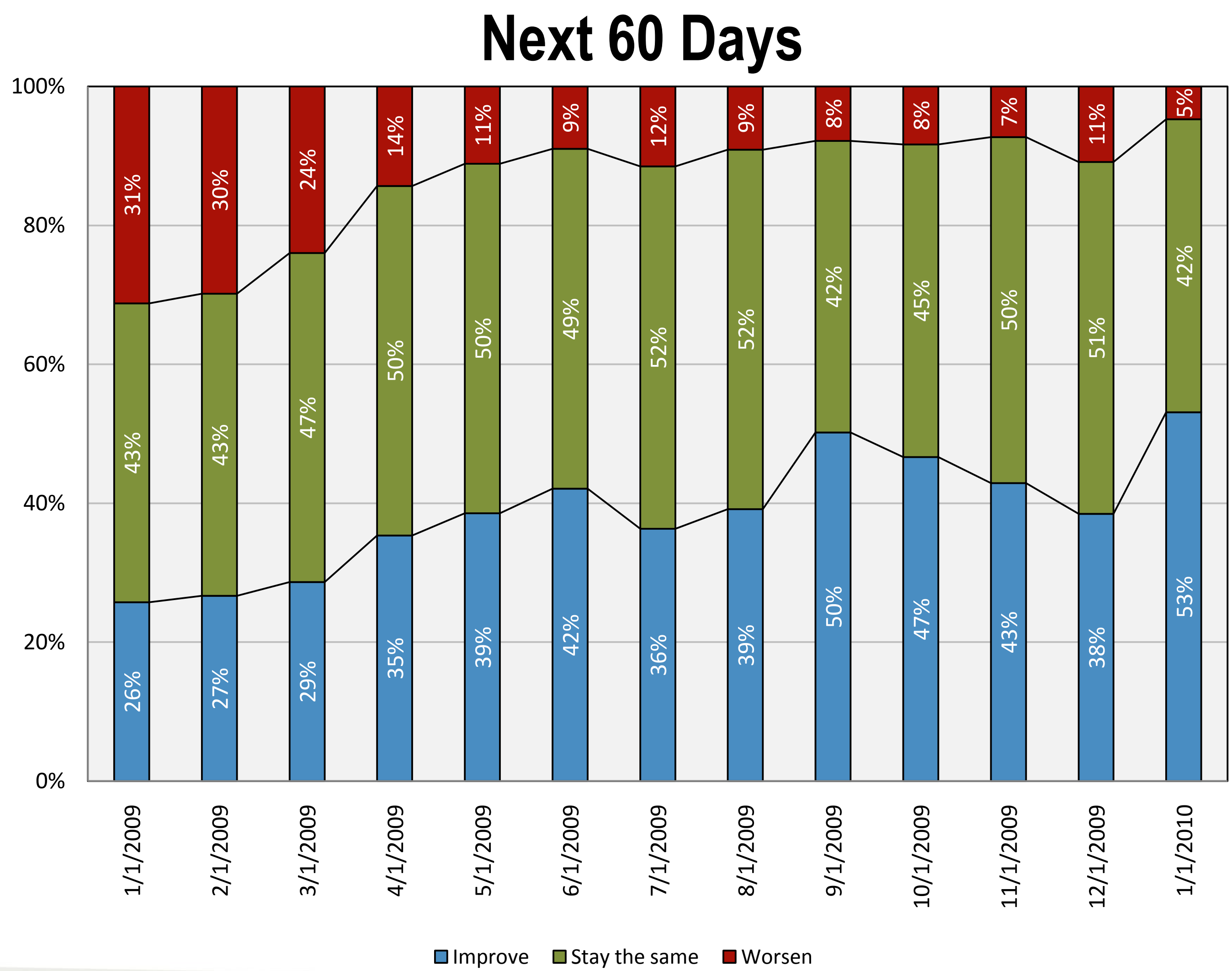
In the next 60 days, business conditions are expected:

- ***To improve for 53% of our respondents,*** an increase from 38% last month
- ***To get worse for 5%,*** a decrease from 11% last month
- ***To remain about the same for 42%,*** *a significant decrease from 51% last month*

The outlook for improvement is up considerably. The 53% expecting business improvement in the next 60 days represents a strong bounce back from the previous month and is higher than any month of 2009. The 5% expecting business to get worse is lower than for any month of 2009.

December's dip in outlook has been reversed. While the data are encouraging, they will constitute a trend only when confirmed by directionally similar data over the next several months.

Business Conditions - Trends



Business Conditions - Trends

In the next 60 days:

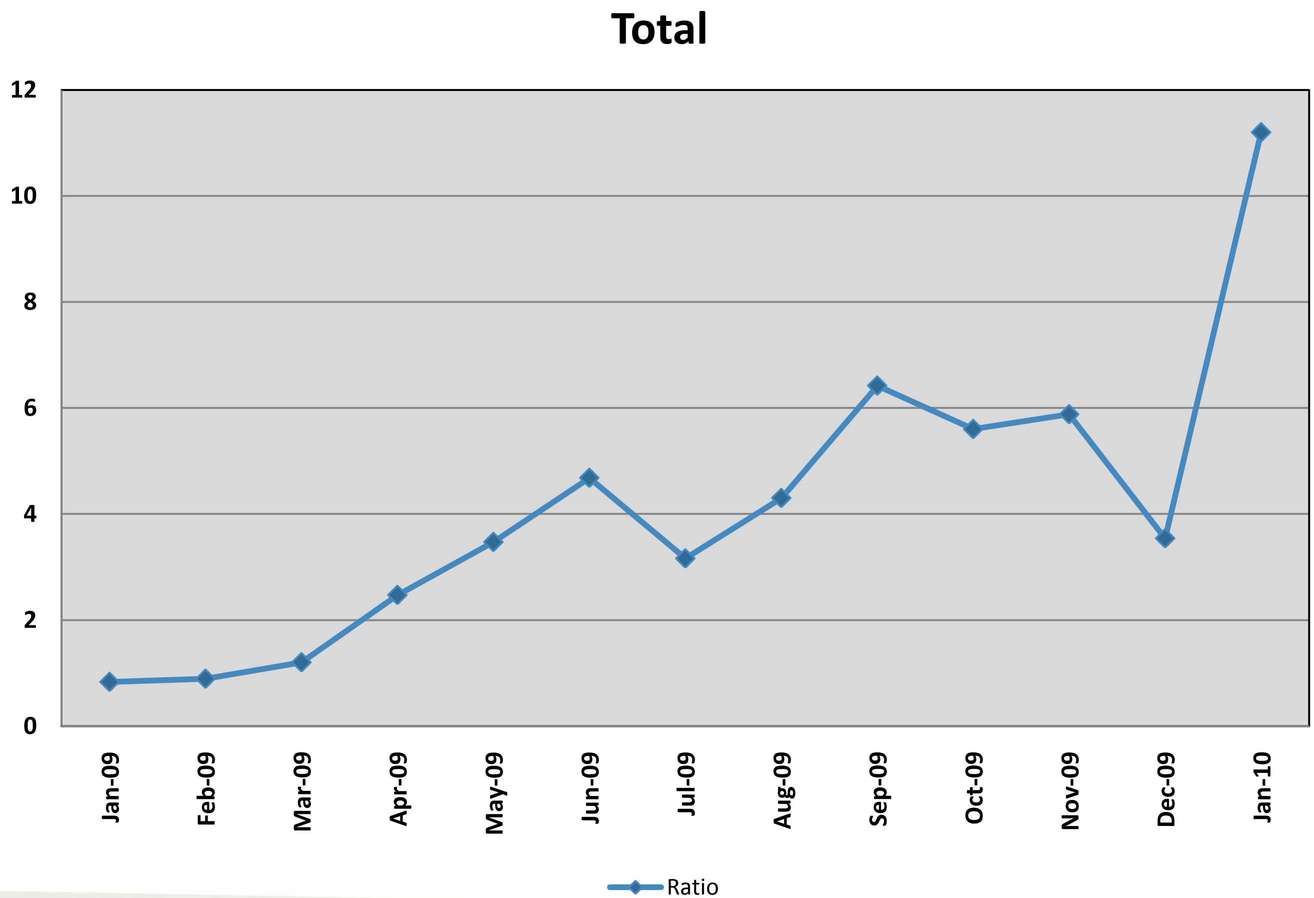
The ratio of *"Will Improve" to "Will Worsen"* increased very dramatically from the previous month, soaring to **11.20** from 3.54.

This is a very sensitive measurement that (as this month's results illustrate) can shift dramatically in either direction. Therefore the 3-month moving average index of business conditions makes it easier to see the overall trend.

The 3-month moving average rose from 3.70 in December to 4.85 in January. The sharp rise in forward-looking sentiment had a major upward impact on the moving average, powering it to the highest mark since September '07. Again, a note of caution is advised – we must not over-interpret a single month's result.

Business Conditions - Trends

Ratio of "Will Improve" to "Will Worsen" – Next 60 Days



Tatum™

Business Conditions – Current Results

Order Backlogs

In the past 30 days:

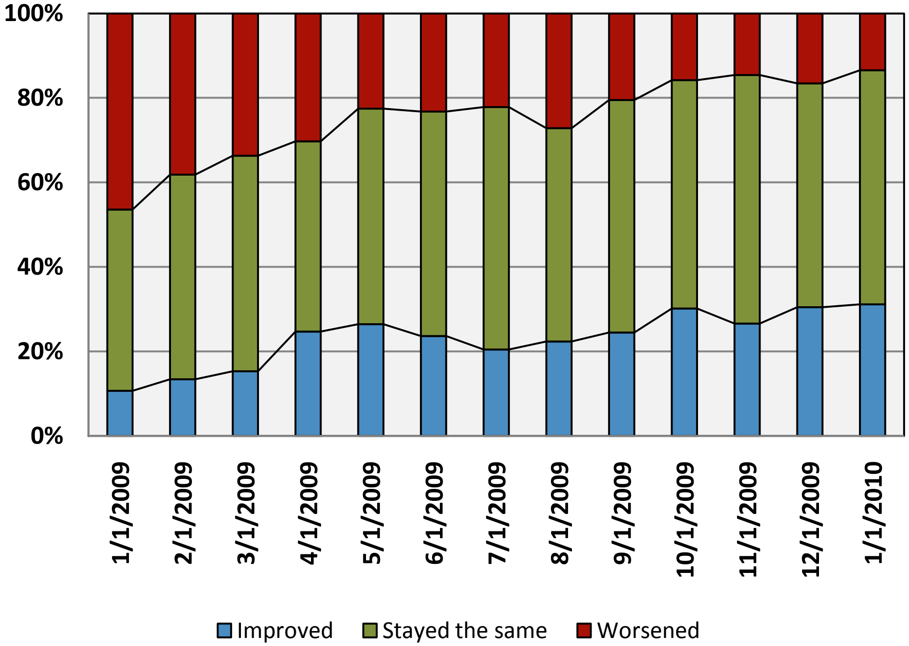
The percentage of respondents who reported an improvement in backlogs ticked up a single percentage point from 30% to **31%.** The percentage reporting lower backlogs decreased fairly significantly, moving from 17% to **13%.**

In the next 60 days:

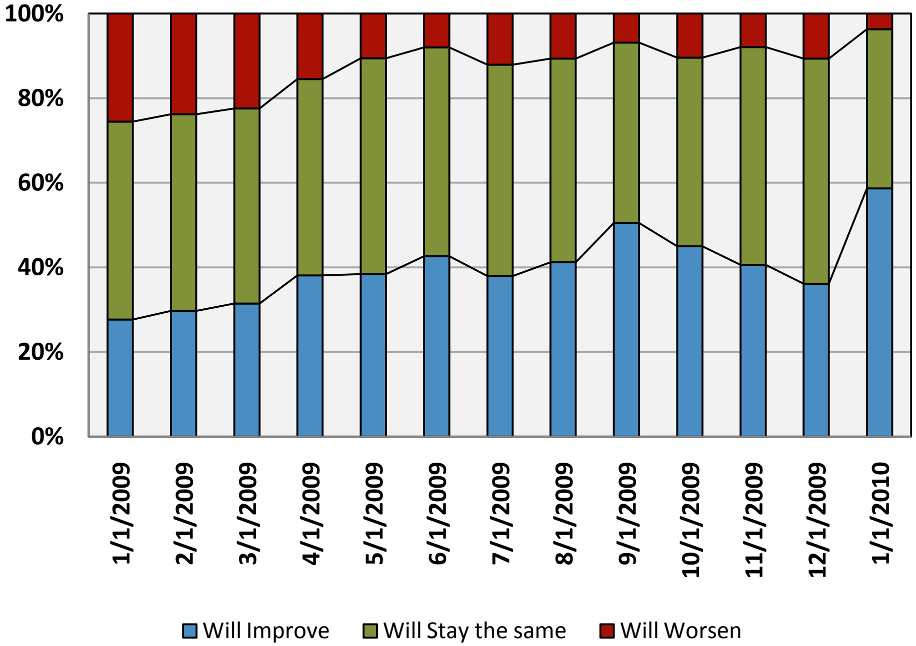
The percentage of respondents who indicated expectations of higher backlogs soared from 36% to **59%**. The "Will Worsen" percentage dropped as significantly from11% to **4%**.

As with other data reported for this month on expectations for business activity over the next 60 days, the outlook is improved. A smaller portion of respondents (38%) say that the backlog will stay the same than did for December (53%).

Business Conditions – Current Results – Order Backlogs



Past 30 Days



Next 60 Days

Business Conditions – Current Results

Capital Expenditure Commitments

In the past 30 days:

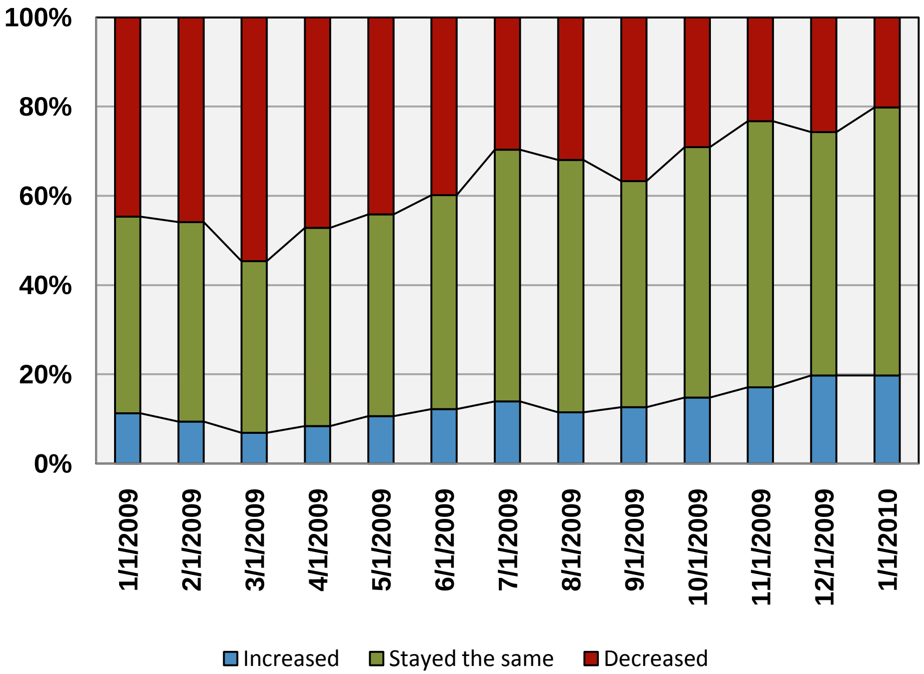
The percentage of respondents committing more on capital equipment was unchanged at **20%**. The percentage that committed less on capital decreased, from 26% to **20%.**

In the next 60 days:

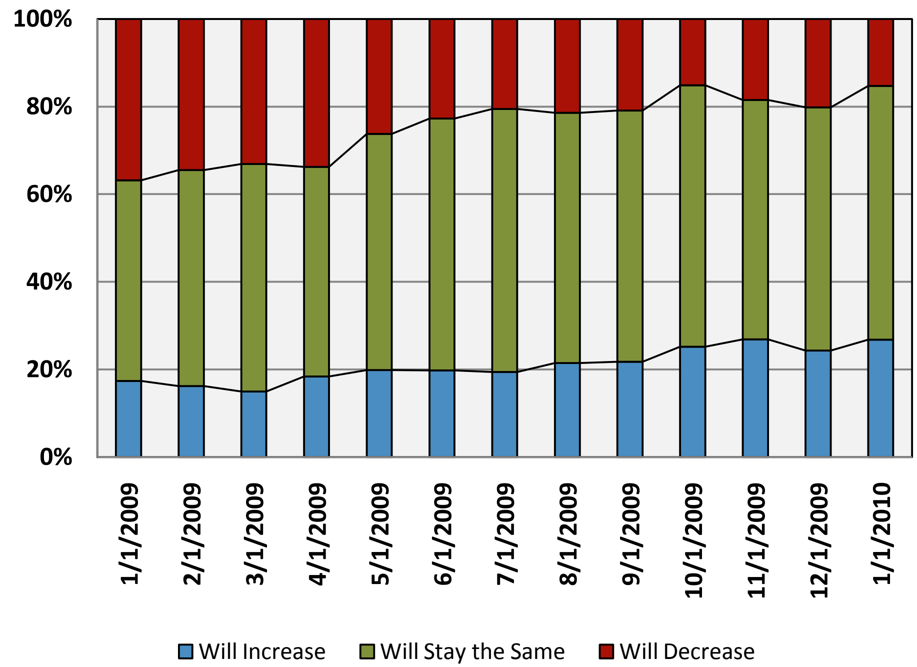
The percentage of respondents who said they plan to commit more for capital assets in the next 60 days increased from 24% to **27%**. The percentage who expect to commit less decreased from 20% to **15%**.

The data trend on capital expenditure commitments is encouraging. Toward the end of 2009 we cautioned that signs of improvement in spending in areas such as information technology might be attributable mostly to larger firms. A string of months with indicators of improved capital spending will be required before a picture emerges that this key driver is actually powering economic recovery.

Business Conditions – Trends – Capital Expenditure Commitments



Past 30 Days



Next 60 Days

Tatum™

Business Conditions – Current Results

Employment

In the past 30 days:

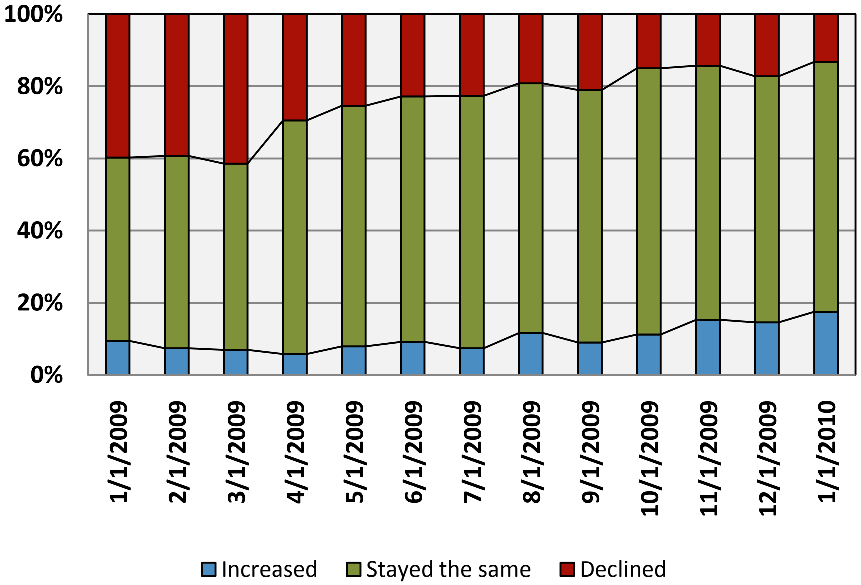
The percentage of respondents hiring more workers increased to **17%** compared to December at 15%. The percentage that indicated they did less hiring decreased from 17% to **13%**. The net of these reflects a more encouraging report than in the previous month.

In the next 60 days:

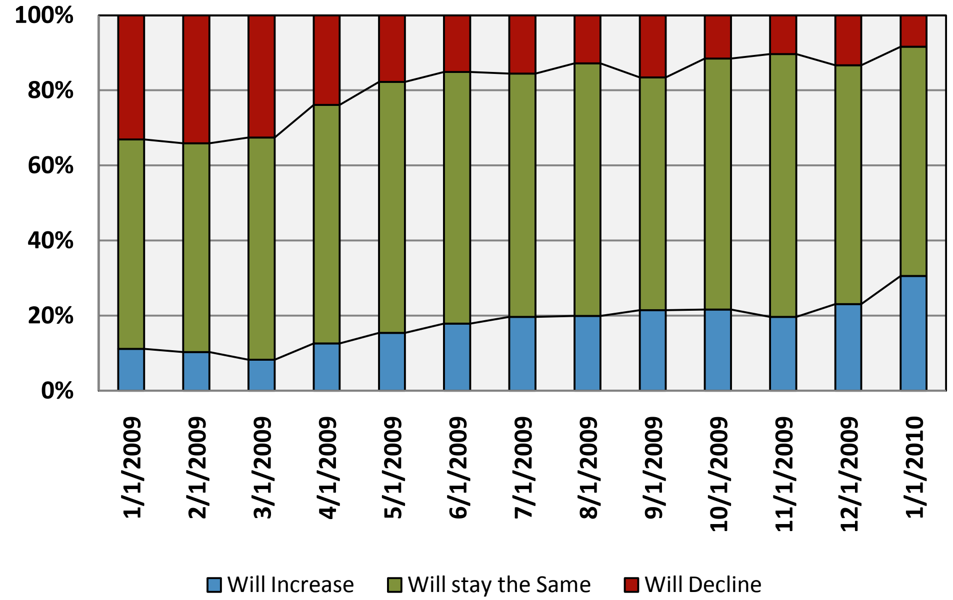
The percentage indicating they plan to increase hiring jumped from 23% to **31%**. The percentage who expect to reduce hiring decreased, from 13% to **8%**, continuing a steady drop in this metric from a high of 34% early in 2009.

Consistent with other data reported for this month, the employment indicator is quite positive. There has been considerable coverage in the press of a strong trend toward more temporary hiring as opposed to full time employment. Possibly some of the increase reported here is in the ranks of temporary as opposed to permanent workers.

Business Conditions – Trends - Employment



Past 30 Days



Next 60 Days

Tatum™

Business Conditions – Current Results

Capital Availability and Pricing

The past 30 days:

The percentage of respondents indicating an improvement in financing conditions dropped from 22% to **16%**. The percentage who indicated conditions worsened dropped from 8% to **6%**.

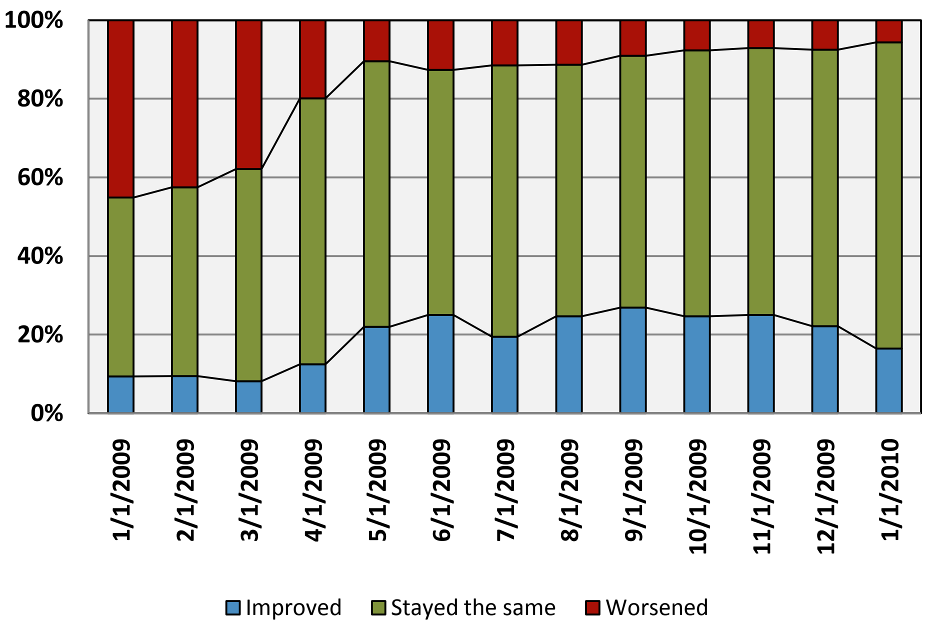
In the next 60 days:

The percentage of the respondents who expect improvement in financing conditions in the next 60 days increased from 25% to **32%** The percentage saying conditions will get worse decreased from 6% to **5%.**

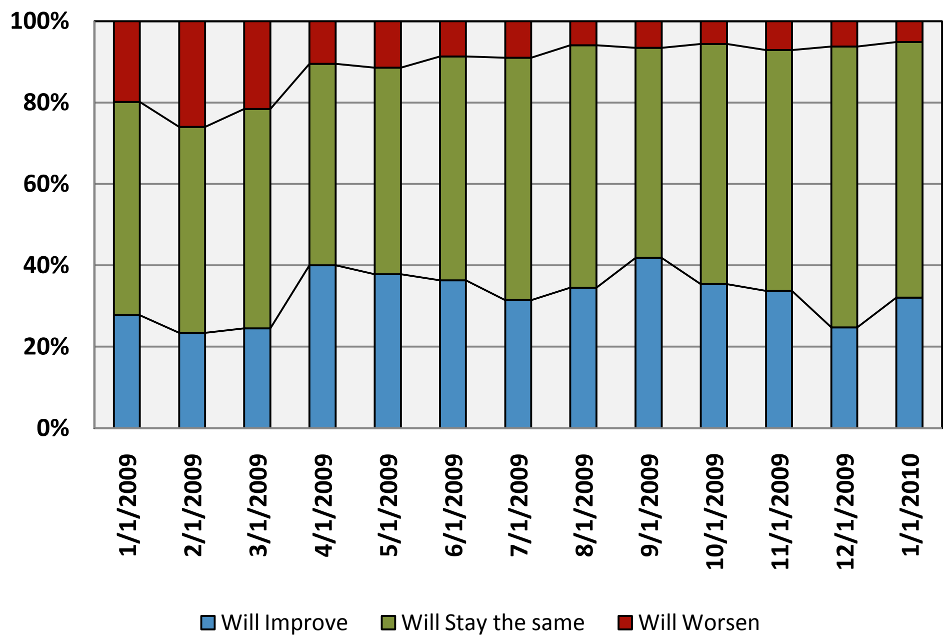
The data are largely consistent with the picture conveyed by research companies and in the press. Lending remains tight for all but the most credit-worthy borrowers. The threat of a meltdown in the commercial real estate industry remains a damper on the banking sector.

We will be watching carefully to see whether the improvement in financing outlook reported this month is sustained. The availability of capital and liquidity to finance growth are indispensable to a sustained recovery. If anything, the need for capital will increase as the recovery gains momentum.

Business Conditions – Trends – Capital Availability and Pricing



Past 30 Days



Next 60 Days

Tatum™

Survey Participation Demographics

Industry

Manufacturing/Processing	26%
Service	22%
Healthcare	13%
Technology	10%
Government	6%
Retail	4%
Financial	5%
Real Estate	3%
Wholesale	2%
Bio-Tech/Life Sciences	3%
Other	6%

Primary Geographic Markets

Local	10%
Regional	23%
National	44%
International	23%

Geographic Regions Represented (Total of 221 Responses)

Northeast	12%
Southeast	28%
Midwest	16%
Southwest	17%
Pacific	27%

Tatum™

Survey Participation Demographic Summary

The following are on relative scales from our respondents:

Regions:

Strongest **– Northeast**

Weakest **– Southeast**

Markets Served:

Strongest **– International & Local**

Weakest **– Regional**

Industries:*

Strongest **–Technology, Service, Manufacturing/Processing**

Weakest **– Health Care**

Company Size:

Strongest **– Pre-revenue, Small**

Weakest **– Large**

* With statistically significant participation

Tatum™

Compiled and Analyzed by
Sam Norwood – Senior Partner
Mark Rosenman – Director of Knowledge Management