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The Tatum Survey of Business Conditions

As of November 1, 2008

Introduction

Tatum conducts a monthly survey of its executives and consulting professionals regarding current business and economic conditions. The survey looks back at the past 30 days and forward to the next 60 days. With our executives and consulting professionals serving a broad base of industries in every geographic region of the United States, the Tatum Survey of Business Conditions takes a representative pulse of economic activity at the first day of every month. Results are published the first week of each month at www.TatumLLC.com.

Arrows are used in this report to illustrate at a glance the direction of the indicators for the 30 prior days and the next 60 days (see legend at the end of this document).

Summary as of November 1, 2008

The recession that began in the third quarter deepened and widened in October, and is expected to deteriorate further for at least the remainder of this year. The turmoil in credit markets, which began in September, came as the economy was already in a weak condition. By the end of September it appeared the entire financial system was threatened with melt-down. During October, coordinated international governmental actions brought the financial system back from the precipice and instilled a sense of some stability, but equity markets had their worst tumble since 1987. Further, the slump in confidence spread from Wall Street to Main Street as most retailers reported weak sales. In the real economy, what started in housing spread to the automotive industry, and now to virtually every sector in the economy. Backlogs, employment and capital expenditure commitments are all reported in the current Tatum Survey as materially worse than a month ago, and our respondents also indicate that the coming two months will likely be an extension of the downward spiral.

Index of Business Conditions ↓

Tatum's Index of Business Conditions combines elements of the past 30 days and the next 60 days into one number, summarizing our view of the current overall trend. The current month's index dropped to 0.4 from 0.9. To put this into perspective, the 12-month average through November 1 was 1.75, and the average since January 2003 is 7.12. To view the Tatum Index of Business Conditions, please click on {Index of Business Conditions}.

Order Backlogs ↓↓

Order Backlogs are normally the most tangible indication of relative strength or weakness in near-term deliveries of products and services. As of November 1, order backlogs declined materially in both the past 30 days and in the outlook for the next 60 days. Wholesale trade and retail were the weakest sectors, and this weakness will surely back up into manufacturing in the coming months. {More about Order Backlogs}

Capital Expenditure Commitments ↓↓

Capital Expenditure Commitments were down compared with the prior month in both the 30-day backward look and even more pronounced in the forward 60-day outlook. Our respondents are reporting cut-backs and cancellations in light of what many perceive as not only a sharp but possibly also a prolonged recession. {More about Capital Expenditure Commitments}

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Employment

Employment is typically a lagging indicator as businesses, in the face of uncertain conditions, are reluctant to reduce employment until the need is obvious and compelling. After several months of generally weak conditions, the drama that unfolded in the month of September and October became the compelling reason to either freeze hiring or to initiate reductions in force. Our Survey indicates that employment will continue to decline significantly in the next two months. {More about Employment}

Capital Availability and Pricing

The dominant news in September was the crisis in financial institutions, both regular banks and investment banks, in which failures mounted, confidence plummeted and there was a very serious scramble for liquidity from Wall Street to Main Street. Interbank lending became largely frozen in both the U.S and abroad. Fear of a systemic financial melt-down inspired the passage of a $700 billion bailout or rescue bill in the first week of October, and a global coordinated injection of capital, bank nationalization and credit guarantees brought some measure of financial stability during the month. In the meantime, equity markets fell the worst in October since 1987. So, why the green arrows? It is all relative. October 1 marked the bottom of the global financial crisis. Government actions during the month reduced the fear of total financial collapse. {More about Capital Availability and Pricing}

Segments, Regions and Markets

There was not a single segment, region or market that showed what might be called "strength". So, our comparisons this month are a matter of relative degrees of weakness.The least weak among our significant segments was, of all things, the financial segment, which includes insurance, banks, brokerages and non-bank lenders. We interpret this as meaning they improved the most from a month ago, not that their situation was anything close to wonderful. The wholesale and retail sectors were weakest as consumers snapped their wallets shut. The Midwest and Southwest regions showed the least relative weakness, while the Pacific and Northeast regions, reflected, we believe, the strengthening dollar's effect on exports. Pre-revenue and small businesses, somewhat surprisingly, again scored better than larger ones. {More about Demographics}

We hope you found Tatum's Commentary interesting and useful. We welcome your comments and questions. Click on {November 2008 Tatum Survey of Business Conditions} to view the complete report.

Sam Norwood, Senior Partner {link to send comments to Sam Norwood}

Glen Passin, Partner {link to send comments to Glen Passin}

Legend: Conditions improved or will improve; Conditions worsened or will worsen; Conditions remained about the same or will remain the same