

Economic Outlook

Prepared by Fishkind & Associates, Inc. | October 2011

Obama Stimulus Plan, Fed Announces “Operation Twist”

Outline of Obama Stimulus Plan

On September 8 Presidential Obama unveiled a stimulus plan aimed at increasing hiring and providing a much needed boost to the stalled recovery. The plan consists of \$253-billion in tax cuts and \$194-billion in new spending. The plan faces little chance of passage in its current form given Republicans strong opposition to new spending.

The breakdown of the proposed plan is as follows: a reduction in the Social Security payroll tax from 4.2% to 3.1%. The current rate of 4.2% is set to increase to 6.2% by the end of the year due to expiring tax cuts. Additionally, the plan would cut the payroll tax businesses pay on the first \$5-million in wages to 3.1% - a reduction of one half. These two components constitute \$240-billion. There would also be \$8-billion in tax credits offered to businesses that hire individuals unemployed longer than 6 months and \$5-billion in incentives for businesses to invest in plants and equipment.

Spending within the proposed plan would go towards infrastructure. In addition to identifying crucial public projects, Obama is calling for a national “infrastructure bank” that would offer loans to finance private sector projects. The bank would eventually become self sufficient from interest payments on the loans.

Obama’s recommendations for funding the proposed stimulus plan include gradual Medicare/Medicaid program adjustments and tax reform affecting the wealthiest individuals and largest corporations.

Operation Twist

The Federal Open Market Committee announced on September 21 its plan to extend the average maturity of its holdings of securities. The plan dubbed “Operation Twist”, because of its effect on the yield curve, comes after a two day policy meeting and in response to a sharply deteriorating economic view. In the announcement the Fed also warned of “significant downside risks to the economic outlook”. The Committee left the target for the federal funds rate unchanged at 0 to ¼ percent and indicated it will stay at exceptionally low levels through at least mid-2013.

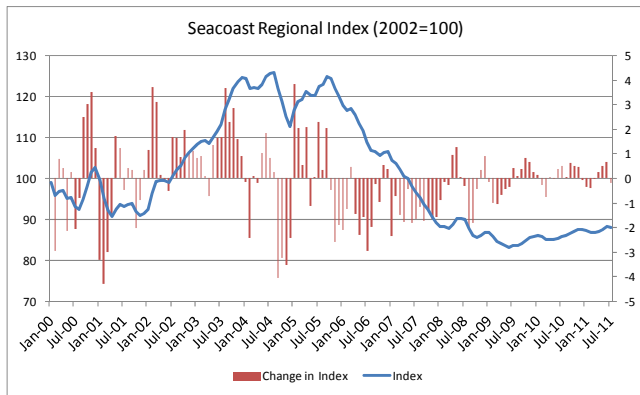
Operation Twist calls for the FOMC to purchase \$400-billion of Treasury securities with remaining maturities of 6 to 30 years and sell an equal amount of Treasury securities with remaining maturities of 3 years or less. The intent of the program is to put pressure on longer term interest rates and help make broader financial conditions more accommodative. This would lower rates for mortgage holders and businesses and would also entice banks to put some of their idle reserves to work.

A key feature of the stagnant recovery has been cash hoarding by investors and businesses. With short term interest rates near zero and a very uncertain economic outlook, there is no incentive to shift funds into more productive assets and the economy sputters as a result. By easing longer term interest rates, the Fed’s plan makes longer term borrowing more attractive and seeks to shift capital from investors and lenders to consumers.

Regional Economic Activity Index

The Seacoast Regional Index of Economic Activity covers the 13 counties in which Seacoast National Bank is active. The index provides a monthly indicator of the general economic trends for the bank's specific region of the state. Please see the "About the Index" section of this report for more information on the preparation of the Index.

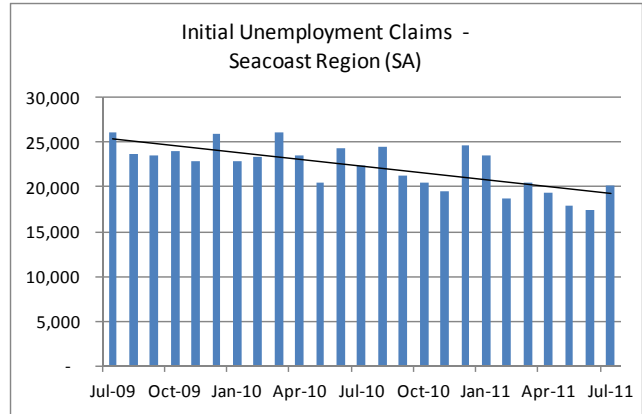
This month's indicator stands at 88.0, down two-tenths of a point from last month, and up 2.46% on a year-over-year basis. The longer term trajectory is modestly upward logging 18 consecutive months of year over year gains.



Source: Fishkind & Associates, Inc.

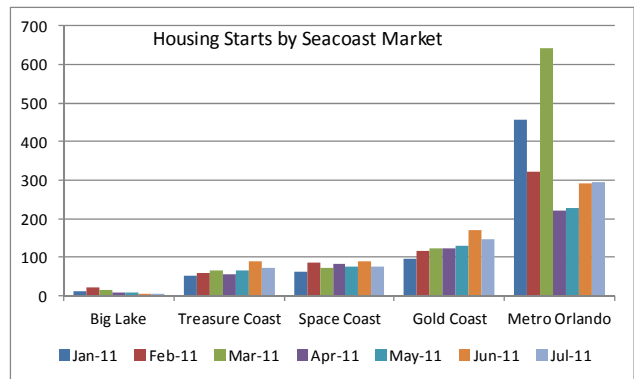
All index components moved lower over the month with the unemployment claims component faring the worst.

New claims increased 15.2% in July over June bringing the total to 20,128 for the Seacoast Region. Year over year claims are down 10%. It is likely the monthly increase is due to the inherent volatility in the data series as the longer term trend is markedly downward (see following chart). This is also underpinned by the relatively strong employment growth for the State in July which saw 51,200 new jobs year over year when compared with 32,000 in the prior month.



Source: Agency for Workforce Innovation

Housing starts were down across all Seacoast markets with the exception of Metro Orlando, which eked out a small gain. In total, the Region saw a 7.5% reduction from the previous month and a year over year gain of 33.9%. Florida's east coast saw the sharpest declines with the Treasure Coast falling 18.1% followed by the Gold Coast at 14.4%.



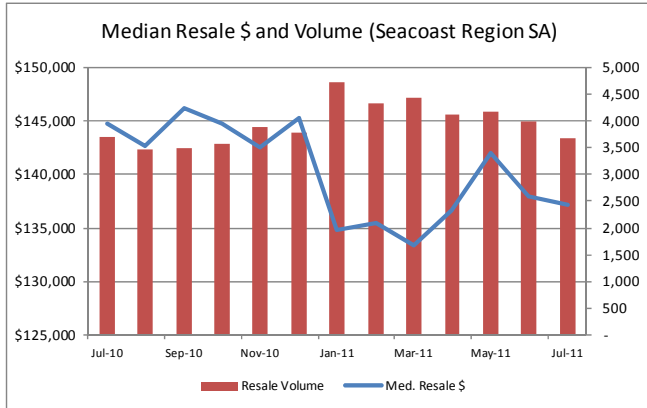
Source: US Census Bureau

Conditions in the resale housing market were weak in July as slower growth in the first half of the year is now being viewed as more than just a "soft patch". The consensus is that the housing recovery will become even more protracted as the national recovery stalls and the U.S. stands on the verge of a second recession.

Sales of existing single family homes were down 7.9% from the prior month and 0.9% lower year over year for the Seacoast Region. The resale market continues to be weighed down by the enormous supply of existing homes in the foreclosure process and homes where owners are in a negative equity position. Furthermore, appraisals that are coming in

below contract price are disrupting many transactions.

Median pricing was 0.54% lower in July than June and 5.2% lower year over year for the Seacoast Region. The month to month decline is attributable to an 11.2% drop in the Gold Coast Markets, which is the second lowest reading since the recession began. All other areas managed small gains.

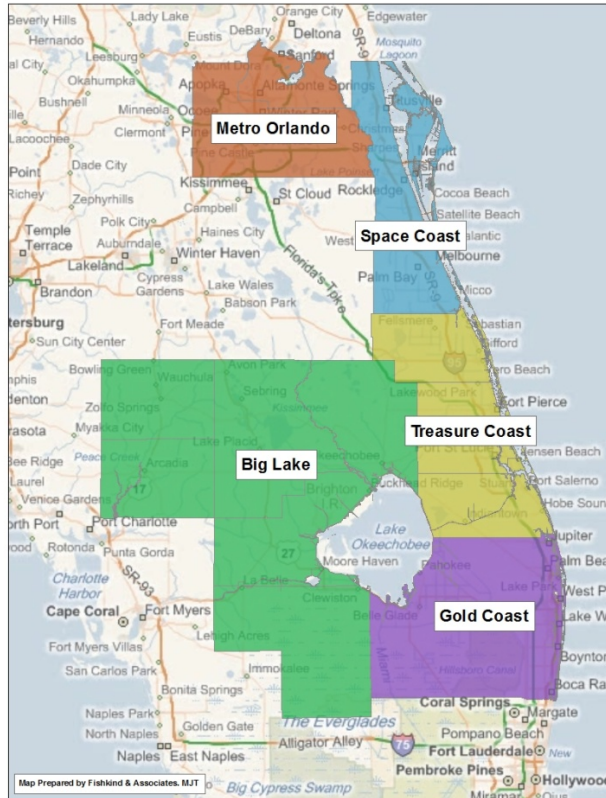


Source: Dataquick

The trajectory for the national economy is proving far weaker than expected. By now the recovery should have gained sufficient momentum leading to higher population growth and migration for Florida. Instead, the State's fragile recovery is clouded by the possibility of a second recession. Our view is that another round of contraction is likely if Congress fails to promptly enact additional stimulus.

About the Index

The Seacoast Regional Index of Economic Activity was created by Fishkind & Associates, Inc. The Index is designed specifically to capture current economic conditions, with an emphasis on the 13 counties that Seacoast National Bank is active. A regional index is calculated that includes all 13 counties. In addition, five market area indexes are calculated that each represent areas within the larger region. The map below shows the five markets – which together represent the region.



The index is comprised of seven components – three national and four County-specific. All the component data is seasonally adjusted.

The National Index Components are:

- Fed Funds rate
- 30-year fixed rate mortgage
- National Unemployment Rate

The County-Specific Components are:

- Residential Housing Starts (single and multi family combined)
- Single Family Resale Volume
- Median Single Family Resale Price

- Initial Claims for Unemployment Benefits

We have set the Index benchmark at January 2002 = 100. This was done to be able to gauge where we are now compared with a point in time which was nearing the end of recession but not in an artificial bubble. An alternative would be to set the Index to 100 at January, 2010 – however, this suggests the January 2010 point in time might be a normal base level from which we might improve. While the local economies will improve, January 2010 is not a point in time where the economies are functioning normally, so it might not make an appropriate base level for comparison. In addition, if the index is set to January, 2010 = 100, then it sets all the local economies on an even footing at present when comparing them to each other. Illustrating local economic performance as equivalent to each other, at the present time, is not reflective of current conditions, as some locations are better off than others right now. For these reasons the Index was benchmarked to January 2002.

Each point in the final index graphics shown in the monthly reports represents a four-month moving average of the Index values. It is for this reason the January 2002 data point is not 100 in each county, as this point represents a four month moving average where only January 2002 was set to 100.

About Fishkind & Associates, Inc.

Fishkind & Associates, Inc. is a thirty member economic and financial consulting firm with offices in Orlando, Naples, and Port St. Lucie, Florida. The company was formed in 1987, and has grown steadily since its inception.

The firm's principal, Dr. Hank Fishkind, Ph.D., was associate professor of economics at the University of Florida, and Director of the University's forecasting program.

As one of Florida's premier economic consultants, Fishkind & Associates has extensive experience in economic and fiscal impact analysis, forecasting and finance throughout Florida and the United States.

In addition to their forecast work, Fishkind & Associates is involved in key financial advisory roles to special districts, local governments, redevelopment agencies and real estate developers. In this capacity the firm formulates innovative financing plans, provides economic advice and direction, and evaluates financing alternatives. The firm has participated in structuring over \$3 billion in infrastructure and municipal financings.