Real Estate Economic News and Insight — March 12, 2008

Seacoast NATIONAL BANK

Economic Perspectives

Employment declines nationally; in Florida and all Seacoast markets

The economy lost 63,000 jobs in February following a loss of 22,000 jobs (revised down from –17,000) in January. That is the steepest decline in five years. The loss could have been larger— over 100,000 jobs — had it not been for a significant increase in government employment. The unemployment rate fell from 4.9% to 4.8%. The Labor Department reported that 450,000 people left the labor force in February which accounts for the slight downward movement in the unemployment rate in the face of job losses. Florida had a net loss of 7,300 jobs in January. Construction lost 69,000 payroll jobs year over year (-10.9%). Construction losses accounted for 75% of the job losses in the state over the year. Manufacturing and financial services saw job losses while education, health services and leisure/hospitality saw modest gains. While still unofficial, The *Employment Situation* report leaves little doubt that the economy has slipped into recession.

Perhaps the most important economic indicator is *The Employment Situation* report published on the first Friday of every month by the Bureau of Labor Statistics (BLS). No other economic release is more revealing of general economic conditions than labor market data. It is the first major report of each month and is closely linked to other economic indicators. The data tell us a great deal about how businesses view the current and short term future economic environment. Employers, for example, will not assume the expense of added payroll if they do not believe they will need the additional workers going forward. Conversely, they will be reluctant to lay off workers if they perceive a need in the near future.

From a consumer perspective, nothing is more important than employment and nothing erodes consumer confidence and subsequently slows consumer spending more than job losses — either actual or feared. Because consumer expenditures account for about 70% of economic activity in the nation, the expected employment situation can have a profound effect. Clearly that is why this single economic release is so far reaching and widely watched.

The relationship between employment and the business cycle is a tight one and the relationship between employment and GDP (gross domestic product) are therefore closely linked. The GDP report is a quarterly report with a one month lag whereas *The Employment Situation* is monthly. As a result, those needing a timely read on the economy can infer its growth rate from payroll data prior to release of the quarterly GDP report.

In analyzing the relationship between employment and GDP, the data show that since 1960, there has never been an instance when three consecutive monthly declines in payroll have not been accompanied by an economic downturn.

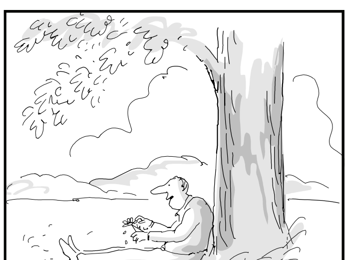
While employment data is a *leading* indicator of a downturn, it is a *lagging* indicator of a recovery. After a definitive bottom has been reached in a down turn, there is generally a protracted period of joblessness before the numbers begin to rise again. In other words, employment lags a recovery.

The current situation. The 63,000 decline in employment in February and -22,000 in January were the first back to back losses since May and June 2003 when the economy was recovering from the 2001 recession.

The February decline was wide spread throughout the economy. Employment fell in manufacturing, construction, retailing, financial services and a variety of professional and business services. Small gains were realized in healthcare, leisure and hospitality and the government.

Housing is clearly the biggest drag on the economy but weakness has also spread to other sectors as well as the broader economy. Private industries lost 101,000 jobs in February and that represents the third consecutive decline in private sector payrolls. Manufacturing and construction are leading the way to the bottom. Both sectors have shed workers at a rapid pace. The construction decline is still linked to the housing market which has not yet found a bottom. Auto manufacturers and their suppliers lead the way down in manufacturing.

Financial services has also been hard hit. The sector has been losing jobs since peaking in late 2006. Most of the losses are occurring in real estate rental and leasing as well as lending and allied services. While real estate jobs have declined substantially, the loss is difficult to measure as most sales agents are independent contractors. They are not eligible for unemployment and therefore not counted in the unemployment numbers. Losses in construction, finance and manufacturing are not surprising given the downturn in housing and credit markets but service sector losses are. Last month business and professional services shed 20,000 jobs and temporary services shed 27,000 more.



"Recession, no recession. Recession, no recession. Recession ...."

All this argues strongly for 100 basis point rate cut when the Fed's Federal Open Market Committee (FOMC) meets next week.

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Florida employment data lag national data by 30 days. Accordingly, the January data were released last Friday coincident with the February (national) Bureau of Labor Statistics data. The Florida data showed 423,000 jobless out of a labor force of 9,264,000 indicating an unemployment rate of 4.6%. That rate is up one-percent over the prior year and is the highest rate since October 2004.

Non-agricultural job growth was down –0.1% indicating a loss of 7,300 jobs; a downward trend that began in September 2007 with declines in construction employment.

Construction employment has declined most significantly having lost 69,000 (-10.8%) jobs over the last 12 months. Construction job losses have accounted for 75% of the job losses in the state — a loss which is highly significant but not necessarily surprising given the magnitude of the housing decline. Although commercial construction has absorbed some of the lost residential construction jobs, there is no evidence to suggest employment in the construction sector will improve this year. Indeed, as employment growth typically *follows* a recovery, it seems unlikely that construction employment will grow demonstrably until 2010.

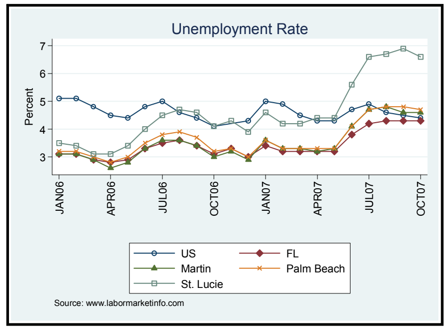
Manufacturing employment was down 5% (-19,800 jobs) while financial services lost 1,900 and information services lost 1,400, largely in publishing.

Conversely, education and health services as well as leisure and hospitality sectors all gained jobs.

The news from Seacoast markets was mixed. All Seacoast counties had employment declines in the last month with the exceptions of Okeechobee, Highlands and Glades counties in the Big Lake Region. These three counties experienced slight gains. Year over year however, every Seacoast county experienced a *gain* in total employment.

Despite the year over year gain in employment, the unemployment rate rose in every Seacoast county. The average increase was 1.2%. Hendry County experienced the sharpest gain and now stands at 7.2% unemployed,

Treasure Coast unemployment also rose sharply year over year.



Indian River County increased from 4.8 to 6.2%. St. Lucie County increased from 4.9% to 6.5% and Martin increased from 3.9% to 5.1%. Hendry, St. Lucie and Indian River counties are now ranked two, five and eight in terms of high unemployment among the state's 67 counties. St. Lucie and Indian River unemployment is construction related and, like the state level, no demonstrable increase is likely this year. Key Seacoast county data follow.

By the Numbers — Employment & Unemployment — Seacoast National Bank Markets

County	Work Force	Employment	Unemployment	Unemployment Rate January 2008	Unemployment Rate January 2007
Orange	596436	570721	25715	4.3%	3.5%
Seminole	243183	232900	10283	4.2%	3.3%
Lake	131626	125064	6562	5.0%	3.9%
Osceola	130129	123676	6453	5.0%	4.0%
Brevard	262566	248754	13812	5.3%	4.1%
Indian River	61331	57549	3782	6.2%	4.8%
St. Lucie	121955	114016	7939	6.5%	4.9%
Martin	66116	62713	3403	5.1%	3.9%
Okeechobee	17687	16696	991	5.6%	4.5%
Glades	4673	4448	225	4.8%	4.0%
Hendry	18503	17173	1330	7.2%	5.4%
DeSoto	14563	13822	741	5.1%	4.0%
Highlands	42361	40137	2224	5.3%	4.1%
Palm Beach	644147	613263	30844	4.8%	3.9
Broward	998766	957575	41191	4.1%	3.4

Source: Agency for Workforce Innovation (State of Florida)

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