Seacoast NATIONAL BANK

Real Estate Economic News and Insight

Economic Perspectives

Employment redux — Behind the numbers

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Employment continues to be a weak link in the economic recovery chain. While stabilization of the U.S. labor market appears near as evidenced by fewer layoffs, increasing temporary help numbers and modest improvement in several broadly defined employment categories, meaningful and sustained recovery is not yet evident. There is very little hiring in well paying permanent job categories. Florida and most Seacoast served counties are experiencing similar trends; that is, fewer layoffs but little new hiring. Florida also lags the nation in employment recovery due primarily to the severity of the recession, unusually high numbers of job losses and the fact that a disproportionate number of losses were in key sectors in Florida such as construction, business services and financial services.

The Job Openings and Labor Turnover Survey (JOLTS) sheds a little more light on the nation's employment situation. The January survey suggests a very mild but positive change in job availability and hiring. The survey shows that layoffs have declined significantly. Equally important, hiring is no longer falling and the number of job openings has risen modestly. Most of the improvement has been in manufacturing, temporary jobs and healthcare. There has also been some noteworthy hiring in lower paying retail jobs. The only sectors hiring higher paid workers are skilled health care and private education.

County	Unemployed
Orange	73,435
Seminole	27,649
Lake	18,476
Osceola	18,715
Brevard	33,835
Indian River	8,965
St. Lucie	18,396
Martin	8,596
Palm Beach	76,461
Okeechobee	2,583
Glades	534
Hendry	2,684
DeSoto	1,764
Highlands	5159
Hardee	1,505
TOTAL	298,757
Florida	1,117,000
U.S	14,900,000

SOURCE: Agency for Workforce Innovation | State of Florida
January 2010 Data

To put JOLTS in perspective, there are currently (January) 5.5 persons available for every open job. In the second half of 2009, it was over 6.0 but pre-recession it was as low as 1.5.

There continues to be slack in the workforce and as long as there is, wage growth will remain stagnant. Wage growth has decelerated sharply since early 2007. In fact, growth has been cut in half since then. Wage growth is weaker across nearly every industry. Wage growth has been weaker for salaried workers than for hourly. Cutbacks in compensation are especially apparent for executives and managerial personnel in law and finance although compensation growth has now begun to return in the financial services sector.

Small businesses with fewer than 500 employees make up about half of the nation's workforce. More of these businesses were cutting compensation than raising it through most of 2009. According to the National Federation of Independent Businesses, however, the future may be a little brighter as more small businesses expressed (by survey) their intent to once again increase compensation.

As employment conditions improve, many previously discouraged workers will also step back into the labor force. That may force the nation's unemployment rate, which has been steady at 9.7% for two months, to edge up again. The economy will need to add at least 200,000 jobs each month to recover recession losses and to accommodate new or returning entrants to the job market. That rate of growth does not appear achievable anytime soon.

In the short term, the federal government will hire as many as 800,000 new census workers — 63,700 of them in Florida. That will surely boost payroll numbers. Nevertheless, most are temporary and relatively low paying jobs ($9—$16 per hour) that will disappear again later this year or next.

Unemployed by Seacoast Market

Treasure Coast Indian River | St. Lucie | Martin	35,959
Palm Beach Palm Beach County	76,461
Orlando Orange | Seminole | Lake | Osceola Brevard	172,110
Big Lake Okeechobee | Glades | Hendry | DeSoto Highlands | Hardee	14,229

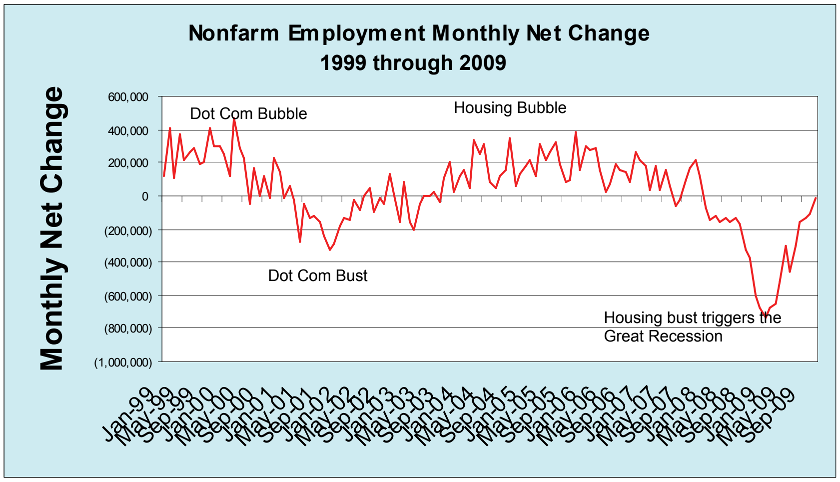
SOURCE: Agency for Workforce Innovation | State of Florida
January 2010 Data

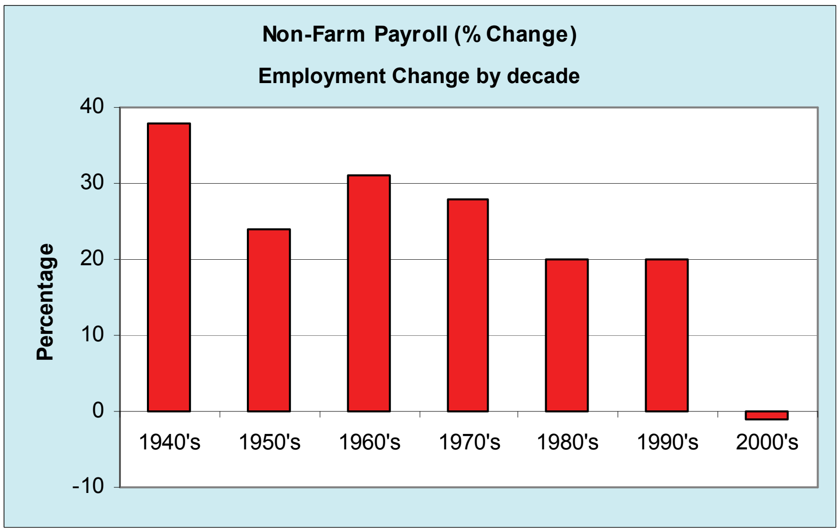
Forecast Employment Recovery by Seacoast Market

Treasure Coast Indian River | St. Lucie | Martin	2015
Palm Beach Palm Beach County	2013
Orlando Orange | Seminole | Lake | Osceola	2012
Brevard County	2015 Or Later
Big Lake Okeechobee | Glades | Hendry DeSoto Highlands | Hardee	2012

SOURCE: Seacoast Real Estate Economics
Forecast by William L. Pittenger

There are currently about 298,757 unemployed persons in Seacoast served counties. That is about 27% of Florida's unemployed. The table to the far left shows the number of unemployed persons at the end of January 2010 in each Seacoast served county. The table to the left (top) shows the number of unemployed in each Seacoast market. The shear numbers of unemployed persons have a profoundly negative effect on spending which, in turn, adversely impacts the broader economy. The high level of unemployment clearly exacerbates recovery.





When will recovery occur? Job losses have been severe at all levels of the economy but clearly more so in Florida where the effects of the housing bubble and its collapse were most severe. The chart at the top of this page shows a 10 year history of U.S. employment. The bubble era and the bust that followed are obvious.

We expect Florida employment to return to its pre-bubble level in 2014 or 2015. While that may seem like a lengthy time period, it is not. In fact, the risk is skewed toward an even longer time period. During the relatively minor eight month recession of 2001, it took five years for the nation to return to peak employment. Florida and most Seacoast urban markets returned more quickly but growth was being fuelled by the construction boom first driven by the hurricanes of 2004 and 2005 then the housing boom that would ultimately take on bubble proportions before bursting in 2007. Looking back, that minor recession was followed by a jobless recovery.

The Great Recession which began in December 2007 and which is now showing early, but fragile, signs of recovery is also shaping up to be followed by a jobless recovery due to the recession's depth, severity and duration. The Great Recession has now lasted over twice as long as the average recession since World War II. The decline in Gross Domestic Product (GDP) was nearly twice as steep as the average; job losses were nearly twice as deep and the unemployment rate nearly doubled. Clearly, The Great Recession was the most severe since the Great Depression of the 1930s.

Looking back longer term, the entire decade of the 2000's experienced dismal economic performance. As the chart to the left shows, employment growth was negative on a percentage basis for the entire decade. On a numerical basis, employment grew by 400,000 jobs but population grew 30 million. While much of the poor job growth was certainly recessionary given two recessions as bookends on the decade, a certain amount of it must surely be productivity improvement that emerged in the dot com era. Unfortunately, we have no way to separate recession impact from improved productivity.

We expect Florida and especially Seacoast served counties to have a higher than normal unemployment rate for a protracted period of time and possibly for the remainder of this decade. Employment will probably grow slowly at about 1.5 to 2.0% per year which will help drive the unemployment rate down, albeit very slowly.

When will employment improve in Seacoast markets? Seacoast urban markets have been especially hard hit by the recession due largely to their reliance on population growth, construction and housing. As all markets are slightly different, we expect them to recover at varying rates and over varying times. Our definition of recovery is that job growth and unemployment rates will return to levels last seen earlier this decade before the bubble run up. The table at the bottom right on the previous page summarizes our view of employment recovery. A cautionary note is that recovery so far is limited and fragile and the risk remains skewed to the downside and even longer recovery.

We expect the Big Lake Region, where unemployment rates currently hover in the 11.5 to nearly 15% range to recover in 2012. Big Lake unemployment is being driven by recessionary influences and not by the housing collapse. Metro Orlando should also return in 2012 given its very diverse economy. Moreover, not all industries were equally affected. Brevard County, however, the nation's Space Coast will bear the brunt of the shut down of the nation's space program this year and the possible shut down of the International Space Station by mid-decade. Roughly 7,000 jobs are expected to be lost directly and another 14,000 indirectly. The Treasure Coast will experience delayed recovery (2015) due to its dependence on construction industry which will be one of the last sectors to recover. Palm Beach County employment recovery will likely be in 2013. It too is highly construction oriented but its diverse economy makes it much more resilient.

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