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Seacoast NATIONAL BANK

Economic Perspectives

June Economic Digest — *labor market and consumer stress continue*

Employment fell again in May for the fifth straight month driving the nation's unemployment rate to 5.5%. Job losses have become relatively broad based extending beyond housing and construction and into manufacturing, retail trade and business services. Household wealth has also declined. In the first quarter, the drop was led by securities with real estate value deterioration a close second. Consumer borrowing has clearly shifted from mortgage and mortgage equity borrowing to consumer revolving debt — especially credit cards. Diminished household wealth, labor market deterioration, increased consumer borrowing costs as well as stress over gasoline and food prices contributed to consumer sentiment plunging to a 28 year low and the economy growing at little more than stall speed.

The Bureau of Labor Statistics (BLS) of the United States Department of Labor reported Friday (June 6th) that the U.S. labor market continued to weaken with a loss of 49,000 jobs in May. The May loss was less than consensus estimates of 50,000 to 60,000 At the same time, March and April job loss figures were revised to show slightly larger drops of 88,000 and 28,000 respectively. The national economy has now shed some 319,000 jobs so far in 2008.

The May decline continued to be relatively broad based. Last year, job losses were skewed toward construction and housing related sectors. Today, losses are more widespread in construction, manufacturing, retail trade and business services. Health services continue to defy the trend with modestly increased employment.

Month	Employment Change
Jan '08	-76,000
Feb '08	-76,000
Mar '08	-88,000
Apr '08	-28,000
May '08	-49,000

At the same time the nations unemployment rate surged from 5.0% to 5.5% — the largest single month rise since February 1986. In absolute numbers, that is 8.55 million people unemployed of which 1.55 million have been unemployed for 27 weeks or longer. Note that unemployment benefits expire after 26 weeks.

Part of the large increase can be explained by young people, including recent high school and college graduates, entering the work force for the first time. Indeed, second quarter employment numbers year-over-year consistently show some volatility for that reason. Despite historic volatility however, there is still unambiguous evidence that the labor market has weakened significantly since the third quarter of 2007.

Weekly initial claims (for unemployment) on a four week moving average are about 370,500. Continuing claims rose 1.2% in May to 3.104 million.

Initial claims above 400,000 are widely considered recessionary. The fact that new claims have been consistently below that threshold is encouraging as it tells us there has not been a significant weakening in the claims trend.

The Florida employment situation may have fared a little better. Data from the Florida Agency for Workforce Innovation (AWI) lag the national numbers by 30 days.

Nevertheless, in *April*, Florida's unemployment rate was 4.9%. When May data are released in mid-June we anticipate the rate will have topped 5% but will remain lower than the national rate for the same period. Nevertheless, in April, Florida had 456,000 people unemployed out of a workforce of 9.23 million. Florida workforce numbers for all Seacoast counties appear on page two of this report.

Florida's April employment growth rate was negative 0.8%. This is slower than the national employment growth rate which was positive 0.3%. Florida's negative growth rate continues a trend begun last September and is largely the result of declines in construction. Indeed, construction losses account for about 84,700 lost jobs which is 63% of the jobs lost in the state. That is a 13.8 % decline year over year.

Florida job losses have been greatest in construction, followed by manufacturing, professional and business services, financial services and information technology.

At the same time, health services saw a gain as did leisure hospitality and government. Look for the latter two sectors to enter the loss column in the next quarter as leisure hospitality contracts due to high fuel costs and growing softness in that industry and budget constraints negatively impact local government payrolls.

Putting it in perspective, the current unemployment rates for both Florida and the nation remain relatively low despite their modest increases in recent months. In Florida, employment decline is not nearly as broad based as it is nationally. It appears largely driven by the housing slowdown whose tentacles have reached only moderately into other sectors.

Looking forward, total job losses both nationally and in Florida should be less severe than in previous recessions largely because of conservative hiring practices since emerging from the last downturn in 2001. The private sector averaged only 80,000 new jobs per month nationally for the last six years — a relatively modest number during the growth years.

While employers were slow to hire in the growth years, they have been equally slow to lay off in recent bad times. In the previous two decades, employers were quick to replace experienced and therefore more expensive workers with cheaper and less experienced workers. Today, there is concern about the experience level moving into the next decade. That appears to explain why companies are retaining experienced workers at a higher rate.

Household Wealth. The collective value of household wealth fell by $1.7 trillion in the first quarter. According to the Federal Reserve Flow of Funds Report which tracks both sources and uses of money in the economy, that is the largest decline since 2002 and the second consecutive quarter of decline. The decline was not driven by falling home prices last quarter but rather by the stock market where the value of direct holdings of corporate equities fell by $556 billion. A loss in indirect holdings subtracted further from household wealth. Capital losses on financial assets totaled more than $1.0 trillion for the first time since the third quarter of 2002.

The value of real estate holdings fell $305 billion in the same time period. That drop was nearly three times what it was in the fourth quarter of 2007. Additionally, homeowner equity fell even more at $399 billion leaving home equity as a share of residential real estate value at 46.2% — a record low dating back to 1952 when the information was first tracked. To put that in perspective, homeowner equity was over 70% in 1983 and has steadily trended downward. Not surprisingly, the steepest decline has been since 2006 when home prices began to slide.

Consumer Borrowing. There has been a measurable slow down in mortgage borrowing which is clear in the Fed data. At the same time, consumers are shifting their borrowing to revolving consumer loan products. Indeed, growth in consumer credit borrowing exceeded growth in mortgage borrowing for the first time since 1991. This shift in borrowing was expected and is likely to continue as falling home sales, declining home prices, tighter mortgage lending standards and higher mortgage costs all suggest additional slowing of mortgage borrowing growth.

Diminished home equity leaves consumers less able to tap that equity for cash. Mortgage equity withdrawal has been a major facilitator of consumer spending for much of this decade. Combined with the decline in the value of equities, there is a pronounced negative psychological wealth effect. These factors will further limit consumer spending later in 2008 and into 2009.

Consumer sentiment, as measured by a Reuters/University of Michigan Index has fallen to a 28 year low. This too is not surprising given the weak job market, diminished household wealth, and dramatically rising gasoline and food prices.

Gross Domestic Product. All these factors and more roll into an economy that is growing at a rate not much more than stall speed. The Gross Domestic Product (GDP) was revised upward from 0.6% to 0.9% for the first quarter and consensus estimates are for a similar rate of growth in the second quarter as consumers remain financially stressed. Over 70% of the GDP is consumer driven so we are unlikely to see significant economic growth until consumer activities, including housing, begin to rebound.

The Business Cycle Dating Committee (BCDC) of the National Bureau of Economic Research (NBER) has still not officially declared that a recession has begun. Nevertheless, the consensus is that it surely has and the recovery will be slow.

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

County	Work Force	Employment	Unemployment	Unemployment Rate January 2008	Unemployment Rate April 2007
Orange	598523	572751	25772	4.3%	3.4%
Seminole	243932	233728	10204	4.2%	3.1%
Lake	131888	125508	6380	4.8%	3.6%
Osceola	130621	124115	6146	4.7%	3.8%
Brevard	262464	249178	13286	5.1%	3.9%
Indian River	60,829	57219	3610	5.9%	4.5%
St. Lucie	121849	114016	7833	6.4%	4.7%
Martin	65998	62714	3284	5.0%	3.6%
Okeechobee	17762	16804	958	5.4%	4.0%
Glades	4686	4482	204	4.4%	4.0%
Hendry	18532	17370	1162	6.3%	5.0%
DeSoto	14610	13916	694	4.8%	3.7%
Highlands	42191	40076	2115	5.0%	3.5%
Hardee	12765	12292	473	3.7%	3.0%
Palm Beach	639857	609191	30666	4.8%	3.6%
Broward	988818	947600	41218	4.2%	3.1%

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