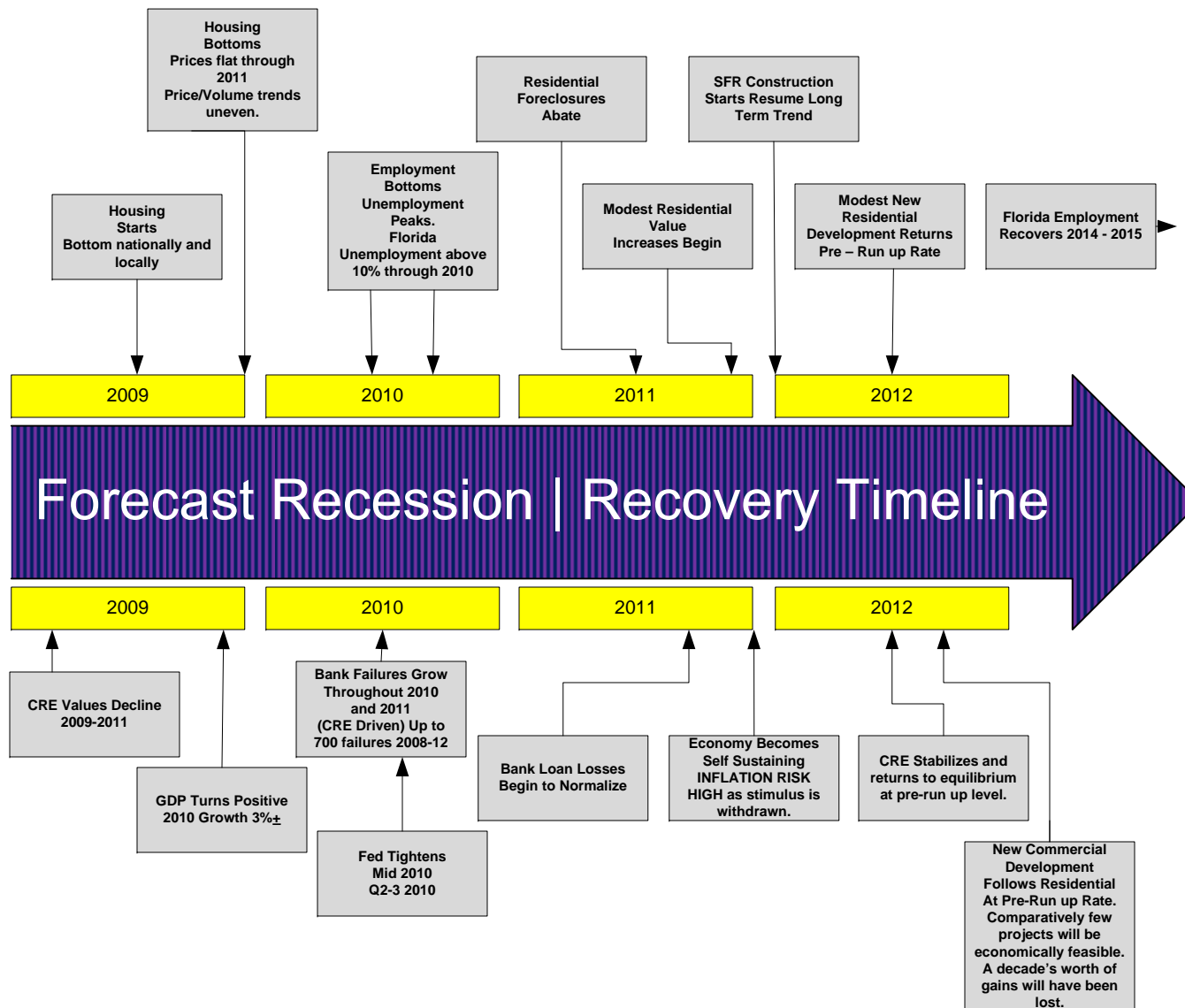


Fourth Quarter Forecast Recession | Recovery Timeline

Looking Forward from October 1, 2009



The recession probably ended in Q3 2009 but don't look for the Business Cycle Dating Committee of the Bureau of Economic and Business Research (the official arbiter of the nation's business cycle) to officially declare an end until well into 2010. The committee would rather be right than timely. It is also struggling to reconcile anticipated GDP growth (+3±%) against unemployment which continues to rise. What is certain though, is when the recession ends, it will have been the deepest and broadest recession since the Great Depression of the 1930's and certainly the deepest of any of the 10 previous post World War II recessions. Many economists refer informally to the current recession as "The Great Recession."

Our quarterly recovery time line has changed little this year. Instead there have been literally thousands of data points that reinforce our overall view of recovery. We have, however, taken deflation off the table as a short term risk. Inflation still remains a short to medium term risk as the federal government will struggle to withdraw gracefully from the tidal wave of stimulus spending.

A variety of economic conditions being experienced today are structural rather than cyclical and are likely to have lasting consequences for the broader economy. For example, many job losses today, unlike those of other recessions since World War II, are permanent. That will keep unemployment elevated for several years. Florida will likely remain in the 10% range throughout 2010 and in the 7-8.5% range for several years after recovery. That is far above its cyclical low of 3.3%.

Housing value declines in many areas have now exceeded the percentage losses during the Great Depression. While median prices have found bottom this year, they are likely to bounce along that bottom for several more years. Foreclosures through 2011 and higher than normal unemployment will keep a lid on price increases.

Robust growth is not likely for as long as a decade. During the last severe real estate driven recession of the late 1980's and early 1990's, it took single family housing roughly seven years to resume robust growth and condominiums 13 years. Indeed, Moody's Economy.Com has forecast 14 years from peak to peak. It took 20 years after the Great Depression. The Japanese experience should not be ignored either. Housing lost 50% of its value some 15 years ago and has still not recovered.

Commercial real estate (CRE) is now the weak real estate link in the U.S. and local economies. Many banks with troubled assets have not yet dealt realistically with them. Assets have been slow to sell and many banks remain in denial concerning the depth and rapid pace of the value decline. Many bankers naively hope that values will reverse their downward trend before they have to write them down and/or dispose of them. That possibility seems remote today. When the log jam of troubled assets finally breaks, additional value decline is highly probable.

While housing is recovering, commercial real estate (CRE) prices and values continue to decline. The slide has been fast and steep with no short term end in sight.

Real estate, and especially housing, has a profound effect on the broader economy due to its far reach both directly and indirectly. In our view it will be virtually impossible for the broader economy to return to robust growth without significant improvement in housing. While there has been measurable housing improvement, it has been far from robust and still remains fragile.

CRE is also the primary driver of bank failures. The number of failures thus far in 2009 is nearing 100 and the FDIC reports 416 unidentified banks on its problem list. We have not changed our forecast for up to 700 bank failures between 2008 and 2012. We expect the pace of bank failures to pick up in 2010 and continue into 2012 – the direct result of sinking commercial real estate.

Overall we do not expect a fast and robust economic rebound despite impressive gains in the stock markets recently. Instead, we expect a relatively sluggish and uneven recovery at least for the next couple of years.

The forecasts presented herein are the product of research, analysis and data interpretation by William L. Pittenger only and do not necessarily reflect the views of Seacoast National Bank, its management or board of directors. The forecasts are based on data available through September 30, 2009. This recovery timeline should be considered in its broadest sense and relied upon for high level general information. As with any forecast, the cone of uncertainty widens as it moves into the future. Moreover, unforeseen or black swan events (events that are highly improbable) cannot be forecast and can change this recovery forecast.

Please address questions or comments to:
 William L. Pittenger, Chief Real Estate Economist, Seacoast National Bank.
 william.pittenger@seacoastnational.com