

Econocast

Seacoast Market Review – August 2010

Financial Reform

New legislation and enforcement will change how lending is conducted for houses, cars, and businesses. The Dodd-Frank Wall Street Reform and Consumer Protection Act (S.3127) passed in the U.S. Senate on May, 20.

The Bill's provisions give a basic framework of the reform with detail left to be completed by regulators over the next 12 to 18 months. As such, the full scope of impacts will not be understood for years to come.

While the Bill is intended to address systemic risk associated with large, complex institutions, it will likely result in additional restrictions and burdens on traditional banks as well as higher credit costs for consumers and the availability of fewer banking products.

Opponents of the legislation feel the bill penalizes thousands of traditional banks that had nothing to do with the financial crisis. The bill restricts traditional banks' ability to lend to small businesses that are vital to the economic recovery. As a consequence, more financial business may be driven into less-regulated non-bank firms.

From a consumer standpoint, these banks' operational costs will no doubt increase in order to comply with the requirements. As a result, banks will likely have to charge for previously free services such as debit cards and checking accounts.

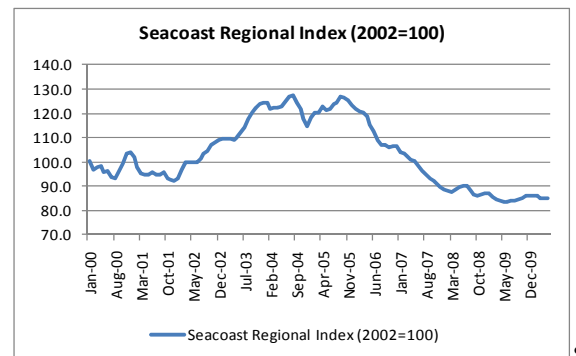
Another criticism of the Bill is the limit it places on utilizing derivatives to hedge risk. The consequence of this would be depletion of capital and higher mortgage and credit costs.

The effects of the legislation have yet to be realized or understood. At this point, even though a double dip recession is unlikely, markets have priced in slower growth and lower inflation. A 3% 10-year Treasury yield incorporates a forecast for nominal growth in GDP of only 3% or less for the next decade.

More generally, the normal cyclical recovery process is weighed down by structural changes in U.S. housing and financial sectors.

Economic Activity Index

The Seacoast Regional Index of Economic Activity covers the 13 counties 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. This month's indicator stands 85.1, generally unchanged from last month, and 1.92% higher than the same period last year.



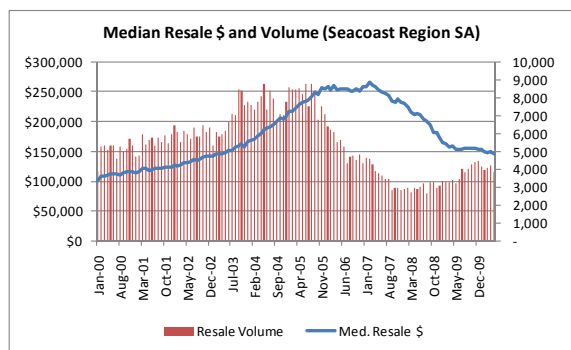
Source: Fishkind & Associates, Inc.

The only component to improve from month-to-month for the region was initial unemployment claims which decreased by 12.2% from the prior month. It is likely temporary Census hiring in Florida played a role in the improvement as over 32,000 new positions were filled in May alone.

Improvements in initial unemployment claims were offset by erosion in median resale pricing and volume - which decreased 2.2% and 8.4% respectively from the prior month. Median pricing is down 5.1% from the same month last year and is reflective of the rising tide of distress sales.

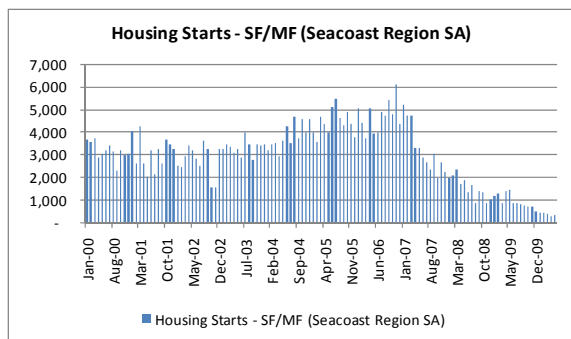
Housing starts remained largely unchanged from the prior month at 307 - although this represents an 80% year over year reduction.

While the housing markets have been clearing inventory at a rapid pace as evidenced by steady increases in resale volumes, the large levels of distress sales has pushed prices down and is keeping them soft. For example, the Orlando Regional Realtor Association estimates that bank-owned and short sales currently make up 68% of all transactions. The following chart shows median resale price and volume trends for the Seacoast Region.



Source: Dataquik

Currently, there is little incentive to construct new homes due to the depressed cost of existing housing. National housing starts are at their lowest levels in 30 years. This is also reflective, if not magnified, in the Seacoast market region. New housing start activity is not expected to increase until the market for existing homes stabilizes.

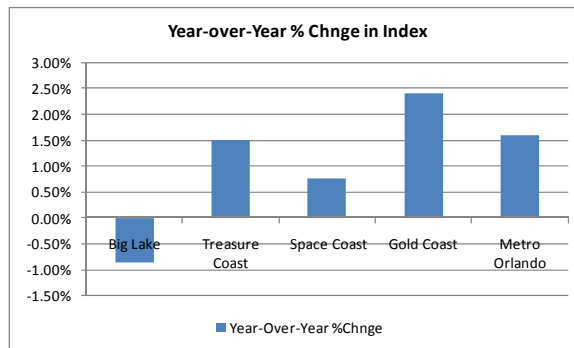


Source: Bureau of Economic and Business Research

Housing markets are expected to weaken further with the expiration of the Federal homebuyer tax credit which stimulated purchases. The impending weakness is all the more troubling since mortgage rates dropped below 4.75% to some of their lowest levels in 30 years. Without meaningful improvement to home prices, owners are unable to sell their current homes because they are effectively "locked in" by negative equity positions. This has implications for the region's growth prospects going forward as retirees in sending states are unable sell their homes.

Market Area Comparison

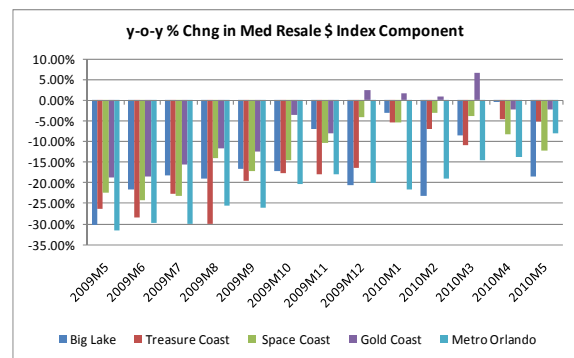
From a year over year perspective, all Seacoast markets have shown improvement in Index levels with the exception of the Big Lake market – which has experienced annual decreases in housing starts and median resale pricing disproportionate to other areas.



Source: Fishkind & Associates, Inc.

The Gold Coast Market has shown the best year-over-year performance due to stable employment and increased housing volumes, spurred by lower prices.

Across all markets, the rate at which median resale price index component is declining has been slowing. It is still dropping - but at a decreasing pace. The Gold Coast market has actually logged some year-over year gains.

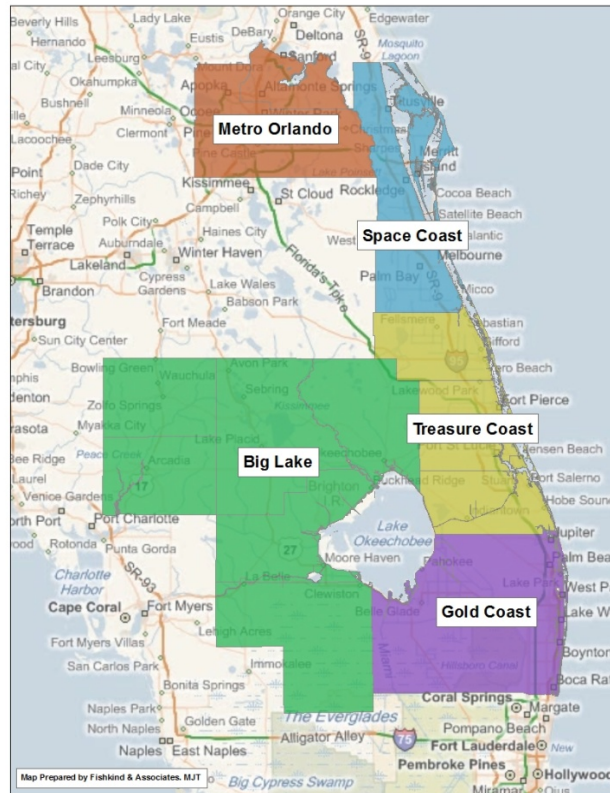


Source: Fishkind & Associates, Inc.

While the year-over-year figures are encouraging, they simply mean things are getting less bad rather than any better. Our view is that the region will not see a full recovery until the middle of 2011 – and possibly later for the Big Lake market.

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.