

Economic Outlook

Seacoast Market Review – October 2010

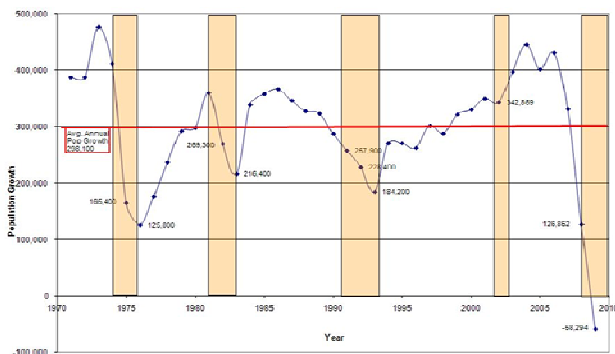
Florida 2010 Preliminary Population Estimates

Some have referred to Florida's economic structure as operating according to a population Ponzi scheme. That is, a steady flow of new residents are required to support the existing state of affairs. Without a state income tax, Florida relies on growth and tourism for fiscal stability.

Everything seemed to be going according to plan as the State averaged over 310,000 new residents per year from 1970 to 2008. Regardless of whether the U.S. was in recession or not, new residents flocked to Florida in search of employment and leisure. That changed in 2009.

As the U.S. was mired in the worst housing and financial collapse since the Great Depression, Florida actually lost population for the first time since World War II. The housing and credit-related nature of the recession exposed the cracks in the State's foundation.

The chart below shows Florida population growth (blue line) relative to prior recessions in the U.S. economy (tan areas).

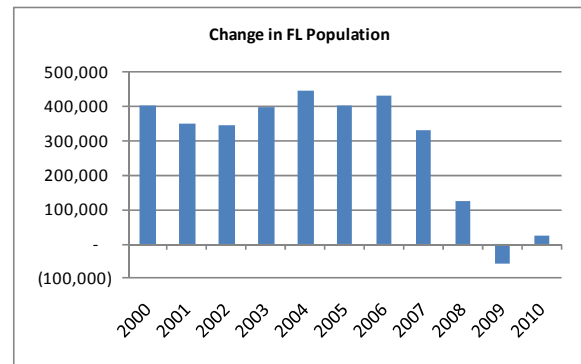


While previous recessions created only moderate drag on population growth, the housing and credit-related nature of the current downturn produced significant effects.

Broken nest eggs and diminished home equity forced retirees in northern sending states to temporarily re-

evaluate their plans for moving to Florida. The State's labor markets were decimated by the sharp reduction in financial and construction activity that accompanies new growth.

According to the preliminary, but official, population counts from the Bureau of Economic and Business Research at the University of Florida, the State's population grew by 22,843 in 2010 compared to a loss of 58,294 in 2009.



Source: Bureau of Economic and Business Research

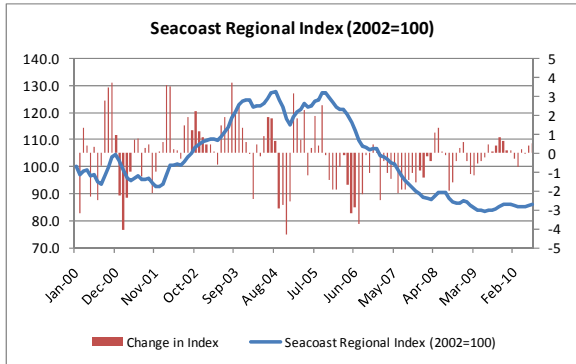
Of course by recent historical standards this is equivalent to no growth, but it is still better than continued contraction.

While it is welcome news that Florida has stopped losing population, it is little relief. With slower growth in the U.S. economy likely coupled with continued weakness in housing markets, Florida's population growth will remain very modest at best through 2011. Once a more robust recovery builds momentum in the second half of 2011 and housing markets recover a bit the stage will be set for stronger population growth in Florida in 2012. Unfortunately, there is a lag between an improving national economy and the translation of these fundamental forces into stronger population growth in Florida.

Regional 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.

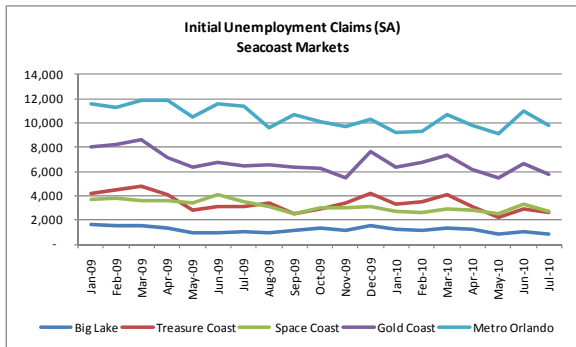
This month's indicator stands at 86.1, up one-half a point from last month, and 2.69% higher than the same period last year.



Source: Fishkind & Associates, Inc.

An uptick in housing starts and improvement in initial unemployment claims drove the month-to-month increase. Resale volume and pricing declined over the month – although not enough to overshadow improvements in other components.

Florida's labor markets are flashing mixed signals. In July the State gained 1,700 jobs over June on a seasonally adjusted basis and 17,500 jobs year-over-year. While metro areas across the state showed some improvement, new claims for unemployment compensation remain high. Although claims are down from peaks over the last few months, the levels are still elevated.

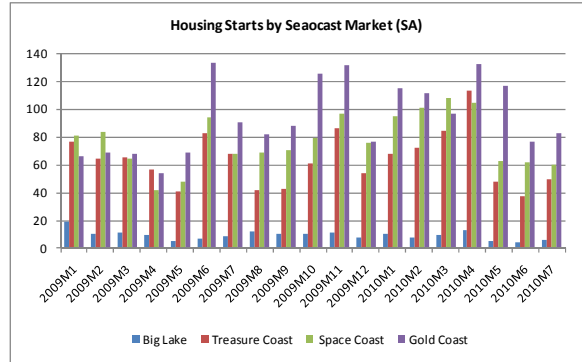


Source: Bureau of Labor Statistics

These high levels of claims call into question any recent improvements in employment. It is difficult to

see how job growth can continue in the face of rising claims in Florida and the US.

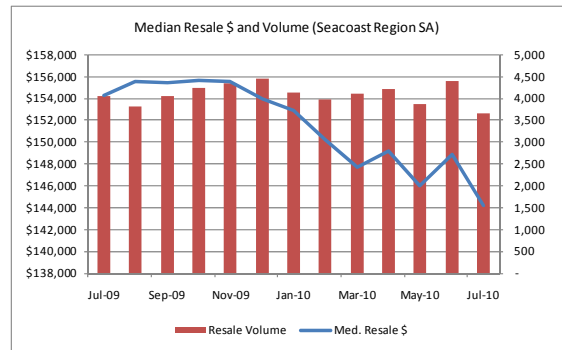
Housing starts in the Seacoast Region increased to 414 in July from 348 in June on a seasonally adjusted basis. The increase represents little overall improvement as June's numbers were among the lowest on record.



Source: Bureau of Economic and Business Research

As can be expected, the low level of construction spending has created drag on retail sales. Taxable sales only increased 0.6% for the twelve months ending in June when compared to 2.9% year-over-year growth during the spring months. A 10.8% drop in construction spending for June likely explains most of the weakness on overall sales.

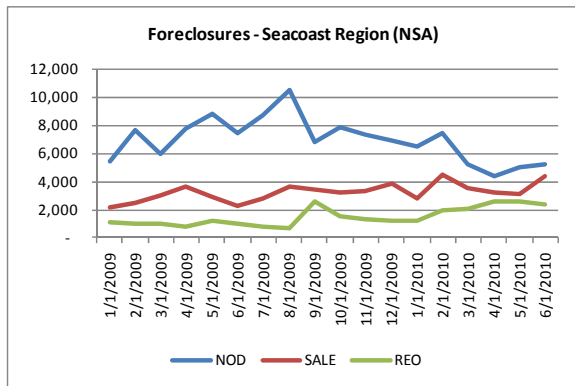
Median resale home pricing for the Seacoast Region took a sharp drop in July to \$144,160 and is reflective of the rising tide of distress sales. Volumes are also down due to weak demand as the impact of the expiration of the tax credit for first time homebuyers is felt.



Source: Dataquik

There is a two tier market in play with bank owned and short sale activity representing a large portion of closings. This is magnified as banks have shifted policy from one of benign neglect to aggressively foreclosing and selling assets.

Prices will show stabilization over time as distress sales become a lower share of overall closings. Notice of default foreclosure filings for the Seacoast Region (the first stage in the foreclosure process) have trended downward. At the same time trust sales (sale of the foreclosed asset) are at their highest levels. This means it is likely the worst of the distress properties are currently being worked through the system.

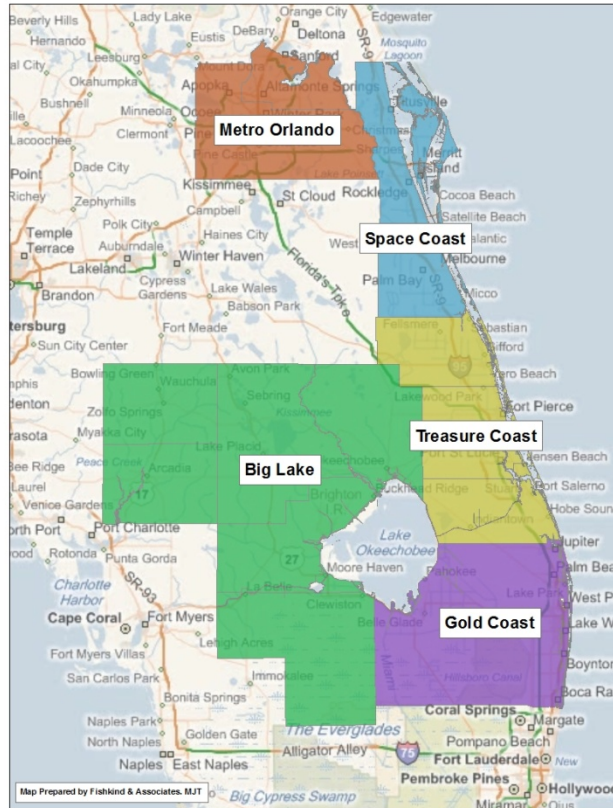


Source: RealtyTrac

Stabilization to Florida's housing markets has slowed but is not over. The obstacles posed by the collapse of the housing bubble and the structural changes in the financial system are proving to be more difficult to overcome, especially as stimulus spending winds down. As long as the US economy can avoid recession, this winter season should mark the beginning of Florida's long awaited economic recovery.

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.