Florida:
An Economic Overview

January 10, 2013

Presented by:

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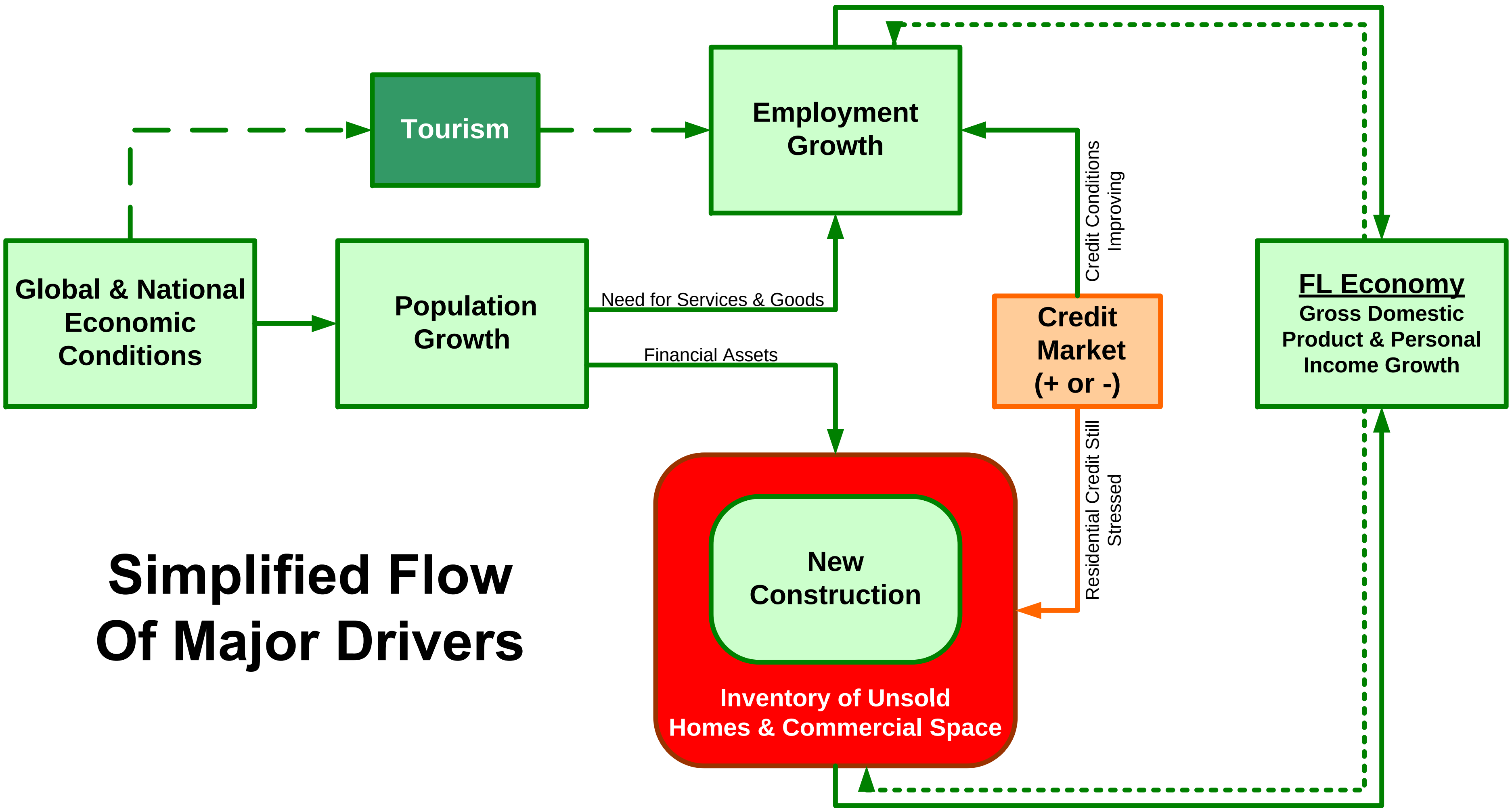
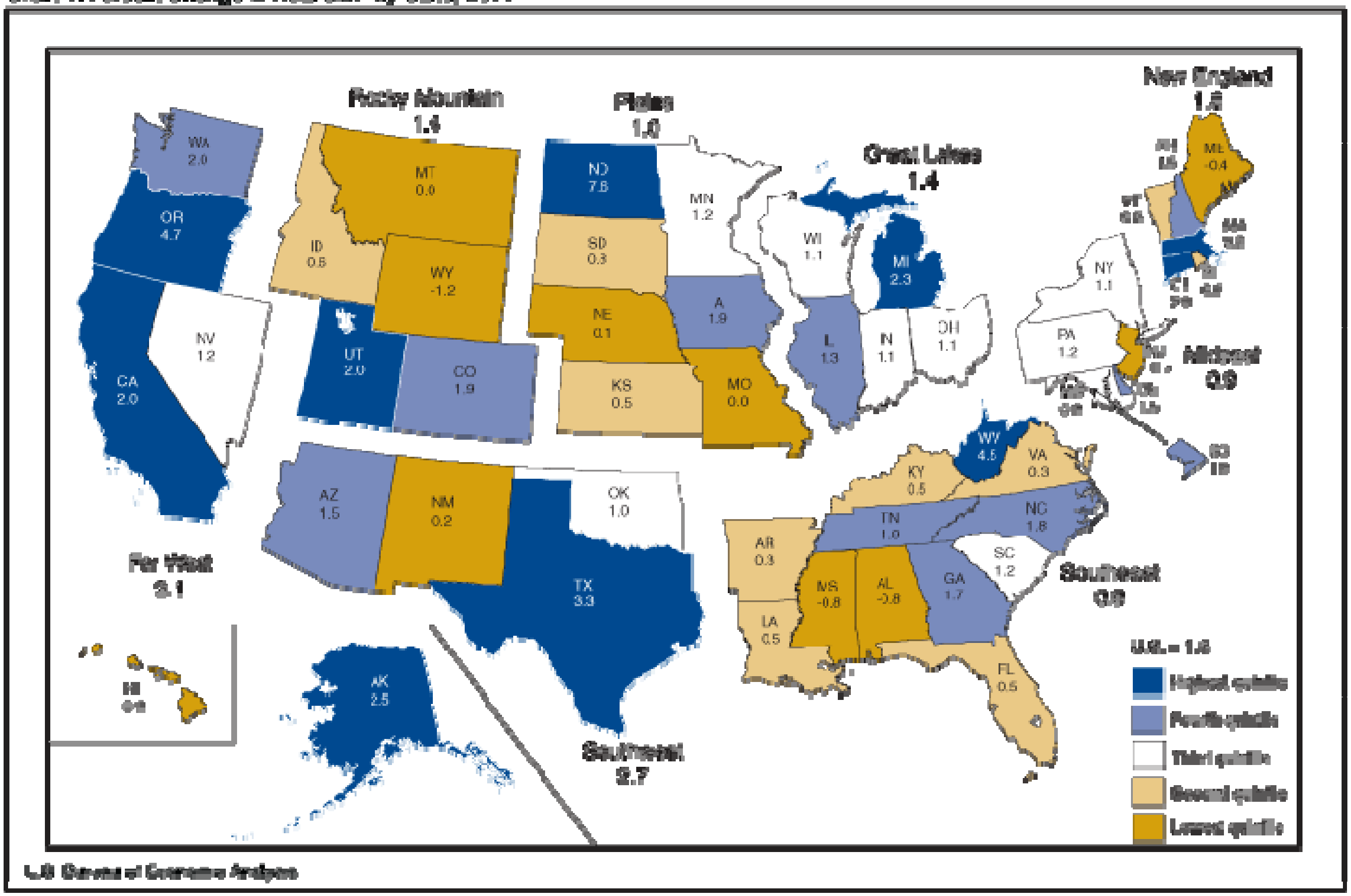
Key Economic Variables Improving



Simplified Flow Of Major Drivers

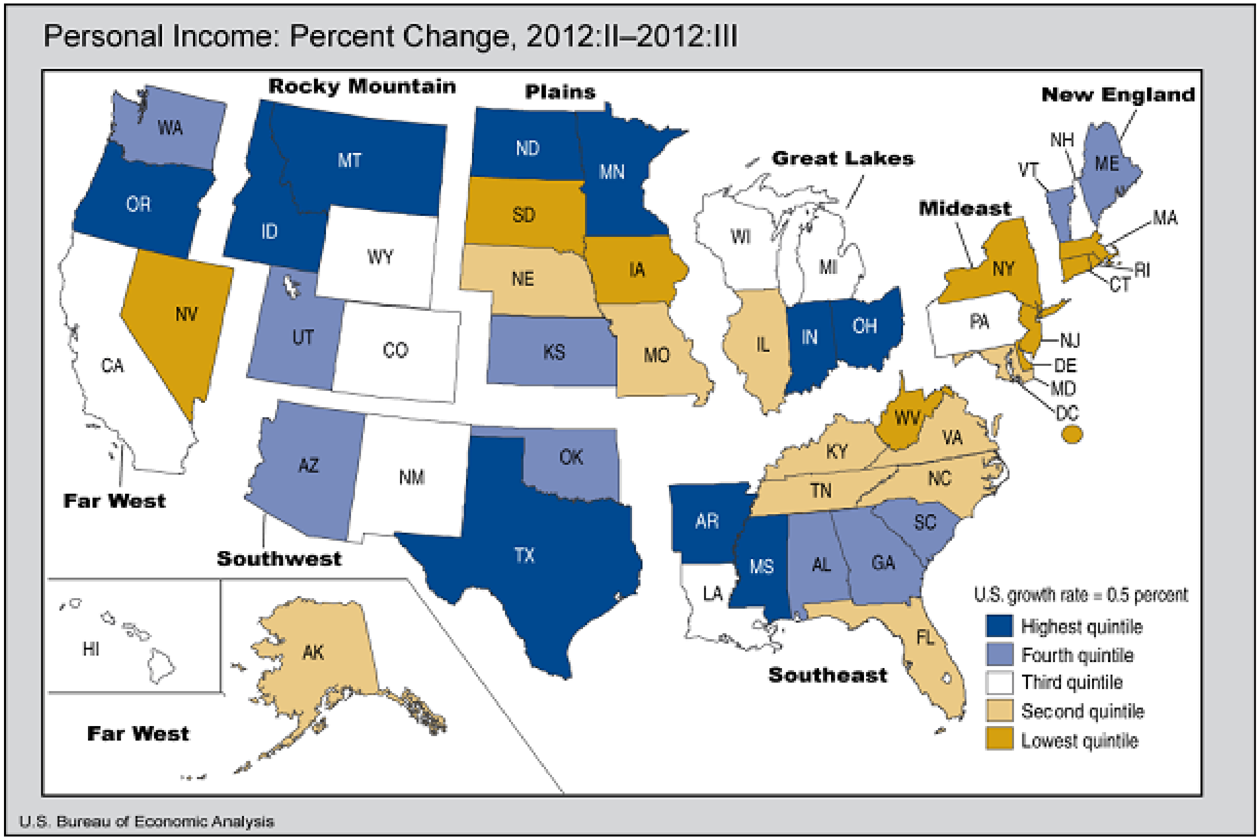
Economy Remained Positive in 2011

Chart 1. Percent Change in Real GDP by State, 2011



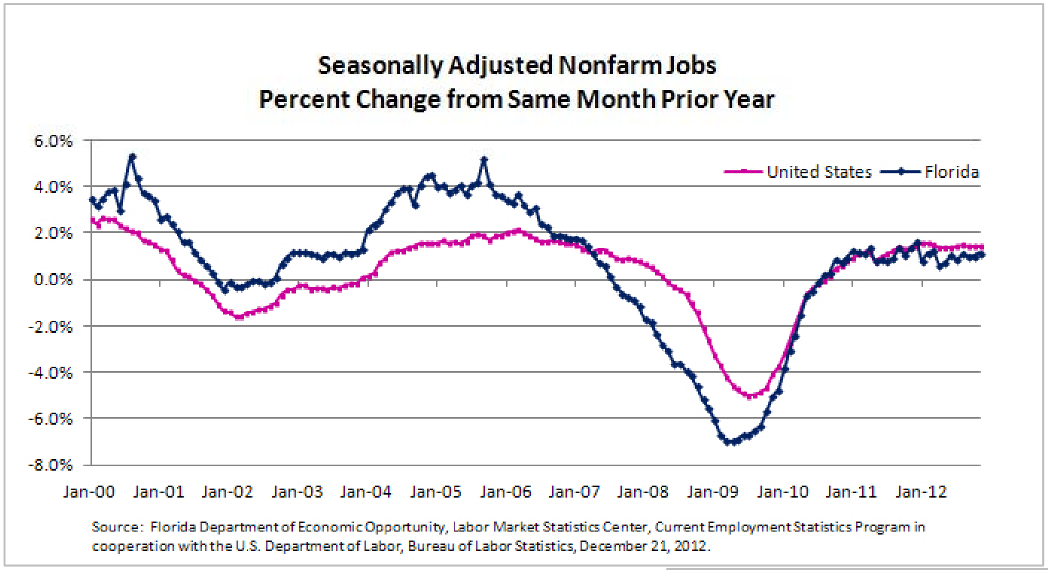
In 2011, Florida's economic growth remained in positive territory for the second year after declining two years in a row. State Gross Domestic Product (GDP) ranked us 37th in the nation in real growth with a gain of 0.5%. While the state's ranking improved, the growth slowed from a downwardly revised 0.9% for 2010.

FL Personal Income Grows in Q3:2012



Growth (although still positive) slowed in Florida during the third quarter of the 2012 calendar year—moving below the prior quarter which was significantly revised downward. Florida was ranked 35th in the nation with quarterly personal income growth of 0.4 percent, putting the state slightly below the national growth rate of 0.5 percent. *Manufacturing* and *Construction* continued to be among the state's weakest industry areas for earnings. In contrast, the *Arts, Entertainment, and Recreation* and *Retail Trade* industry areas performed strongly.

Current Employment Conditions



November Nonfarm Jobs (YOY)

US 1.4%

FL 1.1%

YR: 83,300 jobs

Peak: -672,600 jobs

November Unemployment Rate

US 7.7%

FL 8.1%

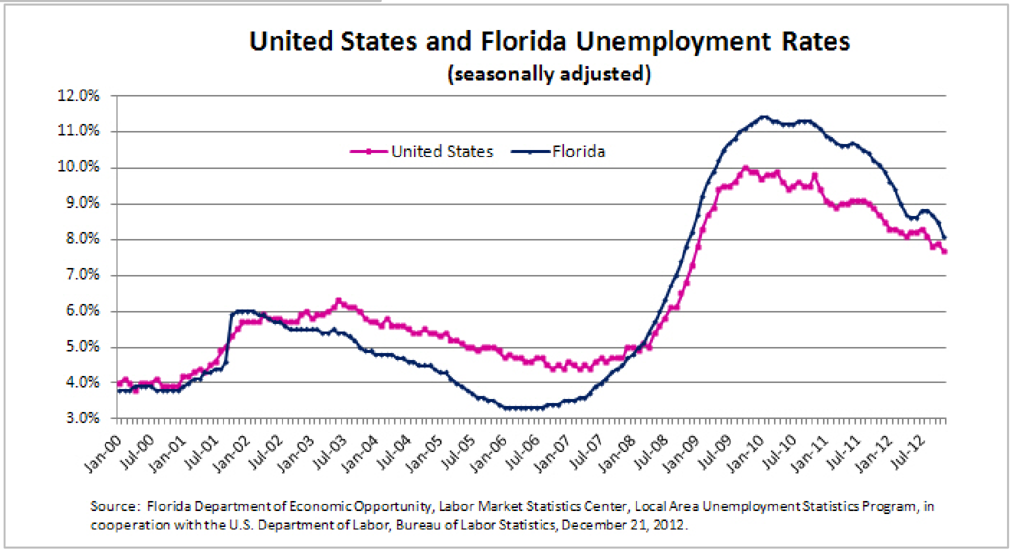
(760,000 people)

Fourteen states had a higher unemployment rate than Florida.

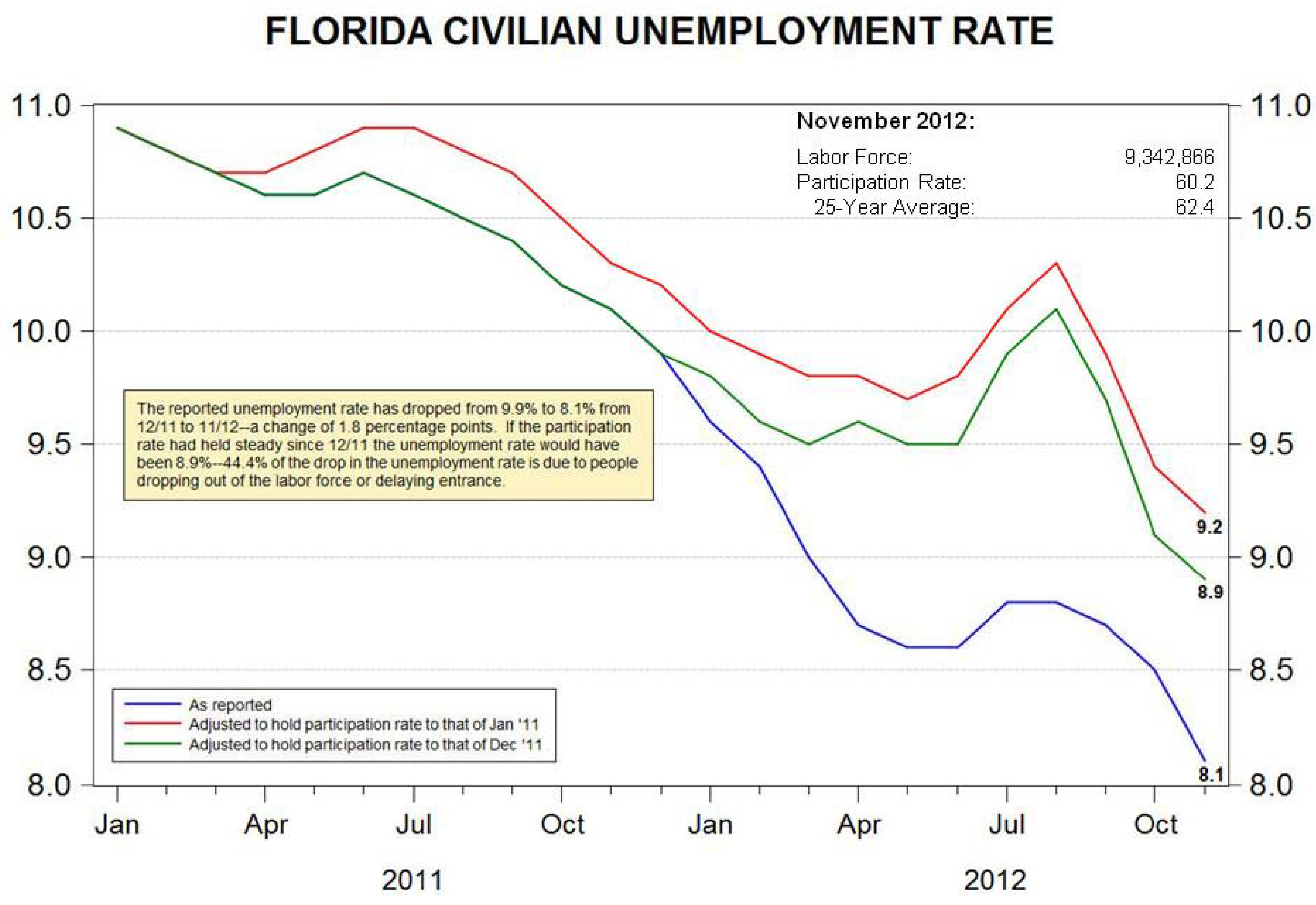
Highest Monthly Rate

January & February 2010

11.4%

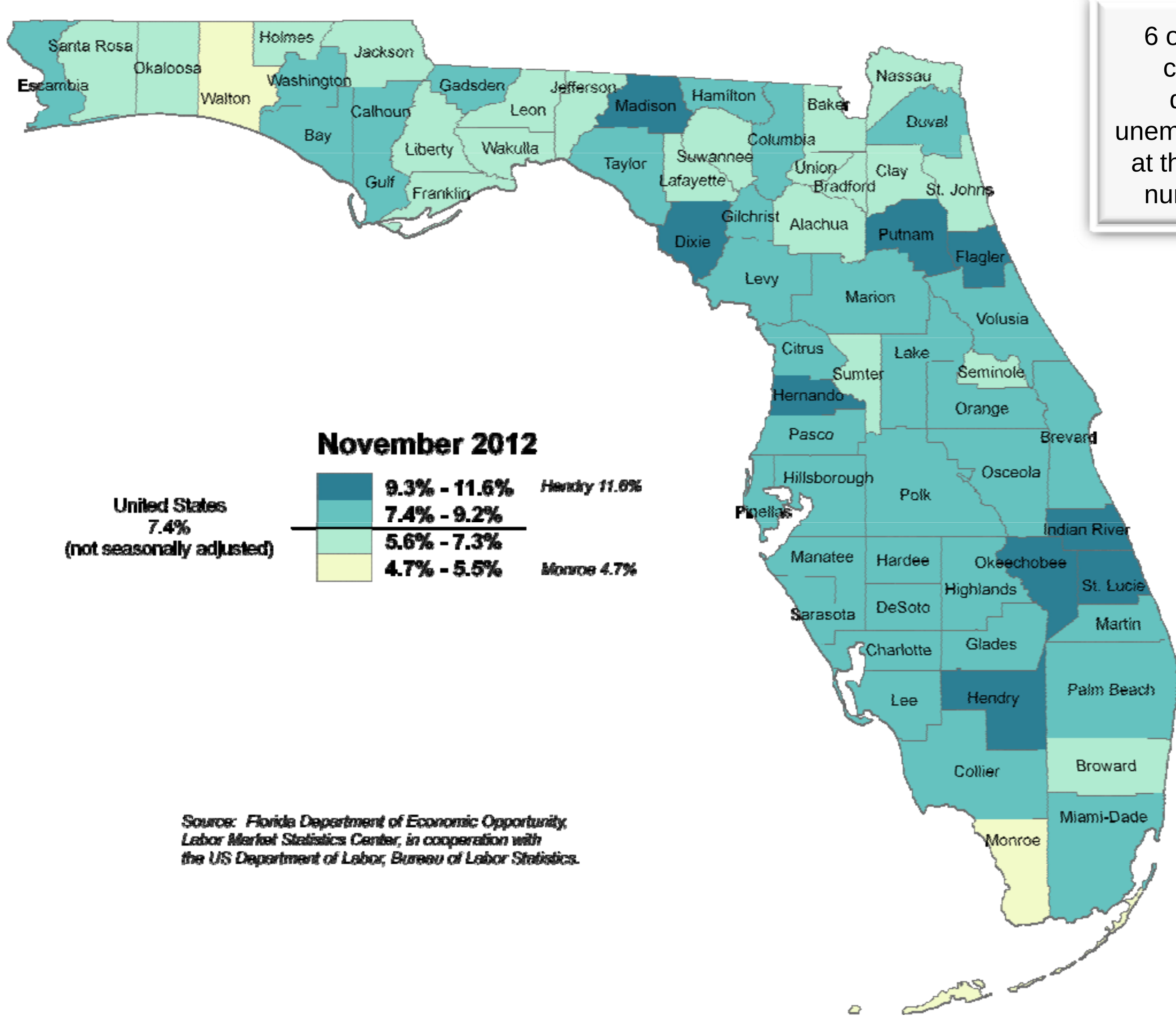


Labor Force Changes Influence the Rate Drop



National situation as reflected in the *IHS Global Insight Executive Summary* for November 2012: "Lower labor-force participation, not rapid jobs growth, has been the primary driver of the drop in the unemployment from its 10.0% peak. As jobs return, ...the labor force is likely to grow faster, slowing down the decline in unemployment." The Federal Reserve Board has made similar statements.

Unemployment Rates

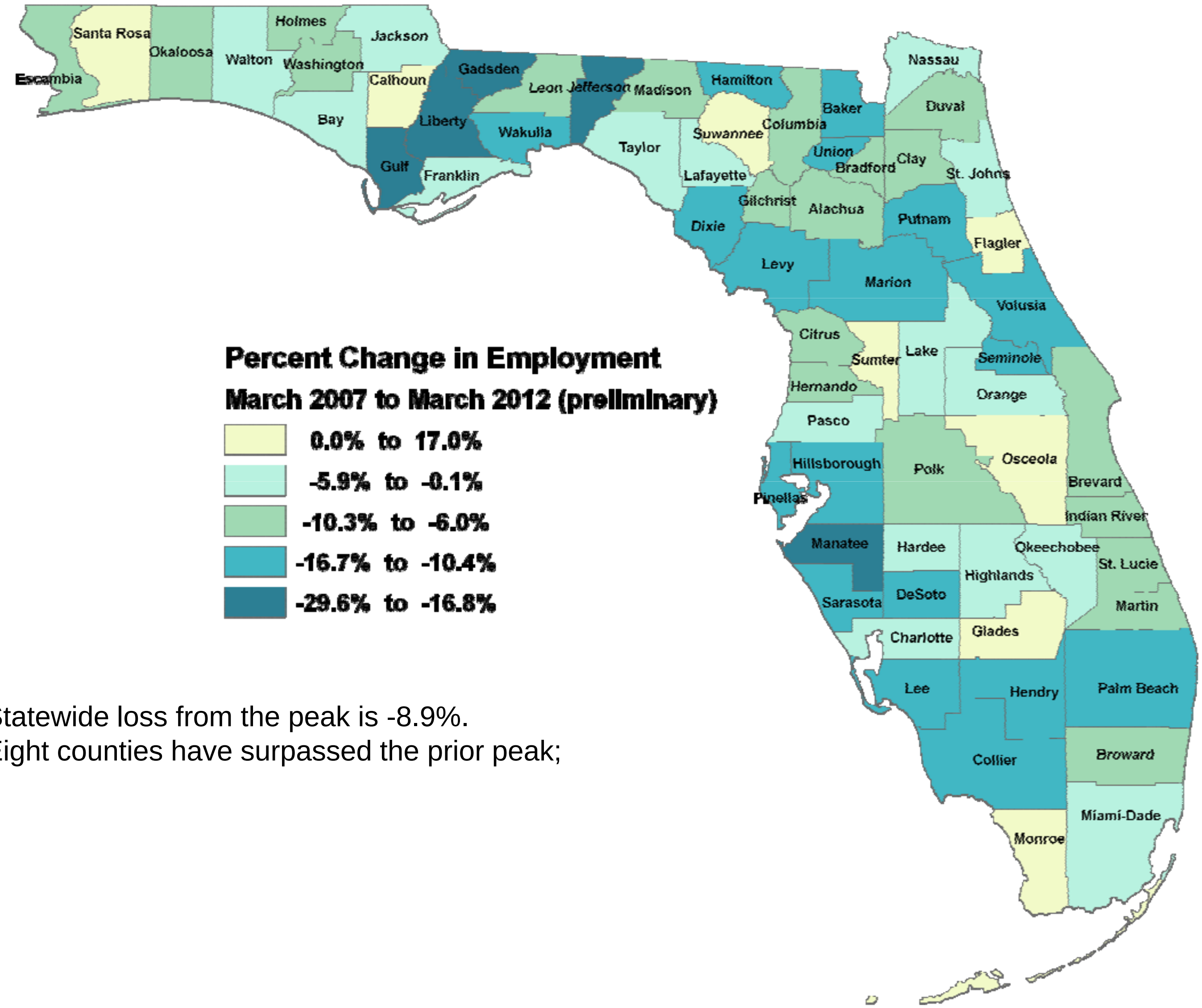


6 of Florida's 67 counties had double-digit unemployment rates; at the highest, this number was 52.

Florida’s Job Market

- The job market will take a long time to recover – about 672,600 jobs have been lost since the most recent peak. Rehiring, while necessary, will not be enough.
- Florida’s prime working-age population (aged 25-54) is forecast to add about 2,500 people per month, so the hole is deeper than it looks.
- It would take the creation of almost 1 million jobs for the same percentage of the total population to be working as was the case at the peak.

Employment Still Down from Peak Levels, But Improving...

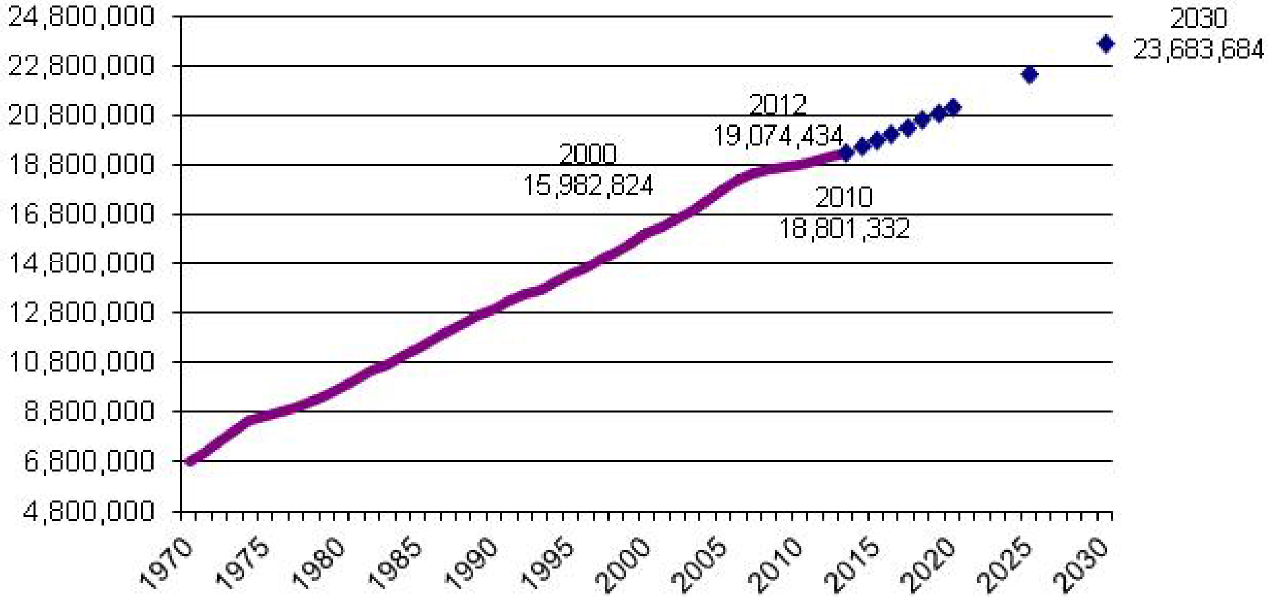


Statewide loss from the peak is -8.9%.
Eight counties have surpassed the prior peak;

Population Growth Recovering

- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Population growth is forecast to continue strengthening, showing increasing rates of growth over the next few years. In the near-term, growth is expected to average 1.2% between 2012 and 2015 – and then continue its recovery in the future, averaging 1.4% between 2015 and 2020. Most of Florida's population growth through 2030 will be from net migration (85.3%). Nationally, average annual growth will be about 0.9% between 2012 and 2030.
- The future will be different than the past; Florida's long-term growth rate between 1970 and 1995 was over 3%.
- Florida is on track to break the 20 million mark during 2016, becoming the third most populous state sometime before then – surpassing New York.

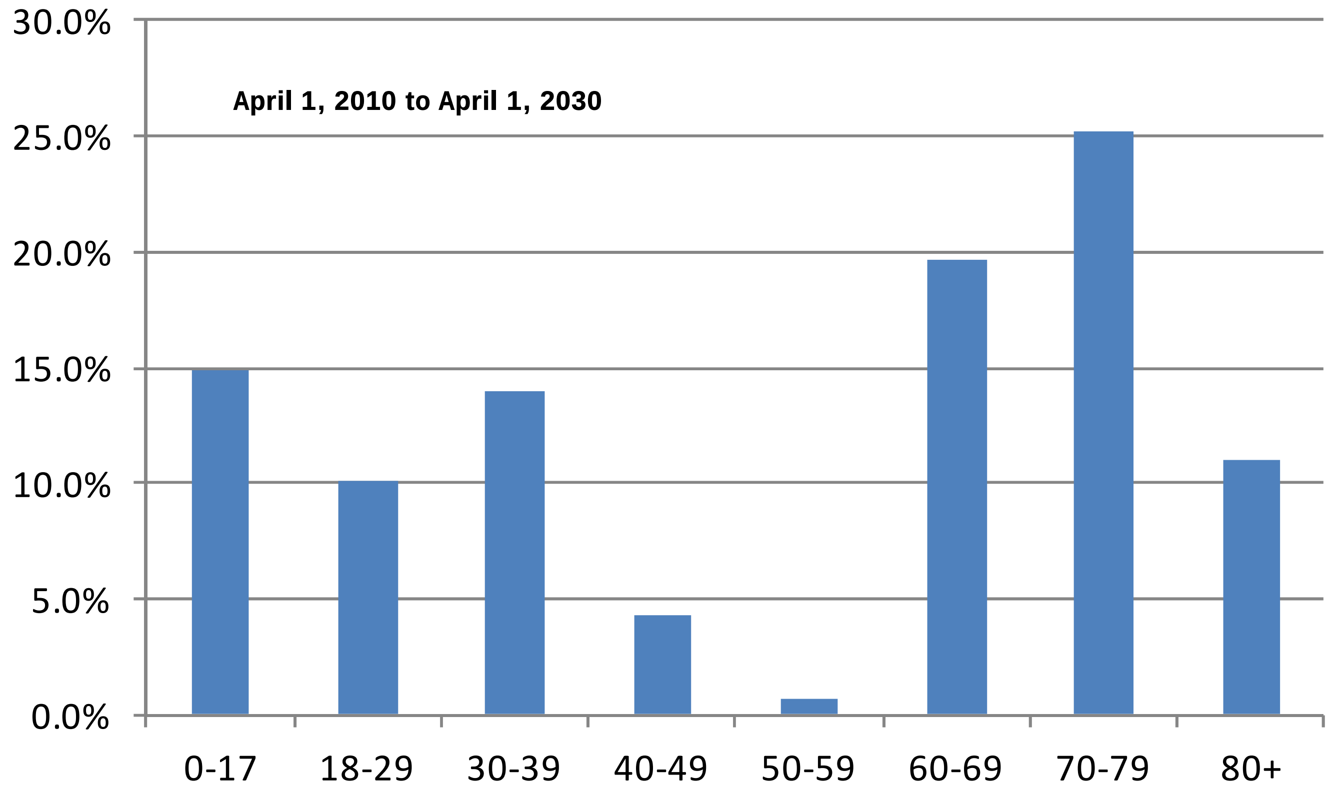
Florida's April 1 Population Snapshot



Florida's population:

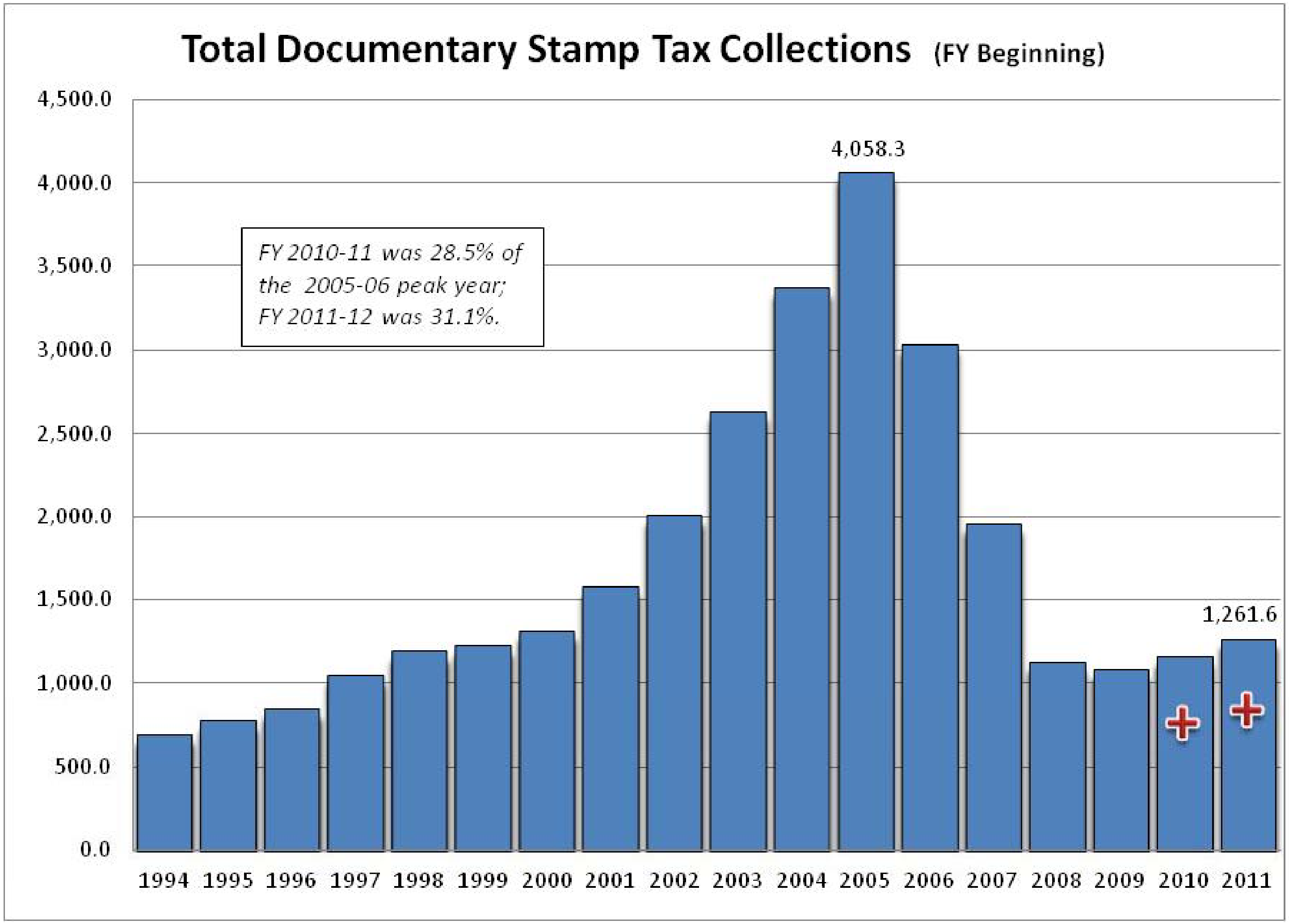
- was 15,982,824 in 2000
- was 18,801,332 in 2010
- is forecast to grow to 23,683,684 by 2030

Population Growth by Age Group



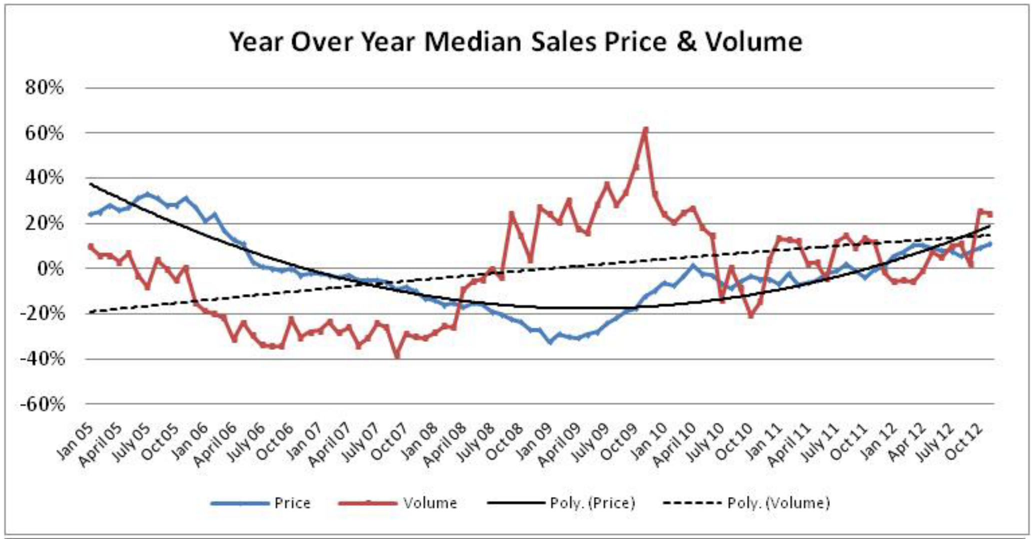
- Between 2010 and 2030, Florida's population is forecast to grow by almost 4.9 million.
- Florida's older population (age 60 and older) will account for most of Florida's population growth, representing 55.9 percent of the gains.
- Florida's younger population (age 0-17) will account for 14.9 percent of the gains.

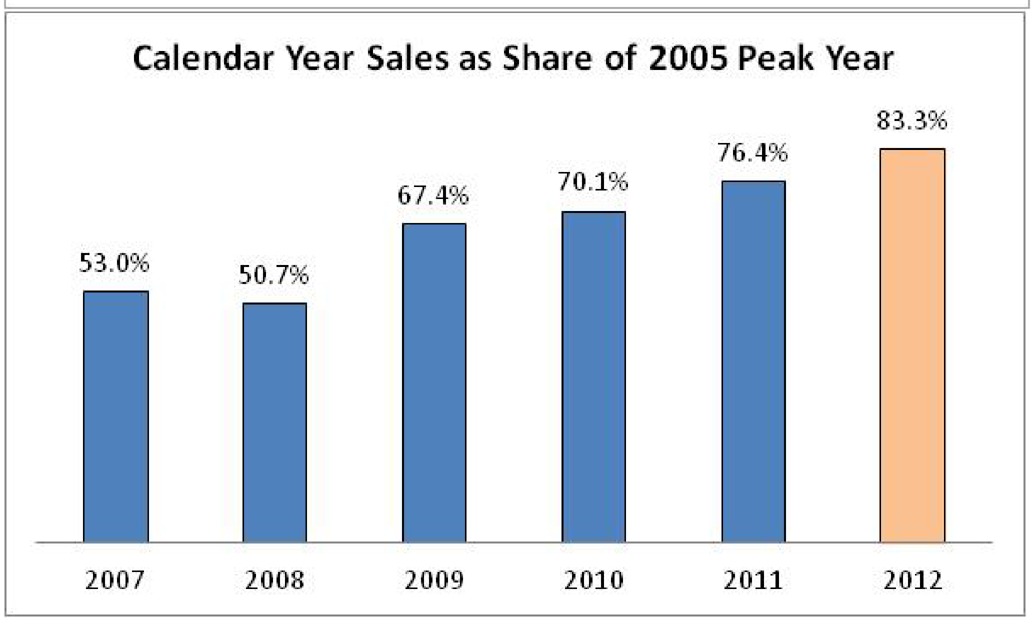
Florida Housing is Generally Improving



Building permit activity, an indicator of new construction, is back in positive territory, showing strong (31.6%) year-over-year growth for the first eleven months of the calendar year.

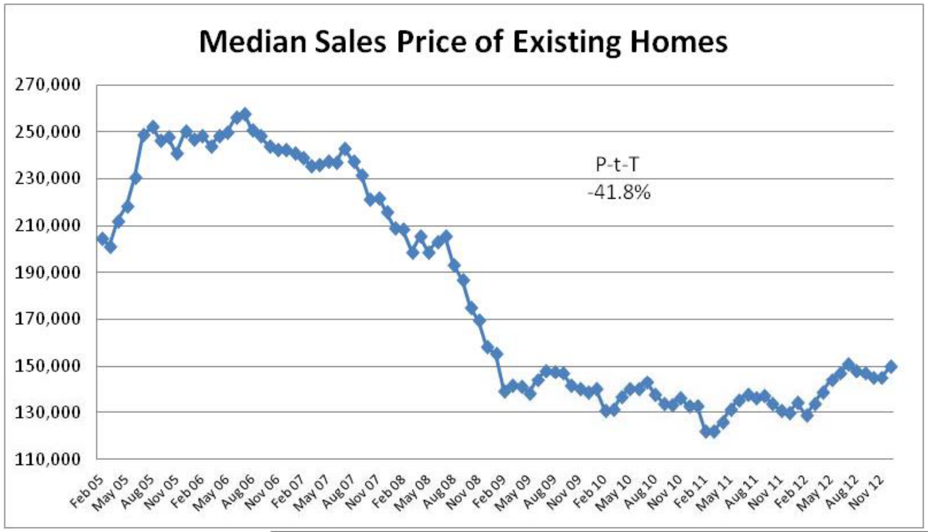
Existing Homes Sales Have Recently Surged





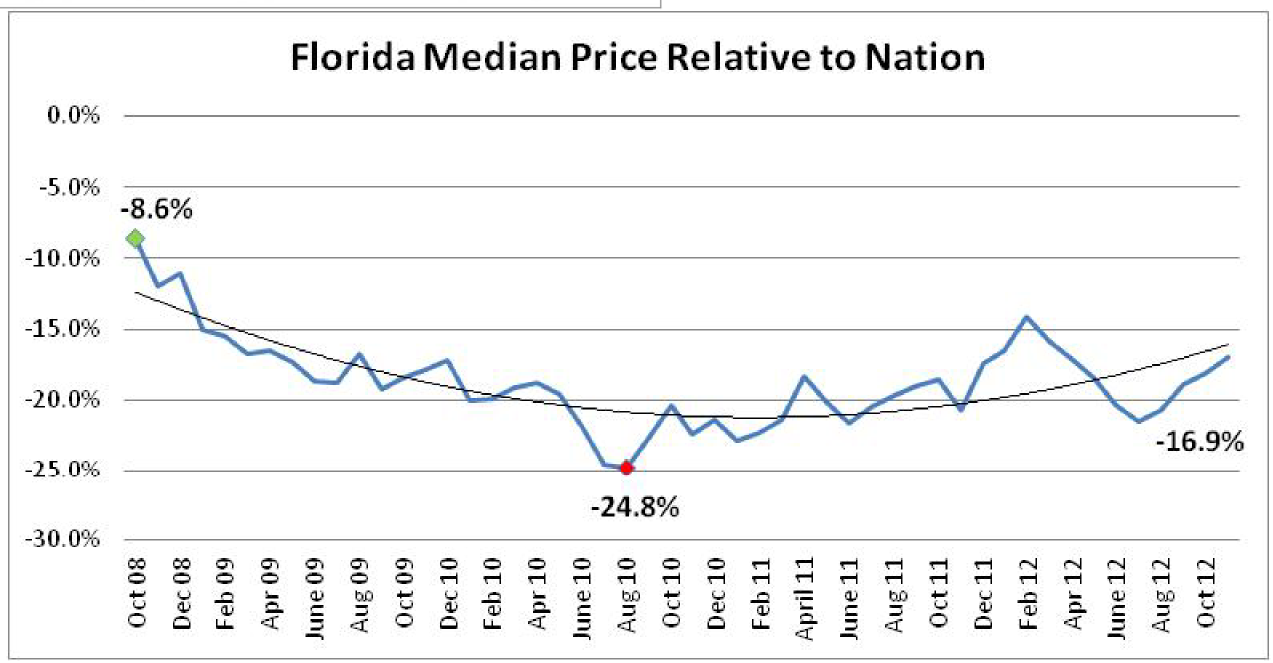
Data through
November 2012

While Existing Home Price Gains Are Modest



Data through November 2012

Median Sales Prices for Existing Homes have shown improvement, posting the highest number in June in 42 months (December 2008), but median sales prices are still substantially below the nation as a whole.



Foreclosure Filings Remain Daunting

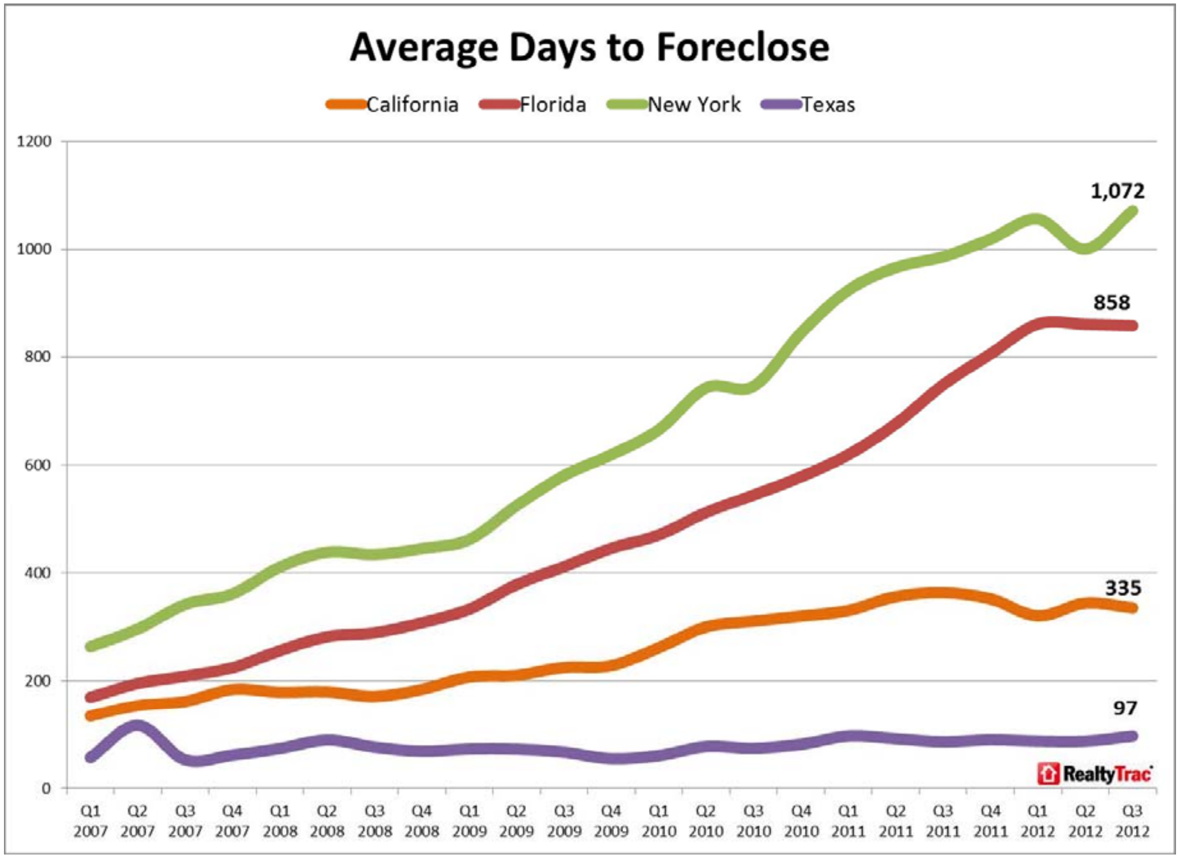
"Optimists point to declining home inventories in relation to sales, but they are looking at an illusion. Those supposed inventories do not include about 5m housing units with delinquent mortgages or those in foreclosure, which will soon be added to the pile. Nor do they include approximately 3m housing units that stand vacant – foreclosed upon but not yet listed for sale, or vacant homes that owners have pulled off the market because they can't get a decent price for them." *Financial Times*

***Foreclosure Process** (once begun)*

- *858 Days – 2.4 yrs – in Florida (3rd Longest Period in Nation)*
- *National Average – 382 days*
- *At the beginning of 2007, FL was at 169 days or less than 6 months.*

November 2012, compared to US:

- *Florida foreclosure starts increased 20% from one year ago.*
- *2nd Highest State for # of Filings*
- *Highest State for Foreclosure Rate*
- *Among US Metro Area rates: Seven of the top 10 highest metro rates in the nation were in Florida.*
  Palm Bay-Melbourne-Titusville #1
  Ocala #2
  Jacksonville #4



Data from RealtyTrac

Foreclosures & Shadow Inventory

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		7.0%	3.6%	10.6%	-10.4%
FL	*	7.8%	12.1%	19.8%	-11.7%
MS		13.6%	3.2%	16.8%	-4.2%
NJ	*	8.0%	8.1%	16.1%	5.5%
NV		9.7%	5.4%	15.1%	-14.4%
NY	*	7.3%	6.1%	13.4%	2.9%
IL	*	7.0%	5.9%	13.0%	-9.9%
LA	*	9.8%	2.9%	12.8%	-4.2%
MD	*	8.7%	4.0%	12.6%	-1.9%
RI		8.5%	3.9%	12.4%	-2.2%
ME	*	7.0%	5.4%	12.4%	-0.7%
CT	*	7.1%	5.1%	12.1%	-1.0%
GA		9.8%	2.2%	11.9%	-11.6%
IN	*	8.0%	3.8%	11.7%	-8.9%
OH	*	7.8%	3.9%	11.7%	-7.9%
HI	*	5.1%	5.9%	10.9%	-3.7%
AR		9.6%	2.1%	11.7%	5.9%
SC	*	7.4%	3.9%	11.2%	-10.1%

* - Indicates Judicial State

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		7.0%	3.6%	10.6%	-10.4%
DE	*	8.3%	3.0%	11.3%	0.2%
AL		9.7%	1.5%	11.2%	-3.5%
PA	*	7.6%	3.7%	11.2%	-0.2%
TN		9.1%	1.6%	10.8%	-9.7%
WV		8.6%	1.7%	10.4%	-7.1%
NC		7.6%	2.5%	10.1%	-9.5%
MA		7.3%	2.4%	9.7%	-2.5%
OK	*	6.7%	3.2%	9.9%	-3.0%
WI	*	6.3%	3.0%	9.3%	-8.9%
NM	*	5.7%	3.7%	9.3%	-3.5%
KY	*	6.6%	2.8%	9.3%	-10.3%
WA		6.3%	2.8%	9.1%	-2.4%
MI		7.2%	1.7%	8.9%	-17.0%
DC		[illegible]	[illegible]	[illegible]	[illegible]
VT	*	5.0%	[illegible]	[illegible]	[illegible]
TX		7.3%	[illegible]	[illegible]	[illegible]
CA		5.9%	[illegible]	[illegible]	[illegible]

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		7.0%	3.6%	10.6%	-10.4%
MO		7.1%	1.3%	8.4%	-11.8%
NH		6.5%	1.7%	8.2%	-8.0%
KS	*	6.4%	1.7%	8.1%	-6.8%
AZ		5.8%	1.9%	7.7%	-29.8%
UT		6.1%	1.6%	7.7%	-12.5%
OR		4.5%	3.1%	7.6%	-9.0%
IA	*	5.0%	2.6%	7.7%	-6.4%
ID		4.6%	2.6%	7.2%	-11.0%
VA		5.6%	1.4%	7.0%	-10.3%
NE	*	5.1%	1.1%	6.2%	-7.7%
MN		4.3%	1.5%	5.7%	-17.9%
CO		4.3%	1.2%	5.5%	-16.4%
MT		3.5%	1.5%	5.1%	-13.2%
[illegible]		[illegible]	[illegible]	[illegible]	-8.5%
[illegible]		[illegible]	[illegible]	[illegible]	-8.9%
[illegible]		[illegible]	[illegible]	[illegible]	-12.8%
[illegible]		[illegible]	[illegible]	[illegible]	-17.5%

Of All Residential Mortgages

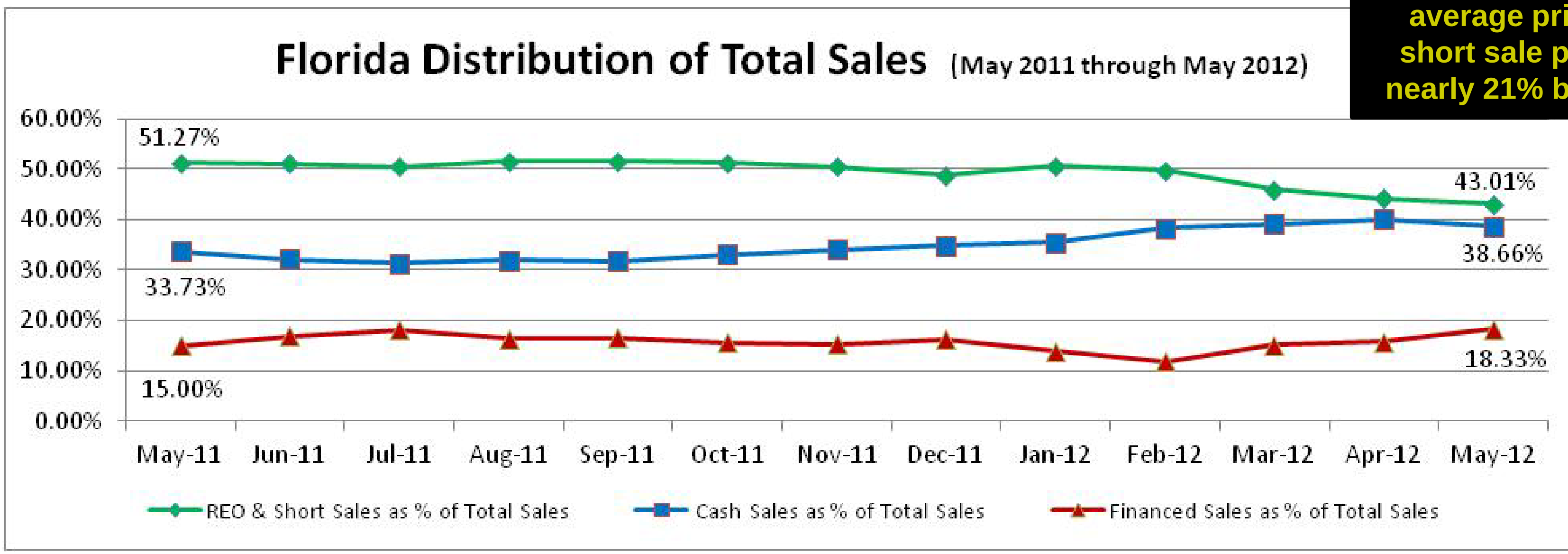
	DEL %	FC %	Non Curr
National	**7.0%**	**3.6%**	**10.6%**
FL	**7.8%**	**12.1%**	**19.8%**

Underwater homes are down to 37.7% of all residential mortgages in Florida.

(LPS Data for September and October 2012)

Sales Mix Points to Lower Prices

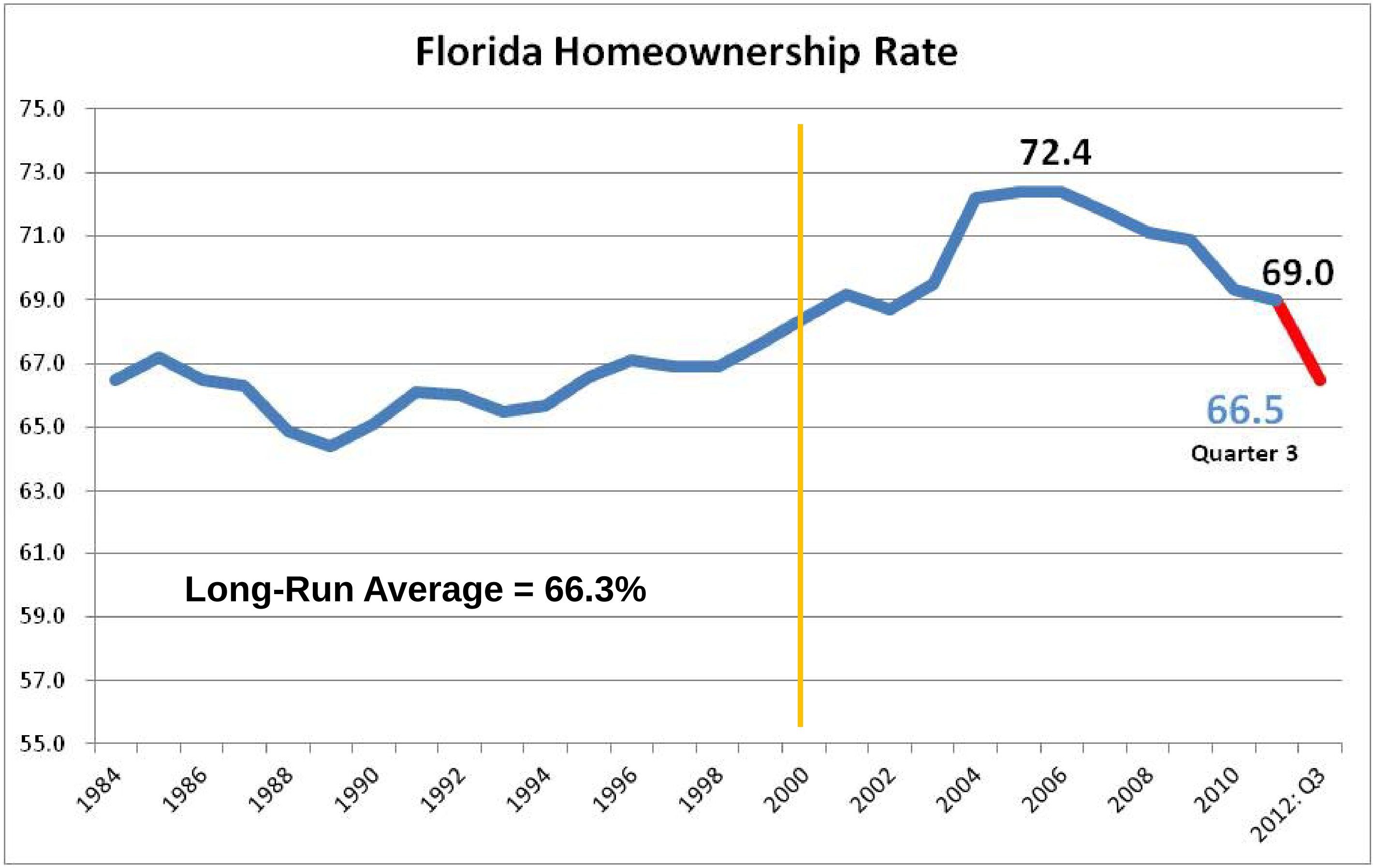
REO price nearly 40% lower than average price; short sale price nearly 21% below



LPS: Lender Processing Services

Cash Sales have been growing as a percentage of all sales, and financed sales have shown a modest upward tick. While short sales have been increasing in some states, that is not yet the case in Florida, where they have essentially been flat with a slight downward drift.

Vulnerability



The 2011 percentage is the lowest since 2002. So far, calendar year 2012 looks on track to be nearly back to the long-run average homeownership rate.

Credit Conditions Remain Tight

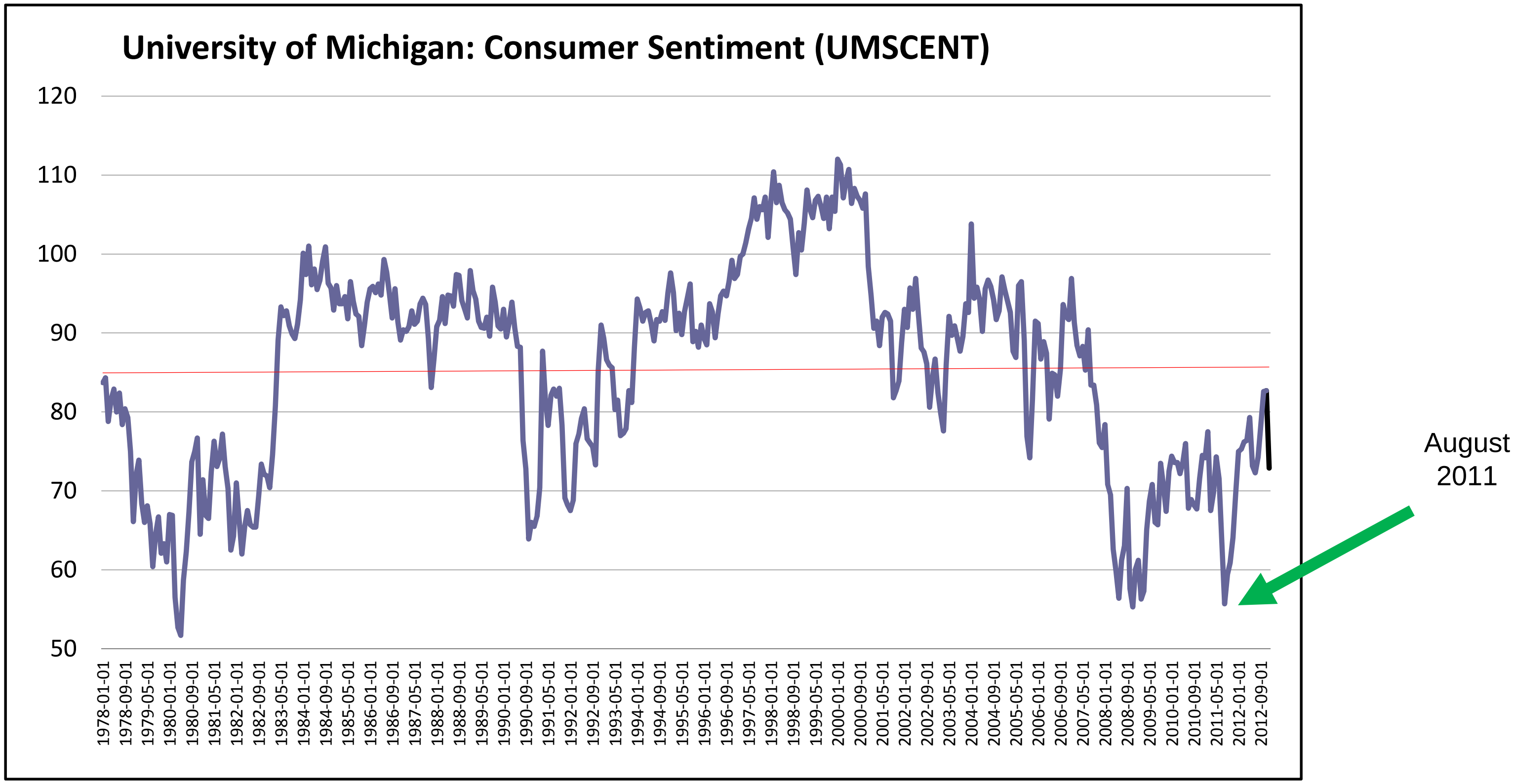
Question to Senior Loan Officers:
Over the past three months, how have your bank's credit standards for approving applications from individuals for **prime residential mortgage loans** to purchase homes changed?

	All Respondents								
	Oct '12 %	July '12 %	Apr '12 %	Jan '12 %	Oct '11 %	July '11 %	Apr '11 %	Jan '11 %	Oct '10 %
Tightened considerably	0.0%	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tightened somewhat	3.1%	1.6	5.6	0.0	4.2	5.7	3.8	3.7	13.0
Remained basically unchanged	92.2	93.4	90.7	94.3	91.7	86.8	92.5	94.4	83.3
Eased somewhat	4.7%	3.3	3.7	5.7	4.2	7.5	2.0	1.9	3.7
Eased considerably	0.0%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

July 2012 Senior Loan Officer Opinion Survey on Bank Lending Practices (Federal Reserve Board)

Banks reported that they were less likely than in 2006, to varying degrees, to originate mortgages to any borrowers apart from those with the strongest credit profiles. Downpayments of 20% also a strong requirement.

Perceptions Recover After 8/2011 Dive



- Nationally, consumer sentiment had been improving, but fell in August 2011 to near the lowest level of the Great Recession and not far from the lowest level ever posted. The index reading dropped in December as concerns about the Fiscal Cliff took hold. (72.9 in December 2012).
- “Business sentiment has improved inconsistently in recent weeks, with little sign of a surge following the passage of the fiscal cliff tax deal. Expectations about the economy’s prospects into 2013 actually improved toward the end of 2012. Nonetheless, business sentiment remains very fragile and likely to evaporate quickly if policymakers cannot solve the remaining spending and debt ceiling issues gracefully. Business sentiment continues to signal a soft economy.” [Dismal Scientist, January 4, 2013]

Economy Slowly Recovering

Florida growth rates are gradually returning to more typical levels. But, drags are more persistent than past events, and it will take a few more years to climb completely out of the hole left by the recession. Overall...

- The recovery in the national economy is well underway. While most areas of commercial and consumer credit are strengthening – residential credit still remains sluggish and difficult for consumers to access.

- The subsequent turnaround in Florida housing will be led by:
  - Low home prices that begin to attract buyers and clear the inventory.
  - Long-run sustainable demand caused by continued population growth and household formation that has been pent-up.
  - Florida's unique demographics and the aging of the baby-boom generation (2011 marked the first wave of boomers hitting retirement).

Upside Risk for Construction

- The "shadow inventory" of homes that are in foreclosure or carry delinquent or defaulted mortgages may contain a significant number of "ghost" homes that are distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back in a reasonable timeframe. This means that the supply has become two-tiered – viable homes and seriously distressed homes.

- To the extent that the number of viable homes is limited, new construction may come back quicker than expected.

Eurozone Problems Still Persist

- The sovereign debt crisis in the Eurozone has led to banking instability with spillover effects on the global credit market: liquidity threats have diminished, but solvency issues still exist.
  - Spain, Portugal and Italy all still face major challenges and contracting economies.
  - Moody's has systematically lowered rankings in the Eurozone. They cut Italy's bond rating by two notches to Baa2, leaving it just two grades above junk status, citing increased risks of higher borrowing costs in part due to contagion from Spain and a possible Greek exit from the euro. Moody's also joined Standard & Poor's in dropping France from its triple A status in late November. They compare economic conditions in Greece to the Great Depression in the US during the 1930s.
  - International leaders have agreed to alter the terms of Greece's bailout to ease the pain of the pending austerity measures. Global Insight is still predicting a Greece exit from the Eurozone (65% probability) by the middle of next year.
  - Efforts to bailout Spain and to begin recapitalizing Spain's banks are underway with other Eurozone leaders, the International Monetary Fund, and the European Central Bank. These steps are being taken to head off a potential liquidity squeeze arising from recent credit downgrades.

- The latest data for the third quarter of 2012 shows that the Eurozone is officially back in a recession. The economies of Greece, Italy, Spain, Portugal, Austria and the Netherlands are contracting sharply. It now looks likely that even Germany will experience a decline in the fourth quarter of 2012.

- These conditions are negatively affecting the United States:
  - Tighter credit conditions already exist, especially for businesses with foreign interests.
  - Reduced exports and corporate earnings already exist. The Greater Miami area is experiencing a significant reduction in exports to Spain (Florida exports to Spain fell nearly 30% last year).

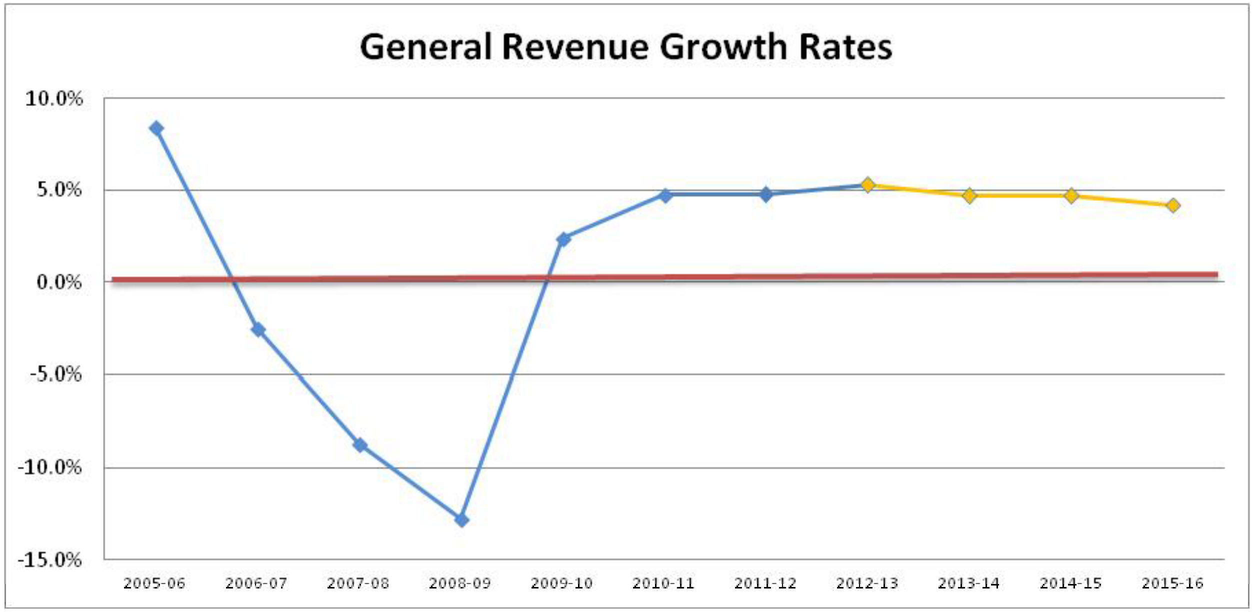
"Fiscal Cliff" Issues

The uncertainty surrounding the "Fiscal Cliff" hasn't significantly receded with the passage of H.R. 8, particularly in regard to potential federal spending losses where the largest impact to Florida resides.

- The agreement in Washington averted most (but not all) of the threatened 2013 tax hikes; however, the 2% payroll tax cut was allowed to expire.
  - The current National and Florida Economic Outlooks assumed that the 2% payroll tax cut was extended throughout 2013 and then phased out over several years—so the General Revenue forecast does not capture the effects of its removal.
  - The latest analysis by EDR indicates that the end of the payroll tax cut results in a $7.3 billion negative impact to the economy and up to a $119 million loss in sales tax ($106 to the General Revenue Fund).

- Issues with the Sequester and action regarding the Debt Ceiling remain.
  - **Automatic Sequester provisions were extended to March 1, 2013**—While it is clear that there is no meaningful support for the current sequester provisions, agreement has not been reached on a replacement. Moreover, additional revenue changes are still on the table. According to IHS Global Insight, "The smaller the initial deal and the closer to the brink before it is agreed, the greater the likelihood that the United States will be downgraded by one or more ratings agencies." The threat of further damage to consumer sentiment exists.
  - **Statutory debt ceiling reached**—The debt ceiling, currently set at $16.4 trillion with the ability to create an additional $200 billion in capacity under the limit, will need to be raised sometime in late February or early March. If the current debt ceiling becomes binding because of no action, there will have to be immediate, steep cuts in government spending, because the federal government will be able to spend only what it receives in revenues.

General Revenue Forecast



LR Growth: Averages 6%

Fiscal Year	August Forecast	December Forecast	Difference (Dec - Aug)	Incremental Growth	Growth
2005-06	27074.8	[redacted]	[redacted]	[redacted]	8.4%
2006-07	26404.1	[redacted]	[redacted]	[redacted]	-2.5%
2007-08	24112.1	[redacted]	[redacted]	[redacted]	-8.7%
2008-09	21025.6	[redacted]	[redacted]	[redacted]	-12.8%
2009-10	21523.1	[redacted]	[redacted]	[redacted]	2.4%
2010-11	22551.6	[redacted]	[redacted]	[redacted]	4.8%
2011-12	23618.8	[redacted]	[redacted]	[redacted]	4.7%
2012-13	24631.6	24867.6	236.0	1248.8	5.3%
2013-14	25872.7	26028.4	155.7	1160.8	4.7%
2014-15	27141.4	27240.7	99.3	1212.3	4.7%
2015-16	28394.0	28383.6	(10.4)	1142.9	4.2%