

WEEKLY ECONOMIC & FINANCIAL COMMENTARY

February 13, 2009

U.S. Review

A Tough First Half Seems Assured

Retail sales figures for January surprised the consensus estimates yesterday but were widely dismissed in markets. Overall sales increased 1.0 percent, with increases across a wide assortment of categories. The increase marked the first rise for retail sales in seven months and was the largest monthly gain in more than a year.

The financial markets were not impressed. News from the retail sector has been unambiguously negative for several months, with sales well below expectations and many chains struggling for their outright survival. The International Council of Shopping Centers (ICSC) estimates that 148,000 stores closed their doors in 2008. Estimates for the current year range from an additional 200,000 store closings on up.

While we do not believe the increase in January retail sales marks a turning point for the economy, we were not surprised by the result. Our estimate for core retail sales called for a 0.6 percent rise, and a bounce off exceptionally low sales is not that unusual. Retail sales of motor vehicles are also improving.

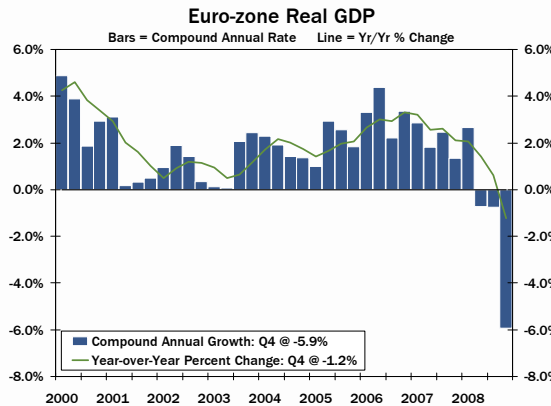
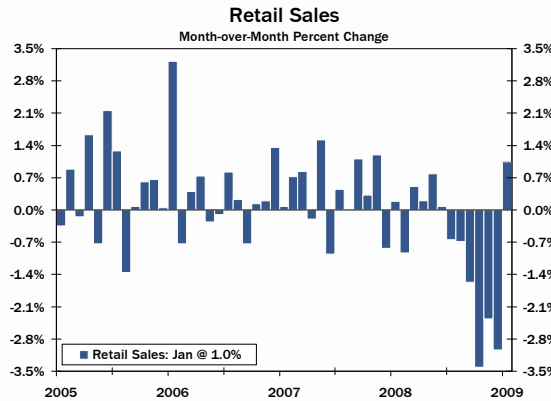
Please turn to page 2

Global Review

Recession Takes Hold in Europe

The Euro-zone economy, which struggled in the middle part of 2008, took a definitive turn for the worse in the last months of the year. Preliminary estimates show that real GDP in the Euro-zone cratered at an annualized rate of 5.9 percent in the fourth quarter of 2008 (see chart at left). The drop was more than the consensus expected and is the sharpest contraction in economic growth since records began in 1995. This is the latest example of the severity of the financial crisis in Europe and turns up the heat on the European Central Bank (ECB) to cut rates even further in an effort to resuscitate the Euro-zone economy. The Euro-zone's largest countries, Germany and France, are both in deep recessions. In the fourth quarter, Germany's GDP contracted at an annualized rate of 8.2 percent, while French real GDP growth shrank at a 5.3 percent annual rate.

Please turn to page 4



Recent Special Commentary

Date	Title	Authors
February-12	Global Chartbook - February 2009	Bryson & Quinlan
February-12	Housing Chartbook - February 2009	Vitner & York
February-10	Five Key Questions for Decision-Makers	Silvia
February-05	"Buy American" Legislation: An Economic Perspective	Bryson & Quinlan

U.S. Forecast

	Actual 2008				Forecast 2009				Actual 2005-2008				Forecast 2009-2010	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2005	2006	2007	2008	2009	2010
Real Gross Domestic Product ¹	0.9	2.8	-0.5	-3.8	-6.7	-1.9	-0.4	0.6	2.9	2.8	2.0	1.3	-2.7	1.1
Personal Consumption	0.9	1.2	-3.8	-3.5	-2.9	-0.4	0.1	1.1	3.0	3.0	2.8	0.3	-1.8	1.0
Inflation Indicators ²														
"Core" PCE Deflator	2.2	2.3	2.3	1.8	1.4	1.2	0.9	1.2	2.1	2.3	2.2	2.2	1.2	1.6
Consumer Price Index	4.2	4.3	5.3	1.5	-0.3	-1.3	-2.6	0.1	3.4	3.2	2.9	3.8	-1.1	1.7
Industrial Production ¹	0.4	-3.4	-8.9	-11.5	-14.5	-7.2	-2.5	0.4	3.3	2.2	1.7	-1.7	-8.9	0.6
Corporate Profits Before Taxes ²	-1.5	-8.3	-9.2	-17.5	-25.0	-24.0	-20.0	-14.0	17.6	15.2	-1.6	-9.1	-21.0	5.2
Trade Weighted Dollar Index ³	70.3	71.0	76.1	79.4	85.6	89.3	91.3	90.9	86.0	81.5	73.3	79.4	90.9	78.7
Unemployment Rate	4.9	5.4	6.1	6.9	7.7	8.3	8.9	9.3	5.1	4.6	4.6	5.8	8.6	9.6
Housing Starts ⁴	1.05	1.03	0.88	0.66	0.47	0.51	0.57	0.61	2.07	1.81	1.34	0.90	0.54	0.77
Quarter-End Interest Rates														
Federal Funds Target Rate	2.25	2.00	2.00	0.25	0.25	0.25	0.25	0.25	4.25	5.25	4.25	0.25	0.25	0.50
10 Year Note	3.45	3.99	3.85	2.25	3.00	3.10	3.10	3.10	4.39	4.71	4.04	2.25	3.10	3.50

Data As of: February 11, 2009

¹ Compound Annual Growth Rate Quarter-over-Quarter

² Year-over-Year Percentage Change

³ Federal Reserve Major Currency Index, 1973=100 - Quarter End

⁴ Millions of Units

INSIDE

U.S. Review	2
U.S. Outlook	3
Global Review	4
Global Outlook	5
Point of View	6
Market Data	7

U.S. Review

(Continued from Page 1)

Falling Inventories Point To Weaker GDP Figures

January's rise in retail sales along with sharp reductions in production and imports means that inventories likely posted another sizeable drop in January. Swings in inventories will have a great deal of influence on the quarterly GDP figures over the next few quarters. Our latest forecast has nonfarm inventories plunging by \$56 billion during the first quarter, slicing 2.1 percentage points off that quarter's GDP. We currently estimate real GDP will decline at a 6.7 percent annual rate during the first quarter, marking the largest quarterly drop for this recession.

Forecasting quarterly swings in real GDP during the midst of a recession is hazardous duty. Swings in inventories and international trade often swamp changes in the larger and more fundamental parts of the economy like consumer spending, business fixed investment and government outlays. This appears to have been the case during the fourth quarter, when the advance estimate of real GDP showed output falling at a smaller-than-expected 3.8 percent annual rate. Our own estimate for the fourth quarter called for a 5.3 percent drop and the consensus called for a slightly larger drop than that.

The BEA's advance report on real GDP includes estimates for December international trade figures, construction spending and inventories. Recent reports suggest these estimates were too conservative and fourth quarter GDP should be revised down in line with the forecast we published in early January. Once that happens, our first quarter GDP forecast may need to be scaled back a little as well.

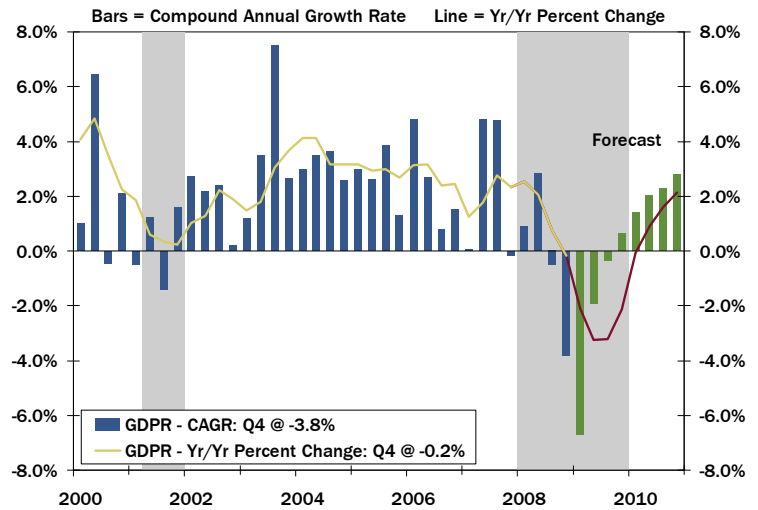
December's trade figures showed the trade deficit did not improve as much as had been earlier estimated. On an inflation-adjusted basis, the trade gap widened by \$3 billion, largely reflecting a surge in petroleum imports. Oil storage facilities are bulging with inventories right now as speculators and commodity funds are betting that the price of oil will rise in coming months. Excluding petroleum, the real trade balance improved in both November and December.

Business inventories declined more than expected, with overall inventories falling 1.3 percent in December, following a 1.1 percent drop the prior month. Inventories fell at every level throughout the production pipeline. Manufacturers' inventories fell 1.4 percent, retail inventories fell 1.0 percent, and inventories at wholesalers declined 1.4 percent. Despite the decline in inventories, sales have fallen even more rapidly, which means that businesses are still carrying too much inventory and that further cutbacks are likely.

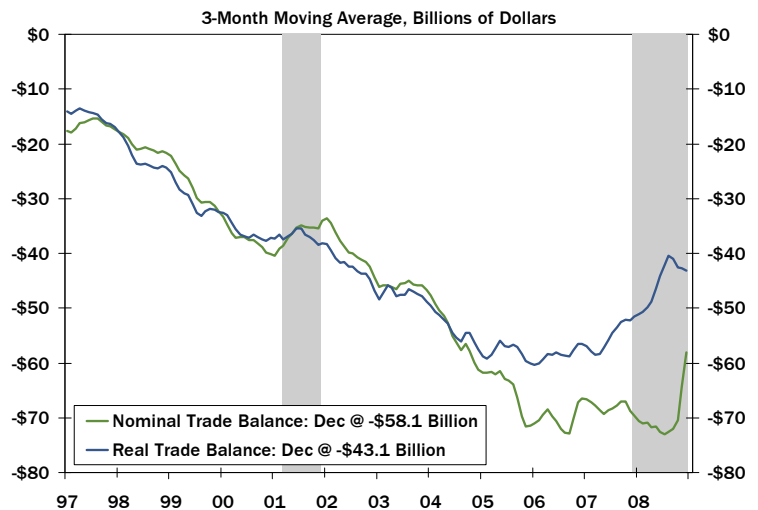
Selected Current Data

Gross Domestic Product - CAGR	Q4 - 2008	-3.8%
GDP Year-over-Year	Q4 - 2008	-0.2%
Personal Consumption	Q4 - 2008	-3.5%
Business Fixed Investment	Q4 - 2008	-19.1%
Consumer Price Index	December - 2008	0.1%
"Core" CPI	December - 2008	1.8%
"Core" PCE Deflator	December - 2008	1.7%
Industrial Production	December - 2008	-7.8%
Unemployment	January - 2009	7.6%
Federal Funds Target Rate	Feb - 13	0.25%

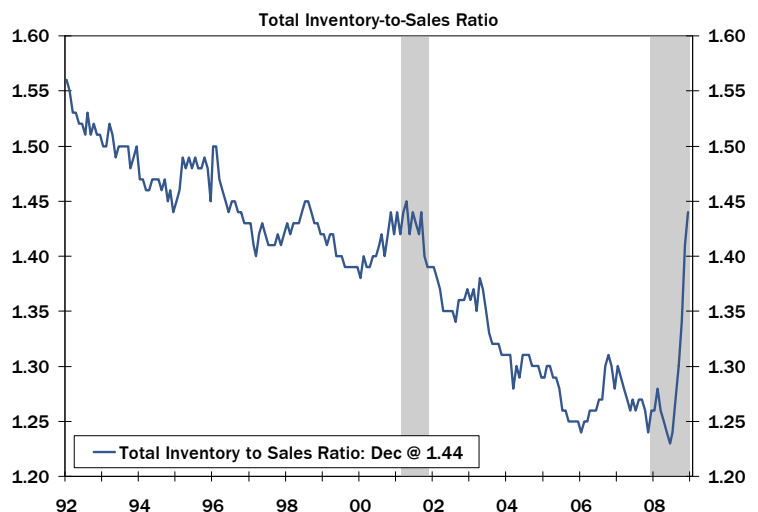
Real GDP



Trade Balance in Goods



Business Inventories



Housing Starts • Tuesday

Starts of new homes dropped another 101K units in December after falling a revised 126K in November. Single- and multi-family starts both saw large declines. Permits saw another 10 percent plus drop in December and were off a full fifty percent from the year before.

With an unusually cold January, especially in the South, we expect housing starts to continue to decline to just 500K units at an annual rate. Builders are under intense pressure to work down their inventories and raise cash. Many smaller builders have entered bankruptcy and have ceased all new development activity. We now expect housing starts to bottom out at less than a half million units at an annual rate in the first half of the year.

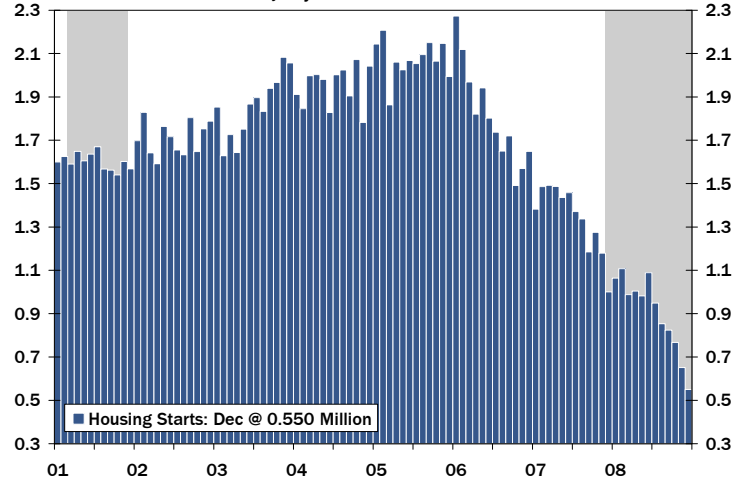
Previous: 550K

Wachovia: 500K

Consensus: 530K

Housing Starts

Seasonally Adjusted Annual Rate - In Millions


Industrial Production • Tuesday

Industrial production fell two percent in December with declines in autos, machinery and computers. Capacity utilization levels continued to decline, suggesting declining profits.

We expect industrial production to continue to post declines and look for a contraction of 0.8 percent in January. The Chicago Purchasing Managers' Index, the Richmond Fed Manufacturing Index, the Philadelphia Fed Factory Index, the Empire State Manufacturing Index and manufacturing employment continue to show weakness. We expect capacity utilization levels to continue to decline as well, which is historically consistent with weaker corporate profits. Over the last year, we have seen utilization decline in manufacturing and utilities. There has also been a sharp drop-off in utilization in the computer sector.

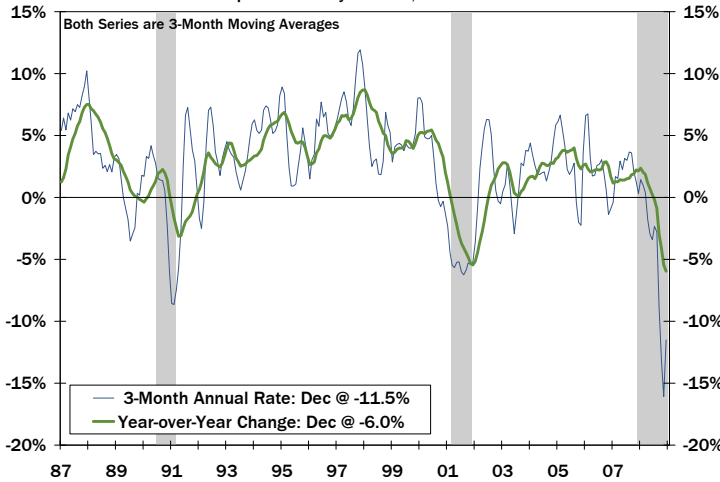
Previous: -2.0%

Wachovia: -0.8%

Consensus: -1.4%

Total Industrial Production Growth

Output Growth by Volume, not Revenue


Consumer Price Index • Friday

Consumer prices fell for the third straight month and the year-over-year growth rate fell to its slowest pace in more than a half-century. This is just five months after setting an 18-year high. The rapid turn in energy and commodity prices and a global recession combined to thrust inflation lower.

We expect headline consumer prices to increase 0.3 percent in January due in part to an up-tick in gasoline prices. Core inflation, which excludes food and energy, has seen virtually no growth over the last few months as the economy contracted sharply. We continue to expect core inflation to remain flat in January.

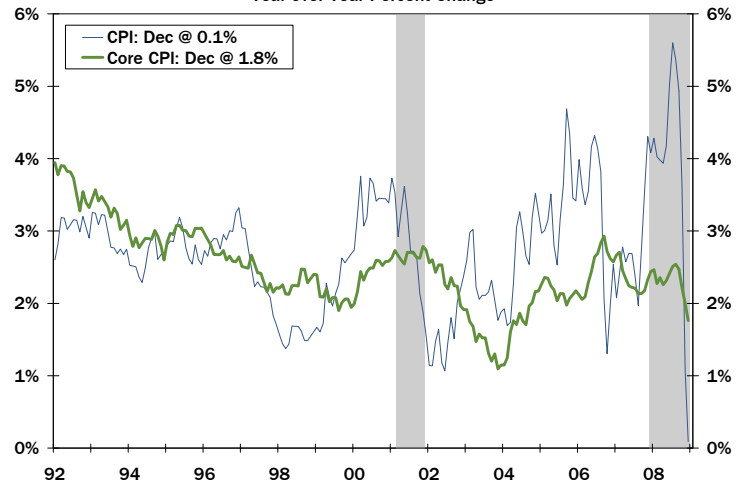
Previous: -0.7%

Wachovia: 0.3%

Consensus: 0.3%

CPI vs. Core CPI

Year-over-Year Percent Change



Global Review

(Continued from Page 1)

Euro-zone Exports and Business Spending Weak, ECB to Cut

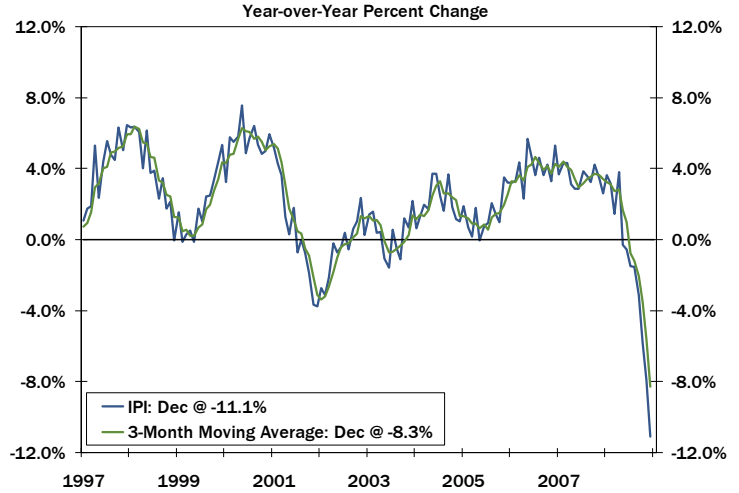
These fourth quarter numbers are just preliminary; specific details on spending have not yet been released. But by just about every measure, economic activity plunged sharply in the fourth quarter. Not just in the Euro-zone, but all over the world. The United Kingdom and the United States, for example, are both mired in deep recessions of their own. These are two of the largest markets for Euro-zone exports. Tough times in the U.S. & U.K. economies help explain why the German statistical office said that weakness in German GDP was concentrated in investment and exports. Industrial production data for the Euro-zone show a year-over-year collapse of 11.1 percent in November. That certainly corroborates the notion that export businesses have hit a major air pocket. Machinery orders for November declined 22 percent over the past year, reflecting challenges for business spending.

In a somewhat unexpected development, there are indications that consumer spending held up rather well in parts of the Euro-zone. Even as the wheels were coming off the bus in exports and business spending, household consumption in France grew at an annualized rate of 2.4 percent. However, with unemployment on the rise and the continental labor market under pressure it is only a matter of time before personal spending begins to sag. Without that underpinning, Euro-zone economic growth will likely remain negative in coming quarters.

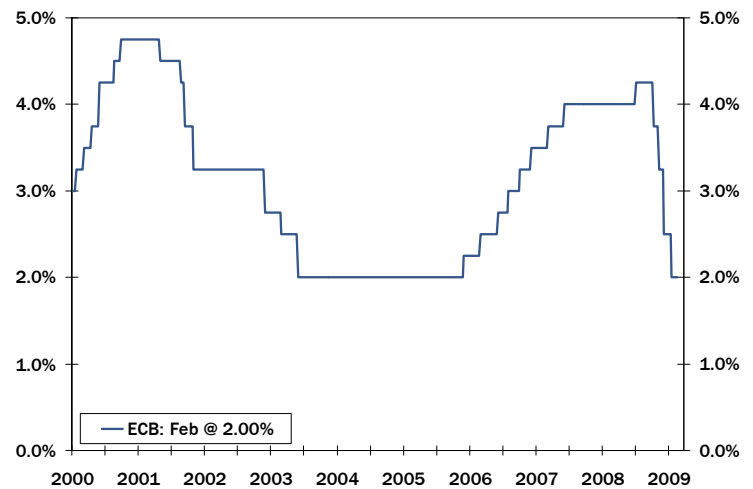
The acceleration in the pace of declines steps up pressure on the ECB to cut rates further. Currently at 2.00 percent, the main policy rate in the Euro-zone has never been lower. Still, we suspect the ECB will recognize that economic conditions are potentially as bad as any time in Europe in the post-World War II era, and will cut lending rates accordingly in the months ahead.

The combination of these rate cuts and the deterioration in the Euro-zone economy has negative implications for the euro, which has already declined sharply versus the U.S. dollar in recent months. We project that the euro will trend lower against the greenback in the next few quarters as the ECB continues to cut rates. Further out, however, the euro could stage a comeback against the dollar as sluggish economic growth in the United States keeps U.S. interest rates very low for an extended period.

Euro-zone Industrial Production Index



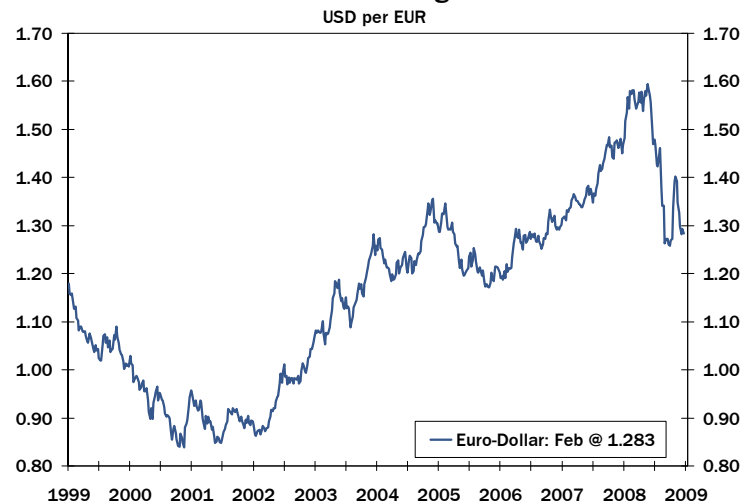
European Central Bank Policy Rate



Selected Global Data

Japan	GDP Year-over-Year	Q3 - 2008	-0.5%
	CPI	December - 2008	0.4%
	Unemployment	December - 2008	4.4%
	BoJ Target Rate	Feb - 13	0.10%
Euro-Zone	GDP Year-over-Year	Q4 - 2008	-1.2%
	CPI	December - 2008	1.6%
	Unemployment	December - 2008	8.0%
	ECB Target Rate	Feb - 13	2.00%
UK	GDP Year-over-Year	Q4 - 2008	-1.8%
	CPI	December - 2008	3.1%
	Unemployment	January - 2009	3.8%
	BoE Target Rate	Feb - 13	1.00%
Canada	GDP Year-over-Year	November - 2008	-0.8%
	CPI	December - 2008	1.2%
	Unemployment	January - 2009	7.2%
	BoC Target Rate	Feb - 13	1.00%

Euro-zone Exchange Rate



Japanese GDP • Monday

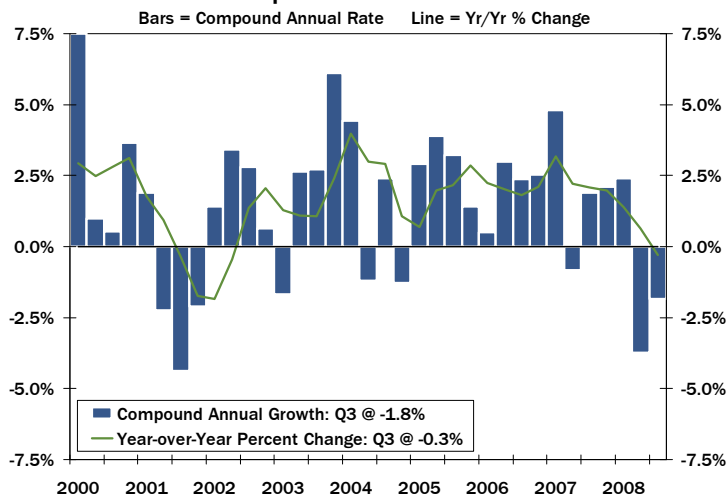
Japanese real GDP contracted in both the second and third quarters of 2008. Unfortunately, the nosedive in the fourth quarter probably will make those previous contractions seem tiny by comparison. Indeed, the consensus forecast anticipates that real GDP plunged at an annualized rate of nearly 12 percent in the fourth quarter of last year. If realized, it would be the sharpest rate of contraction since the new methodology to calculate Japanese GDP started in 1994.

Some observers are using the word “depression” to characterize the Japanese economy at present. The chief economist at the Bank of Japan acknowledged recently that the Japanese economy probably is in its worst recession in fifty years. Our forecast looks for a peak-to-trough decline in real GDP of about five percent, a very deep recession by any definition.

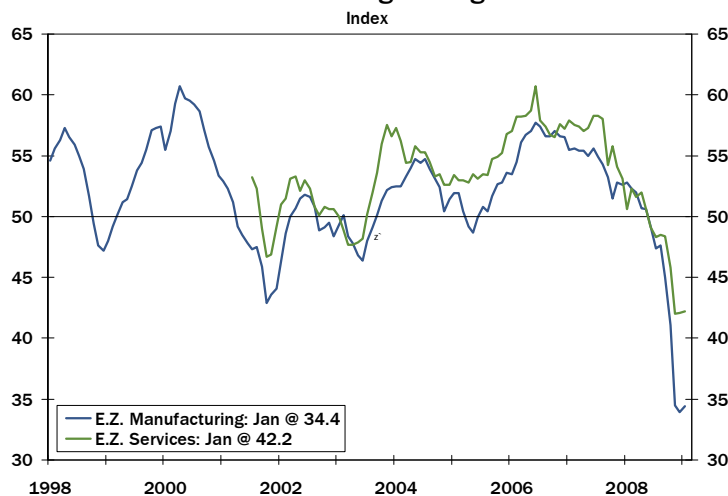
Previous: -1.8%

Consensus: -11.7%

Japanese Real GDP



Euro-zone Purchasing Manager Indices



Euro-zone PMI's • Friday

The purchasing managers' indices in the Euro-zone plunged sharply in the fourth quarter, which is consistent with the deep recession we described in the main body of this report. Both the manufacturing and service sector PMI edged up in January, and the consensus forecast anticipates further modest improvement from the “flash” estimates in February. If consensus forecasts are realized, the PMI's would show that economic activity in the Euro-zone continues to contract, albeit not quite as sharply as at the end of last year.

The ZEW index, which measures expectations among institutional investors of future economic growth, is slated for release on Tuesday. After falling sharply last autumn, the ZEW index has staged a bit of a rebound, indicating that investors expect economic activity to stabilize later this year.

Previous Manufacturing PMI: 34.4

Consensus: 35.0

Previous Service PMI: 42.2

Consensus: 42.6

U.K. Retail Sales • Friday

Growth in real retail spending in the United Kingdom slowed markedly last year. However, it has not completely fallen apart. Indeed, real retail sales rose 1.6 percent in December relative to the previous month, and the consensus forecast looks for a 0.2 percent increase in January relative to December. Perhaps deep discounting is helping to support the volume of sales.

Speaking of discounting, data on CPI inflation will print on Tuesday. The consensus forecast anticipates that the overall CPI dropped 1.1 percent in January relative to December. The big drop in the CPI reflects continued declines in energy prices as well as the recent reduction in the value-added tax. Minutes of the Bank of England's policy meeting on earlier this month, slated for release on Wednesday, will give investors some insights into the current thinking on Threadneedle Street.

Previous: 1.6%(month-on-month change)

Consensus: 0.2%

United Kingdom Retail Sales



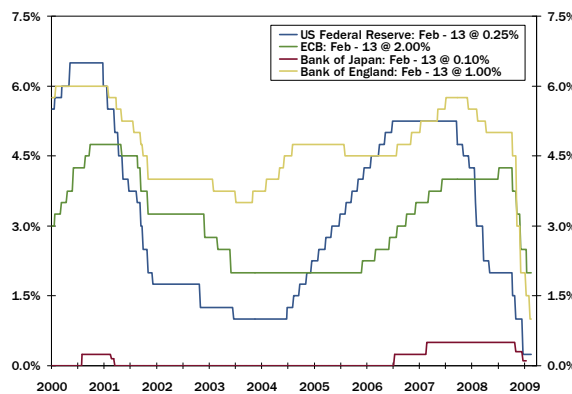
Interest Rate Watch
Our Changing Financial Future

Regulatory changes by government and a shift in the risk/reward calculus by the private sector will lead to a deleveraging of the U.S. economic system (see our 2009 Annual Outlook 2009 and the February 2009 Monthly Economic Outlook). As a result we expect that our financial future will not bring lending back to where it was just two years ago. The era of abundant and cheap credit is over. In the near term, the Federal Reserve will continue to supply liquidity at the short end in an attempt to move the economy forward. Fed purchases of commercial paper and asset backed paper, as well as the increase in the Fed's balance sheet, have been successful in lowering credit premiums in the marketplace.

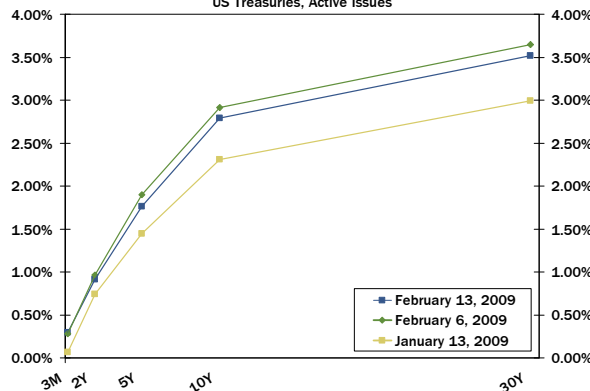
Yet credit premiums have remained significant in private, long-term markets. Looking beyond the improvement in high-grade corporate bonds, markets such as CMBS and high-yield struggle. Issuance has been limited and risk premiums remain very high. With the securitization market still largely frozen, banks will continue to closely scrutinize anything they add to their balance sheets. Banks will lend but credit will be allocated much more cautiously, not just this year but for years into the future.

Credit Conditions

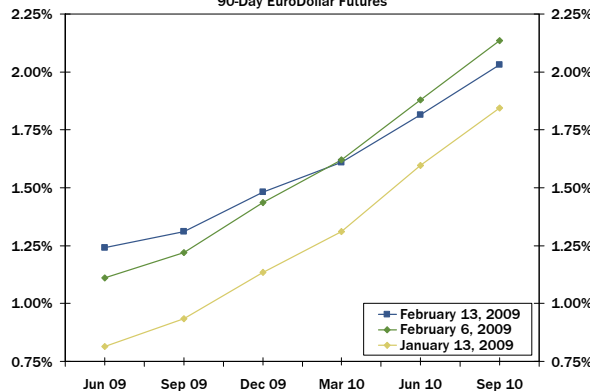
Tighter credit conditions mean that anything that is dependent upon credit for growth will continue to struggle. This includes home sales, motor vehicles sales, commercial construction, business fixed investment and even state and local governments. The credit bubble inflated demand for most of these sectors in the years leading up to this recession, and now that credit is dearer, we are enduring the bitter aftermath of that bubble.

Central Bank Policy Rates

Yield Curve

US Treasuries, Active Issues


Forward Rates

90-Day EuroDollar Futures


Topic of the Week
We Have Seen This Movie Before

Throughout this financial crisis there have been endless comparisons between today's environment and the 1930s. We feel a more apt comparison is the deep 1973-75 recession, a period that also dealt with an oil price shock, a housing collapse and a banking crisis. Even then these problems were global, with housing slumping not only in America but in Europe and parts of the developing world.

The early 1970s economic and geopolitical environment was remarkably similar to what we have seen recently. A weakening dollar along with a near 50 percent spike in oil prices led to the downturn and an abrupt end to the unprecedented housing boom, sending the financial sector reeling. Unemployment skyrocketed and policymakers leaned heavily on monetary policy to fight the recession and promote recovery. When the recovery did arrive, it was quite treacherous, with both unemployment and inflation remaining uncomfortably high. Our most recent forecast shows a deeper and longer recession, similar to 1973-75, than we experienced in 1990 and 2001. Real final sales are expected to remain negative throughout 2009. Inventory swings and declines in imports might produce a positive GDP figure before then, but we now believe the recession will last through the end of the year while job losses and rising unemployment will carry over into next year.

One thing is certain: there is no "silver bullet." The recession will take time to play out and the economic stimulus package and financial sector reform efforts will take time to produce results. For our updated outlook, please read our "Monthly Economic Outlook," accessible on our website.

Subscription Info

Wachovia's *Weekly Economic & Financial Commentary* is distributed to subscribers each Friday afternoon by e-mail.

To subscribe please visit: <http://www.wachovia.com/economicsemail>

The *Weekly Economic & Financial Commentary* is available via the Internet at <http://www.wachovia.com/economics>

And via The Bloomberg Professional Service at WBEC.

Market Data ♦ Mid-Day Friday
U.S. Interest Rates

	Friday 2/13/2009	1 Week Ago	1 Year Ago
3-Month T-Bill	0.29	0.27	2.26
3-Month LIBOR	1.24	1.24	3.07
1-Year Treasury	0.44	0.49	1.80
2-Year Treasury	0.92	1.00	1.91
5-Year Treasury	1.81	1.96	2.73
10-Year Treasury	2.83	2.99	3.73
30-Year Treasury	3.60	3.70	4.54
Bond Buyer Index	4.89	4.96	4.47

Foreign Interest Rates

	Friday 2/13/2009	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	1.94	2.02	4.34
3-Month Sterling LIBOR	2.07	2.12	5.64
3-Month Canadian LIBOR	1.45	1.50	3.98
3-Month Yen LIBOR	0.64	0.66	0.90
2-Year German	1.31	1.39	3.12
2-Year U.K.	1.32	1.69	4.28
2-Year Canadian	1.18	1.15	3.08
2-Year Japanese	0.40	0.44	0.57
10-Year German	3.10	3.37	3.96
10-Year U.K.	3.56	3.74	4.62
10-Year Canadian	2.90	3.03	3.87
10-Year Japanese	1.27	1.34	1.43

Foreign Exchange Rates

	Friday 2/13/2009	1 Week Ago	1 Year Ago
Euro (\$/€)	1.287	1.294	1.457
British Pound (\$/£)	1.441	1.479	1.963
British Pound (£/€)	0.893	0.875	0.742
Japanese Yen (¥/\$)	91.835	91.895	108.335
Canadian Dollar (C\$/ \$)	1.244	1.219	0.997
Swiss Franc (CHF/\$)	1.160	1.162	1.108
Australian Dollar (US\$/A\$)	0.658	0.675	0.896
Mexican Peso (MXN/\$)	14.455	14.199	10.745
Chinese Yuan (CNY/\$)	6.834	6.835	7.197
Indian Rupee (INR/\$)	48.680	48.691	39.773
Brazilian Real (BRL/\$)	2.277	2.244	1.743
U.S. Dollar Index	85.978	85.346	76.399

Commodity Prices

	Friday 2/13/2009	1 Week Ago	1 Year Ago
W. Texas Crude (\$/Barrel)	35.89	40.17	93.27
Gold (\$/Ounce)	937.10	911.50	906.60
Hot-Rolled Steel (\$/S.Ton)	475.00	475.00	670.00
Copper (¢/Pound)	155.40	162.25	352.55
Soybeans (\$/Bushel)	9.61	9.73	12.74
Natural Gas (\$/MMBTU)	4.44	4.77	8.39
Nickel (\$/Metric Ton)	10,216	11,386	27,885
CRB Spot Inds.	340.23	338.98	485.72

Next Week's Economic Calendar

	Monday 16	Tuesday 17	Wednesday 18	Thursday 19	Friday 20
U.S. Data	Washington's Birthday Markets Closed		Housing Starts December 550K January 500K (W) Industrial Production December -2.0% January -0.8% (W) Capacity Utilization December 73.6% January 72.8% (W)	PPI December -1.9% January -0.1% (W) Core PPI December 0.2% January 0.1% (W) Leading Indicators December 0.3% January 0.1% (W)	CPI December -0.7% January 0.3% (W) Core CPI December 0.0% January 0.0% (W)
Global Data	Japan GDP Annualized Previous (3Q) -1.8% Canada Mfg Shipments (MoM) Previous (Nov) -6.4%	U.K. CPI Previous (Jan) -0.4 Germany ZEW Index Previous (Feb) -31.0			Euro-zone PMI Manufacturing Previous (Jan) 34.4 UK Retail Sales (MoM) Previous (Dec) 1.6%

Note: (W) = Wachovia Estimate (c) = Consensus Estimate

Wachovia Economics Group

John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wachovia.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wachovia.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wachovia.com
Adam G. York	Economic Analyst	(704) 715-9660	adam.york@wachovia.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wachovia.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wachovia.com

Wachovia Corporation Economics Group publications are distributed by Wachovia Corporation directly and through subsidiaries including, but not limited to, Wachovia Capital Markets, LLC, Wachovia Securities, LLC and Wachovia Securities International Limited.

The information and opinions herein are for general information use only. Wachovia does not guarantee their accuracy or completeness, nor does Wachovia assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. © 2009 Wachovia Corp.



WACHOVIA