



# WACHOVIA

## ECONOMICS GROUP

### MONTHLY OUTLOOK

March 11, 2009

#### U.S. Overview

##### Yes We Can Recover!

We continue to believe the fourth quarter of 2008 and the first quarter of 2009 will mark the darkest hours of this recession. Output, employment and consumer spending will likely remain under pressure for all of this year and possibly into the early part of next year. The recession will eventually end and we see the bottom occurring in either the fourth quarter of 2009 or first quarter of 2010. The end of the recession, however, will not mark the end of the economy's struggles. The unemployment rate is expected to rise throughout 2010, peaking at 10 percent or more.

Our outlook includes the impact of the recently enacted economic stimulus act. Reductions in payroll withholding will provide some modest support to personal and after-tax income in April and May, which will help moderate recent declines in consumer spending. Business fixed investment and commercial construction are expected to be somewhat weaker than our earlier forecast, reflecting the recent sharp downturn in factory orders and business confidence. Government spending has also been revised slightly higher, particularly during the second half of this year.

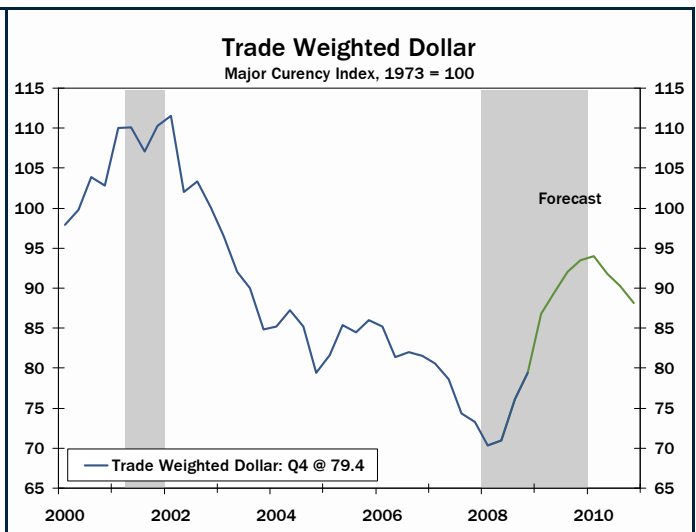
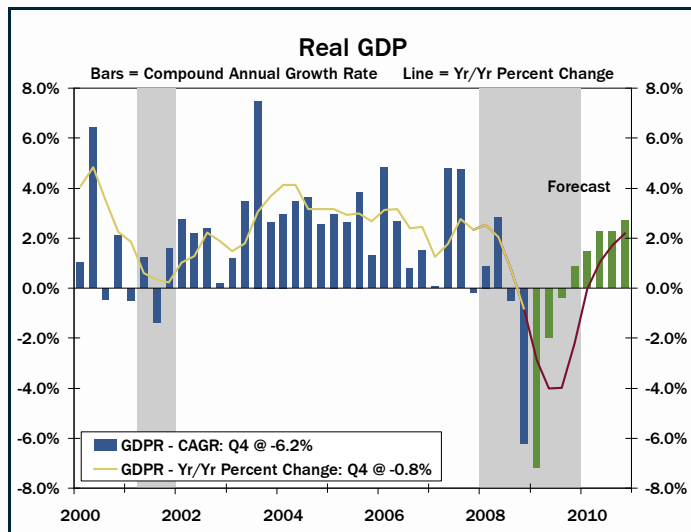
Slower economic growth around the world is cutting into exports and we now expect international trade to subtract 0.6 percentage points from 2009 economic growth. The large downward revision to fourth quarter real GDP also lowered the growth trend, and we now expect real GDP in 2009 will contract 3.3 percent.

#### International Overview

##### Foreign Central Banks Join Fed in Unorthodox Steps

At recent policy meetings, the Bank of Canada, the Bank of England and the European Central Bank each cut their respective policy rates by 50 basis points. Central banks in Canada and Great Britain have cut policy rates about as low as they can go. However, foreign central banks are not out of ammunition. For example, the Bank of England announced a program of asset purchases, including purchases of government bonds, which led to a significant rally in the U.K. government bond market. Lower government bond yields should help to pull private sector borrowing costs lower as well. The Bank of Canada said that it will announce a framework for unconventional policy measures in April. The ECB likely will cut its policy rate further, and it too could eventually embark upon a course of unconventional easing.

On a trade-weighted basis, the U.S. dollar has risen about 20 percent against other major currencies since last July. In our view, the dollar's rally has further to run because signs of economic stabilization should appear in the United States before they do in most other major economies. However, as foreign economies stop contracting later this year and early next year, most foreign currencies should stabilize as well. The currencies of many developing countries should eventually stabilize and begin to strengthen as shell-shocked investors become less risk averse and become attracted to the high returns that emerging markets currently offer.



**But Road to Recovery is Long and Arduous**

Real GDP is expected to decline at a 7.2 percent annual rate during the first quarter, which we expect will be the largest quarterly drop during this recession. Economic activity in the first quarter is clearly in freefall, with employment plummeting, factory orders plunging and consumer spending largely on hold. Exports are also notably weak, reflecting slumping economic conditions in Japan and many of Asia's emerging economies.

With the economy in freefall it is hard to find many signs of encouragement. Even the federal government's efforts to support the economy are somewhat suspect because they do not include as much spending for infrastructure as many would like and is a bit heavier on income transfers. While the \$787 billion stimulus package is far from perfect, we believe it would be a huge mistake to think that it will not provide any relief to the economy.

The most immediate relief from the stimulus package will be the reduction in tax withholding schedules, which will put a few extra dollars into take-home pay beginning in April. While the extra dollars are relatively small amounts on an individual basis, they will help support spending at a time when employment and income are plummeting.

Some of the additional aid to state and local governments should begin to pay dividends during the second half of the year. Yet once again, the extra dollars will not lead to a dramatic turnaround in state and local government spending. Still, state and local government spending will be stronger than it would have been without the stimulus.

The Treasury and Federal Reserve are also providing some relief by providing liquidity to parts of the financial market. Unfortunately, only Treasuries and high grade paper are being bought, but it is still providing some relief. Home mortgages are available at attractive interest

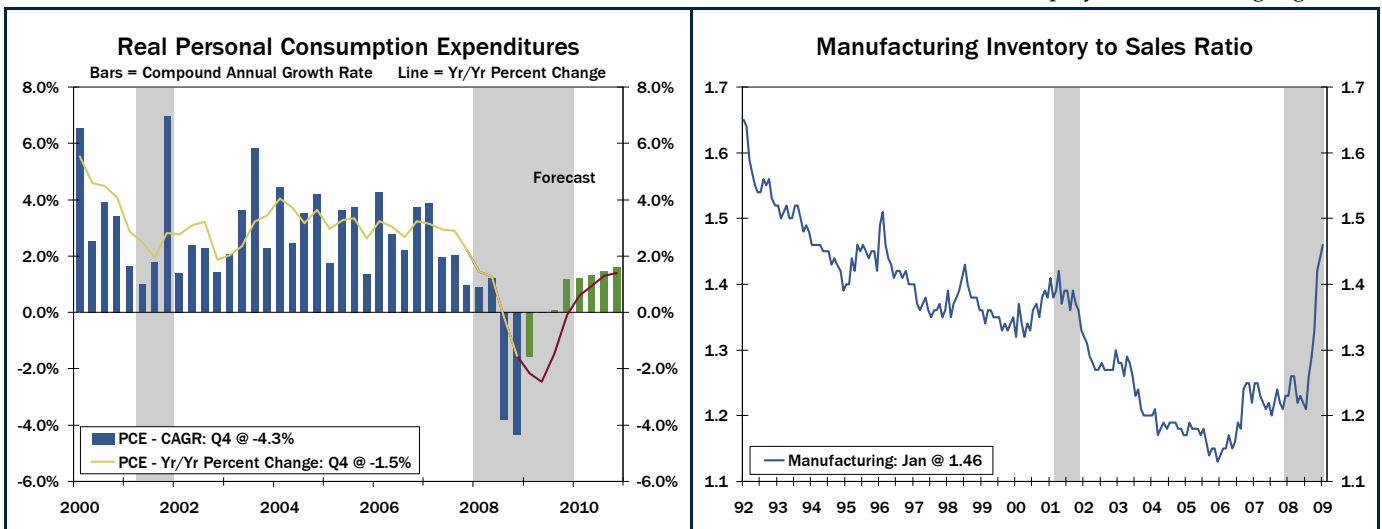
rates for buyers with good credit histories and who can afford to make a down payment.

Consumer spending will also see some benefit from Fed and Treasury actions, but not enough to turn spending positive in the near term. Financing for motor vehicles and dealer floor plans should loosen up a bit this spring and car sales should be modestly higher. One growing problem is that many credit card issuers are slashing credit lines or canceling cards for people with weaker credit histories or who live in areas where home prices are falling.

Even with these challenges, we believe the bulk of the decline in consumer spending is behind us. Our forecast has consumer outlays essentially flat during the second and third quarters. The stability follows three consecutive quarterly drops, however, leaving outlays well-below their year ago level. There have been few positive signs on the consumer front. January's bounce in retail sales was merely a statistical artifact, reflecting the sharp plunge in spending during previous months. Retailers, car dealers and eateries are closing across the country with a record 150,000 shops expected to close their doors this year.

Business fixed investment did not turn down as early as consumer spending did but investment outlays are clearly in full retreat today. Outlays for equipment and software plummeted at a 28.8 percent annual rate during the fourth quarter and are expected to drop at a double-digit pace in every quarter of 2009. Businesses are striving to bring capacity back in line with sales. So far, cutbacks have not been deep enough, as inventory-to-sales ratios have increased and productivity has declined.

While we see the recession ending, our forecast is not optimistic. Our outlook is at the lower end of the range of forecasts in the latest Blue Chip Economic Forecast. Moreover, we see a more sluggish recovery than the consensus and have the unemployment rate rising higher.



Wachovia U.S. Economic Forecast

	Actual								Forecast								Actual			Forecast	
	2007				2008				2009				2010				2006	2007	2008	2009	2010
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product (a)	0.1	4.8	4.8	-0.2	0.9	2.8	-0.5	-6.2	-7.2	-2.0	-0.4	0.8	1.5	2.3	2.3	2.7	2.8	2.0	1.1	-3.3	1.2
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.8	-4.3	-1.6	0.0	0.1	1.2	1.2	1.3	1.5	1.6	3.0	2.8	0.2	-1.6	1.1
Business Fixed Investment	3.4	10.3	8.7	3.4	2.4	2.5	-1.7	-21.0	-19.8	-16.2	-17.4	-17.3	-12.4	-3.5	-0.9	1.9	7.5	4.9	1.7	-15.5	-10.5
Equipment and Software	0.0	6.9	3.6	1.0	-0.5	-5.0	-7.5	-28.8	-20.3	-15.2	-15.0	-13.8	4.0	2.0	2.5	4.8	7.2	1.7	-3.0	-17.6	-3.9
Structures	11.2	18.3	20.5	8.6	8.7	18.4	9.6	-5.9	-18.5	-19.0	-24.0	-27.0	-23.0	-20.0	-12.0	-8.0	8.2	12.7	11.5	-12.3	-21.1
Residential Construction	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-16.1	-22.2	-17.0	-9.8	-5.2	0.8	5.0	7.5	9.5	12.0	-7.1	-17.9	-20.7	-14.0	3.3
Government Purchases	0.9	3.9	3.8	0.8	1.9	3.9	5.8	1.6	1.9	2.9	3.9	4.2	4.3	3.7	3.0	2.4	1.7	2.1	2.9	3.0	3.7
Net Exports	-618.6	-571.2	-511.8	-484.5	-462.0	-381.3	-353.1	-372.9	-445.6	-467.3	-463.6	-457.0	-453.3	-447.0	-438.5	-426.5	-615.7	-546.5	-392.3	-458.4	-441.3
Pct. Point Contribution to GDP	-1.2	1.7	2.0	0.9	0.8	2.9	1.1	-0.5	-2.5	-0.8	0.1	0.2	0.1	0.2	0.3	0.4	0.0	0.6	1.3	-0.6	0.2
Inventory Change	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-29.6	-19.9	-74.2	-61.0	-37.0	-12.8	10.1	24.1	28.3	32.5	42.3	-2.5	-27.6	-46.2	23.8
Pct. Point Contribution to GDP	-1.1	0.5	0.7	-1.0	0.0	-1.5	0.8	0.2	-1.9	0.5	0.9	0.9	0.8	0.5	0.1	0.1	0.0	-0.4	-0.2	-0.2	0.6
Nominal GDP	4.3	6.9	6.4	2.3	3.5	4.1	3.4	-5.8	-6.9	-1.6	0.9	2.3	3.1	4.0	4.1	4.6	6.1	4.8	3.3	-2.3	2.7
Real Final Sales	1.1	4.3	4.0	0.8	0.9	4.4	-1.3	-6.4	-5.5	-2.4	-1.2	0.0	0.7	1.8	2.1	2.6	2.8	2.4	1.4	-3.1	0.6
Retail Sales (b)	3.3	4.0	4.1	5.5	3.1	2.6	0.6	-8.0	-9.7	-10.0	-8.0	0.0	3.4	3.8	3.8	3.7	5.8	4.2	-0.5	-7.0	3.7
Inflation Indicators (b)																					
"Core" PCE Deflator	2.3	2.1	2.0	2.2	2.2	2.3	2.3	1.9	1.5	1.3	1.1	1.3	1.5	1.6	1.7	1.8	2.3	2.2	2.2	1.3	1.6
Consumer Price Index	2.4	2.6	2.3	4.0	4.2	4.3	5.2	1.5	-0.3	-1.2	-2.3	0.1	1.2	1.5	1.8	2.1	3.2	2.9	3.8	-0.9	1.7
"Core" Consumer Price Index	2.6	2.3	2.1	2.3	2.4	2.3	2.5	2.0	1.6	1.4	0.9	1.1	1.1	1.3	1.4	1.6	2.5	2.3	2.3	1.2	1.3
Producer Price Index	1.9	3.4	3.6	6.8	7.2	7.6	9.5	1.3	-1.8	-3.5	-5.3	0.4	2.0	1.9	1.9	1.9	2.9	3.9	6.4	-2.6	1.9
Employment Cost Index	3.5	3.3	3.3	3.3	3.3	3.1	2.9	2.6	2.4	2.3	2.2	2.3	2.5	2.4	2.3	2.3	3.1	3.4	3.0	2.2	2.4
Real Disposable Income (a)	4.4	-0.6	3.1	0.6	-0.7	10.7	-8.5	3.4	-1.8	8.5	5.5	-1.6	1.4	1.6	1.7	1.9	3.5	2.8	1.3	1.8	1.9
Nominal Personal Income (b)	6.4	6.1	6.1	5.8	4.2	5.0	3.8	2.3	1.4	2.3	6.0	4.2	4.7	3.0	0.3	3.5	7.1	6.1	3.8	3.5	2.8
Industrial Production (a)	1.5	3.2	3.6	0.3	0.4	-3.4	-8.9	-12.1	-18.0	-7.2	-2.5	0.4	2.2	4.5	6.0	5.4	2.2	1.7	-1.8	-9.9	1.7
Capacity Utilization	80.7	81.0	81.3	81.0	80.7	79.7	77.6	74.9	71.0	69.1	68.1	67.6	67.3	67.0	67.3	67.8	80.9	81.0	78.2	68.9	67.4
Corporate Profits Before Taxes (b)	-1.0	-0.5	-2.7	-2.0	-1.5	-8.3	-9.2	-17.5	-25.0	-24.0	-20.0	-14.0	-4.0	8.8	8.2	8.0	15.2	-1.6	-9.1	-21.0	5.2
Corporate Profits After Taxes	-0.9	-0.2	-0.8	-0.6	1.8	-6.4	-7.9	-18.0	-24.5	-22.0	-18.5	-14.0	-2.0	10.8	10.5	10.4	16.0	-0.6	-7.6	-20.0	7.3
Federal Budget Balance (c)	-178.0	137.5	-40.6	-106.8	-205.9	26.9	-168.9	-485.2	-440.8	-412.0	-562.0	-605.0	-565.0	-230.0	-325.0	-333.0	-248.2	-161.5	-454.8	-1900.0	-1725.0
Current Account Balance (d)	-196.9	-194.1	-173.0	-167.2	-175.6	-180.9	-174.1	-142.0	-143.0	-140.0	-135.0	-130.0	-125.0	-125.0	-125.0	-120.0	-788.1	-731.2	-672.7	-548.0	-495.0
Trade Weighted Dollar Index (e)	80.5	78.7	74.4	73.3	70.3	71.0	76.1	79.4	86.8	89.4	92.0	93.5	94.0	91.8	90.2	88.1	81.5	73.3	79.4	93.5	88.1
Nonfarm Payroll Change (f)	133	82	2	167	-113	-153	-208	-553	-631	-363	-220	-120	-10	50	80	120	178	96	-257	-334	60
Unemployment Rate	4.5	4.5	4.7	4.8	4.9	5.4	6.1	6.9	8.0	8.6	9.2	9.6	9.8	9.9	10.0	9.8	4.6	4.6	5.8	8.8	9.9
Housing Starts (g)	1.45	1.46	1.30	1.15	1.05	1.03	0.88	0.66	0.45	0.47	0.53	0.59	0.64	0.69	0.77	0.86	1.81	1.34	0.90	0.51	0.74
Light Vehicle Sales (h)	16.3	16.1	15.9	16.0	15.2	14.1	12.9	10.3	9.4	9.7	10.2	10.7	11.0	11.3	11.4	11.5	16.5	16.1	13.1	10.0	11.3
Crude Oil - WTI - Front Contract (i)	58.16	65.03	75.38	90.68	97.90	123.98	117.98	58.74	41.98	39.00	39.00	40.00	40.50	41.50	43.00	45.00	66.22	72.31	99.65	40.00	42.50
Quarter-End Interest Rates																					
Federal Funds Target Rate	5.25	5.25	4.75	4.25	2.25	2.00	2.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	5.25	4.25	0.25	0.25	0.50
3 Month LIBOR	5.35	5.36	5.23	4.70	2.69	2.78	4.05	1.43	1.30	1.10	0.90	0.80	0.70	0.70	1.00	1.20	5.36	4.70	1.43	0.80	1.20
Prime Rate	8.25	8.25	7.75	7.25	5.25	5.00	5.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.50	8.25	7.25	3.25	3.25	3.50
Conventional Mortgage Rate	6.16	6.66	6.38	6.10	5.97	6.32	6.04	5.33	5.10	4.80	4.80	4.80	4.90	5.00	5.10	5.20	6.14	6.10	5.33	4.80	5.20
3 Month Bill	5.04	4.82	3.82	3.36	1.38	1.90	0.92	0.11	0.20	0.30	0.40	0.40	0.40	0.40	0.60	0.90	5.02	3.36	0.11	0.40	0.90
2 Year Note	4.58	4.87	3.97	3.05	1.62	2.63	2.00	0.76	1.00	1.10	1.20	1.30	1.50	1.60	1.70	1.80	4.82	3.05	0.76	1.30	1.80
5 Year Note	4.54	4.92	4.23	3.45	2.46	3.34	2.98	1.55	2.00	2.00	2.10	2.20	2.30	2.50	2.80	3.10	4.70	3.45	1.55	2.20	3.10
10 Year Note	4.65	5.03	4.59	4.04	3.45	3.99	3.85	2.25	3.00	3.00	3.00	3.10	3.20	3.30	3.40	3.50	4.71	4.04	2.25	3.10	3.50
30 Year Bond	4.84	5.12	4.83	4.45	4.30	4.53	4.31	2.69	3.60	3.70	3.70	3.70	3.70	3.80	3.90	4.00	4.81	4.45	2.69	3.70	4.00

Data As of: March 11, 2009

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter

(f) Average Monthly Change

(b) Year-over-Year Percentage Change

(g) Millions of Units

(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Year

(h) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold

(d) Quarterly Sum - Billions USD

(i) Quarterly Average of Daily Close

(e) Federal Reserve Major Currency Index, 1973=100 - Quarter End

**Deep Global Recession Keeps Greenback Firm**

As shown on the chart on the front page, the U.S. dollar remains firm versus most major currencies. Although recent data show that the U.S. economy continues to contract at a sharp rate, recessions that are underway in most major countries are equally severe. Japanese industrial production has essentially collapsed, plunging roughly 25 percent between October and January. The manufacturing and service sector PMIs in both the Euro-zone and the United Kingdom remained mired in deep recession territory in February (see chart below).

Against this backdrop of depressed economic activity, major central banks have continued to cut rates. As shown below, the Bank of Canada, the Bank of England and the European Central Bank each cut their respective policy rate by 50 bps in early March. British and Canadian monetary authorities are now about as low as they can go in the rate-cutting cycle, so they will now need to turn to unorthodox methods to ease policy further.

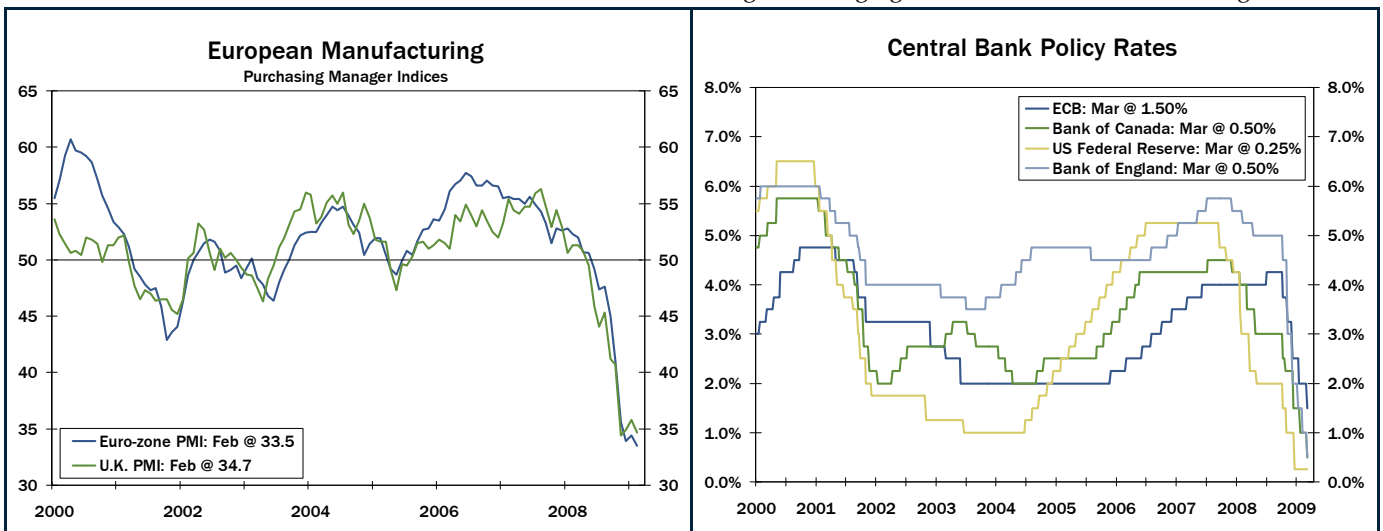
Indeed, the Bank of England announced at the conclusion of its policy meeting on March 5 that it would buy £75 billion worth of assets from the banking system via the creation of banking reserves. In other words, the Bank of England will expand the size of its balance sheet as the Fed has already done. Not only will the Bank purchase private-sector bonds, but it will buy government bonds as well. Since the announcement, the yield on the British government 10 year bond has dropped about 50 bps on balance. Because yields on most private-sector bonds are based on a spread over government bonds, the rally in the gilt market should help to reduce private sector borrowing costs. The Bank of Canada said that it is studying unorthodox measures to provide additional monetary stimulus, and a framework for possible steps will be announced in April.

Even though the ECB has cut its policy rate to an all-time low of 1.50 percent, it has the highest rate among major central banks. In our view, the ECB will need to cut rates even further. As noted above, the Euro-zone economy remains mired in a deep recession. In addition, inflation should recede even further - we project that the overall rate of CPI inflation will turn modestly negative in a few months - giving the inflation-targeting ECB little reason to refrain from cutting further. The ECB could adopt its own unorthodox easing measures later this year.

**Dollar Should Strengthen Further in Near Term**

In our view, the dollar should continue to strengthen, at least in the near term (see forecast on page 5). Although the U.S. economy is in a deep slump at present, the significant policy stimulus that has been put in place should lead to economic stabilization in the second half of the year. Other economies will probably lag somewhat behind the United States. That said, most of the dollar's appreciation has likely occurred already. Between now and the end of the year we project that the greenback will rise roughly ten percent on a trade-weighted basis, about half the twenty percent appreciation that it has experienced between last July and the present.

As recoveries begin to take hold abroad, foreign currencies should start to stabilize against the greenback later this year and early next year. Some of these currencies could start to appreciate versus the dollar as the U.S. economic upturn likely will be very sluggish. Appreciation seems likely for many emerging market currencies that have been pummeled over the past few months. As the global economic outlook becomes less grim, investors will start to become less risk averse. As investors become willing to consider a bit more risk, they will start to be attracted to the high returns that emerging market assets offer. As foreign capital begins to flow to developing economies again, emerging market currencies should strengthen.



**March 11, 2009**

**Wachovia Currency Forecast**

(End of Quarter Rates)

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Major Currencies</b>								
Euro (\$/€)	1.25	1.22	1.18	1.16	1.15	1.18	1.20	1.24
U.K. (\$/£)	1.39	1.37	1.34	1.33	1.34	1.38	1.40	1.44
U.K. (£/€)	0.90	0.89	0.88	0.87	0.86	0.86	0.86	0.86
Japan (¥/\$)	98	102	106	108	110	108	106	104
<b>Other Industrialized</b>								
Canada (C\$/US\$)	1.26	1.30	1.33	1.35	1.35	1.32	1.30	1.28
Switzerland (CHF/\$)	1.16	1.20	1.24	1.28	1.30	1.28	1.26	1.24
Norway (NOK/\$)	7.05	7.15	7.30	7.35	7.20	6.95	6.75	6.50
Sweden (SEK/\$)	9.00	9.30	9.60	9.60	9.50	9.30	9.00	8.70
Australia (US\$/A\$)	0.64	0.63	0.62	0.62	0.64	0.66	0.68	0.70
<b>Developing Economies</b>								
Mexico (MXN/\$)	15.00	15.25	15.50	15.50	15.25	15.00	14.50	14.00
Brazil (BRL/\$)	2.40	2.50	2.60	2.60	2.50	2.40	2.30	2.20
Poland (PLN/\$)	3.60	3.80	3.85	3.90	3.85	3.75	3.60	3.50
Russia (RUB/\$)	35.00	35.50	36.00	36.00	35.00	34.00	33.00	32.00
Turkey (TRY/\$)	1.80	1.84	1.88	1.90	1.86	1.82	1.75	1.70
South Africa (ZAR/\$)	10.40	10.80	11.00	11.20	11.00	10.60	10.00	9.50
China (CNY/\$)	6.85	6.84	6.82	6.80	6.75	6.70	6.65	6.60
India (INR/\$)	51.50	52.00	53.00	53.00	52.00	51.00	49.00	47.00
Korea (KRW/\$)	1525	1550	1600	1600	1550	1500	1450	1400
Singapore (S\$/US\$)	1.54	1.56	1.58	1.59	1.59	1.57	1.55	1.53
Taiwan (TWD/\$)	34.50	34.80	35.00	35.00	34.75	34.25	33.75	33.25

**Wachovia International Economic Forecast**

(Year-over-Year Percentage Change)

	GDP			CPI		
	2008	2009	2010	2008	2009	2010
Global	3.4%	-1.0%	2.9%	5.6%	1.0%	1.9%
<b>Major Economies</b>						
United States	1.1%	-3.3%	1.2%	3.8%	-0.9%	1.7%
Eurozone	0.7%	-3.3%	1.2%	3.3%	-0.1%	0.5%
Germany	1.0%	-3.9%	1.1%	2.8%	-0.2%	0.1%
France	0.8%	-2.7%	1.4%	3.2%	-0.2%	0.6%
Italy	-0.9%	-4.3%	0.9%	3.5%	-0.6%	0.1%
UK	0.7%	-3.4%	1.0%	3.6%	0.5%	0.4%
Japan	-0.7%	-6.8%	-0.2%	1.4%	-1.3%	-0.7%
Canada	0.5%	-2.6%	2.0%	2.4%	0.3%	1.0%
<b>Developing Economies</b>						
China	9.1%	6.5%	8.2%	5.9%	-1.4%	-0.1%
India	6.0%	5.1%	7.0%	7.8%	6.8%	5.0%
Mexico	1.3%	-2.9%	1.8%	5.1%	4.6%	2.6%
Brazil	5.5%	-1.4%	3.4%	5.7%	4.6%	3.9%

<sup>1</sup>Data as of: March 11, 2009

<sup>2</sup>Data as of: March 11, 2009

**Wachovia International Interest Rate Forecast**

(End of Quarter Rates)

	3-Month LIBOR								10-Yr Government Security							
	2009				2010				2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	1.30%	1.10%	0.90%	0.80%	0.70%	0.70%	1.00%	1.20%	3.00%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
Japan	0.60%	0.50%	0.40%	0.25%	0.25%	0.25%	0.25%	0.25%	1.20%	1.25%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%
Euroland	1.65%	1.20%	0.70%	0.70%	0.70%	1.25%	2.00%	2.75%	2.90%	3.00%	3.20%	3.60%	3.80%	4.00%	4.10%	4.20%
U.K.	1.85%	1.50%	1.25%	0.75%	0.75%	1.00%	1.50%	2.25%	3.00%	3.10%	3.20%	3.40%	3.70%	3.90%	4.00%	4.10%
Canada	1.10%	0.75%	0.60%	0.50%	0.50%	1.00%	2.00%	3.00%	2.90%	3.00%	3.20%	3.50%	3.90%	4.00%	4.10%	4.20%

<sup>3</sup>Data as of: March 11, 2009

## Wachovia Economics Group

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