



WACHOVIA

ECONOMICS GROUP

MONTHLY OUTLOOK

January 14, 2009

U.S. Overview

Worst May be Over, but We Have Long Way to Go

Real economic activity fell off a cliff during the fourth quarter, producing a sharp drop in employment, output and spending. More than 1.5 million jobs were lost during the period and total hours worked plummeted at a 7.7 percent annual rate. Real GDP did not likely decline that much, as faltering demand in the U.S. cut demand for imports and thus exported a good part of U.S. weakness. We currently expect real GDP to decline at a 5.3 percent annual rate during the fourth quarter, with final sales down 4.2 percent. While GDP growth did not fall as much as had been feared, a decline of 5.3 percent is still a pretty ferocious drop and we expect declines will persist for five consecutive quarters, the longest period of consecutive declines on record.

Moreover, production cutbacks announced by the major domestic motor vehicle manufacturers, along with many transplant operations, will likely result in a much weaker start to 2009. When all is said and done, the fourth quarter of last year and the first quarter of 2009 will likely mark the darkest hours of this downturn. The Federal Reserve is expected to keep its target rate near zero for all of 2009. While we see real GDP bottoming this summer, a strong sustainable recovery is not likely to take hold until sometime in 2010. We expect the unemployment rate to eventually reach around 9.5 percent, but not until next year.

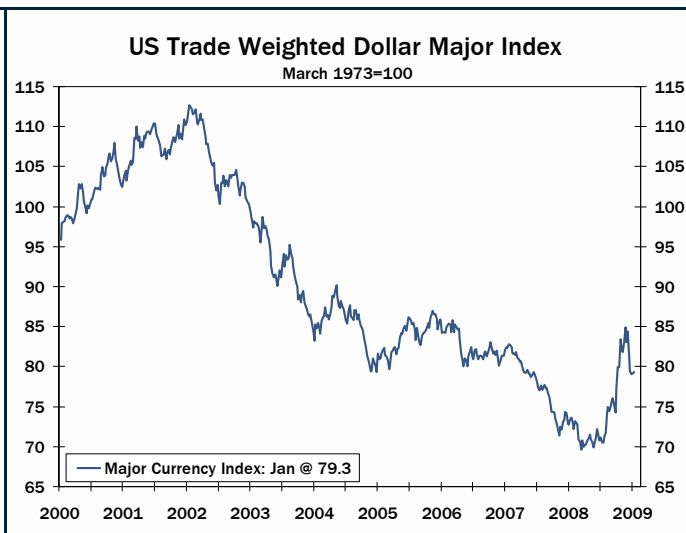
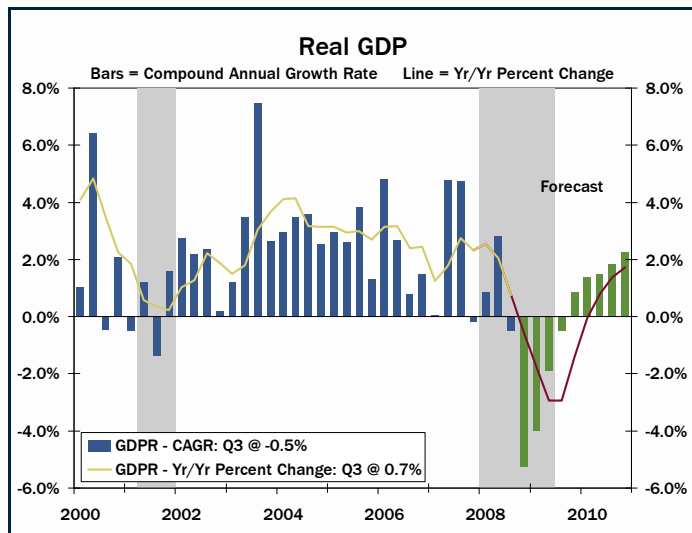
International Overview

Dollar Strength to Continue in Near Term

The dollar appreciation that has occurred on balance since summer reflects in part the sharp deterioration that has occurred in the outlook for foreign economies. We project that the dollar will rally further in the foreseeable future as sharp recessions in major foreign economies lead foreign central banks to cut rates further. Hopes for an eventual recovery in the U.S. economy should also help to push the greenback higher.

However, the eventual upturn that we project for the U.S. economy will probably be quite sluggish, at least through most of 2010. Although the Fed likely will begin to raise rates once unmistakable signs of stabilization and recovery begin to emerge, the lackluster nature of the upturn should keep the pace of tightening very gradual, making prospects for sustained dollar appreciation appear questionable.

We are usually hesitant to forecast turning points in our forecasts of dollar exchange rates. But the sluggish nature of our projected U.S. recovery does not make sustained dollar appreciation appear very credible. Although the timing is very difficult to forecast, we believe the dollar will generally strengthen as long as hopes for recovery seem believable. This episode of dollar appreciation could take a few quarters to unfold. However, once the long, drawn-out nature of the U.S. economic recovery becomes obvious, the greenback will probably give up its gains and begin to depreciate.



This Recession Is Different

One of the most dangerous phrases one can mutter in the financial world is to say that this time, the business cycle is different. In one sense this is always true, as no two business cycles are truly alike. There are certain truths, however, that underlie all business cycles. Recessions are inevitable and typically correct for the imbalances that were built up during the boom times.

From this perspective this recession looks the same as all others. The greatest imbalances built up during the most recent expansion were in housing, financial services, consumer spending and foreign trade. Put differently, we built too many houses, financed them too loosely, allowed consumers to leverage too easily and to a much greater extent than was justified. This all fueled an enormous appetite for imported goods which gave foreign investors dollars to re-invest in new innovative financial products.

The recession has put this process into reverse. With foreign investors less willing to buy sophisticated financial products, money has poured into Treasury securities but not much else. This has made it much more difficult to finance consumer spending, leading to a huge correction in all things whose purchases need to be financed, most notably homes and motor vehicles. Sales of both had been stumbling for years but declines greatly intensified during the fourth quarter when credit became extremely tight.

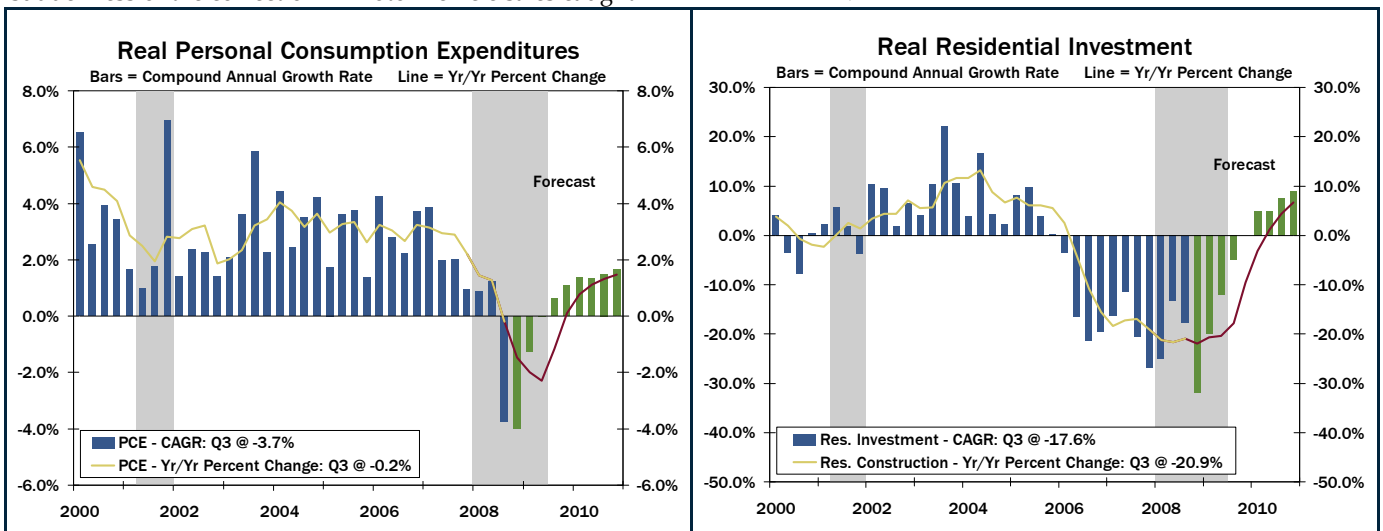
Sales of new homes tumbled at an estimated 40 percent annual rate and sales of existing homes declined at roughly a 25 percent rate. New home construction plummeted late last year and we expect further declines in the first part of 2009. Motor vehicle sales, which averaged just a 14.6 million unit pace in the first half of 2008, plummeted in the fourth quarter and are expected to average just an 11.0 million unit pace this year.

While the troubles of the domestic motor vehicle manufacturers have garnered much of the headlines, the suddenness of the correction in motor vehicle sales caught

virtually all manufacturers by surprise. Inventories of domestic and imported models have risen dramatically, leading to huge production cutbacks at domestic and foreign assembly plants. Inventories of imported models have stacked up at ports, causing many ships to hold off deliveries, which may have contributed to the surprising trade deficit improvement. The continued drop in residential construction and production cuts at vehicle plants virtually assure that real GDP will post another sizeable drop in the first quarter. Business investment and commercial construction will also weaken during the quarter, reflecting declines in corporate profits and reduced expectations for future growth. Inventories will decline sharply, which is where production cutbacks typically show up in the GDP figures. We expect real GDP to decline at around a four percent annual rate during the first quarter and look for declines to become successively less severe in the second and third quarters.

While these declines are significant and painful, they are not without precedent, nor is the magnitude of the decline, which we expect to be roughly similar to what occurred in the 1981/82 recession. What makes this recession different are the length of the downturn and the paucity of the expected recovery. We expect the actual recession period to last nearly two years and expect the recovery to be unusually feeble. By contrast, the longest recessions during the postwar era lasted 16 months and the average recession lasted just 9 months.

The extra length of this downturn primarily results from the time needed to unwind excesses built up in housing, consumer spending and financial services. While much of the problem present in these sectors was created during the most recent upturn, a good part has also been building in the past quarter century. This period was characterized by a long structural decline in interest rates which allowed households and businesses to leverage up. The longer recession is thus the result of both cyclical and structural imbalances, which will take much more time to unwind.



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	-5.3	-4.0	-1.9	-0.5	0.9	1.4	1.5	1.8	2.3	2.8	2.0	1.2	-2.3	1.0
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.8	-4.0	-1.2	0.0	0.6	1.1	1.4	1.3	1.5	1.7	3.0	2.8	0.3	-1.3	1.2
Business Fixed Investment	3.4	10.3	8.7	3.4	2.4	2.5	-1.7	-13.1	-14.8	-15.7	-15.3	-13.4	-5.3	-0.5	0.6	4.0	7.5	4.9	2.3	-12.0	-6.8
Equipment and Software	0.0	6.9	3.6	1.0	-0.6	-5.0	-7.5	-15.5	-17.7	-17.0	-15.0	-12.5	3.7	2.2	2.2	4.7	7.2	1.7	-2.0	-14.5	-3.9
Structures	11.2	18.3	20.5	8.5	8.6	18.5	9.7	1.5	-6.0	-12.0	-16.0	-16.0	-12.0	-8.0	-4.0	2.0	8.2	12.7	12.0	-4.5	-10.9
Residential Construction	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-16.1	-32.0	-20.0	-12.0	-5.0	0.0	5.0	5.0	7.5	9.0	-7.1	-17.9	-21.4	-17.4	2.2
Government Purchases	0.9	3.9	3.8	0.8	1.9	3.9	5.8	0.8	-0.3	-0.3	0.3	0.6	1.3	1.5	1.7	1.8	1.7	2.1	2.9	1.0	1.1
Net Exports	-618.6	-571.2	-511.8	-484.5	-462.0	-381.3	-353.1	-353.2	-351.2	-353.4	-354.5	-363.5	-361.8	-359.5	-358.8	-357.3	-615.7	-546.5	-387.4	-355.6	-359.4
Pct. Point Contribution to GDP	-1.2	1.7	2.0	0.9	0.8	2.9	1.1	0.0	0.1	-0.1	0.0	-0.3	0.1	0.1	0.0	0.1	0.0	0.6	1.4	0.3	0.0
Inventory Change	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-29.6	-58.0	-79.5	-65.1	-37.3	13.4	27.6	29.7	34.9	36.4	42.3	-2.5	-37.1	-42.1	32.2
Pct. Point Contribution to GDP	-1.1	0.5	0.7	-1.0	0.0	-1.5	0.8	-1.0	-0.7	0.5	1.0	1.8	0.5	0.1	0.2	0.1	0.0	-0.4	-0.3	0.0	0.7
Nominal GDP	4.3	6.9	6.4	2.3	3.5	4.1	3.4	-6.4	-2.0	-0.5	0.9	2.4	3.0	3.2	3.7	4.2	6.1	4.8	3.3	-0.9	2.6
Real Final Sales	1.1	4.3	4.0	0.8	0.9	4.4	-1.3	-4.2	-3.3	-2.4	-1.5	-0.9	0.9	1.4	1.7	2.2	2.8	2.4	1.5	-2.2	0.3
Retail Sales (b)	3.3	4.0	4.1	5.2	3.0	2.6	0.6	-6.2	-6.9	-7.1	-5.0	1.6	3.6	3.8	3.8	3.7	5.8	4.2	-0.1	-4.5	3.8
Inflation Indicators (b)																					
"Core" PCE Deflator	2.3	2.1	2.0	2.2	2.2	2.3	2.3	1.8	1.4	1.1	0.9	1.2	1.5	1.6	1.7	1.8	2.3	2.2	2.2	1.1	1.6
Consumer Price Index	2.4	2.6	2.4	4.0	4.2	4.3	5.3	1.8	0.3	-0.6	-1.5	1.8	2.7	2.8	2.6	1.9	3.2	2.9	3.9	0.0	2.5
"Core" Consumer Price Index	2.6	2.3	2.1	2.3	2.4	2.3	2.5	2.0	1.6	1.5	1.2	1.5	1.7	1.8	1.9	1.9	2.5	2.3	2.3	1.5	1.8
Producer Price Index	2.0	3.4	3.6	6.7	7.1	7.6	9.4	1.8	-1.6	-3.5	-5.0	0.3	2.0	1.9	1.9	1.9	3.0	3.9	6.5	-2.5	1.9
Employment Cost Index	3.5	3.3	3.3	3.3	3.3	3.1	2.9	2.6	2.8	2.5	2.4	2.3	2.4	2.2	2.1	2.1	3.1	3.4	3.0	2.5	2.2
Real Disposable Income (a)	4.4	-0.6	3.1	0.6	-0.7	10.7	-8.8	0.2	-1.5	0.0	4.5	4.5	-0.5	1.5	2.0	2.0	3.5	2.8	1.1	0.0	1.9
Nominal Personal Income (b)	6.4	6.1	6.1	5.8	4.2	5.0	3.7	2.3	0.7	-0.7	-0.3	0.3	1.8	2.5	3.4	4.3	7.1	6.1	3.8	0.0	3.0
Industrial Production (a)	1.5	3.2	3.6	0.3	0.4	-3.4	-8.9	-9.2	-9.8	-4.2	-2.0	0.4	1.4	2.2	2.9	3.3	2.2	1.7	-1.6	-6.6	0.9
Capacity Utilization	80.7	81.0	81.3	81.0	80.7	79.7	77.6	75.5	73.8	72.5	71.4	70.9	70.6	70.5	70.6	70.7	80.9	81.0	78.4	72.2	70.6
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	-509.6	-333.0	-270.0	-395.0	-520.0	-503.0	-189.0	-304.0	-318.0	-248.2	-161.5	-454.8	-1507.6	-1516.0
Current Account Balance (d)	-196.9	-194.1	-173.0	-167.2	-175.6	-180.9	-174.1	-140.0	-130.0	-120.0	-115.0	-110.0	-105.0	-103.0	-100.0	-100.0	-788.1	-731.2	-670.7	-475.0	-408.0
Trade Weighted Dollar Index (e)	80.5	78.7	74.4	73.3	70.3	71.0	76.1	79.4	85.7	89.8	92.1	93.3	92.1	88.1	84.5	81.2	81.5	73.3	79.4	93.3	81.2
Nonfarm Payroll Change (f)	109	105	71	80	-82	-71	-199	-510	-343	-180	-120	-75	0	40	80	105	175	91	-216	-180	56
Unemployment Rate	4.5	4.5	4.7	4.8	4.9	5.3	6.0	6.8	7.5	8.1	8.7	9.0	9.2	9.3	9.4	9.5	4.6	4.6	5.8	8.3	9.4
Housing Starts (g)	1.45	1.46	1.30	1.15	1.05	1.03	0.88	0.67	0.56	0.60	0.64	0.66	0.69	0.76	0.84	0.93	1.81	1.34	0.90	0.61	0.80
Light Vehicle Sales (h)	16.3	16.1	15.9	16.0	15.2	14.1	12.9	10.3	10.6	10.8	11.1	11.1	11.3	11.5	11.6	11.7	16.5	16.1	13.1	10.9	11.5
Crude Oil - WTI - Front Contract (i)	58.16	65.03	75.38	90.68	97.90	123.98	117.98	58.74	43.00	39.00	39.00	40.00	40.50	41.50	43.00	45.00	66.22	72.31	99.65	40.25	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	0.50	1.00	1.00	5.25	4.25	0.25	0.25	1.00
3 Month LIBOR	5.35	5.36	5.23	4.70	2.69	2.78	4.05	1.43	1.00	0.80	0.60	0.50	0.70	1.10	1.30	1.50	5.36	4.70	1.43	0.50	1.50
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	3.50	4.00	4.00	8.25	7.25	3.25	3.25	4.00
Conventional Mortgage Rate	6.16	6.66	6.38	6.10	5.97	6.32	6.04	6.09	4.80	4.80	4.80	4.80	4.90	5.10	5.30	5.50	6.14	6.10	6.09	4.80	5.50
3 Month Bill	5.04	4.82	3.82	3.36	1.38	1.90	0.92	0.11	0.20	0.20	0.20	0.20	0.40	0.70	0.90	1.00	5.02	3.36	0.11	0.20	1.00
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	2.10	2.20	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	2.70	3.00	3.10	3.10	3.20	3.40	3.60	3.80	4.71	4.04	2.25	3.10	3.80
30 Year Bond	4.84	5.12	4.83	4.45	4.30	4.53	4.31	2.69	3.20	3.30	3.30	3.30	3.40	3.60	3.80	4.00	4.81	4.45	2.69	3.30	4.00

Data As of: January 14, 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

Dollar Should Strengthen in Near Term

As shown in the graph on the front page, the Fed’s “Major Currency” index, which measures the value of the U.S. dollar against seven major currencies, has risen nearly 15 percent on balance since July. Some of the dollar’s rally is explained by the sharp deterioration in the foreign economic outlook that has led major central banks to cut their respective policy rates significantly over the past few months (see chart below). Will the dollar rally further in 2009, or will it give up its recent gains?

In our view, the greenback should continue to trend higher, at least for the foreseeable future (see our forecast on page 5). However, the gains that we project for the dollar over the course of 2009 do not reflect a stellar U.S. economic outlook. Indeed, the domestic section of this report details just how lousy the U.S. economic outlook is. Rather, the dollar appreciation that we forecast for this year reflects economic weakness abroad. Most European economies have fallen into deep recessions, and policy rates will likely drop further. We project that the Bank of England will cut rates by another 100 basis points over the next few months, and the European Central Bank will likely take its policy rate from 2.50 percent at present to 1.00 percent by summer. As interest rate differentials between the United States and major foreign economies narrow, the dollar should rally.

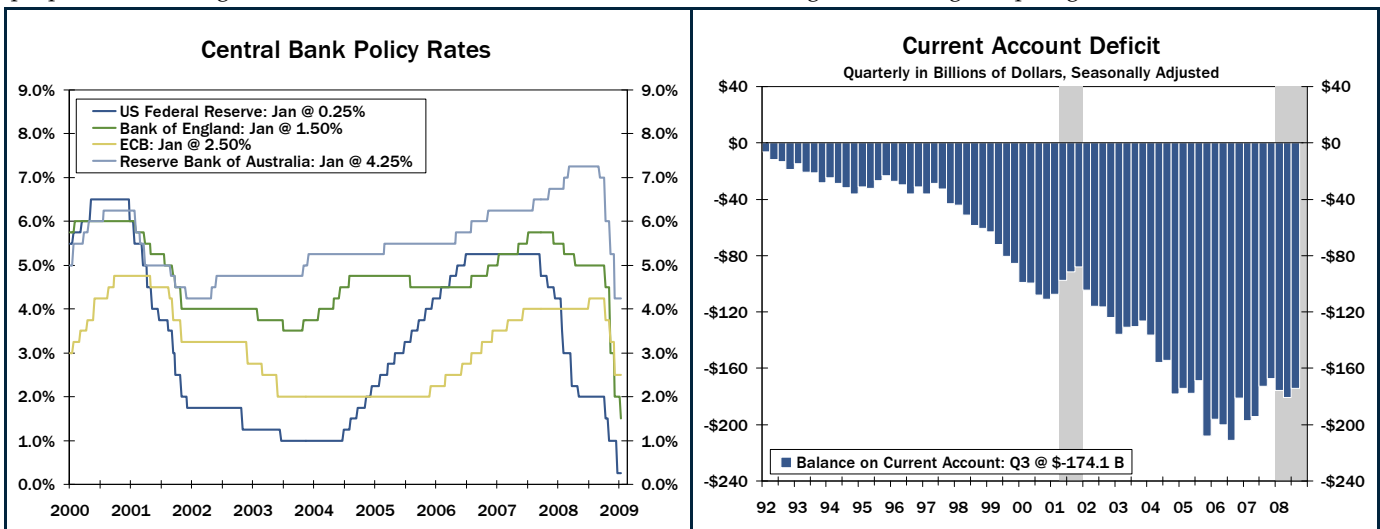
In addition, the U.S. economy will probably show signs of stabilizing, and potentially recovering, before some other major economies which entered recession after the United States. The unprecedented support that the Federal Reserve has lent the economy since the autumn of 2007 and the much anticipated fiscal stimulus package should eventually put a floor under the economy. Expectations of economic recovery in the United States should also help to propel the dollar higher.

Dollar to Weaken Anew in 2010?

Although U.S. real GDP growth should turn positive again in the second half of 2009, we project that economic growth will remain painfully slow throughout 2010. While the Fed will probably start to raise rates once the economy shows some signs of recovering, sluggish growth should keep the pace of tightening very slow. On the other hand, many major economies, which largely do not have all the challenges that the U.S. economy faces, should recover at a faster pace. This would lead those central banks to tighten policy faster than the Fed. As foreign interest rates rise relative to U.S. rates, prospects of sustained dollar appreciation start to become questionable.

We are usually very hesitant to forecast reversals in our exchange rate forecasts. It is difficult enough to recognize turning points when they occur yet alone to attempt to forecast one at some point in the future. However, looking for sustained dollar appreciation during a sluggish economic recovery in the United States just does not seem very credible to us. For example, the U.S. economy pulled out of recession in the spring of 1991, but the dollar subsequently trended lower for more than a year. More recently, the dollar depreciated during the sluggish recovery of 2002-03 as U.S. interest rates remained at unprecedented lows (at least at that time).

Therefore, we do not believe that the dollar appreciation we project in the near term will be sustained. Although we forecast that the greenback will strengthen throughout 2009 before giving up its gains in 2010, the precise timing of the turning point is impossible to predict. Broadly, we believe the dollar will strengthen as long as hopes for recovery seem credible, and this process could take a few quarters to unfold. However, once the long, drawn-out nature of the recovery becomes painfully obvious, we look for the greenback to give up its gains.



January 14, 2009

Wachovia International Economic Forecast						
(Year-over-Year Percentage Change)						
	GDP			CPI		
	2008	2009	2010	2008	2009	2010
Global	3.3%	0.2%	3.1%	5.7%	2.1%	2.8%
Major Economies						
United States	1.2%	-2.3%	1.0%	3.9%	0.0%	2.5%
Eurozone	0.8%	-1.8%	1.4%	3.3%	0.9%	1.3%
Germany	1.2%	-1.8%	1.5%	2.8%	0.6%	1.2%
France	0.8%	-1.1%	1.8%	3.2%	0.9%	1.3%
Italy	-0.6%	-2.0%	1.2%	3.5%	0.9%	1.0%
UK	0.7%	-2.1%	1.4%	3.6%	1.5%	1.4%
Japan	-0.1%	-2.0%	1.4%	1.4%	-0.1%	0.1%
Canada	0.6%	-1.5%	2.1%	2.4%	0.9%	1.4%
Developing Economies						
China	9.3%	6.8%	8.7%	6.0%	0.1%	1.2%
India	6.5%	5.0%	7.3%	7.8%	6.8%	4.5%
Mexico	1.5%	-1.3%	2.3%	5.1%	4.8%	3.2%
Brazil	6.7%	2.4%	3.2%	5.7%	4.6%	3.9%

¹Data as of: January 14, 2009

Wachovia Currency Forecast								
(End of Quarter Rates)								
	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Major Currencies								
Euro (\$/€)	1.26	1.18	1.14	1.12	1.12	1.18	1.24	1.30
U.K. (\$/£)	1.42	1.38	1.36	1.36	1.40	1.44	1.48	1.52
U.K. (£/€)	0.89	0.86	0.84	0.82	0.80	0.82	0.84	0.86
Japan (¥/\$)	96	102	105	108	110	105	102	100
Other Industrialized								
Canada (C\$/US\$)	1.25	1.28	1.30	1.30	1.25	1.20	1.15	1.10
Switzerland (CHF/\$)	1.18	1.25	1.30	1.34	1.34	1.30	1.25	1.20
Norway (NOK/\$)	7.30	7.60	7.80	7.70	7.50	7.20	6.90	6.70
Sweden (SEK/\$)	8.40	8.80	9.00	9.00	8.80	8.50	8.20	7.80
Australia (US\$/A\$)	0.66	0.65	0.64	0.63	0.65	0.70	0.75	0.80
Developing Economies								
Mexico (MXN/\$)	14.00	14.25	14.50	14.50	14.00	13.50	13.00	12.50
Brazil (BRL/\$)	2.40	2.50	2.60	2.60	2.50	2.30	2.15	2.00
Poland (PLN/\$)	3.20	3.40	3.50	3.50	3.40	3.30	3.20	3.10
Russia (RUB/\$)	34.00	38.00	39.00	38.00	36.00	34.00	31.00	29.00
Turkey (TRY/\$)	1.62	1.65	1.68	1.70	1.68	1.62	1.55	1.50
South Africa (ZAR/\$)	10.25	10.50	10.75	10.90	10.80	10.50	10.20	10.00
China (CNY/\$)	6.85	6.82	6.80	6.75	6.60	6.50	6.40	6.30
India (INR/\$)	49.00	49.50	50.00	49.00	48.00	47.00	46.00	45.00
Korea (KRW/\$)	1425	1450	1475	1475	1400	1350	1300	1250
Singapore (S\$/US\$)	1.52	1.56	1.58	1.60	1.56	1.52	1.48	1.44
Taiwan (TWD/\$)	33.50	33.70	33.80	33.80	33.50	33.00	32.75	32.50

¹Data as of: January 14, 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	1.00%	0.80%	0.60%	0.50%	0.70%	1.10%	1.30%	1.50%	2.70%	3.00%	3.10%	3.10%	3.20%	3.40%	3.60%	3.80%
Japan	0.60%	0.40%	0.20%	0.20%	0.20%	0.30%	0.45%	0.50%	1.35%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.00%
Euroland	1.80%	1.15%	1.15%	1.20%	1.70%	2.50%	3.00%	3.20%	2.95%	2.90%	3.20%	3.80%	4.00%	4.25%	4.40%	4.50%
U.K.	1.30%	0.90%	0.65%	0.65%	1.00%	1.50%	1.70%	2.20%	3.10%	3.00%	3.25%	3.75%	3.90%	4.10%	4.20%	4.25%
Canada	1.00%	0.90%	0.90%	1.20%	1.75%	2.50%	3.25%	3.70%	2.75%	2.90%	3.50%	3.75%	3.90%	4.10%	4.30%	4.50%

¹Data As of: January 14, 2009

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