



ECONOMICS GROUP

MONTHLY OUTLOOK

October 08, 2008

U.S. Overview

The Only Certainty Today Is Uncertainty

The incredible volatility in the financial markets is not only dominating the headlines but also dramatically reshaping the economic outlook. Capital is much harder to come by today for even the strongest of credits and this is already having a debilitating impact on consumer spending, business fixed investment and employment. Our near-term forecast has been slashed and a recession is now underway. We expect three consecutive quarters of declines in real GDP beginning with the third quarter of this year, which is expected to decline at a 0.7 percent annual rate.

We expect the peak-to-trough decline in real GDP to total 1.5 percent, in line with the contraction registered during the 1990-91 recession. However, we expect that final sales to consumers and businesses will drop about 3 percent, which would be the largest decline since the 1981-82 recession.

We believe consumer spending fell more than 3 percent (annualized rate) during the third quarter and expect another negative quarter in the current quarter. Most of the weakness in consumer outlays has been in big tickets items, such as cars and household durable goods. Consumers are also scaling back purchases of smaller items and services.

Given the changes to our outlook we now expect the Federal Reserve to cut interest rates further. We look for another 50 basis point rate cut at the October 29 FOMC meeting, with a final 25 basis point cut, which would take the fed funds rate to 0.75 percent, in December or January.

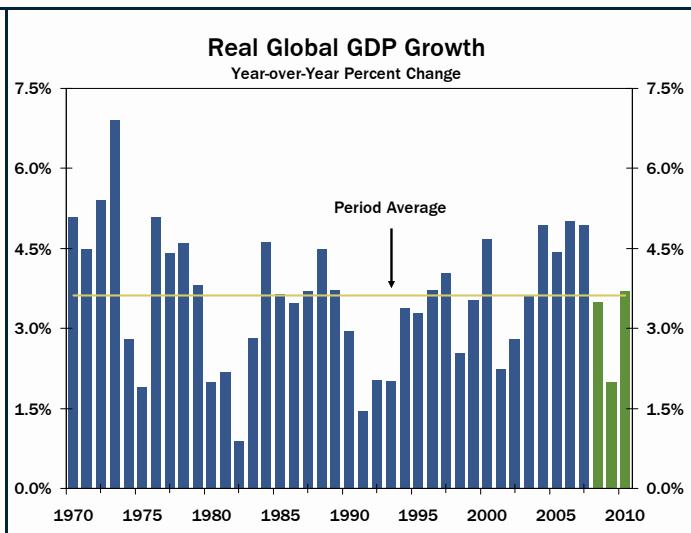
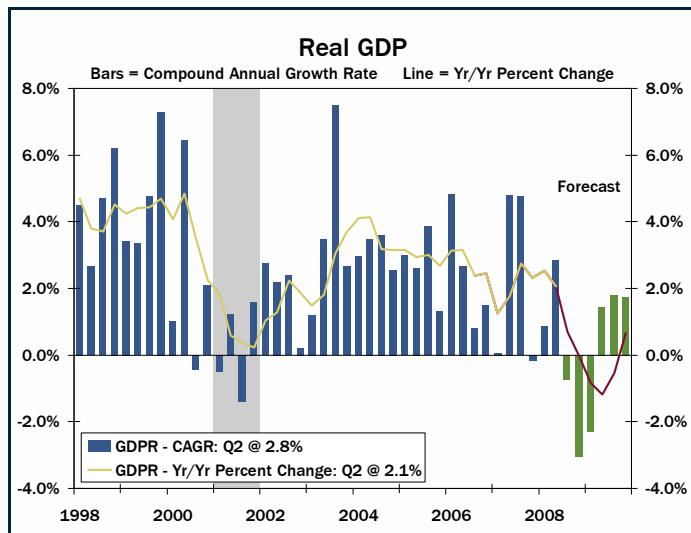
International Overview

Global Recession Looks Likely

Prospects for global growth have dimmed considerably over the past month as dislocations in credit markets have intensified. Indeed, most major foreign economies, including Canada, the Euro-zone, Japan and the United Kingdom each appear destined for a few quarters of negative growth as credit dislocations weigh on investment spending and as shell-shocked consumers rein in spending. Our revised forecast calls for global GDP to grow only two percent in 2009, the slowest year of growth since 1993.

Strains in credit markets, which are posing major downside risks to growth, induced major central banks (including the Fed, the ECB, the Bank of England, and the Bank of Canada) to cut rates by 50 basis points in a coordinated fashion on October 8. We look for further easing by foreign central banks. The Bank of England likely will cut rates another 150 basis points by early next year, and the ECB probably has another 75 basis points or so up its sleeve.

The greenback has strengthened recently as foreign borrowers have scrambled for dollar liquidity. Looking forward, the dollar could give up some of its recent gains when (if?) panic subsides. That said, we project that the dollar will trend higher throughout 2009 as foreign central banks continue to cut rates and as the U.S. current account deficit gets smaller. However, the situation in financial markets remains very volatile, which makes accurate forecasting nearly impossible.



The Ghouls & Goblins Are Out Early This Year

The financial market crisis has exceeded all but the gloomiest of expectations and has clearly intensified in recent weeks. The heart of the crisis is the lack of transparency in complicated financial instruments, which makes it difficult to value certain assets and to determine how creditworthy certain financial institutions and certain nonfinancial businesses are. The net result has been a sharp contraction in credit, particularly in the inter-bank and asset-back commercial paper markets.

Main Street is feeling the pinch too. Interest rates on conventional home mortgages are around three-quarters of a percentage point higher than they should be and qualifications for a home mortgage have swung from much too easy to far too tight. Home equity lines have also been scaled back and in some cases credit card limits have been cut. The troubles in the commercial paper market have been particularly bad news for the auto sector, with dealer financing and buyer financing both drying up. Loan approvals, sales, and buyer traffic all plummeted in late September, which contributed to our reduced estimate of third quarter consumer spending.

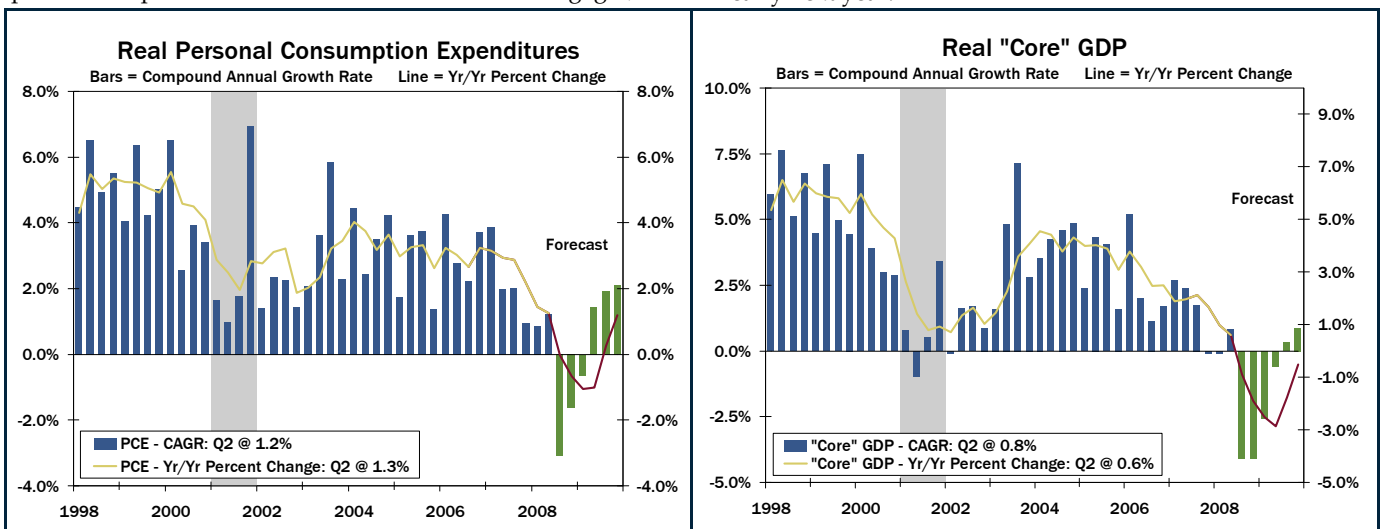
The credit crunch also threatens to spoil the holiday season. Some retailers are struggling to line up credit for the holiday season and many are likely to go into the period with unusually low inventories. Those low inventories virtually guarantee sales will come in on the low side or even below our zero to two percent forecast.

While the current environment is frightening, the Treasury and the Federal Reserve have been extremely active implementing policies that should add liquidity to the financial system and help restore confidence. The most notable addition is the Treasury's Troubled Asset Relief Program, or TARP, which will allow the Treasury to purchase up to \$700 billion of troubled mortgages,

mortgage-related securities, and other financial instruments from financial firms that are regulated under U.S. law. Many of these assets are not trading at the moment, which makes it difficult to assign a value. The TARP will hopefully take the mask off these assets and remove some of the fear from the financial system. Once banks feel comfortable lending to one another again and trading of less-complicated financial assets resumes, some semblance of normalcy should return to the credit markets. Unfortunately, any significant improvement is, at a minimum, weeks away and significant damage has already been done. We now expect at least a moderate recession as measured by real GDP and possibly a deeper one if inventories plummet or exports slow faster than we currently expect. Domestic demand is far weaker than this, however, and we expect core GDP to decline for four consecutive quarters, producing its largest cumulative drop since the 1981/82 recession.

The weakness in core GDP will likely drive the unemployment rate higher than the current consensus expects and cut deeply into personal income growth. This, combined with the negative effect from falling home prices, will keep consumer spending sluggish for at least the next year. With capital dearer, business fixed investment and commercial construction are also expected to be much slower in the current forecast. Even state and local government spending will come under increased pressure as tax revenues decline and interest costs rise.

The current environment will produce one positive outcome - inflation will moderate and energy prices will fall significantly. Lower inflation will allow the Federal Reserve to follow a more accommodative monetary policy. We now expect the Federal Reserve to cut the federal funds rate by at least another 75 basis points with a half point coming soon and another quarter point coming early next year.



Wachovia U.S. Economic Forecast

	Actual																Forecast				
	2007				2008				2009				2010				Actual		Forecast		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2006	2007	2008	2009	2010
Real Gross Domestic Product (a)	0.1	4.8	4.8	-0.2	0.9	2.8	-0.7	-3.0	-2.3	1.4	1.8	1.7	1.8	2.3	2.0	1.9	2.8	2.0	1.3	-0.5	1.9
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.1	-1.6	-0.6	1.4	1.9	2.1	2.2	2.2	2.2	2.2	3.0	2.8	0.5	-0.2	2.1
Business Fixed Investment	3.4	10.3	8.7	3.4	2.4	2.5	-6.9	-13.1	-10.2	-9.7	-7.9	-6.2	-6.1	-1.0	-0.7	-0.4	7.5	4.9	1.6	-9.0	-4.7
Equipment and Software	0.0	6.9	3.6	1.0	-0.5	-5.0	-3.0	-13.5	-8.7	-7.7	-5.7	-3.2	-1.2	2.2	2.2	2.2	7.2	1.7	-1.3	-7.8	-1.3
Structures	11.2	18.2	20.6	8.6	8.7	18.4	-8.0	-12.0	-15.0	-16.0	-15.0	-16.0	-15.0	-12.0	-11.0	-10.0	8.2	12.7	8.6	-12.0	-14.0
Residential Construction	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-15.0	-22.5	-17.5	-12.5	-7.5	-2.5	5.0	7.5	7.5	7.5	-7.1	-17.9	-20.6	-15.0	1.7
Government Purchases	0.9	3.9	3.8	0.8	1.9	3.9	0.4	-0.4	-1.0	-0.2	1.2	1.2	1.5	1.6	1.6	1.6	1.7	2.1	2.1	0.2	1.3
Net Exports	-618.6	-571.2	-511.8	-484.5	-462.0	-381.3	-352.3	-336.3	-323.5	-301.6	-282.8	-269.5	-261.1	-257.4	-256.6	-259.1	-615.7	-546.5	-383.0	-294.3	-258.6
Pct. Point Contribution to GDP	-1.2	1.7	2.0	0.9	0.8	2.9	1.0	0.5	0.4	0.8	0.7	0.5	0.3	0.1	0.0	-0.1	0.0	0.6	1.4	0.8	0.3
Inventory Change	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-40.0	-40.0	-50.0	-15.0	5.0	15.0	20.0	25.0	25.0	25.0	42.3	-2.5	-35.2	-11.3	23.8
Pct. Point Contribution to GDP	-1.1	0.5	0.7	-1.0	0.0	-1.5	0.4	0.0	-0.3	1.2	0.7	0.3	0.2	0.2	0.0	0.0	0.0	-0.4	-0.3	0.2	0.3
Nominal GDP	4.3	6.9	6.4	2.3	3.5	4.1	3.2	-0.6	-0.1	3.5	4.2	4.0	4.0	4.5	4.3	4.3	6.1	4.8	3.6	1.9	4.1
Real Final Sales	1.1	4.3	4.0	0.8	0.9	4.4	-1.1	-3.0	-1.9	0.2	1.1	1.4	1.6	2.1	2.0	1.9	2.8	2.4	1.6	-0.7	1.6
Retail Sales (b)	3.3	4.0	4.1	4.7	3.0	2.6	1.2	-2.3	-3.0	-3.0	-1.4	2.3	3.9	3.9	3.8	3.7	5.8	4.0	1.1	-1.3	3.8
Inflation Indicators (b)																					
"Core" PCE Deflator	2.3	2.1	2.0	2.2	2.2	2.3	2.5	2.2	2.1	2.1	1.8	2.0	2.1	2.0	1.9	1.7	2.3	2.2	2.3	2.0	1.9
Consumer Price Index	2.4	2.6	2.4	4.0	4.2	4.3	5.3	3.4	2.5	1.7	0.8	2.0	2.5	2.6	2.4	2.2	3.2	2.9	4.3	1.7	2.4
"Core" Consumer Price Index	2.6	2.3	2.1	2.3	2.4	2.3	2.5	2.3	2.1	2.2	2.0	2.2	2.2	2.2	2.1	1.9	2.5	2.3	2.4	2.1	2.1
Producer Price Index	2.0	3.4	3.6	6.7	7.1	7.6	9.3	5.0	2.8	0.9	-0.6	1.7	2.1	1.9	1.9	1.9	3.0	3.9	7.2	1.2	2.0
Employment Cost Index	3.5	3.3	3.3	3.3	3.3	3.1	3.0	2.9	3.0	2.9	2.8	2.8	2.9	2.7	2.8	2.9	3.1	3.4	3.1	2.9	2.8
Real Disposable Income (a)	4.4	-0.6	3.1	0.6	-0.7	11.9	-9.2	1.2	1.5	1.5	1.9	2.1	2.2	2.4	2.4	2.4	3.5	2.8	1.3	0.7	2.2
Nominal Personal Income (b)	6.4	6.1	6.1	5.8	4.2	5.3	4.6	4.1	3.7	2.6	3.1	3.9	4.8	5.1	4.9	4.2	7.1	6.1	4.5	3.3	4.7
Industrial Production (a)	1.5	3.2	3.6	0.3	0.4	-3.1	-2.4	-3.1	-1.9	0.3	1.6	2.4	2.8	3.1	3.2	3.3	2.2	1.7	-0.3	-1.2	2.5
Capacity Utilization	80.7	81.0	81.3	81.0	80.7	79.8	79.0	77.5	76.6	76.0	75.8	75.9	76.0	76.2	76.3	76.5	80.9	81.0	79.2	76.1	76.3
Corporate Profits Before Taxes (b)	-1.0	-0.5	-2.7	-2.0	-1.5	-8.3	-7.5	-12.0	-4.0	0.0	8.0	9.2	9.2	8.8	8.2	8.0	15.2	-1.6	-7.3	3.1	8.5
Corporate Profits After Taxes	-0.9	-0.2	-0.8	-0.6	1.8	-6.4	-7.0	-13.5	-2.0	2.0	9.5	11.0	11.0	10.8	10.5	10.4	16.0	-0.6	-6.3	4.9	10.7
Federal Budget Balance (c)	-178.0	137.5	-40.6	-106.8	-205.9	44.1	-174.7	-294.0	-338.0	6.0	-139.0	-151.0	-78.0	-78.0	-78.0	-78.0	-248.2	-161.5	-443.4	-765.0	-385.0
Current Account Balance (d)	-196.9	-194.1	-173.0	-167.2	-175.6	-183.1	-170.0	-155.0	-142.0	-135.0	-130.0	-127.0	-124.0	-121.0	-118.0	-115.0	-788.1	-731.2	-683.8	-534.0	-478.0
Trade Weighted Dollar Index (e)	80.5	78.7	74.4	73.3	70.3	71.0	76.1	77.8	80.0	82.8	84.9	87.2	88.7	89.8	90.0	90.0	81.5	73.3	77.8	87.2	90.0
Nonfarm Payroll Change (f)	109	105	71	80	-82	-71	-100	-80	-60	-55	-53	-38	0	68	105	105	175	91	-83	-52	70
Unemployment Rate	4.5	4.5	4.7	4.8	4.9	5.3	6.0	6.4	6.8	7.1	7.4	7.7	7.9	8.0	8.0	8.0	4.6	4.6	5.7	7.3	8.0
Housing Starts (g)	1.45	1.46	1.30	1.15	1.05	1.03	0.91	0.82	0.78	0.78	0.80	0.86	0.97	1.05	1.13	1.20	1.81	1.34	0.95	0.80	1.09
Light Vehicle Sales (h)	16.3	16.1	15.9	16.0	15.2	14.1	12.9	13.2	13.3	13.6	13.8	13.9	14.0	14.2	14.3	14.5	16.5	16.1	13.8	13.6	14.3
Crude Oil - WTI - Front Contract (i)	58.16	65.03	75.38	90.68	97.90	123.98	117.98	77.00	75.00	77.00	82.00	82.00	85.00	90.00	95.00	95.00	66.22	72.31	104.21	79.00	91.25
Quarter-End Interest Rates																					
Federal Funds Target Rate	5.25	5.25	4.75	4.25	2.25	2.00	2.00	1.00	0.75	0.75	0.75	0.75	0.75	1.25	1.75	2.00	5.25	4.25	1.00	0.75	2.00
3 Month LIBOR	5.35	5.36	5.23	4.70	2.69	2.78	4.05	3.50	2.00	1.50	1.20	1.05	1.30	1.80	2.15	2.30	5.36	4.70	3.50	1.05	2.30
Prime Rate	8.25	8.25	7.75	7.25	5.25	5.00	5.00	4.00	3.75	3.75	3.75	3.75	3.75	4.25	4.75	5.00	8.25	7.25	4.00	3.75	5.00
Conventional Mortgage Rate	6.16	6.66	6.38	6.10	5.97	6.32	6.48	5.80	5.80	5.80	5.70	5.80	5.80	5.80	5.90	5.90	6.14	6.10	5.80	5.80	5.90
3 Month Bill	5.04	4.82	3.82	3.36	1.38	1.90	0.92	0.90	0.70	0.70	0.70	0.70	1.00	1.40	1.90	2.20	5.02	3.36	0.90	0.70	2.20
2 Year Note	4.58	4.87	3.97	3.05	1.62	2.63	2.00	1.80	2.10	2.20	2.30	2.40	2.50	2.60	2.60	2.70	4.82	3.05	1.80	2.40	2.70
5 Year Note	4.54	4.92	4.23	3.45	2.46	3.34	2.98	2.80	3.10	3.20	3.30	3.30	3.30	3.30	3.40	3.40	4.70	3.45	2.80	3.30	3.40
10 Year Note	4.65	5.03	4.59	4.04	3.45	3.99	3.85	3.70	3.80	3.90	3.90	4.00	4.10	4.10	4.20	4.20	4.71	4.04	3.70	4.00	4.20
30 Year Bond	4.84	5.12	4.83	4.45	4.30	4.53	4.31	4.20	4.20	4.30	4.30	4.40	4.50	4.50	4.60	4.60	4.81	4.45	4.20	4.40	4.60

Data As of: October

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 Represser (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

Global Recession Looks Likely

Prospects for global growth appear to have dimmed considerably over the past month as dislocations in credit markets have intensified, not only in the United States but in most other countries as well. The virtual lock-up in credit markets casts a pall over the outlook for capital spending in most countries. In addition, growth in consumer spending in many countries likely will weaken also as labor markets soften and as financial market turbulence causes consumers to adopt a wait-and-see attitude. Correspondingly, we have slashed our global GDP growth rate forecast for 2009 to only two percent, making it the slowest year since 1993. (See chart on front page.) A global growth rate equal to only two percent would qualify as a global recession.

Indeed, a number of major countries appear to be in full-blown recession right now. For example, the U.K. economy stalled in the second quarter, and monthly indicators point to outright contraction in the third quarter. Looking forward, we project that U.K. real GDP will decline until the middle of next year. Although the downturn in the Euro-zone will probably not be as deep as in Great Britain, growth on the continent, which turned down in the second quarter, likely will remain negative for a few more quarters. Japan too appears to have slipped into recession. We expect that the downturn in the United States will pull Canada into a mild recession starting in the fourth quarter of 2008.

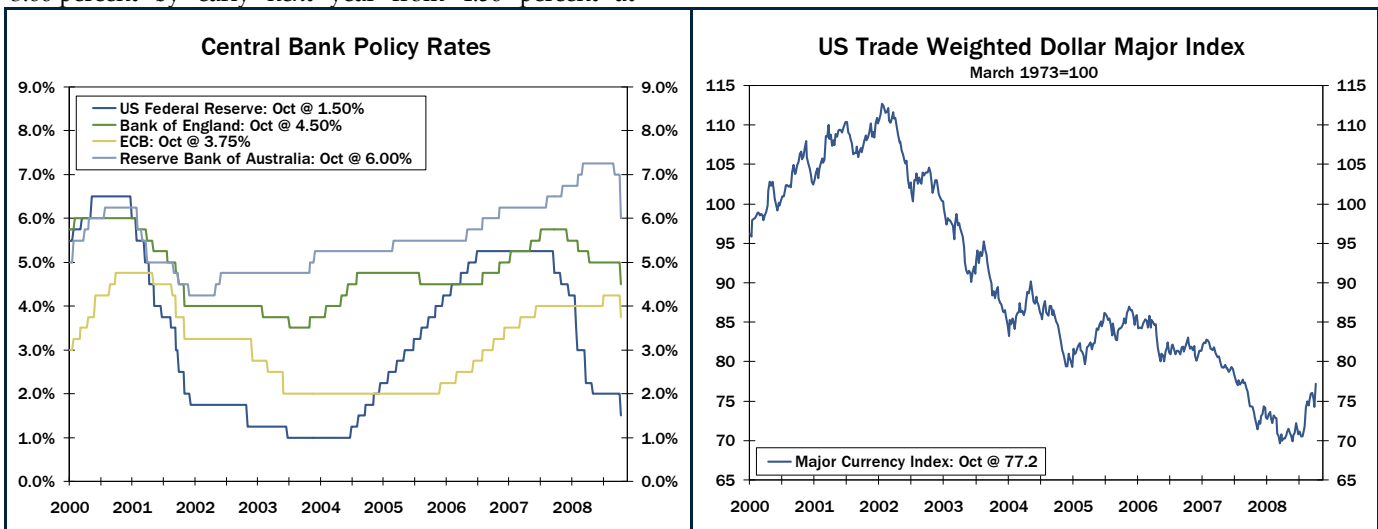
One implication of global recession is that central bank easing is in order. Indeed, foreign central banks, including the ECB, the Bank of England, the Bank of Canada and the Swedish Riksbank joined the Fed on October 8 by cutting rates by 50 basis points in a coordinated fashion. We look for further easing in the months ahead. We project that the Bank of England will reduce its main policy rate to 3.00 percent by early next year from 4.50 percent at

present. We also look for the ECB to cut rates by another 75 basis points or so, and policy rates appear to be headed lower in Australia and Canada as well.

As shown below, the weighted-average value of the dollar has risen since mid-July. As we have written previously, the dollar's rise over the past few months says more about deterioration in the economic outlook of most foreign economies than it does about improved growth prospects in the United States. Indeed, the U.S. economic outlook has darkened considerably over the past two months. More recently, the greenback has strengthened as foreign borrowers have scrambled for dollar liquidity.

Assuming that the global financial system does not plunge into an abyss, the dollar should give up some of its panic-driven gains in the weeks ahead. That said, we believe the greenback will continue to trend higher versus most major currencies in 2009. As we note above, major foreign economies are slipping into recession and central banks in those countries have a fair amount of easing ahead. In the meantime, the U.S. current account deficit will continue to get smaller. The combination of narrowing interest rate differentials and a shrinking current account deficit should lead to some U.S. dollar strength next year.

We should stress, however, that our forecast is more uncertain than usual. The Category 5 hurricane blowing through financial markets at present is truly unprecedented. In the weeks ahead, financial markets will probably be whipsawed by emotions, rumors, and policy changes. The situation is clearly very fluid, and forecasting economic and financial variables at present is nearly impossible. Sooner or later the storm will subside, and financial markets will return to more "normal" conditions. In the meantime, however, volatility likely will remain at record highs and the outlook very uncertain.



October 8, 2008

Wachovia International Economic Forecast						
(Year-over-Year Percentage Change)						
	GDP			CPI		
	2008	2009	2010	2008	2009	2010
Global	3.5%	2.0%	3.7%	5.8%	3.3%	3.0%
Major Economies						
United States	1.3%	-0.5%	1.9%	4.3%	1.7%	2.4%
Eurozone	1.1%	0.4%	2.2%	3.4%	2.0%	1.7%
Germany	1.3%	0.2%	2.2%	2.9%	1.7%	1.4%
France	0.9%	0.4%	2.2%	3.4%	1.8%	1.6%
Italy	-0.2%	-0.2%	1.6%	3.5%	1.6%	1.5%
UK	0.8%	-0.6%	2.4%	3.7%	2.2%	1.3%
Japan	0.4%	0.5%	2.0%	1.5%	0.5%	0.1%
Canada	0.7%	0.0%	2.4%	2.6%	1.9%	1.7%
Developing Economies						
China	9.7%	8.0%	9.0%	6.4%	3.1%	3.3%
India	6.9%	6.6%	7.9%	6.8%	5.1%	4.6%
Mexico	2.0%	1.0%	2.9%	4.8%	4.0%	3.0%
Brazil	5.0%	2.5%	3.1%	5.6%	4.6%	4.1%

¹Data As of: October 8, 2008

Wachovia Currency Forecast								
(End of Quarter Rates)								
	2008	2009				2010		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Major Currencies								
Euro (\$/€)	1.42	1.38	1.34	1.30	1.25	1.22	1.20	1.20
U.K. (\$/£)	1.78	1.75	1.68	1.62	1.58	1.56	1.55	1.55
U.K. (£/€)	0.80	0.79	0.80	0.80	0.79	0.78	0.77	0.77
Japan (¥/\$)	105	110	114	116	118	120	122	122
Other Industrialized								
Canada (C\$/US\$)	1.08	1.10	1.14	1.16	1.18	1.19	1.20	1.20
Switzerland (CHF/\$)	1.10	1.14	1.18	1.22	1.27	1.31	1.33	1.33
Norway (NOK/\$)	5.90	6.00	6.25	6.50	6.80	7.00	7.10	7.10
Sweden (SEK/\$)	6.85	7.05	7.20	7.40	7.65	7.80	7.90	7.90
Australia (US\$/A\$)	0.72	0.68	0.64	0.62	0.60	0.60	0.59	0.58
Developing Economies								
Mexico (MXN/\$)	12.00	11.50	11.60	11.70	11.80	11.90	12.00	12.00
Brazil (BRL/\$)	2.20	2.00	2.05	2.10	2.20	2.30	2.40	2.50
Poland (PLN/\$)	2.50	2.60	2.70	2.80	2.90	2.95	3.00	3.00
Russia (RUB/\$)	25.80	26.10	26.40	26.70	27.00	27.25	27.50	27.50
Turkey (TRY/\$)	1.35	1.40	1.45	1.50	1.55	1.58	1.59	1.60
South Africa (ZAR/\$)	8.50	8.70	9.00	9.20	9.40	9.60	9.70	9.70
China (CNY/\$)	6.85	6.80	6.75	6.70	6.60	6.50	6.45	6.40
India (INR/\$)	47.00	47.50	48.00	48.25	48.50	48.75	49.00	49.00
Korea (KRW/\$)	1250	1280	1300	1320	1340	1360	1380	1400
Singapore (S\$/US\$)	1.47	1.49	1.50	1.51	1.52	1.53	1.54	1.55
Taiwan (TWD/\$)	32.25	32.50	32.75	33.00	33.20	33.40	33.50	33.50

¹Data as of: October 8, 2008

Wachovia International Interest Rate Forecast																	
(End of Quarter Rates)																	
	3-Month LIBOR									10-Yr Government Security							
	2008	2009				2010				2008	2009				2010		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
United States	3.50%	2.00%	1.50%	1.20%	1.05%	1.30%	1.80%	2.15%	3.70%	3.80%	3.90%	3.90%	4.00%	4.10%	N/A	N/A	
Japan	1.00%	0.85%	0.75%	0.65%	0.65%	0.65%	0.65%	0.65%	1.40%	1.35%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	
Euroland	4.50%	3.60%	3.30%	3.15%	3.15%	3.20%	3.50%	4.00%	3.70%	3.60%	3.50%	3.80%	4.00%	4.30%	4.50%	4.70%	
U.K.	5.00%	3.60%	3.30%	3.15%	3.15%	3.20%	3.50%	4.00%	4.20%	4.10%	4.00%	4.25%	4.50%	4.80%	4.90%	5.00%	
Canada	3.25%	2.60%	2.30%	2.15%	2.15%	2.50%	3.00%	3.75%	3.60%	3.65%	3.75%	4.00%	4.25%	4.50%	4.70%	4.75%	

¹Data As of: October 8, 2008

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