![WACHOVIA ECONOMICS GROUP]

Monthly Outlook

April 08, 2009

U.S. Overview

Recovery is in the Mind of the Beholder

We continue to expect the economic recovery to start late this year. Yet we see the recovery as being different in both character (less diversified) and strength (weaker) relative to past recoveries. Therefore, we believe the recovery will be disappointing to both citizens and policymakers. Such disappointment means more difficult decisions in the next three years.

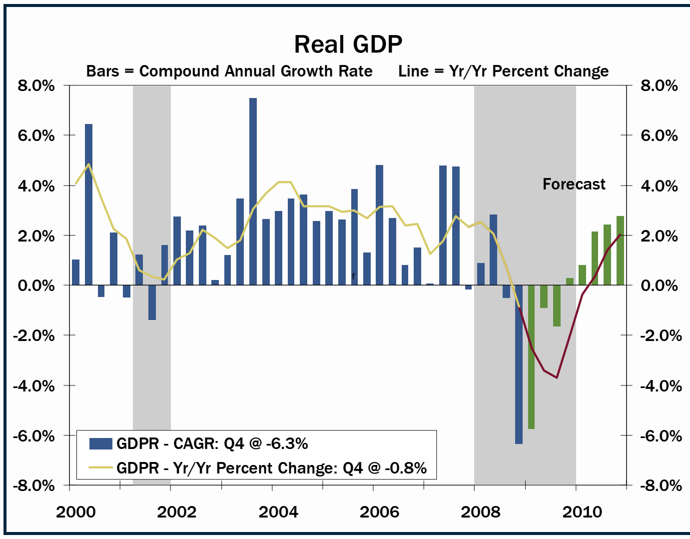
Economics is the science of choices and tradeoffs. Our outlook suggests that the recovery in output, employment and consumer incomes will be sub par, which means consumer and government spending will not return to what many would perceive as normal for an economic recovery. For example, consumer spending is expected to be down 0.7 percent in 2009 and only rise 1.2 percent in 2010. This is below the average of 2.9 percent during the 2004-2007 period. We estimate just 740,000 housing units will be started in 2010; the average during the 2003-2005 bubble period was 1.95M units. Unemployment is estimated to reach nearly 11 percent compared to about five percent during the 2004-2006 period. Historically, large budget deficits will persist, and decision-makers in both the private and public sectors will have to make hard choices on scarce resources. There is an ongoing economic adjustment to a new, lower equilibrium long-run growth rate for retail, construction, manufacturing (particularly durable goods) and financial services. This adjustment is most evident in the large, broad-based declines in recent employment data.

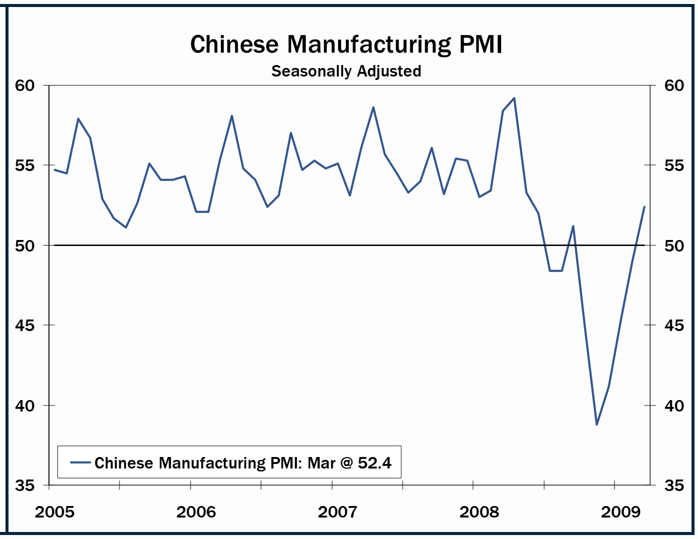
International Overview

Are Foreign Economies Bottoming Yet?

Most economies experienced deep contractions in the fourth quarter, but there have been some glimmers of hope recently. The Chinese manufacturing PMI recently crossed the demarcation line that separates contraction from expansion, and "hard" data in some countries show that industrial production has risen recently. However, it would be premature to claim that the global economy is "stabilizing," which implies that activity has bottomed. Rather, it probably would be more accurate to say that an inflection point, in which activity is still declining but less rapidly than before, may have been reached. Recovery is not here yet, but recent developments are somewhat encouraging. Indeed, "a journey of one thousand miles begins with a single step."

We believe the greenback will trend modestly higher between now and the end of 2009. U.S. policymakers have arguably done more to stimulate the economy than their counterparts in many foreign countries. The United States should show signs of exiting its deep recession before most other major economies do, and expectations of better days ahead should be positive for the greenback. However, the dollar's rise likely will run out of steam later this year as the sluggish U.S. economic recovery that we forecast keeps rates of return on dollar assets relatively low. Moreover, strong foreign purchases of U.S. Treasury securities, which helped to boost the greenback last year, should wane as risk aversion becomes less extreme.





Fluctuating Winds of Cyclical and Secular Forces

Our disappointing outlook already reflects the impact of the recently enacted economic stimulus. Reductions in payroll withholding will provide some modest support to personal and after-tax income. However, business fixed investment will remain weak as the stimulus from infrastructure is modest and spread over several years. The recent rise in orders follows six straight months of declines and therefore should not be viewed as a sign of a leap in production that would be associated with a full economic recovery typical of an earlier era.

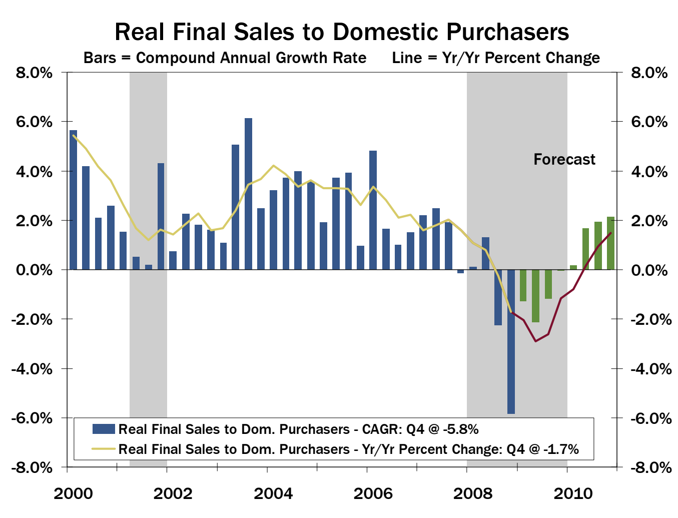
Government spending, rather than private spending, will dominate the source of economic demand and thereby provide a different character to this recovery. Some of the additional aid to state and local governments should begin to pay dividends by the second half of the year. However, the extra dollars will not lead to a dramatic turnaround in state and local government spending. Still, spending will be stronger than it would have been without the stimulus.

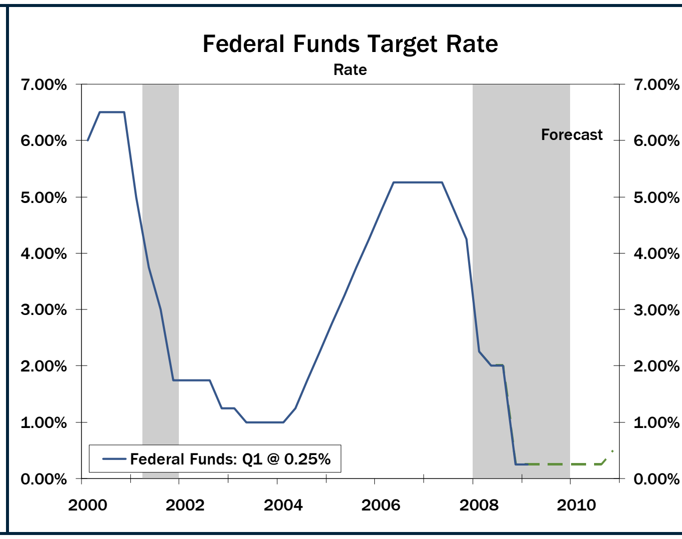
Current economic difficulties reflect both cyclical and structural forces. Policymakers employ the traditional "Keynesian response" to a sudden drop in aggregate demand with an emphasis to getting us back to where we were. However, it is where we were that was out of step with long-run sustainable growth. Policy proposals that seek to "return us to where we were" are at odds with the economic reality that the excesses of the previous cycle necessitated a structural movement toward responsible lending standards for housing finance and a less-leveraged consumer. The pace of sustainable economic growth is likely to be lower over the next five years than during the five years prior to the recession. The attempt to "get us back to where we were" should therefore entail policy actions that would sustain spending above the sustainable long-run trends. This will force spending, employment and fiscal deficits above the new long-run equilibrium rate. Pricing and resource allocations are likely to be distorted. Higher taxes, more regulation and greater trade protectionism are not pro-growth policies, and if enacted, would offset much of the macro stimulus proposals.

Credit and Interest Rates

While we look for continued low inflation for the rest of this year, we expect a steeper yield curve, little improvement in credit spreads and credit availability beyond the short-end of the yield curve to remain hard to get. The Federal Reserve has developed a number of specialized programs to address individual markets. Yet, most of these efforts have been at the short end of the curve and in specific markets—mortgage-backed securities for example. But the real issue is transparency and the quality of investment information. Where there is no transparency, policymakers have substituted taxpayer guarantees. These guarantees do not address the transparency problem. The guarantees provide a Band-Aid while the flow of misinformation on market prices and risk continue. Fed purchases of Treasuries are a mixed blessing in our view. In the short-run, Fed purchases will keep Treasury rates lower than market forces alone. However, these purchases create a distortion of true market pricing. Moreover, if such purchases continue on a large scale the effective printing of money is a signal for higher inflation and/or a weaker dollar.

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	-6.3	-5.8	-0.9	-1.7	0.3	0.8	2.1	2.4	2.8	2.8	2.0	1.1	-2.9	0.9
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.8	-4.3	1.3	0.3	0.7	1.2	1.3	1.5	1.5	1.7	3.0	2.8	0.2	-0.7	1.2
Business Fixed Investment	3.4	10.3	8.7	3.4	2.4	2.5	-1.7	-21.7	-20.0	-19.0	-19.0	-15.3	-14.9	-1.0	2.4	4.9	7.5	4.9	1.6	-16.2	-10.3
Equipment and Software	0.0	6.9	3.6	1.0	-0.6	-5.0	-7.5	-28.1	-20.3	-15.7	-13.4	-8.9	-0.4	3.3	5.2	6.2	7.2	1.7	-3.0	-17.1	-3.1
Structures	11.2	18.3	20.5	8.5	8.6	18.5	9.7	-9.4	-21.0	-28.0	-34.0	-33.5	-24.0	-16.0	-8.0	0.0	8.2	12.7	11.2	-17.2	-23.4
Residential Construction	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-16.1	-22.7	-36.5	-24.0	-9.0	0.5	2.0	4.0	5.0	5.0	-7.1	-17.9	-20.8	-22.6	-0.7
Government Purchases	0.9	3.9	3.8	0.8	1.9	3.9	5.8	1.3	1.9	2.8	3.7	4.0	3.9	3.6	2.9	2.3	1.7	2.1	2.9	2.9	3.5
Net Exports	-618.6	-571.2	-511.8	-484.5	-462.0	-381.3	-353.1	-364.5	-399.9	-414.5	-447.1	-468.8	-477.9	-477.2	-470.8	-459.7	-615.7	-546.5	-390.2	-432.6	-471.4
Pct. Point Contribution to GDP	-1.2	1.7	2.0	0.9	0.8	2.9	1.1	-0.2	-1.2	-0.5	-1.1	-0.8	-0.3	0.0	0.2	0.4	0.0	0.6	1.4	-0.4	-0.3
Inventory Change	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-29.6	-25.8	-113.2	-60.4	-40.5	-10.2	16.2	26.1	30.3	34.4	42.3	-2.5	-29.1	-56.1	26.8
Pct. Point Contribution to GDP	-1.1	0.5	0.7	-1.0	0.0	-1.5	0.8	-0.1	-3.0	1.9	0.7	1.1	0.9	0.4	0.1	0.1	0.0	-0.4	-0.2	-0.2	0.7
Nominal GDP	4.3	6.9	6.4	2.3	3.5	4.1	3.4	-5.8	-5.3	-1.3	-1.4	1.1	2.0	3.6	4.0	4.5	6.1	4.8	3.3	-2.1	1.9
Real Final Sales	1.1	4.3	4.0	0.8	0.9	4.4	-1.3	-6.2	-3.0	-2.7	-2.3	-0.8	-0.1	1.8	2.3	2.6	2.8	2.4	1.4	-2.7	0.1
Retail Sales (b)	3.3	4.0	4.1	5.5	3.2	2.6	0.6	-8.0	-8.8	-8.9	-6.8	1.3	3.5	3.8	3.8	3.7	5.8	4.2	-0.4	-5.9	3.7
Inflation Indicators (b)																					
"Core" PCE Deflator	2.3	2.1	2.0	2.2	2.2	2.3	2.3	1.9	1.7	1.4	1.0	0.9	0.8	0.8	1.0	1.1	2.3	2.2	2.2	1.3	0.9
Consumer Price Index	2.4	2.6	2.3	4.0	4.2	4.3	5.2	1.5	-0.2	-1.5	-2.9	-0.5	0.5	1.1	1.5	1.7	3.2	2.9	3.8	-1.3	1.2
"Core" Consumer Price Index	2.6	2.3	2.1	2.3	2.4	2.3	2.5	2.0	1.7	1.6	1.0	1.1	1.0	1.0	1.2	1.3	2.5	2.3	2.3	1.4	1.1
Producer Price Index	1.9	3.4	3.6	6.8	7.2	7.6	9.5	1.4	-1.7	-3.5	-5.2	0.3	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	2.5	2.3	2.2	2.3	2.4	2.3	2.2	2.3	3.1	3.4	3.0	2.3	2.3
Real Disposable Income (a)	4.4	-0.6	3.1	0.6	-0.7	10.7	-8.5	2.7	-1.8	8.5	5.5	-1.6	1.4	1.6	1.7	1.9	3.5	2.8	1.3	1.7	1.9
Nominal Personal Income (b)	6.4	6.1	6.1	5.8	4.2	5.0	3.8	2.2	1.0	1.6	5.3	3.6	4.5	3.0	0.3	3.5	7.1	6.1	3.8	2.9	2.8
Industrial Production (a)	1.8	2.4	2.1	0.8	0.2	-4.6	-9.0	-12.7	-19.6	-7.6	-2.5	0.4	2.2	4.5	6.0	5.4	2.3	1.5	-2.2	-10.6	1.7
Capacity Utilization	80.6	80.6	80.7	80.4	80.1	78.9	76.9	74.3	70.5	69.1	68.1	67.6	67.3	67.0	67.3	67.8	80.9	80.6	77.6	68.8	67.4
Corporate Profits Before Taxes (b)	-1.0	-0.5	-2.7	-2.0	-1.5	-8.3	-9.2	-21.5	-32.0	-30.0	-26.0	-14.0	-4.0	6.0	8.0	8.0	15.2	-1.6	-10.1	-26.1	4.5
Corporate Profits After Taxes	-0.9	-0.2	-0.8	-0.6	1.8	-6.4	-7.9	-15.0	-24.5	-22.0	-18.5	-8.0	2.0	8.0	10.5	11.0	16.0	-0.6	-6.9	-18.6	7.9
Federal Budget Balance (c)	-178.0	137.5	-40.6	-106.8	-205.9	26.9	-168.9	-485.2	-450.8	-466.0	-598.0	-605.0	-565.0	-230.0	-325.0	-333.0	-248.2	-161.5	-454.8	-2000.0	-1725.0
Current Account Balance (d)	-196.9	-194.1	-173.0	-167.2	-176.9	-182.2	-181.3	-132.8	-130.0	-130.0	-140.0	-140.0	-145.0	-145.0	-140.0	-140.0	-788.1	-731.2	-673.3	-540.0	-570.0
Trade Weighted Dollar Index (e)	80.5	78.7	74.4	73.3	70.3	71.0	76.1	79.4	82.5	85.0	87.6	89.9	91.4	89.9	88.5	87.1	81.5	73.3	79.4	89.9	87.1
Nonfarm Payroll Change (f)	133	82	2	167	-113	-153	-208	-553	-685	-517	-373	-247	-100	50	130	147	178	96	-257	-455	57
Unemployment Rate	4.5	4.5	4.7	4.8	4.9	5.4	6.1	6.9	8.1	9.1	9.7	10.1	10.4	10.7	10.8	10.5	4.6	4.6	5.8	9.2	10.6
Housing Starts (g)	1.45	1.46	1.30	1.15	1.05	1.03	0.88	0.66	0.52	0.48	0.51	0.55	0.63	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	9.2	9.6	10.1	10.6	10.9	11.2	11.4	11.5	16.5	16.1	13.1	9.9	11.3
Crude Oil – WTI – Front Contract (i)	58.16	65.03	75.38	90.68	97.90	123.98	117.98	58.74	43.08	46.67	49.00	50.00	50.00	51.00	53.00	55.00	66.22	72.31	99.65	47.19	52.25
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	1.19	1.15	1.00	0.90	0.80	0.70	1.00	1.20	5.36	4.70	1.43	0.90	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	5.13	4.70	4.80	4.80	4.90	5.10	5.20	5.30	6.14	6.10	5.33	4.80	5.30
3 Month Bill	5.04	4.82	3.82	3.36	1.38	1.90	0.92	0.11	0.21	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	0.81	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	1.67	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	2.71	2.80	2.90	2.90	3.20	3.40	3.50	3.60	4.71	4.04	2.25	2.90	3.60
30 Year Bond	4.84	5.12	4.83	4.45	4.30	4.53	4.31	2.69	3.56	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: April 8, 2009

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Yea
(d) Quarterly Sum - Billions USD
(e) Federal Reserve Major Currency Index, 1973=100 - Quarter End
(f) Average Monthly Change
(g) Millions of Units
(h) Quarterly Data - Average Monthly SAAR ; Annual Data - Actual Total Vehicles Sold
(i) Quarterly Average of Daily Close

Are Foreign Economies Bottoming Yet?

Many stock markets have enjoyed solid gains over the past month or so, and some analysts have attributed the rallies to growing speculation that the world economy is stabilizing. There indeed is some good news to report. As shown in the chart on the front page, the manufacturing PMI in China moved above the key level of 50 that separates expansion from contraction in the manufacturing sector. The apparent rebound in Chinese economic activity may reflect acceleration in infrastructure spending and relaxation in credit restrictions that the Chinese government implemented soon after the global credit crunch occurred last autumn. Korea, which has extensive trade ties with China, has experienced a roughly eight percent rise in industrial production since the nadir in December. Industrial production has rebounded in Taiwan and Brazil as well.

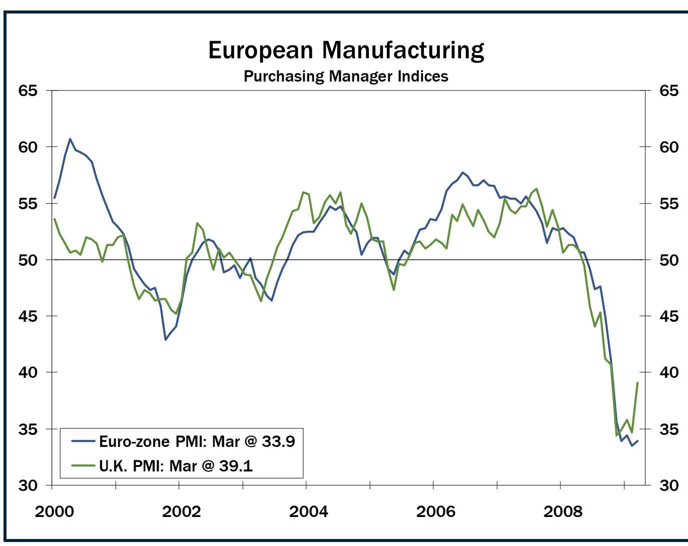
The economic news out of the United Kingdom has also been a bit better. The manufacturing PMI posted a decent increase in March (see chart below), and the service sector PMI also rose. However, both indices remain firmly in contraction territory. Moreover, the comparable indices in the Euro-zone, which is roughly five times as large as the British economy, showed very little increase in March. Therefore, it seems likely that economic activity in the Euro-zone continued to contract at a sharp rate in the first quarter.

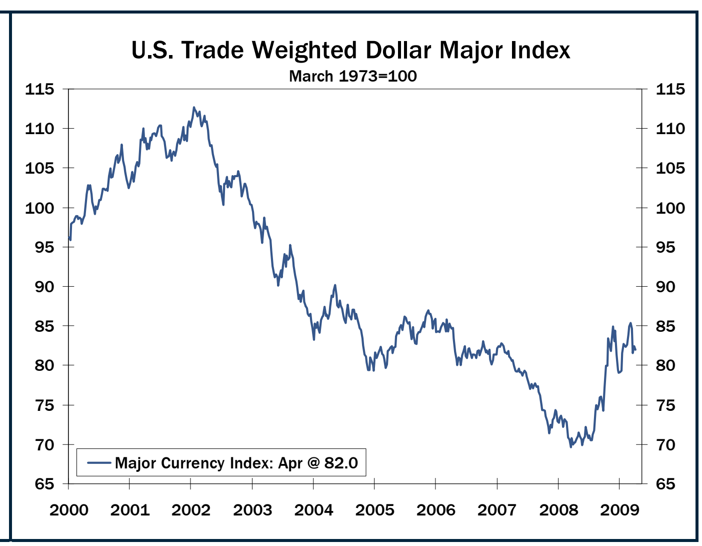
In our view it would be premature to say that the global economy is "stabilizing," which implies that activity has bottomed. Rather, it probably would be more accurate to say that an inflection point may have been reached. That is, many economies continue to contract, but not as sharply as in the fourth quarter when economic activity went into freefall. Until economies reach bottom, they will be quite vulnerable to shocks that could cause them to lurch lower. However, the apparent slowing in the rate of contraction is a step in the right direction. To paraphrase an ancient Chinese proverb, which is appropriate in light of recent Chinese economic data, "a journey of one thousand miles begins with a single step."

Dollar Should Strengthen Further in Near Term

After strengthening about 20 percent versus major currencies between July 2008 and last autumn, the dollar has essentially moved sideways over the past few months. Looking forward, we believe that the greenback will trend modestly higher between now and the end of 2009. Policymakers in the United States have arguably done more to stimulate the economy than have their counterparts in many foreign countries. The United States should show signs of exiting its deep recession before most other major economies do, and expectations of better days ahead should be positive for the greenback.

That said, we do not expect the dollar to strengthen ad infinitum. As we detail in a separate report, some of the dollar's strength in the second half of last year is attributable to safe-haven buying of U.S. Treasury securities (see *The U.S. Balance of Payments and the Dollar Outlook*, April 8, 2009, which is posted on our website). As risk aversion starts to subside, foreign purchases of U.S. Treasury securities should wane somewhat. Moreover, we believe that the U.S. recovery will be painfully slow, at least initially. Therefore, rates of return on U.S. assets likely will remain relatively low, which should constrain foreign purchases of securities. Foreign direct investment inflows probably will be weak until foreign economies get back on their feet. Therefore, the dollar should stabilize again later this year.





April 8, 2009

Wachovia International Economic Forecast

(Year-over-Year Percentage Change)

	GDP			CPI		
	2008	2009	2010	2008	2009	2010
Global	3.4%	-1.0%	2.8%	5.6%	0.9%	1.7%
Major Economies						
United States	1.1%	-2.9%	0.9%	3.8%	-1.3%	1.2%
Eurozone	0.7%	-3.7%	1.2%	3.3%	-0.1%	0.4%
Germany	1.0%	-4.1%	0.9%	2.8%	-0.3%	0.1%
France	0.8%	-3.0%	1.2%	3.2%	-0.1%	0.6%
Italy	-1.0%	-4.6%	0.4%	3.5%	-0.3%	0.0%
UK	0.7%	-3.5%	1.2%	3.6%	0.9%	0.2%
Japan	-0.7%	-6.9%	-0.2%	1.4%	-1.1%	-0.7%
Canada	0.5%	-2.8%	1.9%	2.4%	0.6%	1.0%
Developing Economies						
China	9.1%	6.5%	8.2%	5.9%	-1.4%	-0.1%
India	6.0%	5.1%	7.0%	7.8%	7.4%	5.0%
Mexico	1.3%	-3.0%	1.4%	5.1%	4.9%	3.0%
Brazil	5.1%	-1.3%	3.2%	5.7%	4.7%	3.9%

[1]Data as of: April 8, 2009

Wachovia Currency Forecast

(End of Quarter Rates)

	2009			2010			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Major Currencies							
Euro ($/€)	1.32	1.28	1.24	1.22	1.24	1.26	1.28
U.K. ($/£)	1.48	1.44	1.40	1.38	1.42	1.44	1.46
U.K. (£/€)	0.89	0.89	0.89	0.88	0.87	0.88	0.88
Japan (¥/$)	102	106	110	112	111	110	109
Other Industrialized							
Canada (C$/US$)	1.24	1.27	1.28	1.30	1.28	1.26	1.24
Switzerland (CHF/$)	1.12	1.16	1.20	1.24	1.22	1.18	1.14
Norway (NOK/$)	6.70	7.00	7.50	7.80	7.60	7.30	7.00
Sweden (SEK/$)	8.20	8.60	9.00	9.20	8.90	8.60	8.30
Australia (US$/A$)	0.70	0.68	0.66	0.64	0.65	0.67	0.70
Developing Economies							
Mexico (MXN/$)	13.75	14.00	14.20	14.00	13.50	13.00	12.50
Brazil (BRL/$)	2.25	2.35	2.40	2.35	2.30	2.20	2.10
Poland (PLN/$)	3.40	3.60	3.80	3.85	3.70	3.60	3.40
Russia (RUB/$)	33.00	33.50	34.00	34.00	33.50	33.00	32.50
Turkey (TRY/$)	1.60	1.64	1.68	1.70	1.68	1.65	1.60
South Africa (ZAR/$)	9.20	9.50	9.75	10.00	9.80	9.50	9.20
China (CNY/$)	6.84	6.82	6.80	6.78	6.75	6.70	6.65
India (INR/$)	50.00	51.00	52.00	52.00	51.00	50.00	48.00
Korea (KRW/$)	1300	1350	1400	1400	1350	1300	1250
Singapore (S$/US$)	1.53	1.56	1.58	1.59	1.57	1.55	1.53
Taiwan (TWD/$)	33.50	33.75	34.00	33.75	33.50	33.00	32.50

[1]Data as of: April 8, 2009

Wachovia International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR							10-Yr Government Security						
	2009			2010				2009			2010			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	1.15%	1.00%	0.90%	0.80%	0.70%	1.00%	1.20%	2.80%	2.90%	2.90%	3.20%	3.40%	3.50%	3.60%
Japan	0.50%	0.40%	0.25%	0.25%	0.25%	0.25%	0.25%	1.35%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%
Euroland	1.40%	1.20%	1.15%	1.15%	1.20%	1.75%	2.25%	3.25%	3.30%	3.40%	3.70%	3.90%	4.10%	4.25%
U.K.	1.50%	1.25%	0.70%	0.70%	0.70%	1.00%	1.50%	3.40%	3.50%	3.70%	4.00%	4.25%	4.40%	4.50%
Canada	0.80%	0.60%	0.50%	0.50%	0.50%	1.00%	2.00%	3.00%	3.10%	3.40%	3.70%	4.00%	4.10%	4.20%

[1]Data as of: April 8, 2009

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