

U.S. Overview

Despite Severe Headwinds, a Recovery is Near

Our forecast incorporates the improved tone of recent economic reports as well as the anticipated bounce-back in motor vehicle production from the current severely depressed levels in the third quarter. We now expect third quarter GDP to be solidly positive, which means the recession will likely end this summer.

While the recession may be finally coming to an end, significant challenges remain. The housing bust is still playing out, and the credit markets are not functioning the way they should. Moreover, while layoffs are slowing, they still remain way too high. Nonfarm employment is likely to continue declining into early 2010 and the unemployment rate will not likely top out until the middle of next year.

As has been the case at the end of previous recessions, a huge swing in inventories will provide the thrust for the rebound in economic activity. Motor vehicle production has been slashed in recent weeks and is running well below even the recent weak pace of sales. As a result, inventories are falling rapidly. The drop in inventories should slice a percentage point off second quarter growth. That decline, along with the continued pullback in business fixed investment and another modest drop in consumer outlays, should put second quarter real GDP down at a 3.4 percent pace. The second quarter's sharp drop in inventories also sets the stage for a rebound in economic growth in the third quarter, as motor vehicle production is ramped up and consumer spending rises modestly.

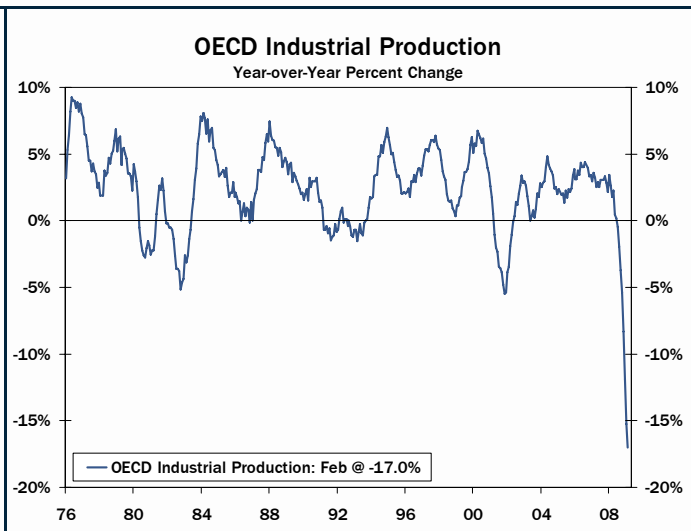
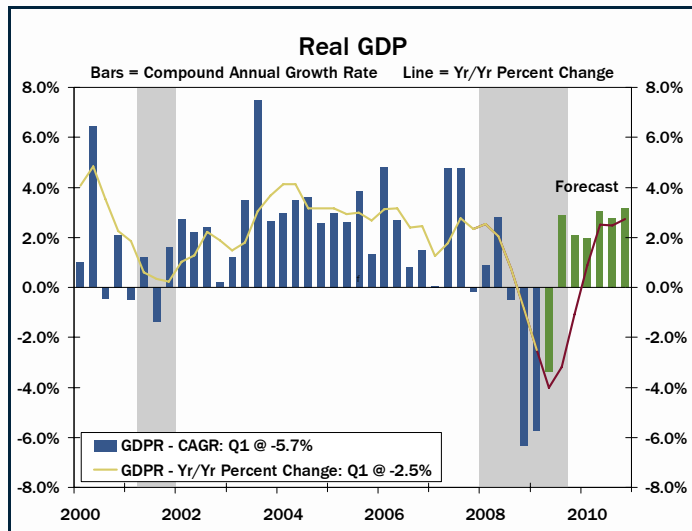
International Overview

Global Economy Looking a Bit Better

After plunging very sharply in the first quarter of 2009, global economic activity may be starting to level out with Asia leading the way. Indeed, production in some Asian economies is starting to grow again due at least in part to a resumption of global trade. In Europe, it does not appear that economic growth has turned positive yet, but the pace of contraction in the second quarter is surely less rapid than it was in the first quarter. Real GDP growth should turn positive in most major economies later this year, but the pace of the global expansion next year likely will remain relatively sluggish.

Signs that the global economy may be nearing a bottom have contributed to the back-up in government bond yields recently. Over the past month, the yield on the 10-year Treasury security is up about 70 bps. Comparable yields in Europe have also risen over the past few weeks.

The dollar has depreciated somewhat versus most currencies, especially vis-à-vis the currencies of most commodity producers and developing economies. In our view, the greenback will strengthen in the months ahead as signs of recovery start to show up in the United States before they do in Europe. In addition, "commodity" and emerging market currencies should give up some of their recent gains as investors begin to question the overall vigor of the global expansion. That said, these currencies likely will appreciate next year as the global economic recovery begins to pick up steam.



Finding Balance Between Optimism & Skepticism

One of the biggest challenges for our current forecast is to balance our growing optimism about the near term economy with our many longer term concerns about the sustainability of a recovery. We are basing the turnaround in economic activity on data that are tenuous at best. Most of the green shoots simply point to a reduced rate of deterioration rather than growth. Still, we see the recession ending this summer, and most likely early rather than late this summer.

Inventories will provide the swing in economic activity that pushes real GDP back into positive territory. The current inventory cycle is unusual in that it began in 2006, when housing prices started falling and growth in retail sales began to slow. The decline in inventories picked up when the economy fell into recession and accelerated further in the first quarter. We expect an even larger drop in the current quarter, as motor vehicle assemblies drop substantially below sales. Production is expected to ramp up in the third quarter, which should virtually assure inventories will drop substantially less and real GDP will return to positive territory. We now expect real GDP to bounce back at a 2.9 percent pace in the third quarter.

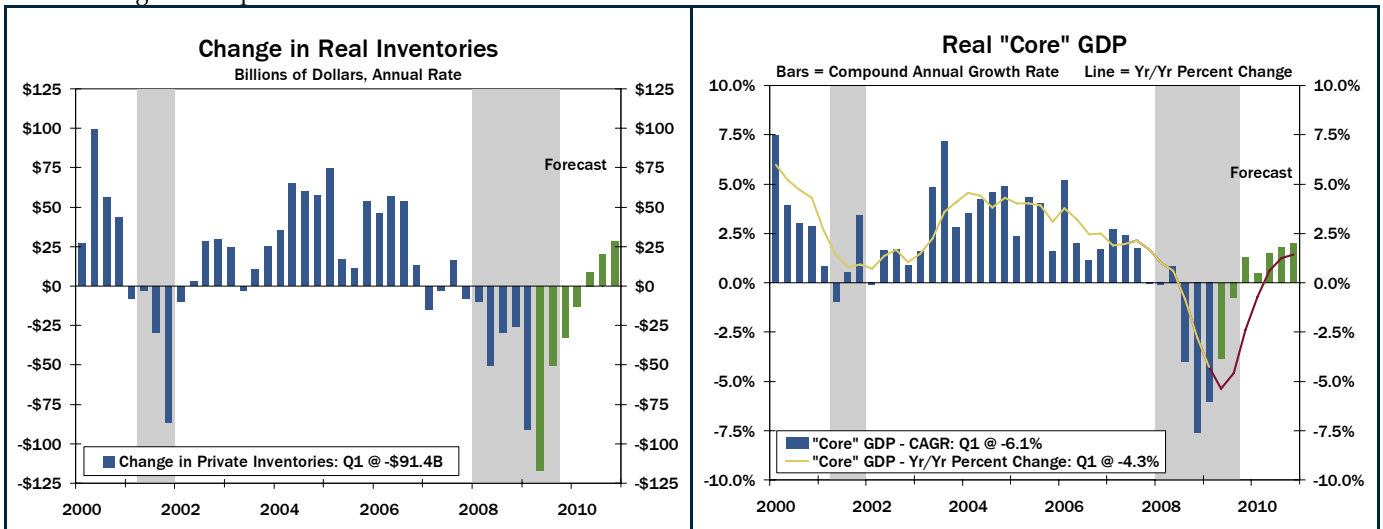
The swing in real GDP we expect to see in the third quarter will overstate the extent of the improvement in the broader economy. Inventories are still expected to drop during the period, just not as much as they did previously. Business fixed investment will remain in negative territory, while consumer spending may eke out a modest gain. Real final sales are only expected to rise at a 0.5 percent pace in the third quarter and final sales to domestic purchasers, which more closely track the underlying weakness of this recession are expected to decline at a 0.2 percent pace. Private domestic demand is expected to remain weak well into the forecast period. After falling at 1.0 percent annual rate in the current

quarter, personal consumption is expected to rise at a 1.7 percent annual rate the third quarter. Spending will be bolstered by aggressive sales incentives on new motor vehicles. Those incentives may be augmented by a tax break for trading in older, less fuel-efficient vehicles.

Any improvement in motor vehicle sales and spending in general will likely be short-lived. There is little evidence of any pent-up demand for consumer goods. Consumers overspent during the previous expansion, with many taking advantage of easy credit and draining the equity from their homes. Many consumers simply do not have the means to boost spending now, particularly with the unemployment rate surging to 9.4 percent and expected to rise another percentage point or more.

Home sales and residential construction will also be slow to recover, particularly now that mortgage rates have jumped back above five percent. After the huge housing boom it is hard to make the case that there is significant pent-up demand. In fact, it is likely quite the opposite. The economy is still dealing with people who were not ready to own homes in the first place. Foreclosures are still rising and will likely continue to do so for another year. One positive is that spending for renovations and additions is increasing. Part of this reflects spending to improve energy efficiency of existing homes, and part reflects the conversion of single-family homes into duplexes and triplexes.

One notable bright spot will be government spending, which should finally ratchet up in the fourth quarter, as the stimulus spending begins to roll. The initial beneficiaries seem to be heating and air conditioning contractors that are winning bids to update systems at military bases and public housing. Water and sewer projects are another early beneficiary. Big dollar outlays should become evident in 2010.



Signs of a Bottom?

The first quarter of 2009 is ancient history now, but the carnage that occurred in the global economy at the beginning of the year is instructive. Industrial production in the OECD countries (i.e., the 30 most advanced economies) was down 17 percent in February relative to the same month in 2008. As the graph on the front page makes clear, previous global recessions pale in comparison to the severity of the current downturn.

However, it appears that many major economies are performing better, or at least not as badly, in the second quarter. Asia seems to be doing the best. For example, industrial production in Korea has risen 17 percent from its low in December, and the manufacturing PMI in China has been above the demarcation line that separates expansion from contraction for three consecutive months. Although Asia clearly was hit hard by the collapse in global trade that occurred last autumn when credit markets locked down, the financial system in Asia was generally not as leveraged as in Europe and the United States. Trade finance is starting to flow again now that credit markets have re-opened, leading to a pick-up in economic activity in Asia.

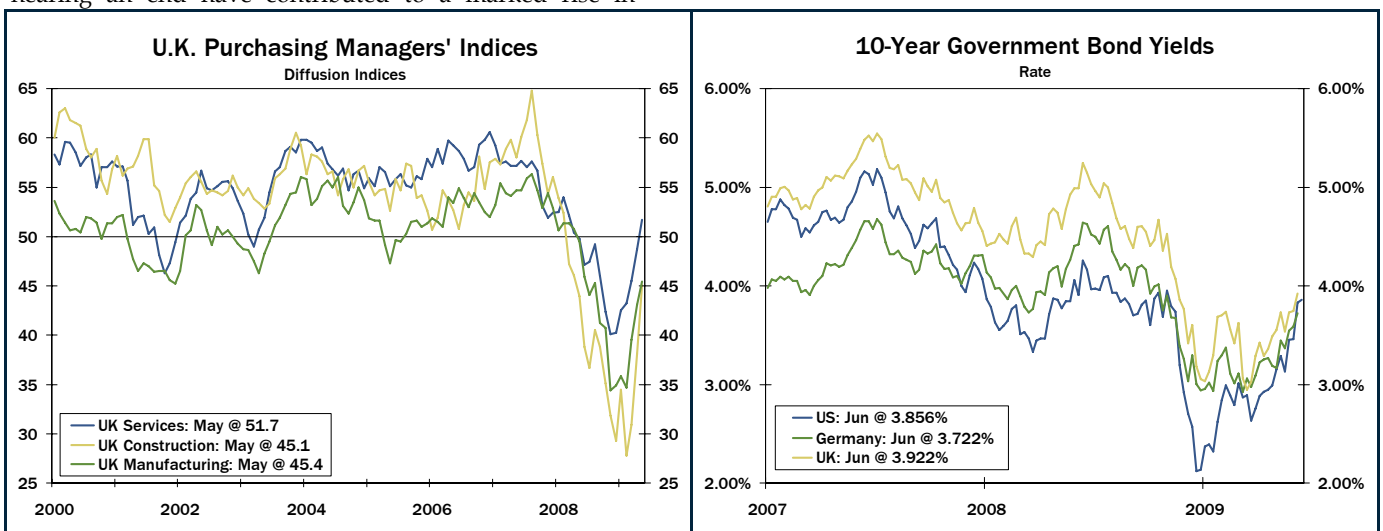
There are even some glimmers of hope in Europe. As shown below, the service sector PMI in the United Kingdom moved above 50 in May for the first time in more than a year, although the indices for the construction and manufacturing sectors remain in contraction territory. The comparable indices in the Euro-zone also remain below 50, but they are well off their lows of a few months ago. The indices suggest that European economies remain in recession at present, but the rates of decline probably are not as sharp as they were at the beginning of the year.

Signs that the downturn in the global economy may be nearing an end have contributed to a marked rise in

government bond yields. As shown below, the yield on the 10-year Treasury security is up about 70 bps over the past month, and it has risen almost 200 bps since the end of last year. Comparable yields in Europe have also backed up, although not quite to the same extent as in the United States. Now that investors are not as risk averse as they were a few months ago, they are starting to eschew the relative safety of government bonds in favor of some riskier and higher-yielding assets.

Looking forward, we project that the downturn in most major economies will come to an end over the next quarter or two. That said, we believe that the pace of recovery will be sluggish in many countries. The global GDP growth rate that we forecast for next year is roughly in line with the rate registered in 2002, which most regard as a challenging year. It remains our view that the United States will show signs of recovery before most European nations because the policy response on the western side of the Atlantic Ocean has generally been more aggressive than on the eastern side. Although the dollar has weakened somewhat recently vis-à-vis the euro and other European currencies, we project that the greenback will trend higher into next year as signs of stabilization and eventual recovery show up sooner in the United States.

Indications that the global economy may be nearing a bottom have helped to lift commodity prices, which has had a beneficial effect on “commodity” currencies like the Australian dollar and the Canadian dollar. Most emerging market currencies have also appreciated as risk aversion has been less extreme. These currencies have strengthened significantly in a short period of time, and some retracement is inevitable over the next few quarters as investors start to question the vigor of the global recovery. That said, these currencies should strengthen in 2010 as the global recovery picks up steam.



June 10, 2009
Wachovia Currency Forecast

(End of Quarter Rates)

| | 2009 | | | 2010 | | | |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Major Currencies | | | | | | | |
| Euro (\$/€) | 1.38 | 1.34 | 1.30 | 1.28 | 1.25 | 1.25 | 1.28 |
| U.K. (\$/£) | 1.58 | 1.54 | 1.50 | 1.47 | 1.43 | 1.44 | 1.47 |
| U.K. (£/€) | 0.87 | 0.87 | 0.87 | 0.87 | 0.87 | 0.87 | 0.87 |
| Japan (¥/\$) | 99 | 104 | 108 | 110 | 112 | 112 | 110 |
| Other Industrialized | | | | | | | |
| Canada (C\$/US\$) | 1.12 | 1.15 | 1.18 | 1.22 | 1.21 | 1.18 | 1.15 |
| Switzerland (CHF/\$) | 1.10 | 1.14 | 1.18 | 1.21 | 1.25 | 1.26 | 1.23 |
| Norway (NOK/\$) | 6.45 | 6.70 | 6.80 | 6.90 | 6.95 | 6.90 | 6.70 |
| Sweden (SEK/\$) | 8.00 | 8.15 | 8.30 | 8.30 | 8.25 | 8.15 | 7.90 |
| Australia (US\$/A\$) | 0.78 | 0.75 | 0.73 | 0.73 | 0.75 | 0.78 | 0.80 |
| Developing Economies | | | | | | | |
| Mexico (MXN/\$) | 13.50 | 13.75 | 14.00 | 14.00 | 13.50 | 13.00 | 12.50 |
| Brazil (BRL/\$) | 2.00 | 2.10 | 2.15 | 2.10 | 2.00 | 1.90 | 1.85 |
| Poland (PLN/\$) | 3.30 | 3.45 | 3.60 | 3.65 | 3.65 | 3.45 | 3.25 |
| Russia (RUB/\$) | 31.00 | 31.50 | 32.00 | 31.00 | 30.00 | 29.50 | 29.00 |
| Turkey (TRY/\$) | 1.55 | 1.60 | 1.62 | 1.60 | 1.57 | 1.54 | 1.50 |
| South Africa (ZAR/\$) | 8.20 | 8.50 | 9.00 | 9.00 | 8.75 | 8.40 | 8.20 |
| China (CNY/\$) | 6.82 | 6.80 | 6.78 | 6.75 | 6.70 | 6.65 | 6.60 |
| India (INR/\$) | 47.50 | 47.75 | 48.00 | 47.50 | 47.00 | 46.00 | 45.50 |
| Korea (KRW/\$) | 1260 | 1290 | 1325 | 1300 | 1275 | 1200 | 1175 |
| Singapore (S\$/US\$) | 1.46 | 1.48 | 1.50 | 1.50 | 1.49 | 1.47 | 1.46 |
| Taiwan (TWD/\$) | 32.75 | 33.00 | 33.25 | 33.00 | 32.75 | 32.50 | 32.25 |

Wachovia International Economic Forecast

(Year-over-Year Percentage Change)

| | GDP | | | CPI | | |
|-----------------------------|-------|-------|------|------|-------|-------|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Global | 3.2% | -1.2% | 3.2% | 6.0% | 1.1% | 1.7% |
| Major Economies | | | | | | |
| United States | 1.1% | -2.7% | 2.1% | 3.8% | -1.1% | 1.1% |
| Eurozone | 0.6% | -4.8% | 1.1% | 3.3% | 0.1% | 0.3% |
| Germany | 1.0% | -6.4% | 0.9% | 2.8% | -0.2% | 0.1% |
| France | 0.4% | -3.1% | 1.4% | 3.2% | 0.0% | 0.4% |
| Italy | -1.0% | -5.5% | 0.4% | 3.5% | 0.6% | 0.2% |
| UK | 0.7% | -3.4% | 1.1% | 3.6% | 1.3% | 0.3% |
| Japan | -0.7% | -7.8% | 0.5% | 1.4% | -0.9% | -0.5% |
| Canada | 0.4% | -2.0% | 2.3% | 2.4% | 0.2% | 1.0% |
| Developing Economies | | | | | | |
| China | 9.1% | 7.7% | 8.5% | 5.9% | -1.2% | 0.2% |
| India | 6.7% | 6.5% | 7.3% | 7.8% | 7.5% | 5.2% |
| Mexico | 1.3% | -7.7% | 2.1% | 5.1% | 5.2% | 3.1% |
| Brazil | 5.0% | -1.7% | 3.4% | 5.7% | 4.7% | 4.0% |

†Data as of: June 10, 2009

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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 | 0.60% | 0.50% | 0.60% | 0.60% | 0.70% | 0.70% | 0.80% | 3.80% | 3.80% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% |
| Japan | 0.45% | 0.40% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 1.45% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 1.95% |
| Euroland | 1.25% | 1.20% | 1.15% | 1.15% | 1.20% | 1.75% | 2.25% | 3.60% | 3.80% | 4.00% | 4.20% | 4.40% | 4.55% | 4.60% |
| U.K. | 1.20% | 1.00% | 0.75% | 0.75% | 0.75% | 1.00% | 1.50% | 3.80% | 4.00% | 4.20% | 4.50% | 4.80% | 4.85% | 4.90% |
| Canada | 0.60% | 0.55% | 0.50% | 0.50% | 0.50% | 1.00% | 2.00% | 3.50% | 3.75% | 4.00% | 4.30% | 4.60% | 4.70% | 4.75% |

†Data as of: June 10, 2009

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