ECONOMICS GROUP

MONTHLY OUTLOOK

November 12, 2008

U.S. Overview

A Serious Recession Has Set In

While the NBER will not likely get around to declaring when a recession began until late January or early February, there is little doubt a serious recession has set in. Real GDP declined at a modest 0.3 percent pace in the third quarter and more recent data have been decidedly more negative. Nonfarm payrolls fell 240,000 in October, following a much larger-than-initially-reported 279,000 job loss in September.

Not only has the pace of economic decline intensified but it has also broadened considerably. Both the ISM manufacturing and non-manufacturing surveys fell well-below their key break-even level of 50 in October. The pace of layoff announcements has also picked up, as has the list of firms announcing earnings disappointments.

While lending among banks has improved, the credit crunch is still abundantly evident virtually everywhere else. Underwriting criteria for home mortgages and consumer loans remain exceptionally tight and terms are far less generous than they have been anytime this decade. Lending for commercial real estate has all but dried up and the list of delayed and canceled projects has skyrocketed. Even state and local governments are scaling back.

We expect policymakers to continue to work to offset this weakness, with a new stimulus package; likely to be passed during the lame duck congressional session. The Federal Reserve will also likely cut the federal funds rate another half point, bringing it to 0.50 percent by early next year.

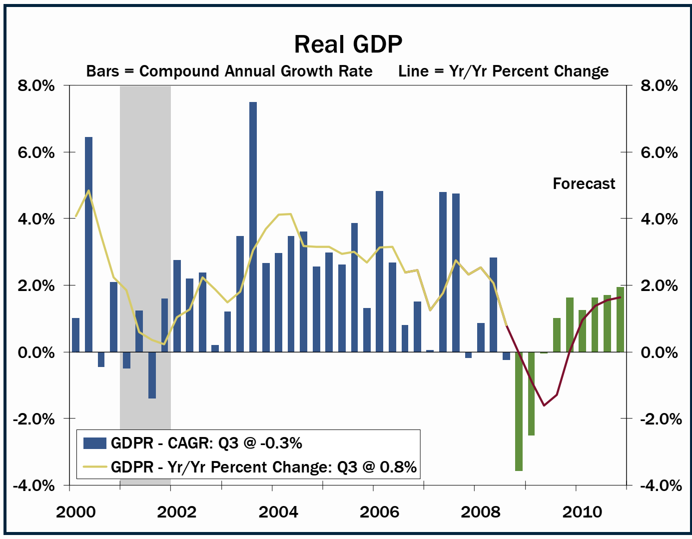
International Overview

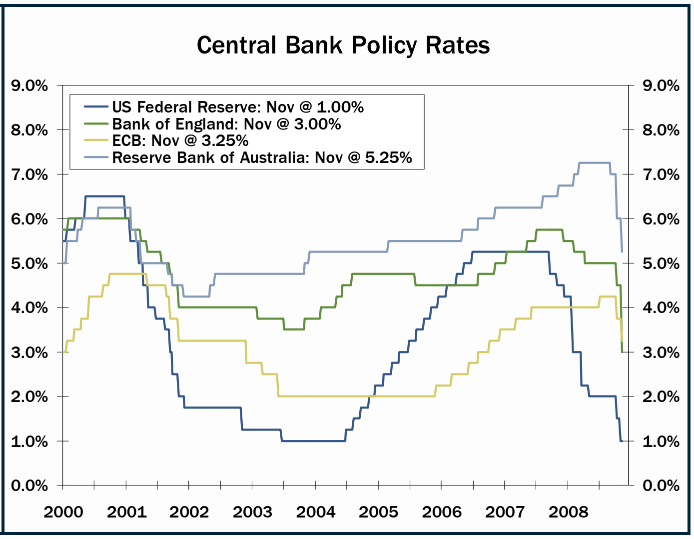
Economic Policies Turn Expansionary

Most major economies likely experienced modest declines in real GDP in the third quarter, and recent data suggest that the pace of contraction has probably quickened in the current quarter. In response to the deteriorating economic situation, macroeconomic policy in many countries has turned expansionary. The Fed has cut rates by 425 basis points since last September, and major central banks have recently accelerated their own pace of monetary easing. For example, the Bank of England slashed rates by 150 basis points on November 6.

Fiscal policy has also turned expansionary. Not only is the U.S. government contemplating another fiscal stimulus package, but China, Germany and Japan have each announced their own stimulus programs. Although monetary easing and fiscal stimulus have shown up too late to prevent many economies from experiencing recession in the near term, expansionary policies should help to limit the severity of the looming global downturn.

Despite the gloomy outlook for the U.S. economy, the greenback continues to appreciate. The dollar's strength reflects the recent deterioration in foreign economic fortunes. Looking forward, the dollar should continue to trend higher as major central banks cut rates more than the Federal Reserve. In addition, the significant narrowing in the U.S. current account deficit that likely will transpire will exert fewer headwinds on the dollar.





This Recession Has Quite a Bite to It

We have lowered our expectations for fourth quarter real GDP growth and scaled back our estimates for the following two years. The recession is now expected to be deeper and longer than previously thought and will likely rival the 1973-75 and 1981-82 downturns in terms of its severity and longevity. Real GDP is now expected to decline at a 3.6 percent annual rate in the fourth quarter and is not expected to move back into positive territory until the second half of next year.

In terms of GDP, the recession does not look all that severe. Assuming the NBER dates the start in July or August, we would have three consecutive quarterly declines producing a cumulative drop in real GDP of 1.6 percent. While that is well short of the 1973-75 and 1981-82 recessions, the bite is expected to be every bit as bad. Domestic demand, as measured by final sales to domestic purchasers, is expected to fall for five consecutive quarters, a cumulative drop of 2.4 percent. Even this drop, however, likely understates the severity of the downturn. Past recessions have seen significant downward revisions to the data and we expect the same this coming year.

Households and consumer-related businesses are more heavily affected by this recession than any other downturn since the 1981-82 recession. Job losses have accelerated in recent months and, with the pace of layoff announcements increasing, are expected to remain at problematic levels well into 2009. We now expect the unemployment rate to top out at 9.0 percent in late 2010, reaching a peak about a year after the recession ends.

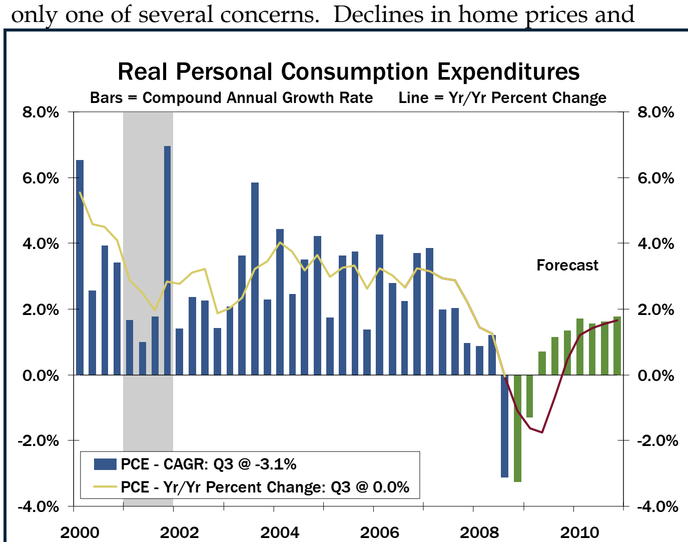
Rising unemployment will keep a tight lid on consumer spending for the next several quarters. Spending would be reined in significantly if consumers only had to worry about the job and income prospects. Today, however, it is only one of several concerns. Declines in home prices and equity prices are expected to shave $9 trillion in household wealth over the next several quarters. Even using a conservative assumption of the wealth effect, this loss in wealth will slice more than $300 billion off of consumer outlays. As if this were not enough, consumer credit is also harder and more expensive to get today, which means many households will have to find a way to live within their means, whether they want to or not.

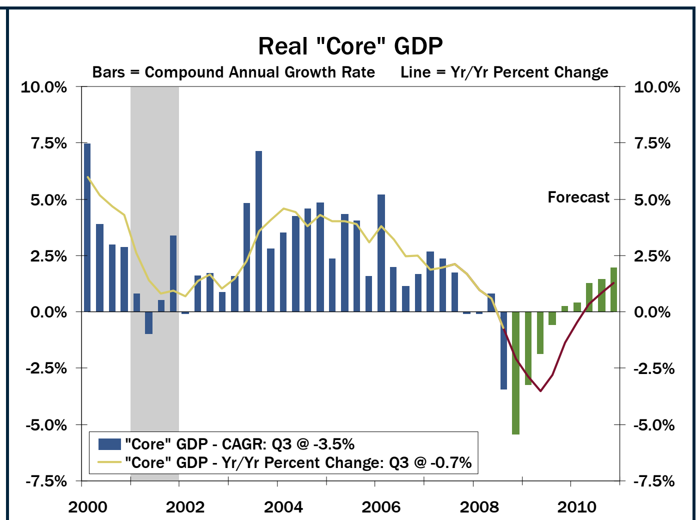
Residential construction will also continue to decline well into 2009. While building activity has already plummeted to near zero levels in many of the most problematic areas, national builders have recently ratcheted down starts in many markets that had been holding up well. Apartment construction also ground to a halt in October as many developments had trouble securing financing.

Commercial construction will likely be the next area to see a dramatic slowdown. An extremely large number of projects have been delayed or postponed recently, again victims of the credit crunch. Other areas of nonresidential construction also suddenly look less attractive. The slowing economy has caused many utilities to scale back plans for new power plants and lower energy prices have led to a cut in energy exploration and development.

State and local governments have seen a dramatic slowdown in revenues in recent months and many have had to cut programs and employment. Outlays are expected to decline throughout most of 2009.

We expect policymakers to remain busy. A stimulus package, including extended unemployment benefits, aid to state and local governments, and new dollars for infrastructure development should quickly make its way through the Congress. We also expect some sort of aid to be made available for the domestic automobile industry. The Federal Reserve will likely nudge interest rates lower at both their December and late January meetings.





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	-0.3	-3.6	-2.5	0.0	1.0	1.6	1.2	1.6	1.7	1.9	2.8	2.0	1.3	-1.0	1.4
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.1	-3.3	-1.3	0.7	1.2	1.3	1.7	1.5	1.6	1.8	3.0	2.8	0.4	-0.9	1.5
Business Fixed Investment	3.4	10.3	8.7	3.4	2.4	2.5	-1.0	-13.2	-11.0	-13.5	-9.8	-6.8	-8.9	-2.0	-1.1	1.8	7.5	4.9	2.4	-9.5	-6.1
Equipment and Software	0.0	6.9	3.6	1.0	-0.6	-5.0	-5.5	-13.4	-11.3	-12.7	-7.7	-4.0	-0.5	2.2	2.2	4.7	7.2	1.7	-1.6	-10.0	-1.8
Structures	11.2	18.3	20.5	8.5	8.6	18.5	7.9	-7.6	-10.0	-16.0	-16.0	-15.0	-16.0	-15.0	-12.0	-8.0	8.2	12.7	11.1	-8.1	-14.7
Residential Construction	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-19.1	-22.5	-17.5	-15.0	-7.0	1.0	5.0	7.5	7.5	7.5	-7.1	-17.9	-21.1	-15.8	2.2
Government Purchases	0.9	3.9	3.8	0.8	1.9	3.9	5.8	-0.1	-1.0	-0.4	1.2	1.2	1.5	1.6	1.6	1.6	1.7	2.1	2.8	0.8	1.3
Net Exports	-618.6	-571.2	-511.8	-484.5	-462.0	-381.3	-350.0	-338.3	-325.5	-303.6	-284.9	-271.7	-263.3	-259.6	-258.8	-259.8	-615.7	-546.5	-382.9	-296.4	-260.4
Pct. Point Contribution to GDP	-1.2	1.7	2.0	0.9	0.8	2.9	1.1	0.4	0.4	0.8	0.7	0.5	0.3	0.1	0.0	0.0	0.0	0.6	1.4	0.7	0.3
Inventory Change	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-38.5	-50.0	-50.0	-25.0	-5.8	15.8	25.6	29.8	34.9	36.4	42.3	-2.5	-37.3	-16.3	31.7
Pct. Point Contribution to GDP	-1.1	0.5	0.7	-1.0	0.0	-1.5	0.6	-0.4	0.0	0.9	0.7	0.7	0.3	0.1	0.2	0.1	0.0	-0.4	-0.3	0.2	0.4
Nominal GDP	4.3	6.9	6.4	2.3	3.5	4.1	3.8	-0.9	-0.4	2.0	3.3	3.9	3.5	3.9	4.0	4.3	6.1	4.8	3.7	1.5	3.6
Real Final Sales	1.1	4.3	4.0	0.8	0.9	4.4	-0.8	-3.1	-2.5	-0.9	0.3	0.9	0.9	1.5	1.5	1.9	2.8	2.4	1.6	-1.1	1.0
Retail Sales (b)	3.3	4.0	4.2	4.7	3.0	2.6	0.8	-3.8	-4.9	-4.8	-3.0	1.9	3.9	3.9	3.8	3.7	5.8	4.1	0.6	-2.7	3.8
Inflation Indicators (b)																					
"Core" PCE Deflator	2.3	2.1	2.0	2.2	2.2	2.3	2.5	2.2	2.0	1.9	1.7	1.9	2.0	2.0	2.0	2.0	2.3	2.2	2.3	1.9	2.0
Consumer Price Index	2.4	2.6	2.4	4.0	4.2	4.3	5.3	3.4	2.4	1.7	0.7	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	9.4	5.1	2.9	1.0	-0.6	1.7	2.1	1.9	1.9	1.9	3.0	3.9	7.3	1.3	2.0
Employment Cost Index	3.5	3.3	3.3	3.3	3.3	3.1	2.9	2.7	2.9	2.7	2.6	2.5	2.7	2.5	2.5	2.4	3.1	3.4	3.0	2.7	2.5
Real Disposable Income (a)	4.4	-0.6	3.1	0.6	-0.7	11.9	-8.7	0.5	0.0	0.9	1.2	1.4	1.8	2.0	2.0	2.0	3.5	2.8	1.3	0.1	1.7
Nominal Personal Income (b)	6.4	6.1	6.1	5.8	4.2	5.3	4.2	3.4	2.6	1.0	1.6	2.0	3.1	3.6	3.9	4.2	7.1	6.1	4.3	1.8	3.7
Industrial Production (a)	1.5	3.2	3.6	0.3	0.4	-3.1	-6.0	-6.7	-5.0	-2.7	-1.4	0.3	1.4	2.2	2.9	3.3	2.2	1.7	-1.0	-4.1	1.0
Capacity Utilization	80.7	81.0	81.3	81.0	80.7	79.7	78.2	76.5	75.6	75.0	74.8	74.9	75.0	75.2	75.3	75.5	80.9	81.0	78.8	75.1	75.3
Corporate Profits Before Taxes (b)	-1.0	-0.5	-2.7	-2.0	-1.5	-8.3	-12.5	-17.5	-25.0	-20.0	-16.0	-10.0	0.0	8.8	8.2	8.0	15.2	-1.6	-10.0	-18.1	6.3
Corporate Profits After Taxes	-0.9	-0.2	-0.8	-0.6	1.8	-6.4	-12.0	-18.0	-24.5	-24.5	-16.5	-12.0	2.0	10.8	10.5	10.4	16.0	-0.6	-8.7	-19.8	8.3
Federal Budget Balance (c)	-178.0	137.5	-40.6	-106.8	-205.9	26.9	-169.0	-339.0	-383.0	-69.0	-184.0	-249.0	-293.0	21.0	-94.0	-153.0	-248.2	-161.5	-454.8	-975.0	-615.0
Current Account Balance (d)	-196.9	-194.1	-173.0	-167.2	-175.6	-183.1	-175.0	-152.0	-137.0	-128.0	-120.0	-115.0	-112.0	-107.0	-105.0	-103.0	-788.1	-731.2	-685.8	-500.0	-427.0
Trade Weighted Dollar Index (e)	80.5	78.7	74.4	73.3	70.3	71.0	76.1	81.8	85.6	88.7	91.6	94.3	95.4	96.5	96.5	96.5	81.5	73.3	81.8	94.3	96.5
Nonfarm Payroll Change (f)	109	105	71	80	-82	-71	-159	-253	-207	-160	-103	-37	0	60	80	105	175	91	-142	-127	61
Unemployment Rate	4.5	4.5	4.7	4.8	4.9	5.3	6.0	6.5	7.2	7.7	8.0	8.3	8.5	8.8	9.0	9.0	4.6	4.6	5.7	7.8	8.8
Housing Starts (g)	1.45	1.46	1.30	1.15	1.05	1.03	0.88	0.76	0.66	0.65	0.68	0.73	0.83	0.92	1.04	1.12	1.81	1.34	0.93	0.68	0.98
Light Vehicle Sales (h)	16.3	16.1	15.9	16.0	15.2	14.1	12.9	11.2	12.1	12.6	13.4	13.8	13.9	14.1	14.3	14.4	16.5	16.1	13.3	13.0	14.2
Crude Oil -- WTI -- Front Contract (i)	58.16	65.03	75.38	90.68	97.90	123.98	117.98	67.24	64.00	65.00	65.00	65.00	70.00	70.00	70.00	75.00	66.22	72.31	101.77	64.75	71.25
Quarter-End Interest Rates																					
Federal Funds Target Rate	5.25	5.25	4.75	4.25	2.25	2.00	2.00	0.75	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	5.25	4.25	0.75	0.50	1.00
3 Month LIBOR	5.35	5.36	5.23	4.70	2.69	2.78	4.05	1.90	1.70	1.40	1.10	0.80	0.90	1.20	1.40	1.50	5.36	4.70	1.90	0.80	1.50
Prime Rate	8.25	8.25	7.75	7.25	5.25	5.00	5.00	3.75	3.50	3.50	3.50	3.50	3.50	3.75	4.00	4.00	8.25	7.25	3.75	3.50	4.00
Conventional Mortgage Rate	6.16	6.66	6.38	6.10	5.97	6.32	6.48	5.90	5.90	5.90	5.80	5.85	5.85	5.90	6.00	6.20	6.14	6.10	5.90	5.85	6.20
3 Month Bill	5.04	4.82	3.82	3.36	1.38	1.90	0.92	0.40	0.30	0.50	0.70	0.75	0.75	0.90	1.00	1.00	5.02	3.36	0.40	0.75	1.00
2 Year Note	4.58	4.87	3.97	3.05	1.62	2.63	2.00	1.60	1.80	1.80	1.90	2.00	2.10	2.20	2.20	2.30	4.82	3.05	1.60	2.00	2.30
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	4.20	4.30	4.50	4.71	4.04	3.70	4.00	4.50
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	4.60	4.70	4.90	4.81	4.45	4.20	4.40	4.90

Data As of: November 12, 2008

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarte (f) Average Monthly Change
(b) Year-over-Year Percentage Change (g) Millions of Units
(c) Quarterly Sum - Billions USD; Annual Data Represer (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

With Global Recession, Policy Turns Expansionary

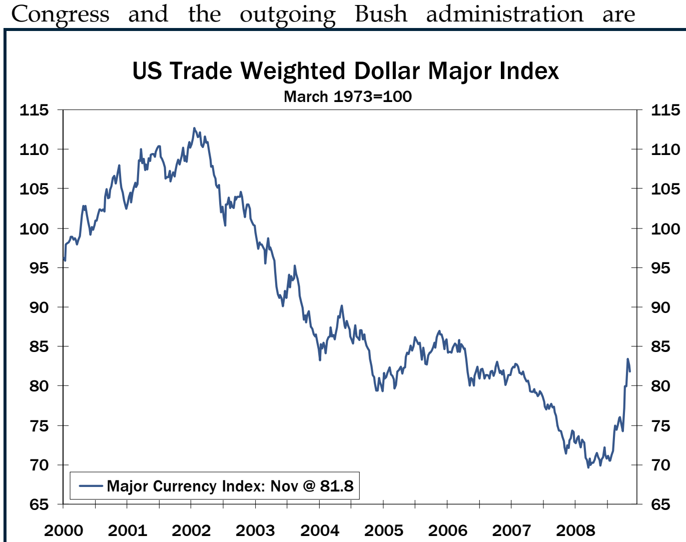
Real GDP in the United States edged down at an annualized rate of 0.3 percent in the third quarter, and it appears that most other major economies contracted as well. For example, real GDP in the United Kingdom declined at an annualized rate of 2.0 percent, the first downturn suffered by the British economy since 1992. Available data from the fourth quarter indicate the pace of contraction has probably quickened.

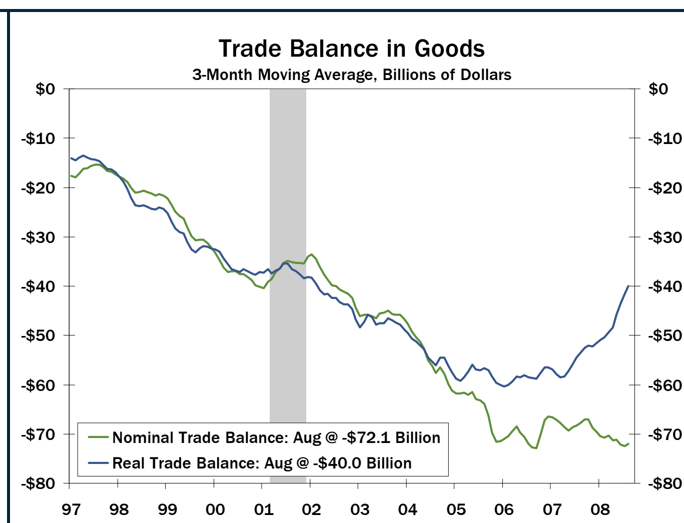
In response to the deepening gloom, governments have responded with expansionary macroeconomic policies. Since last September the Federal Reserve has eased U.S. monetary policy significantly by cutting its target for the fed funds rate by 425 basis points (see graph on front page). More recently, major foreign central banks have followed the Fed's lead by cutting aggressively. The Bank of England slashed its policy rate by 150 basis points in early November, bringing its total amount of easing in this cycle to 275 basis points, and the European Central Bank has cut rates by 100 basis points since early October. Although credit markets at present can hardly be characterized as "normal," short-term lending rates have dropped significantly over the past month.

Fiscal policy has also turned expansionary in many countries. Both the German and Japanese governments have announced fiscal stimulus packages that are valued around one percent of each country's respective GDP. In China, the government announced plans to spend 4 trillion yuan (equivalent to roughly 14 percent of GDP this year) between now and the end of 2010 on infrastructure and other rural programs. Although most of the program does not represent "new" spending, the intended acceleration in the disbursement of funds should help to shore up the slowing Chinese economy. The U.S. Congress and the outgoing Bush administration are currently negotiating a fiscal stimulus package that could be expanded when President-elect Obama takes office in January. Although monetary easing and fiscal stimulus have shown up too late to prevent many economies from experiencing recession in the near term, expansionary policies should help to limit the severity of the global downturn.

Although many investors expect the U.S economy to experience its worst recession since the early 1980s, the dollar continues to strengthen versus most major currencies (see chart below). Why? For starters, the outlook for most economies has deteriorated faster than the U.S. outlook over the past few months. Although most market participants looked for the Bank of England to cut rates at its last policy meeting on November 6, few investors anticipated the 150 basis point cut the Monetary Policy Committee announced that day. In our view, most central banks, notably the ECB and the Bank of England, will cut rates more than the Fed in the months ahead. As interest rate differentials narrow, the relative attractiveness of dollar assets should improve, leading to stronger capital inflows into the United States.

In addition, the narrowing of the current account deficit that we project will exert fewer headwinds on the dollar. As shown in the graph below, the "real" trade deficit (i.e., the volume of exports less the volume of imports) has narrowed significantly over the past year or so (see chart below). However, the nominal trade deficit remained very large through August (latest data point) due to high oil prices. Now that the price of crude oil has essentially collapsed, the nominal trade deficit should narrow quickly. Therefore, we project the greenback will continue to trend higher next year, not only against major currencies, but also vis-à-vis the currencies of most developing countries.





November 12, 2008

Wachovia Currency Forecast

(End of Quarter Rates)

	2008	2009				2010		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Major Currencies								
Euro ($/€)	1.32	1.26	1.22	1.18	1.14	1.13	1.12	1.12
U.K. ($/£)	1.60	1.55	1.50	1.45	1.43	1.42	1.40	1.40
U.K. (£/€)	0.83	0.81	0.81	0.81	0.80	0.80	0.80	0.80
Japan (¥/$)	100	105	108	112	115	118	120	120
Other Industrialized								
Canada (C$/US$)	1.15	1.20	1.25	1.28	1.32	1.33	1.34	1.34
Switzerland (CHF/$)	1.13	1.17	1.23	1.28	1.33	1.35	1.37	1.37
Norway (NOK/$)	6.70	6.90	7.10	7.30	7.40	7.50	7.60	7.60
Sweden (SEK/$)	7.50	7.90	8.10	8.35	8.50	8.60	8.65	8.65
Australia (US$/A$)	0.72	0.67	0.62	0.58	0.56	0.55	0.54	0.54
Developing Economies								
Mexico (MXN/$)	12.50	13.00	13.50	13.70	13.80	13.90	14.00	14.00
Brazil (BRL/$)	2.10	2.25	2.40	2.50	2.60	2.70	2.80	2.80
Poland (PLN/$)	2.80	3.00	3.20	3.35	3.50	3.60	3.70	3.70
Russia (RUB/$)	26.50	26.75	27.00	27.25	27.50	27.75	28.00	28.00
Turkey (TRY/$)	1.50	1.57	1.65	1.70	1.72	1.74	1.75	1.75
South Africa (ZAR/$)	9.60	10.25	10.75	11.25	11.75	11.90	12.00	12.00
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	48.50	49.00	49.50	50.00	50.00
Korea (KRW/$)	1300	1350	1400	1450	1470	1490	1500	1500
Singapore (S$/US$)	1.51	1.55	1.58	1.62	1.63	1.64	1.65	1.65
Taiwan (TWD/$)	32.70	33.00	33.50	33.70	33.80	33.90	34.00	34.00

[1]Data as of: November 12, 2008

Wachovia International Economic Forecast

(Year-over-Year Percentage Change)

	GDP			CPI		
	2008	2009	2010	2008	2009	2010
Global	3.4%	1.7%	3.4%	5.8%	3.1%	3.0%
Major Economies						
United States	1.3%	-1.0%	1.4%	4.3%	1.7%	2.4%
Eurozone	1.0%	-0.3%	1.8%	3.4%	1.6%	1.4%
Germany	1.3%	-0.2%	2.0%	2.9%	1.5%	1.4%
France	0.7%	-0.3%	1.8%	3.3%	1.5%	1.4%
Italy	-0.2%	-0.4%	1.4%	3.5%	1.6%	1.4%
UK	0.8%	-1.0%	1.5%	3.7%	2.1%	1.3%
Japan	0.3%	-0.5%	1.6%	1.5%	0.2%	0.1%
Canada	0.7%	0.0%	2.4%	2.6%	1.9%	1.7%
Developing Economies						
China	9.5%	8.0%	8.8%	6.2%	3.0%	3.4%
India	6.8%	6.1%	7.5%	7.2%	5.6%	4.6%
Mexico	1.9%	0.4%	2.4%	4.8%	3.8%	2.8%
Brazil	5.0%	2.0%	3.0%	5.6%	4.4%	3.9%

[1]Data As of: November 12, 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	1.90%	1.70%	1.40%	1.10%	0.80%	0.90%	1.20%	1.40%	3.70%	3.80%	3.90%	3.90%	4.00%	4.10%	N/A	N/A
Japan	0.75%	0.60%	0.50%	0.40%	0.40%	0.40%	0.40%	0.40%	1.45%	1.40%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%
Euroland	3.75%	2.50%	2.00%	1.90%	1.90%	2.25%	2.75%	3.25%	3.70%	3.60%	3.60%	3.80%	4.00%	4.30%	4.50%	4.70%
U.K.	3.50%	2.50%	2.25%	2.15%	2.15%	2.50%	3.00%	3.50%	4.20%	4.10%	4.10%	4.25%	4.50%	4.80%	4.90%	5.00%
Canada	2.35%	2.15%	1.90%	1.90%	2.25%	2.50%	3.00%	3.50%	3.75%	3.70%	3.80%	4.00%	4.25%	4.50%	4.70%	4.75%

[1]Data As of: November 12, 2008

Wachovia Economics Group

John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wachovia.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wachovia.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wachovia.com
Adam G. York	Economic Analyst	(704) 715-9660	adam.york@wachovia.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wachovia.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wachovia.com

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