WACHOVIA

ECONOMICS GROUP

WEEKLY ECONOMIC & FINANCIAL COMMENTARY

April 24, 2009

U.S. Review

Green Shoots or Just Weeds?

The recent rebound in the stock market, less overtly bad economic news, and the onset of spring have lots of people reporting sightings of green shoots. Spring always brings a sense of renewal as people gradually end their winter hibernation and come out and take advantage of the better weather.

How much more or less activity is seen as "picking up" is the key to seeing whether this is the start of a self-reinforcing recovery. We remain skeptical but are clearly pleased to see a slightly better tone to the economic and financial data. First quarter real GDP remains on a pace to decline at around a four percent pace.

Actual economic data for the week present a mixed picture of the state of the U.S. economy. Sales of existing homes fell slightly more than expected and about one-half of all sales were either short sales or foreclosure sales. Actual buyers remain in short supply and mortgage applications for the purchase of a home are still depressed. Applications for refinancings have perked up, however, which is creating some economic activity of its own.

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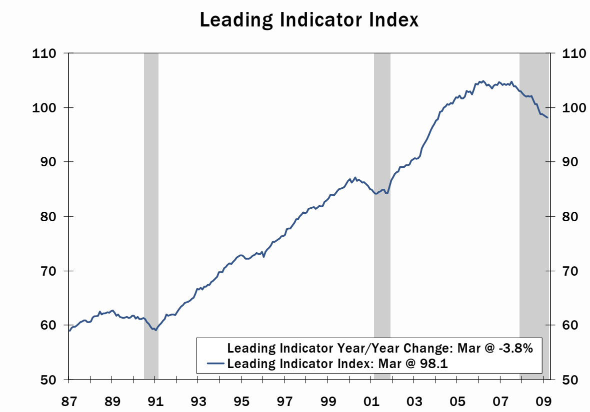

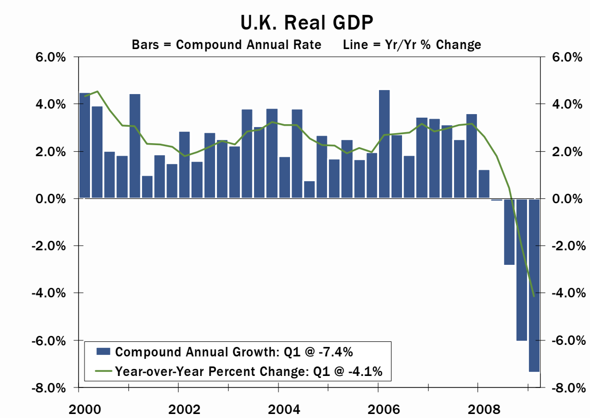

Global Review

U.K. Economy in Dire Straits

Data released this morning showed that real GDP in the United Kingdom plunged at an annualized rate of 7.4 percent in the first quarter of this year relative to the fourth quarter of 2008 (chart at left). Whether measured sequentially or on a year-over-year basis, which was down 4.1 percent, the downturn in real GDP is the worst for the British economy since the dark days of 1979-80.

A detailed breakdown of real GDP in the first quarter into its underlying demand components is not yet available, so it is difficult to say with precision where the sources of weakness are concentrated. However, a preliminary breakdown via industries offers some clues. For starters, industrial production is estimated to have plunged more than 20 percent (annualized rate) in the first quarter, and construction spending was off roughly

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Recent Special Commentary

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April-22	The Global Economy: Who Gets Out of the Gate First?	Bryson
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April-09	The Intersection of Economy and Credit	Silvia

U.S. Forecast

	Actual 2008				Forecast 2009				Actual				Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2005	2006	2007	2008	2009	2010
Real Gross Domestic Product [1]	0.9	2.8	-0.5	-6.3	-5.8	-0.9	-1.7	0.3	2.9	2.8	2.0	1.1	-2.9	0.9
Personal Consumption	0.9	1.2	-3.8	-4.3	1.3	0.3	0.7	1.2	3.0	3.0	2.8	0.2	-0.7	1.2
Inflation Indicators [2]														
"Core" PCE Deflator	2.2	2.3	2.3	1.9	1.7	1.4	1.0	0.9	2.1	2.3	2.2	2.2	1.3	0.9
Consumer Price Index	4.2	4.3	5.2	1.5	-0.2	-1.5	-2.9	-0.5	3.4	3.2	2.9	3.8	-1.3	1.2
Industrial Production [1]	0.2	-4.6	-9.0	-12.7	-19.6	-7.6	-2.5	0.4	3.3	2.3	1.5	-2.2	-10.6	1.7
Corporate Profits Before Taxes [2]	-1.5	-8.3	-9.2	-21.5	-32.0	-30.0	-26.0	-14.0	17.6	15.2	-1.6	-10.1	-26.1	4.5
Trade Weighted Dollar Index [3]	70.3	71.0	76.1	79.4	82.5	85.0	87.6	89.9	86.0	81.5	73.3	79.4	89.9	87.1
Unemployment Rate	4.9	5.4	6.1	6.9	8.1	9.1	9.7	10.1	5.1	4.6	4.6	5.8	9.2	10.6
Housing Starts [4]	1.05	1.03	0.88	0.66	0.52	0.48	0.51	0.55	2.07	1.81	1.34	0.90	0.51	0.74
Quarter-End Interest Rates														
Federal Funds Target Rate	2.25	2.00	2.00	0.25	0.25	0.25	0.25	0.25	4.25	5.25	4.25	0.25	0.25	0.50
10 Year Note	3.45	3.99	3.85	2.25	2.71	2.80	2.90	2.90	4.39	4.71	4.04	2.25	2.90	3.60

Data As of: April 8, 2009

[1] Compound Annual Growth Rate Quarter-over-Quarter
[2] Year-over-Year Percentage Change
[3] Federal Reserve Major Currency Index, 1973=100 - Quarter End
[4] Millions of Units

INSIDE

U.S. Review

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Unemployment Is Still Rising

We have long stressed that the most important real-time economic indicator during these troubling times is first-time claims for unemployment insurance. In addition to the weekly first-time claims numbers, the report includes data on continuing claims and the insured unemployment rate. The insured unemployment rate has been rising a tenth of a percentage point a week, which has virtually matched the increase in the unemployment rate. The latest data show the insured unemployment rate up to 4.6 percent, which is the highest it has been since the series began back in 1983. The most recent increases suggest the civilian unemployment rate will rise from 8.5 percent to 8.9 percent in April. Every monthly jump in the unemployment rate causes more and more people to realize that double-digit unemployment remains a high probability. The unemployment rate is known to be a lagging indicator and tends to peak about six months after the recession ends. The past two recessions saw the unemployment rate peak a year or more after the recession officially ended.

Weekly first-time unemployment claims are a leading indicator and there is some sign that the pace of layoffs is leveling off. This past week, which is the survey week for the April employment report, saw claims bounce back by 37,000 to 640,000. The increase follows two weekly declines, the last of which was a large drop during the Passover/Good Friday week. Claims remain slightly below their cycle highs but remain extremely high nonetheless. The most recent reading is consistent with another 650,000 drop in nonfarm payrolls.

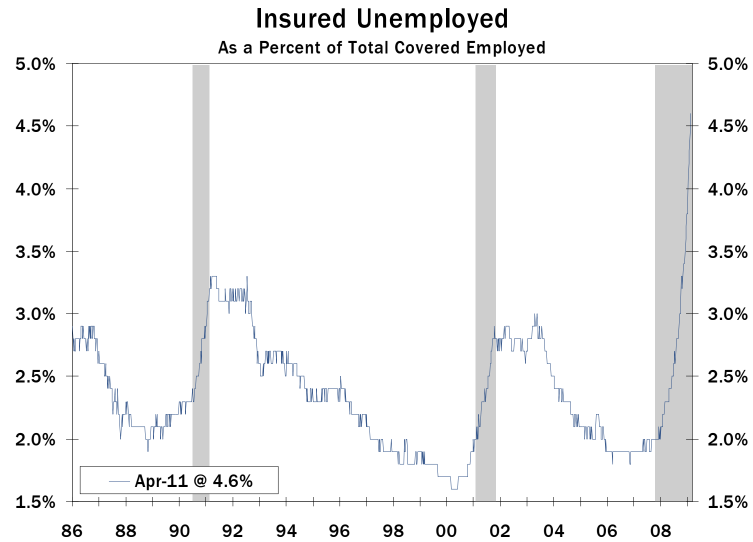
The loss of jobs is only part of the story. A larger proportion of job losses today are occurring among full-time workers and reflect permanent cutbacks as opposed to temporary layoffs. In addition, many workers who have avoided layoffs have seen their income cut substantially as hours worked, bonus payments, commissions and other types of incentive compensation have been cut back substantially.

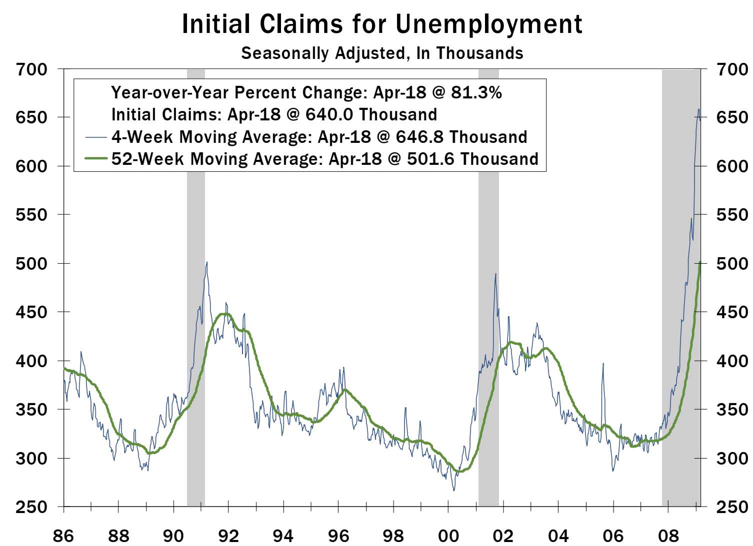
Durable goods orders came in slightly better than expected, but considered in the context of a downward revision to February data, the report was roughly in-line with expectations. Non-defense capital goods orders ex-aircraft came in positive for the second month in a row, suggesting signs of life in business spending.

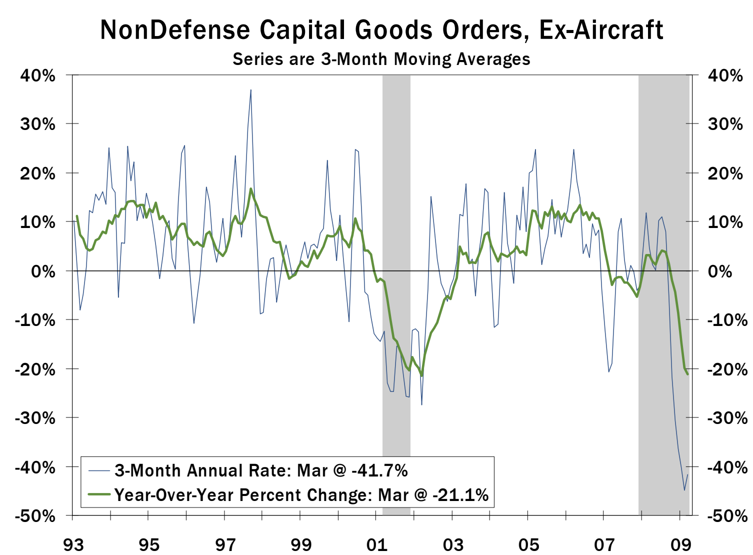
Adding to the better news in business spending, it appears new home sales are at least stabilizing in the mid 300,000 range. We would not completely rule out further declines from here, but are hopeful that a bottom is forming.

Selected Current Data

Gross Domestic Product - CAGR	Q4 - 2008	-6.3%
GDP Year-over-Year	Q4 - 2008	-0.8%
Personal Consumption	Q4 - 2008	-4.3%
Business Fixed Investment	Q4 - 2008	-21.7%
Consumer Price Index	March - 2009	-0.4%
"Core" CPI	March - 2009	1.8%
"Core" PCE Deflator	February - 2009	1.8%
Industrial Production	March - 2009	-12.8%
Unemployment	March - 2009	8.5%
Federal Funds Target Rate	Apr - 24	0.25%





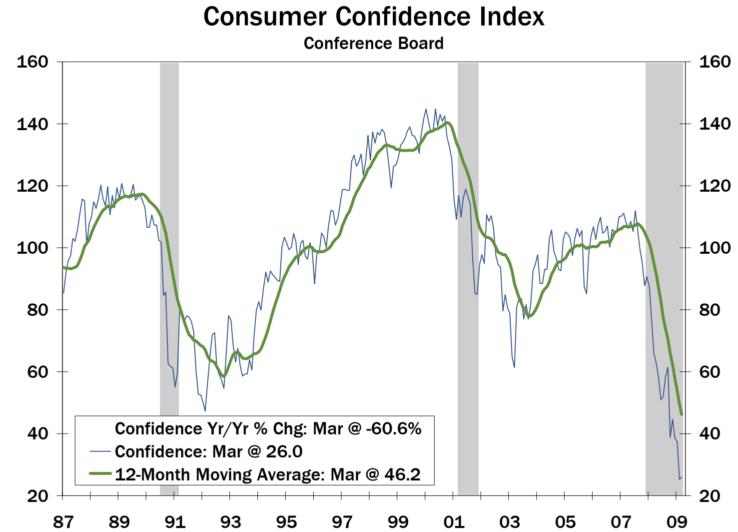


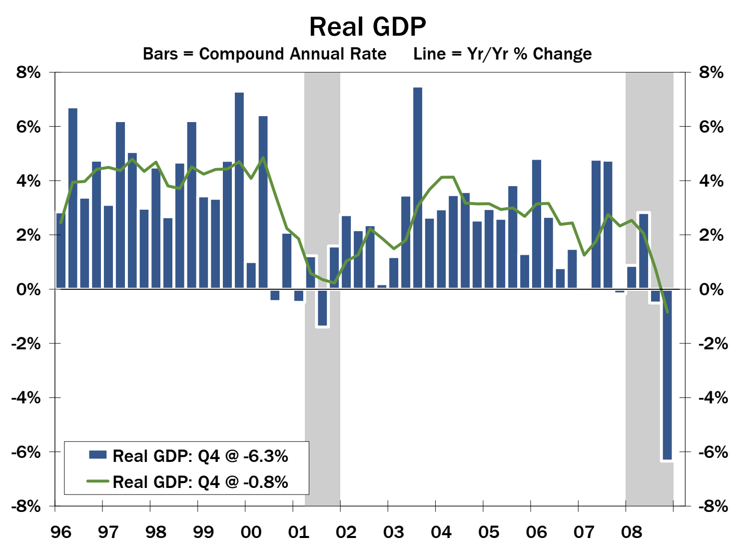
Consumer Confidence • Tuesday

Despite the slight up-tick in March from an all-time low, it is clear that consumers are still quite troubled by both the current state of the U.S. economy as well as its near-term prospects. Consumer confidence has historically shown a correlation with conditions in the labor market, and with total job losses since employment peaked in December 2007 now over 5 million, consumer confidence will likely remain near historic lows. Given that the labor market will remain severely challenged through 2010. We expect despite the anticipated move higher in April, consumer confidence will remain below trend for the foreseeable future, keeping downward pressure on economic growth prospects.

Previous: 26.0 **Wachovia: 32.0**

Consensus: 29.0





GDP • Wednesday

After falling at a revised annualized rate of 6.3 percent in the fourth quarter, we now expect economic growth probably contracted for the third consecutive quarter, albeit at a slower pace, around four percent. This means the fourth quarter of 2008 will likely mark the darkest hour of this recession. The improvement may be due to a significant lessening of the drag on growth from consumer spending, residential investment and exports. However, business investment in structures likely declined sharply in the first quarter and should continue to contract well into 2010.

We continue to expect the recession will end late in the year or in first quarter of 2010. The end of the recession, however, will not mark the end of the economy's struggles. The unemployment rate is expected to rise throughout 2010, peaking at 10 percent or more.

Previous: -6.3% **Wachovia: -4.0%**

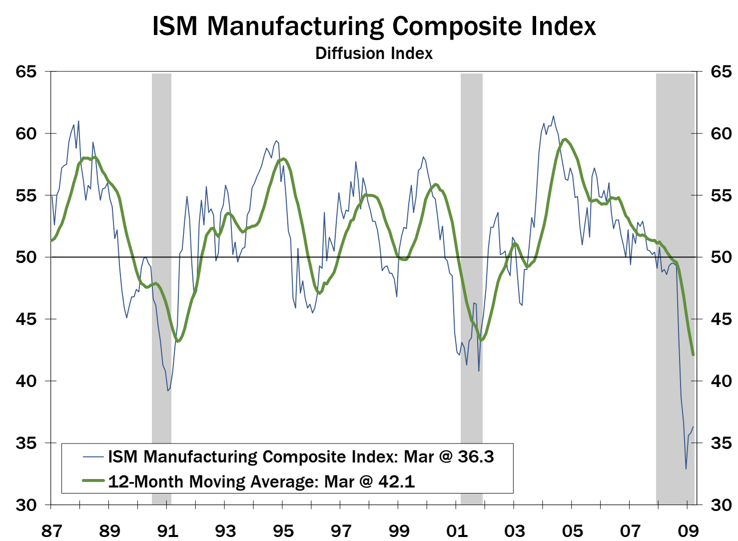
Consensus: -4.9%

ISM Manufacturing Index • Friday

The Institute of Supply Management's (ISM) index of activity in the manufacturing sector likely rose for the fourth consecutive month in March, but remains squarely in recession territory. Weak ISM readings are consistent with declines in industrial production and manufacturing jobs. Durable goods orders were down and suggest new orders and order backlogs should also decline, indicating more weakness in the pipeline. The regional purchasing manager reports remain weak, but have shown tentative signs of improvement. Still, the outlook for the manufacturing sector is that it will remain under considerable pressure.

Previous: 36.3 **Wachovia: 36.8**

Consensus: 38.0



Global Review

(Continued from Page 1)

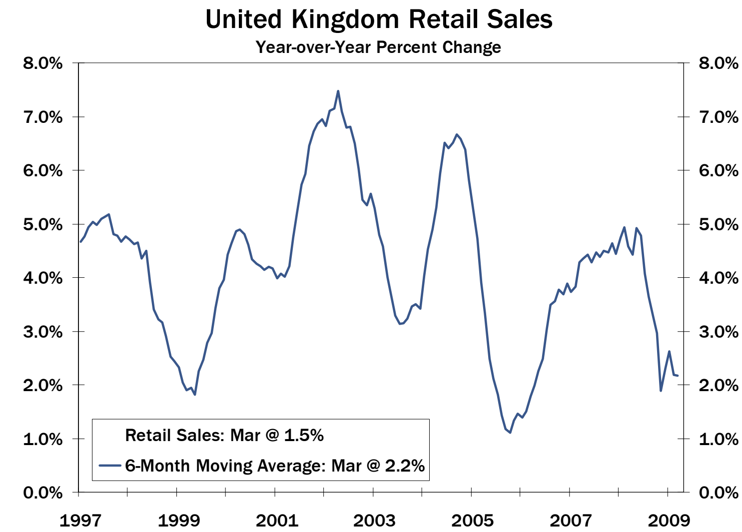
10 percent. Output in the services industries appears to have contracted about five percent. The only sectors to have recorded positive growth were agriculture and the government.

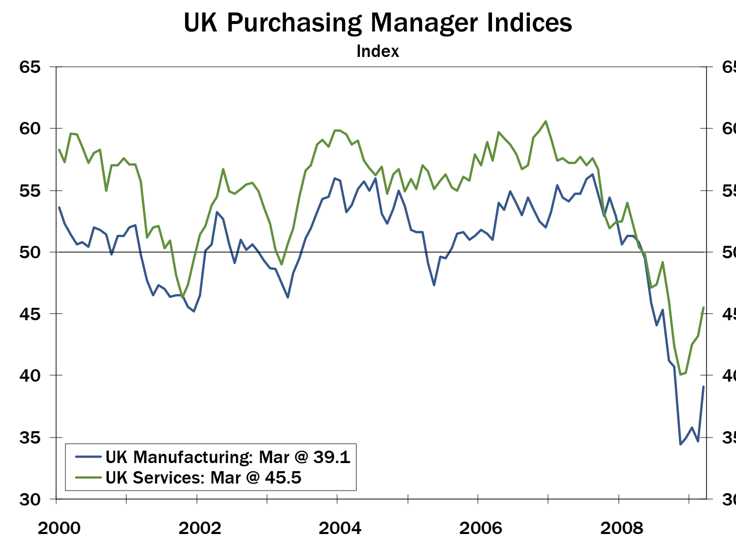
Given the nosedive in industrial production, it is likely that exports fell at a double-digit pace yet again. (Exports declined 15 percent in the fourth quarter.) In addition, capex was probably very weak in the first quarter. However, retail spending appears to have held up reasonably well (see top chart). Monthly data show that the volume of retail spending rose 1.0 percent in the first quarter relative to the previous quarter.

So how do we square the sharp decline in production that occurred in the first quarter with the relative resiliency in retail spending? The answer is that a sizeable drop in inventories must have occurred, and this inventory liquidation should eventually lead to stabilization in the British economy later this year. Indeed, some "green shoots" may be appearing. As seen in the middle chart, the purchasing managers' indices for manufacturing and service sectors both posted decent increases in March. Both indices remain below the demarcation line that separates expansion from contraction, but it appears that the rate of decline may be starting to level out. In addition, some indices of house prices have edged higher recently.

As in the United States, the sharp contraction in the British economy has caused the government's finances to hemorrhage. Chancellor Darling released his budget numbers this week, and the outlook read like a horror novel. The public-sector borrowing requirement is expected to exceed 12 percent of GDP in 2009-10, a peace-time record. The deficit news contributed to the sell-off this week in the market for British government bonds.

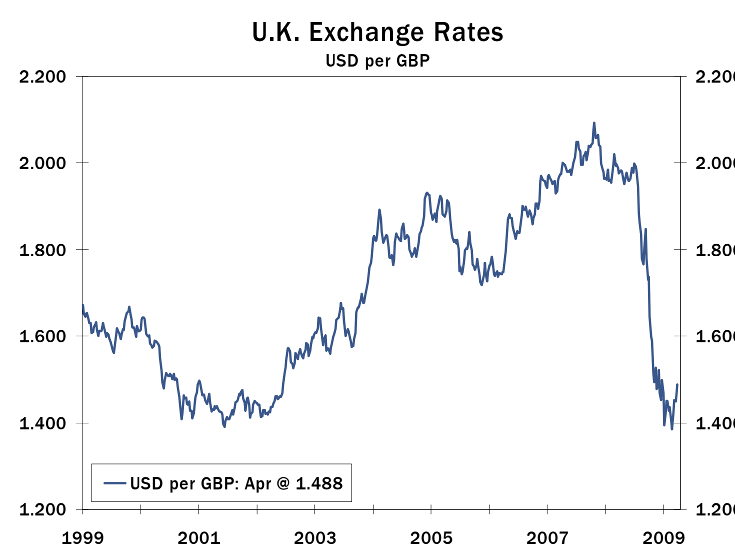
As shown in the bottom chart, the British pound has traded in a fairly narrow range versus the U.S. dollar since the beginning of the year. We project that the British economy will continue to contract over the next two quarters, albeit at slower rates than during the last two quarters. And as we discuss in a recent special report (see "The Global Economy: Who Gets Out of the Gate First?") we believe the U.S. economy will show signs of stabilizing before most other major economies. Therefore, we look for the dollar to appreciate modestly versus sterling through the end of the year.





Selected Global Data

Japan	GDP Year-over-Year	Q4 - 2008	-4.3%
	CPI	February - 2009	-0.1%
	Unemployment	February - 2009	4.4%
	BoJ Target Rate	Apr - 24	0.10%
Euro-Zone	GDP Year-over-Year	Q4 - 2008	-1.5%
	CPI	March - 2009	0.6%
	Unemployment	February - 2009	8.5%
	ECB Target Rate	Apr - 24	1.25%
UK	GDP Year-over-Year	Q1 - 2009	-4.1%
	CPI	March - 2009	2.9%
	Unemployment	March - 2009	4.5%
	BoE Target Rate	Apr - 24	0.50%
Canada	GDP Year-over-Year	January - 2009	-2.4%
	CPI	March - 2009	1.2%
	Unemployment	March - 2009	8.0%
	BoC Target Rate	Apr - 24	0.25%



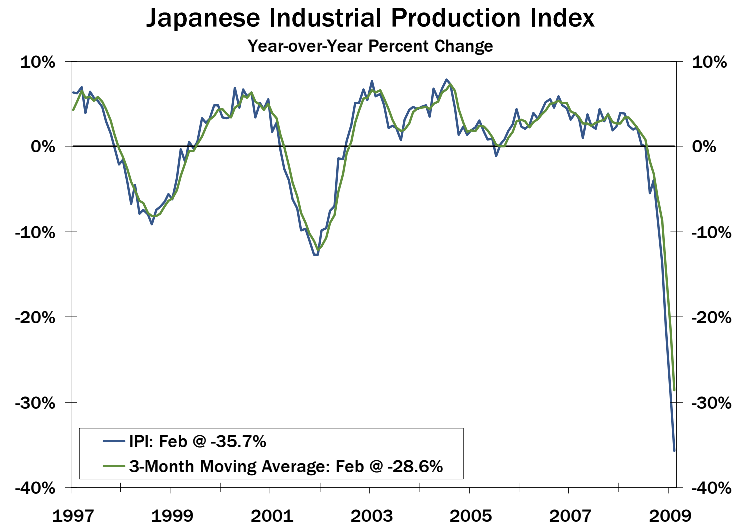
Japanese Industrial Production • Thursday

Japanese industrial production, which was down 37 percent in February relative to the same month last year, has essentially collapsed since last autumn. When surveyed last month, however, companies expected that industrial production would rebound somewhat in March and April. Although we are somewhat skeptical of this projection, the large decline in inventories in February means that an uptick in production in March is not completely out of the realm of possibility.

Other data on the docket for March will help analysts sharpen their GDP estimate for the first quarter. Data on retail sales will be released on Tuesday, and the labor market report and housing starts print on Friday. Regardless of the outturns, the first quarter was probably another disastrous quarter for Japanese real GDP.

Previous: -9.4% (month-on-month change)

Consensus: 0.8%



German Unemployment Rate • Thursday

The unemployment rate in Germany fell to a 16-year low last September, but more than 200,000 workers have subsequently become unemployed as the German economy has fallen into a deep downturn. The consensus forecast anticipates that the unemployment rate, which will be announced on Thursday, edged higher in April.

The rise in joblessness is not good news for consumer spending. In that regard, data on German retail spending in March are also slated for release on Friday. Data on CPI inflation in Germany and the broader Euro-zone are on the docket earlier in the week. However, with European economies in deep recession at present, the current inflation rate has taken a back seat in the minds of most investors. Indeed, inflation should trend lower this summer and consumer prices may actually decline on a year-over-year basis.

Previous: 8.1%

Consensus: 8.2%

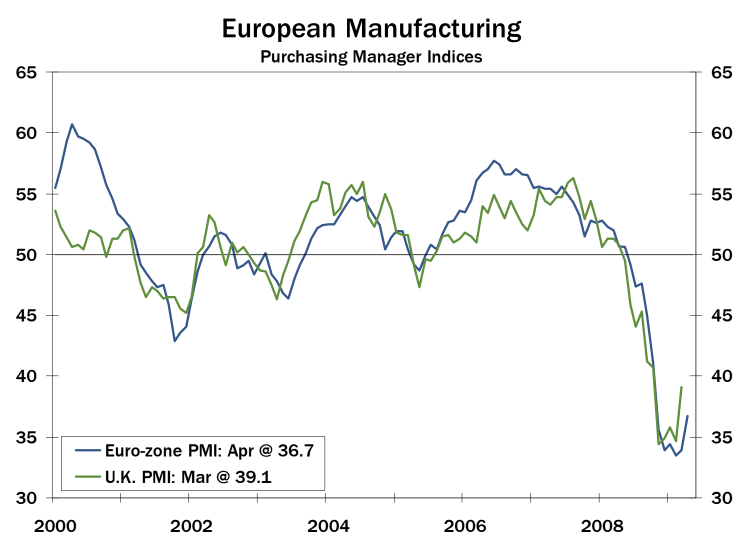
U.K. Manufacturing PMI • Friday

As discussed in the main body of this report, the U.K. economy contracted at a sharp rate in the first quarter. However, recent data suggest that the rate of decline may be starting to level out. In that regard, the manufacturing PMI for April, which will be released on Friday, will give market participants some insights into the state of the British economy at the beginning of the second quarter. Another increase in the PMI would be consistent with the view that the rate of decline in the U.K. economy is starting to slow.

A number of house price indices ticked up in March. Therefore, April data on house prices, which will be released next week, will make for interesting reading. Data on consumer lending, which print on Friday, will provide some insights into the current state of consumer financing.

Previous: 39.1

Consensus: 40.0

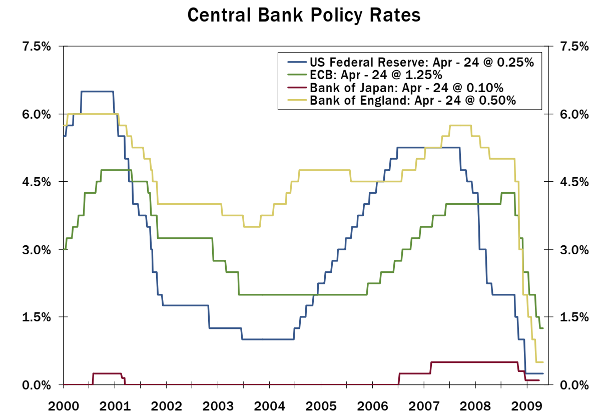


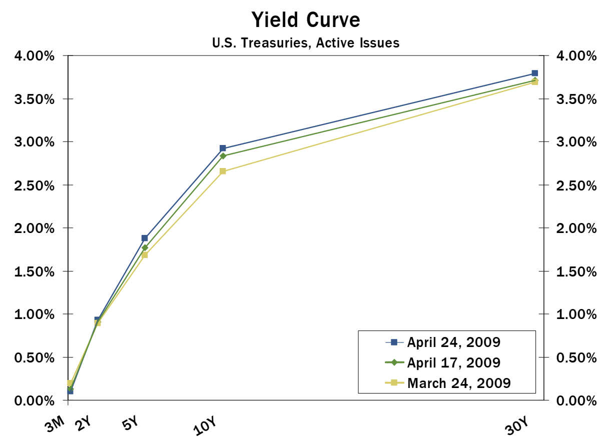
Interest Rate Watch

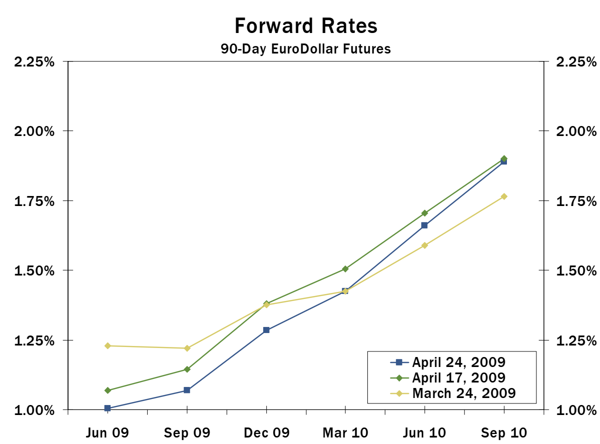
FOMC Meets: Policy Unchanged

Low inflation and continued recession suggest that the Federal Open Market Committee (FOMC) will vote to maintain the generous liquidity provision to get the economy started. If the federal funds rate remains in the zero to 25 basis point range a positive yield curve will be maintained, which will encourage banks to lend and promote economic growth.

We expect that modest economic growth late this year will allow the FOMC to maintain its very low funds rate policy through the year. Current credit policy at the Fed also suggests that market rates on Treasuries, mortgage-backed securities and asset-backed securities are being driven by the Federal Reserve to lower-than-sustainable levels in a non-inflationary, trend growth environment. While in the short-run this may be sustainable, we view this as counter-productive in the longer-run for two reasons. First, the real market price for these assets is not being revealed and therefore there is no true price discovery. Second, the growth of the Fed's balance sheet is a concern for inflation. In the short-run, the Federal Reserve can do all this given the large output gap and the shortage of secondary credit. However, the fallout of this easy monetary policy would suggest a greater risk of a combination of a weaker dollar and/or higher inflation. In six months we expect the economy will be in recovery, suggesting that market-determined interest rates will rise along with the demand for credit. As this happens the Federal Reserve is likely to begin withdrawing liquidity from its credit facilities and the short-run textbook liquidity effect will give way to the income and inflation expectations effects (as well as the currency effect). Private market interest rates will rise.







Topic of the Week

U.S. Healthcare Spending

Healthcare is an economic concern because it represents a sizable sector of the economy by any measure. Medical care and goods account for more than 20 percent of total spending, and more than 16 percent of GDP. This level of spending will likely continue to rise, but not indefinitely. While it may be easy to recognize a flawed system, it is much more difficult to find the perfect solution. Trade-offs must be made, and one must make such decisions fully aware of the costs, benefits, and potentially unexpected ramifications of them. While there is much to dislike about the current system, an international perspective shows that many citizens across the globe are dissatisfied as well, though often for different reasons. Concerns in the U.S., such as the uninsured population and high out-of-pocket expenditures are replaced with complaints of long waits and low levels of confidence in receiving quality care. Around the world, the reality is that healthcare systems are neither entirely public nor entirely private—there is always a combination of the two, the difference often being the relative contribution. In addressing weaknesses of the current system, decision-makers would do well not to lose sight of its strengths. Still, the U.S., with the highest per capita healthcare spending in the world, has neither the best quality nor the widest access. It is clear that change must, and therefore will, come. However, it is not guaranteed that all stakeholders will be better off, and less likely that all will be satisfied with the result. Careful consideration and gradual policy changes are apt to be the most effective ways to achieve long-term solutions to this very large and growing problem. Please see our website for more complete commentary.

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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 4/24/2009	1 Week Ago	1 Year Ago
3-Month T-Bill	0.10	0.13	1.24
3-Month LIBOR	1.07	1.10	2.91
1-Year Treasury	0.39	0.39	2.00
2-Year Treasury	0.95	0.96	2.38
5-Year Treasury	1.93	1.89	3.09
10-Year Treasury	2.98	2.95	3.82
30-Year Treasury	3.86	3.80	4.55
Bond Buyer Index	4.57	4.78	4.68

Foreign Exchange Rates

	Friday 4/24/2009	1 Week Ago	1 Year Ago
Euro ($/€)	1.328	1.304	1.568
British Pound ($/₤)	1.471	1.480	1.974
British Pound (₤/€)	0.902	0.882	0.794
Japanese Yen (¥/$)	97.150	99.162	104.265
Canadian Dollar (C$/$)	1.208	1.213	1.014
Swiss Franc (CHF/$)	1.137	1.165	1.036
Australian Dollar (US$/A$)	0.722	0.723	0.940
Mexican Peso (MXN/$)	13.239	13.128	10.442
Chinese Yuan (CNY/$)	6.827	6.833	6.994
Indian Rupee (INR/$)	49.811	49.865	40.164
Brazilian Real (BRL/$)	2.199	2.195	1.670
U.S. Dollar Index	84.618	85.981	72.535

Foreign Interest Rates

	Friday 4/24/2009	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	1.40	1.41	4.83
3-Month Sterling LIBOR	1.49	1.52	5.88
3-Month Canadian LIBOR	0.91	1.00	3.50
3-Month Yen LIBOR	0.55	0.56	0.92
2-Year German	1.38	1.47	3.87
2-Year U.K.	1.23	1.43	4.53
2-Year Canadian	0.99	1.16	2.88
2-Year Japanese	0.43	0.41	0.72
10-Year German	3.20	3.27	4.18
10-Year U.K.	3.49	3.36	4.77
10-Year Canadian	3.01	3.01	3.72
10-Year Japanese	1.43	1.45	1.50

Commodity Prices

	Friday 4/24/2009	1 Week Ago	1 Year Ago
W. Texas Crude ($/Barrel)	51.22	50.33	116.06
Gold ($/Ounce)	910.90	868.80	886.13
Hot-Rolled Steel ($/S.Ton)	400.00	410.00	1010.00
Copper (¢/Pound)	205.25	221.15	389.50
Soybeans ($/Bushel)	10.27	10.51	13.48
Natural Gas ($/MMBTU)	3.36	3.73	10.79
Nickel ($/Metric Ton)	11,294	12,360	28,530
CRB Spot Inds.	358.88	356.06	523.91

Next Week's Economic Calendar

	Monday	Tuesday	Wednesday	Thursday	Friday
	27	28	29	30	1
U.S. Data		**Consumer Confidence** March 26.0 April 32.0 (W)	**GDP** 2008: Q4 -6.3% 2009: Q1 -4.0% (W) **FOMC Rate Decision** Previous 0.25% Expected 0.25% (W)	**Personal Income** February -0.2% March 0.0% (W) **Personal Spending** February 0.2% March -0.2% (W) **Employment Cost Index** 2008:4Q 0.5% 2009: 1Q 0.6% (W)	**ISM Manufacturing** March 36.3 April 36.8 (W) **Factory Orders** February 1.8% March -1.1% (W) **Total Vehicle Sales** March 9.9M April 9.7M (W)
Global Data		**Japan** **Retail Trade (MoM)** Previous (Feb) -0.2%		**Japan** **Indus. Production (MoM)** Previous (Feb) -9.4% **Germany** **Unemployment Rate** Previous (Mar) 8.1%	**UK** **PMI Manufacturing** Previous (Mar) 39.1 **Japan** **Jobless Rate** Previous (Feb) 4.4%

Note: (W) = Wachovia Estimate (c) = Consensus Estimate

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