WACHOVIA

ECONOMICS GROUP

WEEKLY ECONOMIC & FINANCIAL COMMENTARY

April 3, 2009

U.S. Review

The Worst May Be Behind Us

The combination of a slightly stronger tone to the financial markets, long overdue changes in the accounting rules, and economic news that ranged from no worse than expected to slightly better than expected, has unleashed the first significant bit of optimism we have seen since the onset of the financial crisis. While this marks a change, the recession is clearly not ending. The absolute worst of the downturn is probably behind us, with the fourth quarter of last year and first quarter of 2009 probably marking the largest declines in real GDP.

There is still plenty of bad economic news in the pipeline. The March employment data were awful as expected. Nonfarm employment declined by 663,000 jobs. Revised figures show that payrolls declined by 86,000 more jobs than first reported in January. That month now shows a decline of 741,000 jobs. Job losses are extraordinarily broad based, with virtually every industry other than education and healthcare posting employment declines. The largest losses continue to be in manufacturing and construction, where close to half the 5.1 million overall job losses have been.

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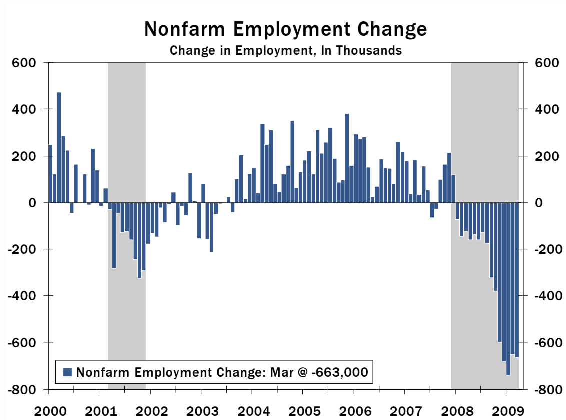

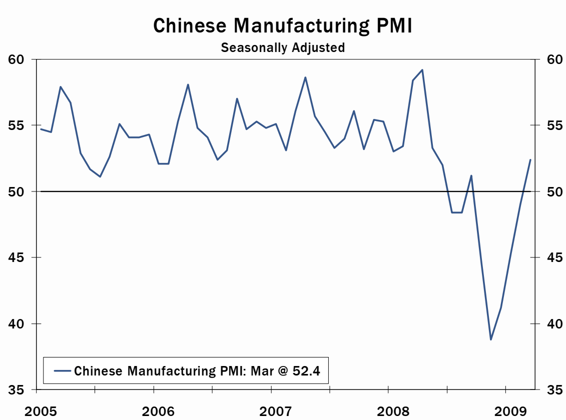

Global Review

Is a Bottom in Sight?

Stock markets in most countries enjoyed strong rallies this week. Some news agencies have attributed the rally to growing speculation that the world economy is stabilizing. Is that claim wishful thinking or is there any evidence to support that statement?

In our view, "stabilizing" is a strong word. It implies that a bottom in economic activity has been reached. Rather, it may be more appropriate to say that an inflection point may have been reached. That is, global economic activity continues to contract, but at a less rapid rate than previously.

Let's start with the good news. As shown in the chart at the left, the manufacturing PMI in China moved above "50" in March. That is, the index crossed the demarcation line that separates expansion in the manufacturing sector from contraction. Soon after credit markets locked up last

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Recent Special Commentary

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March-31	What Keeps Us Up at Night?	Silvia
March-31	Evolution of a Structural Change in Metro America	Silvia & York
March-30	It Is Too Soon to Buy Into a Stailization of Retail Sales	Vitner & York

U.S. Forecast

	Actual				Forecast				Actual				Forecast	
	2008				2009				2005	2006	2007	2008	2009	2010
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q						
Real Gross Domestic Product [1]	0.9	2.8	-0.5	-6.2	-7.2	-2.0	-0.4	0.8	2.9	2.8	2.0	1.1	-3.3	1.2
Personal Consumption	0.9	1.2	-3.8	-4.3	-1.6	0.0	0.1	1.2	3.0	3.0	2.8	0.2	-1.6	1.1
Inflation Indicators [2]														
"Core" PCE Deflator	2.2	2.3	2.3	1.9	1.5	1.3	1.1	1.3	2.1	2.3	2.2	2.2	1.3	1.6
Consumer Price Index	4.2	4.3	5.2	1.5	-0.3	-1.2	-2.3	0.1	3.4	3.2	2.9	3.8	-0.9	1.7
Industrial Production [1]	0.4	-3.4	-8.9	-12.1	-18.0	-7.2	-2.5	0.4	3.3	2.2	1.7	-1.8	-9.9	1.7
Corporate Profits Before Taxes [2]	-1.5	-8.3	-9.2	-17.5	-25.0	-24.0	-20.0	-14.0	17.6	15.2	-1.6	-9.1	-21.0	5.2
Trade Weighted Dollar Index [3]	70.3	71.0	76.1	79.4	86.8	89.4	92.0	93.5	86.0	81.5	73.3	79.4	93.5	88.1
Unemployment Rate	4.9	5.4	6.1	6.9	8.0	8.6	9.2	9.6	5.1	4.6	4.6	5.8	8.8	9.9
Housing Starts [4]	1.05	1.03	0.88	0.66	0.45	0.47	0.53	0.59	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	3.00	3.00	3.00	3.10	4.39	4.71	4.04	2.25	3.10	3.50

Data As of: March 11, 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

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U.S. Review

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Manufacturing and Construction Remain The Weakest Links

With job losses so heavily concentrated in manufacturing and construction, states with outsized exposures to these industries have seen some of the largest increases in the unemployment rate. One notable area of the weakness is the Carolinas, where the unemployment rate has recently risen into double digits. North Carolina, which had 13.0 percent of its workforce employed in manufacturing when the recession began, saw its unemployment rate rise to 10.7 percent in February. The state has lost 174,000 jobs since the recession began with just over one-third of the losses occurring in the factory sector. Other large manufacturing states have also seen unemployment sky-rocket.

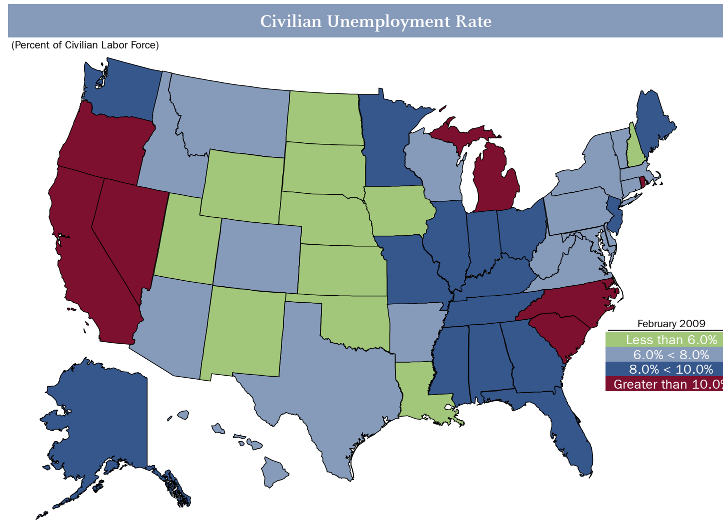
Construction employment declined by 126,000 jobs in March and is down some 1.0 million since the recession began. Up until recently nearly all of those losses have been in residential construction, with the bulk of the decline occurring in states where housing overheated the most, including Florida, Arizona, California, Nevada and Georgia. Commercial construction is now beginning to weaken in a major way, and job losses there should be more evenly distributed throughout the country but will not be nearly as large as residential cutbacks have been.

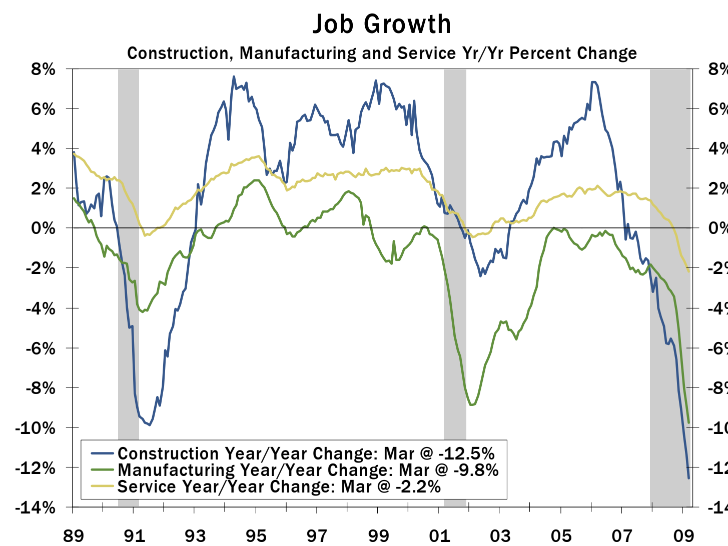
While manufacturing and construction have accounted for the largest share of job losses, they are hardly alone. Layoffs have been extraordinarily broad based throughout this recession, with even recession resistant areas like state and local government being hard hit. Some of the biggest problem areas in the service sector include business services, the financial sector, retailing and the hospitality industry, which are all reeling. The diffusion index which measures the number of industries increasing employment, remains mired near modern era lows at just 22 percent.

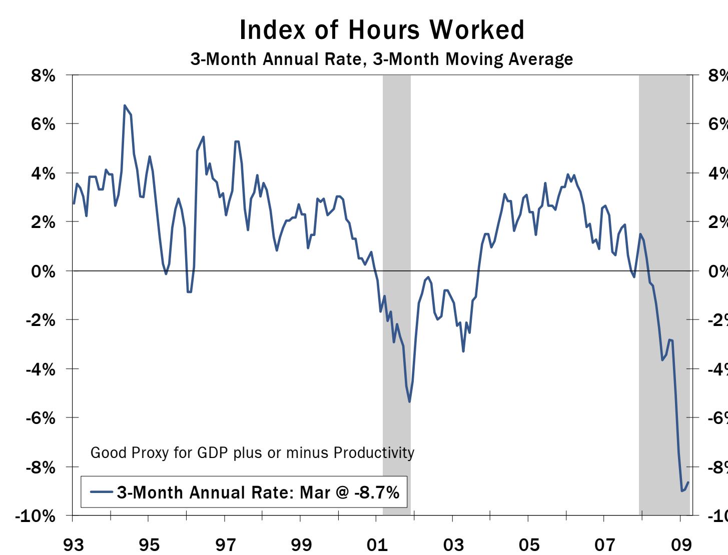
Aggregate hours worked fell at a 1.0 percent annual rate during March and plunged at an 8.7 percent annual rate during the first quarter. By comparison, hours worked fell at a 7.4 percent pace in the fourth quarter. The sum of aggregate hours and productivity growth is a good proxy for real GDP growth. The latest numbers indicate that we should see a huge drop in the first quarter. On the surface this implies we will see a larger drop in the first quarter than we did in the fourth quarter. The actual decline in real GDP will probably be somewhat smaller that in the fourth quarter, however. The trade deficit has shrunk dramatically in recent months, largely due to a dramatic decline in imports. Our early look at first quarter real GDP calls for a decline of five and half percent. Declines in subsequent quarters should be much smaller.

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	February - 2009	0.2%
"Core" CPI	February - 2009	1.8%
"Core" PCE Deflator	February - 2009	1.8%
Industrial Production	February - 2009	-11.8%
Unemployment	March - 2009	8.5%
Federal Funds Target Rate	Apr - 03	0.25%







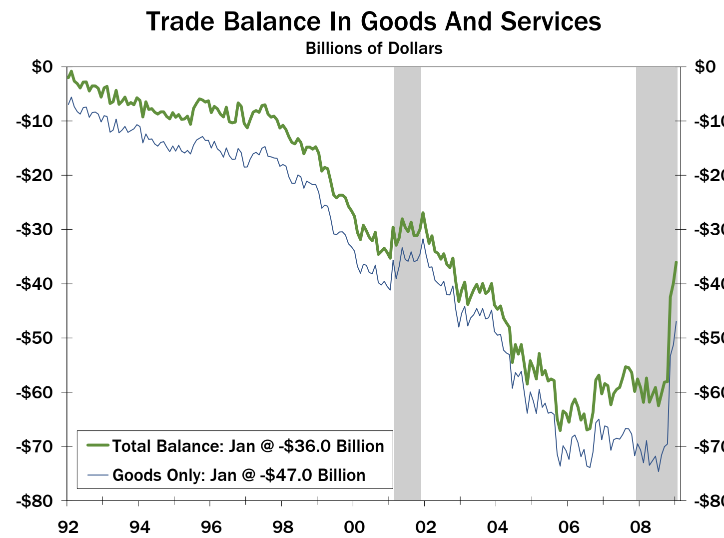
Trade Balance • Thursday

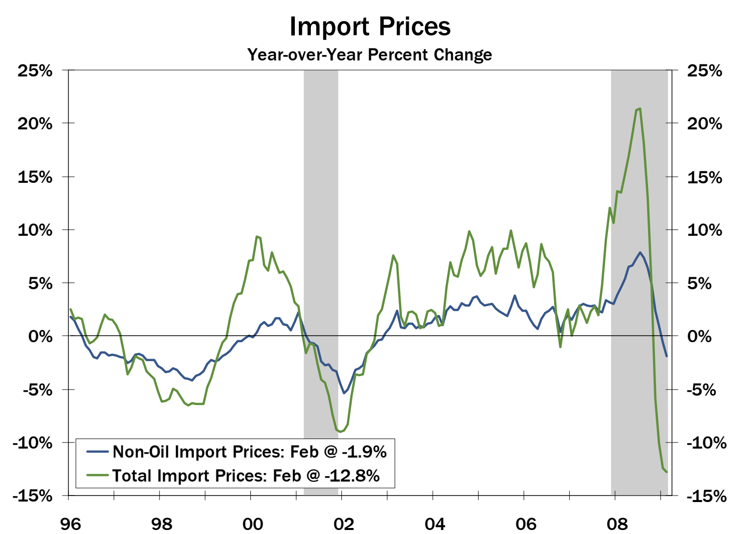
Oil prices continued to push the trade balance narrower with the trade deficit narrowing to its lowest level in six years in January. Exports fell for the fifth straight month, down 5.7 percent, while imports fell even faster, down 6.7 percent. The volatility in oil prices has led to major swings in the nominal trade balance, but it appears the drop had more to do with slowing demand than a decrease in prices.

We expect the trade deficit to widen to -$38.9B in February with oil prices continuing to be the main driver in the headline number. However, it is clear that the combination of a global recession and the global credit crunch are causing worldwide trade to dry up.

Previous: -$36.0B **Wachovia: -$38.9B**

Consensus: -$36.5B





Import Price Index • Thursday

Import prices fell 0.2 percent in February, with nonpetroleum and nonfuel import prices falling 0.6 percent and 0.4 percent, respectively. Imported petroleum prices rose 3.9 percent, but were down 52.4 percent from a year ago.

We expect an increase of 0.4 percent reflecting dollar strength and an increase in crude oil prices. However, while the monthly increase reverses a seven month trend of declining import prices, the underlying trend is still downward. With commodity prices stabilizing we expect the pace of declines in import prices to slow in coming months.

Previous: -0.2% **Wachovia: 0.4%**

Consensus: 0.9%

Initial Jobless Claims • Thursday

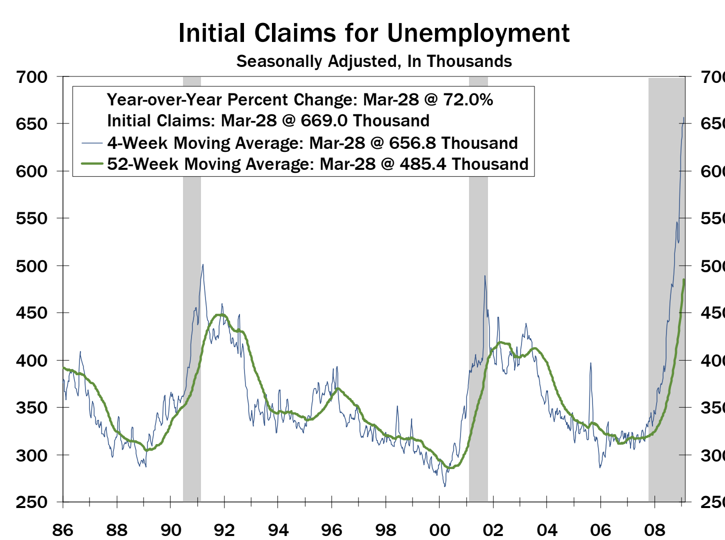
Initial claims for unemployment insurance have continued to move closer to 700,000 per week and provide little hope at this point for a near-term reprieve in the massive job losses that the economy continues to sustain.

While initial claims have been rising, so to have the continuing claims for unemployment, which reached 5.7M in the week ended March 21st. One ongoing concern in this cycle is the rising duration of unemployment for those who have lost their jobs. With the labor market suffering its worst downturn since WWII, the prospects for job searchers are quite grim.

We would not be looking for meaningful improvement in labor markets until claims break towards 500,000.

Previous: 669K

Consensus: 660K



Global Review

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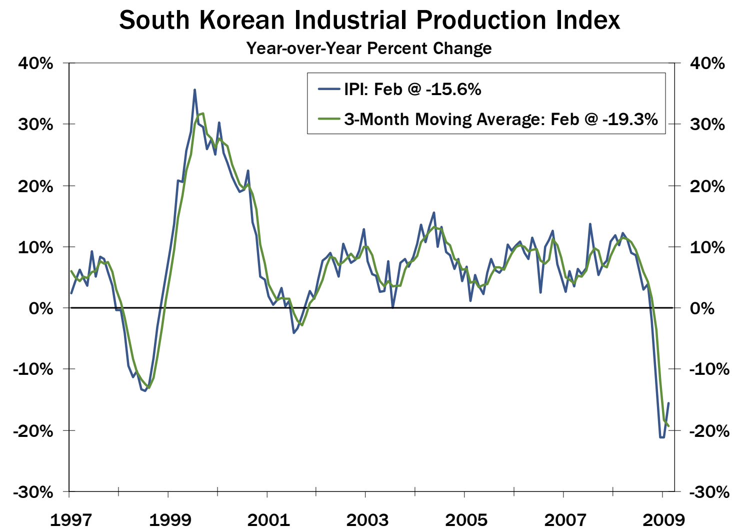
autumn, the Chinese government announced plans to accelerate infrastructure spending and it relaxed credit restrictions that were put in place when inflation was seen to be a problem last year. These stimulus measures may be one of the reasons that manufacturing activity in China appears to be expanding again.

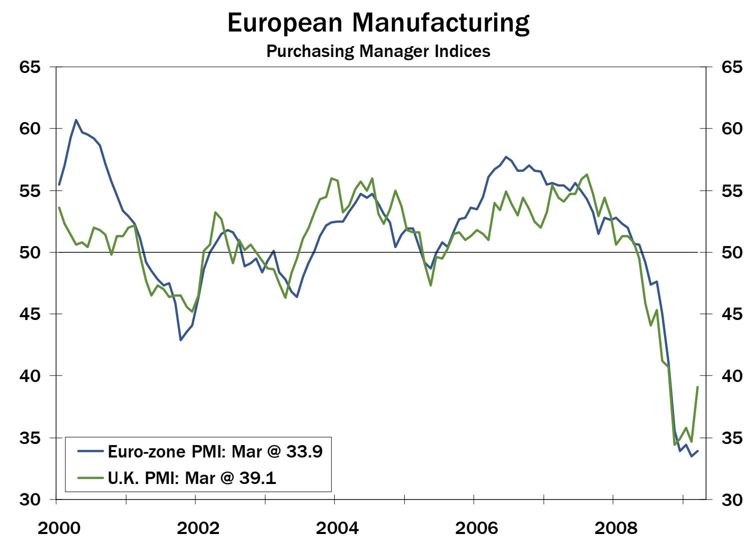
Korea has extensive trade ties with China, and data released this week showed that Korean industrial production (IP) rose 6.8 percent in February relative to the previous month. The outturn for February, which was much stronger than expected, follows the 1.6 percent rise in Korean IP in January. Taiwanese production rose 3.3 percent in February relative to the previous month, and Brazil has also managed to put together two consecutive monthly increases in industrial production so far this year.

Europe Continues to Contract, However

The economic news out of the United Kingdom has been a bit better as well. The manufacturing PMI posted a decent increase in March (see middle chart), and the service sector PMI also rose (see bottom chart). However, both indices remain below the demarcation line that separates expansion from contraction. Thus, the PMIs suggest that British economic activity continued to contract in March, albeit not quite as rapidly as in February. 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 March. In that regard, the ECB's decision to cut rates by only 25 bps this week, rather than the 50 bps that was widely expected, caught many investors flat-footed.

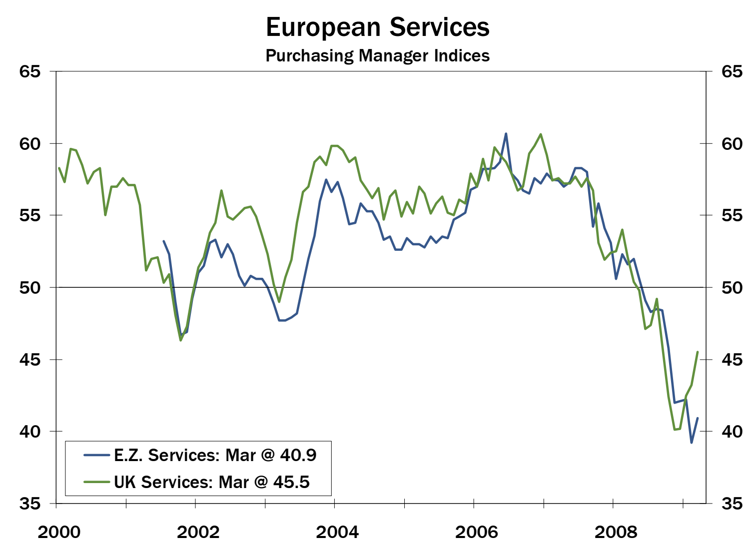
In sum, we believe it would be premature to say that global economic activity is "stabilizing." As noted above, "stabilization" implies that activity has bottomed. In our view, it would be more accurate to say that an inflection point may have been reached. That is, many economies continue to contract, but not as sharply as in the fourth quarter when economic activity went into freefall. This slowing in the rate of contraction is a step in the right direction. To paraphrase an ancient Chinese proverb, which probably is appropriate in light of recent Chinese economic data, "a journey of one thousand miles begins with a single step."





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 - 03	0.10%
Euro-Zone	GDP Year-over-Year	Q4 - 2008	-1.3%
	CPI	February - 2009	1.2%
	Unemployment	February - 2009	8.5%
	ECB Target Rate	Apr - 03	1.25%
UK	GDP Year-over-Year	Q4 - 2008	-2.0%
	CPI	February - 2009	3.2%
	Unemployment	February - 2009	4.3%
	BoE Target Rate	Apr - 03	0.50%
Canada	GDP Year-over-Year	January - 2009	-2.4%
	CPI	February - 2009	1.4%
	Unemployment	February - 2009	7.7%
	BoC Target Rate	Apr - 03	0.50%



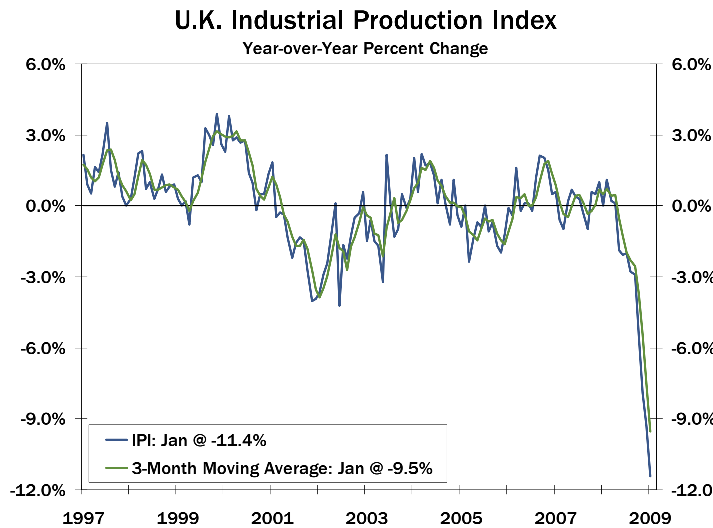
U.K. Industrial Production • Tuesday

As is the case in most countries, industrial production in the United Kingdom has essentially collapsed over the past few months. Unfortunately, the manufacturing PMI, which remains below the demarcation line that separates expansion from contraction, also suggests that the near-term outlook for the factory sector is not good as well. Other indicators, including consumer confidence on Tuesday and the trade balance on Thursday, will give investors further insights regarding the current state of the U.K. economy.

The Bank of England holds its monthly policy meeting on Thursday. The Bank cut its policy rate to 0.50 percent last month, which most analysts, including ourselves, believe will be the low point. That said, the Bank could announce further "quantitative" easing measures including increased purchases of government bonds and/or private debt securities.

Previous: - 2.6% (month-over-month change)

Consensus: -1.1%



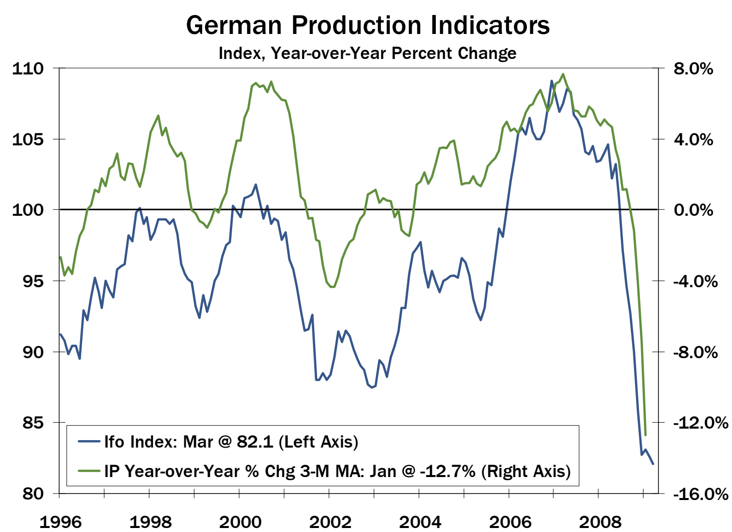
German Industrial Production • Thursday

German industrial production (IP) fell off a cliff starting in October and the Ifo index of German business sentiment, which is highly correlated with growth in IP, suggests that the factory sector remained very weak in February. Indeed, the consensus forecast anticipates that production fell another 3 percent in February on top of the 15 percent decline that occurred between October and January. If the Ifo index is any guide, IP probably declined even further in March.

Factory orders for February print on Wednesday, and the consensus is looking for a fifth consecutive month of decline. One of the sources of weakness for German industrial production has been exports. In that regard, investors will be interested in the trade data for February to see if the rate of decline in exports shows any signs of slowing.

Previous: -7.5% (month-over-month change)

Consensus: -3.0%



Canadian Employment Report • Thursday

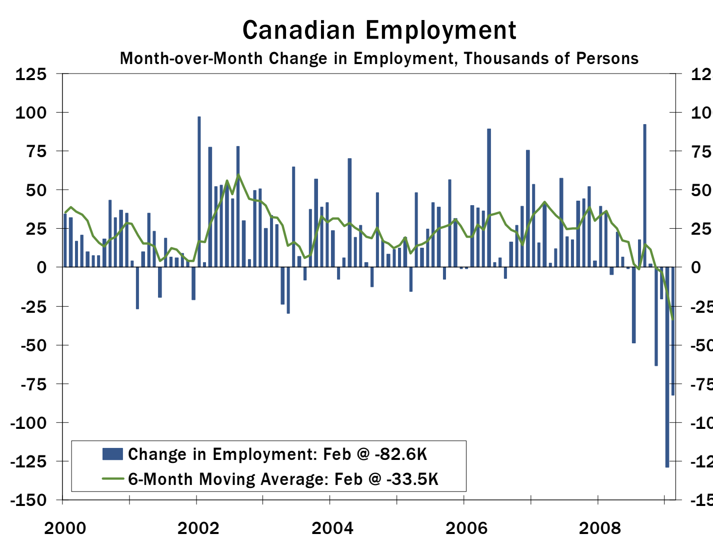
Canada's labor market has been against the ropes as employers have cut nearly 300,000 jobs in the last four months and the unemployment rate has jumped to 7.7 percent. The March employment report is released Friday, and the consensus is looking for another decline of 57,500 jobs and the unemployment rate to climb to nearly 8.0 percent. The struggling job market will likely be a huge impediment to consumer spending and the housing market in 2009.

We will get a better sense of how residential construction is holding up when housing starts data are released on Wednesday. Builders have been applying for fewer permits, which leads us to believe that housing starts likely declined in March.

Meanwhile the global recession is a major drag on Canadian net exports. We will find out how much of a drag when the trade balance for January is reported after the jobs report on Thursday.

Previous: -82.6K

Consensus: -57.5K



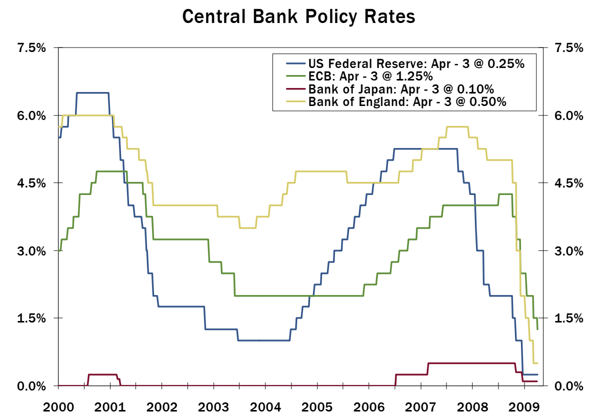
Interest Rate Watch

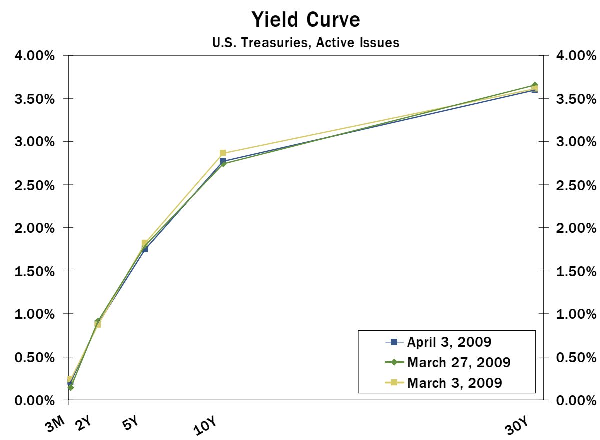
Job Losses Dictate Rate Outlook

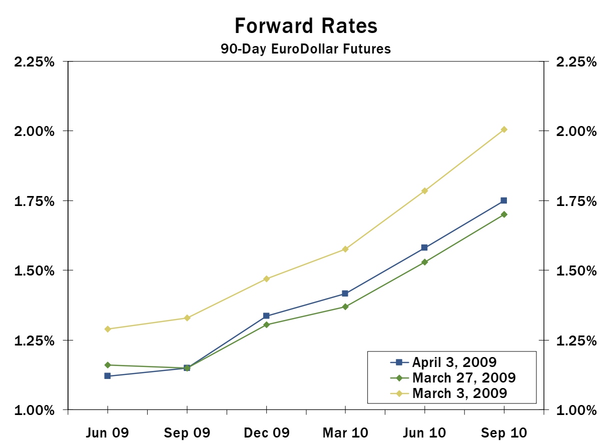
Today's employment data suggest continued weakness in the economy through June. Job losses dictate weak household income and therefore real consumer spending. Other sectors of the economy such as housing, exports and business investment also remain soft. Combined with continued low inflation numbers, the jobs data suggest no change in the Federal Reserve policy on rates and liquidity.

However, the size and persistence of job losses do bring up credit issues. Over the last three months we have seen job losses average over 680,000 and the duration of unemployment is now at 20 weeks. Over eight million workers now work part-time for economic reasons. These measures in the labor market suggest that the quality of consumer credit is deteriorating. This deterioration would imply less credit at higher spreads over benchmarks for consumer borrowing.

The federal funds rate alone does not provide a good picture of the changes going on in the credit markets. Instead, the price of credit will be higher and availability will be limited relative to market hopes during this year. Therefore the pace and breadth of the consumer recovery will be sub par relative to past cycles. Weak job/consumer trends also suggest that company revenues will be limited and therefore many companies will be under pressure. As a result we expect that credit spreads on longer-term corporate debt will also remain larger than consensus expectations. Financing for high yield and commercial real estate projects will still be very limited relative to the expectations that would apply with a quick turnaround and a V-shaped recovery would apply. We are still expecting a U-shaped recovery with limited credit.







Topic of the Week

The Changing Nature of Saving

America's worst economic downturn in a half century has changed the household saving ethos, at least temporarily. The personal saving rate has leapt higher over the past six months to about four percent. While the personal saving rate certainly has its flaws in capturing all the potential aspects of saving and has widely been criticized for many of them, it still gives at least one picture of consumers' current "cash flows" that is not directly affected by rapid changes in asset values.

The personal saving rate has not been as high as it was at the start of 2009, on a sustained basis, since the 1990s mid-cycle slowdown. In fact, the saving rate hovered just barely above zero percent from summer 2005 until mid-2008 at the height of the last expansion and into the first part of the downturn. Despite the current increase in the saving rate, our view is that America still roundly has a culture biased towards consumption, as opposed to saving, that will continue to guide us through this cycle and beyond. However, for now, consumers seem suitably spooked by the current state of the economy to increase their own personal reserves. The saving rate will likely continue to rise for the next several months driven higher by declines or weak growth in consumption as well as near-term tax relief. These will at least be partially, but not entirely, offset by weak wage & salary income growth as a result of the turmoil in the nation's labor market.

While the worst of the outright declines in consumption may be behind us at this point, households may adjust to a new long term equilibrium. You can access the complete report on our website: www.wachovia.com/economics

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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 4/3/2009	1 Week Ago	1 Year Ago
3-Month T-Bill	0.21	0.13	1.39
3-Month LIBOR	1.16	1.22	2.73
1-Year Treasury	0.43	0.54	1.78
2-Year Treasury	0.92	0.91	1.89
5-Year Treasury	1.81	1.80	2.73
10-Year Treasury	2.84	2.76	3.58
30-Year Treasury	3.66	3.61	4.38
Bond Buyer Index	4.92	5.00	4.90

Foreign Exchange Rates

	Friday 4/3/2009	1 Week Ago	1 Year Ago
Euro ($/€)	1.344	1.329	1.568
British Pound ($/£)	1.481	1.432	1.997
British Pound (£/€)	0.908	0.928	0.785
Japanese Yen (¥/$)	99.819	97.860	102.255
Canadian Dollar (C$/$)	1.235	1.242	1.005
Swiss Franc (CHF/$)	1.132	1.144	1.010
Australian Dollar (US$/A$)	0.711	0.694	0.916
Mexican Peso (MXN/$)	13.622	14.348	10.560
Chinese Yuan (CNY/$)	6.835	6.832	7.016
Indian Rupee (INR/$)	50.350	50.604	39.981
Brazilian Real (BRL/$)	2.202	2.291	1.717
U.S. Dollar Index	84.328	85.111	72.217

Foreign Interest Rates

	Friday 4/3/2009	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	1.48	1.53	4.74
3-Month Sterling LIBOR	1.61	1.68	6.00
3-Month Canadian LIBOR	1.02	1.02	3.65
3-Month Yen LIBOR	0.59	0.61	0.91
2-Year German	1.52	1.31	3.50
2-Year U.K.	1.40	1.29	3.97
2-Year Canadian	1.13	1.17	2.83
2-Year Japanese	0.41	0.42	0.59
10-Year German	3.22	3.09	3.98
10-Year U.K.	3.42	3.29	4.45
10-Year Canadian	2.91	2.93	3.59
10-Year Japanese	1.43	1.33	1.37

Commodity Prices

	Friday 4/3/2009	1 Week Ago	1 Year Ago
W. Texas Crude ($/Barrel)	51.51	52.38	103.83
Gold ($/Ounce)	898.40	923.15	902.90
Hot-Rolled Steel ($/S.Ton)	450.00	450.00	830.00
Copper (¢/Pound)	189.80	183.35	392.40
Soybeans ($/Bushel)	9.70	9.44	11.95
Natural Gas ($/MMBTU)	3.72	3.63	9.42
Nickel ($/Metric Ton)	10,486	9,633	28,105
CRB Spot Inds.	341.34	334.81	507.62

Next Week's Economic Calendar

	Monday	Tuesday	Wednesday	Thursday	Friday
	6	7	8	9	10
U.S. Data		**Consumer Credit** January $1.8B February -$3.0B (C)	**Wholesales Inventories** January -0.9% February -0.5% (C)	**Trade Balance** January -$36.0B February -$38.9B (W)	**Import Price Index** February -0.2% March 0.4% (W)
Global Data		**UK** **Indus. Production (MoM)** Previous (Jan) -2.6%	**Germany** **Factory Orders (MoM)** Previous (Jan) -8.0%	**Germany** **Indus. Production (MoM)** Previous (Jan) -7.5% **Canada** **Net Change in Employ.** Previous (Feb) -82.6K	

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

Wachovia Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wachovia.com
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 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	Associate	(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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