WACHOVIA
ECONOMICS GROUP

WEEKLY ECONOMIC & FINANCIAL COMMENTARY

June 5, 2009

U.S. Review

The Bottom May Finally be Near

Nonfarm employment declined significantly less than expected for the second month in a row. The decelerating trend of job losses now looks encouraging and the modest improvement is consistent with the most recent weekly unemployment claims data. That said, we are truly in some sort of alternative universe when a monthly loss of 345,000 jobs is widely considered to be good economic news.

May's employment report is still extremely weak. Not only did payrolls fall by 345,000 jobs but the unemployment rate also increased dramatically and hours worked plummeted. On average, the economy shed 500,000 jobs during each of the past three months and aggregate hours worked fell at an 8.6 percent annual rate.

Employment losses also remain extremely broad-based. The only solid positives are education and healthcare, and those gains look suspect. Hospitals, private schools, and colleges have announced unprecedented layoffs. We doubt the official numbers capture these losses. The average workweek also fell sharply in May, a sign that more cutbacks are in the pipeline.

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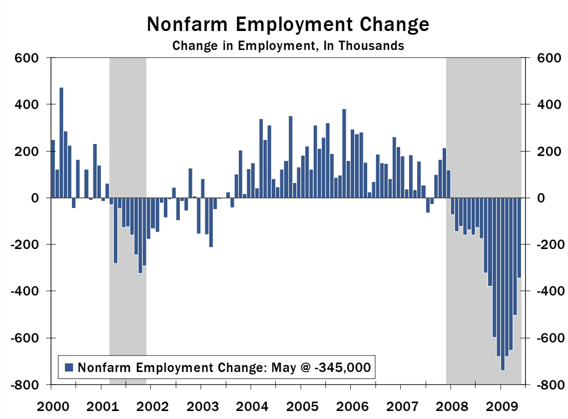

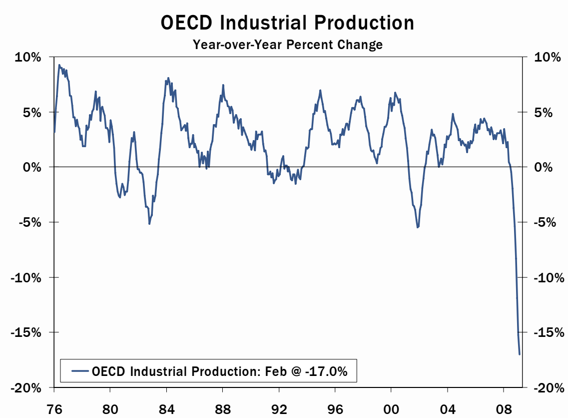

Global Review

Foreign Economies: Terrible Q1, But Q2 Looking Better

A number of major countries reported first quarter GDP data this week, and the numbers were generally horrible. For example, both the Swedish and Swiss economies contracted at more than a 3 percent annualized rate in the first quarter, and real GDP in Canada declined 5.4 percent. The carnage in the global economy in the first quarter can be summed up with the graph at the left. Through February, industrial production in the OECD countries, the 30 most advanced economies in the world, was down 17 percent on a year-over-year basis. Declines registered over the past four decades pale in comparison to the severity of the current downturn.

That said, there have been some glimmers of light in recent economic data. For example, Australia defied the fate of most

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Recent Special Commentary

Date	Title	Authors
June-04	Past Recessions Suggest Sluggish Road Ahead	Vitner & Khan
June-04	Regional Commentary: Pennsylvania	Bryson & Quinlan
June-01	Housing & Manufacturing Weighed on State GDP	Vitner
June-01	Employment - Have We Reached a Turning Point?	Silvia, York & Whelan

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	-6.3	-6.1	-2.4	-0.2	1.7	2.9	2.8	2.0	1.1	-3.0	1.6
Personal Consumption	0.9	1.2	-3.8	-4.3	2.2	0.1	1.2	1.3	3.0	3.0	2.8	0.2	-0.5	1.3
Inflation Indicators [2]														
"Core" PCE Deflator	2.2	2.3	2.3	1.9	1.8	1.5	0.9	0.8	2.1	2.3	2.2	2.2	1.2	0.9
Consumer Price Index	4.2	4.3	5.2	1.5	-0.2	-1.4	-2.7	-0.3	3.4	3.2	2.9	3.8	-1.2	1.0
Industrial Production [1]	0.2	-4.6	-9.0	-12.7	-20.0	-16.2	-4.8	0.1	3.3	2.3	1.5	-2.2	-12.6	-0.2
Corporate Profits Before Taxes [2]	-1.5	-8.3	-9.2	-21.5	-30.0	-28.0	-26.0	-10.0	17.6	15.2	-1.6	-10.1	-24.2	5.3
Trade Weighted Dollar Index [3]	70.3	71.0	76.1	79.4	82.5	83.3	86.5	89.0	86.0	81.5	73.3	79.4	89.0	85.0
Unemployment Rate	4.9	5.4	6.1	6.9	8.1	9.2	9.8	10.3	5.1	4.6	4.6	5.8	9.3	10.5
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	3.20	3.40	3.40	4.39	4.71	4.04	2.25	3.40	3.70

Data As of: May 13, 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 Surges to its Highest Level Since 1983

The civilian unemployment rate surged half a percentage point to 9.4 percent in May, which was exactly in line with our expectations. The surge brings the unemployment rate to its highest level since July 1983 and reflects both the heavy layoffs over the past year and continued unwillingness of businesses to boost hiring.

The jobless rate is bound to rise further in coming months but the increases should be less dramatic. The most recent weekly unemployment claims data show both first time unemployment claims and continuing unemployment claims declining in recent weeks. In addition, after rising for 11 consecutive weeks, the insured unemployment rate has remained unchanged at 5.0 percent for the past two weeks. The most recent data, however, cover the period surrounding the Memorial Day holiday and declines around that holiday are not unusual. Since the timing of Memorial Day shifts, however, it can wreak havoc with the seasonal adjustment process. We would expect to see some bounce back next week, when the early June data are reported.

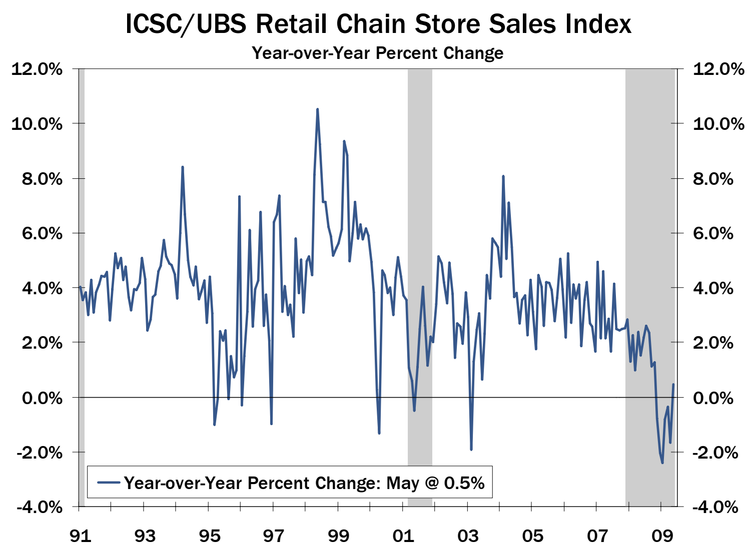
The modest decline in weekly unemployment claims and smaller losses in nonfarm payrolls have raised hopes that the end of the recession may be near. The second quarter should mark the last negative period for real GDP and the recession should end at some point in the third quarter. The end of the recession will not mark the end of the economy's troubles, however. Consumers are still de-leveraging and will continue to do so until they rebuild savings and feel more comfortable about their employment and income prospects. That could be several months down the road, as we expect the unemployment rate to peak around a year from now at somewhere between 10.5 and 11 percent.

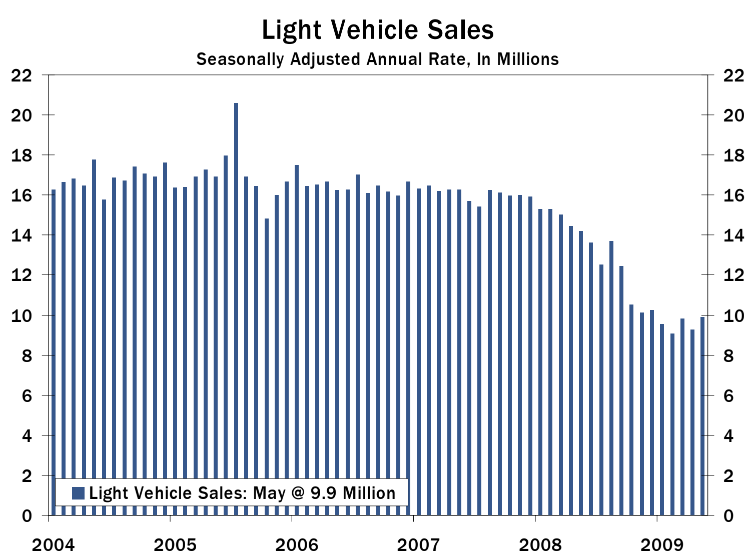
Consumers clearly were not in the mood to spend freely in May. Monthly chain store sales figures showed broad-based declines for the month. Comparable store sales, which now exclude Wal-Mart, were down 4.6 percent from one year ago and total store sales were down 2.4 percent. Drug stores were the only category posting an increase in sales.

Motor vehicle sales were better than expected in May. Manufacturer sales rose to a 9.9 million unit annual rate during the month, which matches March as the strongest pace of the year. The increase likely reflects some improvement in dealer financing. Dealers have held extremely lean new car inventories in recent months. Retail motor vehicle sales will not likely improve to the same extent as manufacturer sales, reflecting the continued reluctance of consumers to commit to major purchases.

Selected Current Data

Gross Domestic Product - CAGR	Q1 - 2009	-5.7%
GDP Year-over-Year	Q1 - 2009	-2.5%
Personal Consumption	Q1 - 2009	1.5%
Business Fixed Investment	Q1 - 2009	-36.9%
Consumer Price Index	April - 2009	-0.7%
"Core" CPI	April - 2009	1.9%
"Core" PCE Deflator	April - 2009	1.9%
Industrial Production	April - 2009	-12.5%
Unemployment	May - 2009	9.4%
Federal Funds Target Rate	Jun - 05	0.25%





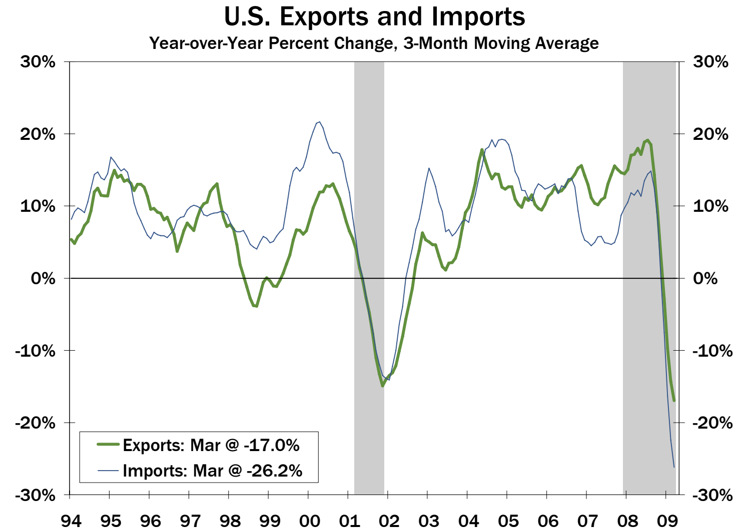
Trade Balance • Wednesday

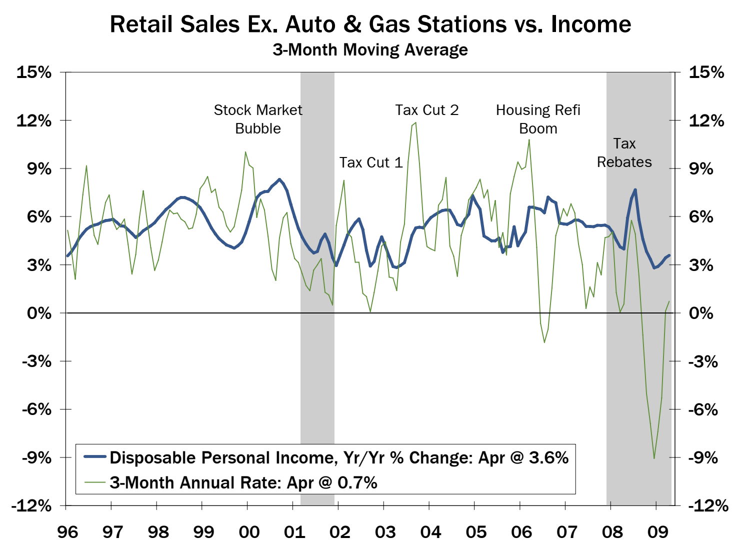
After falling every month since last November, imports finally picked up a bit in March. The trade deficit bounced off of a nine year low, widening to -$27.6B in March as imports were propped up by higher oil prices. The widening was less than the consensus had expected.

We expect the trade deficit to continue to widen to -$28.3B in April. While the combination of global recession and the worldwide credit crunch caused trade to dry-up late last year, some signs of life have recently returned. However, oil prices, and not robust global growth, will be a main driver of the headline number this month.

Previous: -$27.6B **Wachovia: -$28.3B**

Consensus: -$28.9B





Retail Sales • Thursday

Retail sales fell 0.4 percent in April after a downwardly-revised fall in March. The core series, which excludes gasoline stations, building materials and auto dealers declined for the second straight month. Gains were seen in a few sectors but were minor at best. Big drops materialized in electronics and gasoline stations.

Same store sales fell significantly in May with broad-based declines across all sectors. Department and luxury stores remain the hardest hit. However, on a year-over-year basis, discount stores, drug stores and wholesale clubs excluding fuel sales continue to post gains as consumers seek bargains. Additionally, prices at the pump rose roughly 18 percent from a month ago and should post a gain. We expect motor vehicle sales to continue showing weakness. The likely bottoming in retail sales combined with the sharp reduction in business inventories are preconditions to the recovery.

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

Consensus: 0.4%

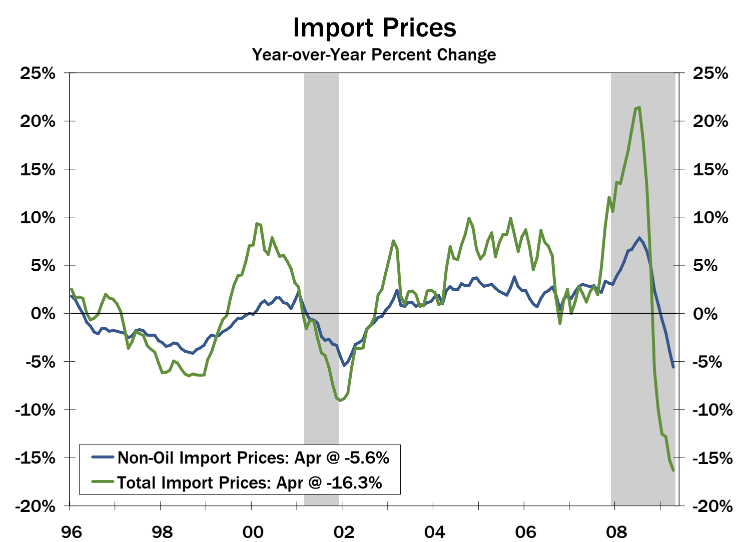
Import Price Index • Friday

Overall import prices rose 1.6 percent in April, the second consecutive monthly increase. The rise was driven entirely by the 15.4 percent jump in petroleum prices in April. Excluding petroleum, import prices were down 0.4 percent in April, the ninth consecutive monthly decline. On a year-over-year basis, prices of non-oil imports are down 5.6 percent, the sharpest rate of decline on record.

We expect petroleum prices to continue to weigh heavily on headline import prices. However, import prices excluding petroleum will likely continue their downward trend with inflation rates of imported capital goods and consumer goods remaining in negative territory. Economic weakness in foreign economies will likely continue to exert downward pressure on U.S. inflation indicators in the months ahead.

Previous: 1.6% **Wachovia: 2.4%**

Consensus: 1.1%



Global Review

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other major economies by eking out a positive growth rate of 1.5 percent in the first quarter. Moreover, recent monthly indicators suggest that the sheer freefall in economic activity is coming to an end. As shown in the top chart, the British service sector PMI in May rose above the demarcation line that separates expansion from contraction. The indices for the construction and manufacturing sectors remained below 50 in May, but both PMIs registered noticeable increases relative to April. Comparable PMIs in the Euro-zone also rose in May, although they have yet to breach 50 yet, and the Chinese manufacturing PMI remained in positive territory for the third consecutive month in May.

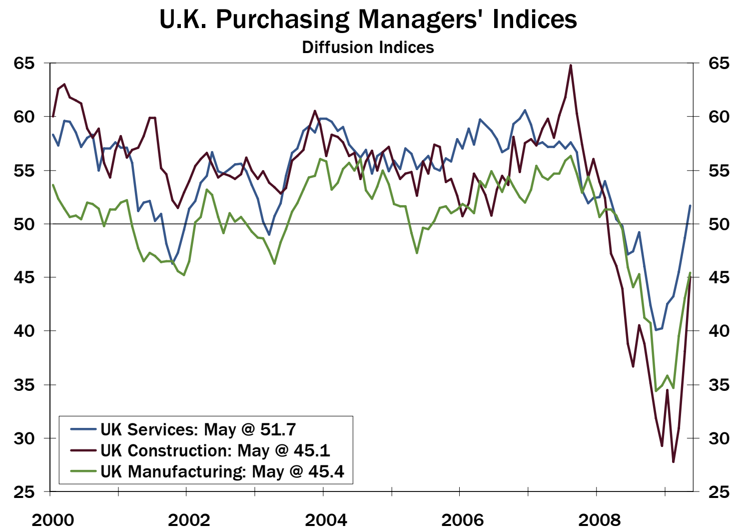
Another bright spot in terms of the global economy has been the marked rise in the Baltic Dry index, which measures international shipping prices of dry bulk cargoes (middle chart). The rise in the index suggests that global trade, which collapsed late last year in the wake of the credit crunch, is starting to pick up again. The recent increase in most commodity prices and the rallies in most stock and corporate bond markets are also consistent with improving economic conditions.

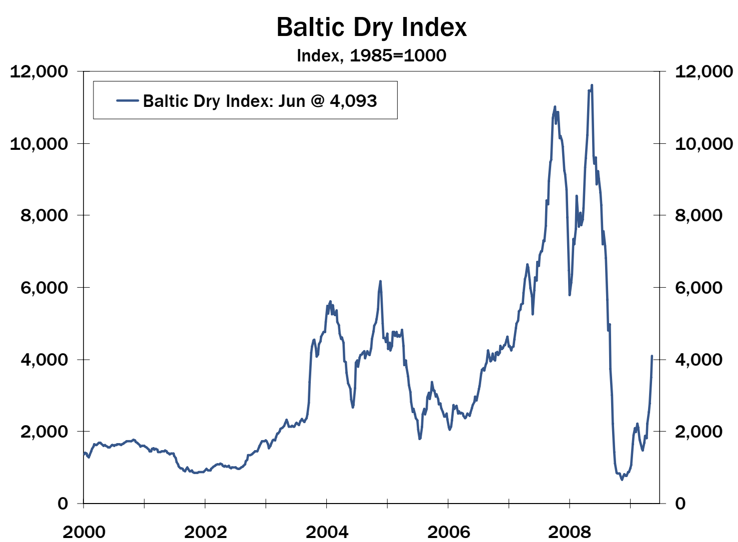
The better run of economic data lately kept most major central banks on hold this week. Central banks in Australia, Canada, the Euro-zone and the United Kingdom all held policy meetings this week, and each bank left its major policy rate unchanged (bottom chart). In addition, neither of the major central banks announced further unconventional policy steps this week. Most major central banks appear to be in a wait-and-see mode at present.

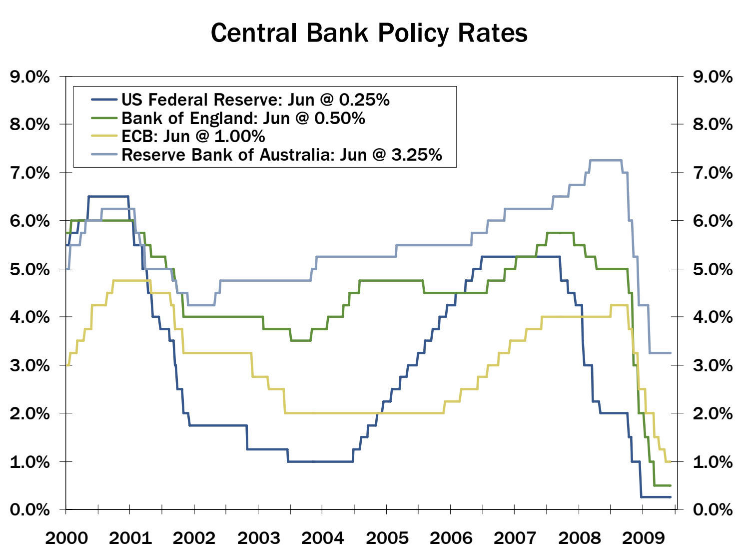
However, the recent run of better-than-expected data needs to be put into perspective. The freefall in global economic activity may be coming to an end, but a recovery, much less a self-sustaining expansion, is not under way yet. As noted above, British PMIs for the manufacturing and construction sectors remain below 50 at present. Thus, activity in these sectors likely continued to contract in May, albeit not nearly as rapidly as early this year. The sub-50 readings among the Euro-zone PMIs suggest that the recession in continental Europe has probably continued into the second quarter as well. Until growth turns positive and confidence improves significantly, the global economy will remain vulnerable to negative shocks that could derail the hoped-for recovery.

Selected Global Data

Japan	GDP Year-over-Year	Q1 - 2009	-9.7%
	CPI	April - 2009	-0.1%
	Unemployment	April - 2009	5.0%
	BoJ Target Rate	Jun - 05	0.10%
Euro-Zone	GDP Year-over-Year	Q1 - 2009	-4.8%
	CPI	April - 2009	0.6%
	Unemployment	April - 2009	9.2%
	ECB Target Rate	Jun - 05	1.00%
UK	GDP Year-over-Year	Q1 - 2009	-4.1%
	CPI	April - 2009	2.3%
	Unemployment	April - 2009	4.7%
	BoE Target Rate	Jun - 05	0.50%
Canada	GDP Year-over-Year	March - 2009	0.0%
	CPI	April - 2009	0.4%
	Unemployment	May - 2009	8.4%
	BoC Target Rate	Jun - 04	0.25%







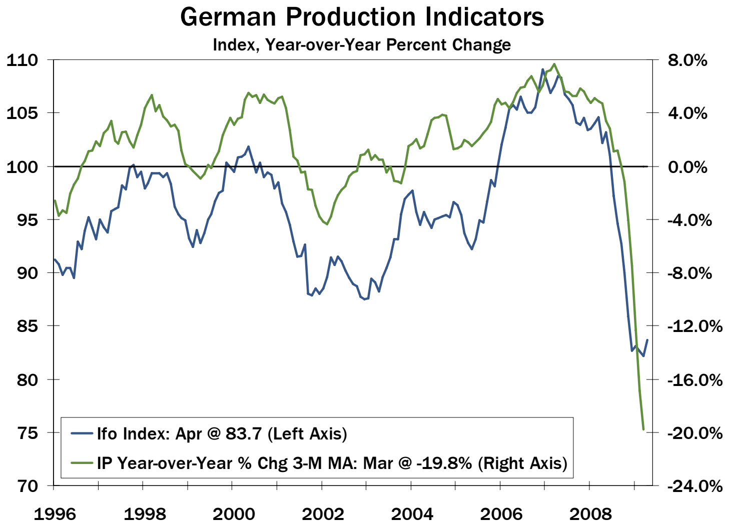
German Industrial Production • Tuesday

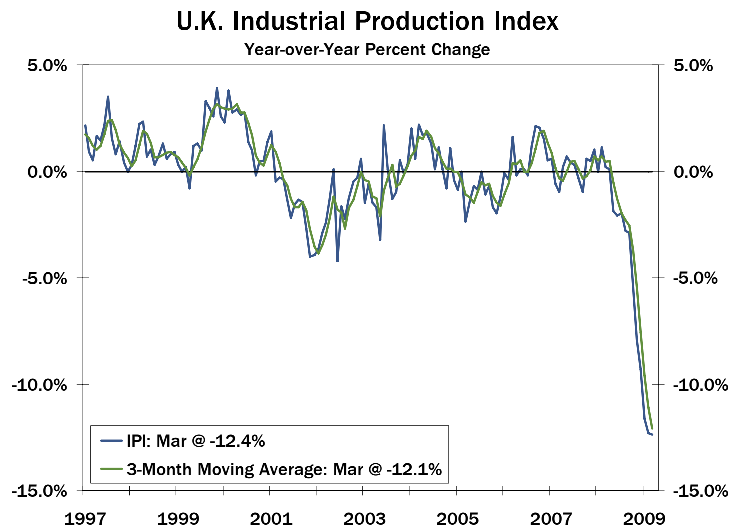
German industrial production (IP) essentially collapsed late last year and early this year. However, the Ifo index of German business sentiment, which is highly correlated with growth in IP, has stabilized over the past few months. Indeed, IP was unchanged in March relative to the previous month, and the consensus forecast anticipates that IP rose 0.3 percent in April. Data on German factory orders, which leads IP, are slated for release on Monday. The consensus forecast calls for a 0.4 percent decline in April following the 3.3 percent rise in March.

April IP data for the broad Euro-zone will print on Friday. On a year-over-year basis, IP was down 20 percent in March. As in the case of Germany, however, the rate of decline in Euro-zone IP should start to level out soon.

Previous: 0.0% (month-on-month change)

Consensus: 0.3%





U.K. Industrial Production• Wednesday

As in most other major economies, British IP has slumped sharply over the past few months. Indeed, British IP has declined more than 12 percent on a year-over-year basis. As discussed in the main body of this report, however, the manufacturing PMI in the United Kingdom has risen off its lows reached earlier this year. Although the consensus forecast anticipates another monthly drop in IP in April, the magnitude of the decline should be among the smallest in months.

The decline in exports has helped to weigh on British IP, and trade data for April will also print on Wednesday. In addition, survey data that are on the docket on Monday evening will give investors some insights into the state of retail spending in May.

Previous: -0.6% (month-on-month change)

Consensus: -0.1%

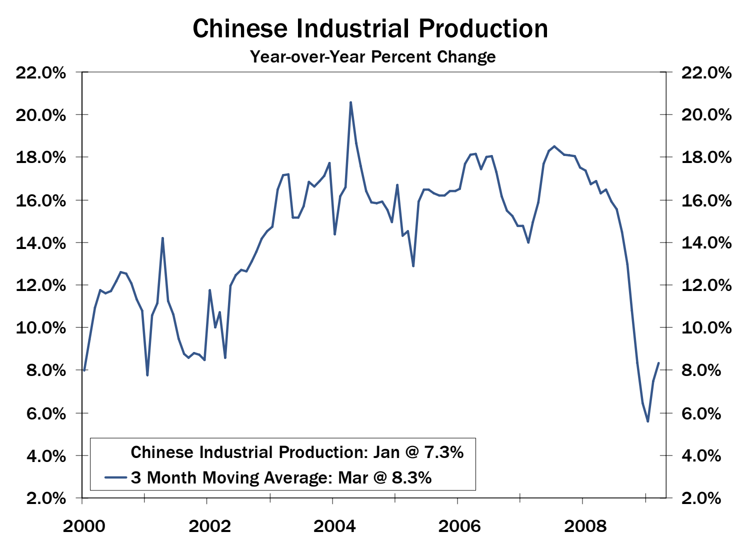
Chinese Industrial Production • Friday

If "green shoots" correctly describes any economy at present, it probably is China's. As noted in the main body of this report the manufacturing PMI has been in expansion territory for three consecutive months, and "hard" data show that growth in IP has strengthened. This trend is expected to continue as the consensus forecast anticipates that the year-over-year growth rate of IP rose from 7.3 percent in April to 7.9 percent in May.

Other data releases on the docket next week will give investors further insights into the current state of the Chinese economy. The CPI for May will print on Tuesday. Data on international trade and retail spending in May are slated for release on Friday. In our view, the Chinese economy will continue to pick up steam over the course of the year.

Previous: 7.3% (year-over-year change)

Consensus: 7.9%



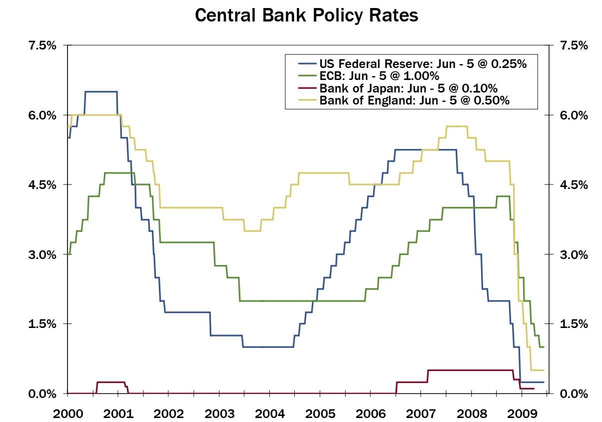
Interest Rate Watch

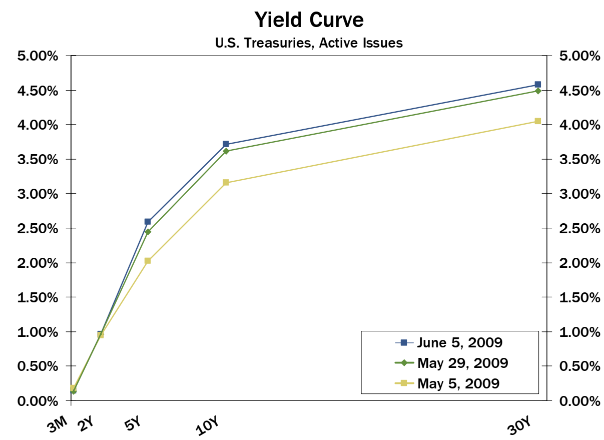
No Easy Way Out - Part Deux

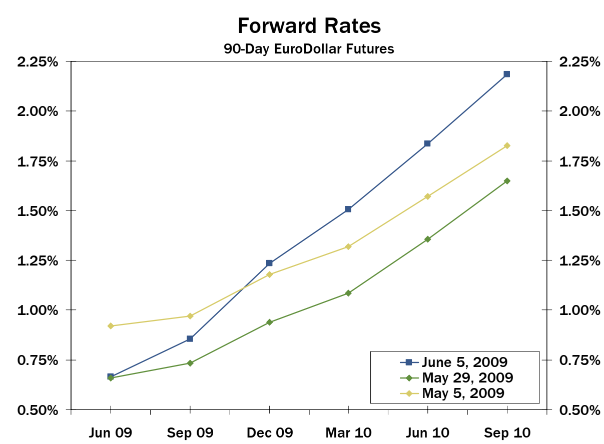
As recovery expectations improve due to the employment report and the "flight to safety" trade diminishes, the contradictions facing the capital markets are becoming more obvious. In a traditional business cycle, Federal Reserve policy easing on the scale of the last 6-12 months would be very welcome, but now questions are emerging because of two conflicts. One, how will the Fed exit from its easy policy without generating a deeper recession on one side or higher inflation on the other. Second, how will a tighter monetary policy fit with fiscal policy that will remain easy for sometime?

Over recent weeks, both the availability and pricing of credit have improved. On availability, we have seen from the Senior Loan Officer Survey a modest decline in the net percentage of banks tightening credit. On the pricing side there has been a decline in the TED spread as well as spreads for asset-backed securities.

However, financial markets are forward-looking and they sense increased federal deficit financing for a long period and therefore rising long-term interest rates. Moreover, an unending stream of federal finance, unlike a temporary stimulus, would and has brought into question the value of the dollar and the potential for long-term inflationary pressures. Increased supply of Treasury securities, in a savings short U.S. economy, raises the possibility of a loss of confidence in U.S. policy that would destabilize both the dollar and Treasuries. Our outlook remains that Treasury yields will rise from unusually low levels sooner than they did during the two previous weak economic recoveries and further weaken any recovery in the years ahead.







Topic of the Week

Past Recessions Suggest Sluggish Road Ahead

One of the most dangerous phrases one can mutter in the current economic environment is that "this time the business cycle is different." In one sense this is always true, as no two business cycles are truly alike. However, a closer look at past recessions shows the severity of the recession and the shape of the recovery were largely influenced by the external shock or policy change that preceded the recession.

According to the IMF, recessions associated with a financial crisis have been more severe and lasted longer than downturns associated with other shocks. Further, recessions that have spread throughout the world have been longer and deeper than those confined to one region.

Credit growth during the expansions leading up to financial crises was exponentially higher than during other expansions, which fuels consumption to unprecedented levels. Once the downturn takes hold, consumers and businesses begin a process of de-leveraging which shifts the emphasis from consumption to saving. During the recovery, consumer spending typically grows slower than during other recoveries and private investment continues to decline after the recession ends. This pattern was evident during the Great Depression and the current recession.

This explanation is consistent with the current downturn, which has been unusually severe and suggests a sluggish recovery later. With consumer spending growing less rapidly, the saving rate will continue to rise and household and corporate balance sheets will gradually be rebuilt.

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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 6/5/2009	1 Week Ago	1 Year Ago
3-Month T-Bill	0.17	0.13	1.84
3-Month LIBOR	0.63	0.66	2.68
1-Year Treasury	0.27	0.21	2.12
2-Year Treasury	1.23	0.91	2.49
5-Year Treasury	2.80	2.34	3.32
10-Year Treasury	3.82	3.46	4.04
30-Year Treasury	4.63	4.34	4.74
Bond Buyer Index	4.71	4.61	4.59

Foreign Exchange Rates

	Friday 6/5/2009	1 Week Ago	1 Year Ago
Euro ($/€)	1.399	1.416	1.559
British Pound ($/£)	1.601	1.619	1.958
British Pound (£/€)	0.874	0.875	0.796
Japanese Yen (¥/$)	98.175	95.340	105.940
Canadian Dollar (C$/$)	1.115	1.092	1.018
Swiss Franc (CHF/$)	1.085	1.067	1.038
Australian Dollar (US$/A$)	0.801	0.801	0.959
Mexican Peso (MXN/$)	13.295	13.151	10.297
Chinese Yuan (CNY/$)	6.833	6.829	6.947
Indian Rupee (INR/$)	47.105	47.091	42.910
Brazilian Real (BRL/$)	1.960	1.970	1.626
U.S. Dollar Index	80.474	79.233	73.038

Foreign Interest Rates

	Friday 6/5/2009	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	1.27	1.27	4.86
3-Month Sterling LIBOR	1.26	1.28	5.86
3-Month Canadian LIBOR	0.63	0.70	3.22
3-Month Yen LIBOR	0.51	0.52	0.92
2-Year German	1.67	1.42	4.62
2-Year U.K.	1.33	1.08	5.05
2-Year Canadian	1.27	1.24	2.89
2-Year Japanese	0.58	0.36	0.84
10-Year German	3.72	3.59	4.47
10-Year U.K.	3.92	3.75	5.04
10-Year Canadian	3.45	3.39	3.70
10-Year Japanese	1.52	1.49	1.74

Commodity Prices

	Friday 6/5/2009	1 Week Ago	1 Year Ago
W. Texas Crude ($/Barrel)	68.44	66.31	127.79
Gold ($/Ounce)	960.20	979.15	877.20
Hot-Rolled Steel ($/S.Ton)	375.00	375.00	1080.00
Copper (¢/Pound)	227.35	219.75	354.30
Soybeans ($/Bushel)	12.34	11.85	13.68
Natural Gas ($/MMBTU)	3.86	3.84	12.52
Nickel ($/Metric Ton)	14,623	13,425	22,670
CRB Spot Inds.	399.78	381.55	494.30

Next Week's Economic Calendar

	Monday	Tuesday	Wednesday	Thursday	Friday
	8	9	10	11	12
U.S. Data		**Wholesale Inventories** March -1.6% April -1.1% (c)	**Trade Balance** March -$27.6B April -$28.3B (W)	**Retail Sales** April -0.4% May 0.2% (W) **Retail Sales Less Autos** April -0.5% May 0.7% (W) **Business Inventories** March -1.0% April -1.0% (W)	**Import Price Index** April 1.6% May 2.4% (W)
Global Data	**Germany** **Factory Orders (MoM)** Previous (Mar) 3.3%	**Germany** **Indus. Production (MoM)** Previous (Mar) 0.0%	**UK** **Indus. Production (MoM)** Previous (Mar) -0.6% **Japan** **Machine Orders (MoM)** Previous (Mar) -1.3%		**Euro-zone** **Indus. Production (MoM)** Previous (Mar) -2.0% **China** **Indus. Production (MoM)** Previous (Apr) 7.3%

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

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