WACHOVIA
ECONOMICS GROUP

WEEKLY ECONOMIC & FINANCIAL COMMENTARY

May 8, 2009

U.S. Review

How Much Trouble Remains?

The economic news continues to move in the right direction, although most reports remain merely be 'less bad' rather than good. The morning's nonfarm employment figures are a prime example. Nonfarm payrolls fell 539,000 in April, which was less than the 600,000 consensus estimate.

Despite the smaller than expected decline, there are still plenty of reasons to be concerned. Previous employment losses were slightly worse than first reported. In addition, April's payroll figures were bolstered by a rise of 72,000 in government employment, most of which reflects hiring for the 2010 Census. Moreover, April's smaller loss still translates into an annual loss of nearly 6.5 million jobs.

There were a few glimmers of hope. The employment diffusion index rose nearly eight points to 28.2 percent. The average workweek was also unchanged and the factory workweek inched up a tenth of an hour to 39.6 hours. Total hours worked declined 0.6 percent in April and are down at a 8.4 percent annual rate over the past three months, which is not quite as severe as in the first quarter.

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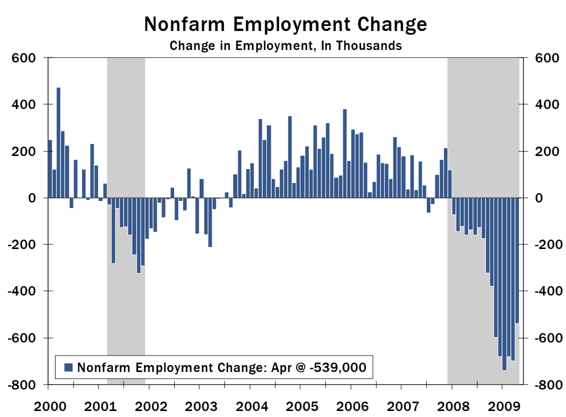

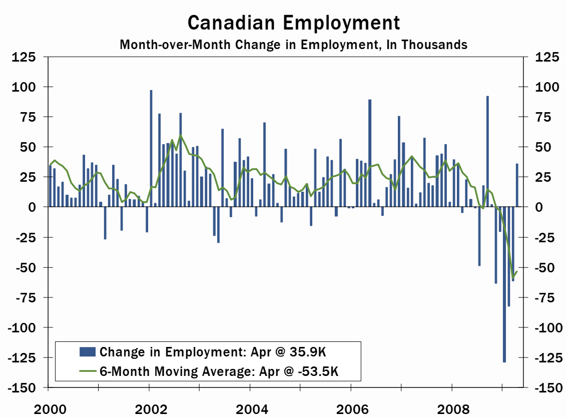

Global Review

Canadian Turnaround So Soon?

Market watchers were stunned by news this week that the Canadian economy added 35.9K jobs in April. This would be equivalent to a gain of over 350K jobs in the U.S. Does this better-than-expected jobs report mean that the Canadian economy will be among the first economies to stage a lasting recovery?

While Canada may indeed be one of the first developed nations to find its footing, this jump in payrolls is not likely a sign of a lasting turnaround. As Han Solo said to Luke Skywalker, "Come on buddy, we're not out of this yet." From month to month, there can be some statistical "noise" in employment numbers. As the chart to the left shows, it is not uncommon to experience a month of job losses in a period of expansion. So the opposite shouldn't be surprising. In order to filter out the noise, it is useful to look at a six month moving average to get a better sense

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Recent Special Commentary

Date	Title	Authors
May-04	Financial Green Shoots Today Induce Policy Contradictions	Silvia
April-30	Is What's Good for GM Still Good for the Country?	Vitner
April-29	North Carolina - Momentum Slows in the Tar Heel State	Silvia, York & Whelan
April-28	Economic Effects of the Swine Flue - Mexico and Beyond	Bryson

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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Fewer Layoffs Appear to be in the Pipeline

There were plenty of encouraging signs this week, although few could be characterized as unambiguously good news. The best news is that layoffs appear to be subsiding. Weekly first-time claims for unemployment insurance declined by 34,000 in late April, marking the second consecutive weekly drop. The four-week moving average declined by 14,750 to 623,500, which marks the fourth consecutive drop. The improvement in jobless claims is now a little bit too definitive to dismiss, particularly since it is backed up by a let up in reported job cuts as reported by Challenger, Gray & Christmas, as well as the BLS monthly series.

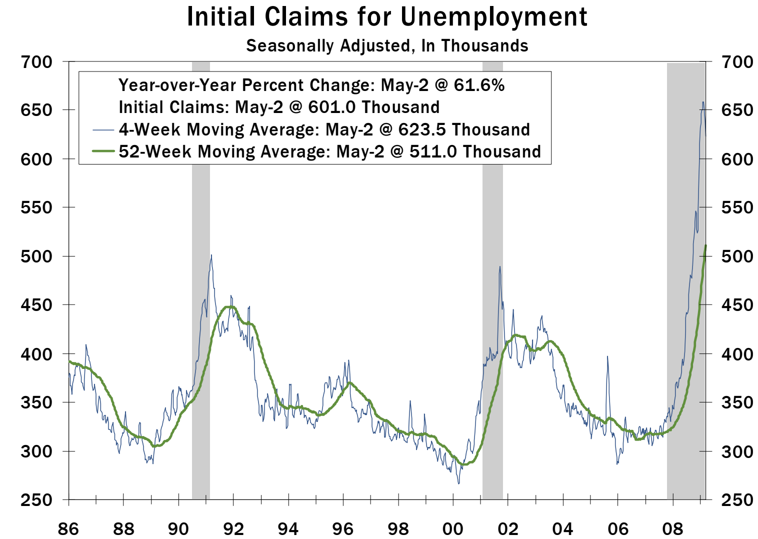
In the past, four consecutive declines in the four-week moving average of first-time jobless claims has typically been a sign that the recession is ending. That is what happened at the tail end of the last recession. That drop, however, was about twice as large in percentage terms as what we are seeing today. Moreover, jobless claims were significantly lower than they are today. A strong recovery did not take hold until the four week moving average moved definitively below the 52-week moving average, which did not occur until nearly two years after the 2001 recession ended.

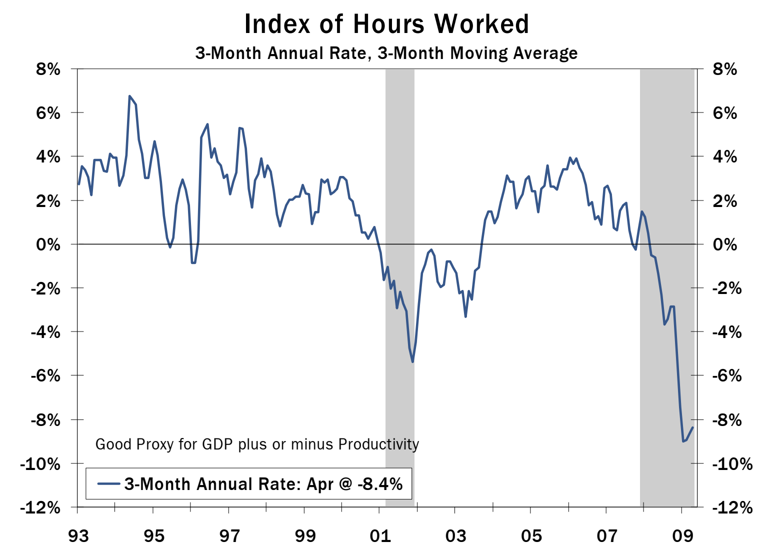
Fewer layoffs are a key precursor to an economic recovery but another important key ingredient is stronger job growth, and there are far fewer encouraging signs on that front. Nonfarm productivity growth did improve during the first quarter, climbing at a 0.8 percent annual rate. The increase follows a 0.6 percent decline in the fourth quarter. The rise in nonfarm productivity means that businesses are getting a better handle on how to align employment and hours worked with current and projected sales and output. Rising productivity growth means that future job cuts will not have to be as severe as they have been over the past five months. An actual pick up in hiring, however, will likely take much longer to materialize, as businesses will first need to get more output out of their existing workforce. Productivity usually soars in the early stages of a recovery, which bolsters profits and sets the stage for new hiring.

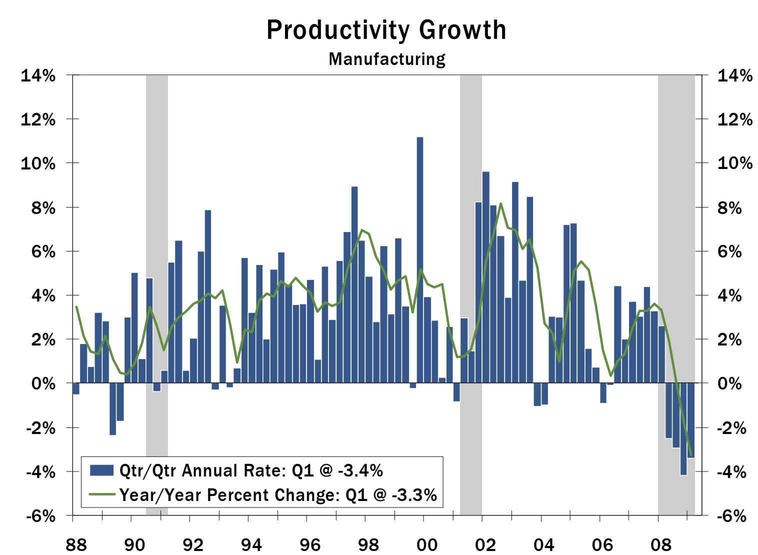
Productivity in the factory sector continued to weaken, particularly for producers of durable goods. Output in the durable goods sector tumbled at a 31 percent annual rate, which was faster than manufacturers could reduce employment and hours worked. The auto sector undoubtedly accounted for most of this drop and Chrysler and GM are planning extended shutdowns over the next few weeks. How the economy handles these shutdowns will go a long way toward determining when the recession actually ends.

Selected Current Data

Gross Domestic Product - CAGR	Q1 - 2009	-6.1%
GDP Year-over-Year	Q1 - 2009	-2.6%
Personal Consumption	Q1 - 2009	2.2%
Business Fixed Investment	Q1 - 2009	-37.9%
Consumer Price Index	March - 2009	-0.4%
"Core" CPI	March - 2009	1.8%
"Core" PCE Deflator	March - 2009	1.8%
Industrial Production	March - 2009	-12.8%
Unemployment	April - 2009	8.9%
Federal Funds Target Rate	May - 08	0.25%







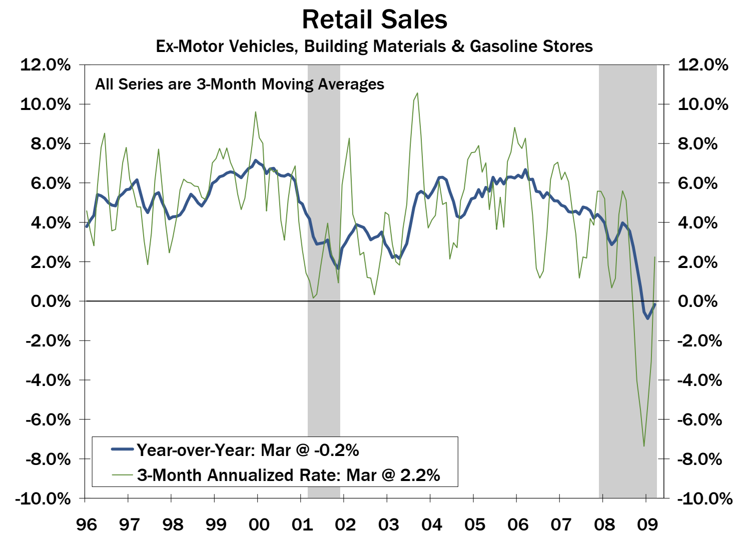
Retail Sales • Wednesday

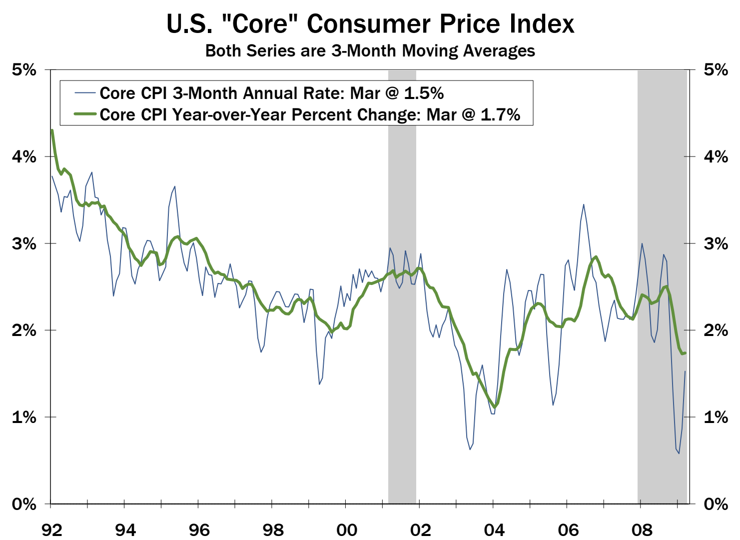
Retail sales fell 1.1 percent in March, after rising two consecutive months (on a revised basis) to begin the year. Declines during the month were fairly broad based and the core series—ex-gas, building materials and auto dealers—was off 0.9 percent. However, over the first quarter the core measure still managed to post a gain. The Easter calendar shift to April will likely help boost sales further in April.

Same store sales spiked in April with gains in discount and drug stores as consumers continue to seek bargains and fulfill some pent-up demand. Department and luxury stores continue to be hardest hit as consumers stick to necessities. Additionally, prices at the pump saw a slight increase from a month ago. However, 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: -1.1% **Wachovia: 1.1%**

Consensus: -0.1%





Consumer Price Index • Friday

The Consumer Price Index declined 0.1 percent in March, bringing the year-to-year change to minus 0.4 percent. Excluding food and energy, the core CPI rose 0.2 percent in March and remains up 1.8 percent over the past year. An 11 percent jump in the price of tobacco products was responsible for over sixty percent of the rise in the core CPI during March. This jump in tobacco prices was due to an excise tax and is not expected stick which should erase some of the previous month's gain.

We expect headline consumer prices to decrease 0.1 percent with food and beverage declining for the third consecutive month while gasoline prices rose modestly. Core inflation, which excludes food and energy, should rise 0.1 percent driven by an increase in owners' equivalent rent. Many rental properties include utilities in the monthly rent. As a result, falling energy prices cause the measured rent used in the CPI calculations to increase.

Previous: 0.2% **Wachovia: -0.1%**

Consensus: 0.0%

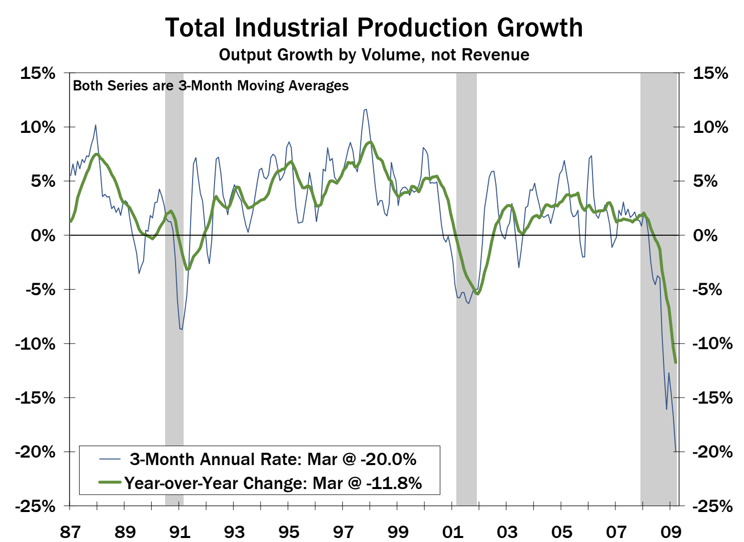
Industrial Production • Friday

The U.S. manufacturing industry continued to suffer under the double weight of the worst domestic and global recession since WWII. Production dropped 1.5 percent, and manufacturing fell 1.7 percent in March. The declines are now 12.8 and 15 percent over the past year respectively. Capacity utilization continued to drop and reached another all-time low.

We expect industrial production likely declined 0.7 percent in April. However, the pace of the decline is slowing. The Chicago Purchasing Managers' Index and ISM manufacturing saw substantial increases in April. Headline ISM manufacturing index rose to 40.1 with improvements in key orders, production and employment components. We expect capacity utilization levels also declined. Lower utilization will hurt corporate profits in coming quarters as manufacturers' pricing power will be all but eliminated.

Previous: -1.5% **Wachovia: -0.7%**

Consensus: -0.5%



Global Review

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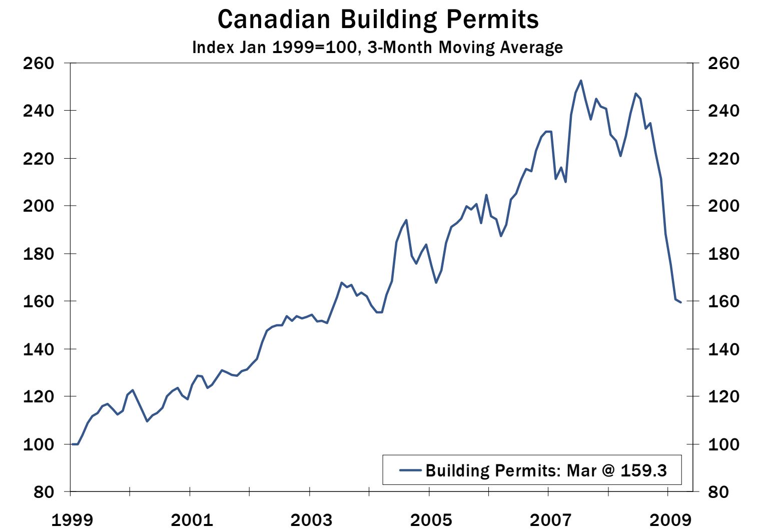
of the underlying trend in the job market. By this measure, the labor situation in Canada is still in as challenging a condition as we have seen in years. The job market would need to show lasting growth before it could be supportive of the income growth that would spur a robust recovery in consumer spending.

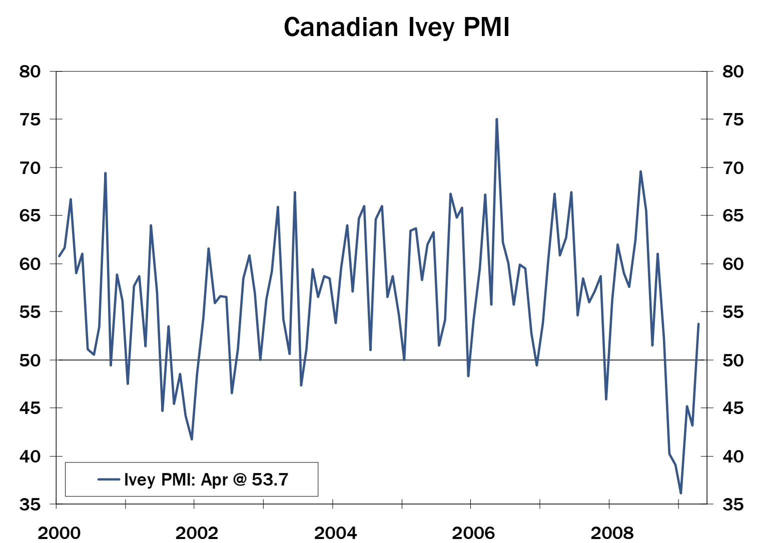
A Turnaround, While not Imminent, Appears to be in the Offing

That said, this strong showing for jobs was not merely a flash in the pan. You did not have to look far this week to find other signs of a change in the winds in the Canadian economy, even in troubled areas like housing. Building permits soared 23.5 percent in March. The gain was substantially higher than consensus estimates and the largest monthly increase in two years. Though, as with the jump in employment, one month does not make a trend. Even counting the jump in March the three month moving average still trended slightly lower, reflective of the nasty numbers we saw in the preceding months. In a separate release we learned that housing starts declined again in April. Still, the jump in permits is a welcome sign of a potential bottom for housing this summer.

Another unexpected sign of strength came this week when the Ivey Purchasing Managers' Index posted a much better-than-expected reading of 53.7 in April. A number above 50 is associated with economic growth; the consensus was only expecting a reading in the low 40s. The participants in this survey are deliberately selected from various economic sectors and geographic regions to be broadly representative of the Canadian economy as a whole. It also includes the government sector, so the recent jump may in part reflect the government spending plan to stimulate growth.

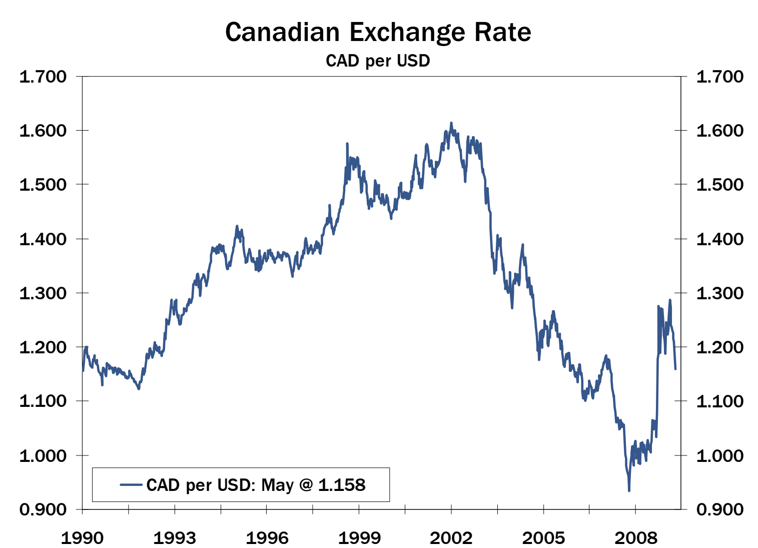
The Bank of Canada (BoC) has also done its part to stimulate growth by cutting its key lending rate by a cumulative 425 basis points since December 2007. This week's early signs of recovery suggest the bank's efforts are paying off. The Canadian dollar continued to strengthen and is now at its highest level versus the U.S. dollar since November of last year as oil and other commodities have strengthened over the same period. If the Canadian economy comes roaring back faster than expected and commodity prices continue to rise, these gains could hold. But if the recovery is more gradual and commodities hold their current levels, the Canadian dollar would likely give back recent gains.





Selected Global Data

Japan	GDP Year-over-Year	Q4 - 2008	-4.3%
	CPI	March - 2009	-0.3%
	Unemployment	March - 2009	4.8%
	BoJ Target Rate	May - 08	0.10%
Euro-Zone	GDP Year-over-Year	Q4 - 2008	-1.4%
	CPI	March - 2009	0.6%
	Unemployment	March - 2009	8.9%
	ECB Target Rate	May - 08	1.00%
UK	GDP Year-over-Year	Q1 - 2009	-4.1%
	CPI	March - 2009	2.9%
	Unemployment	March - 2009	4.5%
	BoE Target Rate	May - 08	0.50%
Canada	GDP Year-over-Year	February - 2009	-2.3%
	CPI	March - 2009	1.2%
	Unemployment	April - 2009	8.0%
	BoC Target Rate	May - 08	0.25%



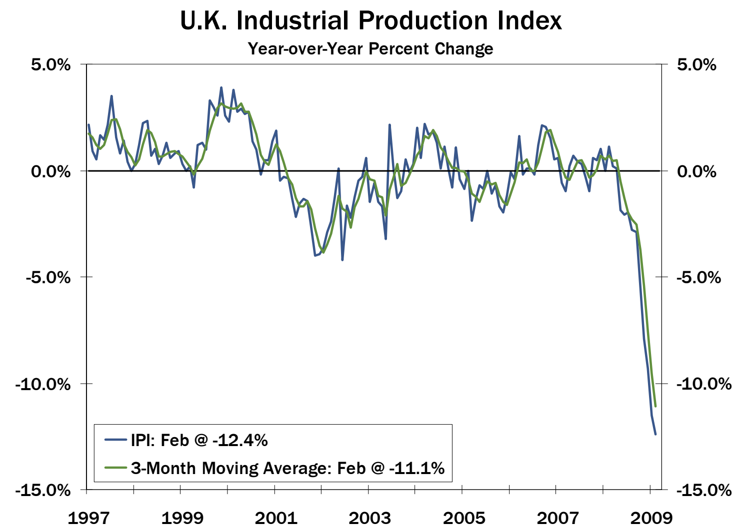
U.K. Industrial Production • Tuesday

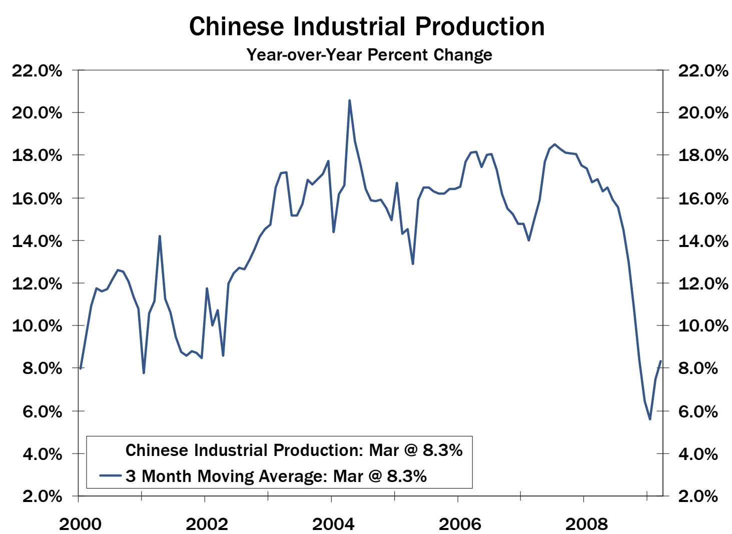
British industrial production has imploded since last autumn. Indeed, the 12.4 percent drop in IP in February was the steepest year-over-year decline on record (the series begins in 1949). That said, the purchasing managers' index for the manufacturing sector rose in March. Although the index remains well below the demarcation line that separates expansion from contraction, the rise implies that the rate of decline may have slowed in March. The consensus forecast anticipates that production fell 0.8 percent in March, which would be not as bad as the 1.0 percent drop that was registered in the previous month.

We also get a look at the employment situation. The labor market report for April will print on Wednesday, and the results likely won't be pretty. The claimant count measure of the unemployment rate, which fell as low as 2.4 percent last spring, is expected to climb to 4.7 percent.

Previous: -1.0% (month-on-month change)

Consensus: -0.9%





Chinese Industrial Production • Wednesday

There clearly have been "green shoots" of recovery in the Chinese economy over the past few months. Growth in industrial production, which fell sharply late last year, has rebounded recently and the consensus forecast anticipates that growth strengthened further in April.

In our view, most of the upturn in China so far this year is due to the fiscal stimulus program that was put in place last autumn. Indeed, growth in fixed investment has risen this year and data for April, which will print on Tuesday, should show further strength. Although the rate of decline in exports may be starting to slow, exports are well below last year's level. Data on the trade balance in April are slated for release on Wednesday. The PPI and the CPI will also print next week.

Previous: 8.3% (year-over-year change)

Consensus: 8.6%

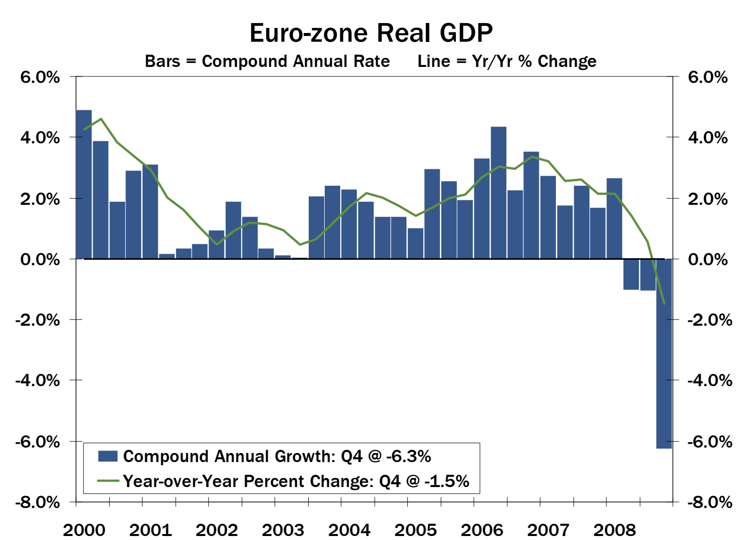
Euro-zone GDP Growth • Friday

Real GDP in the Euro-zone declined 1.6 percent (6.3 percent at an annualized rate) in the fourth quarter, the sharpest rate of decline since the EMU came into existence in 1999. Unfortunately, monthly data suggest that the rate of decline was probably even steeper in the first quarter. We will find out for sure when official GDP data are released on Friday.

That said, the rate of decline may be starting to slow. For example, industrial production in the Euro-zone plunged 2.3 percent in February relative to the previous month, but the consensus forecast looks for a 1.0 percent decline in March. (Data will be released on Wednesday.) Data on CPI inflation in April will print on Friday, although the importance of the data release has diminished somewhat due to the onset of recession.

Previous: -1.6% (qtr-on-qtr, not annualized) Wachovia: -1.8%

Consensus: -2.1%



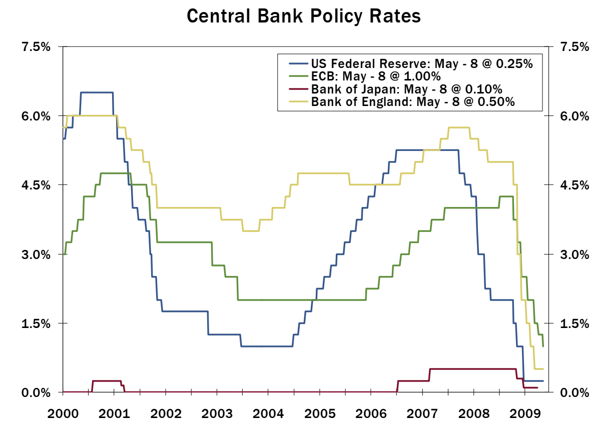
Interest Rate Watch

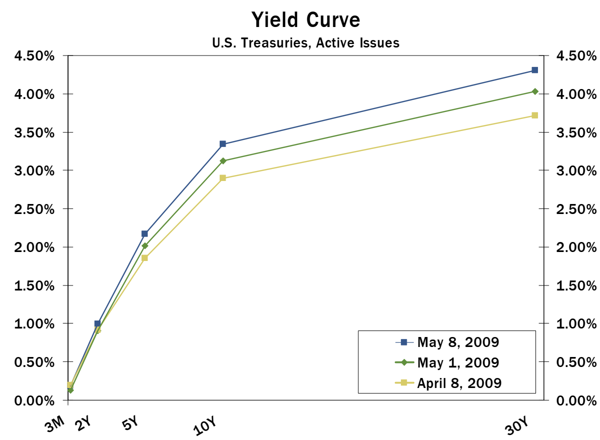
Long-Term Treasury Rates Rise

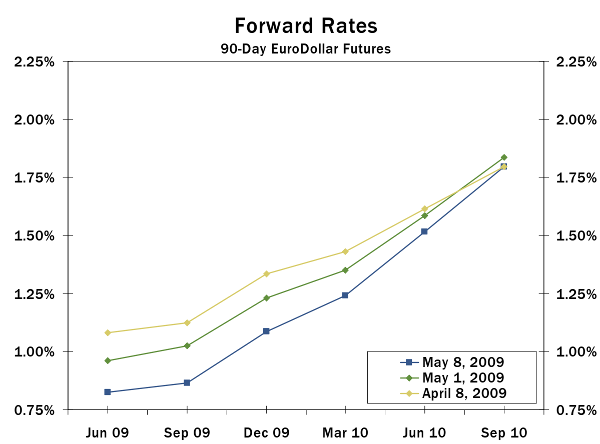
This week yields on longer-dated Treasury debt have moved upward. Our view is that this drift is not happenstance but the result of two driving factors: a decline in the flight-to-safety trade as well as a response to rising federal budget deficit estimates from the Congressional Budget Office and private sources. In addition, anecdotal information on the policy view of China on their concerns about U.S. deficits and spending intentions may also have played a role.

Therefore, rising Treasury rates are appearing even without a rise in inflation and a sinking dollar. As we see it, continued easy monetary and fiscal policy in an effort to promote economic growth will, over time, generate rising, not lower, interest rates. Lessons drawn from anti-inflation monetary policy of the 1980s and 1990s suggest a more cautious policy in the short-run will nip inflation pressures. In addition, a true countercyclical fiscal policy will limit deficits in the short-run to allow for surpluses when the times are good. Unfortunately we see little at present to suggest that fiscal policy makers have anything close to an exit strategy from outsized deficits.

Meanwhile, a positive move by the Federal Reserve has been to limit intended purchases to $300 billion for Treasury debt. If the Fed were to adopt a higher target as a means to limit interest rate increases then we would expect such increases to lead to higher, not lower rates over time as investors come to discount higher inflation going forward. While we support the Fed's commitment to a continued injection of liquidity as the economy expands, an increase in the pace of such injections would raise the risks of too much liquidity/inflation down the road.







Topic of the Week

Financial Green Shoots Today Induce Policy Contradictions Tomorrow

Public policy seeks to resolve certain economic conflicts but such a resolution sets up another set of issues. In the post-WWII period, the use of Keynesian stimulus in the 1960s and 1970s led to stagflation. The latest installation of this story is the mid-1990s effort to stimulate home ownership, which fed upon the globalization of capital markets but ultimately collapsed. The massive monetary/fiscal stimulus today is beginning to work but is setting up its own set of contradictions in the future. Our outlook is that the composition of the recovery will be quite different than prior economic recoveries in the post-WWII period. The recovery will be heavy on federal spending and monetary stimulus, and thus should contribute to economic conflicts ahead.

Over the last year the Fed's balance sheet has risen dramatically from $800 billion to over $2 trillion today while the money supply, M2, has grown 14 percent over the last six months. Meanwhile, fiscal deficits are estimated at nearly $2 trillion over the next two years. Such policies are not likely to be sustainable without significant changes in inflation, interest rates, the value of the dollar and the pace and character of economic growth.

As economic "green shoots" appear more frequently and a consensus develops that recovery is coming, will policymakers make a graceful exit from the stimulus stage? Or, will they stay too long, and thereby generate policy contradictions from too much stimulus when it is no longer needed. The challenge of the timing and perfect execution of an exit strategy from extremely easy monetary and fiscal policy should be clear. You can access our full report on our website:

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Market Data ♦ Mid-Day Friday

U.S. Interest Rates

	Friday 5/8/2009	1 Week Ago	1 Year Ago
3-Month T-Bill	0.18	0.14	1.65
3-Month LIBOR	0.94	1.02	2.72
1-Year Treasury	0.43	0.38	2.12
2-Year Treasury	0.97	0.91	2.21
5-Year Treasury	2.14	2.01	2.97
10-Year Treasury	3.29	3.15	3.77
30-Year Treasury	4.27	4.07	4.54
Bond Buyer Index	4.63	4.70	4.62

Foreign Exchange Rates

	Friday 5/8/2009	1 Week Ago	1 Year Ago
Euro ($/€)	1.348	1.327	1.539
British Pound ($/£)	1.505	1.492	1.954
British Pound (£/€)	0.895	0.889	0.788
Japanese Yen (¥/$)	99.100	99.115	103.735
Canadian Dollar (C$/$)	1.159	1.185	1.017
Swiss Franc (CHF/$)	1.123	1.136	1.051
Australian Dollar (US$/A$)	0.757	0.731	0.944
Mexican Peso (MXN/$)	13.102	13.779	10.583
Chinese Yuan (CNY/$)	6.822	6.821	7.005
Indian Rupee (INR/$)	49.285	50.092	41.755
Brazilian Real (BRL/$)	2.086	2.174	1.693
U.S. Dollar Index	83.361	84.546	73.477

Foreign Interest Rates

	Friday 5/8/2009	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	1.31	1.36	4.85
3-Month Sterling LIBOR	1.42	1.45	5.78
3-Month Canadian LIBOR	0.80	0.85	3.37
3-Month Yen LIBOR	0.54	0.55	0.91
2-Year German	1.32	1.34	3.74
2-Year U.K.	1.21	1.06	4.32
2-Year Canadian	1.12	0.99	2.77
2-Year Japanese	0.41	0.42	0.75
10-Year German	3.44	3.18	4.06
10-Year U.K.	3.73	3.50	4.62
10-Year Canadian	3.21	3.10	3.64
10-Year Japanese	1.46	1.46	1.67

Commodity Prices

	Friday 5/8/2009	1 Week Ago	1 Year Ago
W. Texas Crude ($/Barrel)	57.87	53.20	123.69
Gold ($/Ounce)	908.30	886.55	881.85
Hot-Rolled Steel ($/S.Ton)	375.00	400.00	1065.00
Copper (¢/Pound)	219.50	210.15	382.05
Soybeans ($/Bushel)	11.07	10.63	12.83
Natural Gas ($/MMBTU)	4.22	3.55	11.26
Nickel ($/Metric Ton)	13,222	11,253	28,370
CRB Spot Inds.	373.42	362.33	522.19

Next Week's Economic Calendar

	Monday 11	Tuesday 12	Wednesday 13	Thursday 14	Friday 15
U.S. Data		**Trade Balance** February -$26.0B March -$30.4B (W)	**Retail Sales** March -1.2% April 1.1% (W) **Import Price Index** March 0.5% April 1.5% (W) **Business Inventories** February -1.3% March -1.2% (W)	**PPI** March -1.2% April -0.3% (W) **Core PPI** March 0.0% April 0.1% (W)	**CPI** March -0.1% April -0.1% (W) **Industrial Production** March -1.5% April -0.7% (W) **Capacity Utilization** March 69.3% April 68.9% (W)
Global Data	**China** **CPI (YoY)** Previous (Mar) -1.2%	**UK** **Indus. Production (MoM)** Previous (Feb) -1.0%	**China** **Indus. Production (YoY)** Previous (Mar) 8.3% **Euro-zone** **Indus. Production (MoM)** Previous (Feb) -2.3%		**Euro-zone** **GDP (QoQ)** Previous (4Q) -1.6% **Canada** **Mfg Shipments (MoM)** Previous (Feb) 2.2%

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

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