



ECONOMICS GROUP

MONTHLY OUTLOOK

September 10, 2008

U.S. Overview

The next few quarters will be the most trying time for the U.S. economy in the past two decades. Our forecast has real GDP rising at a 1.9 percent pace over the next year and real final sales to domestic purchasers rising at just a 0.6 percent pace. Conditions will feel even weaker than this. Overall consumer spending is expected to decline in both the third and fourth quarters, while spending on goods should drop in three of the next four quarters.

Consumer spending is being affected by rising unemployment, slower income growth and falling home prices. The unemployment rate is now expected top out at 7.5 percent, which will further cut into income growth. Falling home prices are the source of much of this angst and housing has not bottomed out just yet, although we are beginning to see some tentative signs of stabilization.

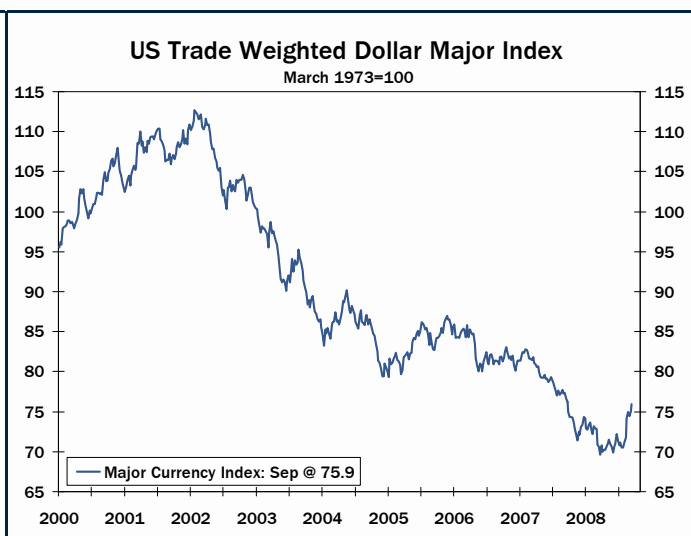
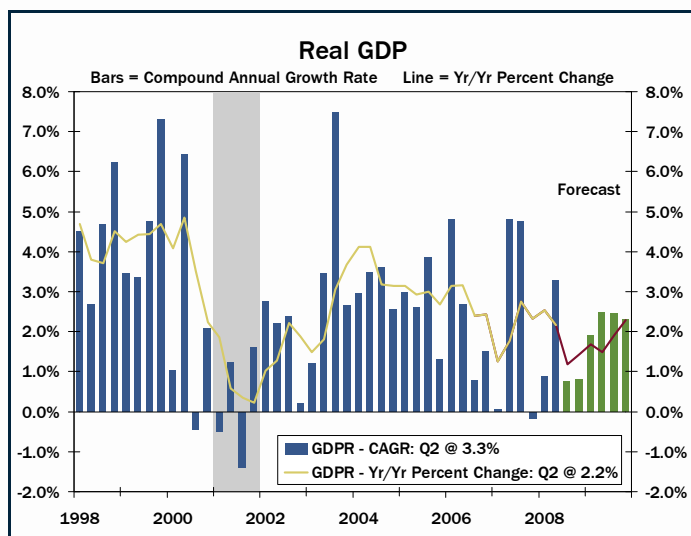
Exports have provided an enormous boost for the economy over the past year but are now expected to slow. Global economic growth is moderating and many developed nations are likely to see declines during the coming year.

With global growth slowing, commodity prices have tumbled, which, along with stronger productivity growth, is helping curb inflationary fears. Lower inflation should keep the Fed on hold for the foreseeable future and opens the door for an ease if conditions warrant.

International Overview

The dollar has appreciated significantly and broadly since mid-July. Does the dollar's newfound strength reflect a better assessment of the U.S. economy? Not really. The greenback has strengthened versus many foreign currencies because the outlook for foreign economic growth has deteriorated faster than many investors had anticipated earlier this year. Signs of slowing growth in Australia led the Reserve Bank of Australia to cut rates earlier this month for the first time since December 2001. The European Central Bank and the Bank of England have not cut rates over the past few months due to concerns about inflation. Indeed, the ECB hiked rates in July. However, growth rates in the Euro-zone and the United Kingdom have slowed sharply (Great Britain will probably experience its first recession since the early 1990s), which should cause inflation to recede in the months ahead. In our view, it is only a matter of time before both central banks cut rates.

The greenback has risen very sharply in a relatively short period of time, so some retracement is bound to happen. That said, we project the dollar will trend higher versus most currencies in the quarters ahead. Although we do not expect the Fed to cut rates further, we look for foreign central banks, most notably the ECB and the Bank of England to ease policy going forward.



No, That Was Not the All Clear Signal You Heard

The U.S. Treasury’s move to put Fannie Mae and Freddie Mac into conservatorship marks a significant event in U.S. economic and financial history but likely does not signal the end of the housing bust or credit crunch. The Treasury’s actions simply removed some of the near-term downside risk to the economy by providing some additional capital to the mortgage market and reducing the odds that a second negative feedback loop would unfold. This could have led to even more dramatic declines in home sales and housing prices.

One immediate result from the Treasury’s action was a significant drop in conventional mortgage rates. The interest rate on 30-year fixed-rate conventional mortgages had surged to close to 6.7 percent a few weeks ago, as Fannie Mae and Freddie Mac had to pay ever-higher rates to borrow money. Mortgage rates fell about a half percentage point one day after the Treasury’s actions but remain relatively high compared to the 10-year Treasury.

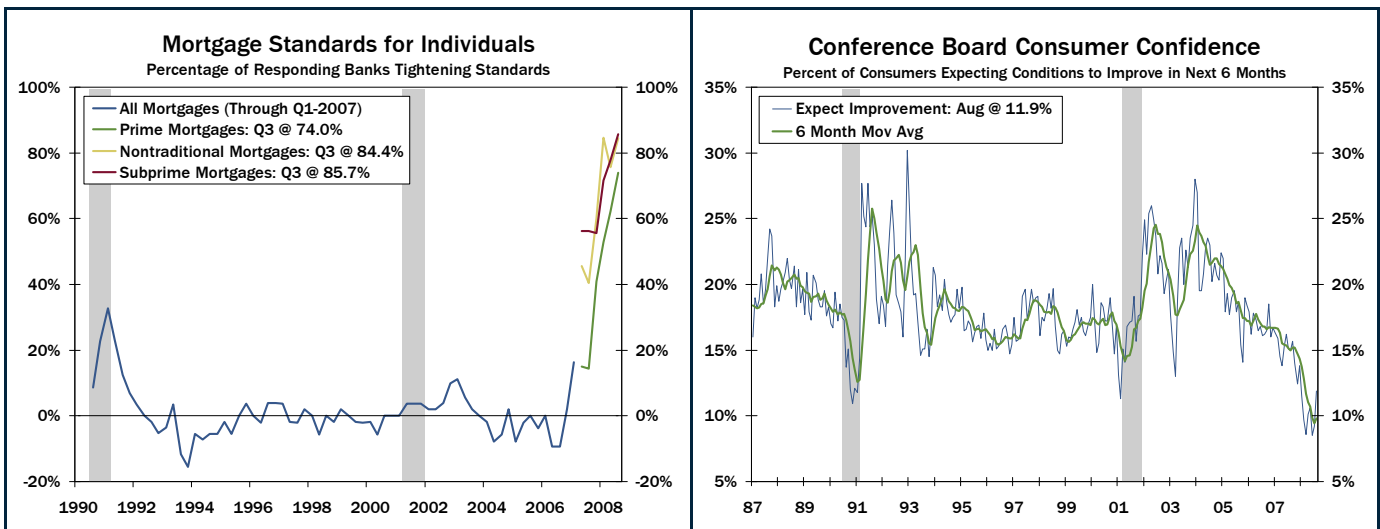
Lower mortgage rates are significant for two reasons. The housing market has recently shown some signs of stability, with home sales leveling off even in hard-hit areas like California and Florida. While some of this stability reflects foreclosure and short sales, more sales are possible at lower rates than at higher rates. Lower mortgage rates are also the key ingredient needed for homeowners to refinance their way out of unaffordable mortgages, which lessen the risk to the financial system.

While the Fannie Mae/Freddie Mac action may provide some short-term relief to the housing and mortgage market, it does little to curb the overall credit crunch. The economic and financial environment remains treacherous. Financial institutions continue to de-leverage, which means credit remains exceptionally tight. Tight credit conditions heighten the risks for both borrowers and

lenders, as businesses have trouble obtaining financing or renewing credit lines, putting their viability at risks.

Some of the greatest risk is now in the consumer sector. Job losses have picked up and the unemployment rate has surged to 6.1 percent. Consumer confidence remains stuck at its lowest levels since the early 1980s and spending for big-ticket discretionary items has been slashed. Consumer spending is now expected to decline in both the third and fourth quarters and post anemic gains in the first half of 2009. Retailers are responding by slashing jobs, closing underperforming stores, and reducing inventories. Lenders, in turn, are tightening lending terms, reducing credit lines, or refusing to lend additional funds, triggering a handful of liquidations.

The weakness in consumer spending has not fallen entirely on domestic producers. Real imports have declined nearly 20 percent over the past year, as many of the goods consumers are no longer buying were imported. Declines in imports combined with continued growth in exports have helped curb the trade deficit and accounted for much of the economy’s growth over the past year. Unfortunately, global growth is now slowing and export growth will moderate in coming quarters. The Boeing strike creates some added risks and a longer strike could cut into exports later this year. With consumer spending in the tank, housing still weakening and exports adding less to growth, the economy really has only two other sources to look to – business fixed investment and government spending. Business fixed investment looks like it will eke out low single-digit growth in the third and fourth quarters, but with corporate profits weakening and credit conditions exceptionally tight, even this growth looks suspect. Federal government outlays will almost certainly increase but a meaningful stimulus program or dramatic increase in infrastructure outlays is something that the next administration will have to deal with.



Wachovia U.S. Economic Forecast

	Actual																Forecast									
	2006				2007				2008				2009				Actual		Forecast		2009		2010			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2006	2007	2008	2009	2009	2010				
Real Gross Domestic Product (a)	4.8	2.7	0.8	1.5	0.1	4.8	4.8	-0.2	0.9	3.3	0.8	0.8	1.9	2.5	2.5	2.3	2.8	2.0	1.8	1.8	2.2	2.2				
Personal Consumption	4.3	2.8	2.2	3.7	3.9	2.0	2.0	1.0	0.9	1.7	-0.8	-0.3	1.0	1.8	1.9	2.1	3.0	2.8	1.0	0.9	2.1	2.1				
Business Fixed Investment	15.9	6.4	5.4	-1.0	3.4	10.3	8.7	3.4	2.4	2.2	-1.8	-1.9	-1.5	-2.2	-1.9	-1.9	7.5	4.9	3.0	-1.6	-1.1	-1.1				
Equipment and Software	16.3	1.7	2.0	-2.4	0.0	6.9	3.6	1.0	-0.5	-3.2	-0.5	-1.5	-0.4	0.3	2.0	2.2	7.2	1.7	0.1	-0.2	2.0	2.0				
Structures	15.6	19.7	14.3	2.5	11.2	18.2	20.6	8.6	8.7	13.6	3.5	-3.0	-5.0	-10.0	-14.0	-15.0	8.2	12.7	10.0	-5.3	-9.6	-9.6				
Residential Construction	-3.6	-16.6	-21.5	-19.5	-16.2	-11.6	-20.6	-27.0	-25.0	-15.8	-14.0	-8.0	-6.0	0.0	1.1	1.5	-7.1	-17.9	-20.2	-5.7	1.5	1.5				
Government Purchases	3.9	1.3	1.7	1.6	0.9	3.9	3.8	0.8	1.9	3.9	0.5	0.2	0.7	0.9	1.2	1.3	1.7	2.1	2.1	0.9	1.4	1.4				
Net Exports	-636.0	-619.4	-623.0	-584.3	-618.6	-571.2	-511.8	-484.5	-462.0	-376.6	-363.8	-349.7	-315.6	-289.4	-267.9	-252.0	-615.7	-546.5	-388.0	-281.2	-236.4	-236.4				
Pct. Point Contribution to GDP	0.1	0.6	-0.1	1.3	-1.2	1.7	2.0	0.9	0.8	3.1	0.4	0.5	1.2	0.9	0.7	0.5	0.0	0.6	1.4	0.9	0.4	0.4				
Inventory Change	45.9	56.9	53.3	13.1	-15.0	-2.8	16.0	-8.1	-10.2	-49.4	-47.0	-18.8	-9.8	3.1	13.2	20.4	42.3	-2.5	-31.4	6.7	20.4	20.4				
Pct. Point Contribution to GDP	-0.2	0.4	-0.1	-1.4	-1.1	0.5	0.7	-1.0	0.0	-1.4	0.1	1.0	0.3	0.4	0.3	0.2	0.0	-0.4	-0.3	0.3	0.1	0.1				
Nominal GDP	8.6	5.5	3.6	3.7	4.3	6.9	6.4	2.3	3.5	4.6	4.8	3.4	4.5	4.9	4.8	4.6	6.1	4.8	4.2	4.5	4.4	4.4				
Real Final Sales	5.1	2.3	0.9	2.9	1.1	4.3	4.0	0.8	0.9	4.8	0.7	-0.1	1.6	2.0	2.1	2.1	2.8	2.4	2.1	1.5	2.0	2.0				
Retail Sales (b)	7.6	6.0	5.0	4.6	3.3	4.0	4.0	4.7	3.0	2.7	2.4	0.0	0.4	0.4	1.0	3.6	5.8	4.0	2.0	1.3	3.9	3.9				
Inflation Indicators (b)																										
"Core" PCE Deflator	2.1	2.3	2.5	2.3	2.3	2.1	2.0	2.2	2.2	2.2	2.3	2.0	1.8	1.9	1.7	2.0	2.3	2.2	2.2	1.9	1.9	1.9				
Consumer Price Index	3.7	3.9	3.3	1.9	2.4	2.6	2.4	4.0	4.2	4.3	5.0	3.3	2.7	2.0	1.1	2.1	3.2	2.9	4.2	2.0	1.9	1.9				
"Core" Consumer Price Index	2.1	2.5	2.8	2.7	2.6	2.3	2.1	2.3	2.4	2.3	2.5	2.2	2.1	2.1	1.9	2.2	2.5	2.3	2.3	2.1	2.1	2.1				
Producer Price Index	4.5	4.3	2.8	0.3	2.0	3.4	3.6	6.7	7.1	7.6	9.3	6.7	4.9	3.0	1.5	2.2	3.0	3.9	7.7	2.9	2.0	2.0				
Employment Cost Index	2.8	3.0	3.3	3.3	3.5	3.3	3.3	3.3	3.3	3.1	3.0	2.9	3.0	2.9	2.8	2.8	3.1	3.4	3.1	2.9	2.8	2.8				
Real Disposable Income (a)	5.1	1.3	2.3	5.8	4.4	-0.6	3.1	0.6	-0.7	11.4	-9.2	1.5	2.0	2.0	2.2	2.3	3.5	2.8	1.2	1.0	2.3	2.3				
Nominal Personal Income (b)	7.3	7.2	7.5	6.3	6.4	6.1	6.1	5.8	4.2	5.2	0.9	-0.8	-0.6	-1.2	3.0	5.2	7.1	6.1	2.4	1.6	5.0	5.0				
Industrial Production (a)	3.2	2.6	1.9	-0.9	1.5	3.2	3.6	0.3	0.4	-3.2	1.7	2.0	2.2	2.9	3.6	3.9	2.2	1.7	0.5	2.2	3.3	3.3				
Capacity Utilization	80.8	81.0	81.2	80.7	80.7	81.0	81.3	81.0	80.6	79.7	79.5	79.1	79.0	79.1	79.4	79.9	80.9	81.0	79.7	79.4	80.2	80.2				
Corporate Profits Before Taxes (b)	13.6	14.2	27.6	6.9	-1.0	-0.5	-2.7	-2.0	-1.5	-7.0	-7.5	-11.0	-2.0	5.0	8.0	9.2	15.2	-1.6	-6.7	4.9	8.5	8.5				
Corporate Profits After Taxes	14.5	13.8	28.3	8.8	-0.9	-0.2	-0.8	-0.6	1.8	-4.9	-7.0	-12.5	-1.0	7.0	9.5	11.0	16.0	-0.6	-5.7	6.4	10.7	10.7				
Federal Budget Balance (c)	-183.6	96.5	-41.7	-80.4	-178.0	137.5	-40.6	-106.8	-205.9	44.1	-112.8	-144.0	-238.0	6.0	-139.0	-151.0	-248.2	-161.5	-381.4	-515.0	-385.0	-385.0				
Current Account Balance (d)	-196.0	-199.9	-210.9	-181.4	-196.9	-194.1	-173.0	-167.2	-176.4	-185.0	-170.0	-155.0	-142.0	-135.0	-130.0	-127.0	-788.1	-731.2	-686.4	-534.0	-478.0	-478.0				
Trade Weighted Dollar Index (e)	85.2	81.4	82.0	81.5	80.5	78.7	74.4	73.3	70.3	71.0	75.6	77.4	79.6	82.0	84.0	86.0	81.5	73.3	77.4	86.0	91.0	91.0				
Nonfarm Payroll Change (f)	255	88	206	151	109	105	71	80	-82	-71	-76	-88	-83	-60	-33	-17	175	91	-80	-48	44	44				
Unemployment Rate	4.7	4.7	4.6	4.4	4.5	4.5	4.7	4.8	4.9	5.3	6.0	6.2	6.4	6.6	6.8	7.0	4.6	4.6	5.6	6.7	7.4	7.4				
Housing Starts (g)	2.12	1.86	1.70	1.57	1.45	1.46	1.30	1.15	1.05	1.02	0.95	0.92	0.92	0.92	1.00	1.14	1.81	1.34	0.99	1.00	1.30	1.30				
Light Vehicle Sales (h)	16.9	16.4	16.5	16.3	16.3	16.1	15.9	16.0	15.2	14.1	13.2	13.2	13.3	13.6	13.8	13.9	16.5	16.1	13.9	13.6	14.3	14.3				
Crude Oil - WTI - Front Contract (i)	63.48	70.70	70.48	60.21	58.16	65.03	75.38	90.68	97.90	123.98	118.00	105.00	105.00	107.00	107.00	109.00	66.22	72.31	111.22	107.00	110.00	110.00				
Quarter-End Interest Rates																										
Federal Funds Target Rate	4.75	5.25	5.25	5.25	5.25	5.25	4.75	4.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	5.25	4.25	2.00	2.00	2.00	2.00				
3 Month LIBOR	5.00	5.48	5.37	5.36	5.35	5.36	5.23	4.70	2.69	2.78	2.80	2.80	2.70	2.70	2.60	2.60	5.36	4.70	2.80	2.60	2.40	2.40				
Prime Rate	7.75	8.25	8.25	8.25	8.25	8.25	7.75	7.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	8.25	7.25	5.00	5.00	5.00	5.00				
Conventional Mortgage Rate	6.32	6.68	6.40	6.14	6.16	6.66	6.38	6.10	5.97	6.04	5.80	5.70	5.60	5.70	5.70	5.70	6.14	6.10	5.70	5.70	5.90	5.90				
3 Month Bill	4.63	5.01	4.89	5.02	5.04	4.82	3.82	3.36	1.38	1.90	1.70	1.70	1.80	1.90	1.90	2.00	5.02	3.36	1.70	2.00	2.10	2.10				
2 Year Note	4.82	5.16	4.71	4.82	4.58	4.87	3.97	3.05	1.62	2.63	2.30	2.40	2.40	2.40	2.50	2.60	4.82	3.05	2.40	2.60	2.70	2.70				
5 Year Note	4.82	5.10	4.59	4.70	4.54	4.92	4.23	3.45	2.46	3.34	2.90	3.00	3.00	3.10	3.20	3.30	4.70	3.45	3.00	3.30	3.40	3.40				
10 Year Note	4.86	5.15	4.64	4.71	4.65	5.03	4.59	4.04	3.45	3.99	3.70	3.80	3.80	3.90	4.00	4.10	4.71	4.04	3.80	4.10	4.30	4.30				
30 Year Bond	4.90	5.19	4.77	4.81	4.84	5.12	4.83	4.45	4.30	4.53	4.20	4.30	4.30	4.40	4.50	4.60	4.81	4.45	4.30	4.60	4.80	4.80				

Data As of: September 10, 2008

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter

(b) Year-over-Year Percentage Change

(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Year

(d) Quarterly Sum - Billions USD

(e) Federal Reserve Major Currency Index, 1973=100 - Quarter End

Notes: (f) Average Monthly Change

(g) Millions of Units

(h) Quarterly Data - Average Monthly SAAR ; Annual Data - Actual Total Vehicles Sold

(i) Quarterly Average of Daily Close

Dollar Strength Reflects Foreign Economic Weakness

As shown on the front page, the dollar has enjoyed a broad-based rally since mid-July. Indeed, the Fed’s “Major Currency” index, which measures the value of the dollar vis-à-vis seven major currencies, is up about nine percent since July 15. The greenback’s gains against the Australian dollar – more than 15 percent – have been especially impressive. The U.S. dollar has risen more than ten percent versus the euro and the British pound.

So why has the greenback performed so well lately? Is the dollar’s appreciation a reflection of the strength of the U.S. economy? Not really. The dollar’s rise versus many foreign currencies largely reflects the realization that growth in many foreign economies is slowing faster than most investors had anticipated earlier this year.

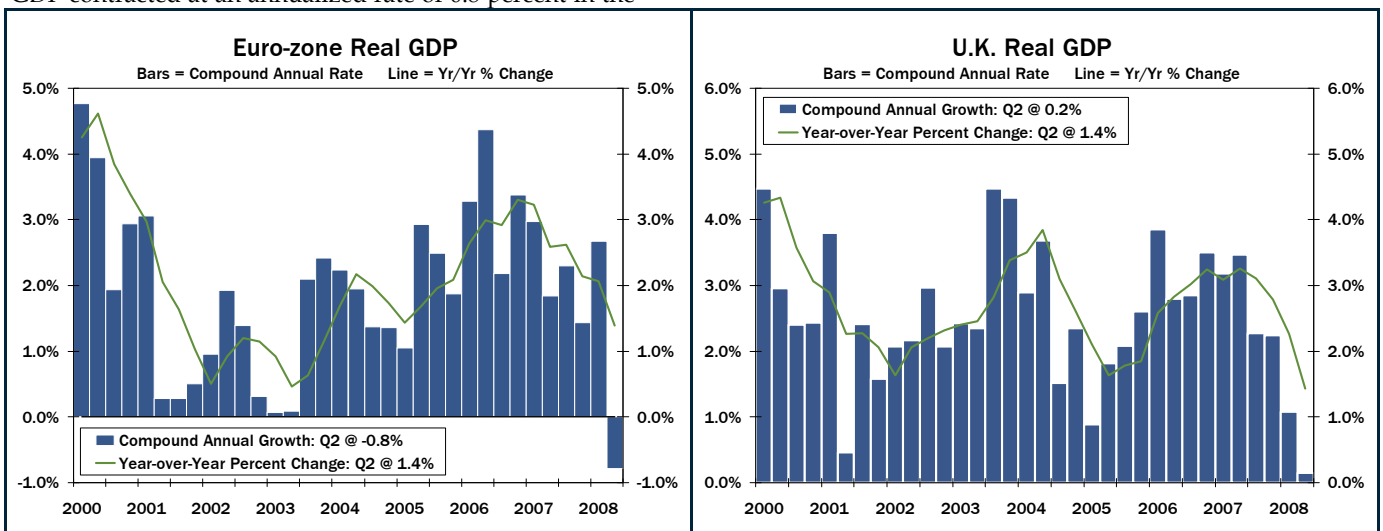
Let’s start with Australia. Real GDP down-under rose at an annualized rate of only 1.1 percent in the second quarter, the weakest pace of growth since early 2003. With short-term interest rates in Australia at 12-year highs earlier this year, monetary policy was restrictive. Consequently, the Reserve Bank of Australia adopted an easing bias at its policy meeting in July, and it followed through earlier this month by cutting rates by 25 basis points. Expectations of more easing ahead have weighed on the Aussie dollar as has the drop in commodity prices since mid-July. The Australian economy is more dependent on the extraction of commodities than most other economies.

The European Central Bank has not yet cut rates due to its preoccupation with CPI inflation, which currently stands at 4.0 percent, twice the rate the ECB considers to be consistent with “price stability.” Indeed, the ECB hiked rates by 25 basis points in early July. However, growth in the Euro-zone is slowing sharply. As shown below, real GDP contracted at an annualized rate of 0.8 percent in the

second quarter. Although the negative growth rate likely overstates the underlying weakness of the Euro-zone economy (just as the acceleration in real GDP in the first quarter overstated the underlying strength of the economy), economic growth in the Euro-zone is clearly slowing. Sluggish growth should cause inflation to recede, which, in our view, will open the door to ECB easing early next year.

The U.K. economy essentially stalled in the second quarter (see chart below), and recent indicators suggest that growth in the third quarter probably will be negative. Although the BoE cut rates by 75 basis points between December and April, it has subsequently maintained its policy rate at 5.00 percent due to the unacceptably high rate of CPI inflation that currently stands at 4.4 percent. Like the ECB, however, we look for the BoE to ease policy in the future as inflation recedes, probably later this year or early in 2009. Unfortunately, lower rates will not prevent the United Kingdom from experiencing its first recession since the early 1990s. Indeed, our forecast calls for British real GDP to contract through early 2009.

Summing up, the dollar has appreciated versus most major currencies over the past two months because the outlook for foreign economies has generally deteriorated more than the outlook for the U.S. economy, which has been rather gloomy for some time. The U.S. dollar has jumped sharply in a relatively short period of time. While some retracement is bound to happen, we project the dollar will trend higher versus most currencies in the quarters ahead. Although our outlook for the U.S. economy is by no means rosy, we do not expect the Fed to cut rates further. In contrast, monetary easing in foreign economies, most notably in the Euro-zone and the United Kingdom, should boost the value of the greenback by reducing the relative attractiveness of foreign assets.



September 10, 2008

Wachovia International Economic Forecast						
(Year-over-Year Percentage Change)						
	GDP			CPI		
	2007	2008	2009	2007	2008	2009
Global	4.9%	3.4%	3.1%	3.9%	5.8%	3.8%
Major Economies						
United States	2.0%	1.8%	1.8%	2.9%	4.2%	2.0%
Eurozone	2.6%	1.2%	1.2%	2.1%	3.4%	1.9%
Germany	2.6%	1.7%	1.1%	2.3%	2.9%	1.8%
France	2.1%	1.2%	1.4%	1.6%	3.4%	1.9%
Italy	1.4%	0.2%	0.7%	2.0%	3.4%	1.7%
UK	3.1%	0.7%	-0.3%	2.3%	3.6%	2.3%
Japan	2.0%	0.7%	1.1%	0.1%	1.5%	0.7%
Canada	2.7%	0.7%	1.6%	2.1%	2.5%	1.9%
Developing Economies						
China	11.8%	9.8%	8.8%	4.8%	6.6%	3.4%
India	9.0%	7.0%	7.3%	6.5%	6.5%	4.9%
Mexico	3.3%	2.2%	2.3%	4.0%	4.7%	3.8%
Brazil	5.4%	4.3%	3.1%	3.6%	5.6%	4.6%

¹Data as of: September 10, 2008

Wachovia Currency Forecast								
(End of Quarter Rates)								
	2008		2009				2010	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Major Currencies								
Euro (\$/€)	1.45	1.42	1.38	1.34	1.30	1.25	1.22	1.20
U.K. (\$/£)	1.78	1.72	1.66	1.60	1.55	1.54	1.52	1.52
U.K. (£/€)	0.81	0.83	0.83	0.84	0.84	0.81	0.80	0.79
Japan (¥/\$)	108	110	114	116	118	120	122	125
Other Industrialized								
Canada (C\$/US\$)	1.05	1.08	1.10	1.14	1.16	1.18	1.19	1.20
Switzerland (CHF/\$)	1.10	1.12	1.14	1.17	1.20	1.24	1.28	1.30
Norway (NOK/\$)	5.50	5.60	5.75	5.90	6.10	6.25	6.35	6.50
Sweden (SEK/\$)	6.50	6.65	6.80	7.00	7.15	7.40	7.60	7.70
Australia (US\$/A\$)	0.84	0.80	0.76	0.72	0.71	0.70	0.69	0.68
Developing Economies								
Mexico (MXN/\$)	10.30	10.40	10.60	10.80	10.90	11.00	11.10	11.20
Brazil (BRL/\$)	1.65	1.70	1.80	1.90	1.95	2.00	2.05	2.10
Poland (PLN/\$)	2.40	2.50	2.60	2.70	2.80	2.90	2.95	3.00
Russia (RUB/\$)	25.50	25.80	26.10	26.40	26.70	27.00	27.25	27.50
Turkey (TRY/\$)	1.20	1.25	1.30	1.35	1.40	1.45	1.47	1.50
South Africa (ZAR/\$)	7.60	7.70	7.80	8.00	8.25	8.50	8.75	9.00
China (CNY/\$)	6.85	6.80	6.75	6.70	6.60	6.50	6.45	6.40
India (INR/\$)	44.50	45.00	45.50	45.75	46.00	46.20	46.40	46.50
Korea (KRW/\$)	1060	1080	1100	1120	1130	1140	1150	1160
Singapore (S\$/US\$)	1.42	1.43	1.45	1.46	1.47	1.48	1.49	1.50
Taiwan (TWD/\$)	31.50	31.80	32.20	32.50	32.70	32.80	32.90	33.00

¹Data as of: September 10, 2008

Wachovia International Interest Rate Forecast																
(End of Quarter Rates)																
	3-Month LIBOR								10-Yr Government Security							
	2008		2009				2010		2008		2009				2010	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
United States	2.80%	2.80%	2.70%	2.70%	2.60%	2.60%	N/A	N/A	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	N/A	N/A
Japan	0.85%	0.85%	0.75%	0.65%	0.65%	0.65%	0.65%	0.65%	1.50%	1.40%	1.45%	1.50%	1.60%	1.80%	2.00%	2.10%
Euroland	4.95%	4.80%	4.50%	3.90%	3.90%	3.90%	3.90%	4.20%	4.20%	4.00%	3.90%	4.00%	4.20%	4.50%	4.70%	4.75%
U.K.	5.70%	5.30%	4.50%	3.90%	3.65%	3.65%	3.65%	4.15%	4.60%	4.40%	4.20%	4.10%	4.25%	4.60%	4.90%	5.00%
Canada	3.40%	3.25%	3.15%	3.15%	3.15%	3.50%	3.70%	4.20%	3.50%	3.55%	3.60%	3.80%	4.20%	4.40%	4.60%	4.75%

¹Data As of: September 10, 2008

Wachovia Economics Group

John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wachovia.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wachovia.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wachovia.com
Adam G. York	Economic Analyst	(704) 715-9660	adam.york@wachovia.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wachovia.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wachovia.com
Deborah Donaldson	Economic Analyst	(704) 715-7415	deborah.donaldson@wachovia.com

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