




# **Economic Outlook**

June 12, 2008

**WACHOVIA**

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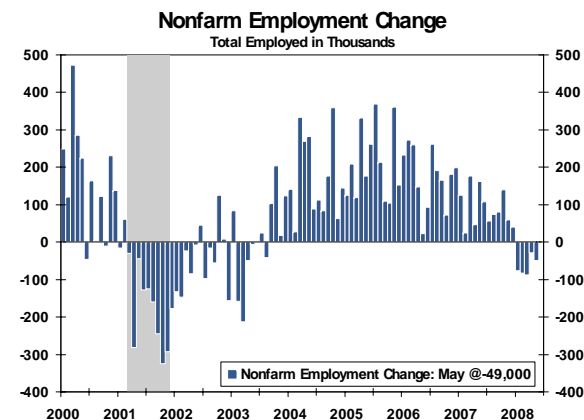
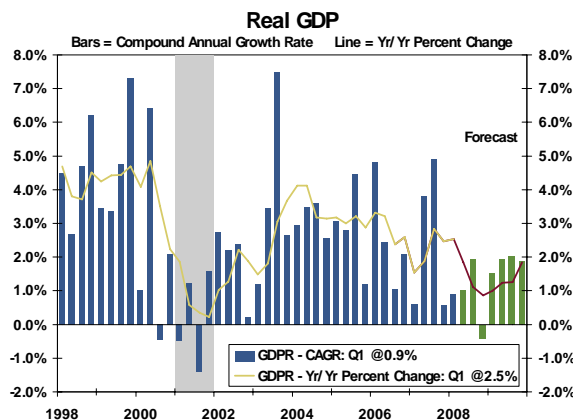


## National Economic Overview

## Surging Energy Prices And The Still Unfolding Housing Slump Have Pushed The Economy Over The Edge

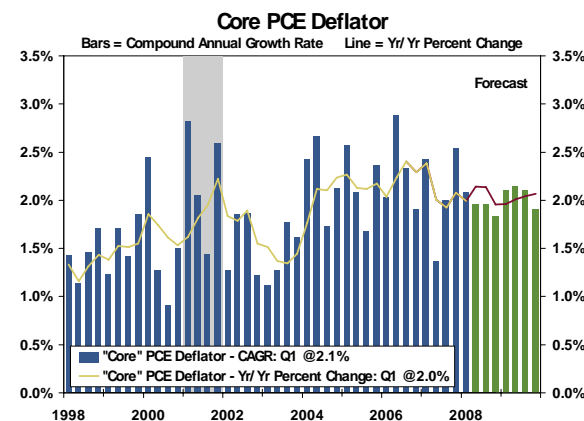
### Highlights

- Tax rebates should give a temporary boost to consumption and GDP, but with a deteriorating labor market, personal consumption will be weak at best after this.
- We now see outright declines in business spending later this year, as firms become more cautious considering the weak economic picture and tightening credit conditions.
- The worst of the decline in residential construction is now behind us, but homebuilding will continue to fall throughout 2008 and early 2009.



### Wachovia U.S. Economic Forecast

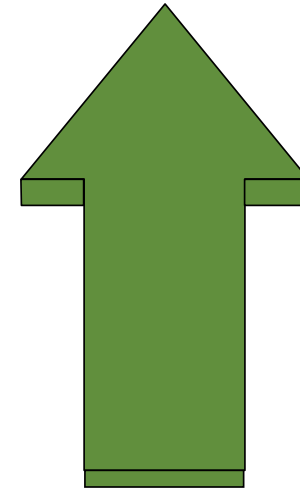
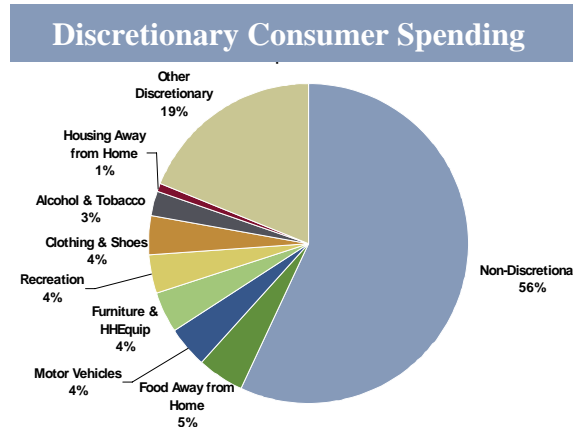
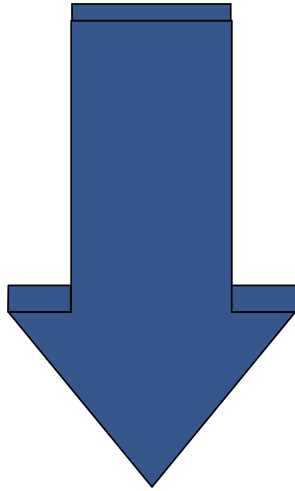
	Actual				Forecast	
	2004	2005	2006	2007	2008	2009
Real Gross Domestic Product <sup>2</sup>	3.6	3.1	2.9	2.2	1.6	1.3
Personal Consumption	3.6	3.2	3.1	2.9	1.6	1.3
Business Fixed Investment	5.8	7.1	6.6	4.7	2.2	-2.3
Equipment and Software	7.4	9.6	5.9	1.3	0.9	-0.7
Consumer Price Index <sup>3</sup>	2.7	3.4	3.2	2.9	4.0	2.6
Corporate Profits Before Taxes <sup>3</sup>	23.2	6.1	12.2	2.6	-5.7	6.1
10-Year Treasury Note	4.24	4.39	4.71	4.04	4.00	4.40



<sup>1</sup>Forecast as of: June 11, 2008 <sup>2</sup>Compound Annual Growth Rate <sup>3</sup>Year-over-Year Percent Change

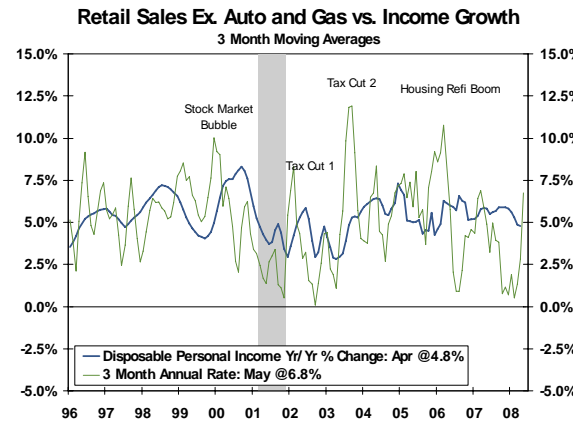
Source: Federal Reserve Board, U.S. Department of Commerce, U.S. Department of Labor and Wachovia Corp.

Consumers Are Getting Squeezed On Many Fronts, But Rebates Give Temporary Relief



Negative

- Energy & Food Costs
  - Food and energy continue to eat a larger share of consumer income.
- Housing & Home Equity
  - Housing prices and home equity are now falling, weighing on consumer spending and sentiment.
- Weakening Labor Market
  - The labor market is expected to continue its weakening trend for at least the rest of the year.



Source: U.S. Department of Commerce, and Wachovia Corp.

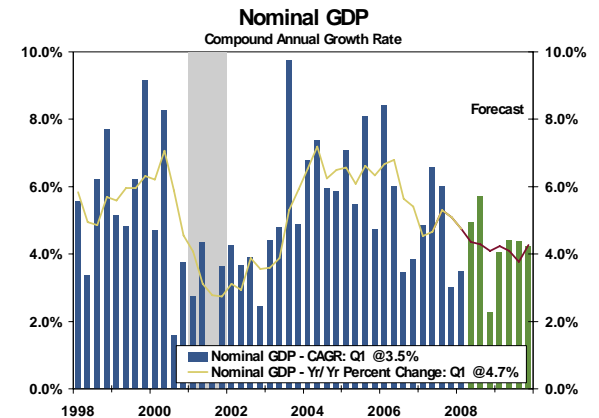
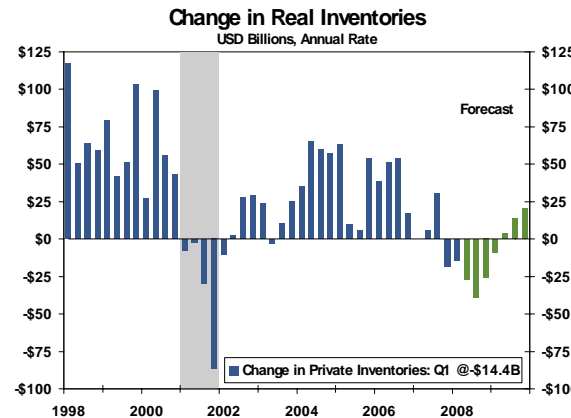
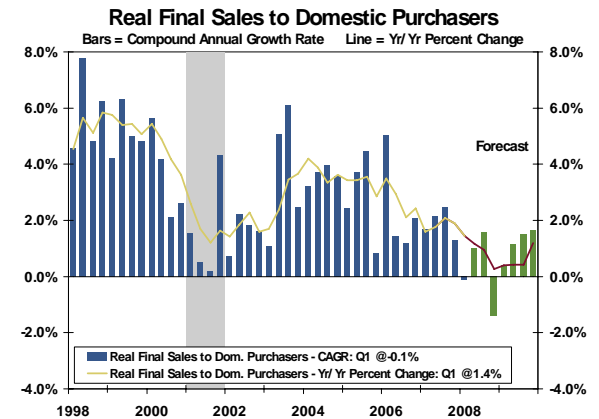
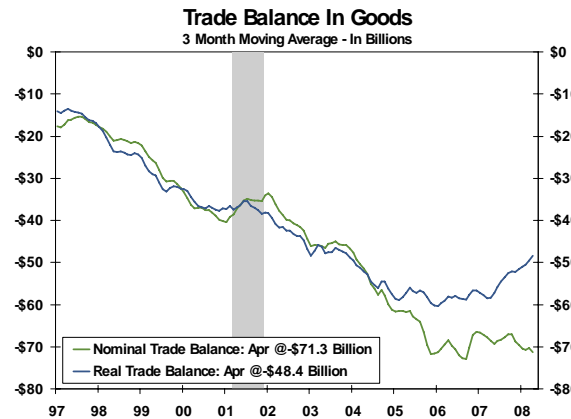
Positive

- Tax Rebates
  - The tax rebate checks have landed in the pockets of most Americans, and have already provided a boost to spending.
- Income Growth
  - While we expect that income growth will slow in-line with a weaker labor market, it's still up almost five percent year-over-year.

## The Economy Feels Weaker Than the Real GDP Data Indicate

### Highlights

- The real trade balance has been improving in recent months, on phenomenal export growth, fueled by a weak dollar and strong global growth. The nominal deficit has remained wider on energy price changes.
- Real final sales to domestic purchasers, a measure of what the economy consumes, as opposed to produces, shows a much weaker picture than real GDP. This measure is more indicative of how businesses and consumers are feeling.
- Nominal GDP, a measure of 'revenue growth' for the economy continues to grow at a below trend pace, which means corporate revenue growth will remain sluggish in coming quarters.
- Businesses have constrained inventory growth to a below trend pace since early 2006, this may limit the downside risks going forward.



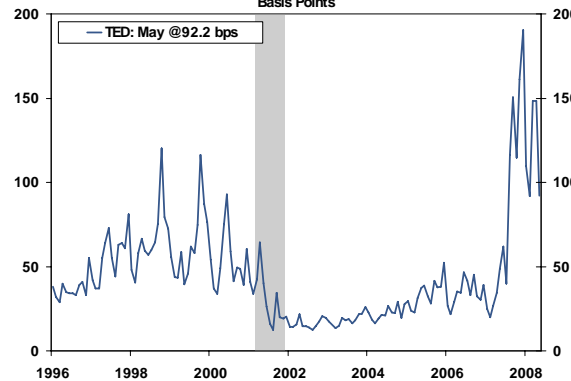
Source: U.S. Department of Commerce and Wachovia Corp.

## We Are Not Out of the Woods Yet

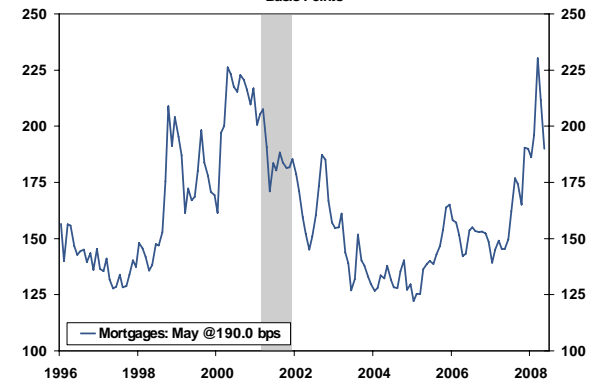
### Highlights

- The TED spread remains elevated, but improved markedly in May to levels near the first weeks of the credit crisis.
- Mortgages are more expensive than they have historically been. Restrictive lending standards have also made them more difficult to obtain.
- Corporate credit is also more costly but businesses are tapping the market anyway to build a capital cushion.

**Ted Spread**  
Basis Points



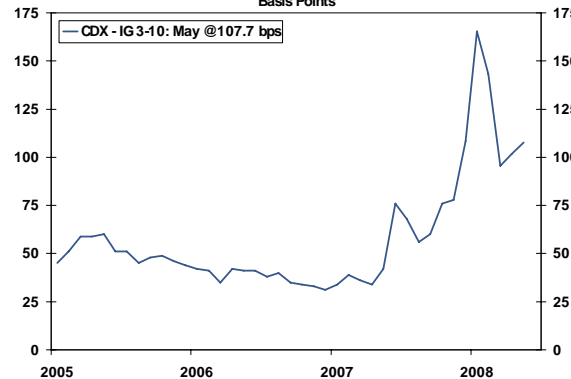
**Conventional Mortgage to 10-Year Treasury Spread**  
Basis Points



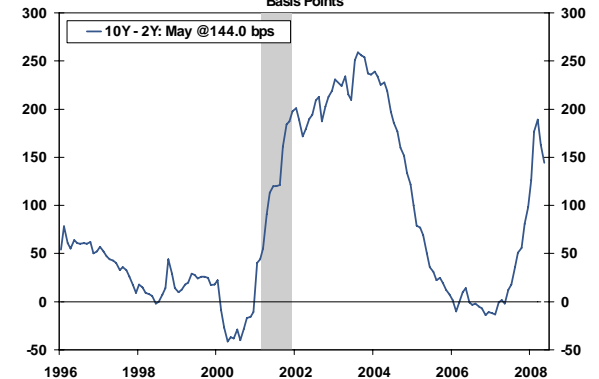
**Baa Corporate Spread**  
Basis Points



**CDX IG Index**  
Basis Points



**Yield Curve Spread**  
Basis Points

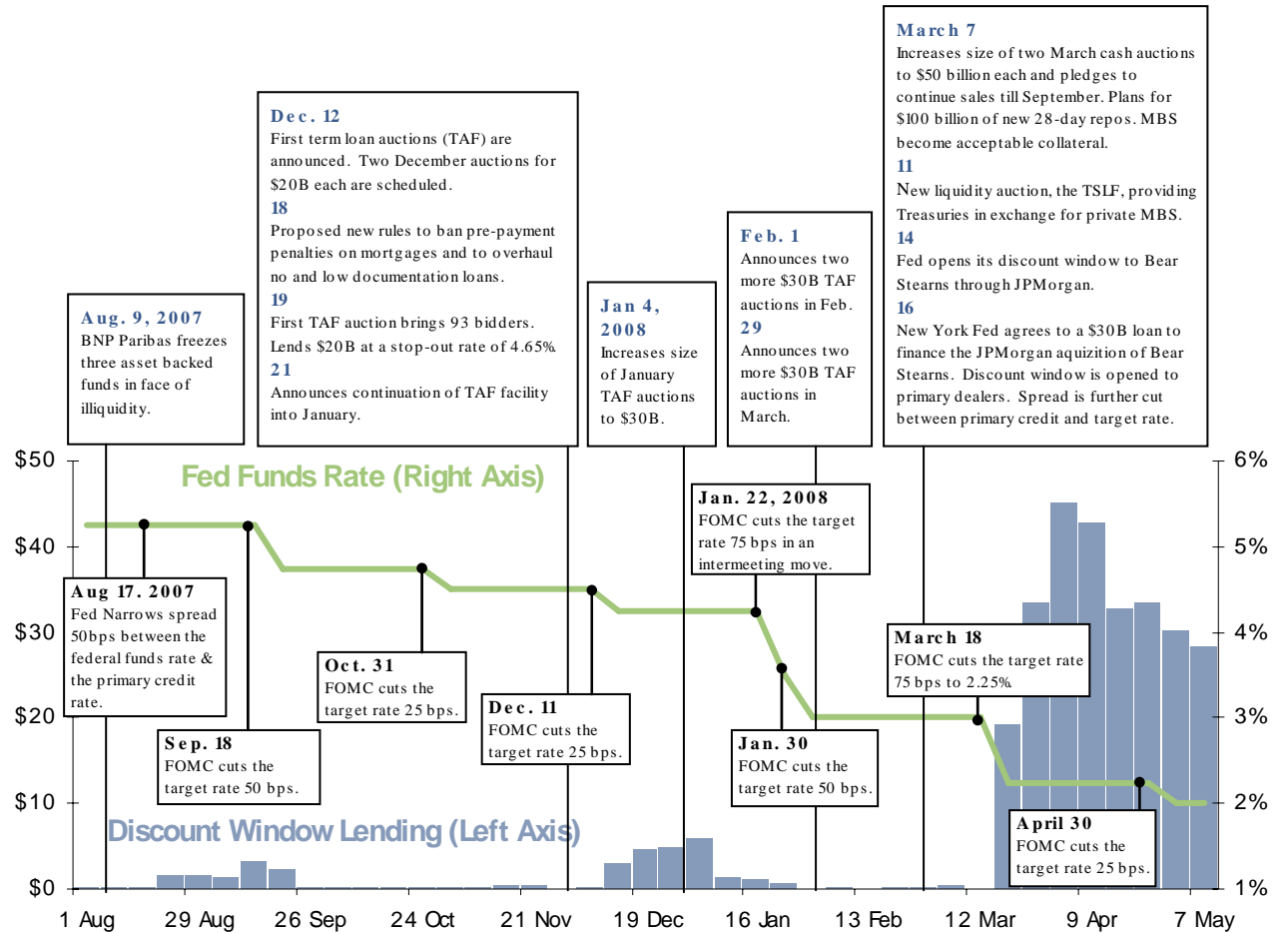


Source: Bloomberg LP, Federal Reserve Board, International Monetary Fund and Wachovia Corp.

## As the Credit Crisis Turns...

### A Crisis Timeline: Eight Months of Fed Maneuvering

The Fed will continue to innovate until financial markets stabilize

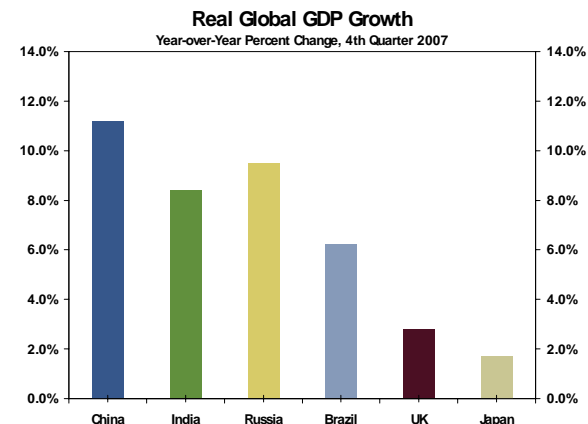
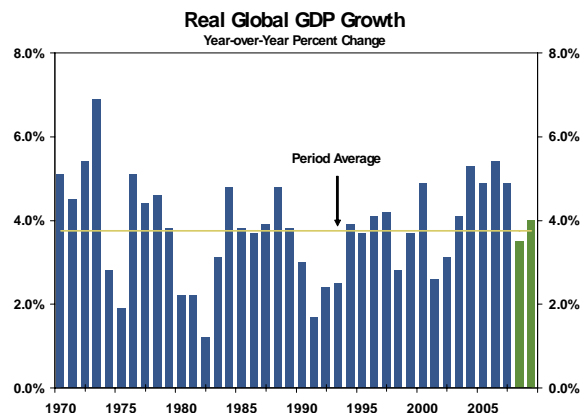


Source: American Banker and Wachovia Corp.

## Global Growth Remains Steady But The Dollar Is Poised For a Turnaround in the Second Half

### Highlights

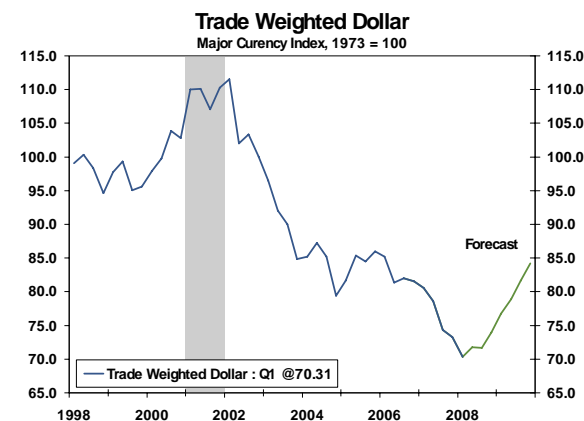
- Global growth has been very strong, but should moderate this year.
- Some foreign central banks have begun easing, we expect others will follow suit as growth slows and inflation subsides.
- The dollar should begin to appreciate versus European currencies as the Fed easing cycle comes to an end late this year.



### Wachovia Major Currency Forecast

(End of Quarter Rates)

	2008		2009				2010	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>Major Currencies</b>								
Euro (\$/ €)	1.56	1.52	1.46	1.42	1.36	1.30	1.26	1.22
U.K. (\$/ £)	1.96	1.93	1.92	1.88	1.84	1.76	1.72	1.70
U.K. (£/ €)	0.80	0.79	0.76	0.76	0.74	0.74	0.73	0.72
Japan (¥/ \$)	106	110	114	116	118	120	122	125
<b>Other Industrialized</b>								
Canada (C\$/ US\$)	1.02	1.06	1.10	1.14	1.18	1.20	1.22	1.24
Switzerland (CHF/ \$)	1.04	1.08	1.12	1.16	1.22	1.28	1.32	1.34
Norway (NOK/ \$)	5.10	5.20	5.35	5.50	5.65	5.90	6.00	6.20
Sweden (SEK/ \$)	6.00	6.10	6.35	6.50	6.70	7.00	7.20	7.40
Australia (US\$/ A\$)	0.94	0.92	0.88	0.84	0.80	0.76	0.72	0.70



<sup>1</sup>Data as of: June 11, 2008

Source: Bloomberg LP, Federal Reserve Board, International Monetary Fund and Wachovia Corp.

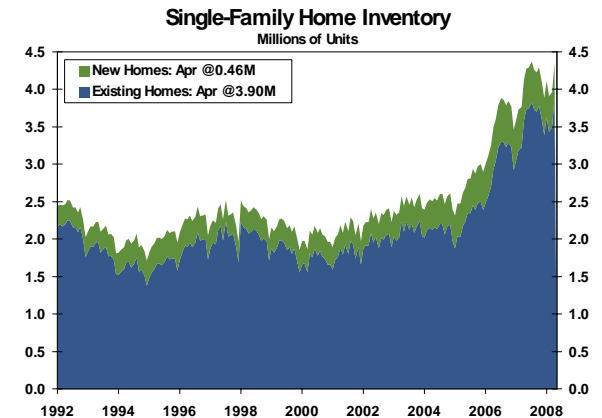
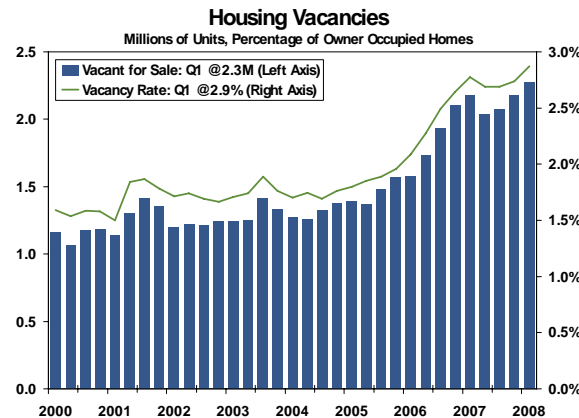
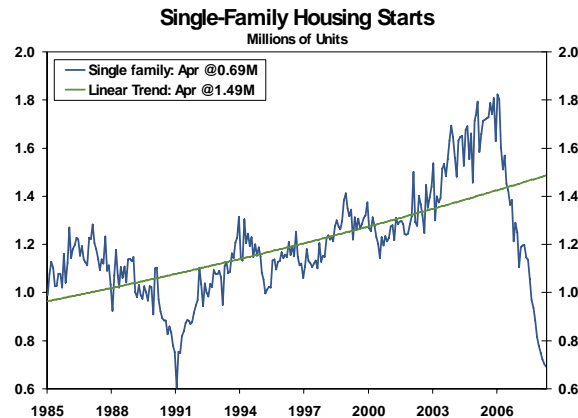
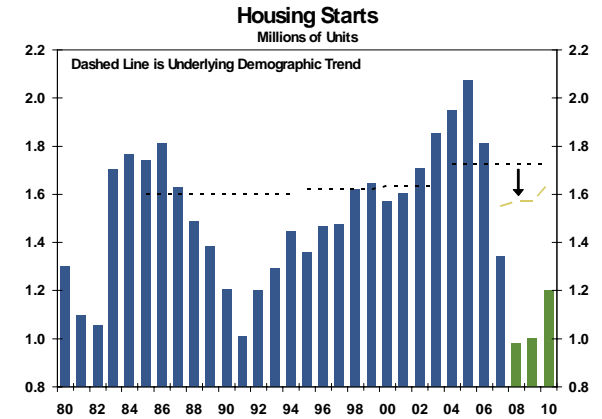


## **Residential Real Estate Summary**

## Five Years Of Overbuilding Has Pushed Inventories Of Unsold Homes Up By Around 1.225M Units

### Highlights

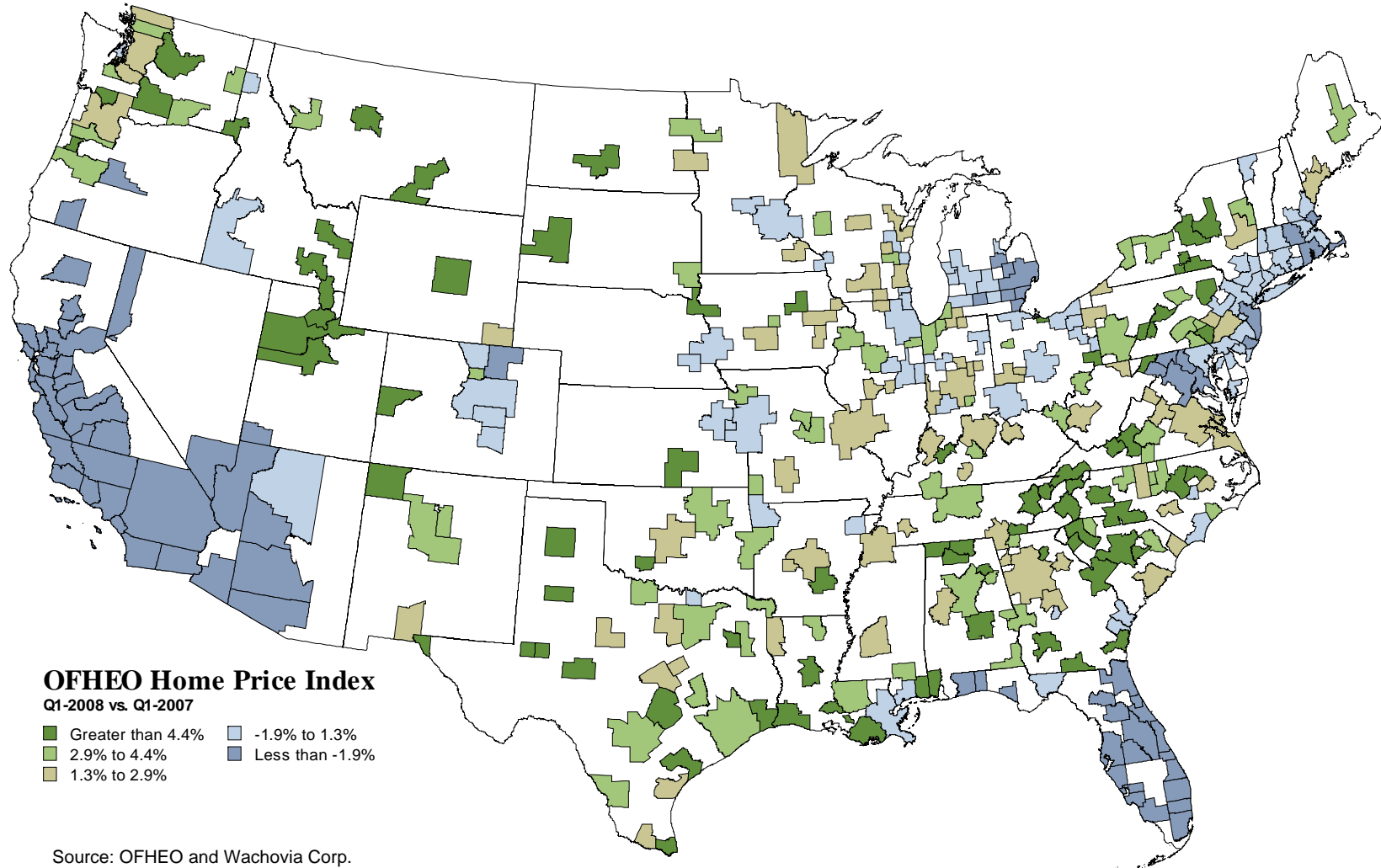
- We calculate that we need to build about 1.575 million homes a year to meet underlying demographic demand.
  - Just under 1.2 million for population growth and about 380k units for obsolescence, and a few for second homes at this point.
- Home sales peaked more than two years ago and we believe we are two-thirds of the way through this housing correction.
- New home sales will likely bottom in the second half of the year, but the demand for housing is derived from the underlying growth in the economy. Growth in the U.S. economy will have to return before demand picks up in any meaningful way.
- Our estimated overbuild of 1.225M units compares favorably with the rise in the number of vacant homes for sale or rent.



Source: NAR, U.S. Department of Commerce and Wachovia Corp.

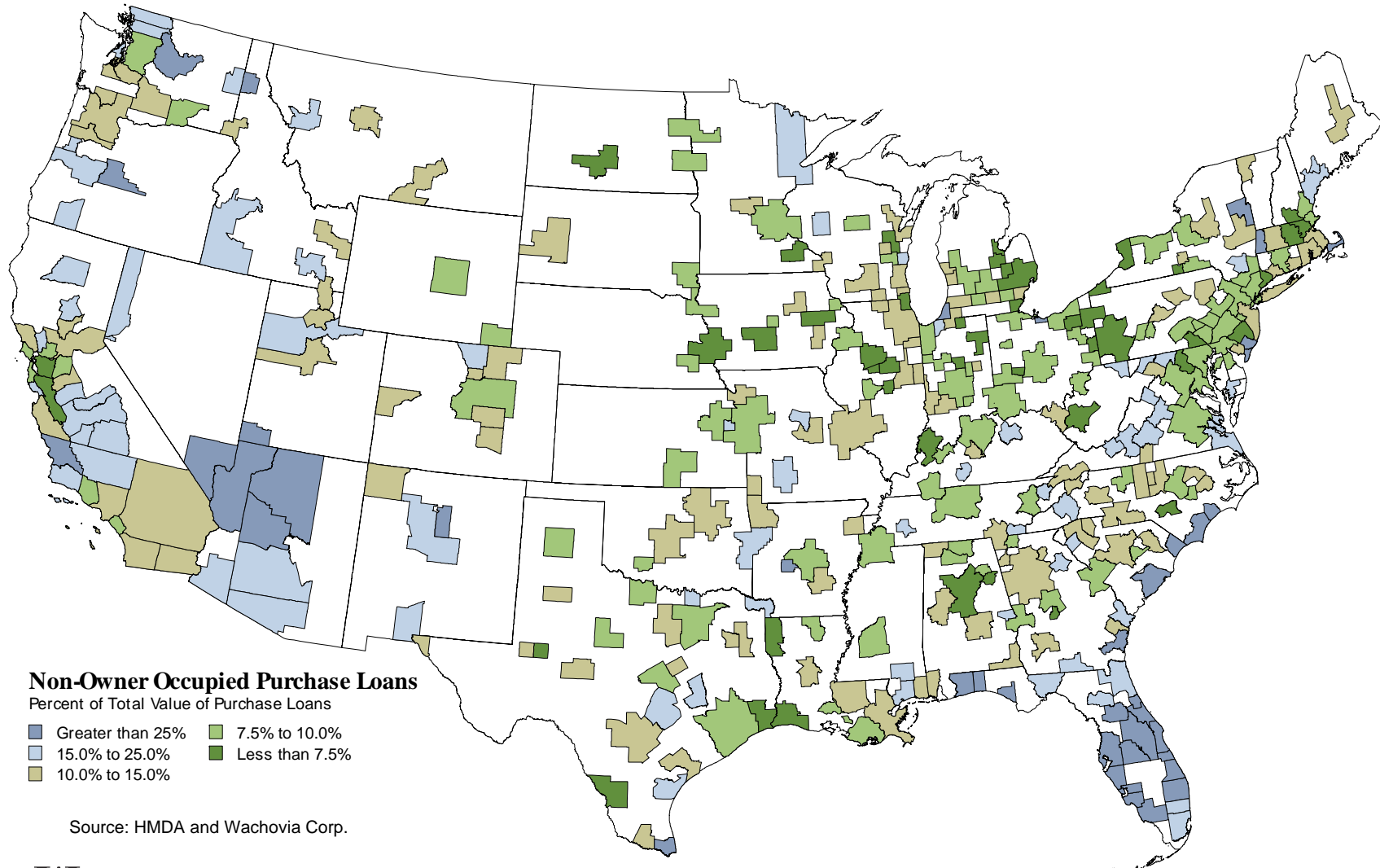
# Home Prices Are Now Falling in the Majority of American Cities

## OFHEO Home Price Index



## Investors Were Responsible For More than Half of the Purchases in Some Markets in 2006

### Non-Owner Occupied Purchase Loans: 2006





# Appendix

## A Sampling of Our Recent Special, Regional & Industry Commentary

Distribution Lists	Recent Special Commentary		
	Date	Title	Authors
▪ Monthly Economic Outlook	June-12	Discretionary Spending Share Held Near All-Time Low	Vitner & York
▪ Weekly Economic & Financial Commentary	June-12	Housing Chartbook - June 2008	Vitner & York
	June-12	Global Chartbook - June 2007	Bryson
	June-04	Commercial Real Estate Chartbook	Vitner & Khan
▪ Special Reports	May-21	Some Thoughts on Oil Prices and Global Inflation	Bryson
	May-21	Credit Shocks: Follow-up to the NABE Conference Call	Silvia
	May-07	Global Chartbook - May 2007	Bryson
▪ Economic Indicators	May-02	Commodity Prices in Historical Perspective	Bryson
	May-01	The Shrinking Discretionary Dollar	Vitner & York
▪ Global Economic Commentary	April-29	A Modern Policy for a Dynamic Labor Market	Silvia
	April-25	Recent Trends in U.S. Exports	Bryson
▪ Federal Reserve Commentary	April-16	Does Chinese Inflation Mean Higher U.S. Inflation?	Bryson
	April-15	Credit Crunch Squeezes Auto Sales	Vitner & Khan
	April-09	Global Chartbook - April 2008	Bryson
▪ Real Estate & Housing	April-08	Benchmarking the Financial Market Correction	Silvia
	April-01	Housing Chartbook - April 2008	Vitner & York
▪ Consumer & Retail	April-01	ECB Policy Outlook: An Update	Bryson
▪ Chief Economist List	March-17	Interest Rates: Growth, Inflation and Real Liquidity	Silvia
	March-17	Fed's Three Part Attack: Liquidity Ahead?	Silvia
	March-12	Could Subprime Tremors Shake Commercial Real Estate?	Vitner & Khan
	March-10	Subprime Market: An Economist's Perspective	Silvia
	March-06	Liquidity, Bank Credit, and Monetary Policy	Silvia
▪ To join any of our research distribution lists please visit our website:	February-22	Will U.S. Export Growth Buckle?	Bryson
▪ <a href="http://www.wachovia.com/economicsemail">http://www.wachovia.com/economicsemail</a>	February-14	The Outlook for Bank of England Monetary Policy	Bryson
	February-11	(When) Will the ECB Cut Rates?	Bryson
	February-11	Global Chartbook - February 2008	Bryson

Economics Group Coverage	U.S. Macro Economy	<ul style="list-style-type: none"> <li>■ Comprehensive Coverage of the U.S. Economy                             <ul style="list-style-type: none"> <li>■ Monthly Economic Forecast</li> <li>■ Weekly Analysis &amp; Outlook</li> <li>■ Timely Commentary on Daily Economic Data Releases</li> </ul> </li> </ul>	
	Global Economies	<ul style="list-style-type: none"> <li>■ Macro Level Coverage of Major Foreign Economies                             <ul style="list-style-type: none"> <li>■ Macro Forecasts of 11 Economies</li> <li>■ Monthly Forecasts of 19 Dollar Exchange Rates</li> <li>■ Weekly Analysis &amp; Outlook</li> </ul> </li> </ul>	
	U.S. Regional Economics	<ul style="list-style-type: none"> <li>■ Regional and MSA Level Expertise                             <ul style="list-style-type: none"> <li>■ Extensive Coverage Across the Wachovia Footprint</li> <li>■ Ground level Analysis &amp; Commentary of Local Markets</li> </ul> </li> </ul>	
	Industry	<ul style="list-style-type: none"> <li>■ Coverage Across CIB Industry Groups                             <ul style="list-style-type: none"> <li>■ Regular Commentary on Economic Developments by Industries</li> </ul> </li> </ul>	

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