WACHOVIA
ECONOMICS GROUP

2008 Annual Outlook

December 17, 2007

What's to Come in The Year Ahead?

Figure I-1

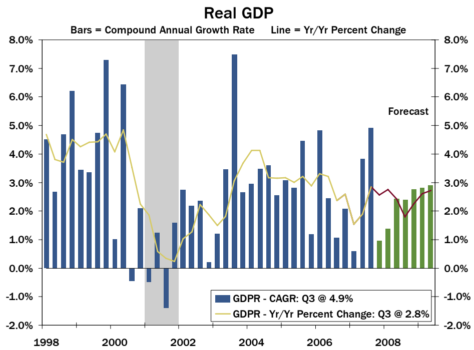
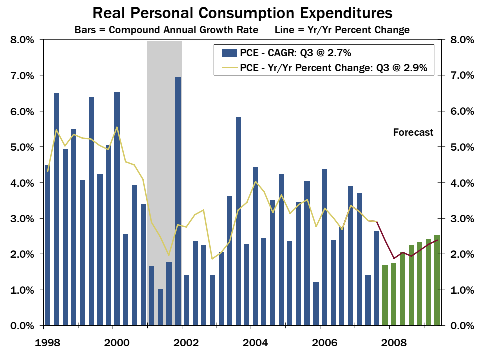


Figure I-2



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

Figure I-3

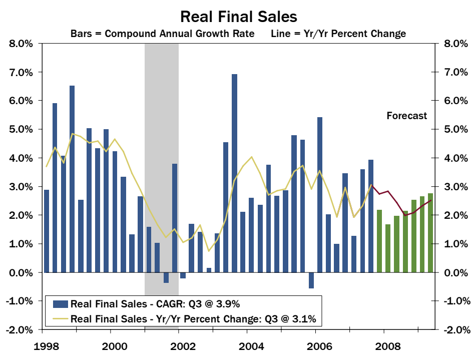
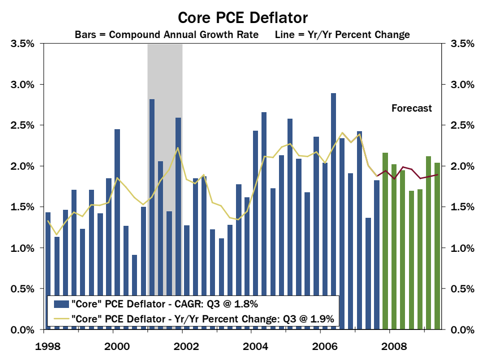


Figure I-4



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

Figure I-5

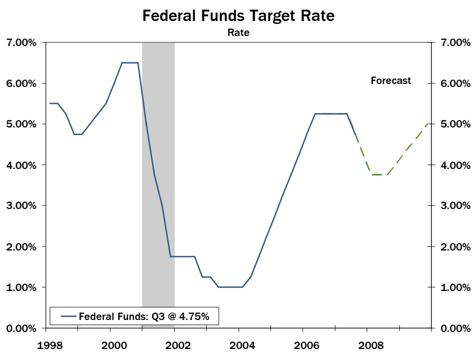
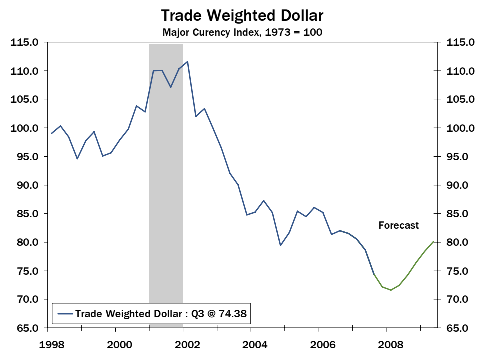


Figure I-6



Source: Board of Governors of the Federal Reserve and Wachovia Corp.

I. Executive Summary

- The outlook for the national economy continues to depend upon how well the consumer navigates through four major headwinds: the housing slump, rising energy costs, a tightening credit environment, and a weakening job market.

The American Consumer - 4

- Consumer spending will slow, but not collapse in 2008, as job and income growth underpin continued gains. Despite slower average employment gains in the coming year, job growth should be sufficient to produce wage and salary gains of around five percent.

- The slowdown in consumer spending coupled with steady income growth means that income growth will outpace spending growth for the first time in five years. As a result, the saving rate will rise.

- Growth will not be uniform, many areas will face sharper declines in home prices, and these adjustments will weigh heavily on local economies.

Housing & Residential Construction - 8

- Housing will continue to decline into the new year and we do not expect any meaningful recovery on a national basis before the end of the decade. Many areas are facing longer workout periods.

- Prices need to decline as much as 20 to 30 percent in markets such as California and Florida, where the run-up in home prices has created severe affordability issues for potential residents. Nationally, prices will need to decline only 10 to 15 percent from peak-to-trough.

Interest Rates - 11

- The Fed will need to cut the federal funds rate twice more in the first quarter. Recent actions suggest the Fed is committed to ensuring liquidity and the stability of global money markets. However, with renewed growth in the U.S. economy and lingering concerns of inflation, the FOMC will be in a position to begin tightening by year-end.

- Treasury yields will remain range-bound in the coming year, and newfound steepness should remain in the curve in the coming year.

- The Fed's coordinated action with other major central banks may not be a cure-all for the credit market problems, but it was certainly a step in the right direction. We look for LIBOR-to-Treasury spreads to narrow after the year-end pressures subside.

The Dollar - 14

- The Dollar may have reached a bottom in its five year slide recently. It should begin a slow move higher against European currencies by the second half of 2008, when foreign central banks will be easing into the face of renewed Fed tightening. However, we look for the greenback to depreciate further versus most Asian currencies.

II. The American Consumer

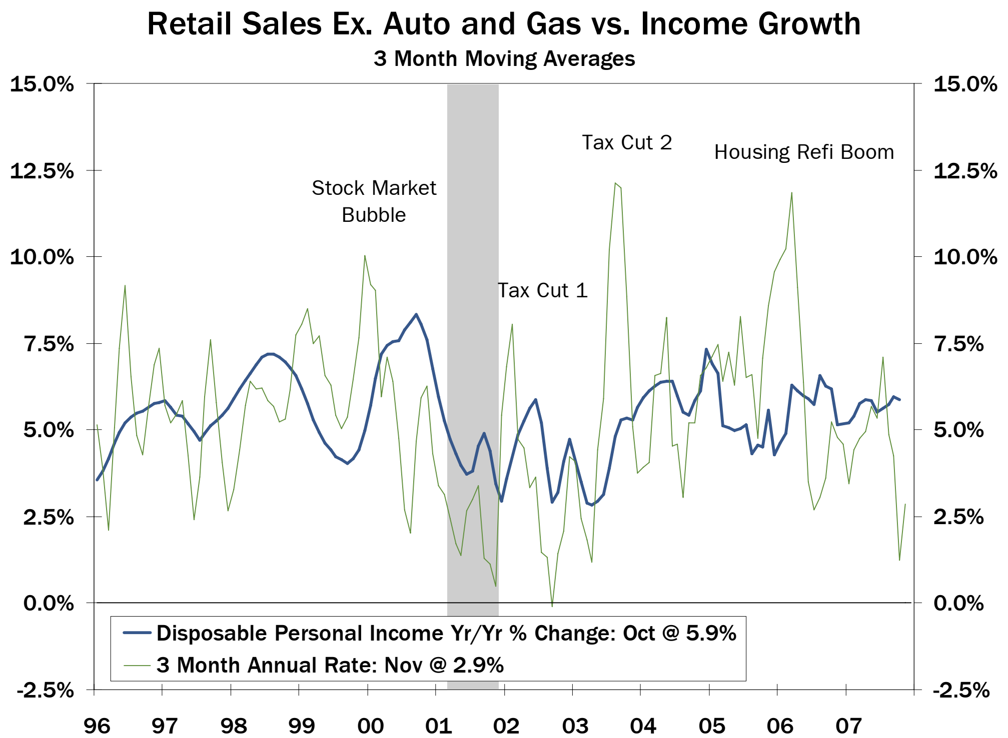
Consumer Resilience Despite Headwinds

The viability of the economic expansion will greatly depend upon how well the consumer navigates through four major headwinds: the housing slump; rising energy costs, a tightening credit environment, and a weakening job market. While this may appear to be a daunting task, consumers have dealt with far worse in the past. Moreover, job and income growth remain reasonably solid, which should ensure at least modest growth in personal consumption expenditures in the year ahead.

There has been a great deal of discussion about how falling home prices will impact consumer spending in 2008. The fear is that consumers will stop spending once they see the price of their home decline or are unable to tap the equity in their home. However, retail sales tend to rise roughly in-line with disposable income, Figure II-1, not asset price movements. Therefore, for the most part, these worries are overblown, and in many cases economic variables simply do not support the conclusions.

The viability of the economic expansion will greatly depend upon how well the consumer navigates through the housing slump, rising energy costs, a tightening credit environment, and a weakening job market.

Figure II-1



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

For starters, home prices are not falling everywhere. The declines currently being reported in some national price indices largely reflect substantial drops in home prices in a handful of markets, where prices soared earlier in the decade, and more modest gains in most other markets. Prices are still rising in markets where 65 percent of the U.S. population lives.

Even if home prices do drop, we have had experience with the wealth effect before and the impact was far less dramatic than widely feared. The bursting of the NASDAQ stock market bubble in 2000 and sell-off in the broader stock market triggered a $5.4 billion loss in household wealth between the first quarter of 2000 and the third quarter of 2002. During this period, consumer spending slowed relative to income growth and the saving rate rose.

In order for the housing slump to produce the same loss of wealth today that the stock market crash did earlier in the decade, we would need to see a 20 percent drop in home prices nationwide. While some people are calling for this, we feel fairly confident that home prices will, only fall between 10 and 15 percent peak-to-trough. Moreover, about one-third of this decline has already taken place.

While the national economy should be able to weather declines in home prices, a few areas will face more difficult adjustments. Areas of the country where home prices are falling rapidly, such as Florida and California, are seeing greater weakness in consumer spending. Even in these highly impacted areas, spending is still rising, albeit very modestly.

While the national economy should be able to weather declines in home prices, a few areas will face more difficult adjustments.

Figure II-2

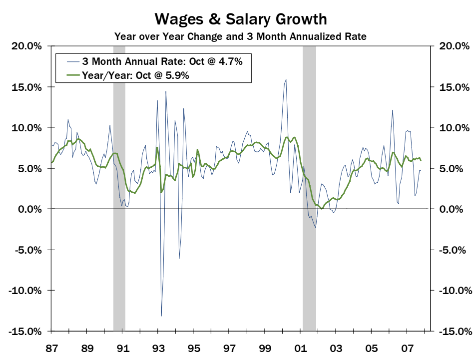
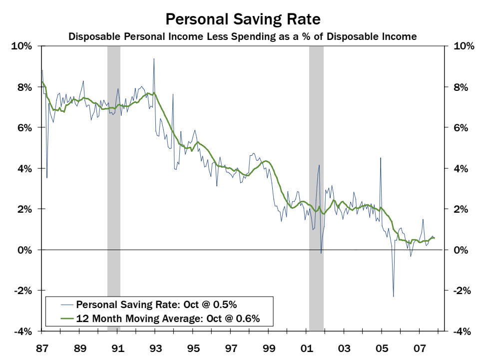


Figure II-3



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

One area of consumer spending that has taken a direct hit from the housing slowdown has been motor vehicle sales. Sales of new cars, light trucks and minivans slowed considerably during the second half of 2007 and will likely remain soft through the first half of 2008. We see total motor vehicle sales averaging a 15.9 million unit pace during the first six months of 2008 and project sales to total around 16.0 million units for the year.

The slower sales pace during the second half of 2007 has led to cutbacks at most of the major motor vehicle manufacturers, which should reduce overall economic growth. Consumers are also cutting back on purchases of other big-ticket items, including furniture and home furnishings. The one exception seems to be home electronics, where falling prices for flat panel televisions are leading to strong sales gains.

Consumers are also cutting back on purchases of other big-ticket items, including furniture and home furnishings.

While falling home prices and the potential impact on household wealth are receiving most of the attention, the number one determinant of consumer spending is wage and salary growth, which remains relatively solid. Wages and salaries have increased 5.9 percent over the past year. Job growth is expected to moderate in 2008. Nonfarm payrolls are expected to rise an average of just over 90,000 jobs a month during the first half of the year. Even this reduced pace of job growth should be sufficient enough to produce wage and salary growth of around five percent. This should allow retail sales to grow between 5.5 and 6.0 percent.

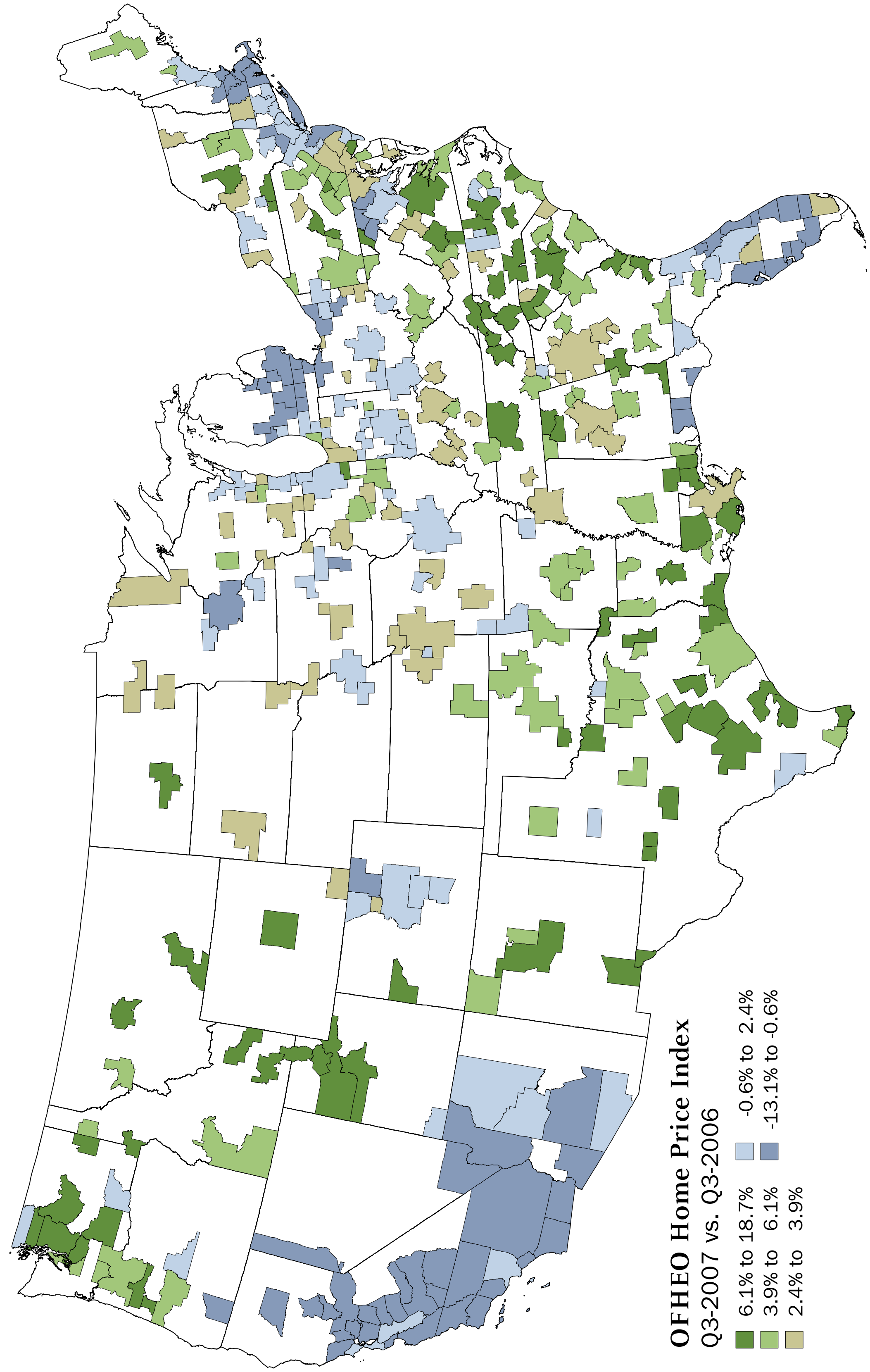
Even the reduced pace of job growth should be sufficient enough to produce wage and salary growth of around five percent.

After adjusting for taxes and inflation, real after-tax income should rise 2.6 percent, which should be more than adequate to support our projected 2.0 percent rise in real personal consumption expenditures. This will mark the first time in five years that consumption will grow slower than real after-tax income, which should produce a modest rise in the saving rate.

Where Are the Risks?

We feel our forecast for consumer spending is conservative. So far, job and income growth have held up much better than market expectations and wage increases are still outpacing inflation. We are cognizant of the risks. A harsher credit contraction that impacts consumer lending the same way it has impacted parts of the mortgage market would cause spending to slow much more and possibly even contract. Energy prices could also spike again, cutting further into disposable income. While all this is possible, we feel the most likely outcome is for continued modest gains in employment and income to offset the negative drag from falling home prices, producing moderate gains in consumer spending.

OFHEO Home Price Index



III. Housing & Residential Construction

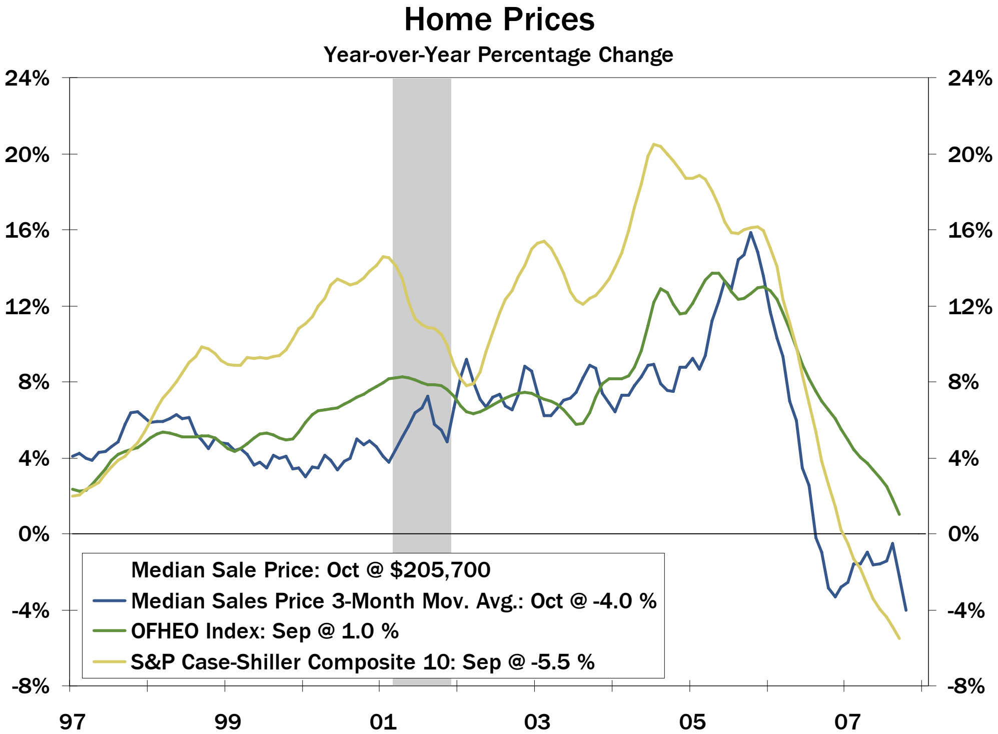
Prices in California and Florida markets need to fall 20 to 30 percent.

Sales of new and existing homes should bottom out during the first half of 2008. The biggest immediate challenge for the housing market is the lack of affordability in many key markets. Home prices in many markets, particularly in Florida and California, were driven higher by excessive speculative activity. Prices in these markets need to fall 20 to 30 percent and many have already declined significantly. Other parts of the country that saw a great deal of speculative purchases include Arizona, Nevada, the outer suburbs of Washington DC, Denver and the coastal areas of Virginia and the Carolinas. All these regions now face the prospect of several quarters of price declines.

We expect the number of metro areas posting price increases to continue to decline.

Corrections in most other housing markets will be far less severe. The latest OFHEO data show home prices are still rising in markets where 65 percent of the U.S. population lives, down from over 80 percent one quarter earlier (see map, page 7). We expect the number of metro areas posting price increases to continue to decline but still expect a sizeable percentage of markets to continue to post modest price gains. The combination of price declines in the formerly booming markets, modest price gains elsewhere, low interest rates and continued income growth should gradually restore housing affordability and lay the foundation for an eventual recovery in home sales.

Figure III-1



Source: National Association of Realtors, OFHEO, S&P Corp and Wachovia Corp.

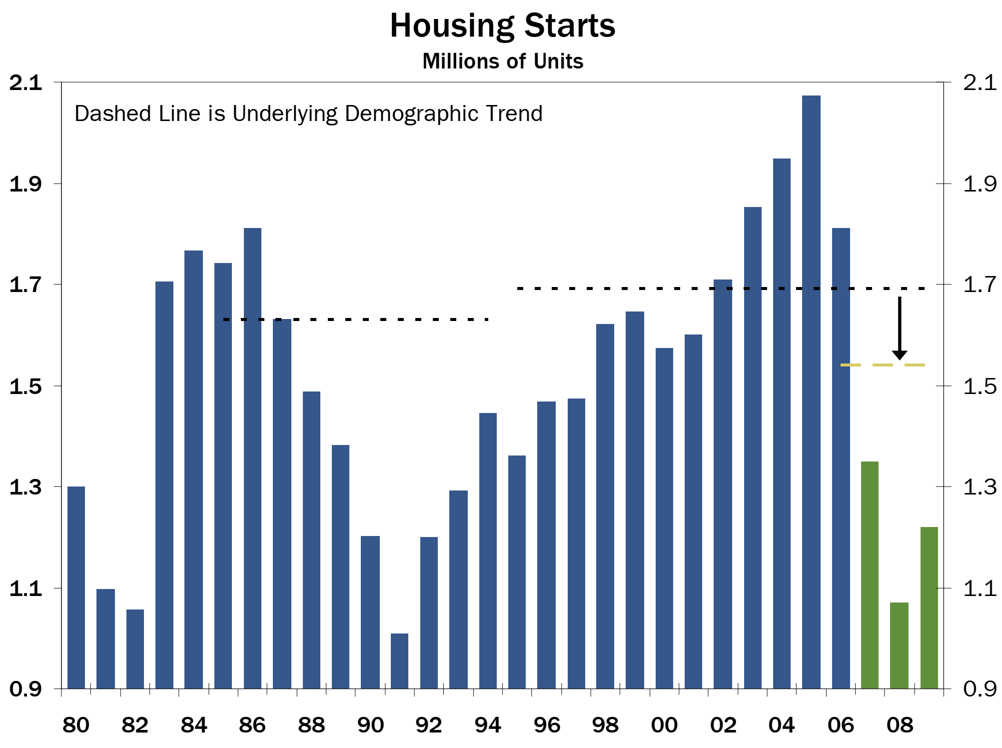
Supply & Demand

The second challenge ahead of the housing market is to reduce the oversupply of housing currently on the market. We have long contended that the actual oversupply of housing, as well as fear of additional supply from rising foreclosures, has been overstated. Our analysis shows that deliveries of homes, condominiums and townhomes during 2004, 2005 and 2006 collectively exceeded the underlying demographics by about 800,000 units. Deliveries this year were roughly in-line with demand.

Excess inventories should clear the market by the end of the decade.

We estimate the demand for housing has basically retreated to the growth in households plus annual obsolescence. Second home demand is assumed to be virtually zero at this point (down from a normal level of over 140k units) and is expected to remain so for the next two years. This puts the demand for new homes of all types at around 1.55 million units a year, which is roughly the amount that was delivered this past year. Deliveries are set to slow dramatically, however. After totaling just 1.35 million units this past year, housing starts are expected to total just 1.07 million units in 2008 and rise to just 1.21 million units the following year. This puts starts at just over 850,000 units below demand, which should essentially clear the market of excess inventories by the end of the decade.

Figure III-2



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

One potential complication is the rising tide of foreclosures. The number of loans in the foreclosure process increased 61 percent over the past year and is expected to rise by about the same amount in the coming year. Most of the rise in foreclosures is due to the inability of homeowners facing traditional challenges (the loss of a job, medical

The number of loans in the foreclosure process increased 61 percent over the past year and is expected to rise by about the same amount in the coming year.

problems, marital problems, etc.) to sell their homes in today's weaker market. In addition, many of today's foreclosures are homes purchased by investors that were unable to flip them at a higher price. Most of these homes are already on the market. All foreclosures will do is move homes from the hands of someone who is unable to cut the price to the new market reality to someone who is more motivated to do so. We see the rising tide of foreclosures as more of a threat to housing prices than to the total supply of homes on the market.

The last piece of the housing puzzle is how the continuing declines will impact overall growth in the economy. As a percentage of total GDP, residential construction has historically remained somewhere between three and six percent, a very small piece relative to major sectors such as consumer spending. That being said, declines in residential construction have been severe, off by double digits on a compound annual growth rate basis for the past six quarters, and we would estimate at least three more large declines are coming. Though, as the declines continue they are off ever smaller bases, meaning the value of those declines are smaller and so are the effects on top-line growth. The real impact from housing will be if the spillover effects continue to grow in other sectors in coming quarters.

While we see the housing market moving gradually back into balance by the end of the decade, total starts will not likely exceed 1.5 million units a year until 2012 or 2013.

Figure III-3

Housing Outlook

	Actual		Forecast		
	2005	2006	2007	2008	2009
Home Construction					
Total Housing Starts, in thousands	2072.9	1811.9	1310.0	1070.0	1210.0
Single-Family Starts, in thousands	1718.5	1474.3	1000.0	780.0	900.0
Multi-Family Starts, in thousands	354.4	337.7	310.0	290.0	310.0
Home Sales					
New Home Sales, Single-Family, in thousands	1283.0	1051.0	800.0	740.0	800.0
Total Existing Home Sales, in thousands	7076.0	6478.0	5675.0	4950.0	5220.0
Home Prices					
OFHEO Home Price Index, Percent Change	12.9	8.8	2.0	-3.8	1.8
Case-Shiller Home Price Index, Percent Change	16.4	7.4	-3.8	-8.0	1.4

Source: OFHEO, National Association of Realtors, S&P Corp., U.S. Department of Commerce and Wachovia Corp.

While we see the housing market moving gradually back into balance by the end of the decade, we do not see the return of anything that resembles a strong national housing market for years to come. Sales of new homes are not expected to return to the 1.0 million unit level until 2011 or 2012. New home construction will likely take slightly longer to rise back to levels normally identified as strong. Total starts will not likely exceed 1.5 million units a year until 2012 or 2013.

IV. Interest Rates

Interest Rates, Credit Spreads and the Return of Risk

For the last six months, we have witnessed the return of risk to the financial markets with the accompanied rapid response of both interest rates and credit spreads. Over the last two years we have seen a sequence of rises and falls in the benchmark ten-year Treasury (Figure IV-1) that belies the oft-stated view that interest rates have been steadily declining and that interest rate volatility was a relic of the past. In the coming year we believe the yield on the benchmark ten-year Treasury will remain in the range of 4.00 – 4.50 percent. This reflects our expectations on key driving factors such as inflation, growth, monetary policy and public finance. Our view is underpinned by statistical modeling, which incorporates these factors.

In the coming year we believe the yield on the benchmark ten-year Treasury will remain in the range of 4.00 – 4.50 percent.

For the year ahead we project inflation, as measured by the core personal consumption deflator, will remain below two percent and thereby remain within the Fed's acceptable range. We expect slightly below-trend growth of 2 to 2½ percent next year. Both growth and inflation set up a bias to ease for the Fed at least in the first half of next year. Slower economic growth suggests slower tax revenue gains and thereby an upward bias for Treasury financing needs.

Credit Spreads and Return of Risk: First Principles

For 2007, the theme has been the return of risk to the capital markets. Credit cycles reflect the traditional pattern of innovation, excess and correction. In our recent history, we have seen such cycles, based upon product innovation, with commercial paper in the 1970s and high yield bonds during the 1988-1992 period.

For 2007, the theme has been the return of risk to the capital markets.

Changing drivers of demand and supply define the evolution in credit product markets. In any decision-making network it is important to recognize that there is an underlying structure to the economy. However, that structure is dynamic in nature reflecting the interaction of finance and the real economy over time. The structure of the credit markets, for example, interacts with real side economic factors to generate changes in interest rate spreads and risk assessments in the market.

Figure IV-1

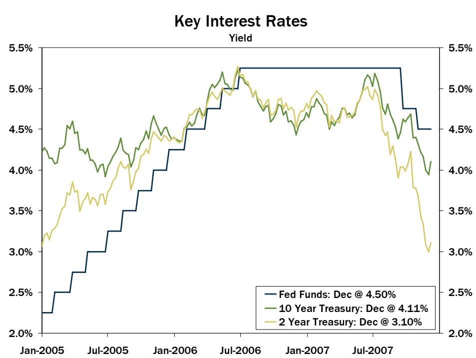
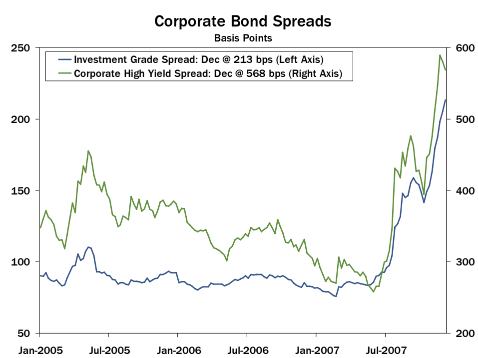


Figure IV-2



Source: Bloomberg LP, Merrill Lynch and Wachovia Corp.

At its simplest, the supply of credit reflects the incentives of lenders, which are determined by factors such as bank reserves, global liquidity and the value of real assets and the expected future value of those assets. In our view, these incentives reflected an unstable equilibrium between the expectations of rapid asset appreciation with new liquidity in global capital markets.

Expectations drive behavior. During the past four years, what have been market expectations in the housing market for example? The buyer expected both future home price appreciation and often personal income growth in order to fund future payments. The builder saw a healthy housing market and was willing to build many extra homes. The mortgage lender also anticipated a healthy mortgage market and expected there to be an active market for the ultimate holders of the mortgages. Expectations for the home buyer, builder and mortgage lenders were mutually reinforcing and thereby escalated the growth of credit.

Warning Signs Along the Road & Economic Evolution

Neither today's public economic policy nor private sector strategies will always be suitable for markets.

Three types of changes have impacted this basic mortgage credit model and thereby defined the direction of the subprime crisis. First, there were changes in the values of the independent variables—particularly housing affordability and credit standards. Second, there were changes in the relative importance of the independent variables—where expected home prices came to dominate all other fundamentals. Finally, there were changes in the set of independent variables that mattered as global acceptance of both the liquidity and credit quality of mortgage securities were perceived to improve radically. As a result, neither today's public economic policy nor private sector strategies will always be suitable as the mortgage market evolves. This evolution caught both public and private market decision-makers off guard this year.

An economy-wide optimism for pricing risk was ripe for the sequence of credit shocks that began in early 2007.

The pro-cyclical credit cycle also became apparent in the market for below investment grade debt. An economy-wide optimism for pricing risk was ripe for the sequence of credit shocks that began in early 2007 and sent credit spreads rising. Interestingly the bottom in high yield corporate spreads occurred at the very time that China altered its equity tax (February 26th) and also near the time New Century announced the halt of new loan issuance on March 9th.[1] A third shock to the financial markets hit when Bear Stearns shut down two hedge funds over the period June 12-20. This action reflected Bears' inability to provide adequate valuation of their hedge funds' holdings. These three events began the process of risk revaluation by investors as seen in the spreads in Figure IV-2.

Most dramatically, BNP Paribas, a French bank, cited uncertainty and illiquidity of holdings in their portfolios which led BNP to halt redemptions in early August. The reaction was immediate in critical liquidity markets such as LIBOR. On October 11th Moody's reduced credit ratings on 2,000 bonds backed by sub-prime loans. This pattern of news announcements and the immediate change in market prices helps explain why the market is struggling to reach a new equilibrium. To a volatile market hampered by illiquidity, it gives the appearance of an efficient market. In today's financial marketplace each shock appears to alter market expectations for both risk and return elements of the investment calculation.

[1] New Century Financial Corp. was the second largest issuer of subprime mortgages.

Public Policy: Lower Funds Rate and Steeper Yield Curve

Until mid-summer, public policy at both the Fed and Treasury appeared to be neutral to the developing credit concerns. At the time, the overwhelming sentiment was the problems in the housing and credit markets were contained. With the shock to the market due to the BNP announcement, however, financial market pricing and trading were open to greater uncertainty. The Federal Reserve reacted by encouraging use of the discount window for short-term borrowing by banks. On August 10th, the Federal Reserve open market desk eased access to the discount window by accepting a broader range of collateral at the discount window. Effectively, this meant that the Fed had eased credit conditions for commercial banks since the effective federal funds rate in the market was below the target rate for the Federal Reserve. On August 17th, the Federal Reserve Board followed up by lowering the discount rate "to promote the restoration of orderly conditions in financial markets."

Until mid-summer, public policy at both the Fed and Treasury appeared to be neutral to the developing credit concerns.

Since then the Fed has lowered both the Federal funds and discount rate as an attempt to provide an easier credit environment. The Fed announced coordinated steps with European central banks, on December 12, to provide additional liquidity. First, the Fed will open swap lines with European central banks to provide dollars to those central banks which can, in turn, lend to private commercial banks in Europe. These banks provide back-up-lines of credit to the commercial paper market. To provide liquidity for U.S. commercial banks, the Federal Reserve has set up an auction process that allows private banks to access liquid funds at a price/rate while pledging a variety of financial instruments other than Treasury and agency securities as collateral.

We view these actions as positive over the year-end but not as a silver bullet. Central banks are dealing with the liquidity issue and so we do expect Libor-Treasury bill spreads to narrow over the next three months as we get past the end-of-year pressures.

We do expect Libor-Treasury bill spreads to narrow over the next three months as we get past the end-of-year pressures.

Implications Going Forward: Rates, Spreads and Risk

Given these patterns in the first phase of the credit correction what can we expect going forward? First, the 10-year Treasury rate will remain in the 4.00 - 4.50 percent range. We expect that the Fed will continue to lower the federal funds rate in the first quarter of 2008 by another 50 basis points. Recent increases in credit spreads are likely to moderate over the next sixth months, but will still remain wider than the levels we saw before the recent correction.

V. The Dollar & Global Growth

The Fundamentals of Dollar Depreciation

The trade-weighted value of the dollar has declined nearly 25 percent since early 2002.

As measured by the Federal Reserve's "broad" index, the trade-weighted value of the dollar has declined nearly 25 percent since early 2002. That said, the greenback has weakened by varying amounts versus individual currencies. For example, the dollar has dropped between 30 percent and 40 percent vis-à-vis most European currencies. However, it generally has depreciated less against most Asian currencies. The greenback is down 15 percent versus the yen over the past five years, and it has declined only 10 percent against the Chinese renminbi since that currency was revalued in July 2005.

The dollar's depreciation over the past five years reflects a few factors, including the widening of the current account deficit that occurred between 2002 and the end of last year (see Figure V-1). Imports must ultimately be purchased with foreign currencies, and the shortfall of U.S. exports relative to imports that is reflected in the gaping current account deficit has helped to exert downward pressure on the greenback.

Relative interest rate differentials have moved against the United States this year.

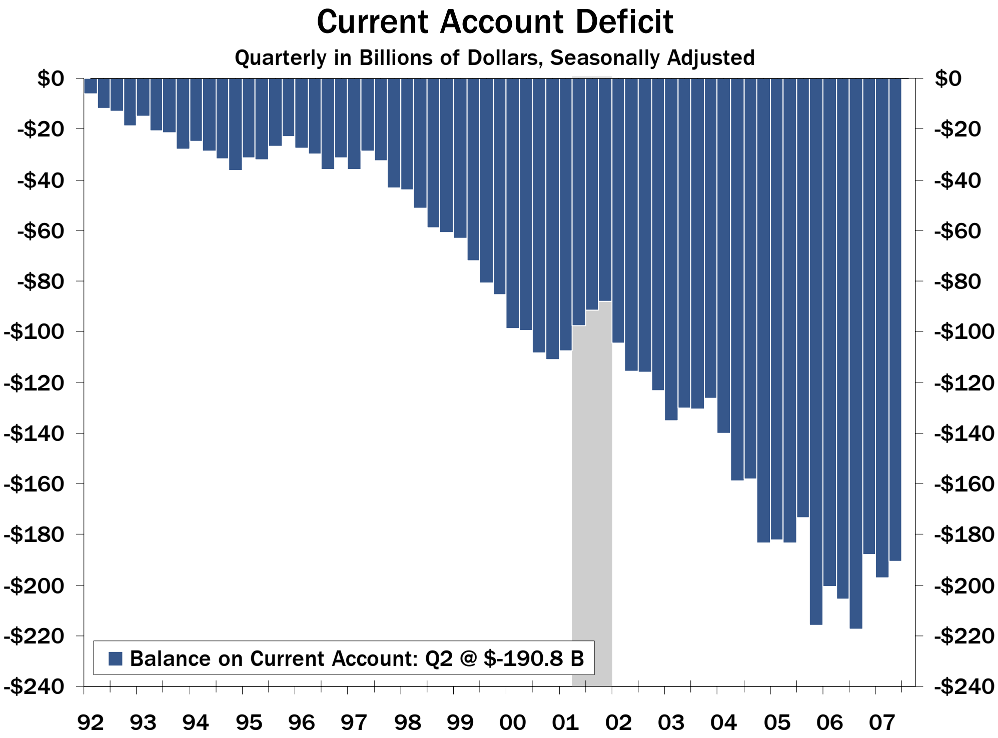
Although the current account deficit has narrowed somewhat this year, downward pressure on the dollar has intensified over the past few quarters due to the decline in foreign purchases of U.S. securities (see Figure V-2). Relative interest rate differentials have moved against the United States this year, which have reduced the relative attractiveness of dollar assets. More recently, dislocations in credit markets have significantly curtailed new issuance of structured fixed income products that foreign investors had previously purchased in droves. Reduced purchases of U.S. assets by foreign investors diminish demand for the dollar, which causes the value of the greenback to decline versus most major currencies.

Is a Dollar Turnaround in Sight?

We now project that the greenback will start to appreciate versus some currencies, at least beginning in the second half of next year.

Although the dollar has trended lower for five years, we now project that the greenback will start to appreciate versus some currencies, at least beginning in the second half of next year. Why? Very simply, the fundamentals of dollar depreciation are starting to change. First, the current account deficit, which has narrowed this year, should shrink further. Lackluster growth in U.S. domestic demand over the next few quarters should continue to weigh on imports, while solid economic growth in most foreign countries will likely keep export growth shored up. In addition, lagged effects of previous dollar depreciation should contribute to solid export growth and sluggish import growth. Although the red ink will not disappear overnight, a smaller current account deficit will exert less downward pressure on the greenback.

Figure V-1



Source: U.S. Department of Commerce

Second, interest rate differentials should become more supportive for the dollar. Although we look for the Fed to ease policy further, financial markets are priced for even more rate cuts than we project. If our forecast for the U.S. economy proves to be correct, long-term interest rates should rise as investors scale back their expectations of Fed easing. Indeed, we look for the FOMC to begin taking back its recent rate cuts at the end of next year as the U.S. economy averts recession and begins to strengthen.

Interest rate differentials should become more supportive for the dollar.

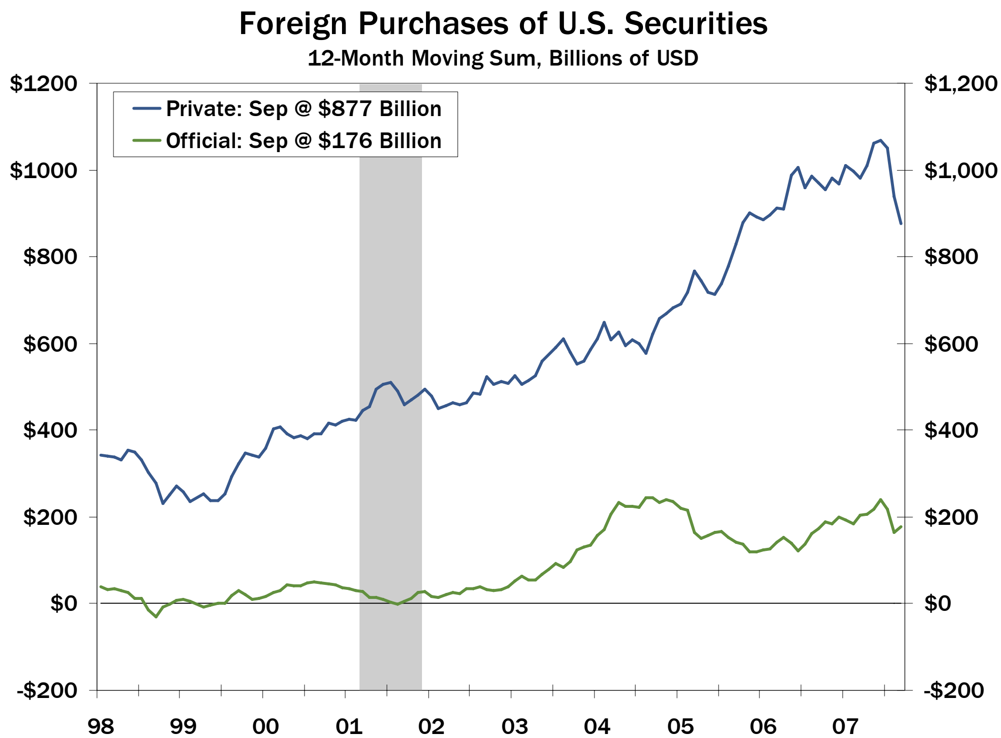
On the other hand, some major foreign central banks likely will ease policy next year due to slowing growth. As shown in Figure V-3, central banks in Canada and the United Kingdom have already cut rates by 25 basis points each. In the case of the Bank of England, we look for multiple rate cuts early in 2008. The European Central Bank has not yet cut rates, but we look for the ECB to ease policy in the first half of next year as growth in the Euro-zone slows and inflationary pressures dissipate.

Some major foreign central banks likely will ease policy next year.

Therefore, we expect that yields on U.S. securities will become more attractive relative to foreign alternatives, which should encourage foreign portfolio capital to flow to the United States. In addition, issuance of structured fixed income products, which has plummeted over the past few months, should begin to pick up as risk aversion begins to subside. Although new issuance of structured products will not return to the frenzied pace of early 2007 anytime soon, foreign portfolio investors should have more U.S. investment options next year than they do currently. Finally, foreign direct investment should continue to rise because the current weakness of the greenback helps to make physical investment in the United States very attractive.

Foreign direct investment should continue to rise.

Figure V-2



Source: U.S. Department of the Treasury

Dollar to Strengthen Against European but Not Asian Currencies

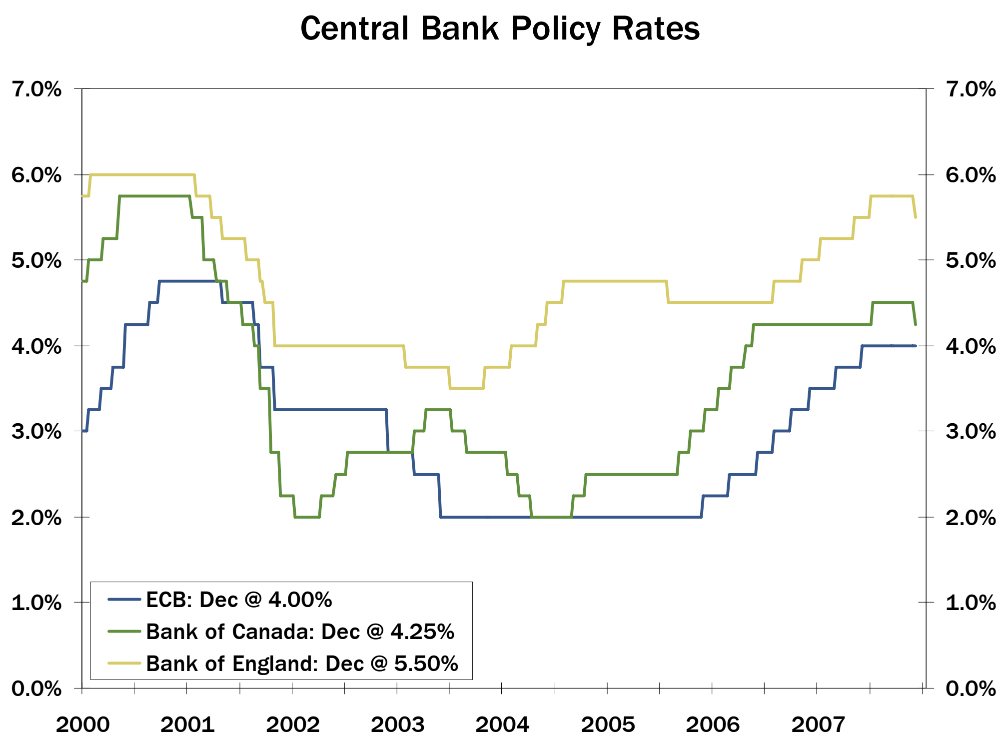
Sustained appreciation of the dollar vis-à-vis European currencies will not begin until the second half of 2008.

As shown in our currency forecast on page 19, we project that the greenback will move more or less sideways against most European currencies over the next quarter or two. We would not rule out the possibility that the dollar could fall to new all-time lows vis-à-vis some of these currencies over the next few months. As long as the Fed is expected to ease policy, it's hard to envision a sustained dollar rally. In general, we would characterize the next quarter or two as a "consolidation" phase for the dollar against most European currencies. In our view, the sustained appreciation of the dollar vis-à-vis European currencies will not begin until the second half of 2008 when it becomes apparent that the FOMC will begin to take back this year's rate cuts. Although we project that the greenback will trend higher against European currencies over the course of 2009, we do not think the value of the dollar will get anywhere close to the highs of early 2002. Indeed, our forecast for the end of 2009 projects that dollar exchange rates will only return to levels that prevailed in 2005.

We project the U.S. dollar will continue to loose value versus most Asian currencies.

Although we believe that the greenback will eventually appreciate against European currencies, we project the U.S. dollar will continue to lose value versus most Asian currencies. Whereas, we project that European central banks will cut rates next year, we expect further monetary tightening in Asia due to continued strong GDP growth and rising inflationary pressures. Moreover, large current account surpluses in Asia impart upward pressure on those currencies, which has been resisted to varying degrees via foreign exchange market intervention by Asian governments. However, currency appreciation helps to dampen inflationary pressures, which are becoming more of a policy concern. Therefore, we expect that most Asian governments will allow their currencies to appreciate, not only against the U.S. dollar but vis-à-vis most other currencies as well.

Figure V-3



Source: Bloomberg LP

Risk to Dollar Outlook: U.S. Recession

Where are we wrong? What could happen to lead to even further dollar depreciation versus most major currencies? In our view, the biggest risk to our currency forecast over the next few quarters is the outlook for the U.S. economy. A recession in the United States, which is not our forecast, would lead to significant easing by the Federal Reserve. In that event, interest rate differentials would move further against the dollar and capital inflows into the United States would weaken significantly, putting downward pressure on the greenback versus most major currencies until the recession passed. In the meantime, the greenback could depreciate significantly. Barring a recession, however, we believe that the underlying fundamentals are beginning to point in the direction of eventual dollar appreciation, at least against most European currencies that have borne the brunt of the greenback's slide over the past few years.

The biggest risk to our currency forecast over the next few quarters is the outlook for the U.S. economy.

VI. Forecast Tables

Wachovia U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast		
	2006				2007				2008				2009				2005	2006	2007	2008	2009
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Real Gross Domestic Product (a)	4.8	2.4	1.1	2.1	0.6	3.8	4.9	1.0	1.4	2.4	2.4	2.8	2.8	2.9	3.0	2.9	3.1	2.9	2.2	2.3	2.8
Personal Consumption	4.4	2.4	2.8	3.9	3.7	1.4	2.7	1.7	1.7	2.1	2.3	2.3	2.4	2.5	2.6	2.6	3.2	3.1	2.8	2.0	2.4
Business Fixed Investment	13.3	4.3	5.1	-1.4	2.1	11.0	9.4	3.7	3.8	2.6	2.6	2.9	3.6	3.4	3.5	3.2	7.1	6.6	4.6	4.4	3.2
Equipment and Software	13.0	-0.1	2.9	-4.9	0.3	4.7	2.2	4.3	4.0	3.0	2.8	3.1	3.8	3.5	3.5	3.1	9.6	5.9	1.5	4.1	3.4
Structures	15.0	16.4	10.8	7.5	6.3	26.2	14.3	5.2	3.0	1.0	2.0	2.0	3.0	3.0	3.5	3.5	0.5	8.4	12.2	5.4	2.7
Residential Construction	-0.7	-11.7	-20.4	-17.2	-16.3	-11.8	-19.7	-22.0	-21.0	-16.0	-8.0	0.0	0.5	1.5	2.5	2.5	6.6	-4.6	-16.7	-16.9	-1.3
Government Purchases	4.9	1.0	0.8	3.5	-0.5	4.1	3.8	1.4	1.4	1.3	1.6	1.6	1.8	2.0	2.0	2.0	0.7	1.8	2.0	1.9	1.8
Net Exports	-640.1	-626.6	-633.8	-597.3	-612.1	-573.9	-533.4	-524.1	-507.3	-491.1	-484.8	-477.8	-473.4	-468.9	-461.6	-456.4	-618.0	-624.5	-560.9	-490.3	-465.1
Pct. Point Contribution to GDP	0.1	0.5	-0.3	1.3	-0.5	1.3	1.4	0.3	0.6	0.6	0.2	0.2	0.1	0.2	0.2	0.2	-0.2	-0.1	0.6	0.6	0.2
Inventory Change	38.4	51.4	53.9	17.4	0.1	5.8	32.9	0.0	-8.0	5.4	12.8	19.7	24.6	29.6	31.6	34.6	33.3	40.3	9.7	7.5	30.1
Pct. Point Contribution to GDP	-0.5	0.5	0.1	-1.3	-0.6	0.2	0.9	-1.1	-0.3	0.5	0.3	0.2	0.2	0.2	0.1	0.1	-0.2	0.1	-0.3	0.0	0.2
Nominal GDP	8.4	6.0	3.4	3.8	4.9	6.6	5.9	4.2	4.0	4.8	4.7	5.0	5.2	5.2	5.3	5.3	6.4	6.1	5.0	4.7	5.1
Real Final Sales	5.4	2.0	1.0	3.5	1.3	3.6	3.9	2.2	1.7	2.0	2.1	2.5	2.6	2.8	2.9	2.8	3.3	2.8	2.5	2.3	2.6
Retail Sales (b)	7.9	6.4	5.4	5.1	3.4	4.0	4.1	5.6	5.7	5.5	6.0	5.6	5.4	5.6	5.5	5.5	6.6	6.2	4.3	5.7	5.5
Inflation Indicators (b)																					
"Core" PCE Deflator	2.0	2.2	2.4	2.3	2.4	2.0	1.9	1.9	1.8	2.0	2.0	1.8	1.9	1.9	1.9	1.9	2.2	2.2	2.1	1.9	1.9
Consumer Price Index	3.7	4.0	3.4	1.9	2.4	2.7	2.4	3.9	4.1	3.3	3.6	3.2	2.9	3.0	2.9	2.9	3.4	3.2	2.8	3.6	2.9
"Core" Consumer Price Index	2.1	2.4	2.8	2.7	2.6	2.3	2.1	2.3	2.3	2.3	2.1	2.0	2.0	2.0	2.1	2.1	2.2	2.5	2.3	2.2	2.1
Producer Price Index	4.4	4.4	2.8	0.3	1.9	3.4	3.5	6.6	5.7	4.0	4.6	3.2	3.0	2.6	2.3	2.1	4.9	2.9	3.9	4.4	2.5
Employment Cost Index	2.8	3.0	3.3	3.3	3.5	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.4	3.4	3.3	3.3	3.2	3.1	3.4	3.3	3.3
Real Disposable Income (a)	4.8	0.2	1.7	6.2	5.4	-0.8	4.4	0.8	3.2	3.1	3.0	3.2	3.2	3.2	3.3	3.3	1.7	3.1	3.2	2.6	3.2
Nominal Personal Income (b)	7.1	6.7	6.8	6.0	6.3	6.1	6.4	5.8	4.4	4.6	4.4	4.9	5.4	6.0	6.5	6.8	5.9	6.6	6.2	4.6	6.2
Industrial Production (a)	5.0	6.5	4.0	-1.5	1.1	3.5	3.9	-1.4	0.5	2.3	3.2	3.0	3.2	3.5	3.5	4.3	3.2	4.0	1.9	1.6	3.3
Capacity Utilization	81.2	82.0	82.3	81.5	81.3	81.7	82.1	81.5	81.4	81.4	81.6	81.9	82.0	82.2	82.4	82.6	80.2	81.7	81.7	81.6	82.3
Corporate Profits Before Taxes (b)	10.1	12.2	22.7	8.4	2.1	4.2	1.9	-6.0	2.0	4.5	9.0	5.0	5.8	6.0	5.5	6.5	11.5	13.2	0.6	5.2	5.9
Corporate Profits After Taxes	9.6	10.4	21.3	8.2	1.2	3.3	2.7	-4.0	2.5	5.0	7.0	6.5	6.0	6.0	6.0	6.0	6.1	12.2	0.8	5.3	6.0
Federal Budget Balance (c)	-183.6	96.5	-41.7	-80.4	-178.0	137.5	-41.8	-143.8	-153.0	91.0	-59.0	-76.0	-142.0	102.0	-50.0	-69.0	-318.7	-248.2	-162.8	-264.8	-166.0
Current Account Balance (d)	-200.6	-205.6	-217.3	-187.9	-197.1	-190.8	-186.0	-185.0	-185.0	-184.0	-180.0	-174.0	-168.0	-164.0	-161.0	-160.0	-754.8	-811.5	-758.9	-723.0	-653.0
Trade Weighted Dollar Index (e)	85.2	81.4	82.0	81.5	80.5	78.7	74.4	72.2	71.6	72.5	74.2	76.5	78.4	80.1	81.8	83.2	86.0	81.5	72.2	76.5	83.2
Nonfarm Payroll Change (f)	252	124	202	177	142	126	77	118	90	97	110	125	132	135	142	147	212	189	116	105	139
Unemployment Rate	4.7	4.6	4.7	4.5	4.5	4.5	4.6	4.7	4.9	5.1	5.2	5.1	4.9	4.8	4.7	4.6	5.1	4.6	4.6	5.1	4.8
Housing Starts (g)	2.13	1.86	1.70	1.55	1.46	1.46	1.30	1.17	1.08	1.01	1.05	1.12	1.17	1.20	1.23	1.26	2.07	1.81	1.35	1.07	1.22
Light Vehicle Sales (h)	16.8	16.3	16.5	16.3	16.4	16.0	15.9	16.0	15.8	15.9	16.1	16.2	16.3	16.4	16.5	16.5	16.9	16.5	16.1	16.0	16.4
Crude Oil – WTI – Front Contract (i)	63.48	70.70	70.48	60.21	58.16	65.03	75.38	90.00	89.00	93.00	90.00	88.00	89.00	89.00	87.00	86.00	56.56	66.22	72.14	90.00	87.75
Quarter-End Interest Rates																					
Federal Funds Target Rate	4.75	5.25	5.25	5.25	5.25	5.25	4.75	4.25	3.75	3.75	3.75	4.00	4.25	4.50	4.75	5.00	4.25	5.25	4.25	4.00	5.00
3 Month LIBOR	5.00	5.48	5.37	5.36	5.35	5.36	5.23	4.75	4.10	4.00	4.00	4.25	4.50	4.75	5.00	5.25	4.54	5.36	4.75	4.25	5.25
Prime Rate	7.75	8.25	8.25	8.25	8.25	8.25	7.75	7.25	6.75	6.75	6.75	7.00	7.25	7.50	7.75	8.00	7.25	8.25	7.25	7.00	8.00
Conventional Mortgage Rate	6.32	6.68	6.40	6.14	6.16	6.66	6.38	6.20	6.10	6.00	5.95	6.00	6.20	6.40	6.60	6.80	6.27	6.14	6.20	6.00	6.80
3 Month Bill	4.63	5.01	4.89	5.02	5.04	4.82	3.82	3.00	3.20	3.40	3.70	3.90	4.25	4.50	4.75	5.00	4.08	5.02	3.00	3.90	5.00
2 Year Note	4.82	5.16	4.71	4.82	4.58	4.87	3.97	3.30	3.30	3.50	3.80	4.00	4.20	4.40	4.60	4.80	4.41	4.82	3.30	4.00	4.80
5 Year Note	4.82	5.10	4.59	4.70	4.54	4.92	4.23	3.60	3.50	3.70	4.00	4.30	4.50	4.70	4.80	5.00	4.35	4.70	3.60	4.30	5.00
10 Year Note	4.86	5.15	4.64	4.71	4.65	5.03	4.59	4.20	4.10	4.10	4.20	4.40	4.60	4.80	5.00	5.20	4.39	4.71	4.20	4.40	5.20
30 Year Bond	4.90	5.19	4.77	4.81	4.84	5.12	4.83	4.60	4.40	4.40	4.50	4.70	4.90	5.10	5.30	5.40	4.51	4.81	4.60	4.70	5.40

Data As of: December 17, 2007

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

December 17, 2007

Wachovia International Economic Forecast

(Year-over-Year Percentage Change)

	GDP			CPI		
	2007	2008	2009	2007	2008	2009
Global	4.5%	4.0%	4.1%	N/A	N/A	N/A
Major Economies						
United States	2.2%	2.3%	2.8%	2.8%	3.6%	2.9%
Eurozone	2.6%	1.8%	2.2%	2.0%	2.0%	1.8%
Germany	2.7%	1.7%	1.9%	2.3%	2.1%	1.8%
France	2.1%	1.8%	2.1%	1.5%	1.7%	1.8%
Italy	1.8%	1.3%	1.7%	1.9%	1.5%	1.6%
UK	3.1%	1.9%	2.2%	2.3%	1.6%	1.8%
Japan	1.9%	1.4%	2.0%	0.0%	0.2%	0.4%
Canada	2.5%	1.9%	2.6%	2.1%	1.9%	1.9%
Developing Economies						
China	11.3%	9.7%	9.6%	4.7%	4.6%	3.8%
India	8.9%	8.4%	8.3%	6.6%	5.5%	5.3%
Mexico	3.2%	3.4%	3.3%	3.9%	3.7%	3.4%
Brazil	4.6%	4.2%	4.0%	3.6%	3.9%	3.7%

[1]Data As of: December 17, 2007

Wachovia Currency Forecast

(End of Quarter Rates)

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Major Currencies								
Euro ($/€)	1.48	1.46	1.42	1.36	1.32	1.28	1.24	1.20
U.K. ($/£)	2.06	2.01	1.93	1.84	1.80	1.76	1.72	1.70
U.K. (£/€)	0.72	0.73	0.74	0.74	0.73	0.73	0.72	0.71
Japan (¥/$)	112	110	108	106	105	104	103	102
Other Industrialized								
Canada (C$/US$)	0.98	1.00	1.04	1.08	1.12	1.15	1.18	1.20
Switzerland (CHF/$)	1.12	1.13	1.16	1.20	1.24	1.28	1.32	1.35
Norway (NOK/$)	5.40	5.45	5.55	5.70	5.85	6.00	6.15	6.30
Sweden (SEK/$)	6.35	6.40	6.50	6.70	6.85	7.00	7.10	7.20
Australia (US$/A$)	0.89	0.86	0.83	0.80	0.77	0.74	0.72	0.70
Developing Economies								
Mexico (MXN/$)	10.60	10.70	10.80	10.90	11.00	11.10	11.20	11.20
Brazil (BRL/$)	1.75	1.78	1.82	1.86	1.90	1.94	1.98	2.00
Poland (PLN/$)	2.40	2.45	2.50	2.55	2.65	2.70	2.75	2.80
Russia (RUB/$)	24.00	23.50	23.00	22.75	22.50	22.25	22.00	22.00
Turkey (TRY/$)	1.15	1.18	1.22	1.25	1.28	1.30	1.32	1.35
South Africa (ZAR/$)	6.70	6.90	7.10	7.30	7.50	7.70	7.90	8.00
China (CNY/$)	7.25	7.15	7.00	6.85	6.70	6.50	6.40	6.30
India (INR/$)	39.00	38.75	38.50	38.25	38.00	37.75	37.50	37.25
Korea (KRW/$)	900	895	890	885	880	875	870	870
Singapore (S$/US$)	1.42	1.40	1.38	1.37	1.36	1.35	1.34	1.34
Taiwan (TWD/$)	32.00	31.75	31.50	31.25	31.00	30.75	30.50	30.50

[1]Data As of: December 17, 2007

Wachovia International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR								10-Yr Government Security							
	2008				2009				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	4.10%	4.00%	4.00%	4.25%	4.50%	4.75%	5.00%	5.25%	4.10%	4.10%	4.20%	4.40%	4.60%	4.80%	5.00%	5.20%
Japan	0.90%	0.90%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.80%	1.90%	1.95%	2.00%	2.00%	1.95%	1.90%	1.90%
Euroland	4.15%	4.15%	4.15%	4.15%	4.15%	4.15%	4.15%	4.15%	4.60%	4.70%	4.75%	4.75%	4.70%	4.65%	4.60%	4.60%
U.K.	5.85%	5.40%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.15%	5.10%	5.00%	5.00%	5.00%	5.05%	5.10%	5.10%
Canada	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.70%	4.75%	4.75%	4.70%	4.65%	4.60%	4.60%

[1]Data As of: December 17, 2007

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 Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Huiwen Lai, Ph.D.	Quantitative Analyst	(704) 715-7415	huiwen.lai@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Quantitative Analyst	(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

WACHOVIA