WACHOVIA
ECONOMICS GROUP

MONTHLY OUTLOOK

October 10, 2007

U.S. Overview

The worst fears about the near term economic outlook subsided considerably following the release of the September employment figures. Not only were job gains stronger than expected in September but the previous month's surprising decline was revised away. The meltdown in the financial markets has also cooled off. While credit spreads remain wider than they were prior to the crisis, they have come off their highs significantly.

One of the more pressing problems today is that the secondary market for subprime mortgages remains largely closed and there is still too little liquidity in the jumbo mortgage market. High quality leveraged loans and asset backed commercial paper are trading, but at a discount; anything below high quality is trading relatively little or not at all. As a result, banks have put more of these assets on their books, as well as a significant number of residential and commercial mortgages that had been slated for the secondary market. With balance sheets filling up with riskier assets, many banks are curbing their appetite for anything less than pristine credits.

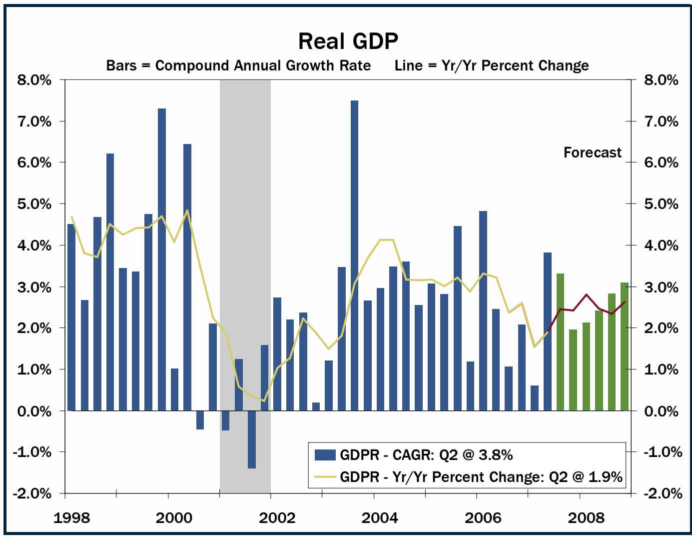
The Federal Reserve appears to be done for now. Third quarter real GDP looks like it rose at a 3.3 percent pace, thanks largely to robust gains in consumer outlays. Growth is expected to moderate in the current quarter, reflecting deeper cuts in residential construction and some slowing in business fixed investment. We have the Fed on hold, but a quarter point cut later this year remains a possibility.

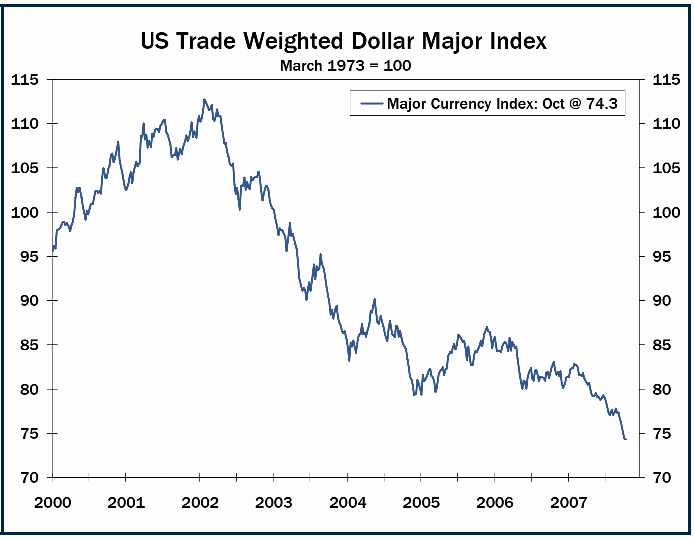
International Overview

The dollar continues to lose ground. Indeed, the Fed's "Major Currency" index, which measures the dollar's value against seven major foreign currencies, recently fell to an all-time low. Although the greenback could stage a near-term rally, we believe that any correction will likely be short-lived. Looking forward, we project further dollar depreciation in the quarters ahead.

For starters, the current account deficit, although beginning to narrow a bit, should remain "large" for some time. Second, interest rate differentials between the United States and most major foreign countries are not very supportive for the greenback at present. In addition, recent dislocations in credit markets, which should keep new issuance of structured fixed income products depressed for some time, will give foreign investors fewer U.S. securities to purchase, which will weigh on net capital inflows.

In our view, the biggest risk to our forecast of continued dollar depreciation is a sharp bounce back in issuance of structured fixed income products. In that event, foreign capital could pour back into the United States, which would lead to significant dollar appreciation. However, we believe that investor appetite for risk will remain subdued, which will limit new issuance of structured products. Conversely, we believe the probability of a dollar "meltdown", which is being discussed now that the dollar is trading at all-time lows, is also rather small. In our view, the most likely scenario is continued dollar depreciation at a modest pace.





Slower Growth But No Recession

We have been consistently amazed by all of the talk about the possibility of recession. Some overly eager commentators and even a few economists have declared that a recession has already begun. Such talk will probably look pretty silly on October 31, when we will get our first look at third quarter real GDP. Our latest estimate has third quarter real GDP rising at around a 3.3 percent pace and there is a good chance that growth will come in above our estimate.

The third quarter's strength largely reflects robust consumer outlays during the quarter and we already have two-thirds of the data in the books. Housing-related activity did weaken during the period but the bulk of any additional cutbacks in construction resulting from the mortgage market meltdown will not show up until the fourth quarter. We now expect the housing slump to be a bit deeper and last a little longer than we did earlier but the thrust of our forecast remains unchanged. Now that conditions in the credit markets have stabilized we have a better idea about what the potential impact will be. Credit is being constrained for riskier borrowers and will likely remain tight. Some loosening in the subprime market will eventually occur, particularly for fixed-rate mortgages, where credit quality remains relatively good. Lending for takeovers and sales of commercial real estate properties will now be more prudent and based on much more conservative assumptions of future revenues. Prices of commercial properties may fall back a bit as well, but commercial construction should be restrained only modestly, as office vacancy rates remain relatively low across the country and rents are increasing. A repeat of the second quarter's astounding 26.2 percent annualized gain in structures spending is unlikely anytime soon, but a sharp downturn is just as improbable.

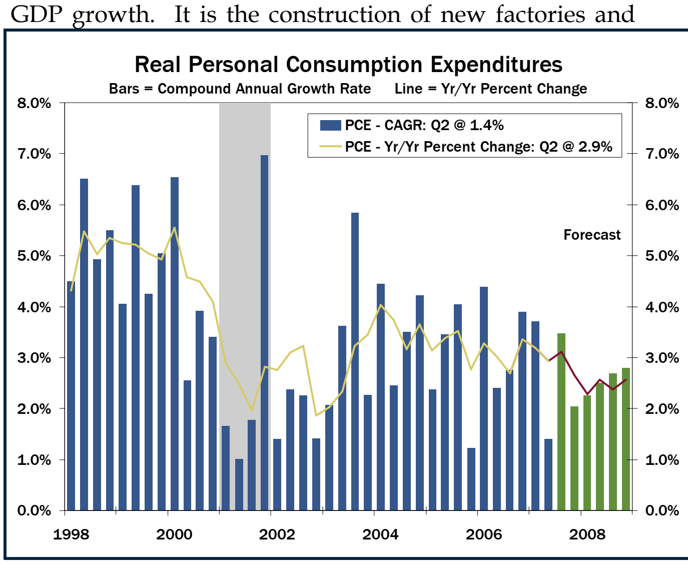
Buying and selling companies and office buildings makes headlines but actually contributes relatively little to real GDP growth. It is the construction of new factories and offices that counts in the GDP figures, along with the acquisition of new computers, communications gear and industrial equipment. The private-equity buying binge did not carry over into capital spending and in fact may have diverted resources away from it. A company putting itself up for sale is not likely to buy the best and latest technology.

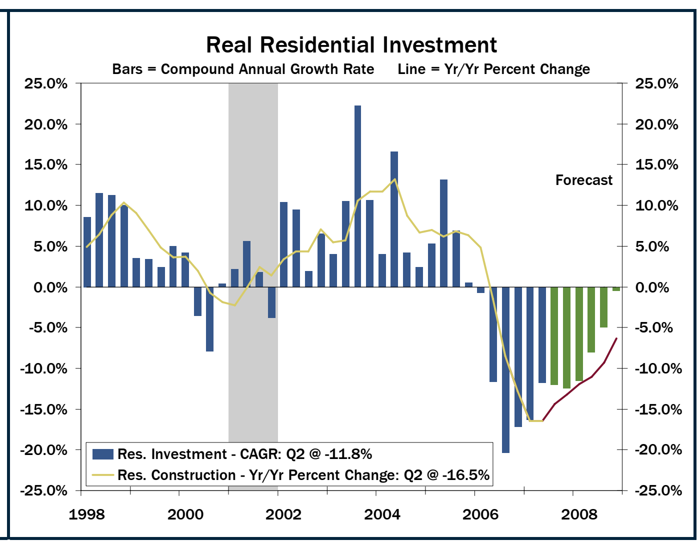
As far as the meat and potatoes part of the outlook, consumer spending looks as though it will cool off a bit in coming months. Spending for big-ticket items such as automobiles and household furniture is expected to slow in coming quarters, as more and more adjustable rate mortgages adjust upward. Slower job and income growth will also curb consumers' willingness to spend this holiday season, but we are still expecting gains.

Fed Takes a Wait and See Attitude

The minutes from the FOMC meeting contained one surprise in that the Fed decided not to provide a balance of risks assessment. We interpret this move as an attempt by the Fed to make it clear to the financial markets that they can react to a financial crisis without giving in on inflation. Carried a step further, the Fed's comments seem to indicate to us that September's half point rate cut and any additional cuts we might see are intended to provide a temporary respite for the economy and financial markets. Interest rates will head back up once the economy and financial markets firm up.

We now have the Fed on hold through all of next year. With real GDP growth expected to be around a 2 percent pace for the next two quarters, there is a risk that some sort of exogenous shock coming from the financial markets or overseas will trigger some additional moves by the Fed. Any such moves would come after the October 31 FOMC meeting, when the economy is likely to look pretty solid.





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	3.3	2.0	2.1	2.4	2.8	3.1	3.2	3.0	2.9	2.9	3.1	2.9	2.1	2.6	3.0
Personal Consumption	4.4	2.4	2.8	3.9	3.7	1.4	3.5	2.0	2.3	2.5	2.7	2.8	2.8	2.8	2.8	2.8	3.2	3.1	3.0	2.4	2.8
Business Fixed Investment	13.3	4.3	5.1	-1.4	2.1	11.0	1.2	2.9	4.4	3.7	3.5	3.4	4.2	3.3	3.4	3.1	7.1	6.6	3.5	3.8	3.6
Equipment and Software	13.0	-0.1	2.9	-4.9	0.3	4.7	2.3	2.9	4.8	3.5	3.1	3.0	4.1	3.1	3.2	3.0	9.6	5.9	0.8	3.6	3.4
Structures	15.0	16.4	10.8	7.4	6.4	26.2	-2.0	3.0	3.0	4.5	5.0	5.0	4.5	4.0	4.0	3.5	0.5	8.4	9.9	4.3	4.4
Residential Construction	-0.7	-11.7	-20.4	-17.2	-16.3	-11.8	-12.0	-12.5	-11.5	-8.0	-5.0	-0.5	1.0	1.2	1.4	1.6	6.6	-4.6	-15.2	-9.7	-0.5
Government Purchases	4.9	1.0	0.8	3.5	-0.5	4.1	2.1	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.2	0.7	1.8	1.8	2.2	2.1
Net Exports	-640.1	-626.6	-633.8	-597.3	-612.1	-573.9	-569.5	-567.7	-568.2	-567.1	-563.5	-557.0	-551.0	-546.7	-544.1	-543.3	-618.0	-624.5	-580.8	-564.0	-546.3
Pct. Point Contribution to GDP	0.1	0.5	-0.3	1.3	-0.5	1.3	0.2	0.1	0.0	0.0	0.1	0.2	0.2	0.1	0.1	0.0	-0.2	-0.1	0.4	0.1	0.1
Inventory Change	38.4	51.4	53.9	17.4	0.1	5.8	8.0	16.0	20.3	23.9	28.8	31.7	33.6	35.1	35.6	36.6	33.3	40.3	7.5	26.2	35.2
Pct. Point Contribution to GDP	-0.5	0.5	0.1	-1.3	-0.6	0.2	0.1	0.3	0.1	0.1	0.2	0.1	0.1	0.0	0.0	0.0	-0.2	0.1	-0.3	0.2	0.1
Nominal GDP	8.4	6.0	3.4	3.8	4.9	6.6	5.6	4.2	4.3	4.6	5.1	5.4	5.6	5.3	5.2	5.2	6.4	6.1	4.9	4.8	5.3
Real Final Sales	5.4	2.0	1.0	3.5	1.3	3.6	3.3	1.7	2.0	2.3	2.7	3.0	3.1	3.0	2.9	2.8	3.3	2.8	2.4	2.4	2.9
Retail Sales (b)	7.9	6.4	5.4	5.0	3.4	4.0	4.0	4.9	4.6	4.4	5.0	5.3	5.4	5.6	5.5	5.5	6.6	6.1	4.1	4.8	5.5
Inflation Indicators (b)																					
"Core" PCE Deflator	2.0	2.2	2.4	2.3	2.4	2.0	1.8	1.7	1.5	1.7	1.7	1.8	1.8	1.9	1.9	1.9	2.2	2.2	2.0	1.7	1.9
Consumer Price Index	3.7	4.0	3.4	1.9	2.4	2.7	2.3	3.2	2.8	2.0	2.1	2.3	2.4	2.4	2.6	2.7	3.4	3.2	2.7	2.3	2.5
"Core" Consumer Price Index	2.1	2.4	2.8	2.7	2.6	2.3	2.1	2.0	1.8	1.8	1.8	1.9	2.1	2.1	2.1	2.2	2.2	2.5	2.2	1.8	2.1
Producer Price Index	4.4	4.4	2.8	0.3	1.9	3.4	3.1	3.5	1.8	0.0	1.0	2.1	2.6	2.3	2.0	1.7	4.9	2.9	3.0	1.2	2.1
Employment Cost Index	2.8	3.0	3.3	3.3	3.5	3.3	3.3	3.2	3.4	3.3	3.3	3.3	3.5	3.4	3.3	3.3	3.2	3.1	3.3	3.3	3.4
Real Disposable Income (a)	4.8	0.2	1.7	6.2	5.4	0.6	3.2	2.8	2.7	2.9	3.1	3.3	3.5	3.3	3.3	3.4	1.7	3.1	3.4	2.8	3.3
Nominal Personal Income (b)	7.1	6.7	6.8	6.0	6.3	6.4	6.7	6.2	4.6	4.3	4.1	4.6	5.4	6.1	6.4	6.4	5.9	6.6	6.4	4.4	6.1
Industrial Production (a)	5.0	6.5	4.0	-1.5	1.1	3.5	4.4	2.5	2.4	2.8	3.1	3.0	3.2	3.5	3.5	4.3	3.2	4.0	2.2	2.9	3.3
Capacity Utilization	81.2	82.0	82.3	81.5	81.3	81.7	82.0	81.5	81.4	81.3	81.5	81.6	81.7	81.8	81.9	82.1	80.2	81.7	81.6	81.4	81.9
Corporate Profits Before Taxes (b)	10.1	12.2	22.7	8.4	2.1	4.2	-7.0	4.5	5.0	4.5	9.0	5.0	5.8	6.0	5.5	6.5	11.5	13.2	0.9	5.8	6.0
Corporate Profits After Taxes	9.6	10.4	21.3	8.2	1.2	3.3	-3.5	2.0	5.5	5.0	7.0	6.5	6.0	6.0	6.0	6.0	6.1	12.2	0.7	6.0	6.0
Federal Budget Balance (c)	-183.6	96.5	-41.7	-80.4	-178.0	137.5	-63.4	-99.0	-153.0	91.0	-59.0	-76.0	-142.0	102.0	-50.0	-69.0	-318.7	-248.2	-184.4	-220.0	-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	73.5	72.2	71.3	70.6	69.9	69.5	68.9	68.9	68.9	86.0	81.5	73.5	69.9	68.9
Nonfarm Payroll Change (f)	252	124	202	177	142	126	97	85	90	105	120	135	145	145	150	150	212	189	113	113	148
Unemployment Rate	4.7	4.6	4.7	4.5	4.5	4.5	4.6	4.8	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	1.33	1.30	1.31	1.26	1.27	1.29	1.32	1.35	1.38	1.42	2.07	1.81	1.39	1.28	1.37
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	16.6	16.9	16.5	16.1	16.0	16.5
Crude Oil – WTI – Front Contract (i)	63.48	70.70	70.48	60.21	58.16	65.03	75.38	76.00	70.00	67.00	69.00	68.00	64.00	65.00	71.00	66.00	56.56	66.22	68.64	68.50	66.50
Quarter-End Interest Rates																					
Federal Funds Target Rate	4.75	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.00	4.25	5.25	4.75	4.75	5.00
3 Month LIBOR	5.00	5.48	5.37	5.36	5.35	5.36	5.23	5.13	4.93	4.88	4.88	4.88	4.88	5.13	5.13	5.13	4.54	5.36	5.13	4.88	5.13
Prime Rate	7.75	8.25	8.25	8.25	8.25	8.25	7.75	7.75	7.75	7.75	7.75	7.75	7.75	8.00	8.00	8.00	7.25	8.25	7.75	7.75	8.00
Conventional Mortgage Rate	6.32	6.68	6.40	6.14	6.16	6.66	6.38	6.60	6.50	6.50	6.50	6.55	6.65	6.80	6.90	7.00	6.27	6.14	6.60	6.55	7.00
3 Month Bill	4.63	5.01	4.89	5.02	5.04	4.82	3.82	4.50	4.50	4.60	4.60	4.70	4.75	4.90	5.00	5.10	4.08	5.02	4.50	4.70	5.10
2 Year Note	4.82	5.16	4.71	4.82	4.58	4.87	3.97	4.60	4.60	4.70	4.70	4.80	4.90	5.00	5.10	5.20	4.41	4.82	4.60	4.80	5.20
5 Year Note	4.82	5.10	4.59	4.70	4.54	4.92	4.23	4.75	4.75	4.85	4.90	4.90	5.00	5.10	5.20	5.30	4.35	4.70	4.75	4.90	5.30
10 Year Note	4.86	5.15	4.64	4.71	4.65	5.03	4.59	4.90	4.90	5.00	5.00	5.00	5.10	5.20	5.30	5.40	4.39	4.71	4.90	5.00	5.40
30 Year Bond	4.90	5.19	4.77	4.81	4.84	5.12	4.83	5.00	5.10	5.20	5.20	5.20	5.30	5.40	5.50	5.50	4.51	4.81	5.00	5.20	5.50

Data As of: October 10, 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

Dollar Continues Slide

As shown in the graph on the front page, the dollar continues to sink lower versus most major currencies. Indeed, the Fed's "Major Currency" index, which measures the dollar's value against seven major foreign currencies, recently fell to an all-time low. Since the beginning of the year, the index has declined about 9 percent.

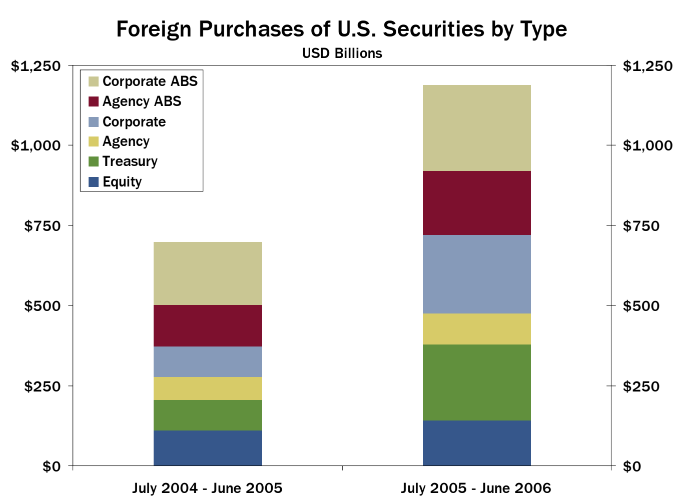
The greenback's swoon accelerated last month after the Federal Reserve cut its target for the fed funds rate by 50 basis points. Not only did the larger-than-expected reduction in the Fed's policy rate cause short-term U.S. interest rates to decline, which reduced the relative attractiveness of U.S. assets, but it also stoked expectations of further Fed easing. Indeed, the yield curve is currently priced for 50 basis points of further Fed easing by the first half of next year.

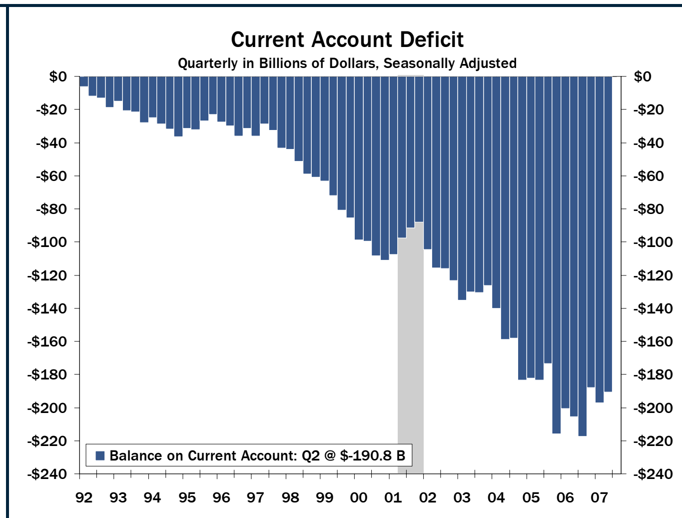
However, as we show on page 3, we believe the Fed will not cut rates by as much as the market expects because we project that overall GDP growth will remain rather solid. In that case, shouldn't the dollar rally as expectations of further Fed easing are scaled back? Well, yes, we do see the possibility of a near-term dollar rally. However, we do not expect any near-term strength in the dollar to be sustained. As our forecast on the next page indicates, we continue to look for further dollar depreciation in the quarters ahead.

This forecast of dollar deprecation is based more on recent developments in structured fixed income markets than it is on expectations of Fed policy. As shown in the chart below, foreign investors bought more than $450 billion worth of asset-backed securities (both "agency" and "corporate" ABS) between July 2005 and June 2006. (We do not have more recent "hard" data, but anecdotal evidence suggests foreign purchases of structured fixed income products remained very strong in the second half of 2006 and the first half of this year.) However, new issuance in structured fixed income markets has been rather weak over the past two months due to recent dislocations in credit markets, and we do not expect a dramatic turnaround anytime soon. The current account deficit may be starting to narrow somewhat (see chart below), but it likely will remain "large" for the foreseeable future. With reduced issuance of structured fixed income products, we project that net capital inflows will fall short of the current account deficit, which will continue to exert downward pressure on the dollar.

Could a near-term dollar correction turn into trend dollar appreciation? Yes, if investor appetite for risk rebounds significantly, which would breathe new life back into structured fixed income product markets. However, we believe the re-pricing of risk that has occurred in credit markets since mid-July will not soon reverse. Although new issuance of structured fixed income products will not remain at depressed levels forever, we don't think it will come roaring back in the near term.

What about the other risk? Could a collapse in the value of the greenback occur? For a dollar meltdown to take place, foreign investors would need to dump their holdings of U.S. assets on a large-scale basis. However, the United States has the broadest, most liquid, and most transparent capital markets in the world, and we cannot fathom what would cause foreign investors to lose faith in the ability of U.S. consumers, businesses, and government to honor their financial obligations on a widespread basis. In our view, the probability of a complete meltdown in the value of the greenback is rather low. Notwithstanding the possibility of a near-term dollar correction, the most likely scenario is for the greenback to continue to depreciate at a modest pace over the foreseeable future.





October 10, 2007

Wachovia Currency Forecast

(End of Quarter Rates)

	2007	2008				2009		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Major Currencies								
Euro ($/€)	1.42	1.44	1.46	1.47	1.48	1.49	1.50	1.50
U.K. ($/£)	2.05	2.06	2.07	2.08	2.09	2.09	2.10	2.10
U.K. (£/€)	0.69	0.70	0.71	0.71	0.71	0.71	0.71	0.71
Japan (¥/$)	115	112	110	108	106	105	104	104
Other Industrialized								
Canada (C$/US$)	1.00	0.98	0.97	0.96	0.95	0.95	0.94	0.94
Switzerland (CHF/$)	1.18	1.16	1.14	1.12	1.10	1.08	1.07	1.07
Norway (NOK/$)	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.80
Sweden (SEK/$)	6.50	6.35	6.25	6.20	6.15	6.10	6.00	6.00
Australia (US$/A$)	0.88	0.90	0.91	0.92	0.93	0.93	0.94	0.94
Developing Economies								
Mexico (MXN/$)	10.90	10.80	10.70	10.60	10.50	10.45	10.40	10.40
Brazil (BRL/$)	1.85	1.80	1.75	1.72	1.70	1.67	1.65	1.65
Poland (PLN/$)	2.65	2.60	2.55	2.50	2.45	2.42	2.40	2.40
Russia (RUB/$)	24.75	24.25	23.75	23.50	23.25	23.00	22.75	22.50
Turkey (TRY/$)	1.18	1.16	1.14	1.13	1.12	1.11	1.10	1.10
South Africa (ZAR/$)	6.90	6.80	6.70	6.65	6.60	6.55	6.50	6.50
China (CNY/$)	7.40	7.25	7.15	7.00	6.85	6.70	6.50	6.40
India (INR/$)	39.25	39.00	38.75	38.50	38.25	38.00	37.75	37.50
Korea (KRW/$)	920	910	900	890	880	875	870	870
Singapore (S$/US$)	1.48	1.46	1.44	1.43	1.42	1.41	1.40	1.40
Taiwan (TWD/$)	32.50	32.25	32.00	31.75	31.50	31.25	31.00	30.75

[1]Data As of: October 10, 2007

Wachovia International Economic Forecast

(Year-over-Year Percentage Change)

	GDP			CPI		
	2007	2008	2009	2007	2008	2009
Global	4.4%	4.0%	4.2%	N/A	N/A	N/A
Major Economies						
United States	2.1%	2.6%	3.0%	2.7%	2.3%	2.5%
Eurozone	2.5%	1.9%	2.3%	1.9%	2.1%	2.0%
Germany	2.6%	2.0%	2.1%	2.1%	2.0%	1.8%
France	1.8%	2.0%	2.3%	1.5%	1.8%	1.9%
Italy	1.7%	1.5%	1.8%	1.7%	1.4%	1.6%
UK	3.0%	2.2%	2.3%	2.2%	1.7%	1.9%
Japan	1.9%	1.6%	2.0%	0.0%	0.3%	0.4%
Canada	2.6%	2.4%	2.6%	2.0%	1.7%	1.9%
Developing Economies						
China	11.1%	9.6%	9.7%	4.9%	5.2%	3.8%
India	8.8%	8.3%	8.4%	6.7%	5.8%	5.5%
Mexico	2.9%	3.2%	3.3%	3.8%	3.2%	3.2%
Brazil	4.2%	3.6%	3.8%	3.6%	3.7%	3.5%

[1]Data As of: October 10, 2007

Wachovia International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR								10-Yr Government Security							
	2007	2008				2009			2007	2008				2009		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
United States	5.13%	4.93%	4.88%	4.88%	4.88%	4.88%	5.13%	5.13%	4.90%	4.90%	5.00%	5.00%	5.00%	5.10%	5.20%	5.30%
Japan	0.75%	0.90%	0.90%	1.10%	1.10%	1.10%	1.10%	1.10%	1.70%	1.80%	1.90%	1.95%	2.00%	2.00%	1.95%	1.90%
Euroland	4.15%	4.15%	4.15%	4.15%	4.15%	4.15%	4.15%	4.15%	4.40%	4.60%	4.70%	4.75%	4.75%	4.70%	4.65%	4.60%
U.K.	5.90%	5.75%	5.40%	5.10%	5.10%	5.10%	5.10%	5.10%	5.30%	5.25%	5.10%	5.00%	5.00%	5.00%	5.05%	5.10%
Canada	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.50%	4.60%	4.70%	4.75%	4.75%	4.70%	4.65%	4.60%

[1]Data As of: October 10, 2007

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 York	Economic Analyst	(704) 715-9660	adam.york@wachovia.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com

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