



THE FEDERAL RESERVE BANK OF RICHMOND  
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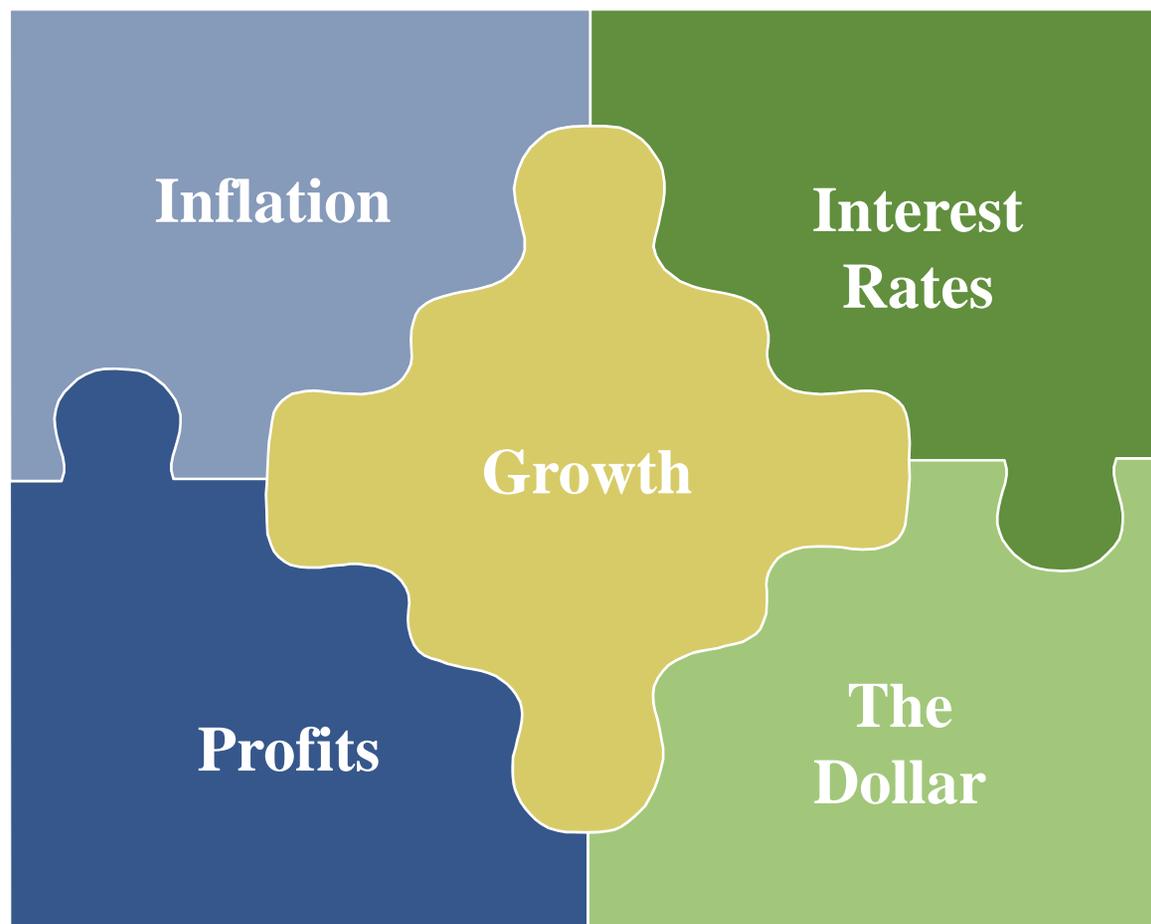
# State of the Global Economy: Interplay of Credit and Growth

April 2, 2009

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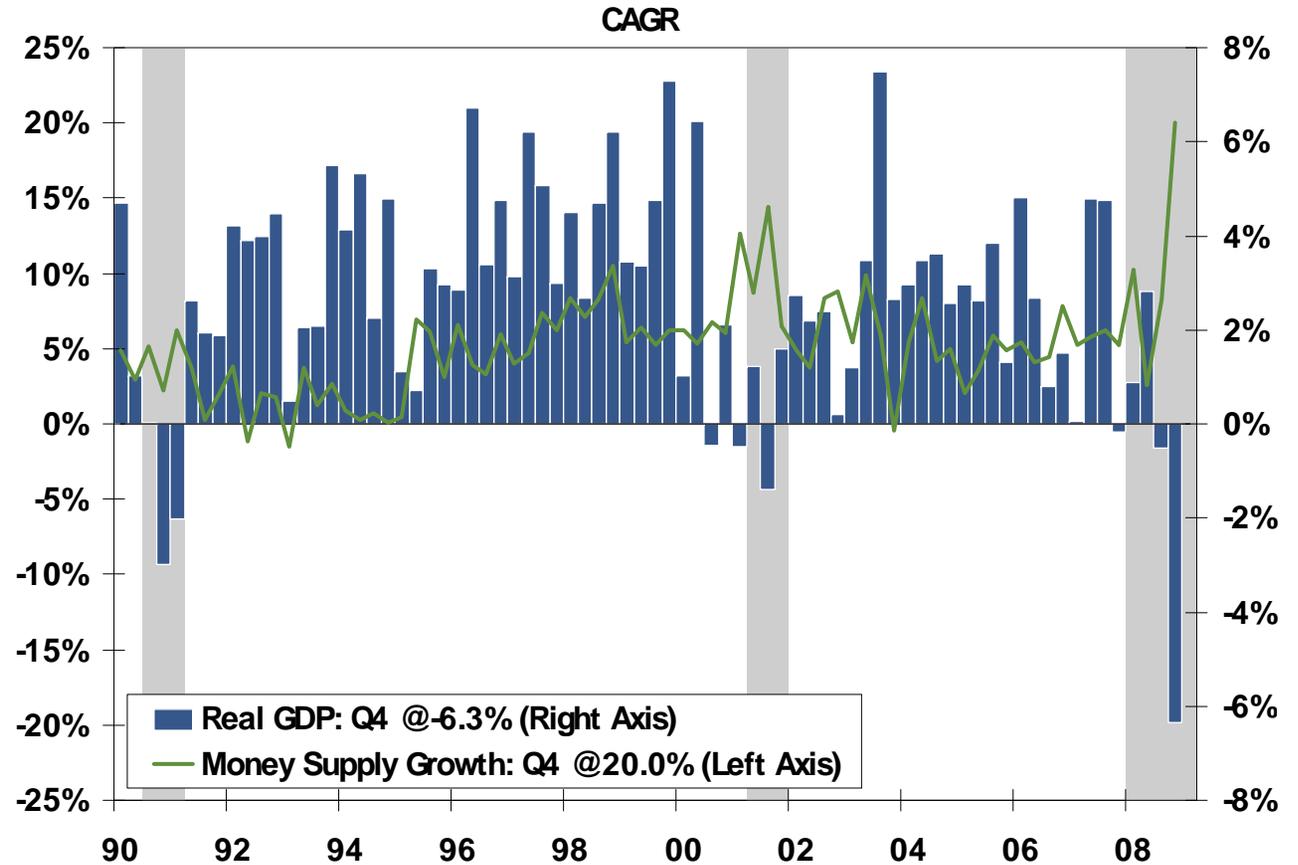
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What is your outlook for...



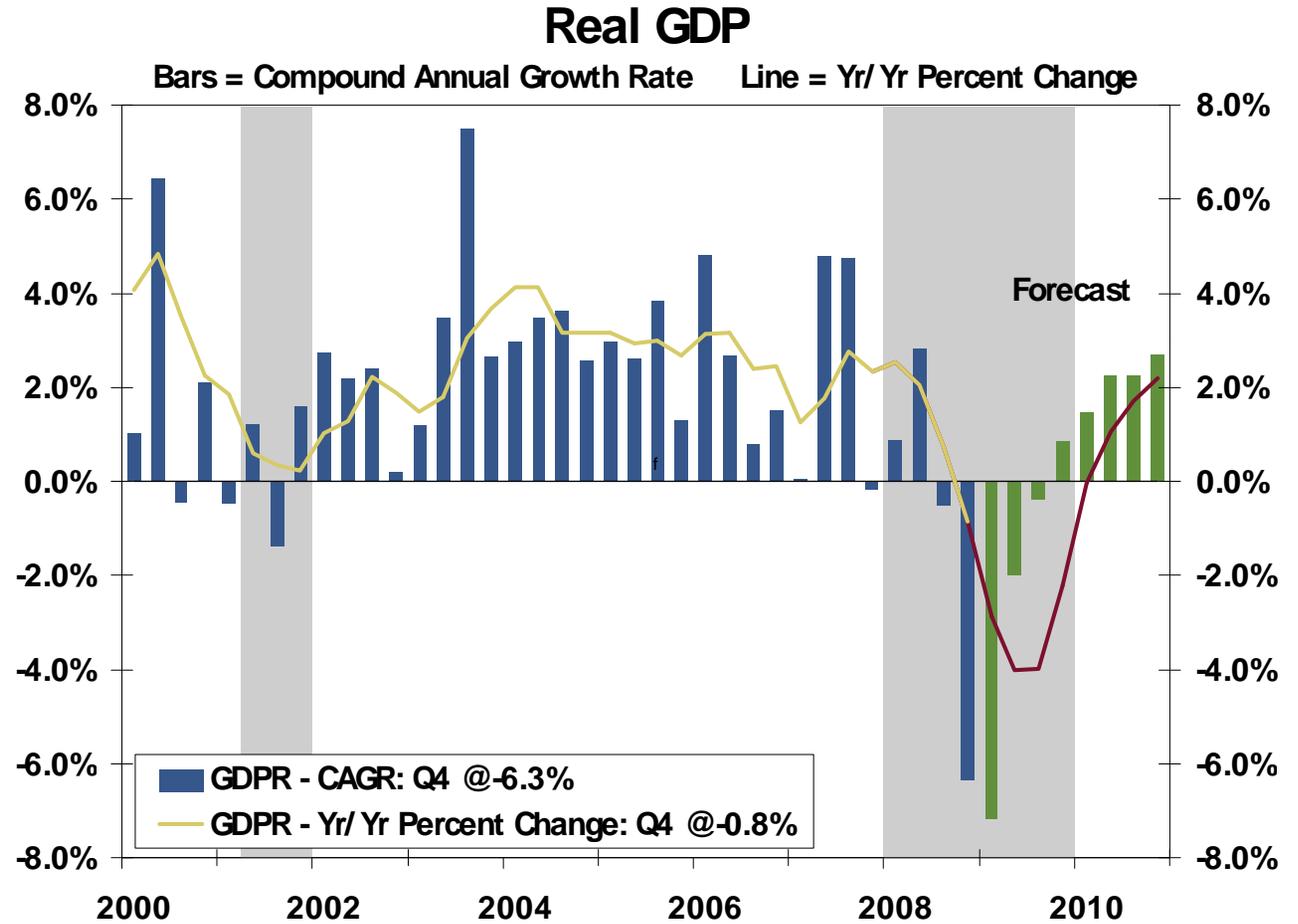
The Fed has provided alarming amounts of liquidity in recent months

## Real GDP vs. M2 Money Supply



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

This recession will be the longest and deepest downturn since World War II

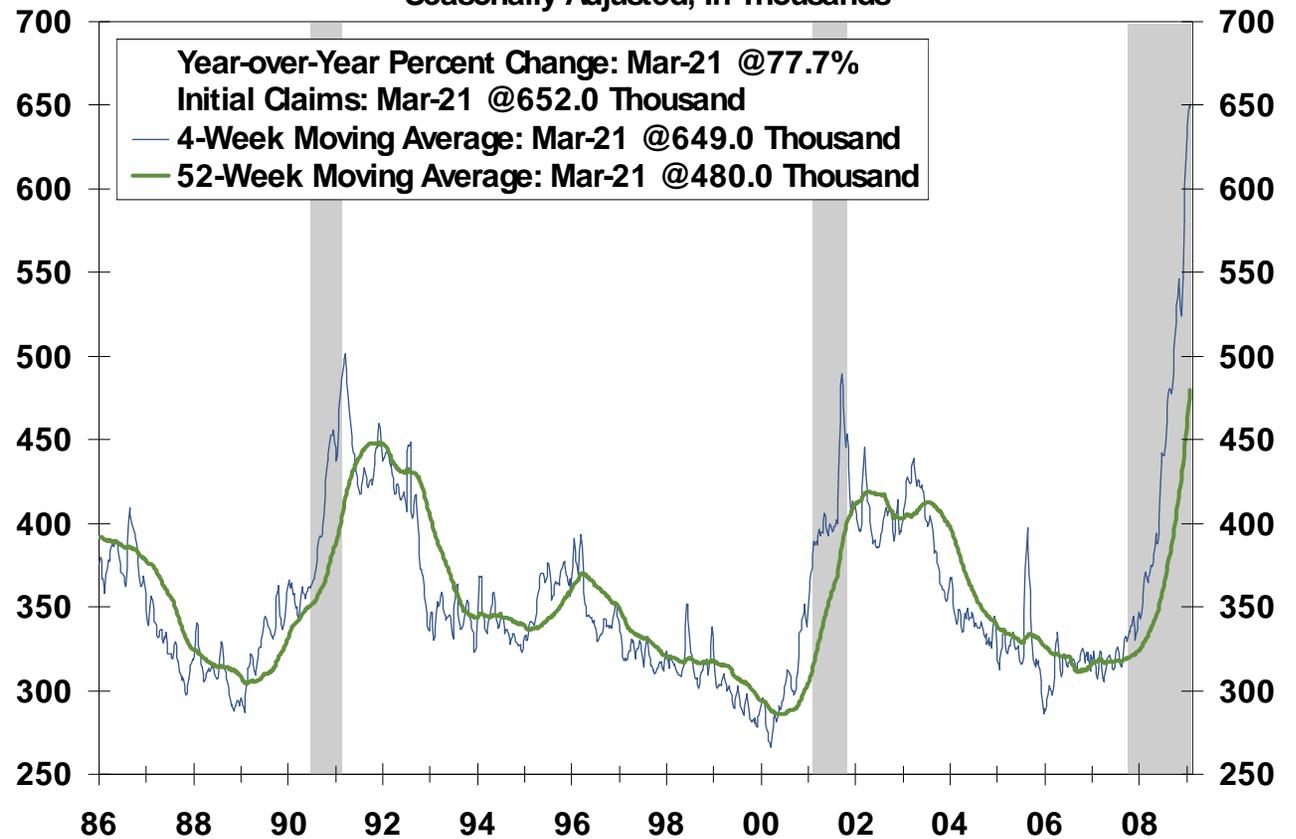


Source: U.S. Department of Commerce and Wachovia

The labor market is virtually collapsing and weakness will continue into 2010

## Initial Claims for Unemployment

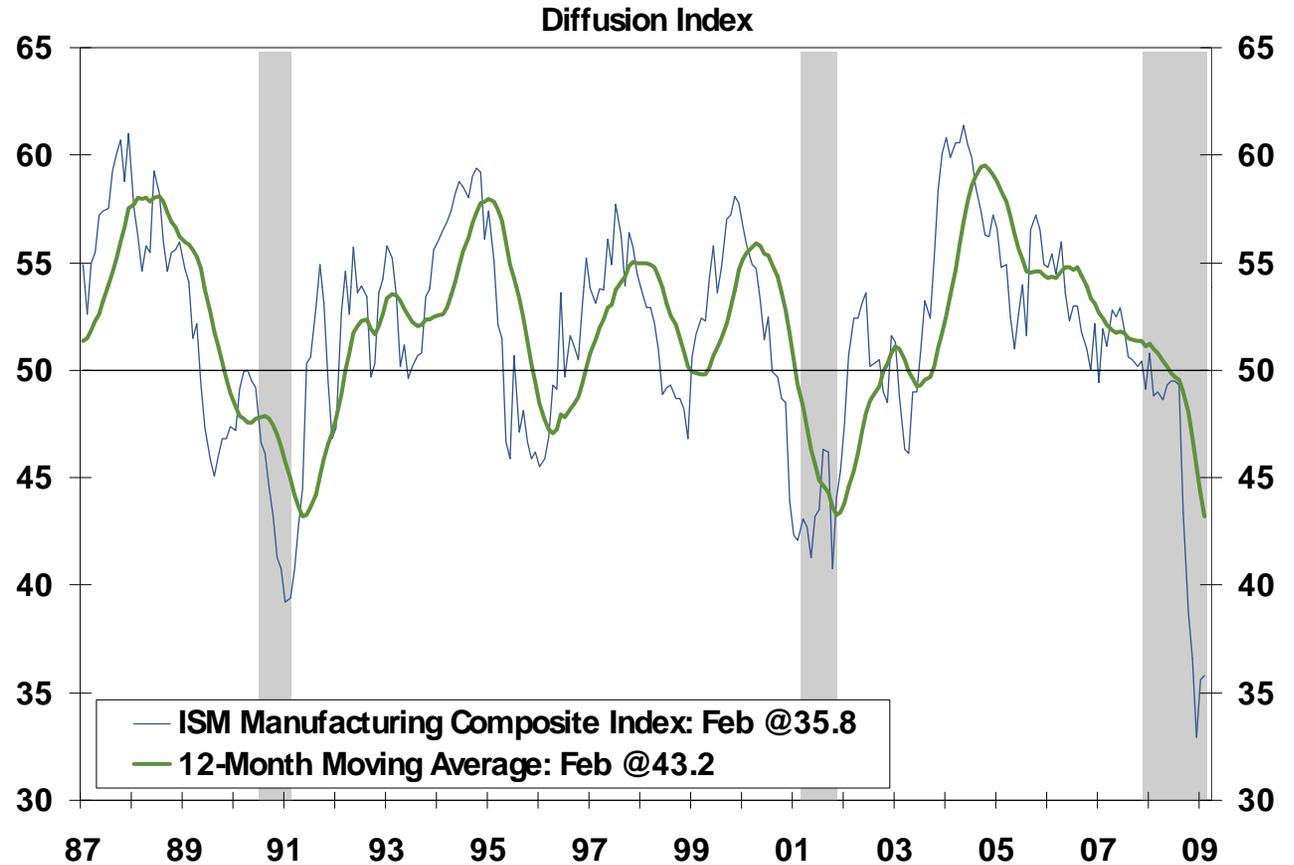
Seasonally Adjusted, In Thousands



Source: U.S. Department of Labor and Wachovia

Manufacturing activity reflects a deep recession

## ISM Manufacturing Composite Index



Source: Institute for Supply Management and Wachovia

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A coordinated global slowdown is underway

### OECD Industrial Production

Year-over-Year Percent Change



Source: OECD and Wachovia

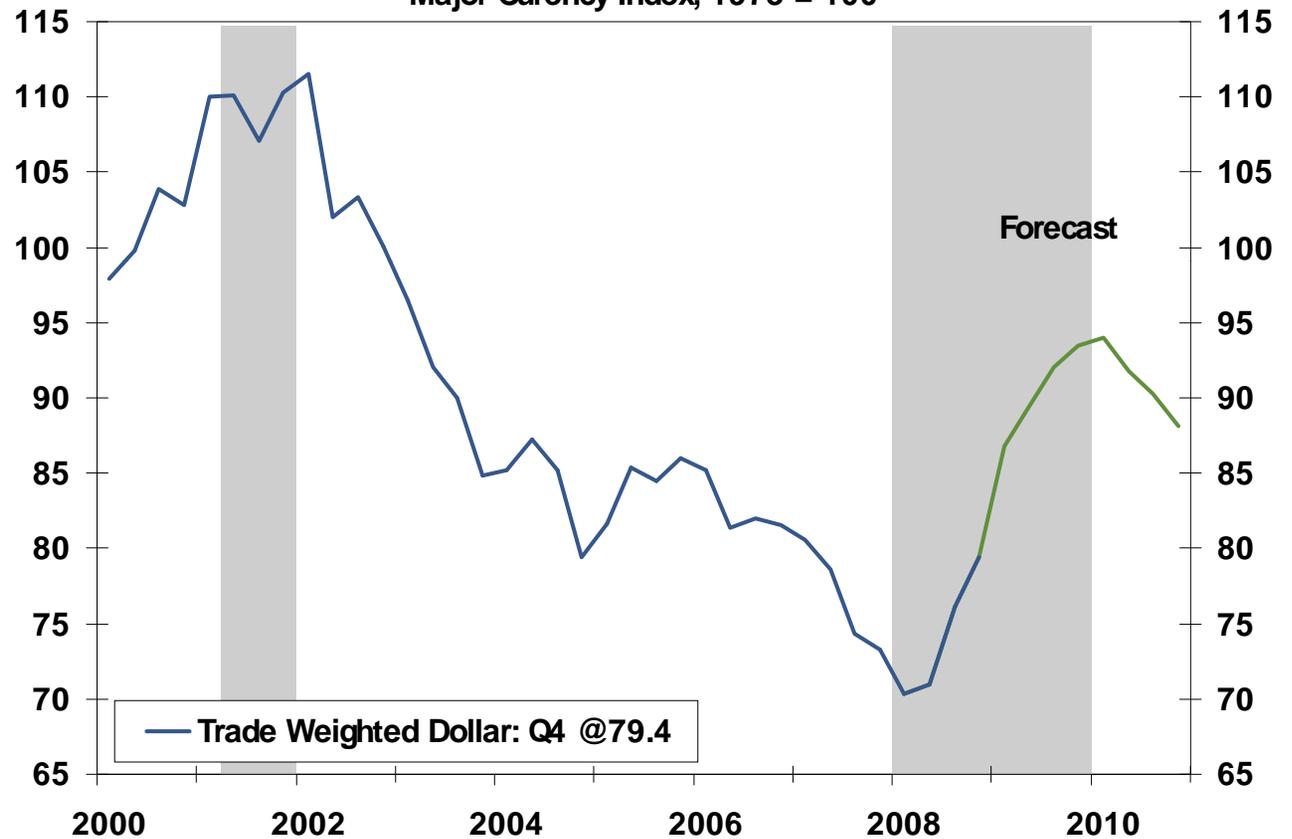
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We expect the dollar to continue higher through 2009, but may give up some of the gains next year

### Trade Weighted Dollar

Major Currency Index, 1973 = 100



Source: Federal Reserve Board and Wachovia

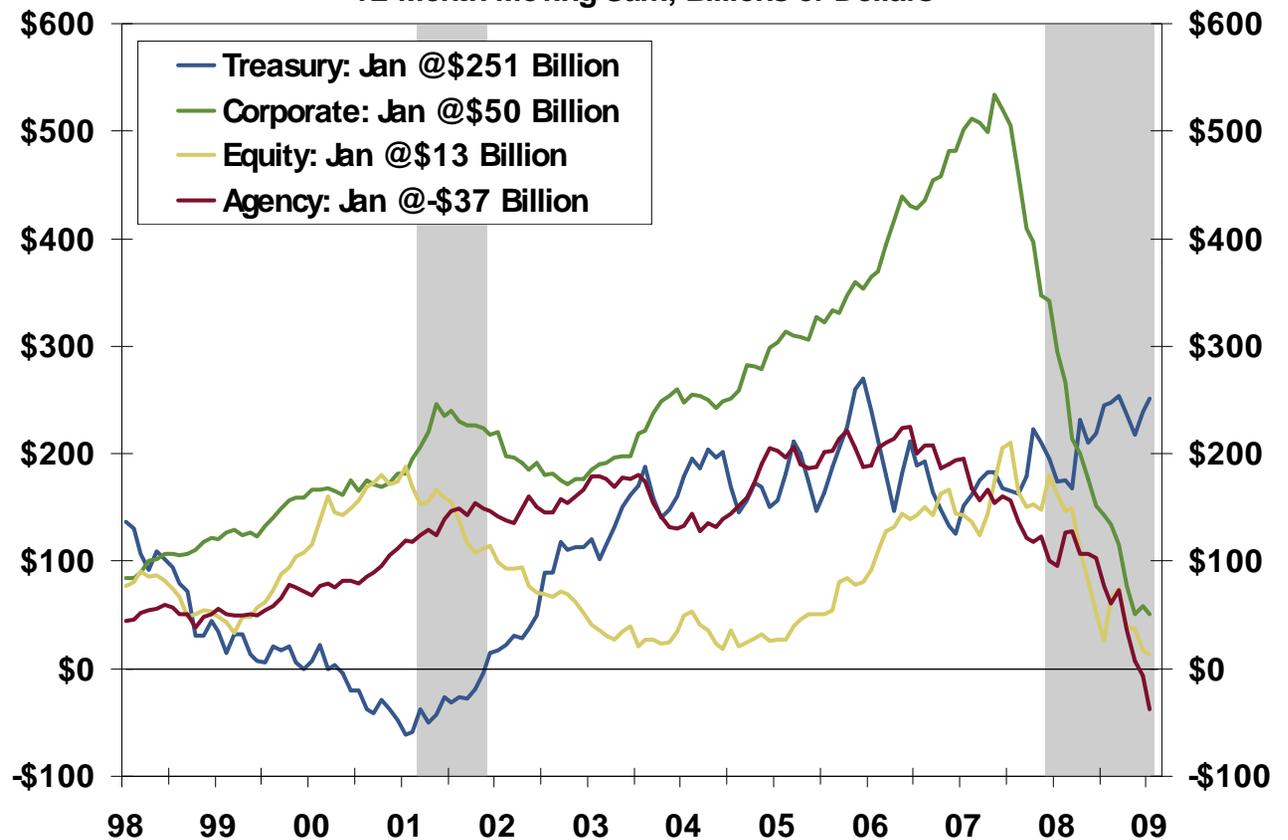
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Foreign investors have shown little interest in all but the safest and most liquid instruments

## Foreign Private Purchases of U.S. Securities

12-Month Moving Sum, Billions of Dollars



Source: Treasury and Wachovia

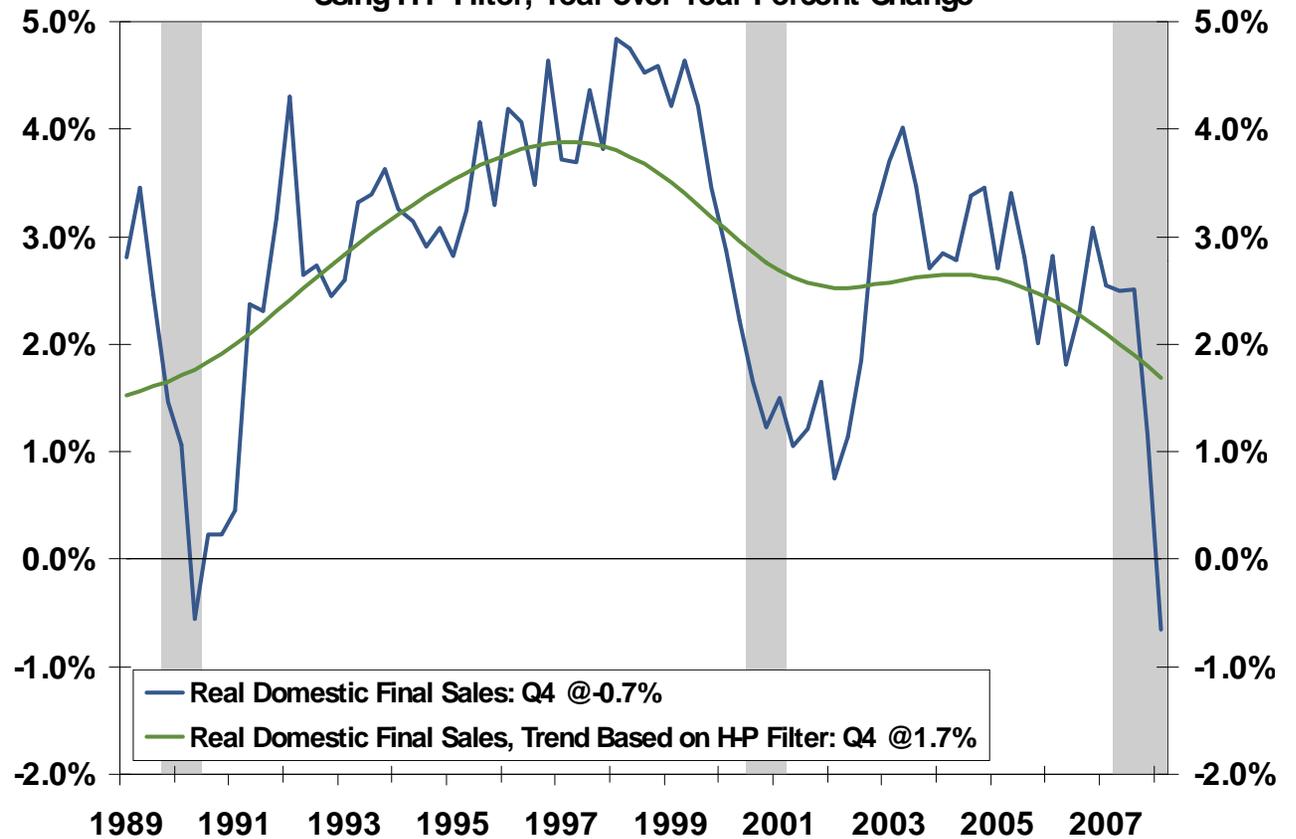
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The domestic economy has all but collapsed

### Decomposing Real Domestic Final Sales

Using HP Filter, Year-over-Year Percent Change



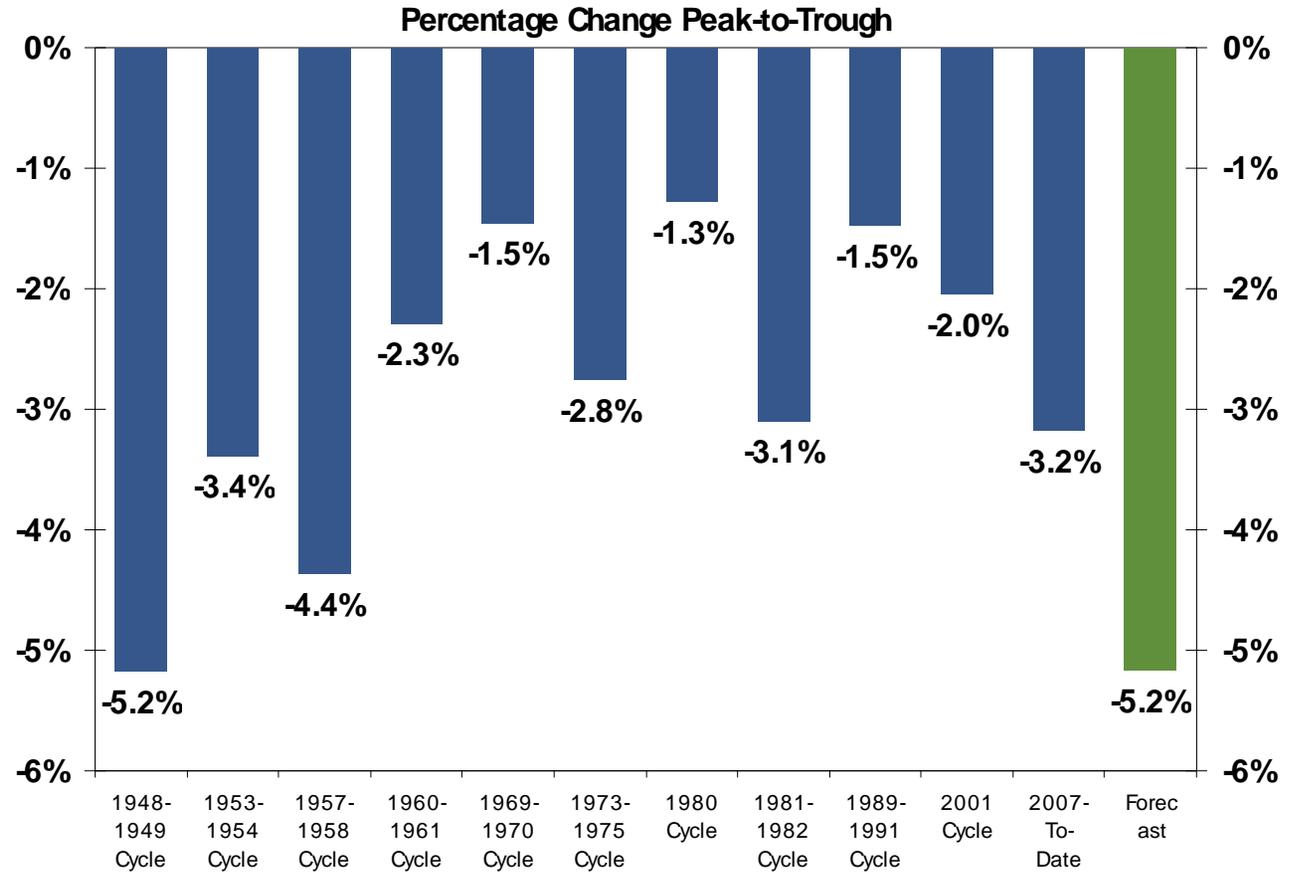
Source: U.S. Department of and Wachovia

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Job losses will continue to mount at an alarming pace in coming months

## Employment Change in Recessions



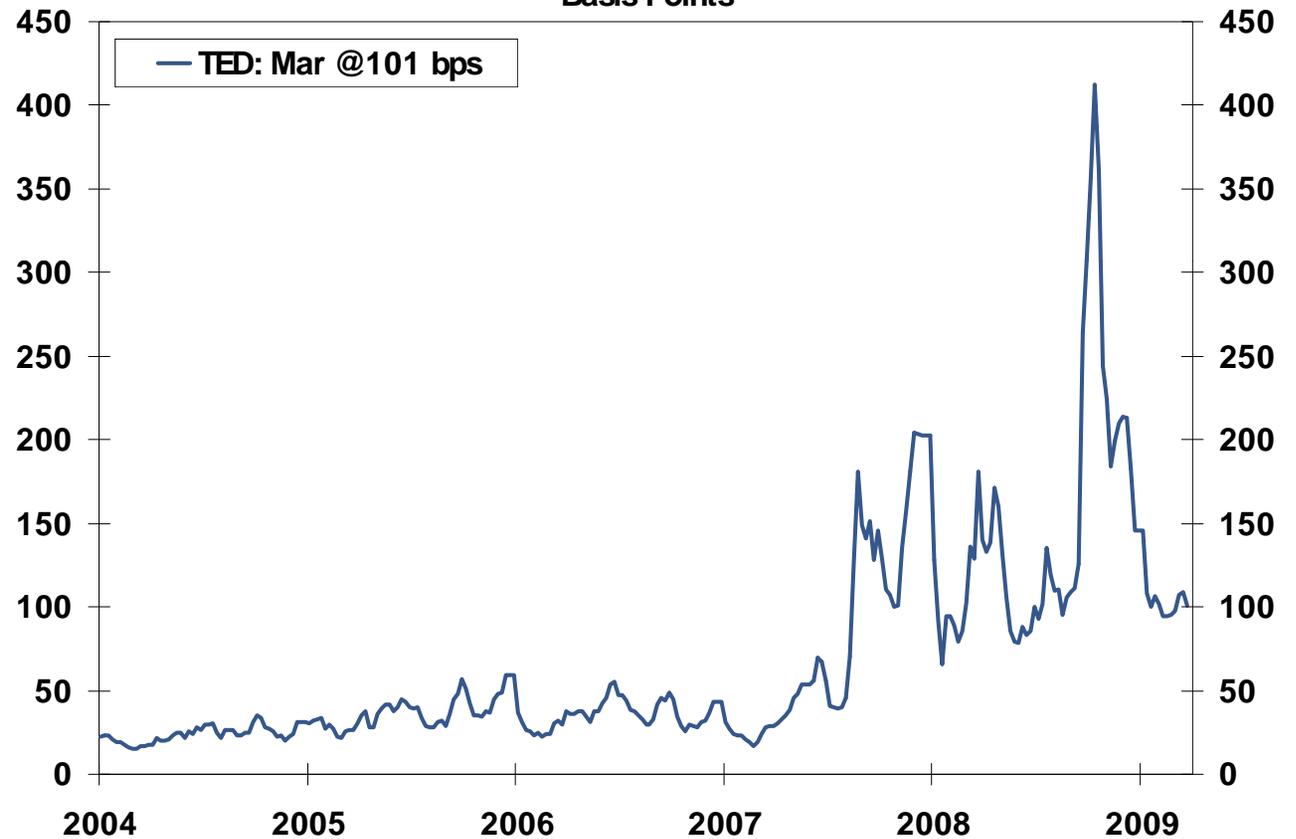
Source: U.S. Department of Labor and Wachovia

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The broad thawing in credit markets appears to have stalled

## TED Spread Basis Points

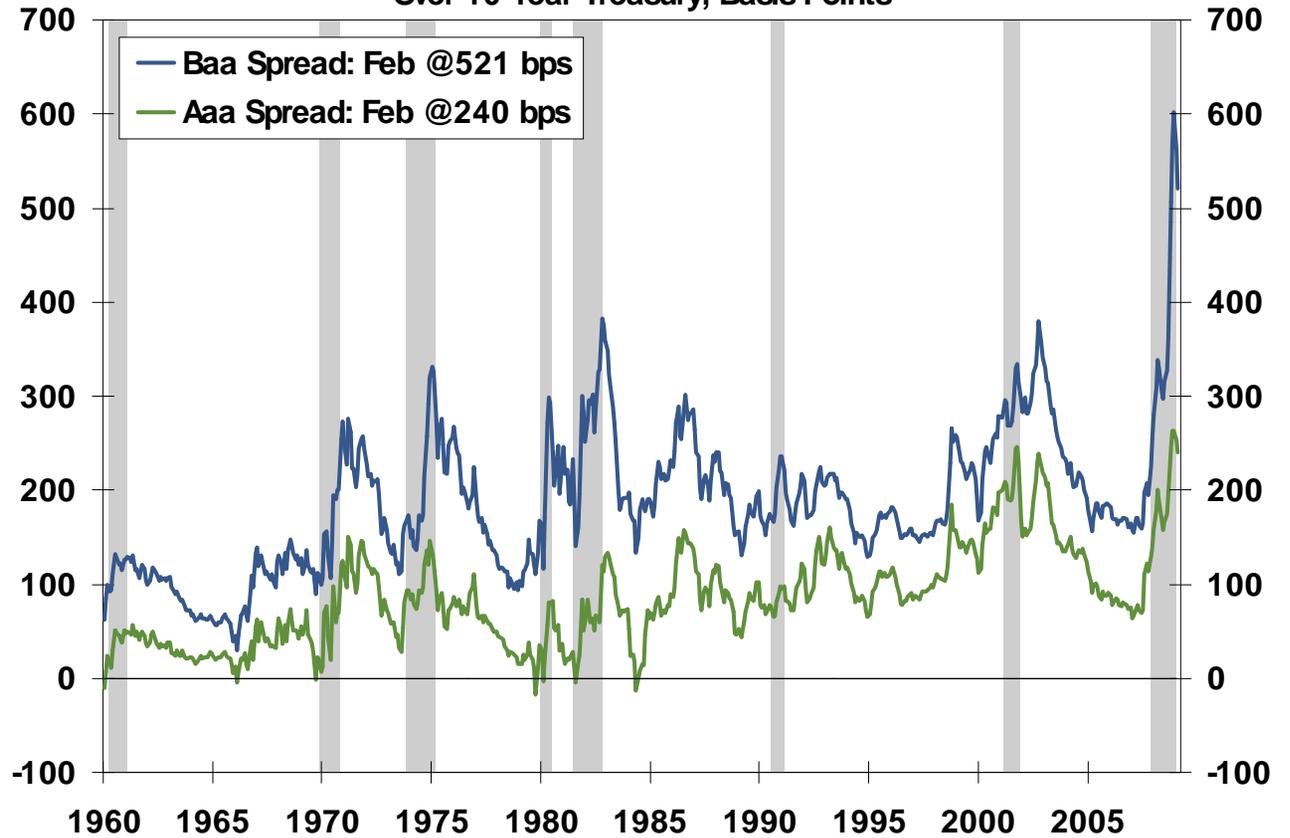


Source: British Bankers' Association, Federal Reserve Board and Wachovia

The cost of credit is extremely high on Main Street

### Aaa and Baa Corporate Bond Spreads

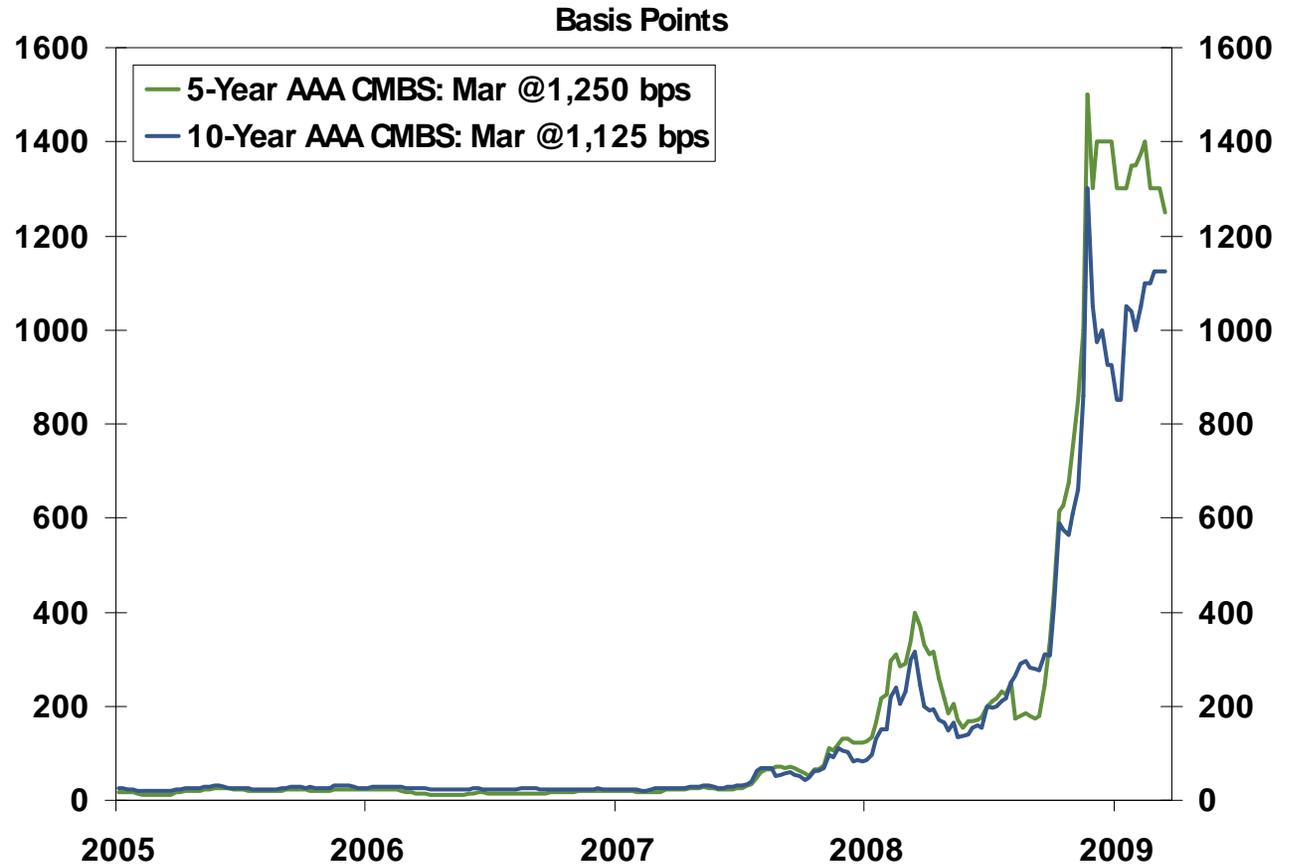
Over 10-Year Treasury, Basis Points



Source: Federal Reserve Board and Wachovia

CMBS markets remain frozen

### 5-Year and 10-Year AAA CMBS Spreads

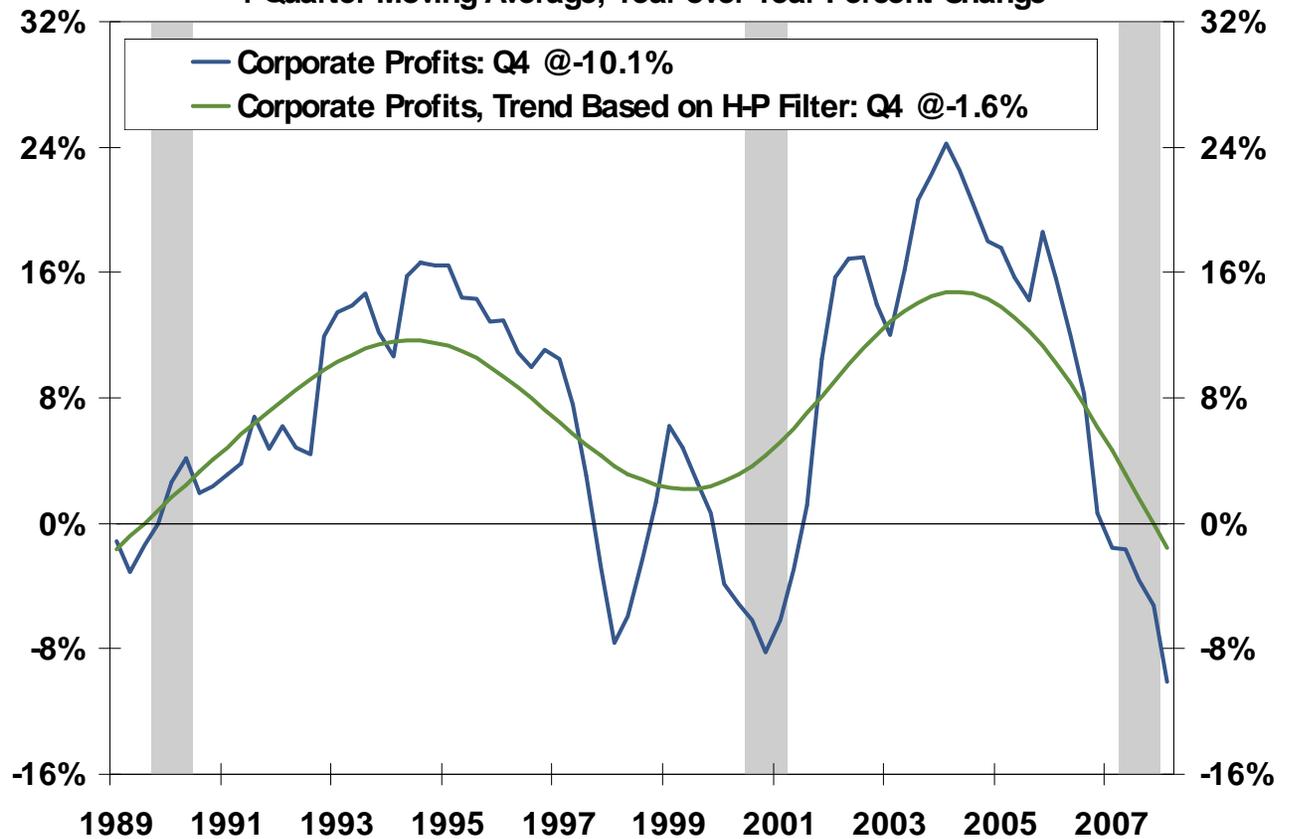


Source: Wachovia Securities and Wachovia

Falling demand and lower capacity utilization will push profits even lower

### Decomposing Corporate Profits Using H-P Filter

4-Quarter Moving Average, Year-over-Year Percent Change



Source: U.S. Department of Commerce and Wachovia

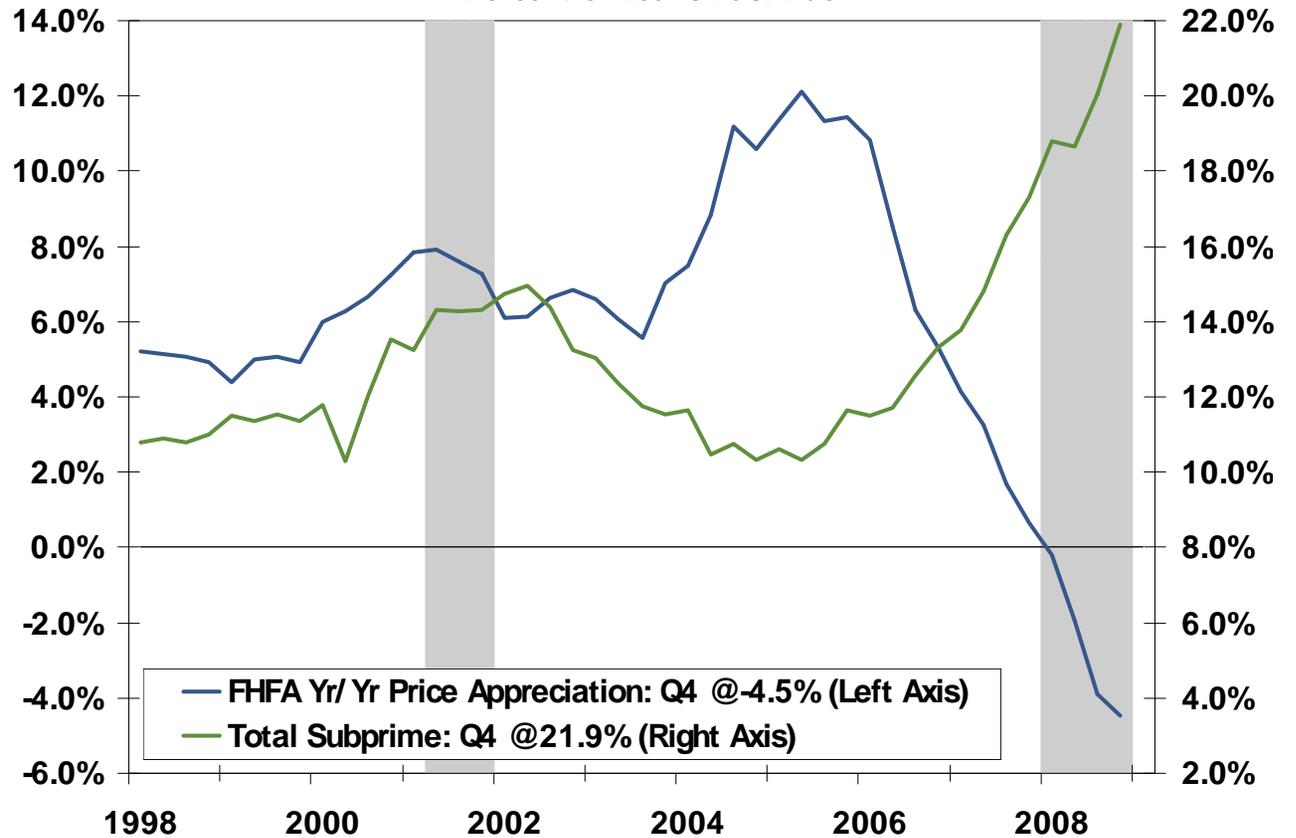
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The slowdown in real estate has reached nearly four years

### Subprime Mortgage Delinquency vs. FHFA Price Appreciation

Percent of Loans Past Due



Source: Federal Housing Finance Agency, Mortgage Bankers Association and Wachovia

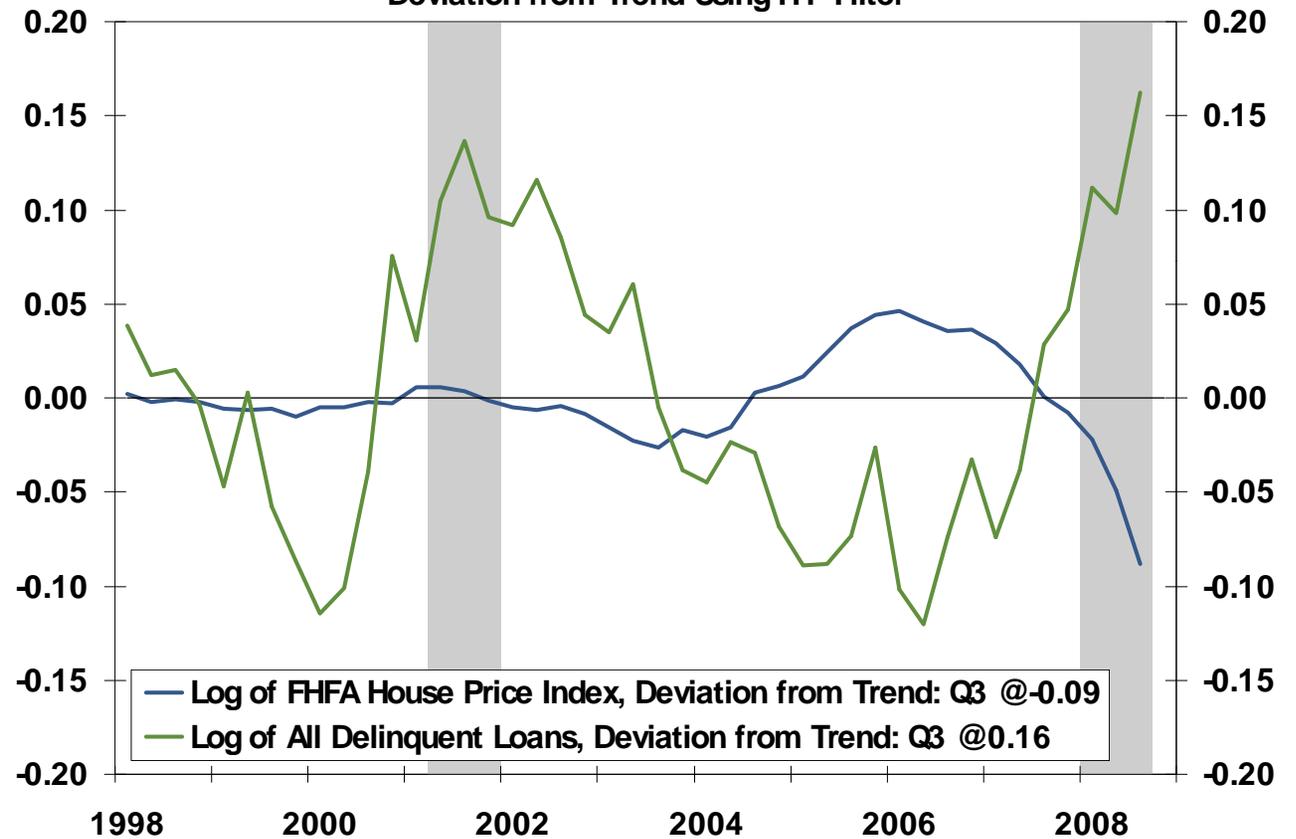
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Dynamics of home prices and delinquencies are still moving in the wrong direction

## Home Prices and Delinquent Loans

Deviation from Trend Using HP Filter



Source: Federal Housing Finance Agency and Wachovia

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Indicators to watch

## Signs of a Recovery: Indicators to Watch

### Initial Claims

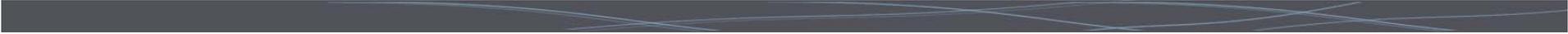
- First-time jobless claims remain at a very high 600,000+ level.
- We would expect these claims to begin to drop towards 500,000 sometime in the spring suggesting that job losses will diminish as the year moves along.

### ISM Manufacturing Index

- The index is computed such that a reading of 50 is considered break-even. This monthly survey is currently in the mid 30s.
- We would expect this index to remain below 50 through the second quarter and show signals of expansion by midsummer.

### Corporate Profits

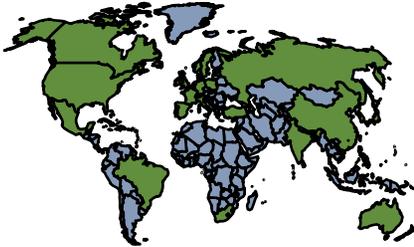
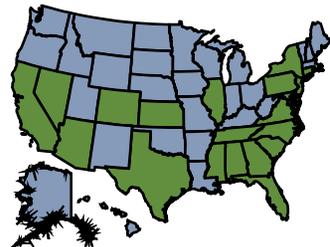
- Profits are a longer lagging indicator, and at present are declining at a 20 percent-plus pace.
- We expect the year-over-year declines to turn around. Improvement by midsummer would signal growth in employment and business investment by early next year.



# Appendix

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

Distribution Lists	Recent Special Commentary		
	Date	Title	Authors
<ul style="list-style-type: none"> <li>▪ Monthly Economic Outlook</li> </ul>	March-18	The Long Road Ahead for “Club Med” Countries	Bryson
<ul style="list-style-type: none"> <li>▪ Weekly Economic &amp; Financial Commentary</li> </ul>	March-18	FOMC Implication For the Dollar	Bryson
	March-18	FOMC March Meeting: Buy Treasuries, More Agency MBS	Silvia
	March-17	Economics as Strategic Input to Business Decision-Making	Silvia
	March-12	Global Chartbook - March 2009	Bryson & Quinlan
<ul style="list-style-type: none"> <li>▪ Special Reports</li> </ul>	March-02	The Evolution of the Economy, Credit & Economic Policy	Silvia
	February-23	This Is Not the End of America	Vitner
<ul style="list-style-type: none"> <li>▪ Economic Indicators</li> </ul>	February-23	Housing & Finance: Still Searching for a New Equilibrium	Silvia
	February-12	Global Chartbook - February 2009	Bryson & Quinlan
	February-12	Housing Chartbook - February 2009	Vitner & York
<ul style="list-style-type: none"> <li>▪ Global Economic Commentary</li> </ul>	February-10	Five Key Questions for Decision-Makers	Silvia
	February-04	Economic Downturn Challenges State and Local Tax Revenue	Vitner & Khan
<ul style="list-style-type: none"> <li>▪ Federal Reserve Commentary</li> </ul>	January-28	State Employment: December 2008	Vitner, York & Whelan
	January-27	Employment: Digging Under the Headlines	Silvia, York & Whelan
<ul style="list-style-type: none"> <li>▪ Real Estate &amp; Housing</li> </ul>	January-26	Florida’s Labor Market Takes it on the Chin	Vitner & York
	January-16	A Holiday Season for the Record Books	Vitner & York
	January-15	Global Chartbook - January 2009	Bryson & Quinlan
<ul style="list-style-type: none"> <li>▪ Consumer &amp; Retail</li> </ul>	December-18	Inflation Chartbook - December 2008	Vitner, York & Whelan
	December-16	Global Chartbook - December 2008	Bryson & Quinlan
<ul style="list-style-type: none"> <li>▪ Chief Economist List</li> </ul>	December-16	Commercial Real Estate Quarterly: 3rd Quarter	Vitner & Khan
	December-11	Housing Chartbook - December 2008	Vitner & York
	December-05	Partial Eclipse in the Lone Star State	Vitner, York & Whelan
<ul style="list-style-type: none"> <li>▪ To join any of our research distribution lists please visit our website:                             <ul style="list-style-type: none"> <li>▪ <a href="http://www.wachovia.com/economicsemail">http://www.wachovia.com/economicsemail</a></li> </ul> </li> </ul>	December-01	NBER Recession Call: Official Now, But Still Not Over	Silvia
	December-01	The Outlook for U.S. Exports Yet Again	Bryson
	November-25	Home Price Data: Third Quarter 2008	Vitner & York
	November-25	Consumer Credit Weakening Amid Economic Downturn	Vitner & Khan

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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