

New Zealand Economic Update

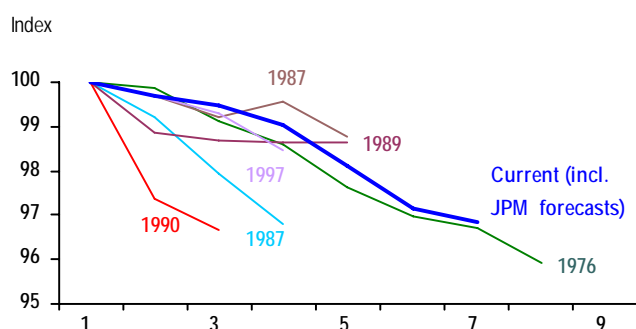
NZIER Business Opinion Survey

- **Business confidence improved markedly, though still weak**
- **Recession has further to run; GDP growth should turn positive in 4Q**
- **Worst for households still ahead as unemployment rises**

The NZIER Quarterly Survey of Business Opinion (QSBO) released this morning showed a marked improvement, with the headline reading climbing to -25 (from -65), meaning that "only" a net 25% of firms surveyed last quarter expected the economy to deteriorate in the next six months. Fewer businesses surveyed expect their own trading activity, a leading indicator of GDP growth (chart), to decline in the next three months – only a net 10% of firms expected a decrease in output and sales, up from 36% previously.

But, while the QSBO showed a significant improvement in business sentiment from the previous two surveys, the results in the previous surveys did paint a dismal picture. All key activity indicators in the 2Q survey were still in negative territory, supporting our view that, though the rate of slippage will ease, the economy will still contract again in 2Q and 3Q. The significant monetary and fiscal policy easing that has been delivered should help New Zealand begin to expand again in 4Q. The main risk to the recovery we forecast to commence later this year is the strengthening of the NZ dollar, which is adding to the broader tightening in financial market conditions.

Current recession long, but relatively shallow

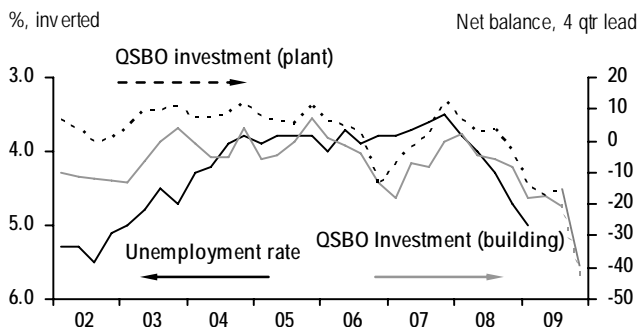


Investment intentions improved from record lows, but remained weak, not surprisingly given the profitability outlook remains dire. A net 29% of firms intend to reduce investment in buildings over the next 12 months, and a net 23% expect to reduce investment on plant and machinery. The poor investment picture has negative implications for the employment outlook. A net 19% of firms intend to cut staff over the next three months, supporting the view that unemployment will continue to rise. Our forecast calls for the unemployment rate to approach 8% in 2010. The resulting fall in labour income, combined with rising petrol prices will dampen households' purchasing power, increasing the headwinds faced by consumers in 2H09. Recent signs of strength in the housing

market, though, should to some extent buoy confidence in the highly leveraged Kiwi household sector. In the QSBO today, the greatest improvement by industry was in building, adding further to recent evidence that the housing market has started to stabilize after a prolonged downturn.

The jump in capital utilization to 91% reported in the survey was the largest quarterly increase on record, a reflection of firms running on “leaner operations” after trimming costs in response to weaker demand. Pricing intentions remain relatively stable, so the spike in capital utilization is not necessarily a sign that inflationary pressures will increase (just yet), and should not unnerve the RBNZ. We believe the next rate move from the RBNZ will be up rather than down, with our forecast calling for the RBNZ to hike the OCR to 3.5% by the end of 2010. Interestingly, interest rate expectations turned positive in today’s QSBO survey, with a net 23% of financial services firms expecting interest rates to be higher over the next year.

New Zealand: unemployment and QSBO expectations (next 12 months)

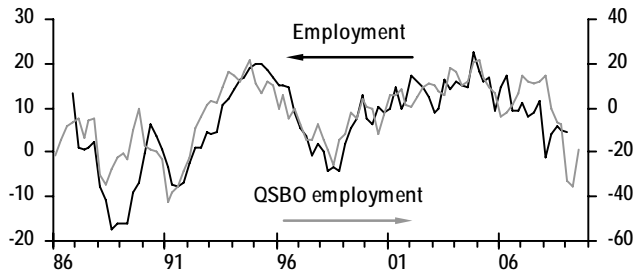


New Zealand: GDP and QSBO expectations economy (6 months ahead)



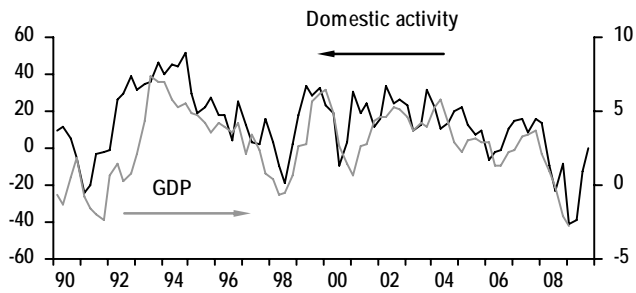
New Zealand: employment and QSBO expectations (3 months ahead)

Quarterly change, 4 qtr mov. avg, thousands Net balance, 1 qtr lead



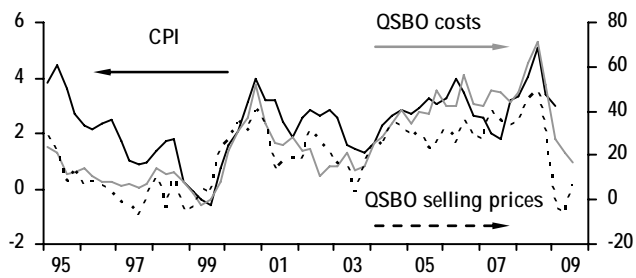
New Zealand: GDP and QSBO domestic activity expectations

Net balance, 3 months ahead %oy a



New Zealand: CPI growth and QSBO expectations (3 months ahead)

%oy a Net balance, 1 qtr lead



Analyst Certification: The analyst(s) denoted by an asterisk (“AC”) hereby certifies that: 1) all of the views expressed in this research accurately reflect his or her personal views about any and all of the subject securities or issuers; and 2) no part of any of the analysts compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research.

Conflict of Interest: This research contains the views, opinions and recommendations of JPMorgan credit research analysts. Research analysts routinely consult with JPMorgan trading desk personnel in formulating views, opinions and recommendations in preparing research. Trading desks may trade, or have traded, as principal on the basis of the research analyst(s) views and report(s). Therefore, this research may not be independent from the proprietary interests of JPMorgan trading desks which may conflict with your interests. In addition, research analysts receive compensation based, in part, on the quality and accuracy of their analysis, client feedback, trading desk and firm revenues and competitive factors. As a general matter, JPMorgan and/or its affiliates normally make a market and trade as principal in fixed income securities discussed in research reports.

Analysts’ Compensation: The research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors and overall firm revenues. The firm’s overall revenues include revenues from its investment banking and fixed income business units.

Explanation of Credit Research Ratings

Ratings System: JPMorgan uses the following sector/issuer portfolio weightings: Overweight (over the next three months, the recommended risk position is expected to outperform the relevant index, sector, or benchmark), Neutral (over the next three months, the recommended risk position is expected to perform in line with the relevant index, sector, or benchmark), and Underweight (over the next three months, the recommended risk position is expected to underperform the relevant index, sector, or benchmark). JPMorgan uses the following fundamental credit recommendations: Improving (the issuer’s credit profile/credit rating likely improves over the next six to twelve months), Stable (the issuer’s long-term credit profile/credit rating likely remains the same over the next six to twelve months), Deteriorating (the issuer’s long-term credit profile/credit rating likely falls over the next six to twelve months), Defaulting (there is some likelihood that the issuer defaults over the next six to twelve months). JPMorgan’s Emerging Market research uses a rating of Marketweight, which is equivalent to a Neutral rating.

Valuation & Methodology: In JPMorgan’s credit research, we assign a rating to each issuer (Overweight, Underweight or Neutral) based on our credit view of the issuer and the relative value of its securities, taking into account the ratings assigned to the issuer by credit rating agencies and the market prices for the issuer’s securities. Our credit view of an issuer is based upon our opinion as to whether the issuer will be able service its debt obligations when they become due and payable. We assess this by analyzing, among other things, the issuer’s credit position using standard credit ratios such as cash flow to debt and fixed charge coverage (including and excluding capital investment). We also analyze the issuer’s ability to generate cash flow by reviewing standard operational measures for comparable companies in the sector, such as revenue and earnings growth rates, margins, and the composition of the issuer’s balance sheet relative to the operational leverage in its business.

Planned Frequency of Updates: JPMorgan provides periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

JPMorgan Credit Research Ratings Distribution, as of July 3, 2006

| | Overweight | Neutral | Underweight |
|-------------------------------|------------|---------|-------------|
| EMEA Credit Research Universe | 27% | 49% | 25% |
| IB clients* | 57% | 62% | 62% |

Represents Ratings on the most liquid bond or 5-year CDS for all companies under coverage.

* Percentage of investment banking clients in each rating category.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation’s Characteristics and Risks of Standardized Options, please contact your JPMorgan Representative or visit the OCC’s website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

Legal Entities: JPMorgan is the marketing name for JPMorgan Chase & Co. and its subsidiaries and affiliates worldwide. J.P. Morgan Securities Inc. is a member of NYSE and SIPC. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. J.P. Morgan Futures Inc., is a member of the NFA. J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorized and regulated by the Financial Services Authority. J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority. JPMorgan Chase Bank, Singapore branch is regulated by the Monetary Authority of Singapore. J.P. Morgan Securities Asia Private Limited is regulated by the MAS and the Financial Services Agency in Japan. J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) (JPMAL) is regulated by ASIC.

Legal Entities Disclosures

U.S.: JPMSI is a member of NYSE, NASD and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. J.P. Morgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. U.K.: J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorized and regulated by the Financial Services Authority. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **New Zealand:** J.P. Morgan Securities New Zealand Limited is a New Zealand Exchange Limited Market Participant. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Commission. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and The Stock Exchange, Mumbai and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PTJ.P. Morgan Securities Indonesia is a member of the Jakarta Stock Exchange and Surabaya Stock Exchange and is regulated by the BAPEPAM. **Philippines:** This report is distributed in the Philippines by J.P. Morgan Securities Philippines, Inc. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissão de Valores Mobiliários (CVM) and by the Central Bank of Brazil. **Japan:** This material is distributed in Japan by JPMorgan Securities Japan Co., Ltd., which is regulated by the Japan Financial Services Agency (FSA). **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMSI) [mica (p) 069/09/2006 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-x), which is a Participating Organization of Bursa Malaysia Securities Bhd and is licensed as a dealer by the Securities Commission in Malaysia.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL’s Policies for Managing Conflicts of Interest in Connection with Investment Research which can be found at <http://www.jpmorgan.com/pdfdoc/research/ConflictManagementPolicy.pdf>. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as “relevant persons”). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd. Frankfurt Branch and JPMorgan Chase Bank, N.A., Frankfurt Branch who are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Australia:** This material is issued and distributed by JPMSAL in Australia to “wholesale clients” only. JPMSAL does not issue or distribute this material to “retail clients.” The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms “wholesale client” and “retail client” have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months’ prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HK Ex website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSI and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Legal Disclosures section above. **India:** For private circulation only not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of “the public” as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable, but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively JPMorgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst’s involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a JPMorgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.