



Economic & Market Insights

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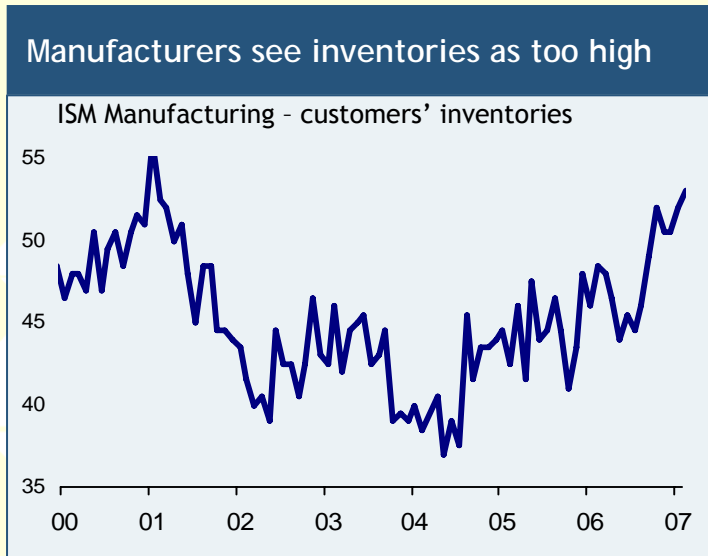
Economic Themes For 2007^{*}



- Expect some spillover from housing to the consumer, but no recession
- Inflation is likely to edge back down, with a lag, as the slowdown unfolds
- The Federal Reserve can be expected to ease if the job market weakens
- The U.S. dollar may weaken moderately, but a severe devaluation is unlikely
- Profit growth is likely to slow, but cost cutting should limit the damage

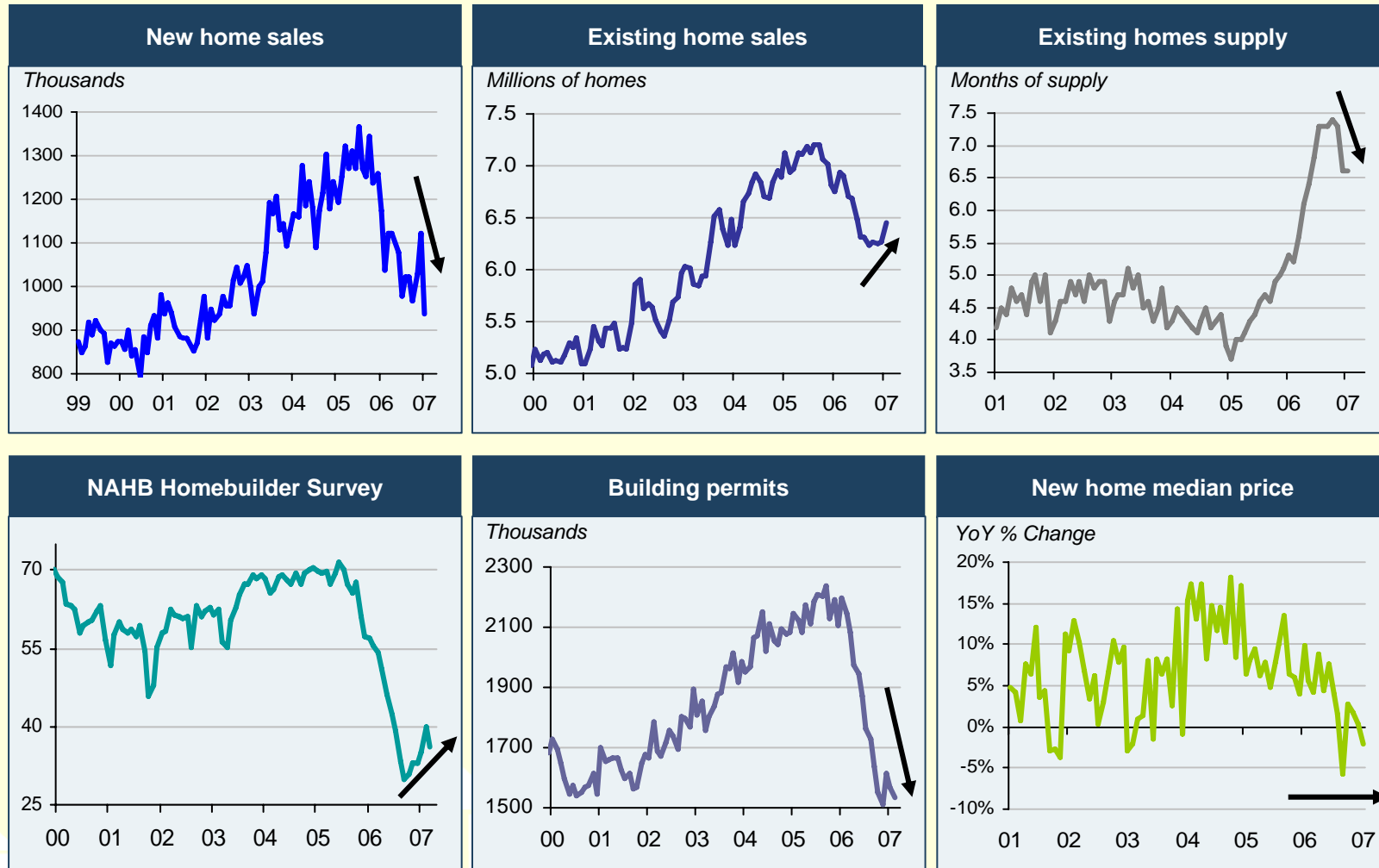
These are the views of JPMorgan Private Client Services.

The Slowdown Coincides With An Inventory Overhang



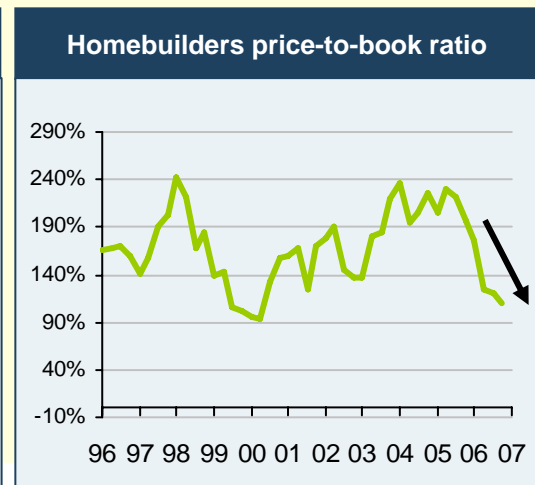
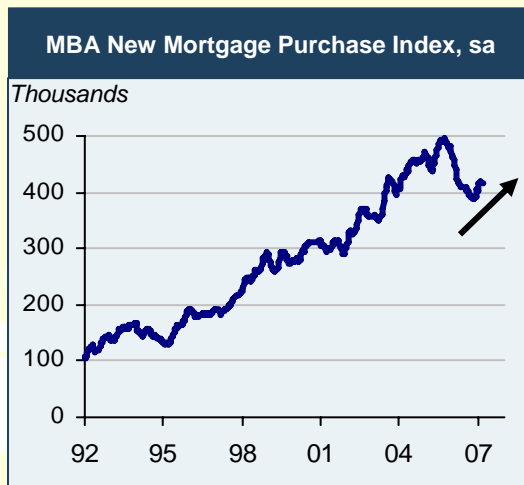
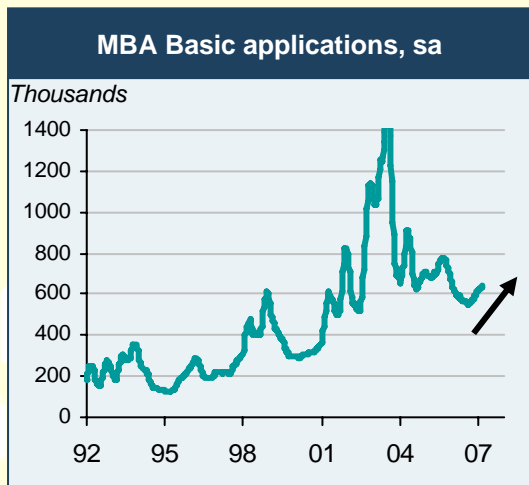
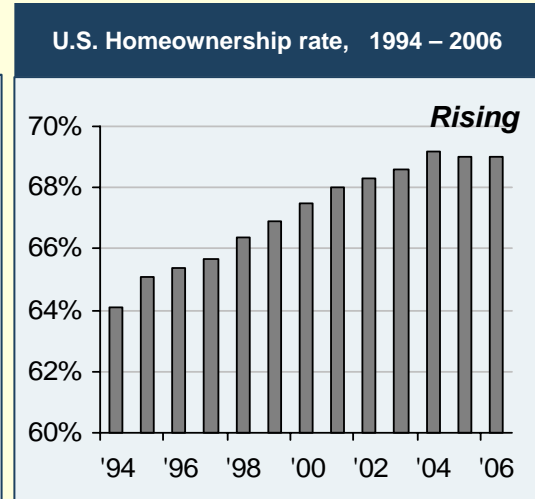
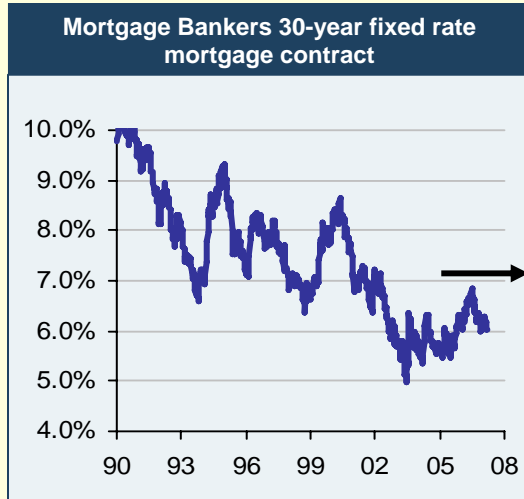
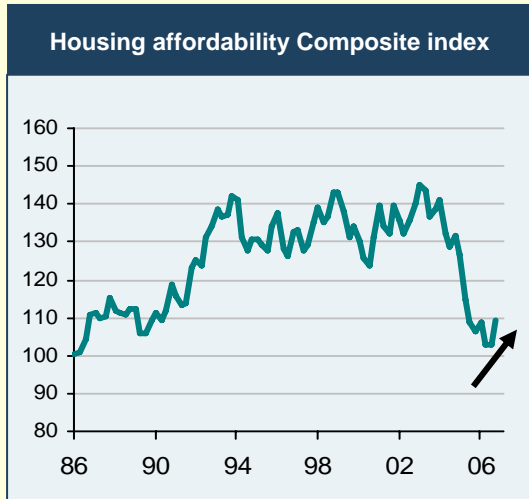
Source: MacData, J.P. Morgan Securities Inc., Bloomberg.
Data is through February 2007

While Some Indicators Have Stabilized, The Collapse In Subprime Activity Will Delay The Recovery...



Source: Bloomberg, National Association of Home Builders, Macdata, J.P. Morgan Securities, Inc.
 Past performance is no guarantee of future results.

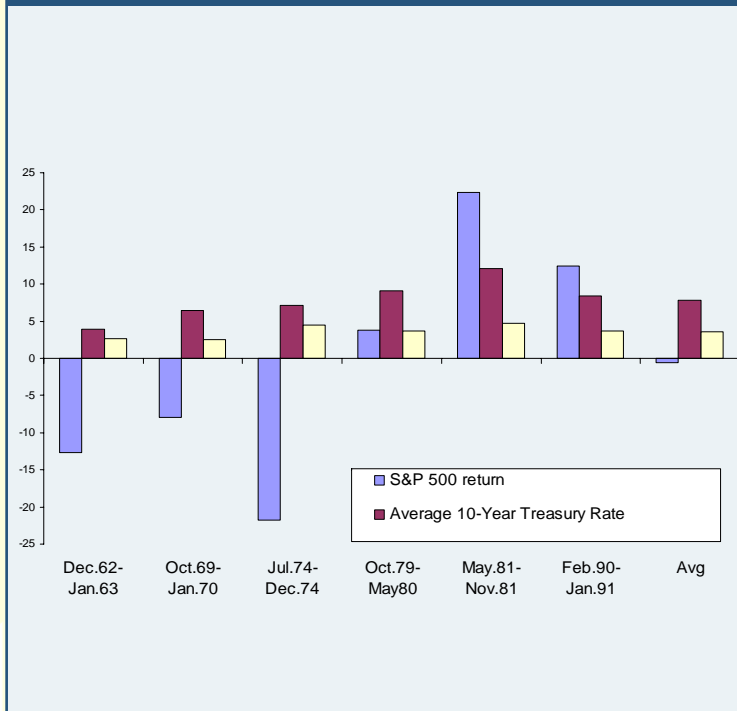
While Some Indicators Have Stabilized, The Collapse In Subprime Activity Will Delay The Recovery (Con't.)...



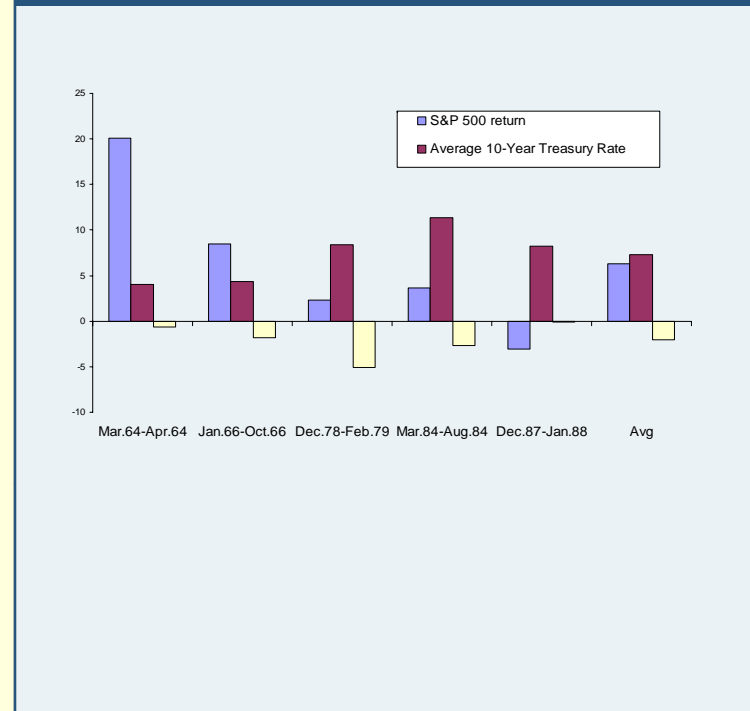
Source: Bloomberg, National Association of Home Builders, Macdata, J.P. Morgan Securities, Inc.
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U.S. Housing Market Slowdown

Housing Market Slowdown (Followed by Real GDP Acceleration) – vs. S&P 500 returns and 10-Year Treasury Rates

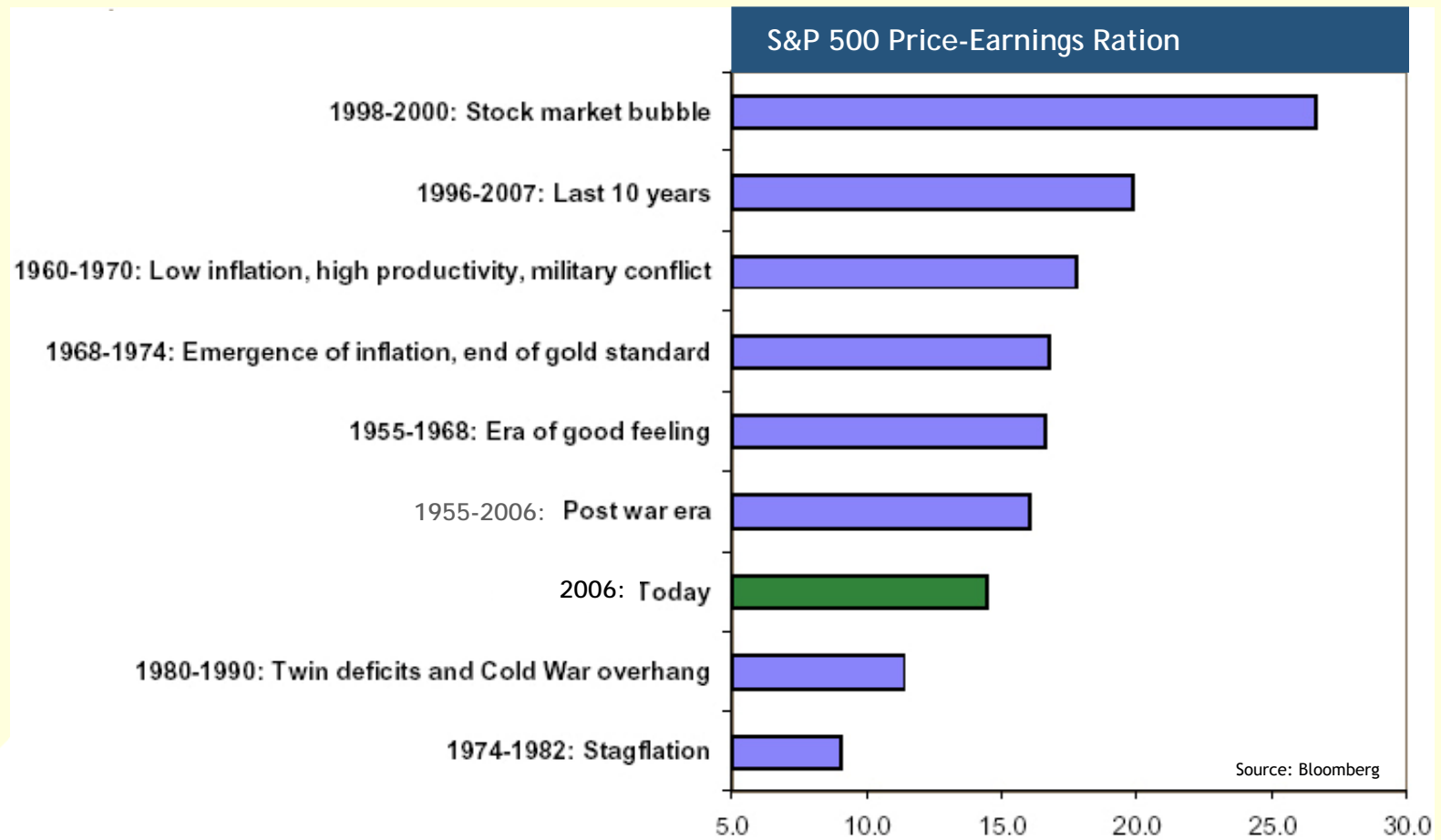


Housing Market Slowdown (Followed by Real GDP Deceleration) vs. S&P 500 returns and 10-Year Treasury Rate



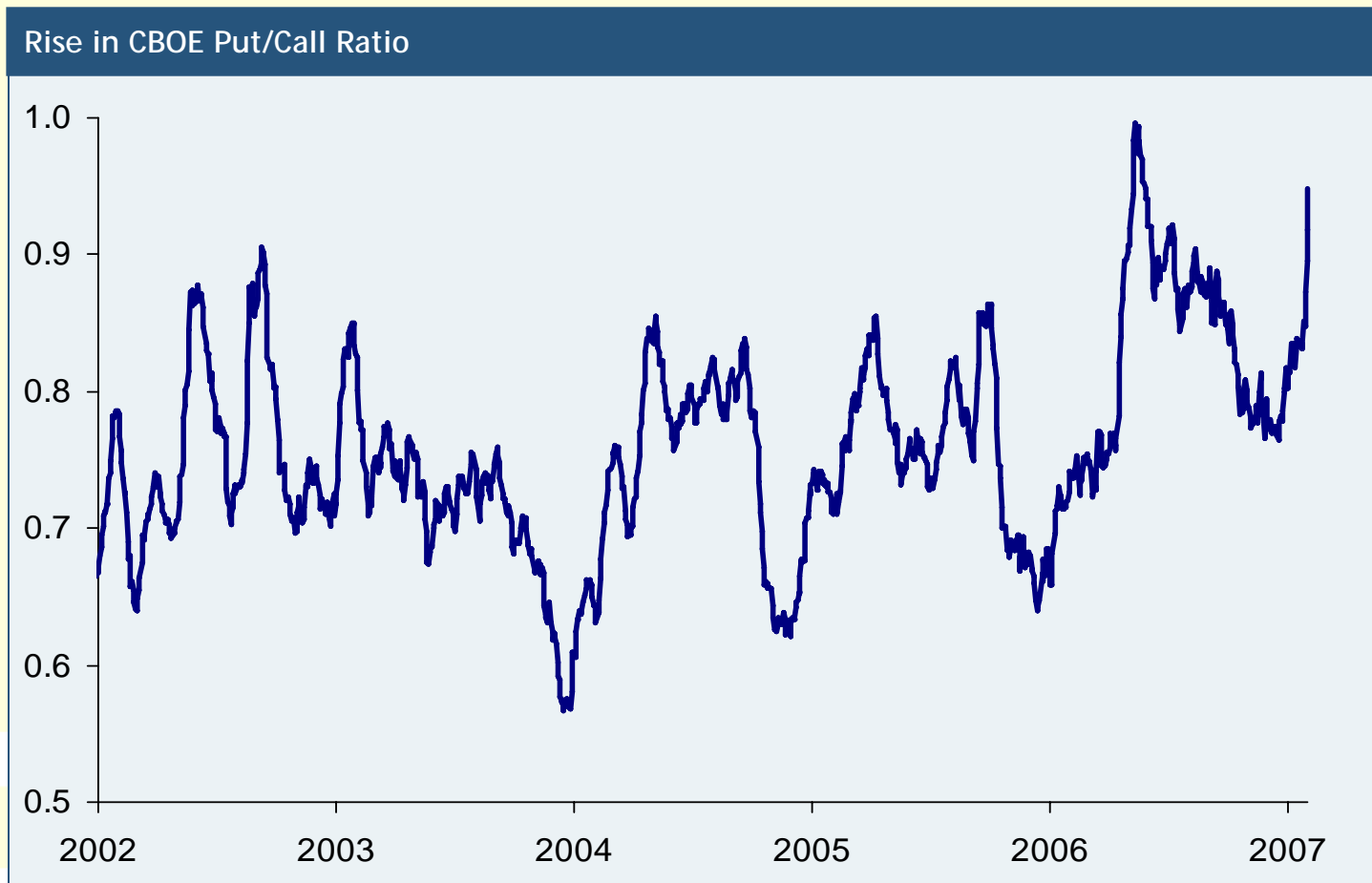
Source: Bloomberg, National Association of Home Builders, Federal Reserve, & U.S. Commerce Department
 Past performance is no guarantee of future results. It is not possible to invest directly in an index.

Equity Market Mystery



Past performance is no guarantee of future results.

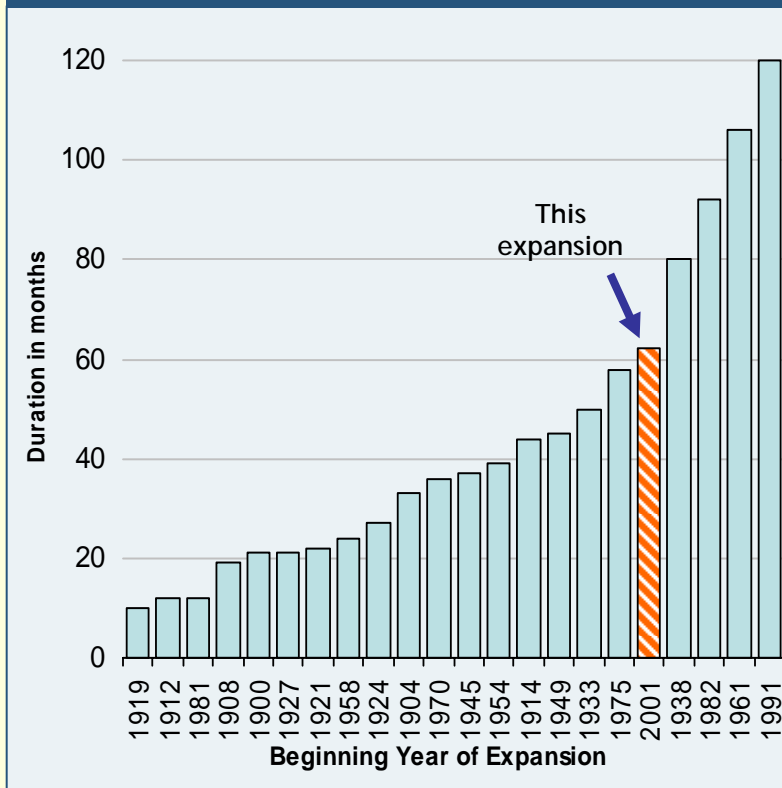
And There Are Signs People Are Pricing In Downside Risks As Well...



Source: Bloomberg. Data through February 2007.
Past performance is no guarantee of future results.

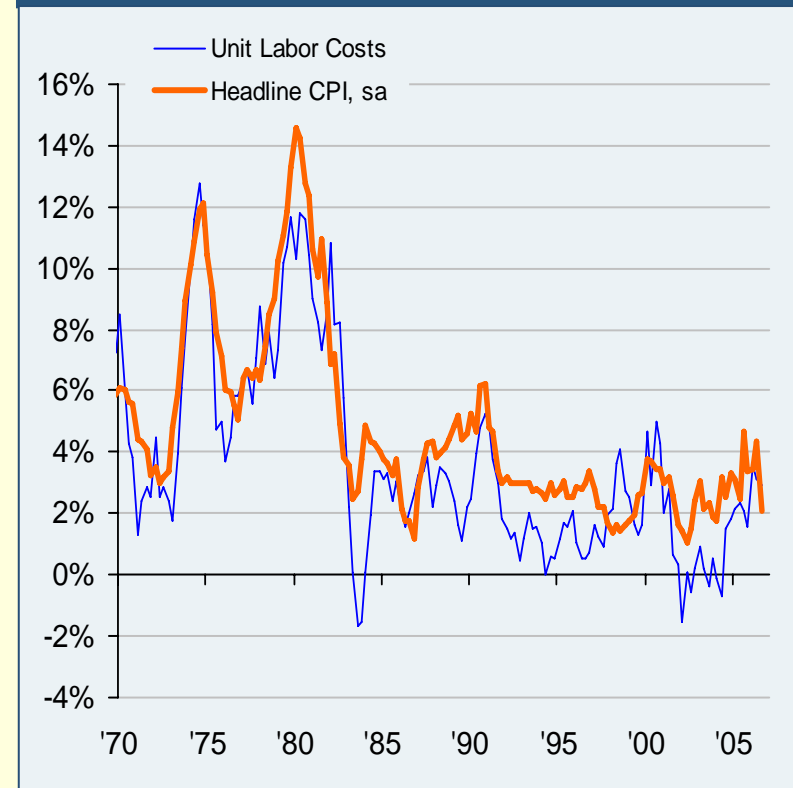
The Expansion Should Continue, But We Believe It Is Mature In The U.S.

One of the longest expansions since 1900, suggests a cautious approach to risk-taking



Data as of December 31, 2006
Source: Bloomberg, J.P. Morgan Securities Inc.

Labor costs are now rising faster than inflation, potential risk to corporate profit margins



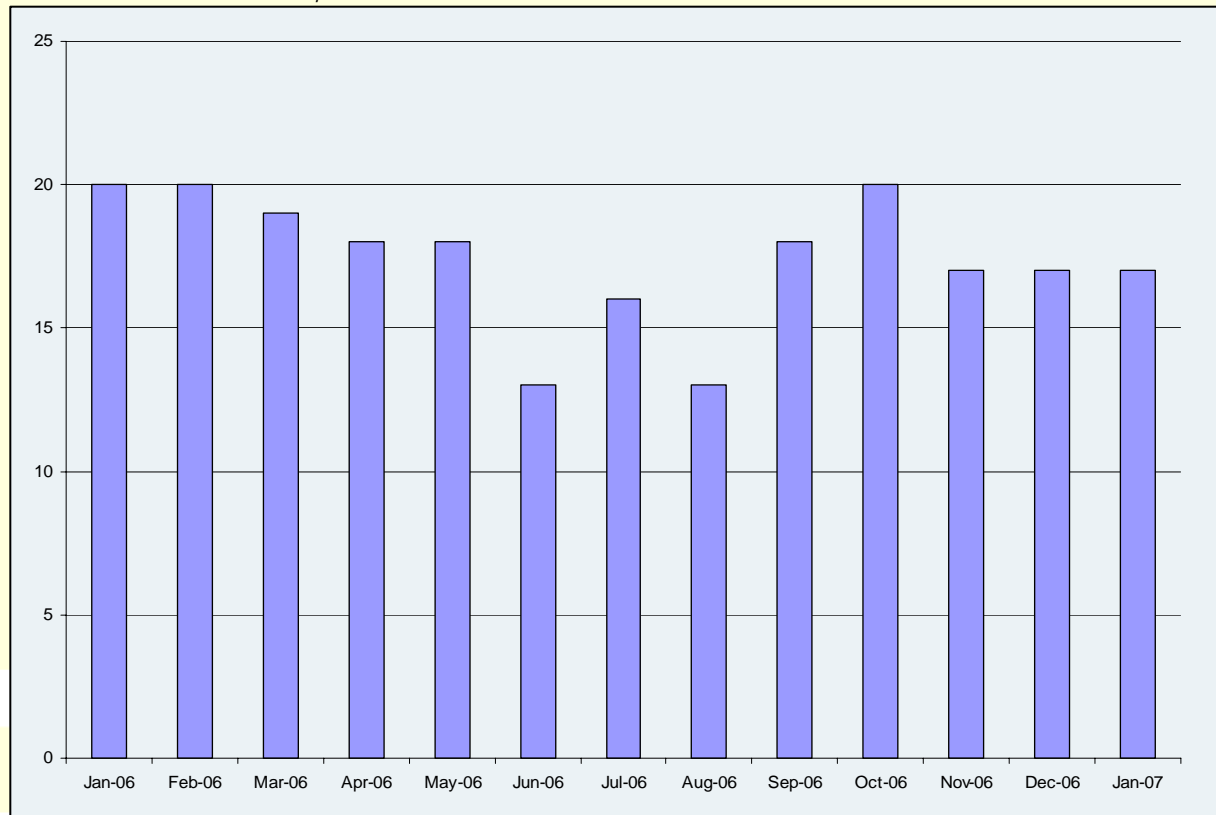
Data as of 3Q 2006
Source: Bloomberg, Bureau of Labor Statistics, J.P. Morgan Securities Inc.

Past performance is no guarantee of future results

Outlook For Small Business Expansion

Outlook for small business expansion

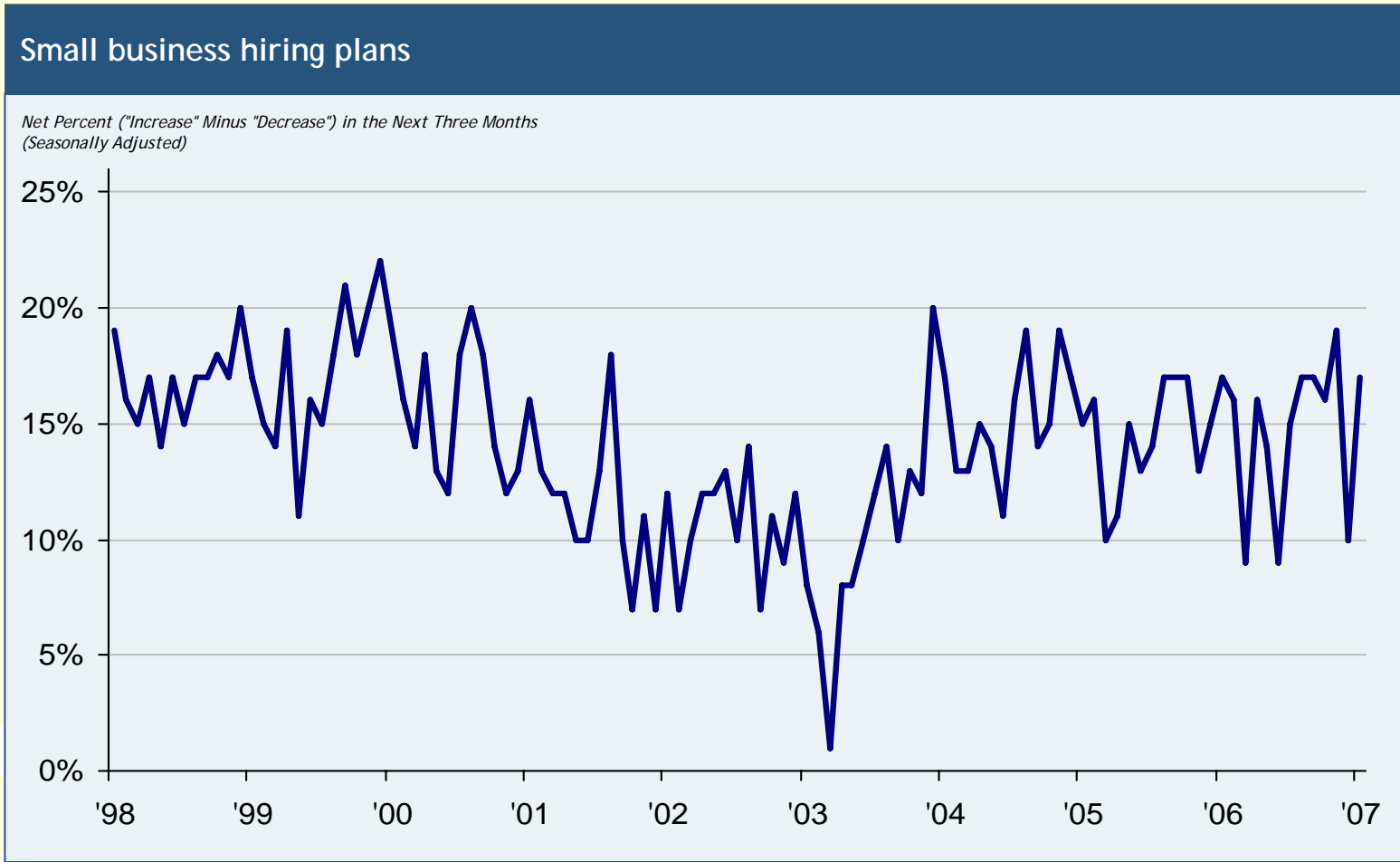
Percent Next 3 Months "Good Time To Expand"



Data through January 31, 2007
Source: Bloomberg, J.P. Morgan Securities Inc.

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Small Business Hiring Plans



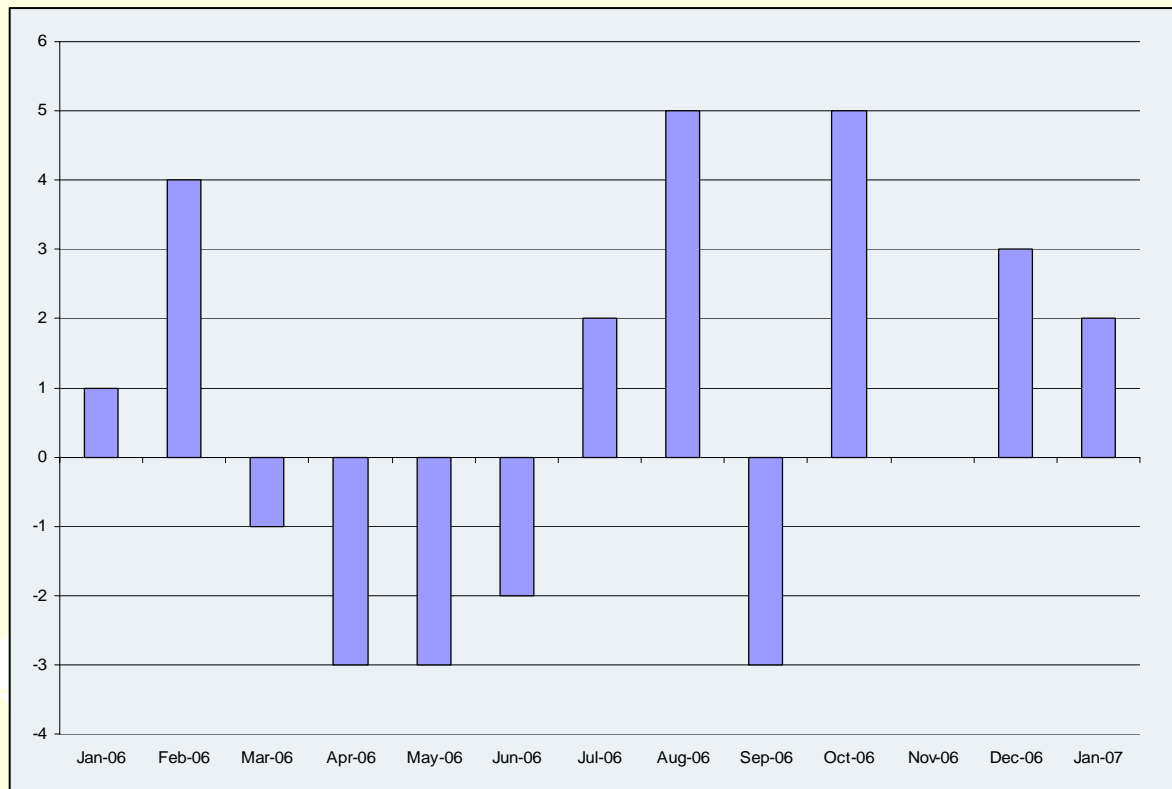
Data through January 31, 2007
Source: Bloomberg, J.P. Morgan Securities Inc.

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Small Business Actual Employment Changes

Small business actual employment changes

Net Percentage (Increase - Decrease) in Last Three Months



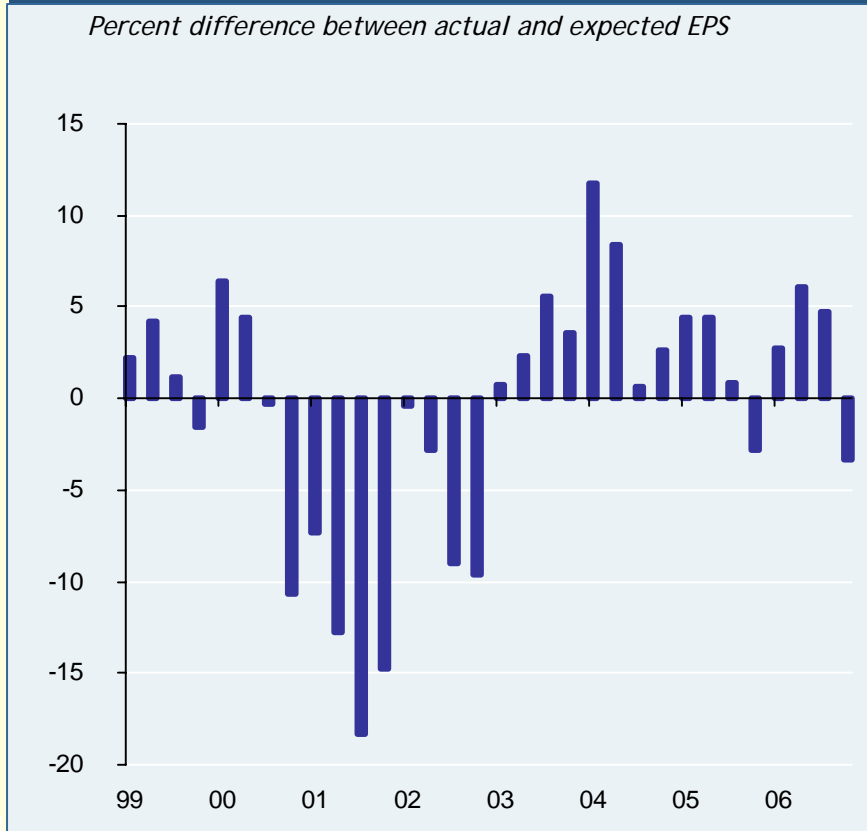
Data through January 31, 2007
Source: Bloomberg, J.P. Morgan Securities Inc.

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Earnings Challenges Likely To Increase As The Economic Slowdown Proceeds

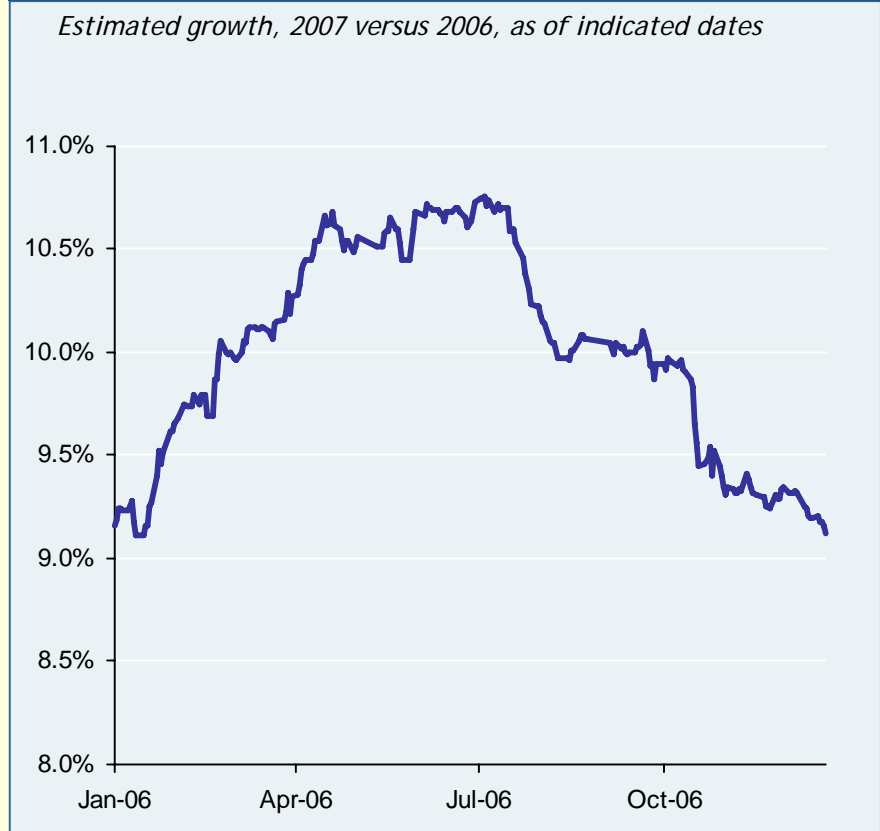
S&P 500 earnings surprise

Percent difference between actual and expected EPS



Consensus 2007 EPS growth forecast

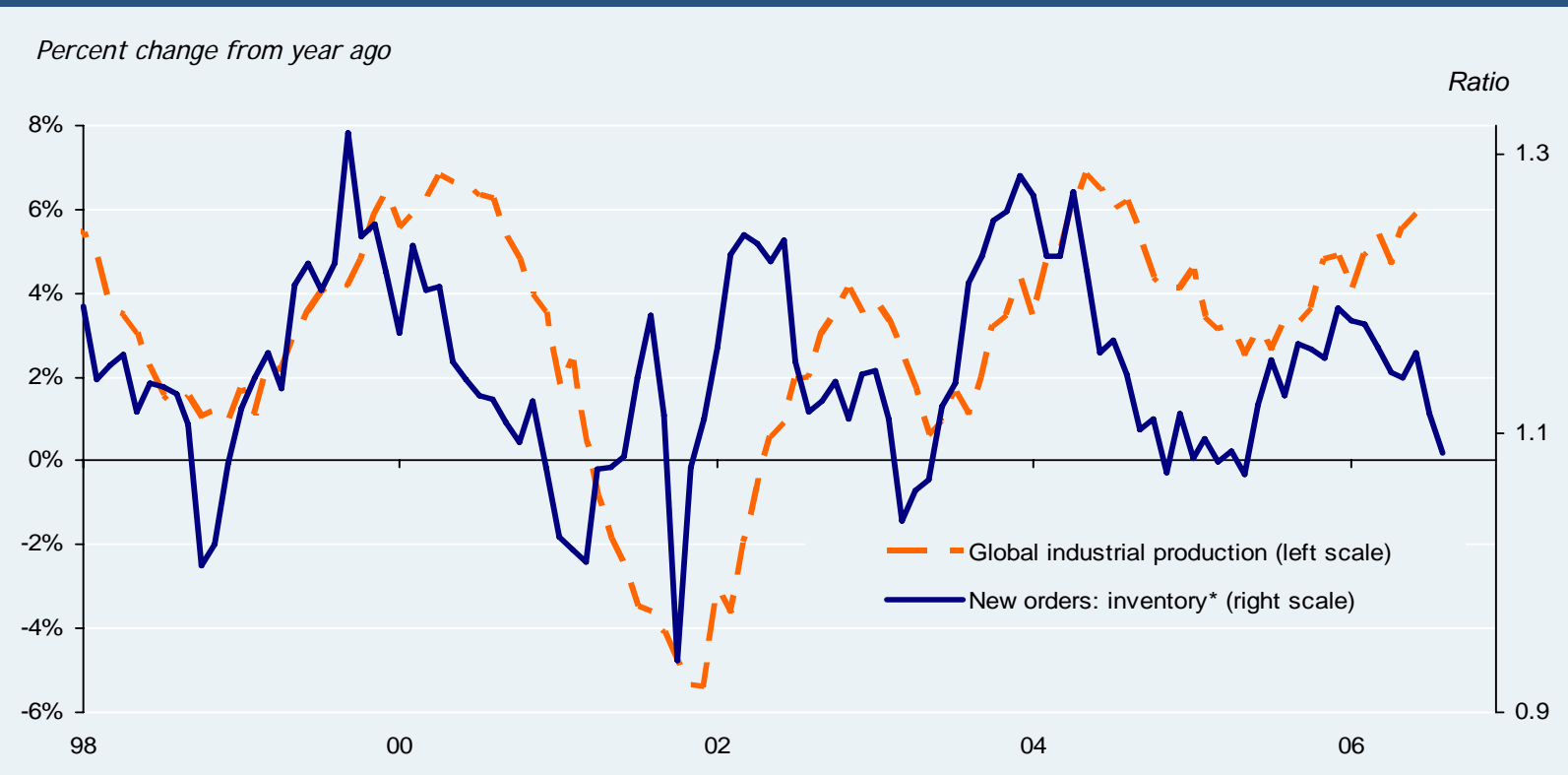
Estimated growth, 2007 versus 2006, as of indicated dates



Source: First Call, JPMorgan
Data as of February 2007
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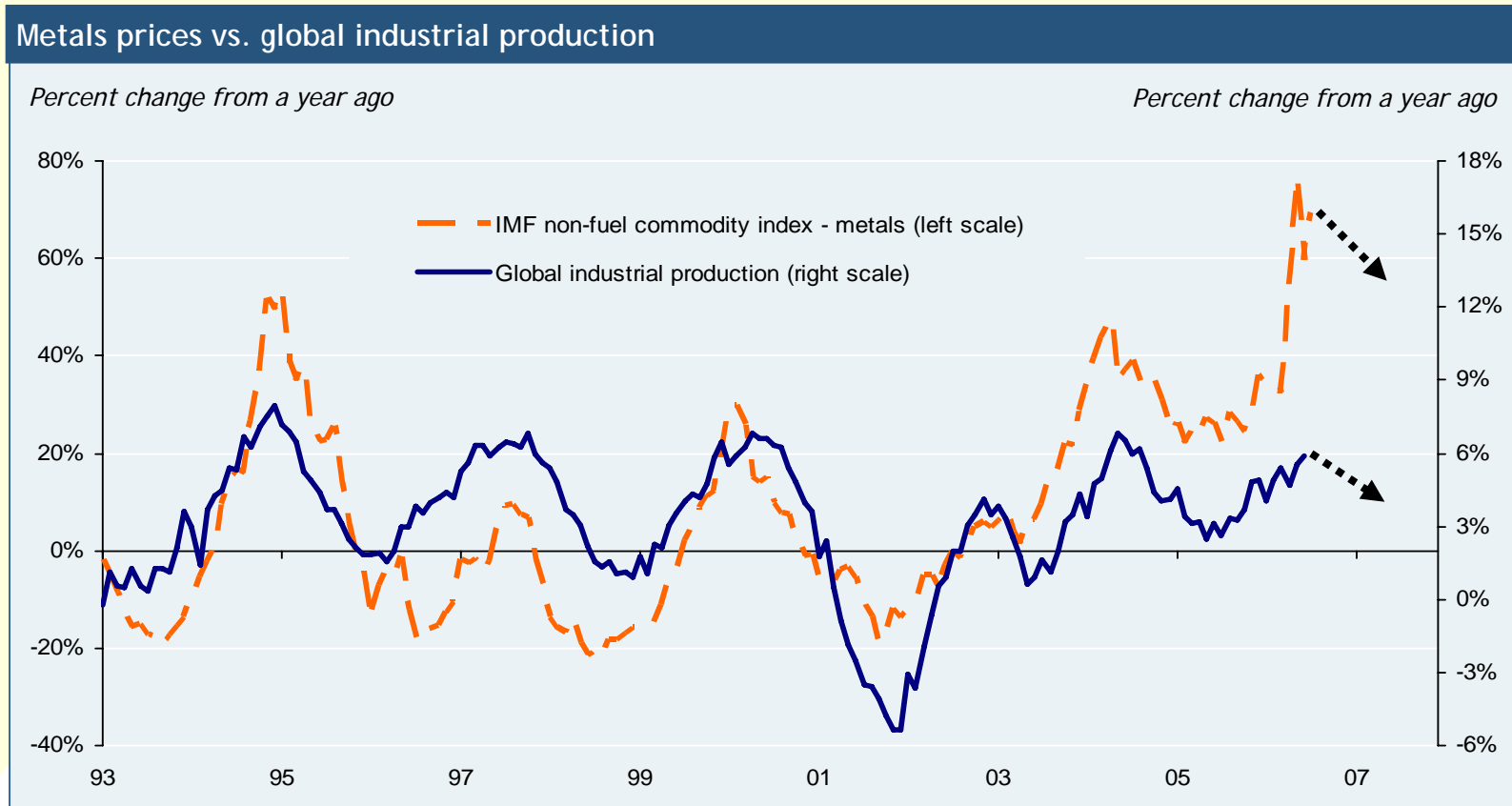
Global Growth Likely To Be Held Back By A Bulge In Inventories

Global industrial production vs. orders to inventory ratio



Source: JPMorgan
*From global Purchasing Managers Index (PMI)
Data as of February 2007
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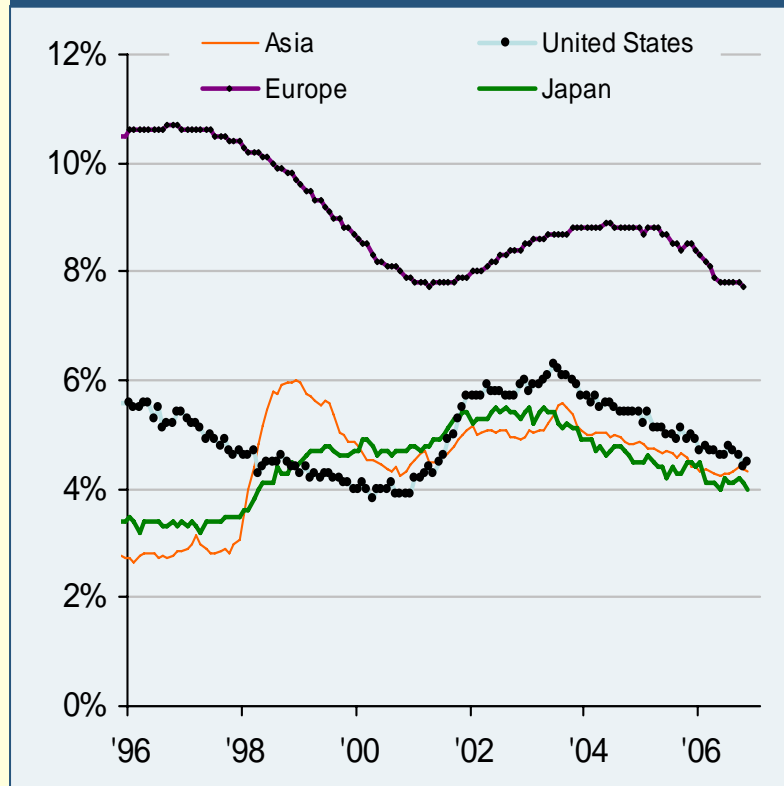
Commodity Prices Will Likely Weaken As Global Growth Cools



Sources: International Monetary Fund, JPMorgan
Data as of February 2007
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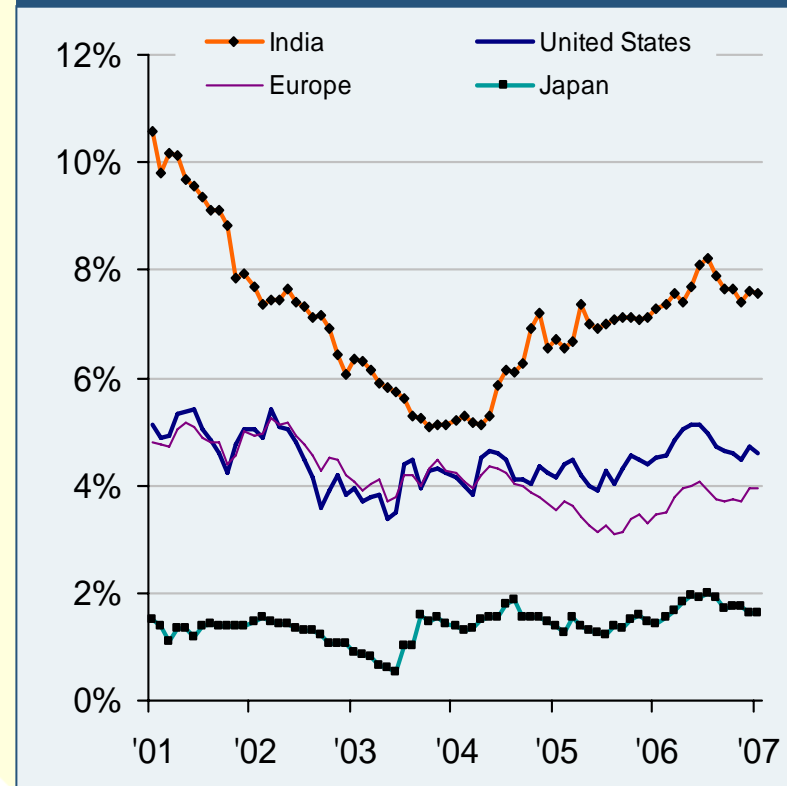
2) Emerging Global Consumer: With Unemployment Falling And Inflation Still Under Control, Global Consumption Appears Ready To Rise

Global unemployment rates are falling



Data through December 31, 2006
Source: Bloomberg, Bureau of Labor Statistics, Mac Data, J.P. Morgan Securities Inc.

Global 10-year borrowing rates



Data through February 2007
Source: Bloomberg, Mac Data, J.P. Morgan Securities Inc.

- European asset-backed market is just beginning; Russia and India just starting issuing credit cards; Mexico lenders generated 2 MM low-income mortgages over the past 5 years, about as many in the prior 30 years

Note: There are additional risks associated with international investing. International investing may not be appropriate for everyone. Past performance is no guarantee of future results

2) Emerging Global Consumer: Global Household Savings Rates Remain High

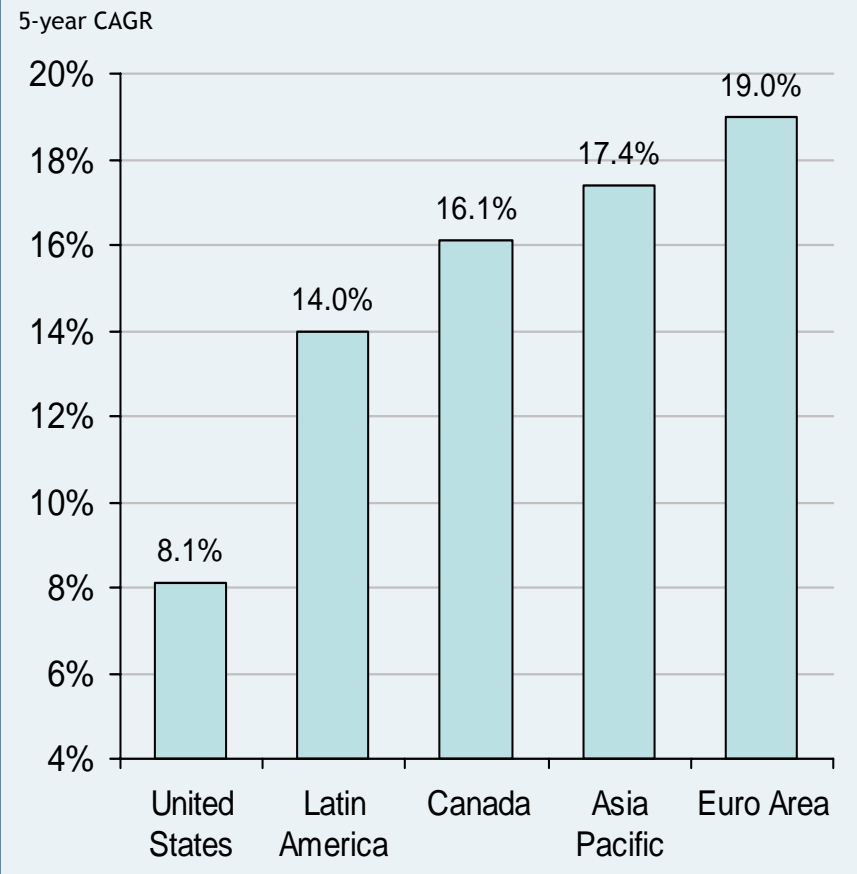
Global household savings rates



Euro Area, Japan, and U.S. data as of 2006. China data as of 2005. Thailand and India data as of 2004.

Source: OECD Economic Outlook No. 79, National Bureau of Statistics of China data, Reserve Bank of India, Asian Development Bank, J.P. Morgan Securities Inc.

Credit card purchase volume growth

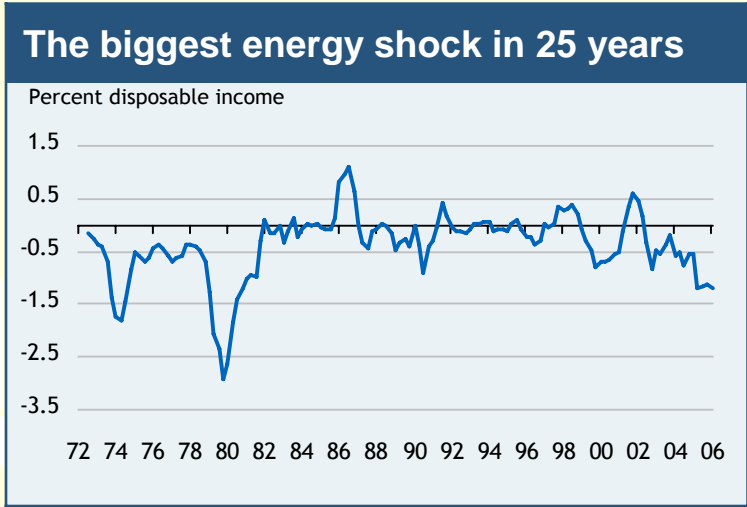
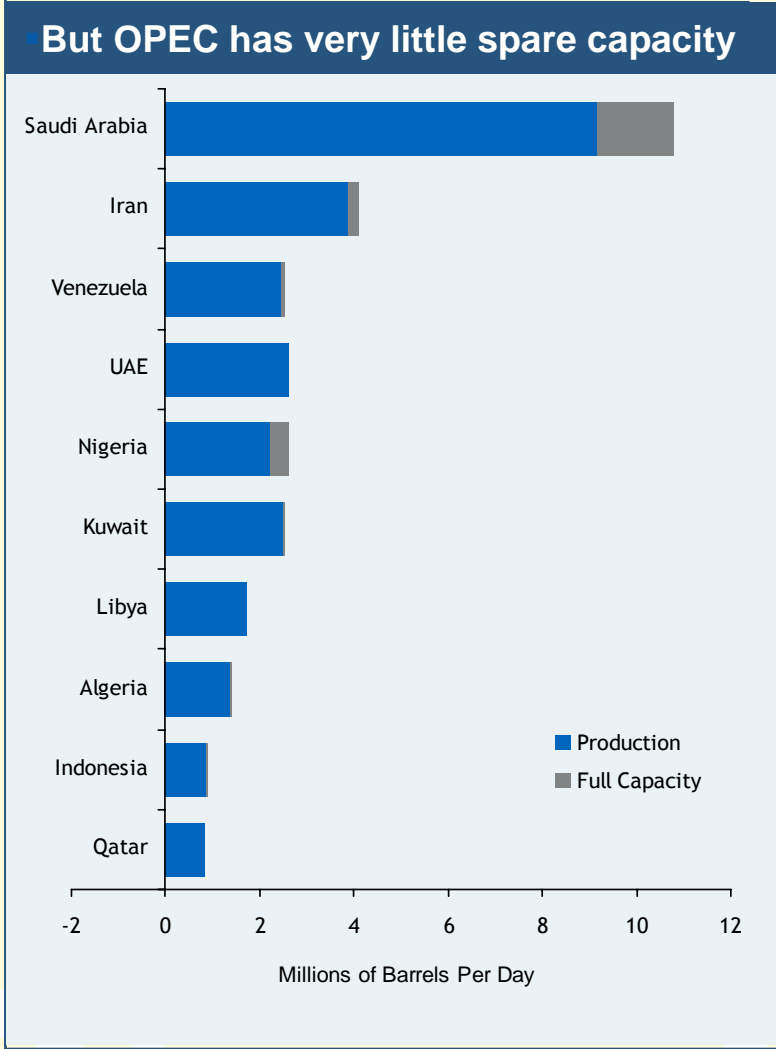
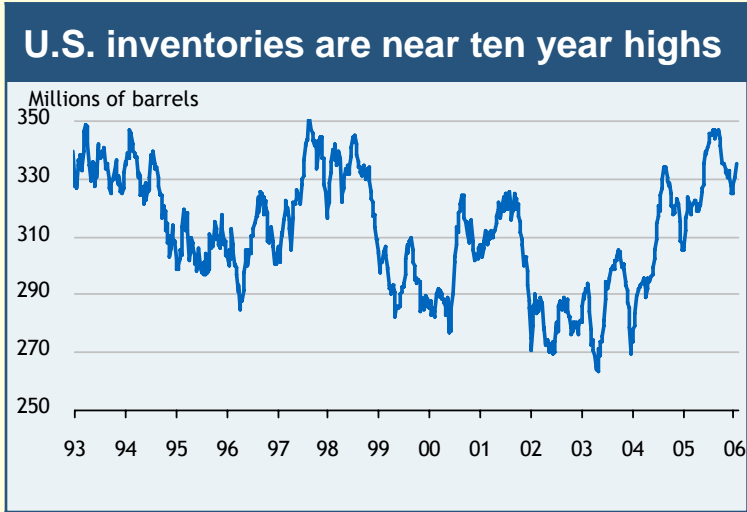


Data as of December 2006

Source: The Nilson Report, J.P. Morgan Securities Inc.

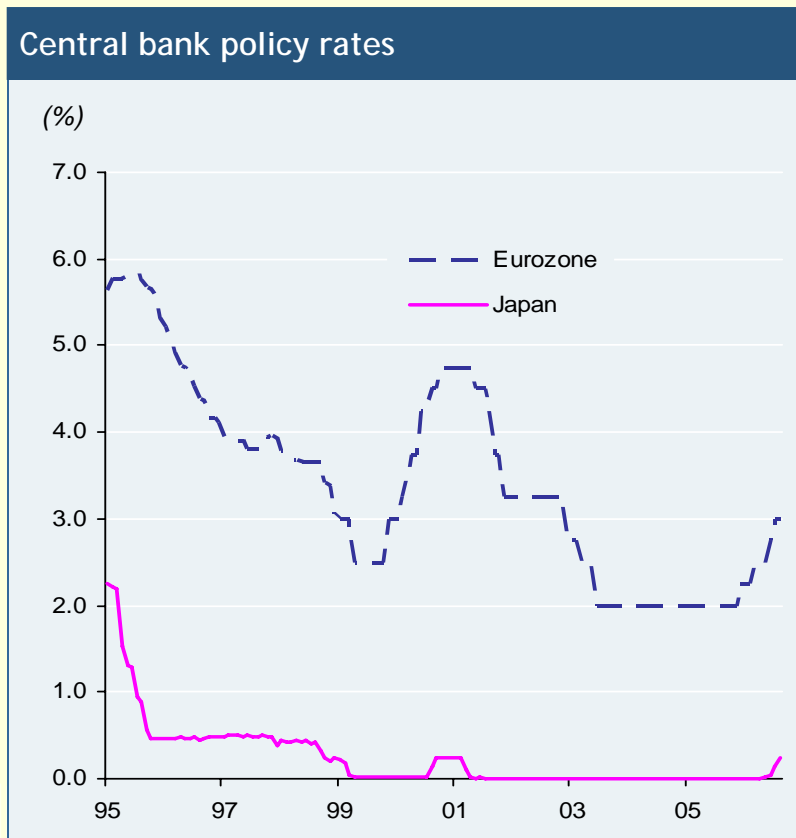
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Oil Inventories High, But Price Risk Remains Due To Limited Production Capacity And Geopolitical Risks

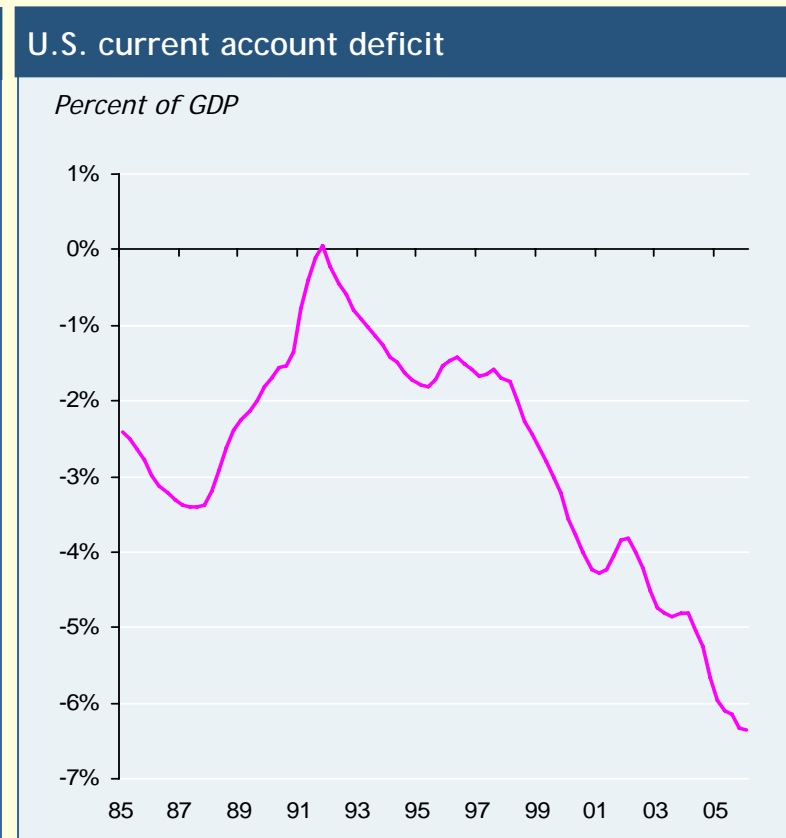


Consumption shock is the change in consumer energy prices times the share of disposable income spent on energy. Source: Bloomberg, Department of Commerce, J.P. Morgan Securities Inc. Past performance is no guarantee of future results.

Dollar Faces Dual Headwinds, But...



Sources: European Central Bank, Bank of Japan, JPMorgan
Past performance is no guarantee of future results.



Sources: U.S. Bureau of Economic Analysis, JPMorgan

Conclusions



- Housing Spillover Effects should lead to mildly slower Consumer spending in 2007
- Labor market conditions should soften during the second half of the year
- Pricing pressures should ease
- Federal Reserve is expected to step in either late 2007 or early 2008 and rescue consumer spending
- Net result will be a growth scare but no Recession
- Patience is a Virtue

These are the views of JPMorgan Private Client Services.



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