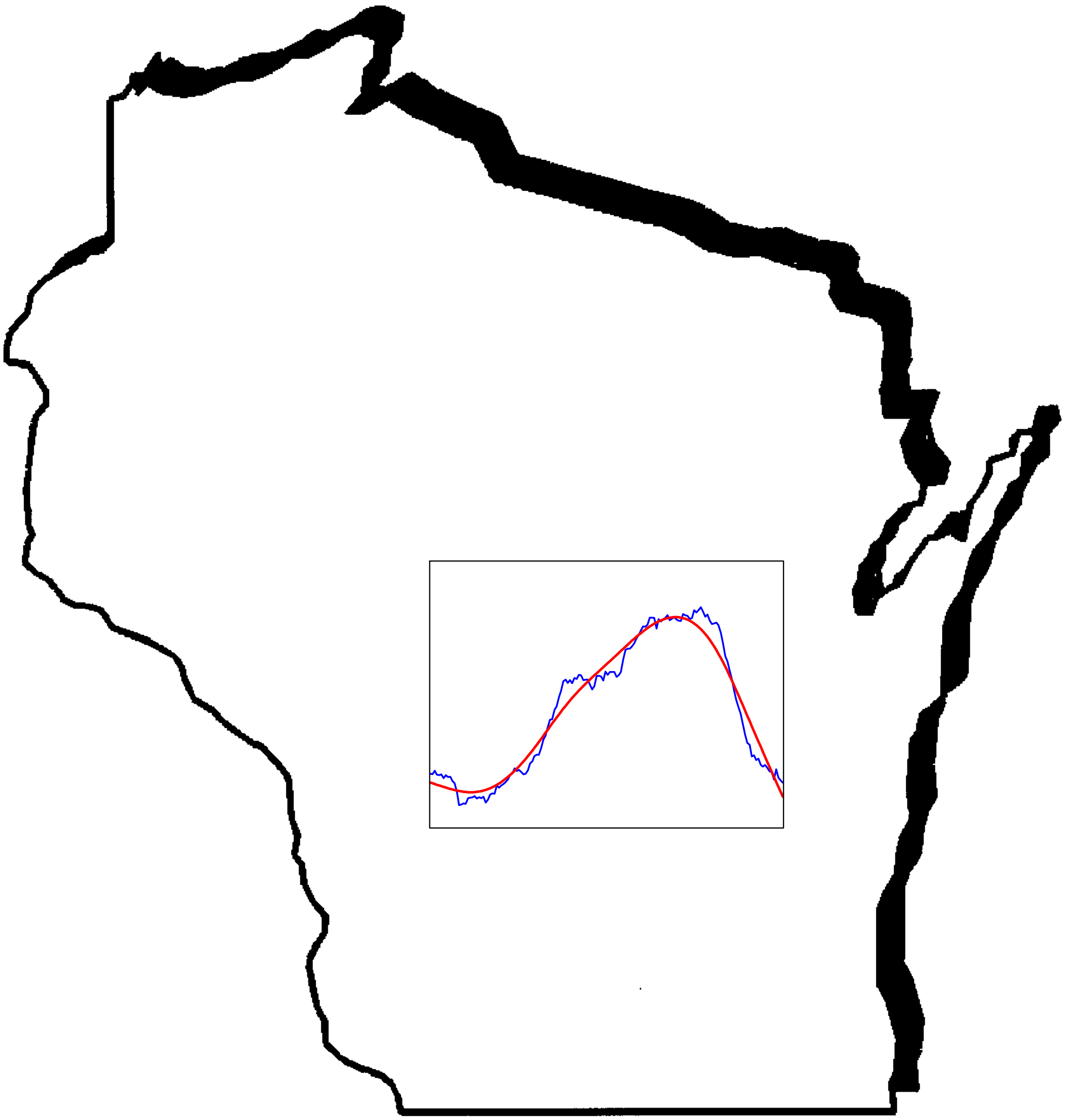
WISCONSIN ECONOMIC OUTLOOK



Wisconsin Department of Revenue
Division of Research and Policy

March 2, 2007

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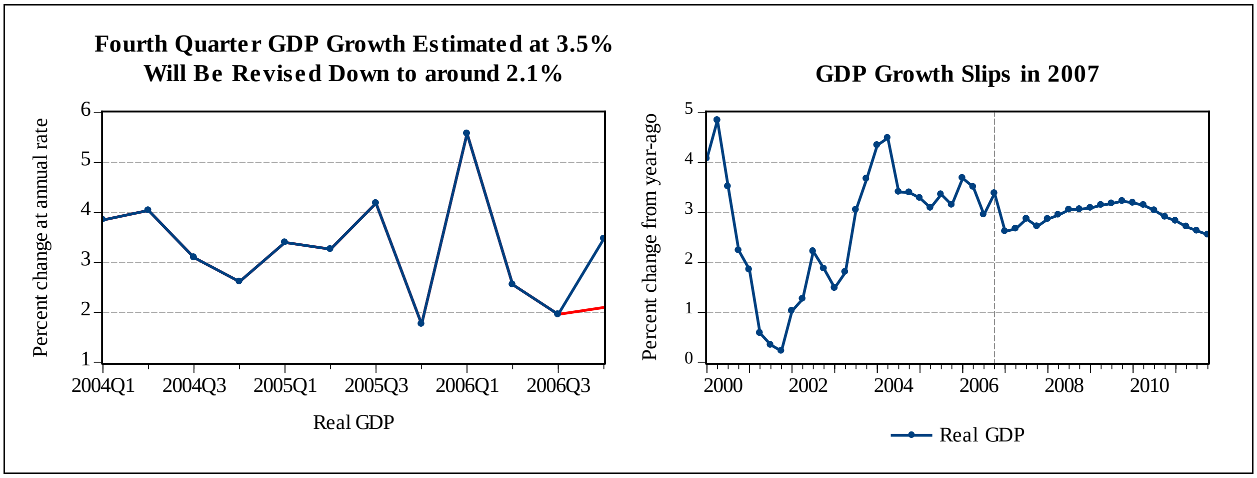
This is a regularly scheduled quarterly economic outlook released by the Wisconsin Department of Revenue. The Division of Research and Policy, Wisconsin Department of Revenue prepared the Wisconsin forecast. Global Insight, Inc. prepared the national forecast on February 7, 2007. The forecast does not incorporate data released subsequent to that date.

I. ECONOMIC OUTLOOK
U. S. OUTLOOK

Global Insight sees GDP growth averaging 2.7% from mid-2006 to mid-2007. For calendar 2007, GDP will grow 2.7%, after hitting 3.4% in 2006, and the pace picks up gradually as the year progresses. The downturn in the housing market is still a drag on growth. But the rest of the economy (notably the consumer) is proving very resilient. Exports remain a strong support to growth; business capital spending should rebound after a weak fourth quarter. The Federal Reserve has no need to change interest rates any time soon. One small cut later in the year is expected, as core inflation becomes more comfortable.

Chart I.1



The Forecast in Brief

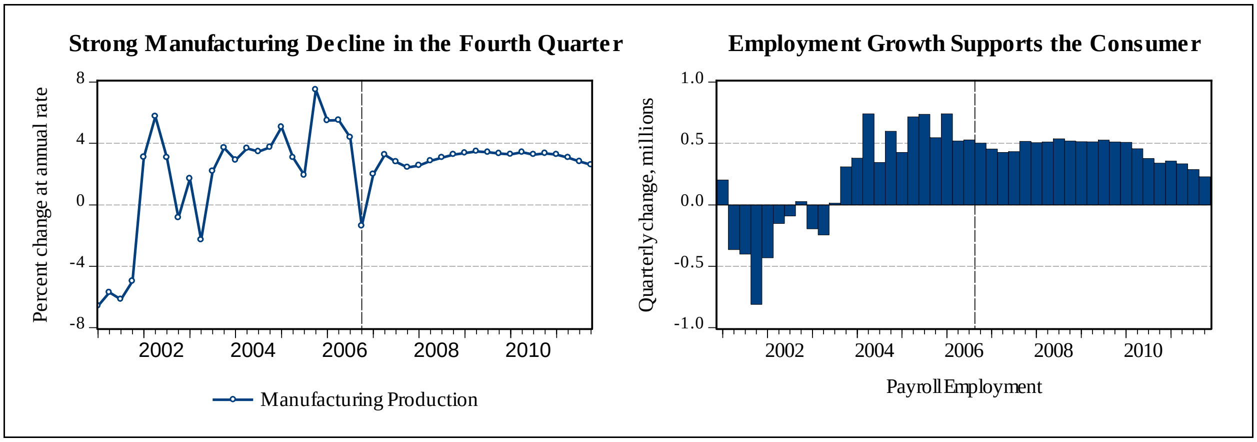
The Bureau of Economic Analysis (BEA) announced a surprisingly strong outcome for fourth-quarter real GDP growth on January 31, pegging the growth rate at 3.5%. Data released since that initial fourth-quarter GDP estimate was published suggest a sharp downward revision to 2.1%, little changed from the 2.0% growth rate in the third quarter. As it has turned out, almost all of the evidence for December has come in on the low side of the BEA's assumptions (for construction spending, inventory accumulation, and foreign trade), while some data for previous months (retail sales) has been revised down.

The anticipated revision is not necessarily bad news for future growth, but it would bring the fourth-quarter GDP picture a bit more into line with the picture from the manufacturing sector. Of the projected 1.4 percentage point revision to growth, 0.9 comes from inventories (mainly wholesale inventories). That means that inventory accumulation slowed more than first thought in the fourth quarter. Some excess buildup in inventories had appeared during 2006 as growth slowed; if the subsequent adjustment is further along than thought, that might clear the way for faster growth ahead.

The landing has been about as soft as could have been hoped; the economy is coping very well with the housing downturn. In response to the recent evidence, Global Insight has raised its forecast for GDP growth in 2007 from 2.3% in January to 2.7%. As a result, Federal Reserve interest rate cuts have become much less likely. The good news is that they are not needed.

The signals remain less positive from manufacturing, where fourth-quarter output showed the first quarterly decline (down 1.4%) since the second quarter of 2003, and the ISM index (slipping back below 50 in January) has indicated a shaky start to 2007. Autos have led the way down, but the declines are broader than that and also reflect spillover from the housing downturn and fourth-quarter softness in business equipment spending. Although the housing drag should diminish and the equipment dip should prove temporary, an inventory adjustment appears necessary before growth will resume.

Chart I.2



The latest news from the housing sector shows stability in existing home sales and some improvement in new home sales. Global Insight is not yet convinced that sales have hit bottom (warm weather may have helped temporarily), but the period of free-fall is over. However, the high inventory backlog will keep housing starts depressed, and the drag on the economy from falling construction activity will remain powerful during the first half of 2007. The housing down-turn chopped 1.2 percentage points off GDP growth in the fourth quarter through its direct effects on construction alone, and a drag averaging 0.9 percentage point is expected in the first half of 2007. The forecast assumes an unprecedented, but small, decline in national nominal home prices in 2007.

As house prices decline, that will remove the fuel that has allowed consumer spending growth to outpace real income gains in recent years, producing a saving rate that has been negative for nearly two years. Steady gains in employment also will support incomes, enabling households to increase both spending and saving. Even with energy prices (notably oil) below their peaks, meaning that pay gains are now outstripping inflation again, some readjustment of spending relative to income will still be required. But with real disposable incomes growing faster in 2007 than in 2006 (3.7% versus 2.7%), thanks largely to lower energy prices, consumer spending growth in 2007 can beat 2006 (at 3.3%, compared with 3.2%) even as the saving rate begins to correct upwards.

High utilization rates and the need to remain competitive are spurring business fixed investment. But business equipment spending will need to be watched carefully; it declined slightly in the fourth quarter. And looking into 2007, profits growth will fall sharply with slower output growth than in 2006 and some catch-up in wages. But it is assumed that the fourth-quarter decline exaggerates any underlying slowdown (orders for capital equipment picked up as the quarter ended), and look for a rebound in the first quarter. One source of uncertainty about the outlook is nonresidential fixed investment, which has shown a saw-tooth pattern over the past year. The forecast currently expects capital spending to keep contributing to growth, but probably at a somewhat slower rate than last year (5.7% versus 7.4%).

The biggest positive difference in 2006 for investment was that a broad-based recovery in nonresidential construction took hold. Although the decline in home-building will begin to weigh on commercial construction in 2007, the forecast still expects nonresidential structures spending to grow an average 8.2% in 2007, only slightly below the 9.1% pace of 2006.

Growth in the economy has had a very beneficial impact on the federal budget deficit. The deficit is expected to narrow, again, in fiscal year 2007, hitting $225 billion (1.6% of GDP). Sharp revenue gains, fueled by surging profits and bonuses, are driving the improvement. Global Insight believes that higher tax rates in one form or another will be needed eventually to keep the deficit under control, given long-term demographic pressures on entitlement spending, but the recent deficit improvement has made the issue less immediate. Also, they do not expect the 4.5% defense-induced spike in federal spending to be sustained. Only expect 2.5% growth this year (the 2006 average was 2.0%).

Improved economic growth around the world, plus a declining dollar, mean that exports will be an important source of strength going forward, even though global growth is expected to be a bit slower in 2007 than in 2006. The long-term decline in the dollar is expected to continue in 2007. Foreign interest rates will rise during 2007, while U.S. rates should be little changed.

The current-account deficit is likely to have peaked at $858 billion (6.5% of GDP) in 2006. This year should see the first narrowing of the gap (to $807 billion) since the recession year of 2001, as exports gain on imports, in both real and nominal terms. A declining oil bill is the single biggest reason for the falling trade gap, but the non-oil deficit has turned as well. Net exports added 1.6 percentage points to the fourth-quarter GDP growth rate. Exports rose 10.0%, while imports fell 2.3%. The drop in imports was probably a fluke. However, the forecast expects exports to grow more than twice as fast as imports in 2007 (8.1% versus 3.4%).

Inflation has probably topped out, but is still too high for the Federal Reserve's comfort. Headline CPI inflation has been driven primarily by energy prices, and after exceeding 4% year-on-year (y/y) in mid-2006, should average below 2% y/y this year, helping to dampen inflation expectations. Core inflation remains outside the Fed's 1-2% comfort zone, although the recent news has been benign, taking core PCE inflation down to 2.2% y/y in December. Global Insight expects below-trend growth, diminished oil price "pass-through", and slower increases in housing costs to ease core inflation below 2% in the second half of 2007. But the Fed is still nervous about labor costs, which pose the main upside threat to inflation. With downside growth risks fading, and inflation at present still outside the Fed's comfort zone, there is no reason for the Fed to cut interest rates. The forecast retains just one rate cut in the second half of the year on the view that as inflation returns to the "comfort zone," the Fed will feel able to ease very slightly on the brakes. The risks are tilted towards no cut at all.

So, the soft landing has turned out to be much softer than expected. However, a sustained return to trend growth (of around 3%) seems unlikely until the end of this year or the beginning of next year. While there are clear signs of strength in the economy (consumer spending, exports, and government spending), there are also major sources of weakness (housing) that will keep growth below trend for much of this year. The 4.4% growth in consumer spending in the fourth quarter was, in part, the result of one-time events such as the large drop in gasoline prices and unusually warm weather. However, Global Insight believes that the fundamentals driving personal consumption expenditures will sustain growth at around 3%. The bottom line is that real GDP growth will likely come in at 2.5% in the first quarter, but trend up to around 2.9% by year-end as housing stabilizes.

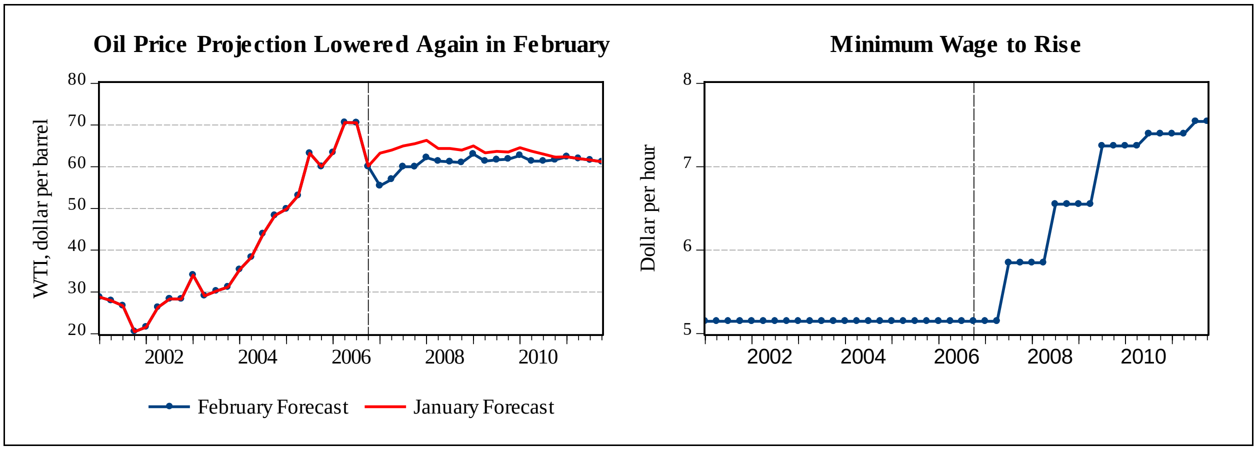
KEY FORECAST ASSUMPTIONS

Federal Reserve on Hold for Now. The three rate cuts previously assumed for 2007 will not be needed, given the better growth backdrop. Now it is assumed that the Fed will hold the federal funds rate at 5.25% through the first half of the year. The forecast still assumes one 25-basis-point rate cut in September 2007, recognizing the return of inflation to the Fed's 1-2% comfort zone.

Dollar Decline to Continue. The current-account deficit and the prospect that yield differentials will move against the dollar should continue to pull the currency down. The dollar dropped about 5% against major currencies during 2006 (fourth quarter-to-fourth quarter basis), and a further 4% decline this year is anticipated, reaching rates of $1.38/euro, 111 yen/dollar, and C$1.13/dollar at the end of 2007. To help cool its rapidly growing economy Global Insight expects China to allow the pace of renminbi revaluation to accelerate, appreciating another 7% over the next 12 months.

Oil Price Projection Lowered Again. Oil prices (WTI) have fallen below $60/barrel, but after almost hitting $50 in mid-January, they have now moved back into the high $50s as the weather has turned colder. The forecast assumes a $55.41 average price for the first quarter (down from $63.25 in the January forecast), and $58.10/barrel average price for 2007 (from $64.44 in the January forecast). The price is assumed to hover just above $60/barrel over the rest of the decade.

Chart I.3



Minimum Wage to Rise. The forecast assumes that the new Congress will raise the federal minimum wage from $5.15 to $7.25/hour in three annual increments of $0.70, beginning on July 1, 2007. Beyond that, the minimum wage roughly keeps pace with price inflation.

Weather Is Driving Natural Gas Prices. Colder weather has brought the price of natural gas back up to around $8 per million Btu (Henry Hub cash price), after the very mild start to the winter pushed prices briefly below $6. Even though the price has bounced higher, the previous $8.36 price assumption for the first quarter is proving too high, and now is assumed an average price of $6.80 per million Btu. For 2007 overall, a price of $7.21 is assumed (down from $8.18 in the January forecast).

Foreign GDP Growth Expected to Slow. Growth in major-currency trading partners accelerated to 2.7% in 2006, from 2.3% in 2005, but Global Insight expects some easing back to 2.3% in 2007 (mainly driven by Canada and the Eurozone). Real goods exports saw double-digit gains in 2006, and the forecast expects close to that in 2007, with a weaker dollar helping to offset the slower foreign growth.

Tax Burden to Rise. Global Insight does not believe that budget-deficit reduction will be achieved by spending restraint alone. The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire as scheduled. But they expect some increase in the income-tax burden, whether through the impact of the alternative minimum tax or some kind of tax reform that raises a similar amount of revenues. No major tax initiatives before the 2008 presidential elections are anticipated.

Government Spending Projection Raised. Spending for the wars in Iraq and Afghanistan continues to climb. Global Insight has raised its assumption for growth in real federal defense purchases to 3.5% for calendar 2007 (from 0.8%); spending growth was 1.9% in 2006. Overall federal purchases rise 2.5% in 2007, up from 2.0% growth in 2006.

DETAILS OF THE U.S. OUTLOOK

Consumption

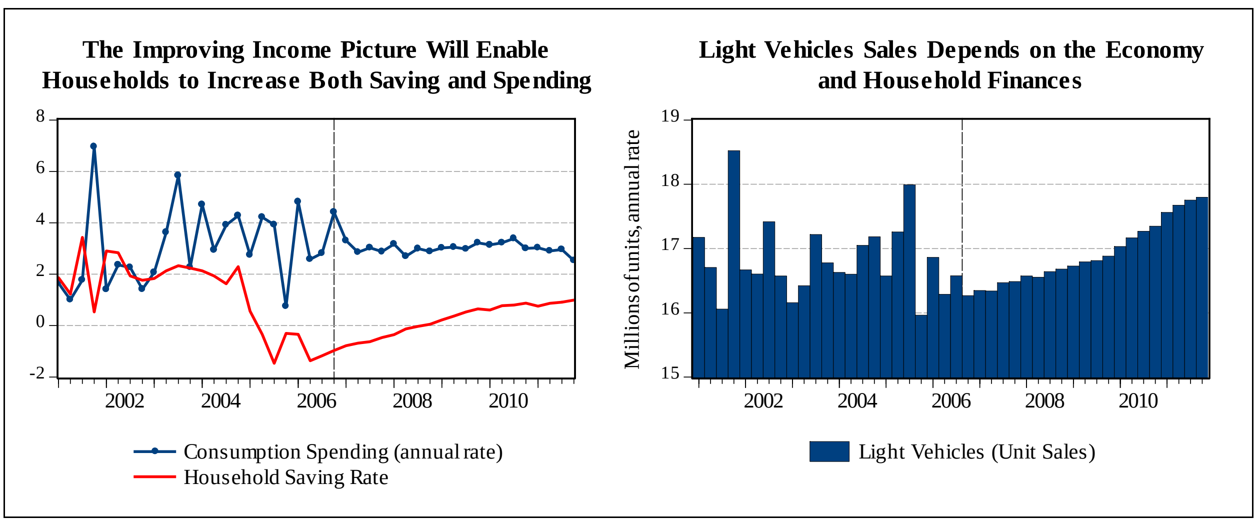
Steady gains in employment and real wages will support incomes, enabling households to increase both spending and saving. After a 3.2% increase in 2006, real consumer spending is projected to rise 3.3% this year and 3.0% in 2008. Weakness in automotive and home goods markets will be offset by strength in health and entertainment spending.

The expansion in consumer spending is entering its 16th year with renewed vigor. A strengthening labor market and mild inflation are boosting real incomes, limiting the fallout from the housing market bust. Retail sales got off to a good start in January, helped by gift card redemptions and a cold snap late in the month. Real consumer spending is expected to increase at a 3.3% annual rate in the first quarter, building on the 4.4% surge in the final quarter of 2006.

Consumer attitudes perked up in January, with views about personal finances, the economy, and buying conditions improving. The University of Michigan's consumer sentiment index rose to a 25-month high, while the Conference Board's consumer confidence index reached its highest level since May 2002. Yet, colder weather and an upturn in oil prices were beginning to dampen sentiment as the month ended.

Despite the turbulence in housing markets, consumer spending appears to be on a steady 3% real growth path through 2010. With lower energy prices, wage gains are outpacing inflation. Employment continues to rise, led by healthy gains in service sectors. Thus, real disposable income growth is projected to pick up from 2.7% in 2006 to 3.7% this year and an average of 3.6% annually through 2010. The improving income picture will enable households to increase both saving and spending. Last year, the personal saving rate was -1.0%, its lowest level since 1933 and the Great Depression. With home prices falling and the growth of real household net worth subsiding in 2007, consumers will begin to exercise caution. Thus, the saving rate is expected to return to positive territory by the end of 2008.

Chart I.4

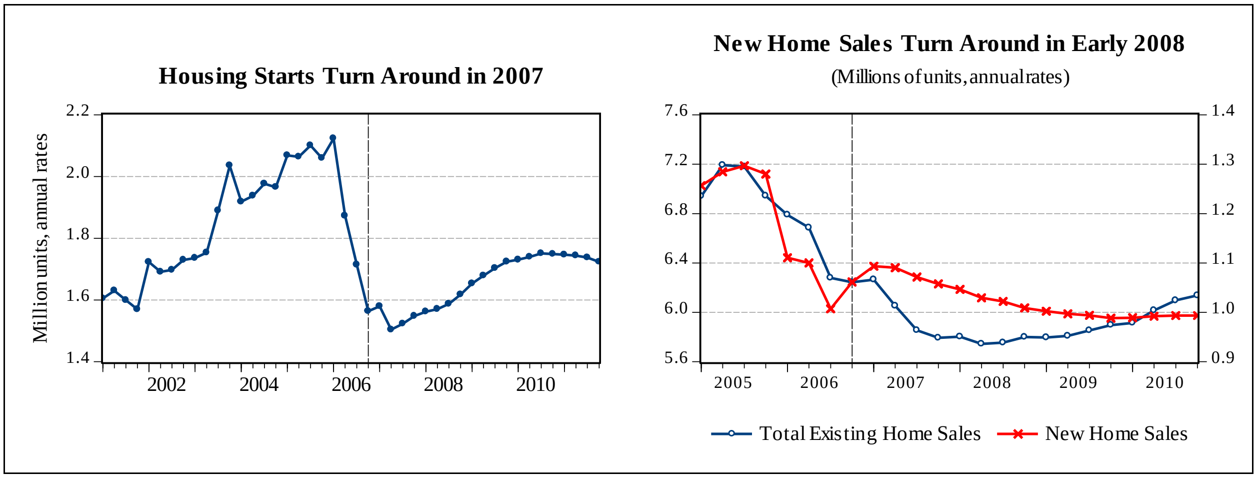


The slump in home sales is curbing spending on furniture, appliances, and decorating. But these cutbacks are offset by brisk spending on flat-screen, high-definition televisions, computers, and game consoles. Housing markets are expected to stabilize later this year and then gradually recover, leading to a pickup in home goods spending in 2009-10. With gasoline prices settling near $2.40 per gallon (down from $2.90 in mid-2006), light-vehicle sales will gradually recover.

Housing

Housing starts turn around in mid-2007. Home sales turn around in early 2008. Residential construction takes 0.9 percentage point off GDP growth in the first quarter of 2007 and 0.8 percentage point off for the year. Inventories of new and used homes have peaked but are receding slowly. House prices are expected to drop during 2007.

Chart I.5



The latest news on housing has been mostly positive. New home sales rose 4.8% in December, rising to their best sales pace since April 2006. The inventory of new unsold homes declined for the fifth straight month. Existing home sales slipped just 0.8% in December. Median existing house prices, which had been falling, were unchanged from a year earlier. The Mortgage Bankers Association's Purchase Index in January reached its highest level in 12 months. Housing starts rose in November and December, although some of that increase was surely helped by good weather; bad weather in January helped send starts back down to a new low for the cycle. But there is a more positive signal from the NAHB/Wells Fargo Housing Index, which rose five points in February, to 40; it has been inching up since last September, when it fell to 30.

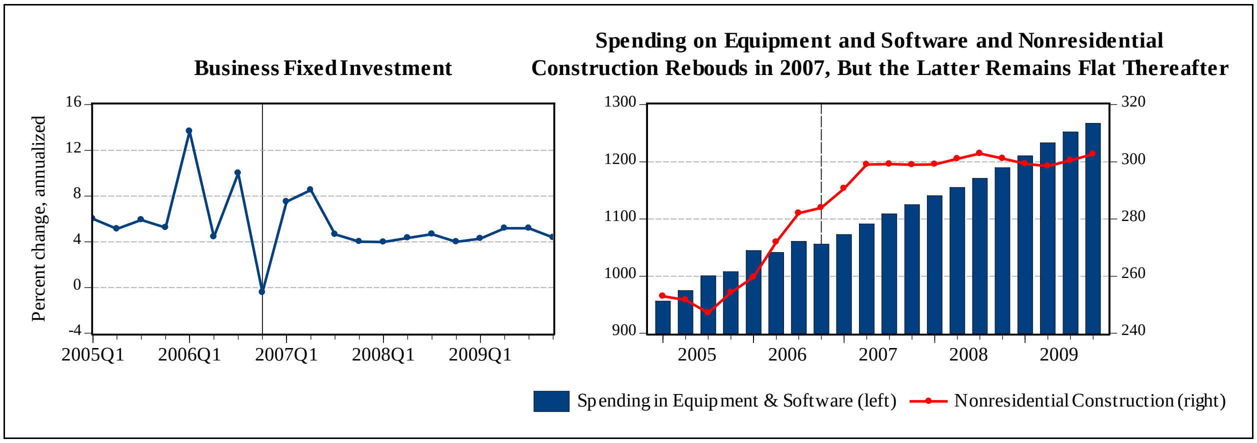
One red flag is a growing default and delinquency problem in the subprime mortgage market. These are not a serious threat to the economy at this time, but they do pose a threat to the housing market. A surge in delinquencies would put more houses on a market saturated with unsold homes. It would also force banks to tighten their lending standards and raise the risk premium for their less credit-worthy customers.

Global Insight has slightly raised the near-term housing starts forecast because of stronger-than-expected numbers for December. In the February forecast, housing starts, which tumbled 12.3% in 2006, plunge another 16.8% in 2007. Single-unit starts account for the entire 2007 drop. Starts bottom out in the first half of 2007, and then begin to rise gradually because of falling inventories and increasing household formation. The prices of new and existing homes are still expected to drop in 2007. This will represent the first nominal decline in the existing home sales price, a series that dates back to 1969. The slow-down in housing starts is behind the weak forecast for residential construction, which falls 15% in the first quarter of 2007 and 14% for the year, chopping 0.9 percentage point GDP growth in the first quarter and 0.8 percentage point off for 2007. Inventories of new homes are expected to continue on a gradual descent from a third-quarter cyclical peak. With housing prices adjusting sluggishly to weak demand, new and existing home sales should rebound in early 2008. After the downturn, the housing market, driven by household formation, will begin a slow but steady comeback.

Business Investment

The fundamentals that drive investment remain favorable. Global Insight therefore expects business fixed investment to rebound in the first half of 2007. Nonresidential construction will post strong numbers in the first half of 2007, but second-half growth will be flat because of the side effects of the housing slump. Real business fixed investment fell in the fourth quarter for the first time since the first quarter of 2003, as a 1.8% drop in spending on equipment and software (E&S) outweighed a 2.8% gain in nonresidential construction.

Chart I.6



The broad-based decline in spending on E&S is perplexing, because many of the fundamentals that drive investment were sound. Profit growth was strong, cash flow as a share of GDP was near the all-time high reached in the third quarter of 2006, and unfilled orders for nondefense capital goods increased for the 26th straight month in December. Despite these solid fundamentals, real spending on transportation, industrial, and "other" equipment dropped in the fourth quarter, while real spending on information equipment eked out a 1.8% gain. A weaker economy and business sentiment probably played a role in the weak fixed investment numbers. With housing in recession, and oil prices soaring to $75.00/barrel in midyear, the economic outlook was not one favoring increased capital spending. On top of this, spending on high tech probably took a hit because of the timing of the Windows Vista and Office 2007 releases.

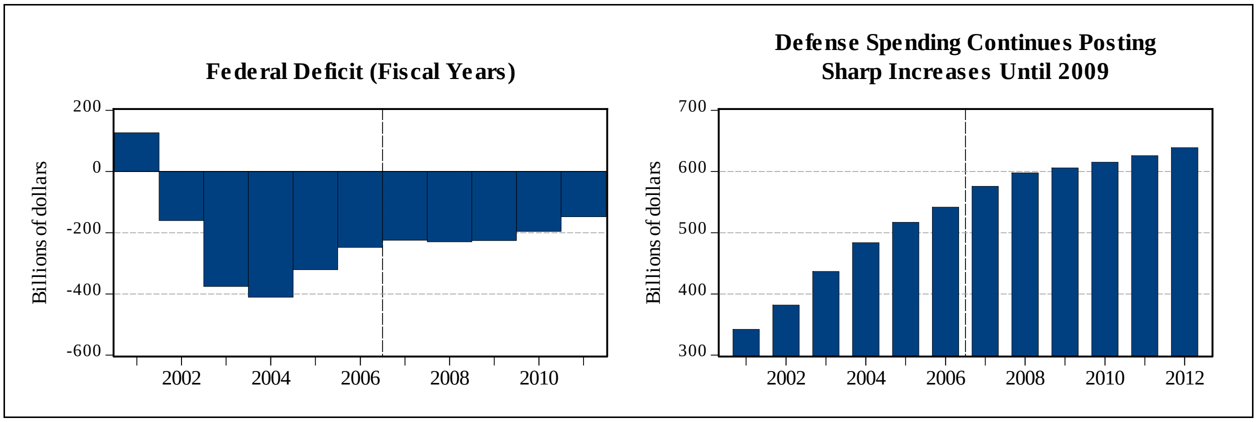
Based on December's construction put-in-place numbers, which came out after the GDP release, Global Insight expects the 2.8% real gain in nonresidential construction to be revised down to show no growth. The fourth-quarter slowdown in non-residential construction was broad-based, but it does not mark the beginning of a new trajectory, especially in light of good employment gains in this sector in both December and January. In the forecast, nonresidential construction adds 0.25 percentage point to GDP growth in 2006 and 2007, but then almost nothing in 2008 and 2009.

Spending on E&S is expected to rebound in the first half of 2007 because the fundamentals that drive investment remain favorable. The industrial equipment category is expected to follow a similar pattern, rebounding in the first quarter, but slowing from 6.1% growth in 2006 to 1.6% in 2007 as the economy moves along in a lower gear. Aircraft deliveries should pick up from a very weak second half of 2006. But heavy-duty truck sales, which climbed in the fourth quarter, in anticipation of new EPA emission standards for diesel engines that go into effect this year, will post a substantial first-quarter decline. This accounts for the 26% first-quarter decline in "other" transportation equipment. Spending on information equipment and software should pick up in the first quarter because of the Vista release. Because of continuing improvements in technology, it will continue to post solid gains over the forecast period.

Government

Federal tax revenues were raised in the short-term due to stronger GDP growth, but were lowered in the long-term due to a slight reduction in nominal GDP growth. The short-term deficit projection was lowered, primarily due to stronger real growth, higher tax collections, and higher social insurance receipts. The long-term deficit projection was lowered due to lower interest payments and lower long-term projections for real spending on Medicare and Medicaid.

Chart I.7



President Bush's 2008 budget was unveiled by the White House on February, 2007. The proposal sticks with the major budgetary policy themes that his administration has been promoting: more resources devoted to defense and homeland security, comprehensive income tax reforms, reforms to entitlement programs to put them on sounder long-term financial trajectories, and continued restraints on discretionary nondefense spending. Nondefense discretionary spending rises by only 1.6% in 2007, but then declines thereafter. The president also requested a massive increase in supplementary defense and homeland security funding ($103 billion in fiscal 2007, $145 billion in fiscal 2008, and $50 billion in fiscal 2009). As a result, defense spending ramps up sharply over the next three years, but declines thereafter.

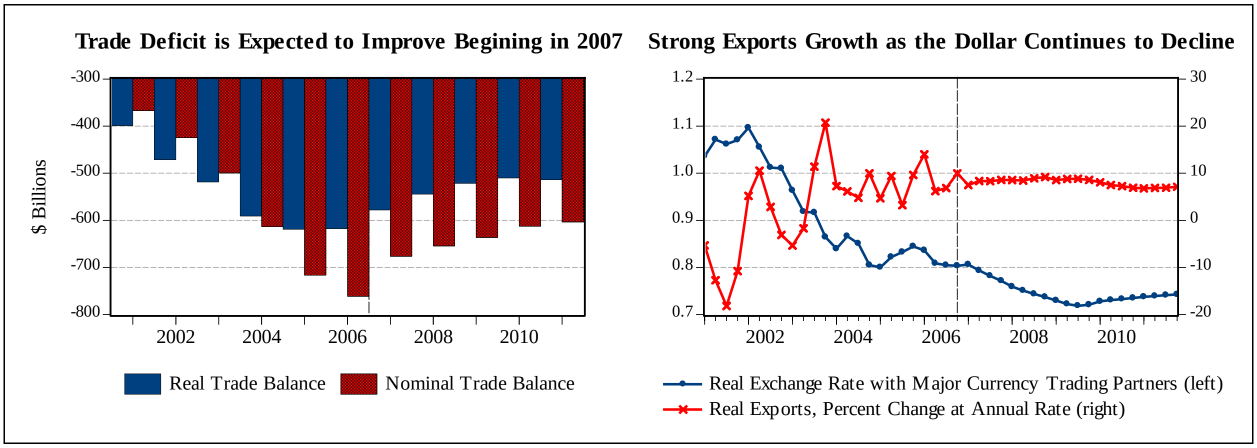
The president proposed further reforms to Medicare and Medicaid. This includes changing the tax treatment of health insurance premiums, as outlined in his January 2007 State of the Union speech. Bush also reiterated his proposal to change the benefit formula for Social Security, with higher-income recipients' initial benefits linked to prices, not wages, as well as the proposal to redirect a part of Social Security taxes to voluntary retirement accounts. With respect to tax reform, the White House proposes to make permanent most expiring tax provisions: the lower marginal tax rates and the lower tax rates on dividends and capital gains. However, the president incorporated only a one-year extension (in 2007) to the existing "fix" of the alternative minimum tax (AMT).

Finally, the president set an ambitious target to balance the budget by 2012. This is accomplished by reforms to mandatory programs, severe restraint on nondefense discretionary spending, a defense spending de-escalation after 2009 and only a one-year extension to the AMT patch. The proposals in general are not going to resonate well in Congress. Perhaps the one area where there is common ground is the plan to phase out spending earmarks. Global Insight has raised its short-term forecast for real GDP growth, which boosts tax revenues and social insurance receipts. As a result, the short-term deficit forecast has been reduced. Over the long term, Global Insight has reduced its projections for real spending on Medicare and Medicaid, in line with downward revisions in the latest Congressional Budget Office outlook for these programs. A reduced cumulative budget deficit, taken in conjunction with slightly lower interest rates over the long term, yields a reduction in projected long-term interest payments.

International Trade

The December trade deficit rose to $61.2 billion, and pushed the annual tally $763.6 billion into the red. Export growth remains strong, while import growth has slowed. Trade was a massive fourth-quarter positive for GDP growth and remains a major plus both this year and next.

Chart I.8



The trade balance deteriorated by $3.1 billion in December, to $61.2 billion, from $58.1 in November. The oil bill accounted for half of the deterioration, as both oil prices and volumes rose. The 2006 deficit rose by $46.9 billion from 2005 to $763.6 billion; nevertheless there were tangible signs of improvement. Notably, the year ended with a string of four consecutive months in which the deficit was smaller year-over-year. And petroleum deficit explained $42 billion out of the $47 billion increase in 2006. If crude prices stay in the high $50s/low $60s per barrel, the oil bill will be sharply lower in 2007. Exports rose 0.6% in December, for a fifth consecutive gain in a string of increases totaling 4.9%, while nonpetroleum imports rose only 1.6%, after falling 0.7% from August through November; much of the December rise was in automotive imports. The trade sector added a whopping 1.6 percentage points to fourth-quarter GDP growth (the December widening will shave just a couple of 10ths of a point off this contribution).

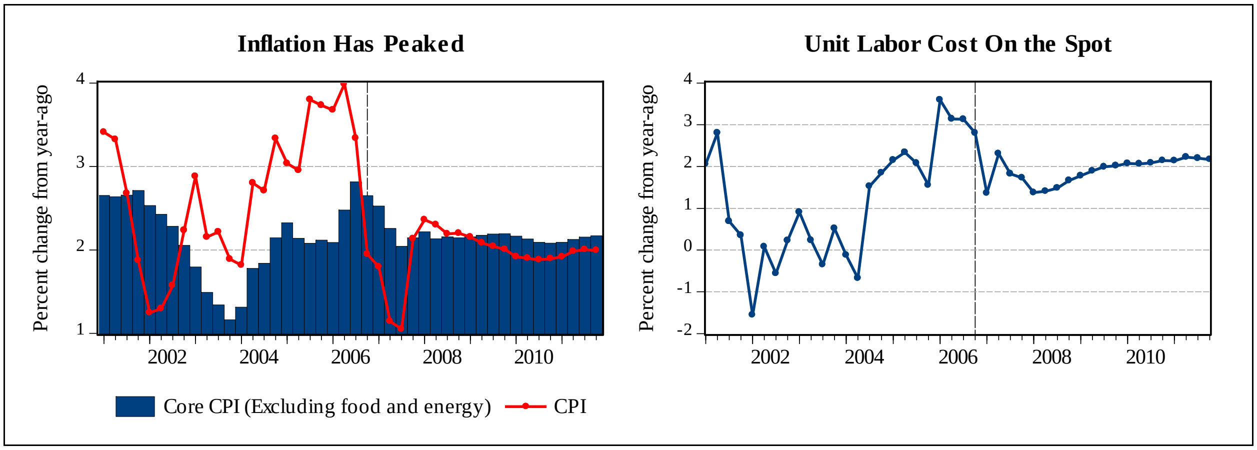
The 2006 trade deficit with China totaled $232.5 billion, with $288 billion in imports far outstripping $55 billion in exports. The 2005 shortfall was $202 billion, on imports of $243 billion and exports of $42 billion. The $45 billion rise in imports last year, set against only a $13 billion gain in exports, may prove to be a major political irritant, because it suggests that greater Chinese currency flexibility was inadequate to narrow, or even slow, the yawning trade gap. The U.S. deficit with China was 2.6 times its second-largest bilateral deficit (with Japan) and 3.2 times it's third-largest (with Canada). Indeed, the deficit with China was larger than the combined U.S. shortfall with Europe and OPEC, even in a year of record-high oil prices.

The trade picture will improve this year. The nominal trade gap is forecasted to fall to $677 billion in 2007 and $655 billion in 2008, on the way to just $560 billion in 2012. The real (inflation-adjusted) deficit narrows as well over this stretch, from $578 billion in 2007 to $490 billion in 2012. The oil import tab is a big part of the near-term improvement, but becomes a smaller portion later as import volumes rise to offset falling prices. Increasing exports do most of the work, as exports rise from a ratio of 66% of imports last year to more than 80% of imports in 2012. The current-account deficit benefits from the trade turnaround, falling sharply as oil prices recede in 2007.

Inflation

Unit labor costs decelerate in 2007, creating favorable conditions for the Federal Reserve. The Fed finds the inflation within its comfort zone, with core PCE inflation descending below the 2% mark. Long-term inflation expectations remain anchored in the 2.00-2.25% range.

Chart I.9



The consumer price index (CPI) rose a higher-than-expected 0.2% in January, as energy prices dipped and food prices registered a hearty increase. Food prices, which had receded from the picture during much of last year, began to feel the effects of the California freeze. Over the past three months, consumer prices rose at a seasonally adjusted annual rate (SAAR) of 2.7%, compared with a 12-month (unadjusted) increase of 2.1%. Excluding food and energy, "core" consumer price inflation climbed from the 0.1% rate registered for each of the previous three months to 0.3% in January. A surprising 0.8% jump in medical-care costs, the largest since August 1991, gave considerable upward lift to the January core index, contributing nearly a full 0.1 percentage point to the 0.3% gain. The trend in core consumer inflation remains favorable, with core prices rising 2.0% (annualized) over the past three months, compared with a 2.7% advance (unadjusted) over the entire 12-month period.

Property rents, most of which are imputed to homeowners as the opportunity cost of housing services, continue to exert upward pressure on core inflation measures. During 2006, property rents contributed 1.8 percentage points to the 2.6% rise in the core CPI, compared with 2005, when rent chipped in only 1.1 percentage points to an overall 2.2% core rate. Blame the ongoing housing bust, which places extra demand on rental units as expected returns on real estate wither.

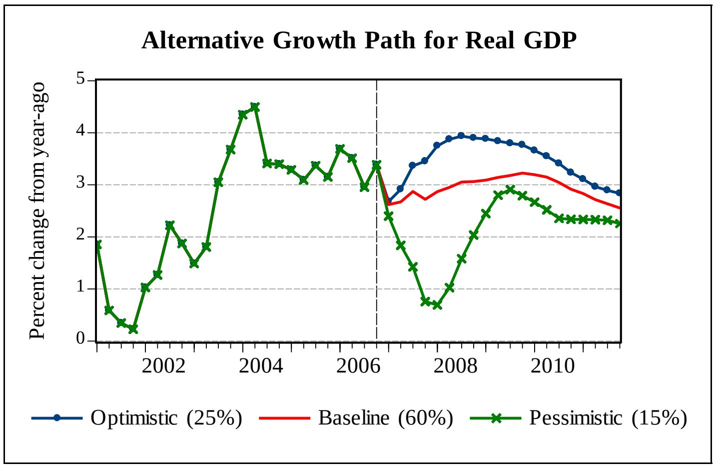
Labor productivity rose at a faster-than-expected 3.0% annual pace in the fourth quarter of 2006, according to preliminary estimates, though a downward revision to around 1.2% is expected. Preliminary estimates show a 1.7% rise in fourth-quarter unit labor costs. However, the expected revision would raise unit labor cost growth to around 3.5%. These adjustments could reignite fears about rapid labor cost growth and its potential inflationary implications.

Lower energy prices, declining core import prices, and some deceleration in owners' equivalent rent are expected to contribute to lower inflation in the short term. As a result, Global Insight looks for a moderation in unit labor cost growth, from 3.2% in 2006 to 1.8% this year. With the pressure dialed down, the Fed is able to slide core PCE inflation into the 1-2% groove by the end of 2007; the forecast assumes fourth-quarter core PCE inflation of 1.9% y/y. Additionally, softer energy prices allow top-line PCE inflation to remain moderate; the forecast assumes a 1.8% y/y rate in the fourth quarter of 2007 and a 2.0% y/y rate in the final quarter of 2008.

RISKS TO THE FORECAST

Productivity rose 2.1% in 2006, matching the average for the last 50 years. Growth was still the weakest since 1997, though. Going forward, Global Insight expects productivity growth to average about 2.2% over the next ten years, or a bit above its historical trend. Still, with many new technologies in the pipeline, the risks for productivity are mostly on the upside. In late January, for example, Intel and IBM separately reported a major breakthrough in microchip design. The new design will reduce heating leak-age, as processors are made smaller. This means that more computing power will be packed into the tiny wafers that run computers, cell phones, and video games. Intel called this advance "the biggest change in transistor technology since the late 1960s", and said it would begin marketing the technology later this year. The academic literature agrees that advances in information technologies accounted for the surge in productivity after 1995.

Chart I.10



The optimistic scenario incorporates the view that productivity growth will be strong many, many years into the future, and focuses on the momentum being created by the investment recovery. Indeed, the optimistic scenario resembles the late 1990s, when it seemed that the good times would last forever. The pessimistic scenario focuses on the upward pressures on global commodity prices and the downward trend in the dollar, with their negative implications for inflation, bond yields, and domestic demand. The simulation also includes a deeper housing downturn than in the baseline. This alternative forecast resembles the late 1970s, when it seemed the bad times would never end.

The Optimistic Scenario: The Expansion Keeps Rolling (25% Probability)

Seven assumptions distinguish the optimistic scenario from the baseline forecast. First, total factor productivity, a concept that roughly measures how innovations augment economic growth, is stronger. Underlying this assumption is the view that the information-driven technology boom, which may have accelerated in recent years, continues. Rapid productivity growth is the main reason why economic growth and employment gains are higher and inflation and budget deficits are lower than in the baseline. It is also one reason why the dollar is stronger. In conjunction with productivity gains, the stronger currency will help contain inflation.

Second, foreign economic growth is stronger, which boosts U.S. exports and strengthens domestic manufacturing. In this scenario, both developing and industrialized economies grow faster than in the baseline. As a result, real exports exhibit faster growth over the forecast period.

Third, the optimistic alternative assumes a stronger dollar, resulting in expansion of U.S. demand for foreign goods and services. In the near term, stronger economic growth compounds the effect of the stronger dollar, lowering net exports and enlarging the current-account deficit. As productivity gains improve U.S. competitiveness, however, both the trade and current-account deficits begin to narrow, gradually reducing the gap with the baseline forecast.

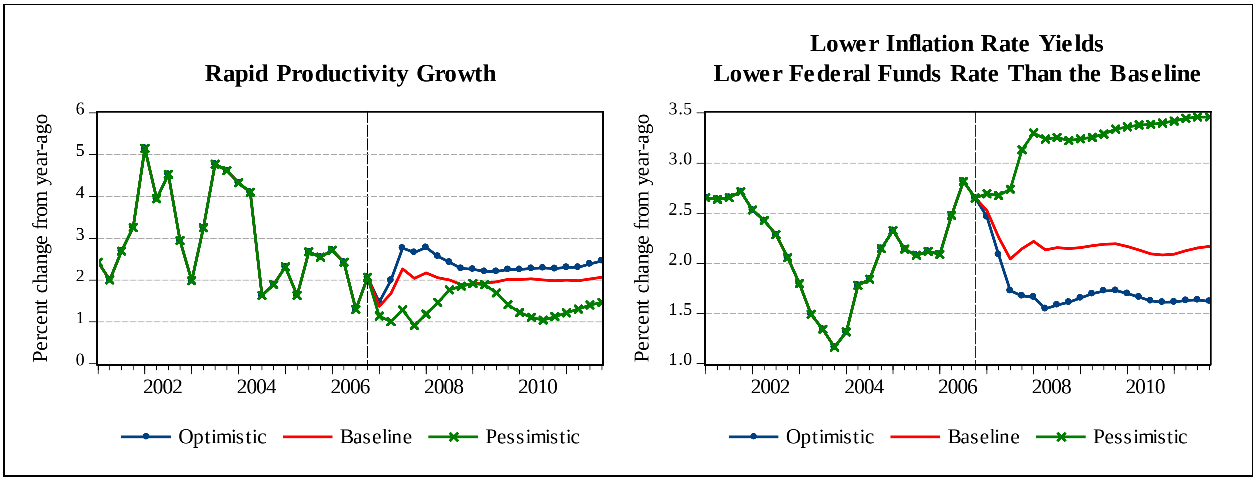
Fourth, business investment is stronger. Today's level of business spending is below average by historical standards. In 2006, business fixed investment accounted for 10.5% of GDP, nearly a full percentage point below the average over the previous 30 years despite strong fundamentals, namely, an economy growing faster than trend and low interest rates. In this scenario, business spending (particularly on equipment and software) is much higher than in the base-line throughout the forecast period. By 2010, for example, it accounts for 11.2% of GDP, compared with 10.5% in the baseline.

Fifth, the federal government budget deficit is lower than in the baseline. As the U.S. economy performs better, tax revenues increase and federal transfer payments decrease, leading to smaller deficits. Also contributing are lower interest rates, which result in lower federal interest payments.

Sixth, housing starts are stronger. The main factors driving starts up in the optimistic scenario are better job growth, lower interest rates, higher consumer confidence, and lower long-term mortgage rates.

Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices drop back into the low $50s/barrel region, $7.50-8.50 below the baseline, and wellhead natural gas prices are also lower.

Chart I.11



These assumptions produce a rosier outlook, where strength feeds on strength. The current slowdown proves temporary. Real GDP growth rebounds to 3.8% by the third quarter of 2007, compared with only 2.8% in the baseline. For 2007, growth comes in at 3.1%, versus 2.7% in the baseline; 2008 growth is also much stronger, at 3.9%, compared with 3.0%. Although both economic growth and the labor markets are stronger, inflation is lower, due mainly to the strong productivity gains. As measured by the personal consumption expenditures deflator, core inflation registers only 1.4% in 2007 (fourth quarter-to-fourth quarter basis) and remains safely within the Federal Reserve's 1-2% tolerance band through-out the forecast period, rather than flirting with the upper boundary, as in the baseline. The lower inflation rate allows the Fed to keep the federal funds rate below the baseline value.

The Pessimistic Scenario: A Hard Landing (15% Probability)

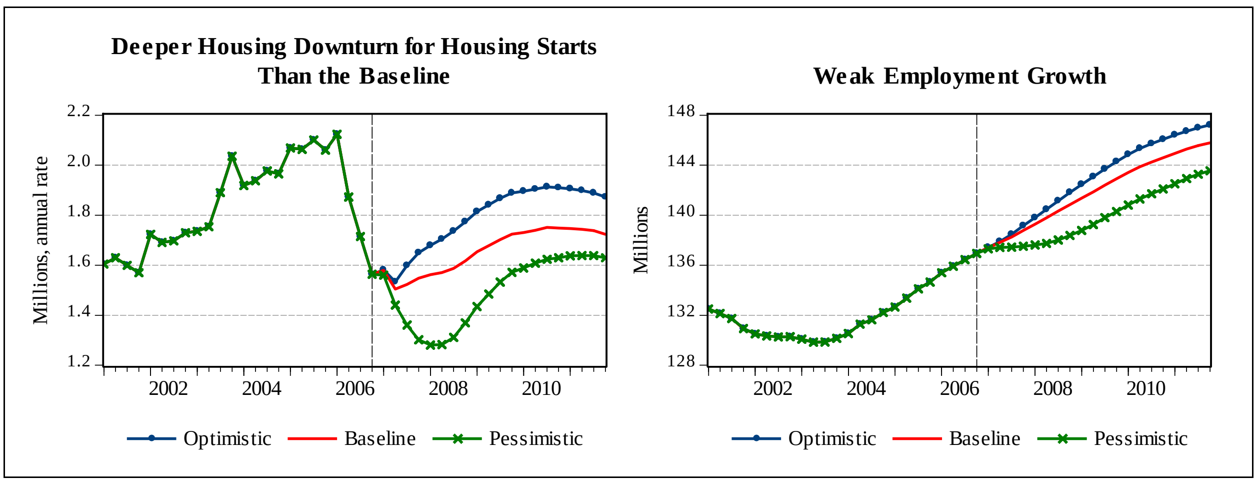
After a quarter-century of declining inflation, signs of reacceleration are emerging. Soaring oil prices, a downtrend in the dollar, a long period of accommodative monetary policy, tightening labor markets, and loose fiscal policy may have produced the conditions for a serious acceleration of inflation. The Federal Reserve is counting on continuing strong productivity gains to keep inflation at bay, but perhaps this is too sanguine a view. Indeed, labor markets are so tight that the unemployment was near a five-year low of 4.6% in January.

The pessimistic alternative assumes that there is less spare capacity than thought, both globally and in the U.S. economy. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. It assumes that the dollar weakens quickly as foreign investors take fright at the spiraling U.S. trade deficit. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation.

In the pessimistic scenario, core inflation keeps gathering momentum. The Fed responds by accelerating the pace of tightening. Despite the more aggressive stance, both the stock and bond markets slip on signs that the Fed may have let inflation build up an unstoppable momentum. The Fed cannot permit this acceleration to continue, and so it continues hiking interest rates. The federal funds rate averages 7.6% in the fourth quarter of 2007, compared with 5.0% in the baseline.

This simulation also has a deeper housing downturn than the baseline. Housing starts drop to 1.42 million units compare to 1.54 million in the baseline. The median price of existing homes drops more than 8% below the baseline in late 2007.

Chart I.12



Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in their discretionary spending and the U.S. economy slows. Core inflation stabilizes, but fails to retreat sufficiently, worrying the Federal Reserve. At the same time, hiring falters, causing the unemployment rate to climb. The Fed, forced to choose between fighting inflation and encouraging economic and employment growth, focuses on the long-term consequences of its policy and chooses to battle inflation, and, in fact, inflation eventually tapers off. Debt-laden consumers retrench further. Finally, early in 2008, with the unemployment rate at 5.6% and the federal funds rate at 7.75%, the Fed eases up. With the weaker dollar boosting trade, GDP growth begins to accelerate, bringing the unemployment rate down. As investment activity picks up, potential output increases relative to actual output, easing the upward pressure on prices.

The economy nearly sinks into recession in the pessimistic alternative and falls well below its potential, with GDP growth at just 1.6% for all of 2007. Production shifts from satisfying domestic demand to serving foreign demand, which responds strongly to the weaker dollar. The ground lost relative to the baseline is never made up, though, and real GDP is more than 6.0% below its baseline level at the end of 2017.

A summary of the U.S. Forecast is contained in Appendix 1.

WISCONSIN OUTLOOK

The U.S. economy is expected to slow this year as the slowdown in the housing market continues to affect the economy and the manufacturing sector shows sign of weakness. However, consumer spending, exports and investment will support GDP growth to achieve a 2.7% growth rate in 2007. Consumer prices for the current year are expected to increase by 1.5%, less than half of last year's growth. The slower economic growth and lower inflation will allow the Federal Reserve to hold interest rates. The Wisconsin economy is also expected to slow down in 2007, with personal income increasing at 4.8% and employment growing at 0.8% before returning to stronger growth in 2008.

Wisconsin personal income grew an average of 5.6% the first three quarters of 2006, and is expected to grow 5.1% for the entire year 2006. Following the national slowdown in 2007, Wisconsin personal income is forecasted to grow 4.8% in 2007 and recover toward 2008, posting 5.1% growth, as shown in Chart I.13. Average real personal income growth for 2006 is expected to be 2.3%, followed by higher growth of 3.2% in 2007 due to moderating inflation, and 2.9% in 2008 as the economy recovers from the housing soft landing. Employment grew 1.0% in 2006, and is expected to slow to 0.8% in 2007 and then rebound to an average of 1.2% in the following three years.

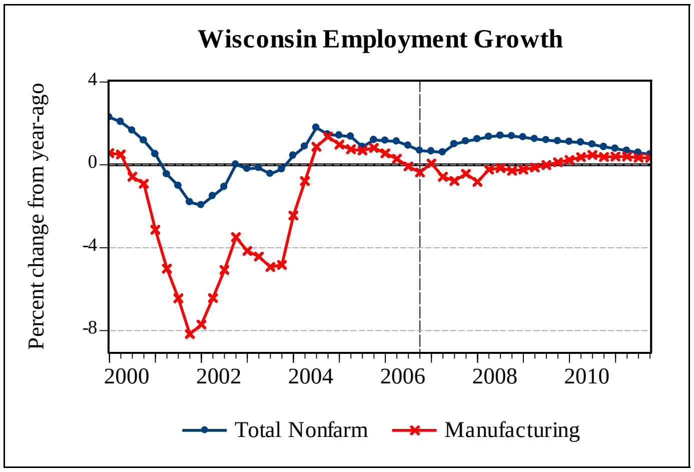
Chart I.13

Since the last Outlook, BEA released third quarter estimates for personal income and its components and revised estimates for the first two quarters of 2006. Personal income and wages and salaries were revised up in the first quarter, but this revision is offset by a downward revision of similar magnitude to the second quarter estimates. The revised real personal income estimates show growth of 7.5% and -2.0% for the first and second quarter of 2006 respectively. The second quarter negative growth is a result of the downward revision and the high quarterly CPI growth rate driven by high oil prices. Personal tax and non-tax payments were also revised down for the second quarter of 2006, which helped to moderate the downward revision to disposable personal income that posted a 1.8% growth rate in the second quarter of 2006.

Employment Outlook

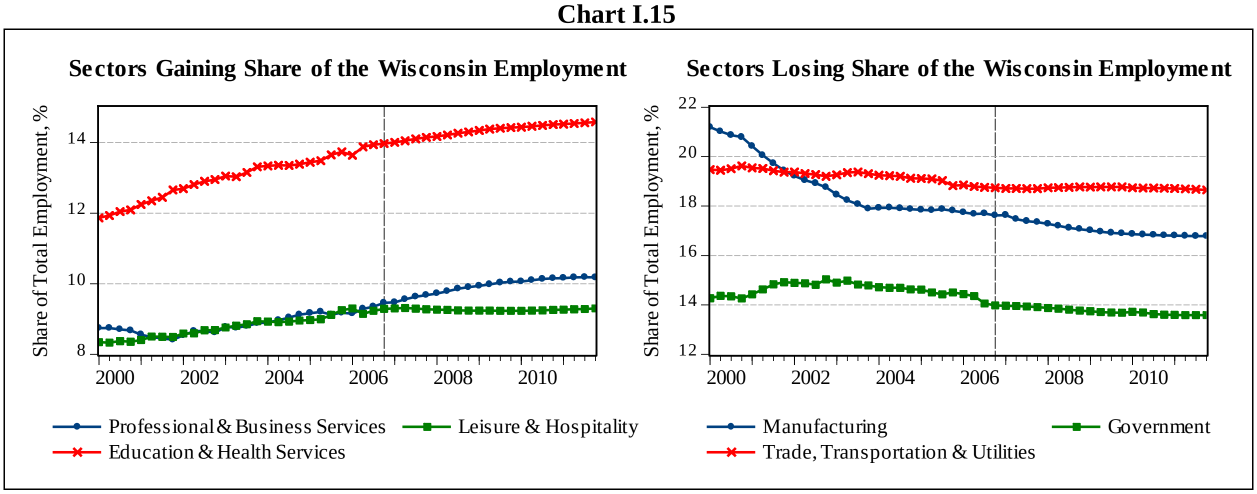
Total employment in Wisconsin grew 1.0% in 2006. The first half of the year posted employment gains above 1.0%. However, the expected slowdown became evident during the second half of the year as total employment growth was negative in the third quarter and below 1% in the last quarter of 2006. Wisconsin employment is expected to grow 0.8% in 2007 as the economy cools and then recover a stable growth path, with an average growth rate of 1.2% in the following three years. As shown in Chart I.14, employment in the manufacturing sector posted growth rates lower than the total employment for the past two years. This trend is expected to continue for the next three years.

Chart I.14



It is possible to identify a clear trend among the share of the main economic sectors in the Wisconsin economy. While remaining important sectors of the economy, Manufacturing, Trade, Transportation and Utilities, and the Government sectors have, over the past several years, been losing their share of total employment. At the same time, the most dynamic sectors, namely Professional and Business Services and Education and Health Services, have increased their share of total Wisconsin employment.

Chart I.15



The right panel in Chart I.15 shows the declining trend in the Manufacturing sector; the sector represented 21.0% of the total employment in 2000, 17.7% in 2006, and is expected to lose another percentage point in the following five years, despite relatively stable employment over the period. The Trade, Transportation and Utilities sector's share of total employment was 18.8% in 2006 and has lost just 1.0% since 2000; however, it is expected to slightly diminish its share in the following years, even as employment in the sector is forecast to grow an average 0.9% annually over the next five years. Finally, the Government sector, having reached a share of 14.9% of total employment in 2002, has reduced its participation to 14.2% in 2006 and is expected to continue to trend downward in the following years.

On the other hand, as shown in the left panel of Chart I.15, the most dynamic sectors of the economy have been increasing their share of total employment and are expected to generate employment gains higher than the total average in the following years. Education and Health Services had a share of 12.0% of total employment in 2000, almost 14.0% in 2006, and is expected to maintain its positive trend. This sector grew 3.0% in 2006 and is expected to grow 2.5% in 2007 and 2008. The Professional and Business Services sector is expected to increase its share of total employment (9.3% in 2006) but at a lower rate, reaching a share of 10.2% by 2011. It grew 2.6% in 2006 and is expected to grow 3.8% in 2007 and 3.0%, on average, the following three years. The Leisure and Hospitality sector is expected to maintain its share of 9.3% of total employment. This sector grew 2.7% in 2006 and is forecasted to grow 1.2% in 2007 and 1.0% in the following three years.

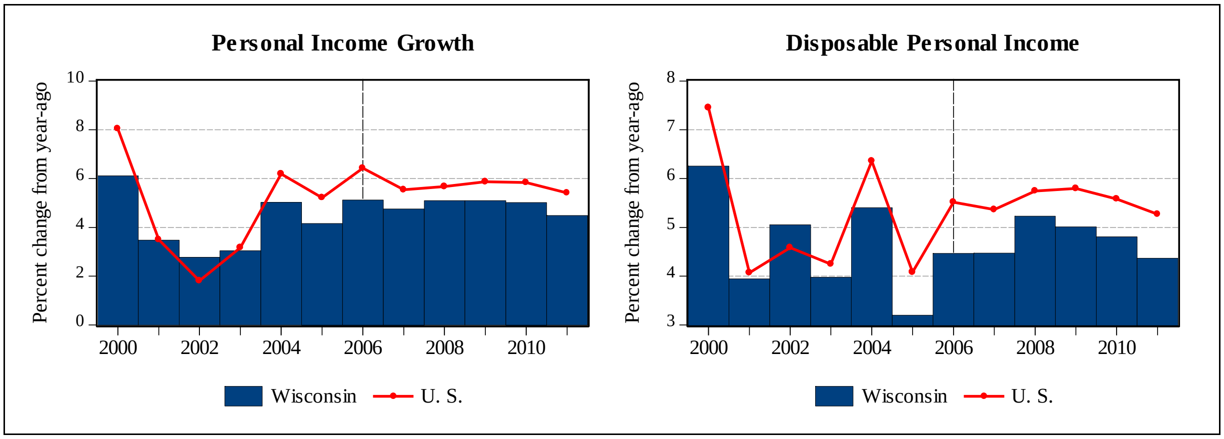
Job growth in the Construction and Natural Resources and Mining sectors has been quite strong in 2006, reflecting the mini-boom in housing and nonresidential and public construction. The forecast, however, calls for a mild correction as Construction jobs decelerate from 4.4% growth in 2006 to 1.3% growth in 2007. Natural Resources and Mining jobs also decelerate from growth of 8.3% in 2006 to growth of 1.9% in 2007. The Information sector showed negative growth rates in the past three years. However, following the national forecast, it is expected to recover and start posting job gains in the following years.

Details of the Wisconsin employment forecast are presented in Appendices 2 and 3.

Income Outlook

The latest BEA data release indicates that Wisconsin personal income grew 5.6% on average the first three quarters of 2006, and is expected to have grown 5.1% in 2006. Wisconsin total personal income is projected to grow by 4.8% in 2007, reflecting the national economic slowdown. As shown in Chart I.16, in 2008 and 2009, personal income is expected to grow 5.1%, as the housing market stabilizes and starts its recovery. Disposable personal income (total after-tax income received by persons available for spending or saving) recovers in 2006, posting an average growth rate of 5.0% in the first three quarters of 2006. Disposable personal income is expected to have grown by 4.5% in 2006 and maintains that growth rate in 2007 as the slower growth in personal income is offset by slower growth in personal taxes.

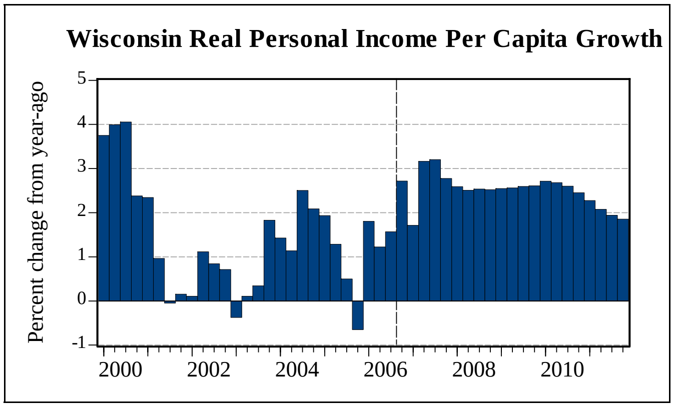
Chart I.16



Wages and salaries posted an average growth of 5.9% the first three quarters of 2006. It is forecasted to finally post 5.2% growth in 2006. Wages and salaries growth is also expected to slow down in 2007, growing by 4.1%. Supplements to wages and salaries have been growing at around 5.6% the last three years, and are expected to slow down to 3.9% in 2007 and 3.4%, on average, the following three years. Personal interest income is expected to post a final gain of 6.9% in 2006 after two years of negative growth. In 2007, it is expected to grow 6.6% and maintain positive growth rates in the following years. Rental income has posted negative growth rates in the past three years. It is expected to maintain negative rates through 2009.

As Chart I.17 shows, real per capita income gains in Wisconsin decreased in 2005 and 2006 with climbing oil prices and inflation. But as oil prices have now receded and inflation moderated, gains in real personal income are advancing just as rapidly as they fell earlier. The forecast calls for growth in real personal income to rise to 4.8% (y/y) in the fourth quarter of 2006 and to end 2006 with a gain of 2.3%. Helped by inflation receding to the Fed's comfort zone, real personal income is expected to increase a strong 3.2% in 2007, despite the weaker growth in personal income. Over the next three years, real personal income is forecasted to grow around 3.0% as personal income recovers and inflation grows at moderate rates. Real per capita income is expected to grow 2.7% in 2007 after a smaller gain of 1.8% in 2006. It is expected to continue growing at rates around 2.5% the following years.

Chart I.17



Details of the Wisconsin income forecast are presented in Appendices 4 and 5.

APPENDICES

APPENDIX 1
U.S. ECONOMIC FORECAST
GLOBAL INSIGHT

	2005	2006	2007	2008	2009	2010	2011
Real GDP and its Components (Billions of Chain Weighted 2000 Dollars)							
Gross Domestic Product	11,048.6	11,422.4	11,733.4	12,083.7	12,465.7	12,848.8	13,193.7
% Change	3.2	3.4	2.7	3.0	3.2	3.1	2.7
Consumption	7,841.2	8,092.3	8,356.1	8,602.6	8,859.5	9,140.2	9,415.9
% Change	3.5	3.2	3.3	3.0	3.0	3.2	3.0
Investment (Incl. Inventory)	1,866.3	1,951.3	1,910.2	1,952.9	2,044.6	2,122.8	2,188.8
% Change	5.4	4.6	-2.1	2.2	4.7	3.8	3.1
Nonresidential Structures	251.5	274.4	296.9	301.0	300.2	306.0	309.9
% Change	1.1	9.1	8.2	1.4	-0.3	1.9	1.3
Business Equipment	984.9	1050.7	1099.4	1163.9	1240.6	1298.3	1361.5
% Change	8.9	6.7	4.6	5.9	6.6	4.7	4.9
Residential Fixed	608.0	582.5	499.9	492.0	506.4	524.9	534.0
% Change	8.6	-4.2	-14.2	-1.6	2.9	3.6	1.7
Inventory Change	19.6	46.4	31.9	26.1	39.2	41.2	40.7
Exports	1,196.1	1,302.3	1,408.1	1,528.8	1,663.0	1,796.2	1,921.4
% Change	6.8	8.9	8.1	8.6	8.8	8.0	7.0
Imports	1,815.3	1,920.1	1,986.1	2,073.4	2,184.6	2,306.1	2,435.1
% Change	6.1	5.8	3.4	4.4	5.4	5.6	5.6
Federal Government	727.5	741.9	760.3	770.7	770.1	774.0	772.1
% Change	1.5	2.0	2.5	1.4	-0.1	0.5	-0.2
State and Local Government	1,230.4	1,256.8	1,287.6	1,309.1	1,328.0	1,344.3	1,359.9
% Change	0.5	2.1	2.5	1.7	1.4	1.2	1.2
GDP (Current Dollars)	12,455.8	13,253.9	13,906.5	14,601.5	15,360.7	16,153.5	16,938.1
% Change	6.3	6.4	4.9	5.0	5.2	5.2	4.9
Employment, Unemployment, Wages and Prices							
Nonfarm Employment (Millions)	133.7	136.2	138.1	140.1	142.1	144.0	145.4
% Change	1.7	1.9	1.4	1.4	1.5	1.3	0.9
Unemployment Rate (%)	5.1	4.6	4.7	4.7	4.5	4.4	4.4
Compensation per Hour (% Change)	4.4	5.4	3.7	3.5	3.9	4.1	4.2
Consumer Price Index (% Change)	3.4	3.2	1.5	2.3	2.1	1.9	2.0
Producer Price Index (% Change)	7.3	4.7	1.1	2.7	1.0	0.4	0.6
GDP Price Deflator (% Change)	3.0	2.9	2.1	2.0	2.0	2.0	2.1
Industrial Production (% Change)	3.2	4.1	2.2	2.1	2.7	2.7	2.6
Price of WTI Crude Oil ($ Per Barrel)	56.6	66.1	58.1	61.4	62.0	61.8	61.8
Financial Markets							
Money Supply (M2) ($ Billions)	6,646.4	6,978.1	7,221.4	7,487.0	7,814.3	8,162.2	8,521.2
% Change	4.1	5.0	3.5	3.7	4.4	4.5	4.4
Prime Commercial Rate (%)	6.2	8.0	8.2	8.0	8.0	8.0	8.0
Three Month Treasury Bills (%)	3.1	4.7	5.0	4.9	4.9	4.9	4.9
Ten-Year Treasury Note Yield (%)	4.3	4.8	4.9	5.1	5.3	5.4	5.4
General Obligation AAA Municipals (%)	4.3	4.2	4.2	4.6	5.0	5.4	5.5
Thirty-Year Mortgage Rate (%)	5.9	6.4	6.3	6.6	6.9	7.0	7.0
S&P 500 Stock Index	1,207.1	1,310.7	1,444.5	1,512.6	1,595.8	1,697.4	1,822.6
Income, Profits and Savings							
Personal Income ($ Billions)	10,239.2	10,897.4	11,501.5	12,153.7	12,867.2	13,618.9	14,356.0
% Change	5.2	6.4	5.5	5.7	5.9	5.8	5.4
Personal Income ($ 2000) ($ Billions)	9,183.2	9,511.4	9,885.3	10,232.8	10,612.6	11,016.0	11,381.0
% Change	2.3	3.6	3.9	3.5	3.7	3.8	3.3
Personal Tax & Nontax Payments	1,203.1	1,362.6	1,455.0	1,529.8	1,627.3	1,751.8	1,863.6
% Change	14.6	13.3	6.8	5.1	6.4	7.6	6.4
Disposable Personal Income	9,036.1	9,534.8	10,046.5	10,623.9	11,239.9	11,867.1	12,492.4
% Change	4.1	5.5	5.4	5.7	5.8	5.6	5.3
Savings Rate (%)	-0.4	-1.0	-0.6	-0.1	0.4	0.8	0.9
Corporate Profits Before Tax ($ Billions)	1,330.7	1,618.3	1,721.9	1,776.9	1,807.7	1,811.6	1,826.0
% Change	12.5	21.6	6.4	3.2	1.7	0.2	0.8

APPENDIX 2

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

	History			Forecast				
	2004	2005	2006	2007	2008	2009	2010	2011
Total Nonfarm	2,807.0	2,840.9	2,868.6	2,892.8	2,931.7	2,967.6	2,997.5	3,016.5
% Change	1.1	1.2	1.0	0.8	1.3	1.2	1.0	0.6
Private Nonfarm	2,394.8	2,428.4	2,460.9	2,489.4	2,526.3	2,560.8	2,587.8	2,606.6
% Change	1.4	1.4	1.3	1.2	1.5	1.4	1.1	0.7
Natural Resources & Mining	3.8	3.9	4.2	4.3	4.2	4.0	4.0	3.9
% Change	2.0	2.0	8.3	1.9	-3.7	-2.7	-1.3	-1.6
Construction	126.8	129.7	135.4	137.1	138.5	139.8	141.0	141.1
% Change	2.2	2.3	4.4	1.3	1.0	1.0	0.8	0.1
Manufacturing	502.7	506.8	507.3	505.1	503.2	502.9	504.7	506.5
% Change	-0.3	0.8	0.1	-0.4	-0.4	-0.1	0.4	0.4
Trade, Transportation & Utilities	538.9	540.2	538.9	541.2	549.8	557.0	561.4	563.6
% Change	0.5	0.2	-0.2	0.4	1.6	1.3	0.8	0.4
Information	49.9	49.6	49.0	49.5	50.1	50.8	51.3	51.8
% Change	-0.9	-0.5	-1.2	1.1	1.1	1.5	1.1	0.8
Financial Activities	158.8	158.7	158.9	160.9	165.2	168.4	170.9	172.8
% Change	1.2	0.0	0.1	1.3	2.7	1.9	1.4	1.1
Professional & Business Services	253.0	260.5	267.2	277.3	287.9	296.9	303.2	306.9
% Change	3.5	3.0	2.6	3.8	3.8	3.1	2.1	1.2
Education & Health Services	374.9	385.7	397.4	407.1	417.3	426.9	433.7	438.8
% Change	2.8	2.9	3.0	2.5	2.5	2.3	1.6	1.2
Leisure & Hospitality	250.8	258.1	265.1	269.0	271.3	274.2	277.1	280.0
% Change	2.2	2.9	2.7	1.4	0.9	1.1	1.1	1.0
Other Services	135.3	135.4	137.6	137.9	138.9	139.8	140.5	141.1
% Change	2.0	0.1	1.6	0.2	0.7	0.7	0.5	0.4
Government	412.2	412.5	407.6	403.4	405.4	406.9	409.7	409.9
% Change	-0.2	0.1	-1.2	-1.0	0.5	0.4	0.7	0.1
Federal Government	29.6	29.2	29.2	29.6	29.6	29.2	30.1	28.6
% Change	-0.9	-1.2	0.1	1.3	-0.1	-1.4	3.2	-4.8
State & Local Government	382.6	383.3	378.3	373.8	375.8	377.7	379.6	381.3
% Change	-0.1	0.2	-1.3	-1.2	0.6	0.5	0.5	0.5

Household Survey Employment Measures

Labor Force	3,040.9	3,041.5	3,082.3	3,116.6	3,142.9	3,165.7	3,186.1	3,203.5
% Change	-0.5	0.0	1.3	1.1	0.8	0.7	0.6	0.5
Employment	2,888.2	2,897.5	2,936.7	2,964.2	2,990.8	3,016.2	3,037.7	3,050.4
% Change	0.1	0.3	1.4	0.9	0.9	0.9	0.7	0.4
Unemployment Rate (%)	5.0	4.7	4.7	4.9	4.8	4.7	4.7	4.8

APPENDIX 3

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)
Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3	2007:4
Total Nonfarm	2,861.9	2,870.5	2,868.0	2,873.8	2,880.5	2,887.7	2,896.5	2,906.4
% Change	1.0	1.2	-0.4	0.8	0.9	1.0	1.2	1.4
Private Nonfarm	2,448.7	2,458.3	2,464.8	2,472.1	2,478.2	2,484.6	2,492.8	2,502.1
% Change	1.4	1.6	1.1	1.2	1.0	1.0	1.3	1.5
Natural Resources & Mining	4.0	4.2	4.4	4.3	4.2	4.4	4.3	4.3
% Change	18.6	25.5	16.7	-8.8	-6.1	17.7	-6.6	-6.0
Construction	136.3	134.6	135.5	135.3	136.4	137.1	137.4	137.6
% Change	14.0	-4.9	2.6	-0.6	3.3	2.1	0.8	0.8
Manufacturing	507.7	507.4	507.6	506.4	508.0	504.4	503.6	504.2
% Change	-0.4	-0.3	0.2	-0.9	1.3	-2.8	-0.7	0.5
Trade, Transportation & Utilities	539.5	539.4	538.0	538.5	539.1	540.3	541.7	543.7
% Change	1.7	-0.1	-1.1	0.4	0.4	0.9	1.0	1.5
Information	48.9	48.9	48.9	49.3	49.3	49.6	49.7	49.5
% Change	-2.4	-0.3	0.0	3.6	-0.1	2.5	0.4	-1.2
Financial Activities	157.8	159.4	159.2	159.1	158.9	160.4	161.6	162.7
% Change	1.5	4.1	-0.5	-0.3	-0.4	3.7	3.1	2.7
Professional & Business Services	262.1	266.6	268.2	271.9	273.0	276.0	279.0	281.2
% Change	0.1	7.2	2.4	5.6	1.7	4.5	4.4	3.3
Education & Health Services	390.2	398.2	399.7	401.4	403.4	405.6	408.4	411.1
% Change	-1.9	8.5	1.5	1.7	2.0	2.2	2.8	2.7
Leisure & Hospitality	266.2	262.6	264.8	267.0	268.0	269.0	269.3	269.7
% Change	3.2	-5.2	3.3	3.3	1.5	1.6	0.4	0.6
Other Services	136.0	136.9	138.6	138.9	137.9	137.8	137.8	138.0
% Change	4.8	2.6	5.1	1.1	-3.0	-0.3	0.2	0.6
Government	413.2	412.3	403.2	401.7	402.3	403.0	403.8	404.4
% Change	-1.0	-0.9	-8.5	-1.4	0.6	0.7	0.7	0.6
Federal Government	29.2	29.2	29.2	29.3	29.3	29.6	29.8	29.8
% Change	1.8	0.0	0.5	0.9	0.4	3.4	2.5	0.6
State & Local Government	384.0	383.1	373.9	372.4	373.0	373.5	374.0	374.6
% Change	-1.3	-0.9	-9.2	-1.6	0.6	0.5	0.6	0.6

Household Survey Employment Measures

	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3	2007:4
Labor Force	3,067.4	3,080.7	3,081.6	3,099.3	3,107.0	3,113.3	3,119.9	3,126.3
% Change	3.4	1.7	0.1	2.3	1.0	0.8	0.9	0.8
Employment	2,924.7	2,935.1	2,934.7	2,952.3	2,957.1	2,960.6	2,966.3	2,972.9
% Change	3.5	1.4	-0.1	2.4	0.7	0.5	0.8	0.9
Unemployment Rate (%)	4.7	4.7	4.8	4.7	4.8	4.9	4.9	4.9

APPENDIX 4

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE
($ Billions)

	History			Forecast				
	2004	2005	2006	2007	2008	2009	2010	2011
Total Personal Income	176.729	184.087	193.514	202.714	213.035	223.891	235.125	245.673
% Change	5.0	4.2	5.1	4.8	5.1	5.1	5.0	4.5
Wages and Salaries	99.113	102.088	107.401	111.817	117.178	122.976	128.902	134.513
% Change	5.0	3.0	5.2	4.1	4.8	4.9	4.8	4.4
Supplements to Wages and Salaries	24.501	25.924	27.352	28.424	29.263	30.195	31.312	32.483
% Change	5.5	5.8	5.5	3.9	3.0	3.2	3.7	3.7
Proprietor's Income	11.491	12.171	11.812	12.256	12.825	13.454	14.116	14.731
% Change	8.0	5.9	-2.9	3.8	4.6	4.9	4.9	4.4
Rental Income	2.285	1.779	1.435	1.386	1.115	0.912	0.915	1.004
% Change	-5.0	-22.1	-19.3	-3.4	-19.6	-18.2	0.3	9.7
Personal Dividend Income	10.618	11.403	12.836	14.637	16.293	17.618	18.738	19.516
% Change	30.4	7.4	12.6	14.0	11.3	8.1	6.4	4.1
Personal Interest Income	16.129	17.214	18.584	19.211	20.731	22.619	24.544	26.300
% Change	-5.0	6.7	8.0	3.4	7.9	9.1	8.5	7.2
Current Transfer Receipts	24.359	25.98	27.357	28.786	29.971	31.045	32.14	33.279
% Change	2.5	6.7	5.3	5.2	4.1	3.6	3.5	3.5
Residence Adjustment	3.125	3.218	3.435	3.644	3.889	4.157	4.436	4.721
% Change	5.4	3	6.7	6.1	6.7	6.9	6.7	6.4
Contributions to Government Social Ins.	14.891	15.690	16.699	17.448	18.23	19.085	19.979	20.873
% Change	4.7	5.4	6.4	4.5	4.5	4.7	4.7	4.5
Personal Tax & Nontax Payments	19.148	21.460	23.624	25.232	26.263	27.758	29.566	31.138
% Change	2	12.1	10.1	6.8	4.1	5.7	6.5	5.3
Disposable Personal Income	157.58	162.627	169.889	177.483	186.772	196.132	205.559	214.535
% Change	5.4	3.2	4.5	4.5	5.2	5.0	4.8	4.4

Related Income Measures

	2004	2005	2006	2007	2008	2009	2010	2011
Personal Income (2000 $) ($ Billions)	163.061	165.108	168.905	174.23	179.366	184.663	190.19	194.764
% Change	2.3	1.3	2.3	3.2	2.9	3.0	3.0	2.4
Per Capita Income (2000 $)	29,928	30,154	30,706	31,539	32,340	33,174	34,040	34,733
% Change	1.8	0.8	1.8	2.7	2.5	2.6	2.6	2.0
Per Capita Income ($)	32,436	33,620	35,180	36,695	38,411	40,221	42,082	43,811
% Change	4.5	3.6	4.6	4.3	4.7	4.7	4.6	4.1
Per Capita Income as a Percent of U.S.	98.1	97.5	96.7	96.5	96.4	96.2	95.9	95.5

APPENDIX 5

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE ($ Billions)
Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3
Total Personal Income	186.786	191.142	192.048	194.472	196.394	198.761	201.496	204.042
% Change	3.1	9.7	1.9	5.1	4.0	4.9	5.6	5.2
Wages and Salaries	103.078	106.84	106.535	107.478	108.75	110.059	111.133	112.392
% Change	0.5	15.4	-1.1	3.6	4.8	4.9	4.0	4.6
Supplements to Wages and Salaries	26.298	27.131	27.158	27.428	27.689	28.076	28.335	28.547
% Change	1.4	13.3	0.4	4.0	3.9	5.7	3.7	3.0
Proprietor's Income	12.367	11.805	11.721	11.73	11.994	12.027	12.27	12.306
% Change	2.6	-17.0	-2.8	0.3	9.3	1.1	8.3	1.2
Rental Income	1.512	1.434	1.351	1.469	1.487	1.468	1.423	1.369
% Change	-29.1	-19.1	-21.4	40.0	5.0	-5.0	-11.7	-14.4
Personal Dividend Income	11.939	12.243	12.615	13.032	13.455	13.875	14.407	14.931
% Change	15.1	10.6	12.7	13.9	13.6	13.1	16.2	15.4
Personal Interest Income	17.97	18.06	18.64	18.922	18.715	18.766	19.048	19.345
% Change	16.4	2	13.5	6.2	-4.3	1.1	6.1	6.4
Current Transfer Receipts	26.241	26.871	27.207	27.672	27.68	28.201	28.644	29.012
% Change	3.1	10	5.1	7.0	0.1	7.7	6.4	5.2
Residence Adjustment	3.271	3.383	3.408	3.443	3.505	3.561	3.614	3.671
% Change	3.6	14.4	3.0	4.2	7.4	6.6	6.0	6.5
Contributions to Government Social Ins.	15.89	16.627	16.588	16.702	16.881	17.273	17.378	17.532
% Change	1.0	19.9	-0.9	2.8	4.4	9.6	2.5	3.6
Personal Tax & Nontax Payments	22.175	23.259	23.398	23.753	24.089	24.672	25.092	25.454
% Change	6.5	21	2.4	6.2	5.8	10	7	5.9
Disposable Personal Income	164.611	167.884	168.65	170.719	172.305	174.089	176.404	178.588
% Change	2.7	8.2	1.8	5.0	3.8	4.2	5.4	5.0

Related Income Measures

Personal Income (2000 $) ($ Billions)	165.483	168.489	167.621	168.752	170.759	172.153	173.647	174.884
% Change	0.2	7.5	-2.0	2.7	4.8	3.3	3.5	2.9
Per Capita Income (2000 $)	30,170	30,685	30,488	30,660	30,991	31,210	31,452	31,642
% Change	-0.2	7.0	-2.5	2.3	4.4	2.9	3.1	2.4
Per Capita Income ($)	34,054	34,810	34,931	35,333	35,643	36,033	36,496	36,917
% Change	2.7	9.2	1.4	4.7	3.6	4.5	5.2	4.7
Per Capita Income as Percent of U.S. (%)	96.8	97.0	96.7	96.7	96.6	96.4	96.5	96.5

II. REVENUE COLLECTIONS REPORT

REVENUE COLLECTIONS THROUGH JANUARY 2007

Introduction

State General Purpose Revenue (GPR) tax collections reported by the Department of Revenue (DOR) during the first seven months of fiscal year 2007 increased 4.8% over the same period in FY 2006, growing from $6,692.5 million to $7,012.5 million. During this period, individual income tax collections increased 5.3% to $3,868.7 million, sales tax revenue increased 1.2% to $2,177.7 million, and corporate income tax collections increased 22.1% to $459.9 million.

Tax collections for the first seven months of the FY 2007 are summarized in Table II.I.

Individual Income Tax

Collections of the individual income tax during July-January of FY 2007 increased 5.3% to $3,868.7 million from $3,672.6 million in FY 2006. Withholding collections, which make up the largest component of individual income tax collections, were up 4.8% through January over the previous year, increasing from $3,143.4 million in FY 2006 to $3,295.3 million in FY 2007.

Estimated payments, the next largest component of individual income taxes, increased 7.2% through the first seven months of FY 2007 over the same period in FY 2006.

General Sales and Use Tax

Sales tax collections for the first seven months of FY 2007 increased 1.2% over the equivalent period in FY 2006, from $2,152.6 million to $2,177.7 million. One reason for this relatively slower growth rate (to compare, the last three years saw an average year-over-year increase of 3.5% for the same time period) is a result of the sales tax exemption on fuel and electricity used in manufacturing that went into effect in January of 2006. However, this sales tax exemption is not a new concept; rather, it replaces the manufacturer's sales tax *credit* for fuel and electricity that expired December 31, 2005.

Corporate Franchise and Income Tax

Through the first seven months of FY 2007, corporate income tax collections increased 22.1% over the comparable period in FY 2006, from $376.7 million to $459.9 million.

The largest source of corporate income tax revenues, declaration payments, increased 10.9% from $365.0 million in FY 2006 to $404.9 million in FY 2007.

Excise Taxes

Cigarette tax revenues, the largest source of excise tax revenues, decreased 1.1% during the first seven months of FY 2007, from $154.6 million to $152.8 million.

Liquor and wine tax revenues generated $22.6 million through the first seven months of FY 2007, an increase of 2.1% over the same period of the previous year.

Tobacco products tax collections through January have increased 5.7% from $8.19 million in FY 2006 to $8.65 million in FY 2007.

Beer tax collections have fallen during the first seven months of the current fiscal year when compared to the same period last year. FY 2007 revenues through January of $4.64 million are 5.5% below the $4.91 million of the same period in FY 2006.

Public Utility Taxes

Utility tax collections increased 15.9% during the first seven months of the current fiscal year. This reflects growth from $121.9 million in FY 2006 to $141.3 million in FY 2007.

Estate Taxes

Estate tax collections have increased 0.6% during the first seven months of FY 2007, to $71.3 million from $70.9 million during the same period in FY 2006.

Insurance Company Taxes

Insurance company tax collections increased 3.5% from $64.9 million in FY 2006 to $67.2 million through January of FY 2007.

Real Estate Transfer Fee

Collections of the real estate transfer fee are highly dependent on activity in the housing market. Because of the slowdown in the housing market, collections through January have decreased 12.9% from the same period last year, from $43.2 million to $37.6 million.

TABLE II.I
COMPARISON OF JULY-JANUARY DEPARTMENT OF REVENUE
ACTUAL TAX RECEIPTS
($ MILLIONS)

Tax Sources	First Seven Months of:		% Change
	FY 2006	FY 2007	
Individual Income	$ 3,672.6	$ 3,868.7	5.3%
General Sales Tax	2,152.6	2,177.7	1.2
Corporate Franchise & Income	376.7	459.9	22.1
Excise			
Cigarette	154.6	152.8	-1.1
Liquor	22.1	22.6	2.1
Tobacco	8.2	8.7	5.7
Beer	4.9	4.6	-5.5
Public Utility	121.9	141.3	15.9
Inheritance, Estate & Gift	70.9	71.3	0.6
Insurance	64.9	67.2	3.5
Real Estate Transfer	43.2	37.6	-12.9
Total	$ 6,692.5	$ 7,012.5	4.8%

Note: Detail may not add to totals because of rounding, and percent changes were calculated prior to rounding.