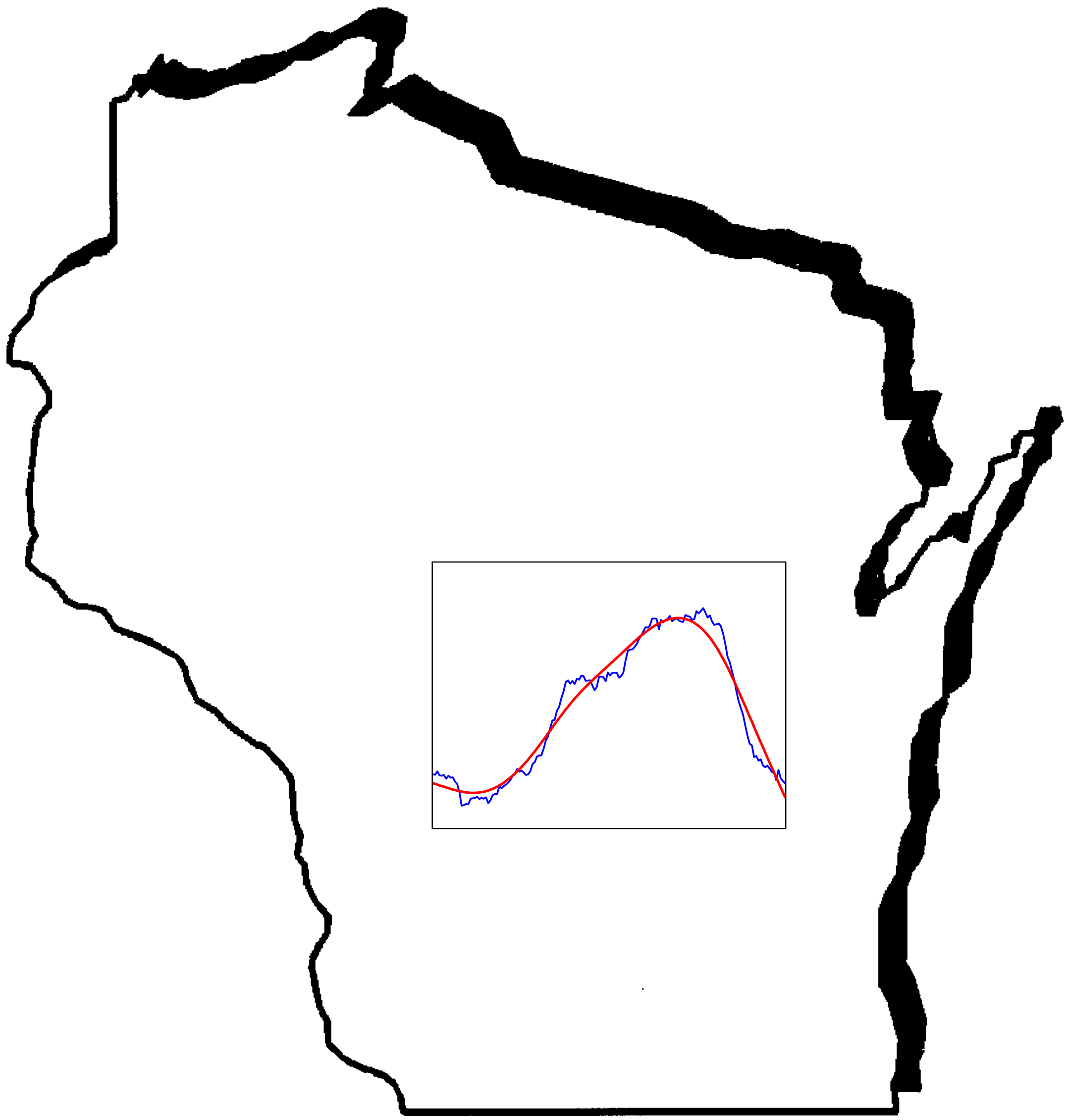
WISCONSIN ECONOMIC OUTLOOK



Wisconsin Department of Revenue
Division of Research and Policy

August 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 August 7, 2007. The forecast does not incorporate data released subsequent to that date.

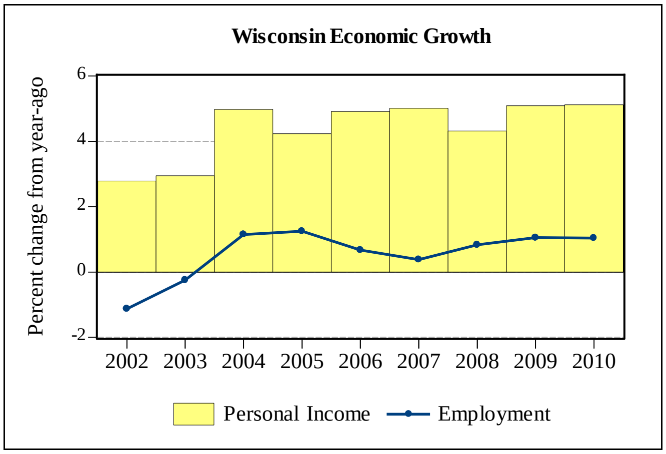
I. ECONOMIC OUTLOOK

WISCONSIN OUTLOOK

Wisconsin personal income rose 4.9% in 2006 and is expected to maintain steady growth. As shown in Chart I.1 (bars), personal income is forecast to grow 5% in 2007. Despite a slight impasse in 2008 (4.3% growth), personal income is expected to regain steam in 2009 growing at 5.1%. Wisconsin employment is expected to grow mildly in 2007, 0.4%, following the weaker trend in the national economy. However, Wisconsin employment will return to an average annual growth of 1% between 2008 and 2010.

The August national forecast is calling for real GDP growth of 1.9% in 2007 and 2.5% in 2008, revised down from the 2.1% and 2.8% expected in May. The U.S. labor market is expected to show slower employment growth, 1.4% and 1.1% in 2007 and 2008 respectively, compared with the average employment growth of 1.8% of the last two years. The three major factors that have taken the national outlook down in August are a downgraded outlook for housing and consumer spending surrounded by financial volatility, higher oil prices, and a lower productivity forecast based on recent national income account revisions for 2004 through 2006. Relative to the May forecast, the outlook incorporates a more prolonged housing downturn and greater accompanying financial turmoil. The outlook also adds $10 per barrel to 2008 oil prices. The outlook for consumer prices was revised up from May's forecast of 2.2% to 2.6% in 2007, down from last year's growth of 3.2%. In 2008, consumer prices are expected to increase by 2% instead of the 1.7% forecasted in May. The August forecast assumes long-term productivity growth of 2.0%, lower than the May assumption of 2.2%.

Chart I.1



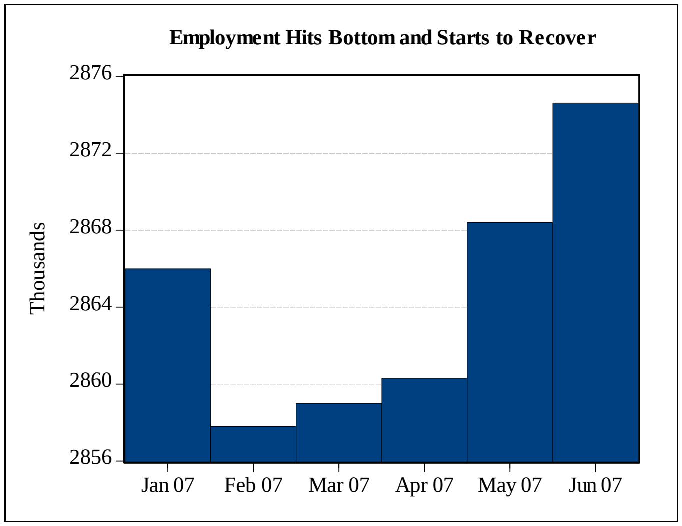
Employment in the state grew 0.7% in 2006, and it is expected to grow 0.4% this year, reflecting the expected mild correction in the economy led by the housing sector and high oil prices. Wisconsin job growth is expected to recover, advancing 0.8% in 2008 and 1.1% in 2009, led by the services industries.

Since the last Outlook in May, the U.S. Bureau of Economic Analysis (BEA) released preliminary first quarter 2007 estimates and revised estimates for the four 2006 quarters for personal income and its components. These revisions are discussed in the Income Outlook.

Employment Outlook

Total employment in Wisconsin grew 0.7% in 2006. It is expected to grow 0.4% in 2007 and then recover a stable growth path, with an average growth rate of 1% in the following three years. The first half of the year showed employment gains of just 0.1% over the same period for 2006. However, the data indicates that employment hit bottom the first quarter of 2007, as shown in Chart I.2, while the last two months show a healthier recovery with 0.24% and 0.31% year-over-year growth rates.

Chart I.2



The Chart I.3 below shows total nonfarm employment growth for the U.S. and Wisconsin. The vertical line at the second quarter of 2007 separates history from forecast. However, it should be noted that the last six quarters (2006Q2-2007Q2) of history will be revised at the time of the 2007 Benchmark, to be published in February 2008. We anticipate upward revisions to total Wisconsin employment for most of these quarters. The forecast expects annual employment growth of 0.4% in 2007 as a result the sluggish housing market, the financial turmoil, and the high gasoline prices that hurt consumption and, to a smaller degree, investment. In 2008, the housing market will continue being a drag for the first half of the year, but cautious investment and strong exports will help maintain a healthy growth path; employment is expected to rebound, showing a growth of 0.8%. For 2009 and 2010, employment is expected to grow 1.1% and 1% respectively.

Chart I.3

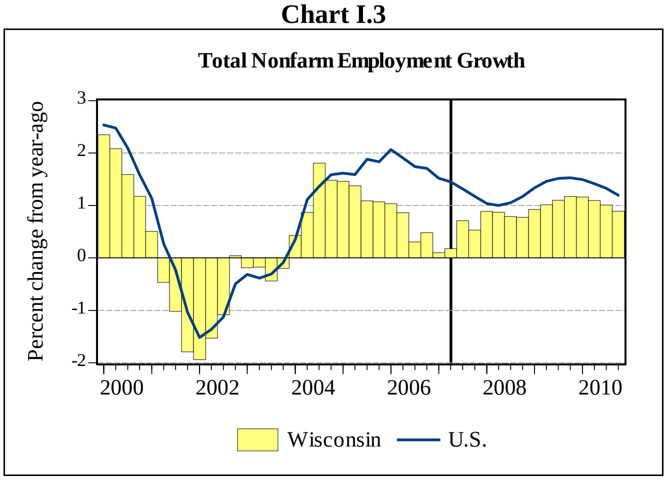
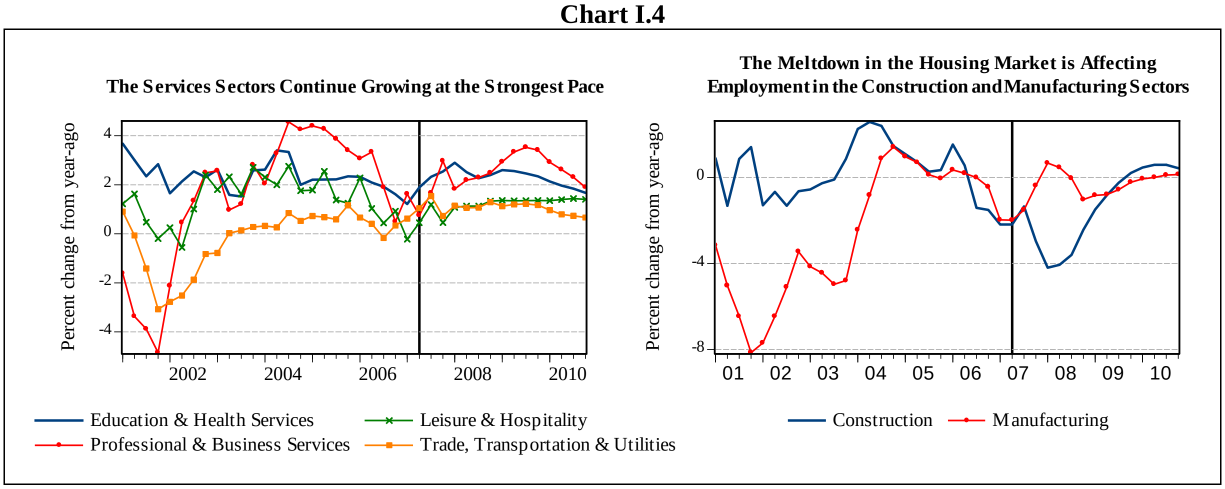


Chart I.4 details employment by sector. The services industries, particularly, the Education and Health Services (blue line) and the Professional and Business Services (red line) sectors support job creation as employment in the Manufacturing and the Construction sectors are a drag to total employment in 2007. These two services sectors combined represent 23% of total employment and are expected to continue showing strong growth rates over the next three years. The other two big services sectors, Trade, Transportation and Utilities and Leisure and Hospitality, represent 19% and 9% of total employment respectively. The Trade, Transportation and Utilities sector (orange line) is expected to grow at healthy rates of about 1% between 2007 and 2010. On the other hand, the Leisure and Hospitality sector (green line) is expected to slow its growth in 2007 to 0.5% as consumers show more cautious behavior in the face of financial anxieties related to mortgage financing. In 2008, the sector will recover its steady growth path, posting 1.2% growth for the year and 1.4% increases in 2009 and 2010.

Chart I.4



Job growth in the Construction sector decreased by just 0.2% in 2006, but it is expected to post negative growth rates of 2.2% and 3.6% in 2007 and 2008, reflecting the deeper trough and slower recovery in the housing market. The housing slowdown is forecasted to reach bottom by mid 2008, but high inventories of homes for sale will restrain construction employment growth through 2009, as shown by the blue line on the right panel of Chart I.4. Towards 2010, employment in the Construction sector is expected to resume positive growth rates. Employment in the Finance sector is also suffering as a consequence of the troubled subprime mortgage market, posting 0.4% growth in 2008, but it will recover in the middle term showing 1.2% growth in 2009 and 2% for the next two years. The Manufacturing sector is also affected by the slowdown in the national economy, showing flat growth in 2006. As shown by the red line on the right panel of Chart I.4, Manufacturing employment is expected to post a negative growth rate of 1.5% in 2007, but stay flat for the rest of the forecast period.

The Information sector showed negative growth rates in the past three years, but the first two quarters of 2007 showed positive year-over-year growth rates. Following the national trend, Wisconsin employment in the Information sector is expected to post a solid growth in 2007, stay flat in 2008 and recover its growth at 0.6% in 2009 and 1.1% in 2010. The outlook for employment in the Other Services sector forecasts moderate but steady growth around 0.4% between 2007 and 2010. The Government sector is expected to stay flat or post small increases until 2010 when federal employment will post a significant gain related to the Census 2010 activities.

The Wisconsin unemployment rate was 4.7% in 2006 but increased to 4.9% in the first quarter of 2007 and to 5.0% in the second quarter of 2007. The forecast expects the unemployment rate to increase to 5.1% in 2007, reach its peak at 5.2% in 2008 before easing in 2009 (5.0%), and reach a 4.9% level again in 2010. Both Wisconsin and national unemployment are expected to peak in 2008.

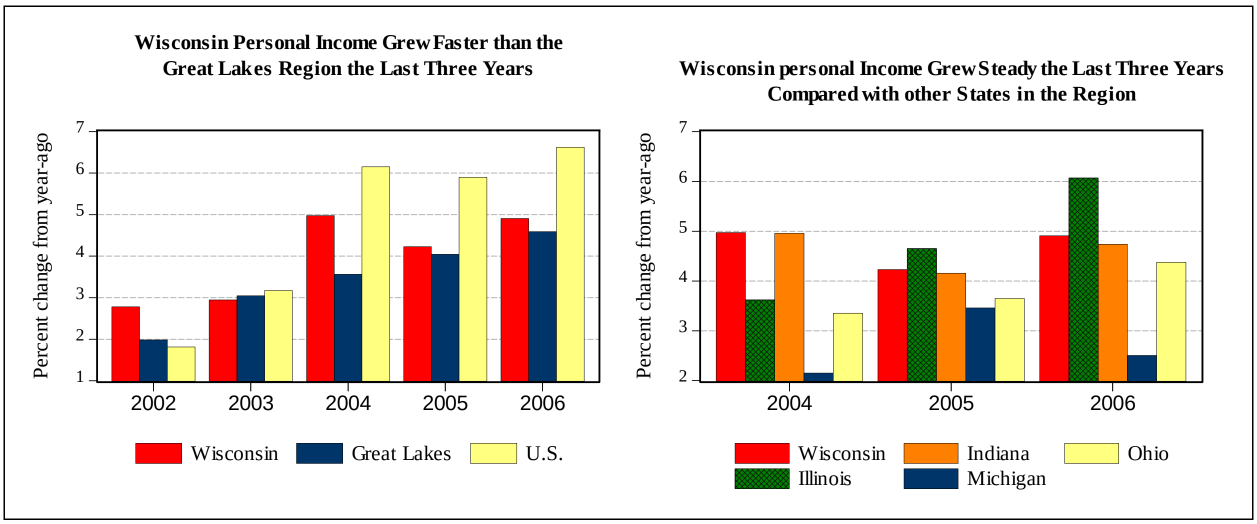
Details of the Wisconsin employment forecast are presented in Appendices 1 and 2.

Income Outlook

Over the past 10 years, Wisconsin ha had the fastest growing economy in the Great Lakes region[1]. Wisconsin had been consistently fourth in the region in per capita income. In the past three years, Wisconsin has overtaken Michigan and Ohio and now has the second highest growth rate in personal income.

According to BEA revised 2006 estimates, Wisconsin total personal income grew 4.9% in 2006 (4.8% before revisions), higher than the regional average growth of 4.6% for the Great Lakes region, and lower than the national growth of 6.6%. Wisconsin showed higher personal income growth than the regional average for the last three years, as shown on the left panel of Chart I.5. Wisconsin had the second highest income growth in 2006 among the region after Illinois (6.1%) and was followed by Indiana (4.7%), Ohio (4.4%) and Michigan (2.5%). As shown on the right panel of Chart I.5, Wisconsin also had the second highest growth rate in 2005 and the fastest growth in 2004.

Chart I.5



Per capita personal income in Wisconsin grew 4.4% in 2006, while real per capita income grew 1.6%, given the 3.2% increase in prices. Wisconsin 2006 wages and salaries growth was revised up to 4.6%, from a 4.4% rate before the revision. The other three components that account for the positive upward revision to Wisconsin personal income in 2006 are supplements to wages and salaries, rental income, and dividend income; interest income was revised down, posting 2.2% growth instead of the 8.2% growth before revisions.

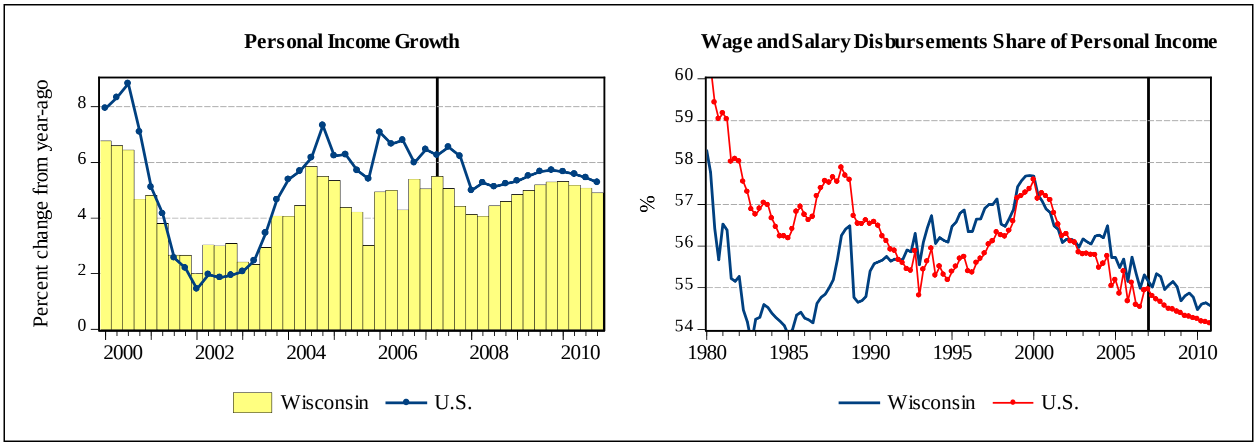
According to BEA's preliminary estimates for the first quarter of 2007, personal income in Wisconsin grew 2.0% to $200.1 billion from a revised annualized level of $196.1 billion in the fourth quarter of 2006. While Wisconsin's quarter growth was below the national average of 2.2%, it was not alone. Indeed, only five states grew faster than the national average. As BEA explains, "this geographical concentration of personal income growth is attributable to the unusually strong contribution to earnings growth of the finance industry centered in New York (and to a lesser extent in Connecticut, New Jersey, and Illinois)." BEA mentioned that at the industry level, earnings in only three industries (mining, information, and finance) grew faster than the all-industry average of 2.1%.

Wisconsin grew at the same pace as the Great Lakes region in the first quarter of 2007, ranking as the 22nd -wealthiest state among all the states and the District of Columbia.

[1] Great Lakes Region includes Illinois, Indiana, Michigan, Ohio, and Wisconsin.

The steady Wisconsin personal income growth of last three years is expected to continue, as shown in the left panel of Chart I.6. After posting 4.9% growth in 2006, Wisconsin personal income is expected to grow 5.0% in 2007, 4.3% in 2008 and will accelerate to 5.1% average annual growth the following two years.

Chart I.6

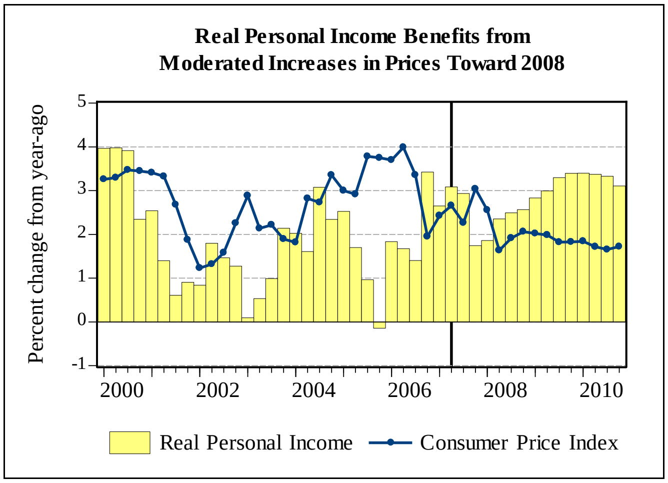


Wage and salary disbursements, is the biggest component of personal income. It accounted for 55.3% of the Wisconsin total personal income in 2006. Wisconsin wage and salary disbursements grew 4.6% in 2006 and 1.7% in the first quarter of 2007 (7.1% SAAR) from a revised annualized level of $108.5 billion in the fourth quarter of 2006 to $110.3 billion in the first quarter of 2007. Since 2000, the share of wage and salary disbursements to total personal income resumes its historical negative trend for the U.S. and Wisconsin. However, Wisconsin wage and salary disbursements show a higher share than the U.S., and this trend is expected to continue as shown on the right panel of Chart I.6. Wage and salary disbursements in Wisconsin are expected to grow 4.7% in 2007 and to grow at a slower but still healthy rate of 4.0% in 2008. Stronger growth will resume in 2009 and 2010, growing 4.6% and 4.7% respectively.

Dividend income grew 14.8% in 2006. It is forecast to grow 11.4% in 2007 and ease to high single digit growth rates through 2010. Interest income growth was significantly revised down for 2006; 2007 is expected to show the same moderate growth rate as 2006, just over 2%, but it will accelerate toward the rest of the forecast period.

Wisconsin disposable personal income (total after-tax income received by persons available for spending or saving) grew 4.3% in 2006. Despite the slower pace of total personal income, disposable personal income is forecast to grow 4.6% in 2007 and 4.5% in 2008, helped by lower personal tax and nontax payments. In 2009 and 2010 Wisconsin disposable personal income is expected to regain rhythm, growing at 5.2% and 5% as total personal income recovers a stronger growth pace and tax growth stays moderate.

Chart I.7



Wisconsin real personal income grew 2.1% in 2006. As shown in Chart I.7, inflation eases in 2007 and stays at or below 2% for the period 2008-2010. Particularly, the national outlook forecasts an inflation rate of 2.6% in 2007 and 2.0% in 2008. As a result, Wisconsin real personal income is expected to increase 2.6% in 2007, 2.3% in 2008, and above 3% the following two years. Real per capita income in Wisconsin is forecasted to grow 2.2% in 2007 and 1.9% in 2008 as the pace of the economy reflects adjustments in the housing sector. However, it is expected to grow 2.8% in 2009 and 2.9% in 2010, as the economy recovers from the housing slowdown and prices recede to the Fed's comfort zone.

Details of the Wisconsin income forecast are presented in Appendices 3 and 4.

METROPOLITAN AREA OUTLOOK

In 2006, Wisconsin's twelve metropolitan statistical areas (MSAs) saw various degrees of growth. Statewide, employment increased 0.7% in 2006; employment in the metro areas grew slightly faster than the state, at 0.8%. Non-metro areas saw an employment increase of 0.3% last year. Among the metro areas, employment grew the fastest in the Eau Claire metropolitan area, with an increase of 2.8% in 2006 over 2005. Racine was the only metro area to see a decline in employment, of 0.1%. The other areas saw increases in employment between 0.3% to 1.8%. Wisconsin's largest metropolitan area, Milwaukee, saw employment grow 0.8%.

Statewide, employment is expected to grow 0.4% in 2007. The metro areas and the non-metro counties of the state are also expected to increase 0.4% through the end of this year.

Personal income grew 5.4% in the metro areas in 2006. In Wisconsin, personal income increased 4.9%. Personal income growth in the metro areas ranged from a low of 4.2% in Fond du Lac to a high of 8.2% in Janesville. In Milwaukee, personal income increased 5.7%, higher than the state average and the second highest growth among the metro areas.

The statewide forecast for personal income is for growth of 5.0% this year. The metro areas of the state are expected to see growth of 4.2% in 2007, while non-metro counties will see growth of 7.1% in 2007.

Income data for all metropolitan areas through 2006 are from the U.S. Bureau of Economic Analysis. Employment data for the metropolitan areas are from the Wisconsin Department of Workforce Development. Income and employment data for the years 2007 and beyond are model-based estimates.

The Metropolitan Area forecast is based on the August 2007 Global Insight U.S. forecast and the related forecast of the Wisconsin economy presented in this report. The forecast is produced by a model that distributes Wisconsin statewide economic forecast to the underlying metropolitan areas.

A map of the metropolitan statistical areas is found on the next page.

Forecast

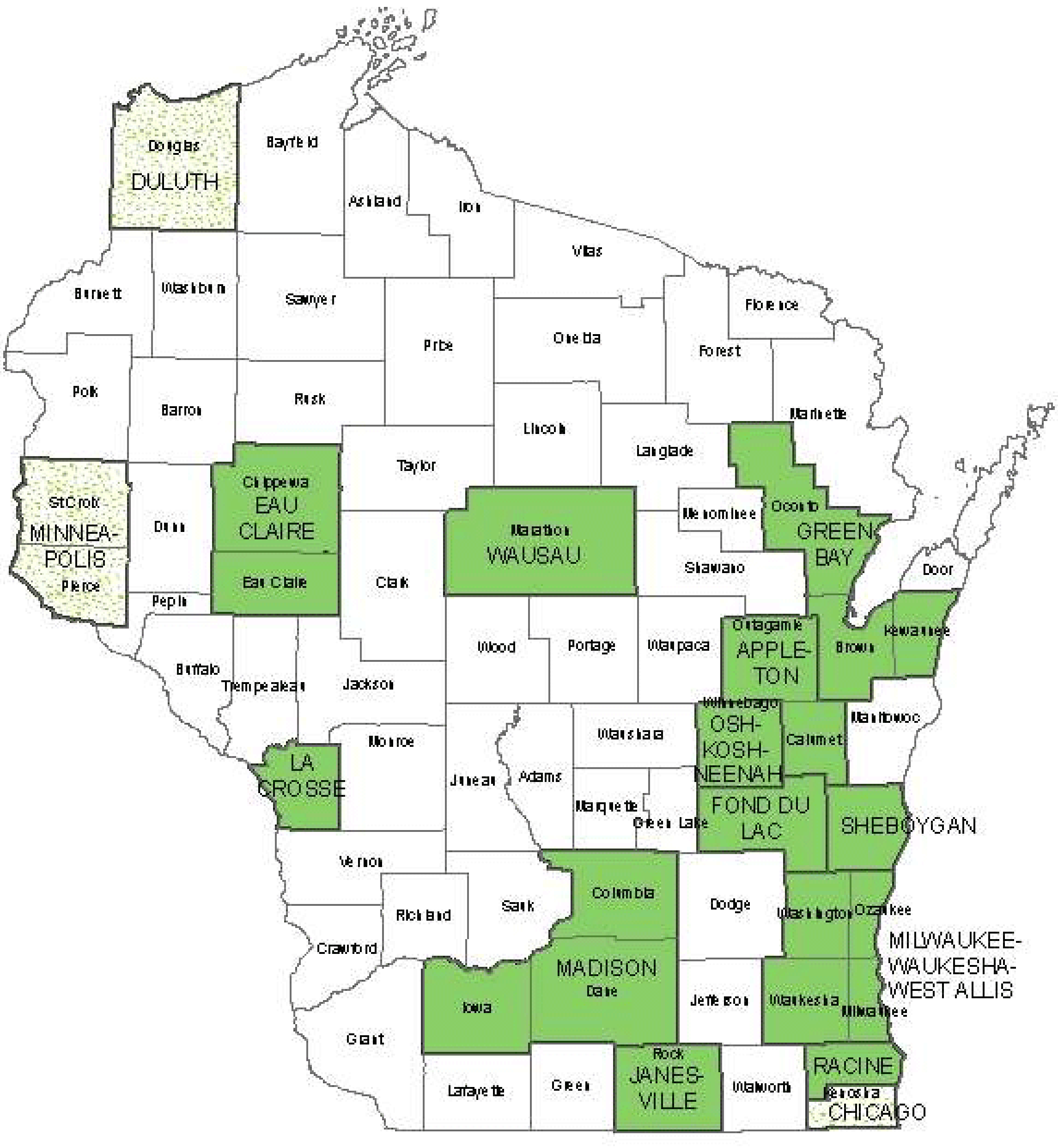
Wisconsin's MSAs are expected to see a slowdown in growth in total nonfarm employment in 2007, with a pick up in growth the last three years of the decade. The two exceptions are Racine, which will show positive growth this year after seeing no growth the last two years, and Sheboygan, which will see growth at the same rate of last year (see Chart 1.9). Growth in 2007 for the metro areas range from 0.1% in Racine to 0.6% in Oshkosh. This is similar to the employment growth expected in Wisconsin, which will increase 0.4% in 2007, following growth of 0.7% in 2006 and 1.2% in 2005. The non-metro counties in Wisconsin are expected to grow at the same rate as the state in 2007, at 0.4%.

In the following year, 2008, total nonfarm employment in Wisconsin is expected to grow 0.8%. The fast growing metro areas during 2008 are Green Bay, Eau Claire, Wausau, and Madison. Employment growth near the state average is expected in Appleton, Oshkosh-Neenah, La Crosse, and Sheboygan. Areas expecting growth slower than the state average are Racine, Milwaukee, Janesville, and Fond du Lac. Counties not associated with an urban area are expected to increase faster than the state.

Total personal income is expected to increase at the rate of 5.0% in Wisconsin in 2007. This follows an increase of 4.9% in 2006. Forecasted 2007 growth in personal income in the metro areas range from 2.0% in Janesville to as high as 7.6% in La Crosse (see Chart I.10). Five of the metro areas – Janesville, Racine, Milwaukee, Sheboygan, and Appleton – expect growth lower than the state average in 2007. Madison, Fond du Lac, and Oshkosh-Neenah expect growth in personal income about the same as Wisconsin as a whole,

Chart I.8

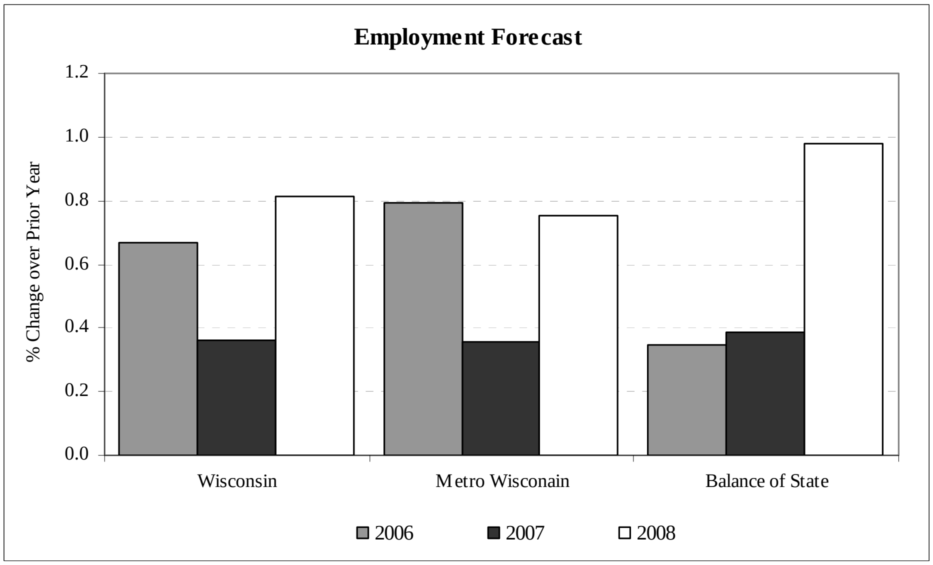
WISCONSIN METROPOLITAN STATISTICAL AREAS



Notes: The U.S. Census Bureau locates Douglas, Pierce and St. Croix, and Kenosha counties in the Duluth (MN), Minneapolis (MN), and Chicago (IL) MSAs, respectively. These MSAs are not discussed in the report.

County names are suppressed for Fond du Lac, La Crosse, Racine, and Sheboygan counties.

Chart I.9



while Green Bay, Wausau, Eau Claire, and La Crosse expect higher growth than the state. The non-metro counties are expecting faster growth than the state in 2007, with personal income growing 7.1% in 2007.

Growth in total personal income is expected to increase 4.3% in 2008 in Wisconsin as a whole. Wisconsin's largest MSA, Milwaukee, is expecting the slowest growth of all the metros, at 3.9%, while the next largest metro, Madison, is expecting the fastest growth, at 4.9%. Racine, Sheboygan, Fond du Lac, and Janesville are all expecting growth slightly slower than the state, while the remaining metropolitan areas will see growth faster than that of the state. Counties not included in a metro area will see growth of 4.3% in 2008.

A chart of 2006 per capita personal income for each of the metro areas is found on the next page. Per capita personal income ranged from $30,223 in Eau Claire to $40,671 in Madison.

Chart I.10

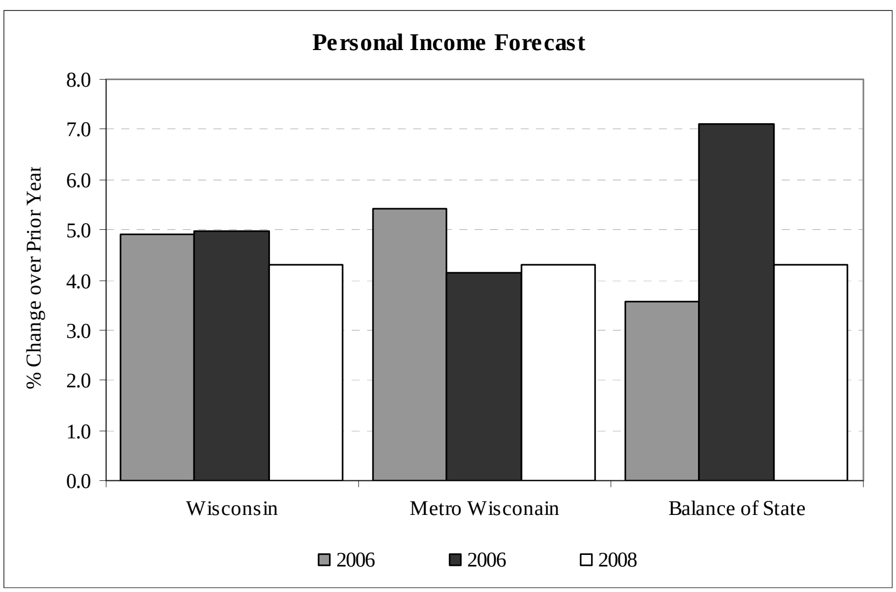
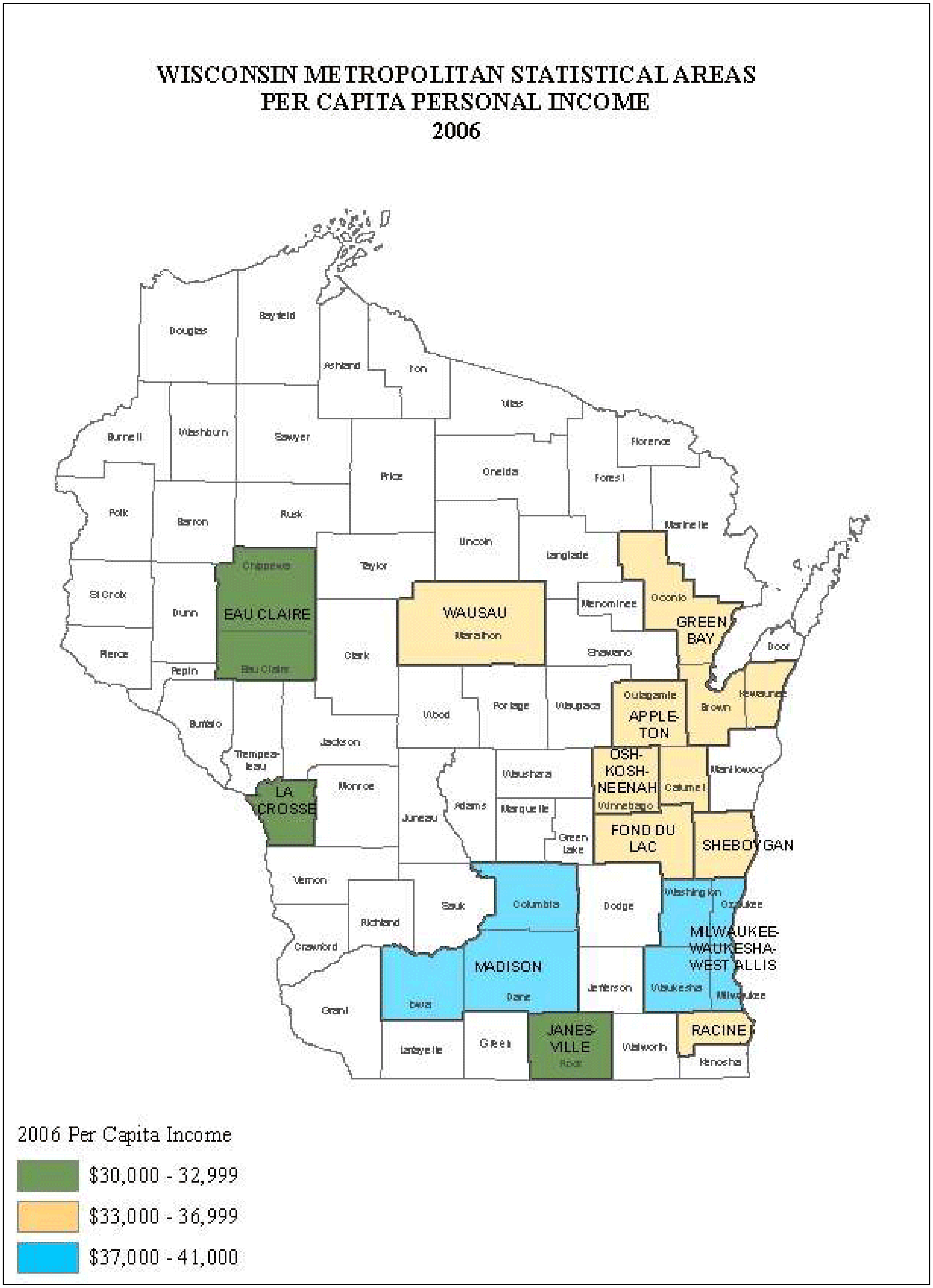


Chart I.11


WISCONSIN METROPOLITAN STATISTICAL AREAS
PER CAPITA PERSONAL INCOME
2006
Douglas
Bayfield
Ashland
Iron
Vilas
Burnett
Washburn
Sawyer
Florence
Price
Oneida
Forest
Polk
Barron
Rusk
Marinette
Lincoln
Langlade
Chippewa
Taylor
St Croix
Dunn
EAU CLAIRE
WAUSAU
Marathon
Menominee
Oconto
GREEN BAY
Pierce
Clark
Shawano
Door
Pepin
Eau Claire
Outagamie
Kewaunee
Buffalo
Wood
Portage
Waupaca
APPLETON
Brown
Jackson
Trempealeau
OSH-KOSH-NEENAH
Waushara
Manitowoc
LA CROSSE
Monroe
Calumet
Winnebago
Adams
Marquette
Juneau
FOND DU LAC
SHEBOYGAN
Green Lake
Vernon
Sauk
Columbia
Dodge
Washington
Ozaukee
Richland
MILWAUKEE-WAUKESHA-WEST ALLIS
Crawford
MADISON
Jefferson
Waukesha
Milwaukee
Grant
Iowa
Dane
JANES-VILLE
RACINE
Lafayette
Green
Rock
Walworth
Kenosha
2006 Per Capita Income
$30,000 - 32,999
$33,000 - 36,999
$37,000 - 41,000

Appleton

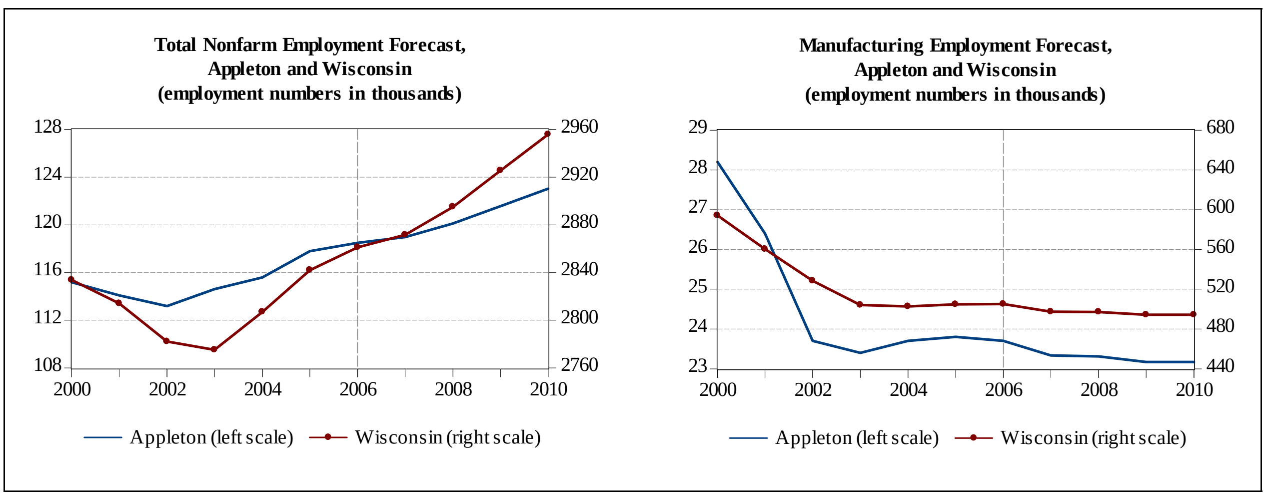
The Appleton MSA covers Outagamie and Calumet counties and includes the cities of Appleton, Grand Chute, Kaukauna, Harrison, and Chilton. With a population of 217,000 in 2006, it is the fourth-largest MSA in the state, behind Milwaukee, Madison, and Green Bay. The Appleton MSA is home to Lawrence University and the Fox Valley Technical College. There is another campus of the tech college in nearby Oshkosh, and there are UW campuses close by in Menasha, Fond du Lac, and Oshkosh.

The largest industry in the Appleton MSA in 2006 was Manufacturing, equaling 20% of all jobs in the area. The next largest industries were Trade, Transportation and Utilities (19% of total employment); Professional and Business Services (11%); and Education and Health Services (11%). The Appleton MSA is home to large manufacturers such as Appleton Papers, Miller Electric, and Brillion Iron Works. Other large employers include Thedacare Inc. (medical and surgical hospital), Thrivent Financial, and Sara Lee Corporation. One large manufacturer of engine equipment, Tecumseh, recently closed after being in operation in New Holstein since 1956.

Total nonfarm employment in the Appleton MSA increased 0.6% in 2006. Industry sectors with the strongest growth included Education and Health Services (which grew 3.3%), Leisure and Hospitality (1.9%), and Government (1.7%). In 2007, total nonfarm employment is expected to increase 0.4%, before accelerating to 0.9% in 2008 and 1.2% in 2009 and 2010. Total employment will reach 123,000 in 2010, 5,500 more than the employment level in 2006.

The outlook for personal income growth is also positive in the Appleton MSA. After growing 5.0% in 2006, total personal income in the area is expected to increase 4.4% in 2007 and 4.8% in 2008. In the last two years of the forecast, growth picks up and increases over 5.5% both years.

Chart I.12



APPLETON METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	117.8	118.5	119.0	120.1	121.6	123.0
(% change)	1.9	0.6	0.4	0.9	1.2	1.2
Total Personal Income ($ billions)	7.2	7.6	7.9	8.3	8.7	9.2
(% change)	4.4	5.0	4.4	4.8	5.6	5.7

Eau Claire

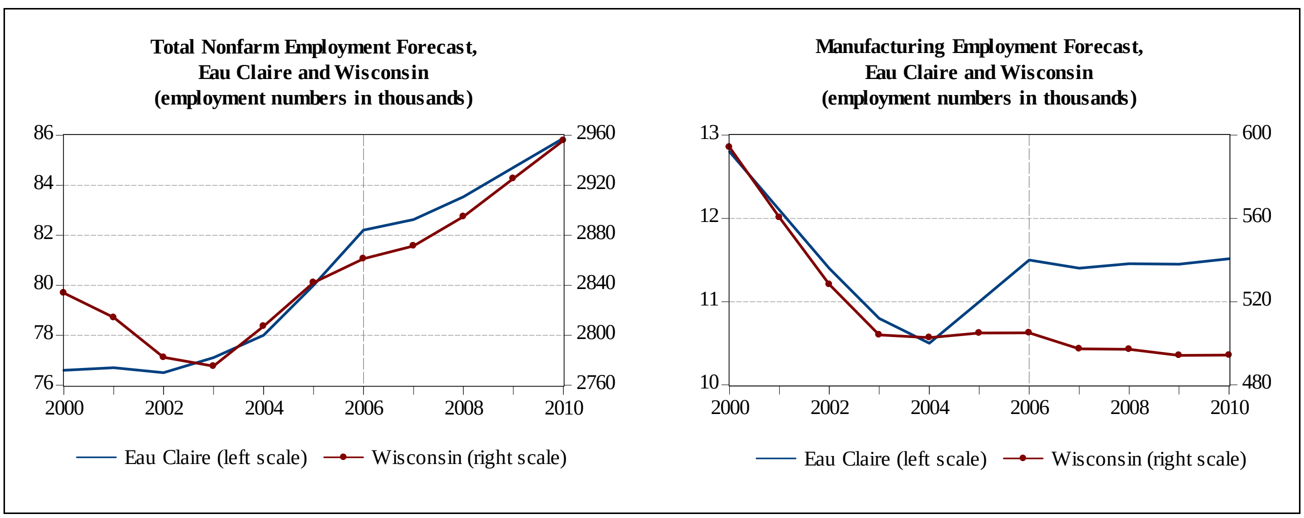
The Eau Claire MSA is made up of Eau Claire and Chippewa counties. The City of Eau Claire is the largest city in the MSA, followed by Chippewa Falls. Eau Claire is one of the smaller MSAs in the state, with a population of 155,000 in 2006. Eau Claire is home to a four-year UW campus, and there is a branch of the Chippewa Valley Technical College in both Eau Claire and Chippewa Falls.

Trade, Transportation and Utilities is the largest industry in the Eau Claire MSA, comprising 20% of total employment in 2006. Education and Health Services is the next largest industry (16% of employment), followed by Government (15%), and Manufacturing (14%). Some of the largest employers in the Eau Claire MSA include Menards, Hutchinson Technology (computer storage device manufacturing), and Luther Hospital.

Employment in the Eau Claire MSA increased 2.8% in 2006, the fastest of all the metro areas of the state. This strong growth was driven by a 4.6% increase in Manufacturing employment in the area. Education and Health Services also saw strong growth at 3.1%. Looking forward, total nonfarm employment is forecasted to increase 0.5% in 2007, before rebounding to a growth rate of over 1.0% for the remainder of the forecast period.

The Eau Claire MSA is expected to see an increase of total personal income of 5.9% in 2007, following growth of 5.5% in the previous year. Growth in personal income is expected to dip to 4.5% in 2008 and then increase 5.3% in 2009 and 2010.

Chart I.13



EAU CLAIRE METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	80.0	82.2	82.6	83.5	84.7	85.9
(% change)	2.6	2.8	0.5	1.1	1.4	1.4
Total Personal Income ($ billions)	4.4	4.7	5.0	5.2	5.5	5.7
(% change)	4.5	5.5	5.9	4.5	5.3	5.3

Fond du Lac

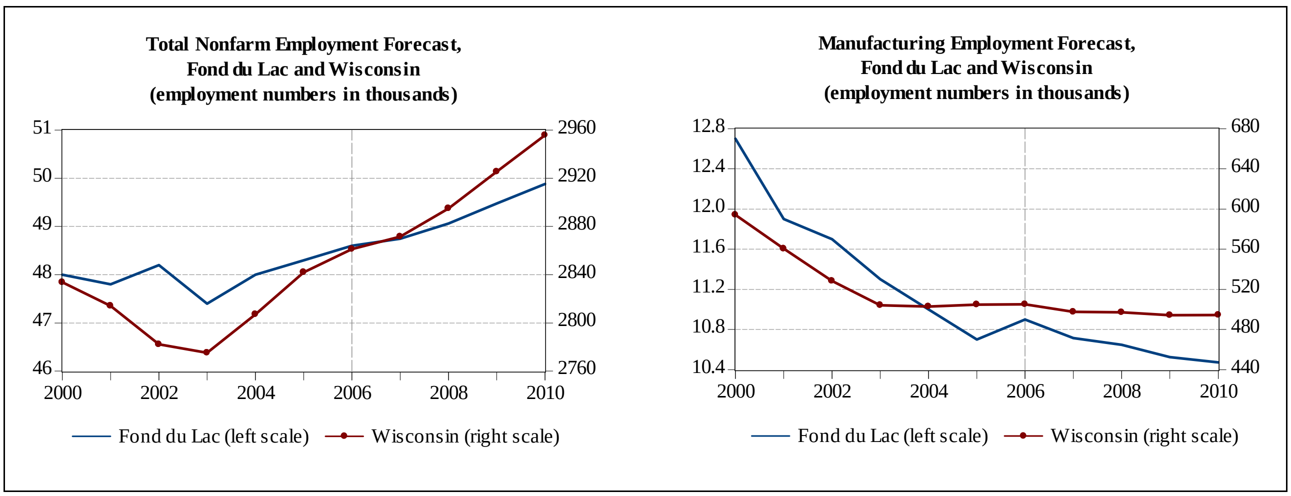
The Fond du Lac MSA is the smallest of the state's 12 MSAs, with a population just under 99,200 in 2006. It encompasses Fond du Lac County, which includes the city of the same name as well as Ripon, North Fond du Lac, and Taycheedah. Fond du Lac is home to a two-year UW campus, as well as Marion College and a campus of the Morraine Park Technical College.

The four largest industries in the Fond du Lac metro area are Manufacturing, at 22.4% of total employment in 2006; Trade, Transportation and Utilities (19.1% of total employment); Education and Health Services (13.4%); and Government (12.4%). Notable large employers include Brunswick Corporation (engine equipment manufacturing), Agnesian Healthcare, and J. F. Ahern Company (plumbing and HVAC).

Employment in the Fond du Lac MSA grew 0.6% in 2006. The fastest growing industries in the area were Government employment, with growth of 1.9%, and Education and Health Services, with growth of 1.6%. Employment is expected to increase 0.3% in 2007, with growth picking up to 0.6% in 2008 and 0.8% in 2009 and 2010.

Total personal income increased 4.2% in the Fond du Lac MSA in 2006. This growth is expected to accelerate to 5.0% in 2007 followed by growth of 4.2% in 2008 and 4.9% in 2009.

Chart I.14



FOND DU LAC METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	48.3	48.6	48.7	49.1	49.5	49.9
(% change)	0.6	0.6	0.3	0.6	0.8	0.8
Total Personal Income ($ billions)	3.2	3.3	3.5	3.7	3.8	4.0
(% change)	4.1	4.2	5.0	4.2	4.9	5.0

Green Bay

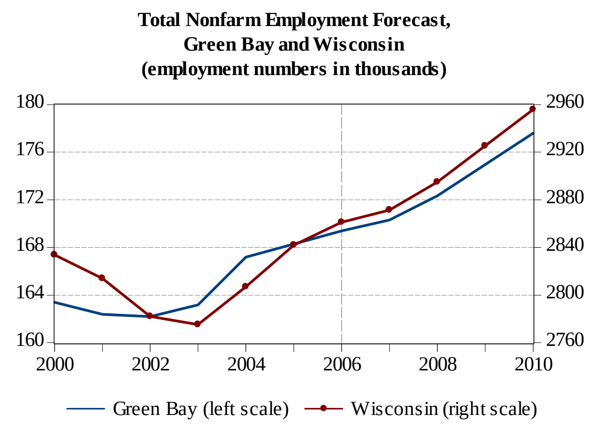
The Green Bay MSA includes Brown, Oconto, and Kewaunee Counties. Large cities in the metro area include not only Green Bay but also De Pere, Ashwaubenon, Oconto, and Algoma. Perhaps best known for the professional football team the Green Bay Packers, the Green Bay area is the third largest MSA in the state of Wisconsin, with a population of 299,000 in 2006. The city of Green Bay is also home to a four-year UW campus as well as a branch of the Northeast Technical College, and St. Norbert College is in nearby De Pere.

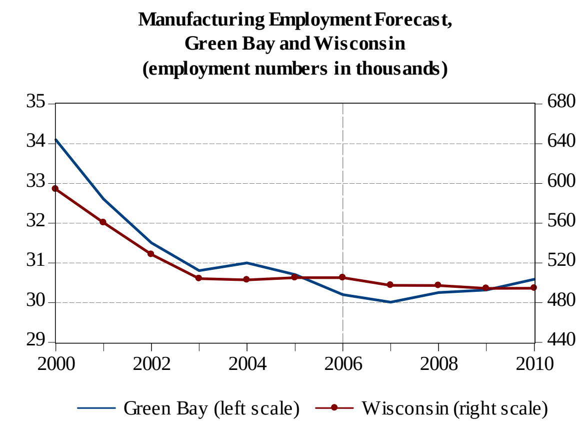
Trade, Transportation and Utilities is the largest industry in the Green Bay MSA, comprising 21% of total employment in 2006. Manufacturing is the next largest industry (17.8% of employment), followed by Education and Health Services (12.6%), and Government (12.3%). Green Bay is home to national corporations Schneider National (long distance trucking) and Shopko Department Stores. Other large employers include Fort James Operating Co. (paper mill), Humana Insurance Company, and Bellin Memorial Hospital.

Total nonfarm employment growth in the Green Bay MSA equaled 0.7% in 2006. Industries with the strongest growth include Education and Health Services, which increased 3.4%, and Leisure and Hospitality, at 1.9%. The outlook for the Green Bay metro area slows to 0.5% in 2007, before increasing to 1.2% growth in 2008, and 1.5% growth the last two years of the decade.

The outlook for total personal income is also positive. In 2006, personal income increased 4.9% in the Green Bay area. Growth is expected to reach 5.5% in 2007 and 4.9% in 2008. In 2009 and 2010, personal income is expected to grow 5.7%.

Chart I.15





GREEN BAY METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	168.3	169.4	170.3	172.3	175.0	177.6
(% change)	0.7	0.7	0.5	1.2	1.5	1.5
Total Personal Income ($ billions)	9.7	10.2	10.8	11.3	11.9	12.6
(% change)	3.5	4.9	5.5	4.9	5.7	5.7

Janesville

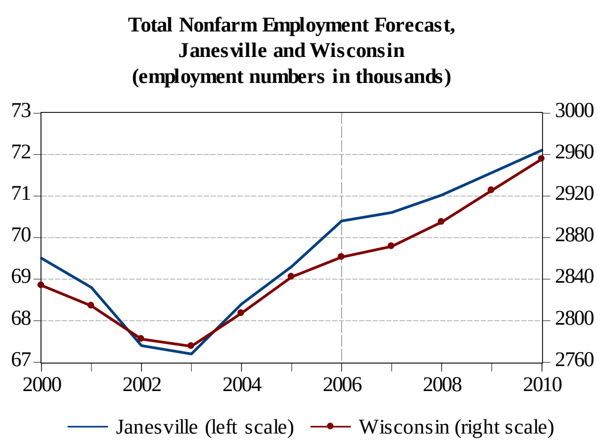
The Janesville MSA consists of Rock County and includes the cities of Janesville and Beloit as well as Milton, Evansville, and others. With a 2006 population of 159,000, Janesville ranks near the middle of Wisconsin's 12 MSAs by size. Janesville is home to a two-year UW campus and a branch of the Blackhawk Technical College.

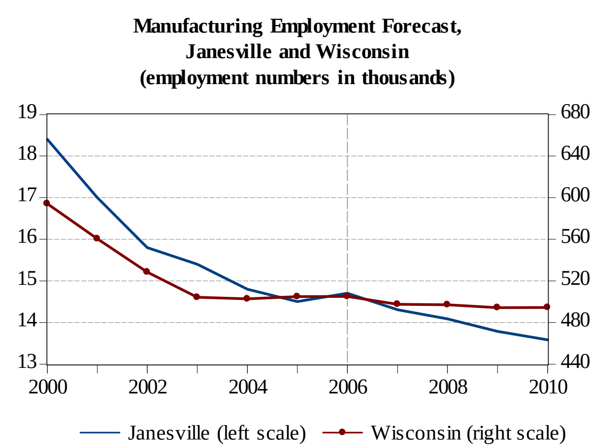
By employment, the largest industry in the Janesville area is Trade, Transportation and Utilities, which represented 22.6% of total employment in 2006. Manufacturing is the next largest industry (20.9% of employment), followed by Education and Health Services (13.6%), and Government (12.5%). Some of the largest employers in the Janesville area include General Motors, Mercy Health System Corporation, Beloit Memorial Hospital, and Lear Corporation (motor vehicle seating manufacturing).

Employment in the Janesville MSA grew 1.6% in 2006. Business, Finance, and Other Services saw the fastest growth, at 3.5%, followed by Education and Health Services (3.2% growth), and Trade, Transportation, and Utilities (1.9%). The employment outlook for Janesville is continued growth, but slowing to 0.3% in 2007 and 0.6% in 2008. Growth picks up to 0.8% in the last two years of the forecast period.

Total personal income increased 8.2% in the Janesville MSA in 2006. This growth is expected to slow to 2.0% in 2007 followed by growth of 4.2% in 2008 and 5.0% in 2009 and 2010.

Chart I.16





JANESVILLE METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	69.3	70.4	70.6	71.0	71.6	72.1
(% change)	1.3	1.6	0.3	0.6	0.8	0.8
Total Personal Income ($ billions)	4.5	4.9	5.0	5.2	5.5	5.7
(% change)	3.5	8.2	2.0	4.2	5.0	5.0

La Crosse

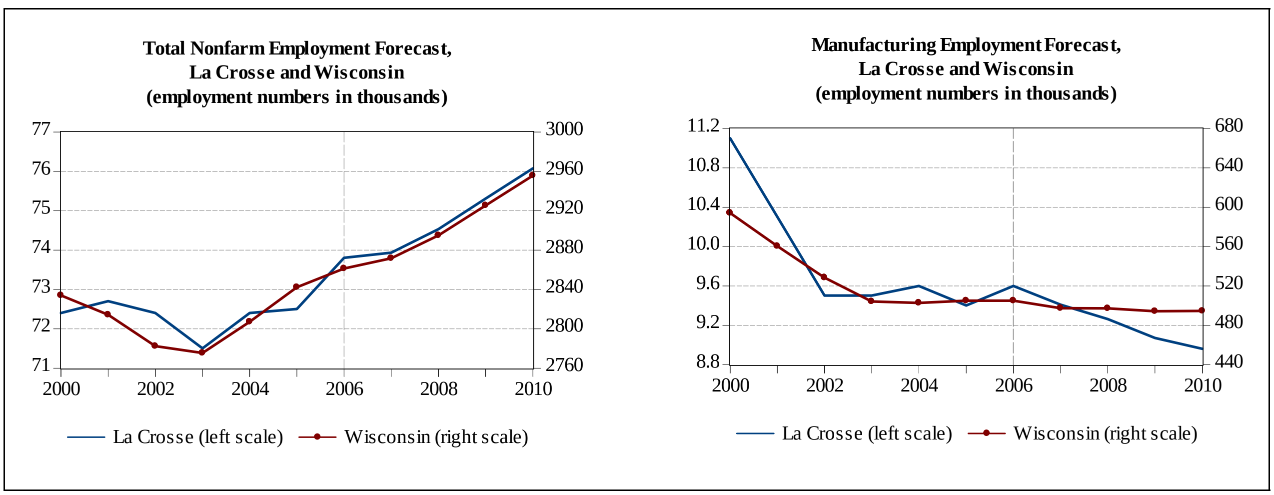
The La Crosse MSA straddles the Wisconsin-Minnesota state line and is comprised of La Crosse County, WI and Houston County, MN. Large cities in the metro area include not only La Crosse but also Onalaska and Caledonia, MN. The La Crosse MSA is Wisconsin's fourth-smallest metropolitan areas, with a 2006 population of 129,000. La Crosse is home to Viterbo University, a four-year UW campus, and a branch of the Western Technical College.

Trade, Transportation and Utilities is the largest industry in La Crosse, making up 20.3% of total employment in 2006. The next largest industry is Education and Health Services (19.9% of employment), followed by Government (14.8%), and Manufacturing (13%). Large employers in the La Crosse MSA include Gunderson Lutheran (health care system), the Franciscan Skemp Medical Center, and Trane (air conditioning, refrigeration and heating).

The La Crosse MSA had healthy employment growth of 1.8% in 2006. Growth was pushed up by gains of 5.1% in Education and Health Services, 3.6% in Construction and Mining, and 2.1% in Manufacturing. However, growth in employment is expected to slow to 0.2% growth in 2007, followed by increases of 0.8% in 2008 and 1.0% in 2009 and 2010.

Total personal income increased 4.4% in the La Crosse MSA in 2006. Despite the slow growth in employment, growth in personal income is expected to increase to 7.6% in 2007, then slow to 4.8% in 2008, and 5.3% in both 2009 and 2010.

Chart I.17



LA CROSSE METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	72.5	73.8	73.9	74.5	75.3	76.1
(% change)	0.1	1.8	0.2	0.8	1.0	1.0
Total Personal Income ($ billions)	4.0	4.1	4.5	4.7	4.9	5.2
(% change)	3.5	4.4	7.6	4.8	5.3	5.3

Madison

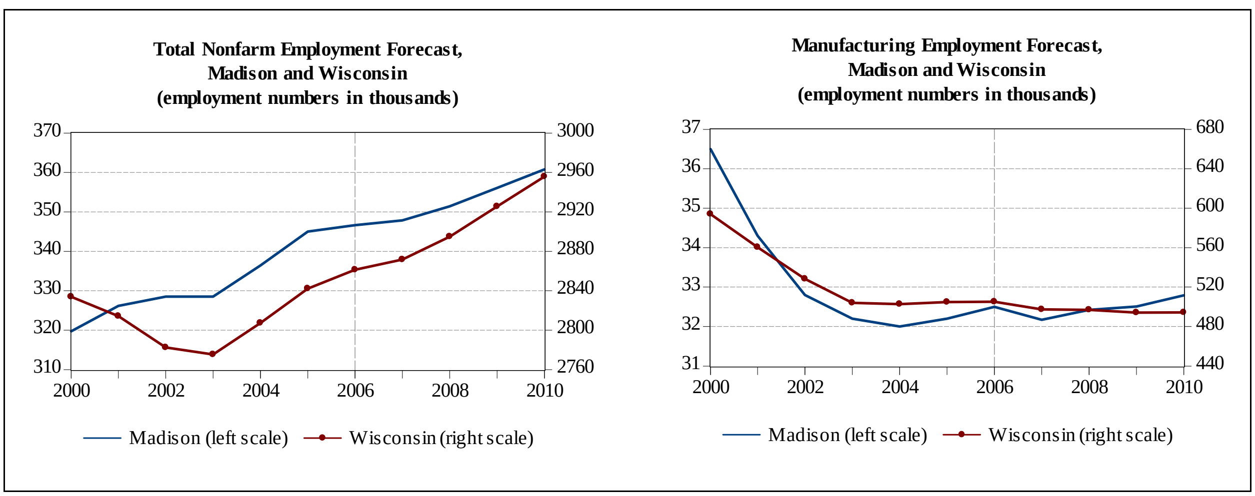
The Madison MSA consists of Dane, Columbia, and Iowa Counties. The largest cities in the MSA are clustered around Madison: Sun Prairie, Fitchburg, Middleton, and Stoughton. Other large cities include Portage in Columbia County and Dodgeville in Iowa County. Madison is the second-largest metro area in the state with a population of 543,000 in 2006. It is the fastest growing metropolitan area, with an increase in population of 6.3% since 2001. The main UW campus is in Madison, as well as the Madison Area Technical College (MATC) and Edgewood College. A second MATC Campus is located in Portage.

As the Wisconsin state capital, Madison has long been associated with state government. As such, Government is the largest industry in the Madison MSA, making up 23.3% of total employment. Local and state government employment in schools and hospitals is included in this count. The next three largest industries in the Madison MSA are Trade, Transportation and Utilities (17.5% of total employment); Professional and Business Services (10.4%); and Education and Health Services (10.1%). Top private employers in the Madison area include American Family Mutual Insurance Company, American Girls Inc., Epic Systems Corporation (software publisher), and Lands End.

Employment in the Madison MSA grew 0.5% in 2006, slightly slower than growth in the state. The fastest growing industries in the Madison area are Business, Finance, and Other Services[2] (1.8% growth), Construction and Mining (1.2%), and Education and Health Services (also 1.2%). The employment forecast for the Madison area expects to see growth of 0.4% in 2007, and then accelerating to 1.0% in 2008 and 1.3% in 2009 and 2010.

The Madison MSA is expected to see an increase of total personal income of 4.9% in 2007, following growth of 5.5% in the previous year. Growth in personal income is expected to stay at 4.9% in 2008 and then increase 5.7% in 2009 and 2010.

Chart I.18



MADISON METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	345.0	346.6	347.8	351.4	356.1	360.7
(% change)	2.6	0.5	0.4	1.0	1.3	1.3
Total Personal Income ($ billions)	20.9	22.1	23.2	24.3	25.7	27.1
(% change)	5.2	5.5	4.9	4.9	5.7	5.7

[2] Business, Finance and Other Services includes industries defined by NAICS 51-56 and 81.

Milwaukee–Waukesha–West Allis

The Milwaukee-Waukesha-West Allis MSA (the Milwaukee MSA for short) is the largest metro area in the state. With a population of 1.5 million in 2006, it is nearly three times as large as the Madison MSA. However, since 2001 it has had the slowest population growth of all the MSAs, increasing only 0.3% over the past five years.

The three largest cities in the metro area are given in the title: Milwaukee, Waukesha, and West Allis. Milwaukee is the largest, but all three had a population over 50,000 in 2006. Other large cities include Wauwatosa and Greenfield in Milwaukee County, Mequon and Cedarburg in Ozaukee County, West Bend and Germantown in Washington County, and Brookfield and New Berlin in Waukesha County. Home to the Milwaukee Brewers and Milwaukee Bucks, the Milwaukee MSA also hosts three UW campuses and multiple campuses of three tech college system schools: Waukesha County, Morraine Park, and the Milwaukee Area Technical Colleges. In addition, Milwaukee is home to several private colleges, such as Marquette University, the Medical College of Wisconsin, Alverno College, the Milwaukee School of Engineering, and others.

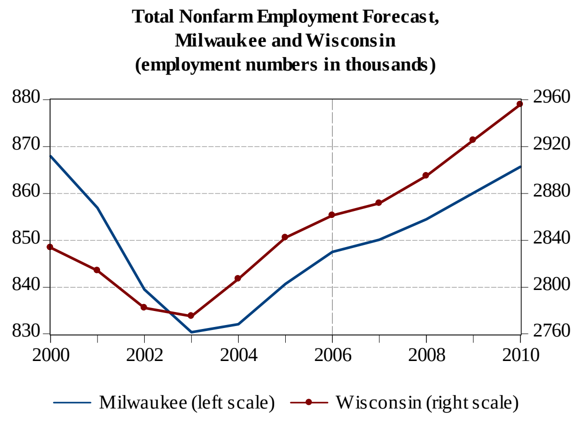
Traditionally known as a manufacturing base, the largest industry groups in the Milwaukee area in 2006 were Trade, Transportation and Utilities (18.2% of total employment) and Education and Health Services (16.1%). Manufacturing was the third largest industry sector (15.7%) and Professional and Business Services rounded out the list of the top four (13.1% of employment). Large employers in the area include Aurora Health Care, Northwestern Mutual Life Insurance, the Medical College of Wisconsin, Kohl's Department Stores, Quad/Graphics (commercial printing), and Rockwell Automation (relay and internal control manufacturing).

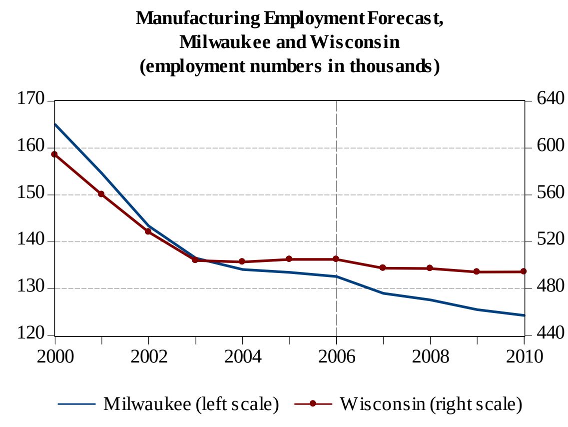
Employment in the Milwaukee MSA increased 0.8% in 2006, slightly higher than the state's growth of 0.7%. Leading this growth was the Education and Health Services industry, which increased 2.4% last year, Leisure and Hospitality, which grew 2.0%, and Construction and Mining (1.8%). The only sector to see a decline in employment was Manufacturing, which decreased 0.7%. Government employment held steady.

The outlook for employment in the Milwaukee area is positive. In 2007, employment is expected to grow 0.3%, and then increase 0.5% in 2008 and 0.7% in 2009 and 2010. Total nonfarm employment is expected to reach a level of 865,700 by 2010 in the Milwaukee MSA. Manufacturing employment is not expecting a rebound; indeed, employment in Manufacturing is forecasted to decrease 2.7% in 2007 and between 1 and 2% in the last three years of the decade.

Milwaukee's total personal income is expected to increase 3.4% in 2007, following an increase of 5.7% in 2006. Growth in personal income will pick up after 2007, increasing at a rate of 3.9% in 2008 and 4.7% in 2009 and 2010.

Chart I.19





MILWAUKEE–WAUKESHA–WEST ALLIS METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	840.7	847.5	850.1	854.5	860.1	865.7
(% change)	1.0	0.8	0.3	0.5	0.7	0.7
Total Personal Income ($ billions)	57.6	60.9	63.0	65.4	68.5	71.7
(% change)	4.0	5.7	3.4	3.9	4.7	4.7

Oshkosh-Neenah

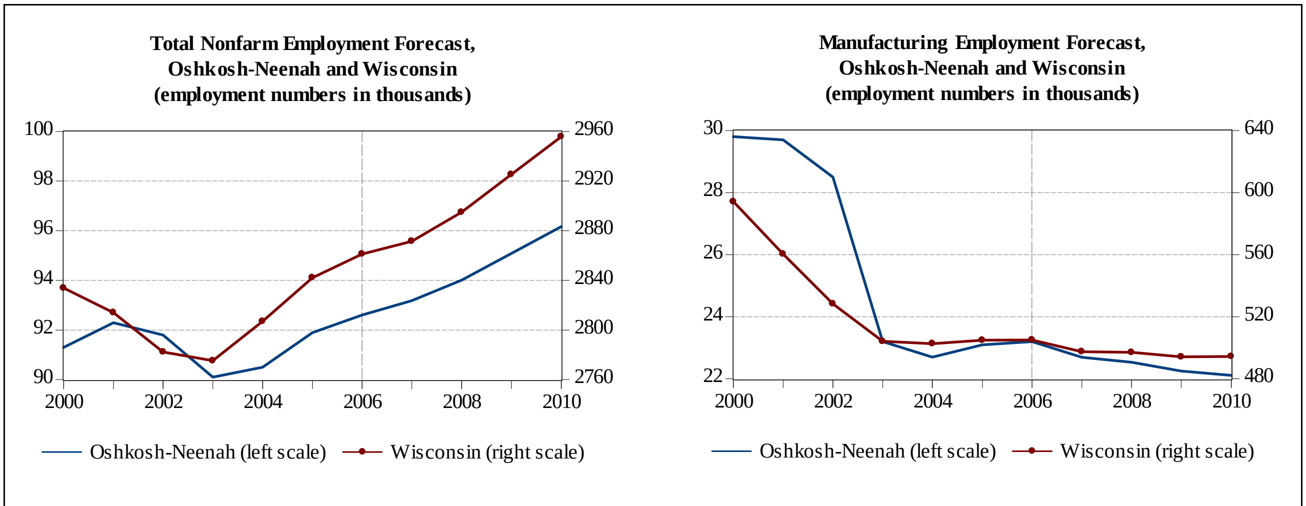
The Oshkosh-Neenah MSA is the area of Winnebago County, just south of the Appleton MSA in the Fox Valley Region. Besides Oshkosh and Neenah, other large cities in the metro area include Menasha and Algoma. The Oshkosh-Neenah metro area is the sixth-largest MSA in the state, with a population of 160,600 in 2006. Oshkosh is home to a four-year UW campus and a branch of the Fox Valley Technical College.

Manufacturing is the largest industry sector in the Oshkosh-Neenah MSA, where a fourth of all workers are employed. Twenty-six percent of the Manufacturing employment is in Paper Manufacturing. The next largest industry sectors are Trade, Ttransportation and Utilities (16.2% of employment); Government (13.6%); and Education and Health Services (11.6%). Large employers in the area include Kimberly Clark (paper products manufacturing), Oshkosh Truck, and Curwood, Inc. (plastics packaging film manufacturing).

Employment growth in the Oshkosh-Neenah MSA increased 0.8% in 2006. Growth was led by Leisure and Hospitality, with an increase in employment of 3.0%; Business, Finance, and Other Services[3] (2.0% increase); and Education and Health Services (1.9%). Employment is expected to increase 0.6% in 2007 and then accelerate, increasing 0.9% in 2008 and 1.1% in 2009 and 2010.

Total personal income increased 4.6% in the Oshkosh-Neenah MSA in 2006. This growth is expected to increase to 5.0% in 2007 followed by growth of 4.4% in 2008 and 5.2% in 2009 and 2010.

Chart I.20



OSHKOSH–NEENAH METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	91.9	92.6	93.2	94.0	95.1	96.2
(% change)	1.5	0.8	0.6	0.9	1.1	1.1
Total Personal Income ($ billions)	5.3	5.5	5.8	6.0	6.3	6.7
(% change)	4.2	4.6	5.0	4.4	5.2	5.2

[3] Business, Finance and Other Services includes industries defined by NAICS 51-56 and 81.

Racine

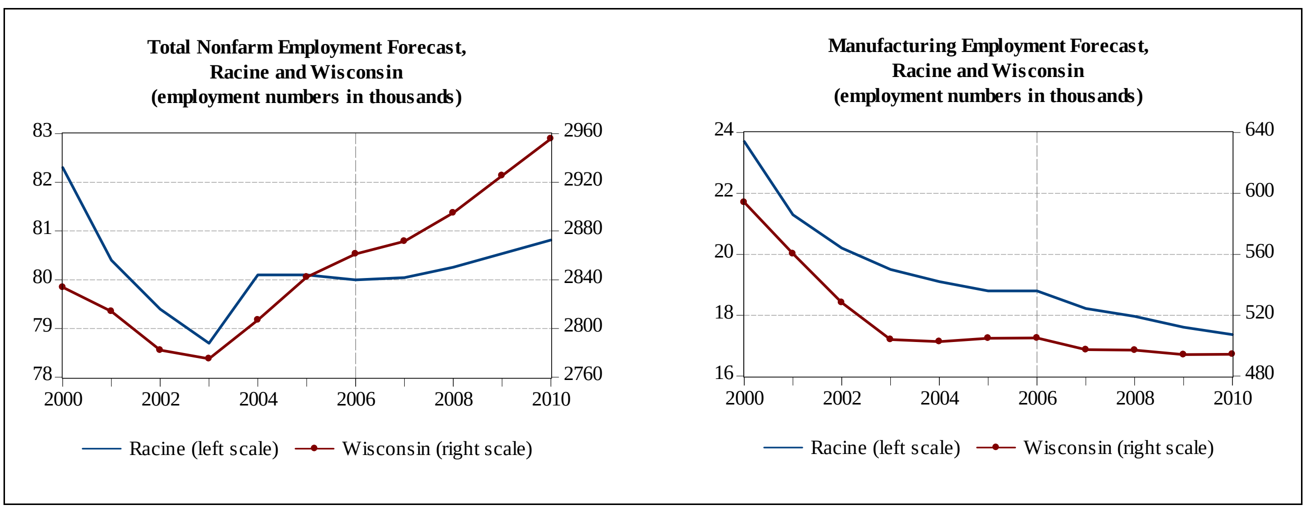
The Racine MSA is made up of Racine County in southeastern Wisconsin. In addition to the city of Racine, the metro area includes the Villages of Mount Pleasant and Caledonia and the Towns of Norway and Burlington. The Racine metro area is the fifth-largest in the state, with a population of 196,000 in 2006. Racine is home to a branch of the Gateway Technical College.

Despite employment declines since the turn of the century, Manufacturing remains the largest industry in the region, comprising 23.5% of total employment. The next largest industry is Trade, Transportation and Utilities (19.0% of total employment; followed by Education and Health Services (13.5%); and Government (12.6%). Some of the largest employers in the Racine area include All Saints Medical Center, SC Johnson & Son (sanitation goods manufacturing), CNH America (farm machinery manufacturing), and Modine Manufacturing Company (motor vehicle parts manufacturing).

Employment in the Racine MSA decreased 0.1% in 2006. Much of this decline was in the Construction and Mining sector, as demand for new homes decreased. One bright spot for growth was in the Education and Health Services industry, which increased 0.9% in 2006. Going forward, Racine will return to positive growth in 2007, increasing 0.1%, and growing 0.3% in the last three years of the decade.

The Racine MSA is expected to see an increase of total personal income of 2.3% in 2007, following growth of 5.2% in the previous year. Growth in personal income is expected to increase to 4.0% in 2008 and then grow 4.8% in the last two years of the decade.

Chart I.21



RACINE METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	80.1	80.0	80.0	80.3	80.5	80.8
(% change)	0.0	-0.1	0.1	0.3	0.3	0.3
Total Personal Income ($ billions)	6.6	6.9	7.1	7.4	7.7	8.1
(% change)	4.3	5.2	2.3	4.0	4.8	4.8

Sheboygan

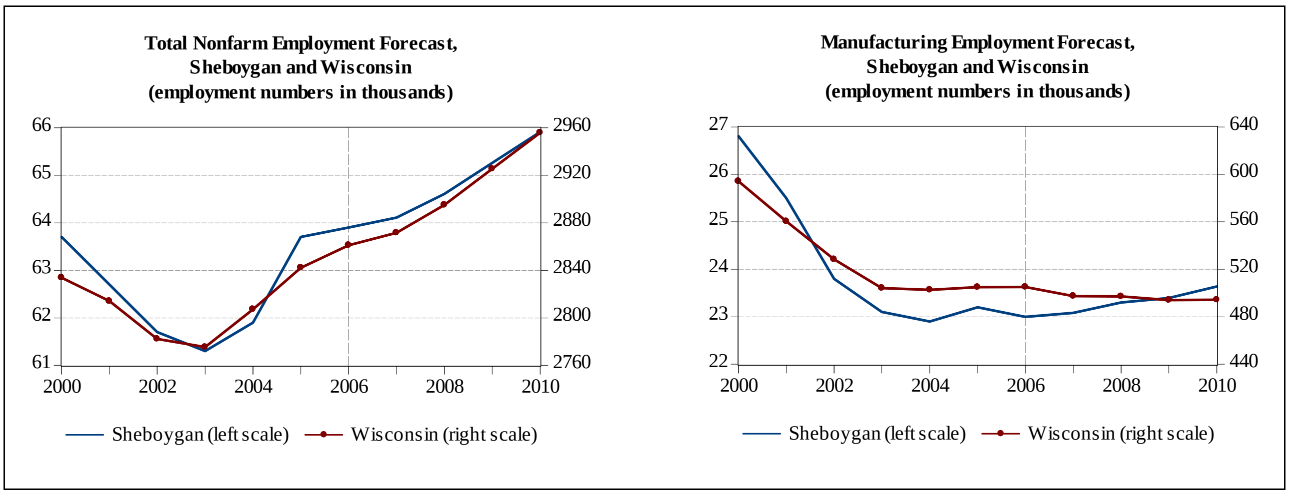
The Sheboygan MSA is in Sheboygan county, along the Lake Michigan border. It includes the cities of Plymouth and Sheboygan Falls as well as Sheboygan. It is the second-smallest MSA in Wisconsin, with a population of 114,800 in 2006, an increase of 1.5% since 2001. Sheboygan is home to a two-year UW campus and Lakeland College

Sheboygan is highly dominated by the Manufacturing industry, which makes up 36% of total employment. Two out of every five manufacturing workers in the Sheboygan MSA is involved in Fabricated Metal Product Manufacturing. The next three largest industries are Trade, Transportation and Utilities (14% of total employment); Education and Health Services (12.1%); and Government (10.2%). Large employers include Kohler Company (metal sanitary ware manufacturing), Bemis Manufacturing (plastic products manufacturing), JL French Corporation (aluminum die-casting), and Aurora Medical Group and Health Care Central.

Employment in the Sheboygan MSA increased 0.3% in 2006. The fastest growing industries in the area were Leisure and Hospitality, with growth of 4.3%; and Education and Health Services, with growth of 2.7%. Looking to the end of the decade, employment is expected to increase 0.3% in 2007, with growth picking up to 0.8% in 2008 and 1.0% in both 2009 and 2010.

The outlook for personal income growth is also positive in the Sheboygan MSA. After growing 4.5% in 2006, total personal income in the area is expected to increase 4.4% in 2007 and 4.1% in 2008. In the last two years of the forecast, growth picks up and increases 4.9% both years.

Chart I.22



SHEBOYGAN METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	63.7	63.9	64.1	64.6	65.3	65.9
(% change)	2.9	0.3	0.3	0.8	1.0	1.0
Total Personal Income ($ billions)	3.9	4.1	4.3	4.5	4.7	4.9
(% change)	4.9	4.5	4.4	4.1	4.9	4.9

Wausau

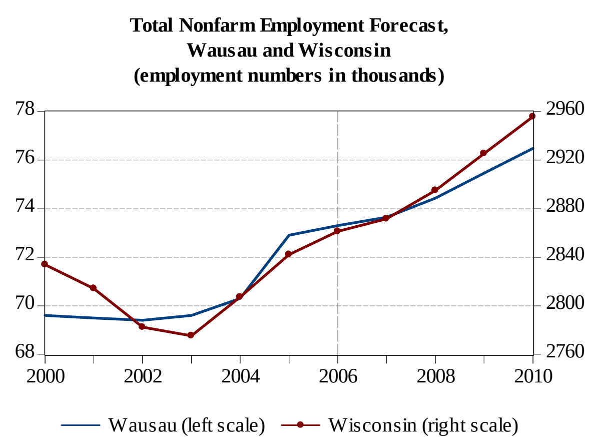
The Wausau MSA is Marathon County, in the heart of Wisconsin. Besides Wausau, the metro area includes the Villages of Weston and Kronenwetter and the Town of Rib Mountain. The Wausau MSA is the third-smallest among Wisconsin's twelve metro areas. It had a population of 130,000 in 2006, and growth of 3.0% since 2001. Marathon County is home to a two-year UW Campus and two branches of the Northcentral Technical College.

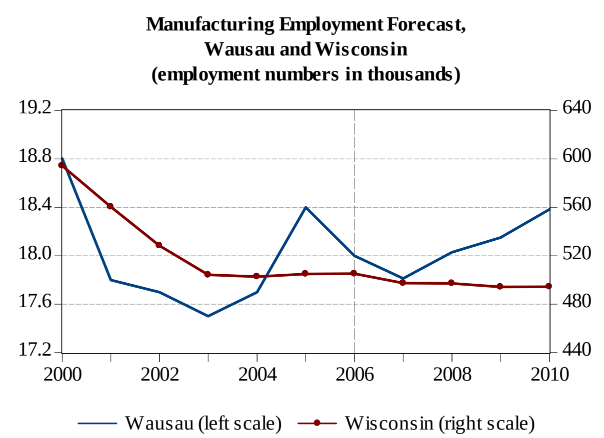
The largest industry sector in the Wausau metro area is Manufacturing, which accounted for 24.6% of employment in 2006. Trade, Transportation and Utilities is the next largest industry in the region, with 22.1% of employment; followed by Education and Health Services (11.6% of total employment); and Government (10.8%). Large employers in the area include Aspirus Wausau Hospital, Liberty Mutual Insurance, Kolbe & Kolbe Millwork, and Greenheck Fan Corporation.

Employment in the Wausau MSA increased 0.5% in 2006. Growth was driven by a 7.6% increase in Education and Health Service employment in the area. Construction and Mining also saw strong growth at 6.7%. Looking forward, total nonfarm employment is forecasted to increase 0.5% in 2007, before accelerating to a growth rate of over one percent for the remainder of the forecast period.

Total personal income increased 5.1% in the Wausau MSA in 2006. Growth in personal income is expected to increase to 5.6% in 2007, then slow to 4.5% in 2008 and 5.3% in both 2009 and 2010.

Chart I.23





WAUSAU METROPOLITAN AREA FORECAST

	2005	2006	2007	2008	2009	2010
Nonfarm Employment (thousands)	72.9	73.3	73.6	74.4	75.5	76.5
(% change)	3.7	0.5	0.5	1.1	1.4	1.4
Total Personal Income ($ billions)	4.1	4.4	4.6	4.8	5.1	5.3
(% change)	5.1	5.1	5.6	4.5	5.3	5.3

Balance of State

The counties not contained in a metropolitan statistical area are considered the balance of state. In general, these are the 'non-metro' counties, as they are not linked with any large urban areas. Four counties are exceptions, however: Douglas County, in northwestern Wisconsin; Pierce and St. Croix counties, which border Minnesota; and Kenosha County, in the southeastern corner of the state. These counties are each part of an MSA, but the MSA is not based in Wisconsin. Douglas County is part of the Duluth, MN MSA; Pierce and St. Croix Counties are part of the Minneapolis-St. Paul-Bloomington, MN MSA; and Kenosha County is part of the Chicago-Naperville-Joliet MSA, which includes counties in Illinois, Indiana, and Wisconsin (see Chart 1.18).

The balance of state area is comprised of 51 counties, versus the 21 counties of the metro areas. One-third of the state's population, or 1.8 million people, live in non-metro counties. This is greater than the number of people living in the Milwaukee MSA (1.5 million), and greater than those living in the ten smaller MSAs combined. As a percent of employment, the non-metro counties account for 27.8% of all workers in the state. The disparity between the percent living in the non-metro counties (33%) and those working in those counties is explained by workers commuting from less populated areas to the larger cities, where the number of jobs is greater.

The outlook for the non-metro counties is positive. Like the state, employment is expected to increase 0.4% in 2007. This is followed by growth of 1.0% in 2008, 1.3% in 2009, and 1.2% in 2010. Growth is also forecasted in personal income for the less urban areas of the state. Following moderate growth of 3.6% in 2006, personal income is expected to increase 7.1% in 2007, 4.3% in 2008, and 5.1% in both 2009 and 2010. The forecast for the non-metro areas is constructed as a residual of the state and MSA forecast.

Tables I.1 and I.2 contain details on the forecast.

TABLE I.1
TOTAL NONFARM EMPLOYMENT
(Thousands of Workers)

	2005	2006	2007	2008	2009	2010
Appleton	117.8	118.5	119.0	120.1	121.6	123.0
Percent Change	1.9	0.6	0.4	0.9	1.2	1.2
Eau Claire	80.0	82.2	82.6	83.5	84.7	85.9
Percent Change	2.6	2.8	0.5	1.1	1.4	1.4
Fond du Lac	48.3	48.6	48.7	49.1	49.5	49.9
Percent Change	0.6	0.6	0.3	0.6	0.8	0.8
Green Bay	168.3	169.4	170.3	172.3	175.0	177.6
Percent Change	0.7	0.7	0.5	1.2	1.5	1.5
Janesville	69.3	70.4	70.6	71.0	71.6	72.1
Percent Change	1.3	1.6	0.3	0.6	0.8	0.8
La Crosse	72.5	73.8	73.9	74.5	75.3	76.1
Percent Change	0.1	1.8	0.2	0.8	1.0	1.0
Madison	345.0	346.6	347.8	351.4	356.1	360.7
Percent Change	2.6	0.5	0.4	1.0	1.3	1.3
Milwaukee–Waukesha–West Allis	840.7	847.5	850.1	854.5	860.1	865.7
Percent Change	1.0	0.8	0.3	0.5	0.7	0.7
Oshkosh-Neenah	91.9	92.6	93.2	94.0	95.1	96.2
Percent Change	1.5	0.8	0.6	0.9	1.1	1.1
Racine	80.1	80.0	80.0	80.3	80.5	80.8
Percent Change	0.0	-0.1	0.1	0.3	0.3	0.3
Sheboygan	63.7	63.9	64.1	64.6	65.3	65.9
Percent Change	2.9	0.3	0.3	0.8	1.0	1.0
Wausau	72.9	73.3	73.6	74.4	75.5	76.5
Percent Change	3.7	0.5	0.5	1.1	1.4	1.4
Non-Metro State	791.6	794.3	797.4	805.2	815.3	825.4
Percent Change	0.7	0.3	0.4	1.0	1.3	1.2
Wisconsin	2,842.1	2,861.1	2,871.5	2,894.9	2,925.4	2,955.7
Percent Change	1.2	0.7	0.4	0.8	1.1	1.0

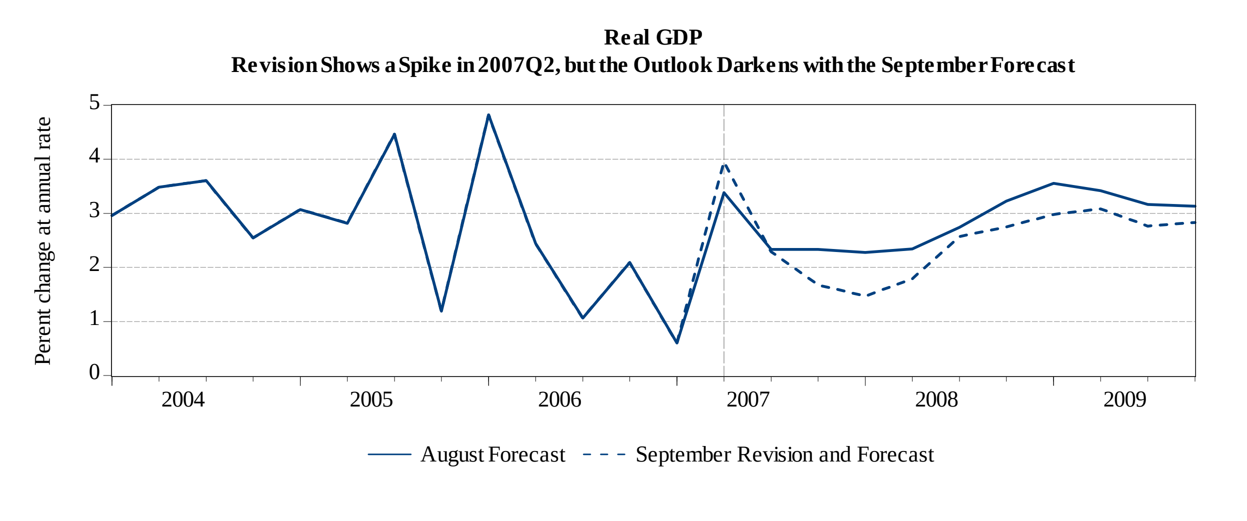
TABLE I.2
TOTAL PERSONAL INCOME
($ Billions)

	2005	2006	2007	2008	2009	2010
Appleton	7.2	7.6	7.9	8.3	8.7	9.2
Percent Change	4.4	5.0	4.4	4.8	5.6	5.7
Eau Claire	4.4	4.7	5.0	5.2	5.5	5.7
Percent Change	4.5	5.5	5.9	4.5	5.3	5.3
Fond du Lac	3.2	3.3	3.5	3.7	3.8	4.0
Percent Change	4.1	4.2	5.0	4.2	4.9	5.0
Green Bay	9.7	10.2	10.8	11.3	11.9	12.6
Percent Change	3.5	4.9	5.5	4.9	5.7	5.7
Janesville	4.5	4.9	5.0	5.2	5.5	5.7
Percent Change	3.5	8.2	2.0	4.2	5.0	5.0
La Crosse	4.0	4.1	4.5	4.7	4.9	5.2
Percent Change	3.5	4.4	7.6	4.8	5.3	5.3
Madison	20.9	22.1	23.2	24.3	25.7	27.1
Percent Change	5.2	5.5	4.9	4.9	5.7	5.7
Milwaukee–Waukesha–West Allis	57.6	60.9	63.0	65.4	68.5	71.7
Percent Change	4.0	5.7	3.4	3.9	4.7	4.7
Oshkosh-Neenah	5.3	5.5	5.8	6.0	6.3	6.7
Percent Change	4.2	4.6	5.0	4.4	5.2	5.2
Racine	6.6	6.9	7.1	7.4	7.7	8.1
Percent Change	4.3	5.2	2.3	4.0	4.8	4.8
Sheboygan	3.9	4.1	4.3	4.5	4.7	4.9
Percent Change	4.9	4.5	4.4	4.1	4.9	4.9
Wausau	4.1	4.4	4.6	4.8	5.1	5.3
Percent Change	5.1	5.1	5.6	4.5	5.3	5.3
Non-Metro State	52.4	54.3	58.1	60.6	63.7	67.0
Percent Change	4.2	3.6	7.1	4.3	5.1	5.1
Wisconsin	183.9	193.0	202.6	211.3	222.1	233.4
Percent Change	4.2	4.9	5.0	4.3	5.1	5.1

U.S. OUTLOOK

Global Insight has trimmed the growth forecasts for 2007 and 2008. The housing downturn has further to go, and a slowdown in consumer spending growth is under way, aggravated by persistently high energy prices. The oil price projection has been raised this month. The financial market volatility sparked by subprime mortgage problems, while painful, does not yet represent a systemic financial crisis. Capital equipment spending is rising, albeit slowly, and the export outlook looks good, as foreign economies are growing faster than expected. The Fed remains focused on upside inflation risks. Monetary policy is on hold for the foreseeable future, although the odds that the next move will be a rate cut have risen.

Chart I.24



The Forecast in Brief

The August outlook trims the forecasts of 2007 GDP growth to 1.9% (from 2.1%) and 2008 growth to 2.5% (from 2.8%). Three major factors have taken the outlook down.

First, the outlook for housing and the consumer has deteriorated amid financial turmoil. The continuing drumbeat of bad news on housing is both cause and consequence of increased financial volatility, a weaker stock market, and wider credit spreads. Risks are being re-priced across the board. Tighter credit availability does hurt the prospects for housing activity and consumer spending, although the economy is still some way from a generalized credit crunch or a systemic financial crisis. The biggest risk would be if the credit squeeze threatened the broader banking system, a threat underlined by the surge in interbank lending rates on August 9. But it is too soon to say whether this episode is a temporary convulsion or a sign of worse to come.

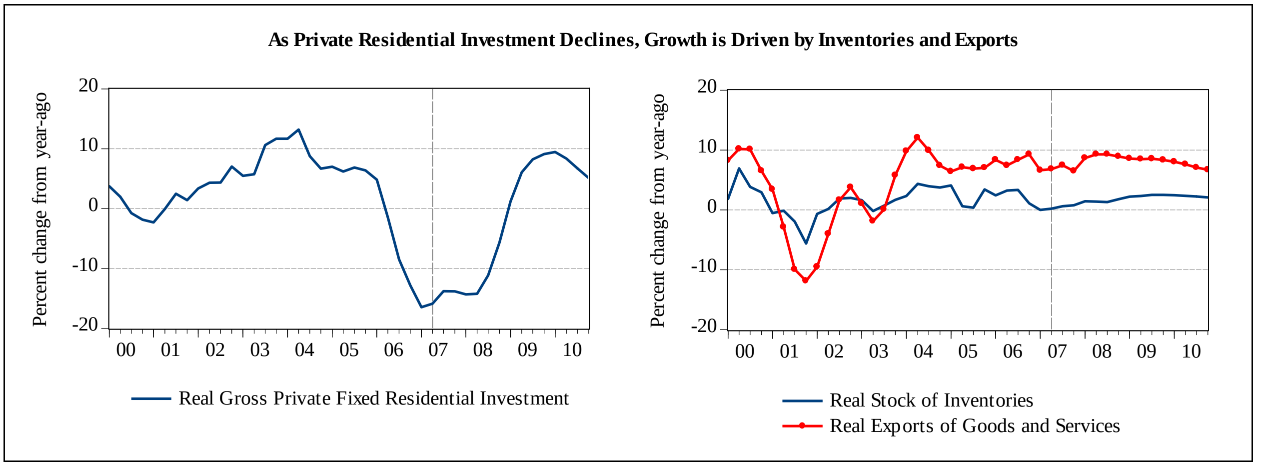
Second, the forecast has become more pessimistic on the outlook for oil prices. Global Insight has added about $9 per barrel to oil prices in the second half of 2007 and $10 per barrel to 2008 prices. This shift dampens growth in an already sluggish U.S. economy.

Third, recent national income account revisions have accentuated the deceleration in productivity growth of the last several years—making Global Insight less confident that it will bounce back. The forecast has shaved the long-term productivity growth assumption to 2.0% over the next ten years (from 2.2% previously). As a result of slower trend growth in productivity, even though the growth expectations for 2007 and 2008 have been pared back, the unemployment projection has changed little.

Global Insight expects GDP growth to downshift to a 2.3% average in the second half of the year, from the second quarter's 3.4% pace. Housing activity and prices have further to fall, while consumer spending growth will remain subdued. Capital equipment spending growth stays sluggish. The latest signals from the ISM surveys indicate less optimism entering the third quarter. The forecast has also shaded down the 2008 growth expectations. Growth in the first half of 2008 will be little different from the second half of 2007, at 2.3%, with residential construction remaining a big drag. In the second half of the year, growth begins to pick up as housing construction stabilizes. Throughout this sluggish spell, exports remain a key support to growth, helped also by inventory rebuilding after the adjustments in the first half of 2007.

Housing remains the biggest drag on growth. Existing and new home sales continue to fall, inventories of homes for sale remain high, and builder sentiment has slipped to a new low for this cycle. The meltdown in the subprime mortgage market will increase both foreclosures and the overhang of homes for sale, while stricter lending standards are placing a new drag on demand—and not just in the subprime market, but in higher-rated segments too. The projection for housing starts in 2007 remains at 1.40 million units, the same as last quarter. But the 2008 trough is deeper and the recovery will be slower than May's outlook. As a result, expectations have been cut for 2008 housing starts from 1.48 million to 1.32 million. The forecast also assumes an unprecedented decline in national nominal home prices during 2007, of 2.1% for the federal housing OFHEO index on a fourth quarter-to-fourth quarter basis, followed by another 1.1% decline in 2008.

Chart I.25



Consumer spending was the weak link in the second quarter, when it grew just 1.3%. Consumers ran into headwinds, notably $3-plus/gallon gasoline prices. Consumers spent $55 billion more on gasoline in the second quarter than the first—that represents 0.5% of disposable income not available for spending on other items. Assuming that gasoline prices decline as supply constraints ease, consumers should regain about half of that spending power by the fourth quarter (when gasoline is expected to be at $2.65/gallon). But still expect to see spending growth running about 2.5% on average in the second half, not regaining the 3.7% pace of the first quarter.

Gasoline is not the only headwind for consumers. Employment growth—while still supportive—is on a gradual downward trend. And consumers are facing declining home prices, which are removing the fuel that has allowed spending growth to outpace real income gains. The recent national income account revisions no longer show a negative saving rate, but at just 0.4% in 2006, it was still the lowest since 1933. Even with pay gains now outstripping inflation, some readjustment of spending relative to income will still be required. Indeed, 2007 is likely to be the first year since 2000 in which consumer spending growth falls short of income growth. But with real disposable incomes rising faster this year than last (3.4% versus 3.1%), spending growth can almost match 2006 (2.8% versus 3.1%), even as the saving rate begins to correct upwards.

The need to boost economic growth through productivity improvements at a time when the labor market is tight should bolster business fixed investment. But equipment spending has struggled this year and is running only fractionally above year-ago levels. Orders now seem to be reviving, albeit erratically, and survey evidence suggests that they will continue to climb. Some further revival is anticipated in the second half of the year, but that still leaves equipment spending up just 0.8% in 2007, compared with 5.9% growth in 2006.

Nonresidential construction boosted GDP growth in the first half of 2007. Although the decline in home-building will begin to weigh on commercial construction as the year progresses, the forecast still expects nonresidential building spending growth to average 9.4% in 2007, above the 6.5% pace of 2006, before slowing to 2.4% in 2008.

Growth in the economy has had a very beneficial impact on the federal budget deficit. Global Insight expects the deficit to narrow— again—in fiscal year 2007, hitting $176 billion (1.3% of GDP). Sharp revenue gains, fueled by surging profits and bonuses, have driven the improvement, although those gains are now beginning to slow and the forecast expects the deficit to widen in 2008. 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 improvement has made the issue less immediate.

Better economic growth around the world, plus a declining dollar, means that exports will be an important source of strength. Export volume growth should register around 7% for 2007 overall. The long-term decline in the dollar has continued this year, and with no end in sight. While foreign interest rates will rise further during 2007, U.S. rates should be little changed.

The current-account deficit is likely to have peaked at $811 billion (6.1% of GDP) in 2006. This year should see the first narrowing of the gap (to $779 billion) since the recession year of 2001, as exports gain on imports, in both real and nominal terms.

Inflation has probably topped out, but the Federal Reserve is not convinced that it will stay down. Headline Consumer Price Index (CPI) inflation has been driven primarily by energy prices, and after exceeding 4.0% year-on-year (y/y) in mid-2006, should average 2.6% y/y this year.

But core inflation (excluding food and energy) is the Fed's bellwether. Core Personal Consumption Expenditure (PCE) inflation dipped to 1.9% y/y in June, within the Federal Reserve's 1-2% comfort zone and the lowest pace since March 2004. Core inflation will remain below 2% in the second half of 2007—but that does not mean the Fed will relax. Strong global growth, high energy prices, and a still-tight (albeit beginning-to-cool) labor market mean that the Fed cannot yet sound the "all clear" on inflation.

The Fed finds itself in a tight spot. While it does not want to give the impression that it is keen to bail out investors who have made bad bets and taken on excessive risks, the credit crunch seen the last few weeks increases the downside risks to housing and the consumer. Global Insight now expects the Fed to lower interest rates at the September 18th meeting to 5.0%, down from 5.25%, with more cuts likely in October and December.

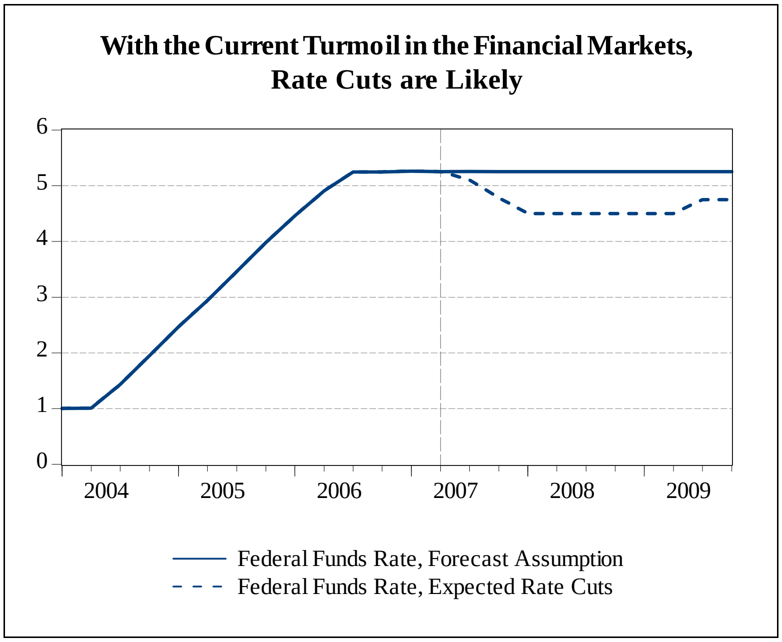
KEY FORECAST ASSUMPTIONS

Oil Prices Moved Up; Gasoline Price Decline Dampened. The forecast assumes a $73.33/barrel average price (West Texas Intermediate) in the second half of the year, up from $62.84 in the May forecast, then $73.75 during 2008 (up from $61.42). The price is assumed to stay in the low $70s over the rest of the decade, about $10/barrel above May's forecast. Refining supply constraints are easing and should allow the average retail gasoline price to fall to $2.86/gallon in the third quarter, from $3.06 in the second. But the higher oil-price profile means that gasoline prices stay about 30 cents/gallon higher than previously projected; the 2008 price averages $2.71/gallon, up from $2.43.

Natural Gas Prices Trimmed. Global Insight assumes an average price of $6.56 per million Btu (Henry Hub cash price) for the third quarter, down from $7.75 in the May forecast. For 2008, assume a price of $8.19, 15 cents below the May assumption.

Federal Reserve Policy on Indefinite Hold. At the time of the release of Global Insight's forecast on August 7th, it appeared that the Federal Funds Rate would remain constant at 5.25%. This is the assumption used in the forecast. However, given the events of the last few weeks of the credit market and turmoil on Wall Street, followed by the lowering of the discount funds rate, Global Insight now foresees a decrease in the federal funds rate to 5.0% at the September 18th meeting of the Federal Open Market Committee.

Chart I.26



Dollar Decline to Continue. The current-account deficit and the prospect that yield differentials will move against the U.S. 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 the forecast anticipates a further 6% decline this year, reaching rates of $1.40/euro, 115 yen/dollar, and C$1.05/dollar at the end of 2007. It is expected that China will allow the pace of renminbi revaluation to accelerate, to help cool its rapidly growing economy. The forecast assumes that the Chinese currency will appreciate 9% against the dollar over the next 12 months.

Solid Foreign GDP Growth. GDP growth in the United States' major-currency trading partners will grow 2.7% in 2007, just below the 2.8% growth rate of 2006. Real goods exports saw double-digit gains in 2006, and Global Insight expects 5-10% growth in exports in 2007.

Productivity Growth Revised Down. Recent data revisions have shaved 0.3 percentage point per year off estimated productivity growth, taking the 2004-06 average down from 2.2% to 1.9%. Year-on-year productivity growth in the first half of 2007 fell even further, to 0.5%. The pace should improve over the rest of this year, though, as the labor market adjusts further (especially in residential construction). Productivity gains will average 1.0% for 2007 and 1.8% for 2008. But this is a more modest improvement than had previously anticipated, and it is now accepted that more of the productivity slowdown appears structural.

Tax Burden to Rise. The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire as scheduled at the end of 2010. But expect some increase in the income-tax burden, whether through the impact of the Alternative Minimum Tax (AMT) or through some kind of tax reform that raises a similar amount of revenues. Global Insight does not anticipate any major tax initiatives before the 2008 presidential elections, though, and assumes that temporary "fixes" will prevent the AMT from kicking in violently under this Congress.

Defense Spending Growth Quickens. Spending for the wars in Iraq and Afghanistan continues to climb. Real federal defense purchases will rise 2.4% in calendar year 2007 (up from 1.9% growth in 2006). Overall federal purchases will rise 1.5% in 2007, down from 2.2% growth in 2006.

DETAILS OF THE U.S. OUTLOOK

Housing

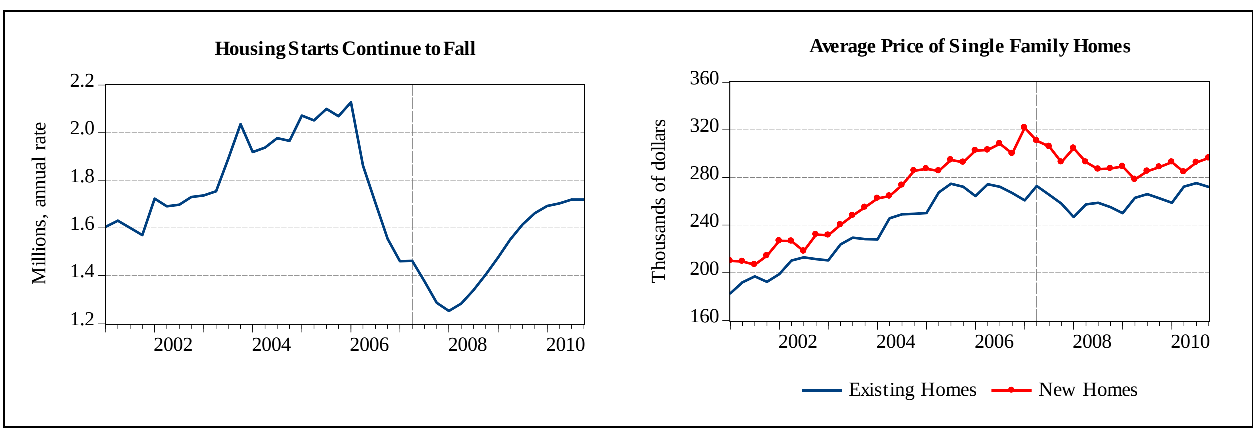
Global Insight has lowered the housing forecast. Residential construction cuts GDP growth by 0.9 percentage point in 2007 and 0.6 point in 2008. Housing starts and sales will not bottom out until 2008. House prices will rebound in 2009.

The last two months may have been the housing market's worst in a generation. Subprime problems worsened. Mortgage lenders aggressively tightened their lending standards. Countrywide Financial, the largest mortgage lender, reported problems with its prime home-equity loans. American Home Mortgage, the 10th-largest mortgage lender, abruptly shut its doors, laying off 7,000 employees. Two major homebuilders reportedly were teetering on bankruptcy. More hedge funds reported problems related to U.S. subprime loans. And, once again, nearly every housing indicator was down. Because of the continuing stream of bad news, the housing forecast has been lowered, making the downturn deeper and longer.

Over the next year or two, falling housing prices will be the main factor affecting new housing construction. In the forecast, it is expected that the median price of a single-family home to drop 2.0% in 2007 and another 3.5% in 2008. Real house values, however, will decline even more than this because of inflation and the widespread use of nonprice incentives. The drop in prices will stimulate new and existing home sales, which will turn around in mid-2008. A rebound in home sales, particularly in new home sales, will draw down inventories, and this will set the stage for a rebound in new construction, which is also expected to take place in the second half of 2008.

The August housing forecast is weak because of the continuing deterioration of lending markets. Housing starts, which tumbled 12.6% in 2006, plunge another 22.9% in 2007 and 5.5% in 2008. Single-family units account for most of this year's drop. Multiple-unit starts, which have not been hit as badly by the housing downturn as single-family starts, drop 13.5% during 2007, but this is largely because of a 36.5% plunge in the first quarter.

Chart I.27



Housing starts bottom out in mid-2008 and then begin to rise gradually because of falling inventories and increasing household formation. New and existing home sales should drop a respective 20.4% and 10.3% in 2007, which would nearly match their 2006 declines.

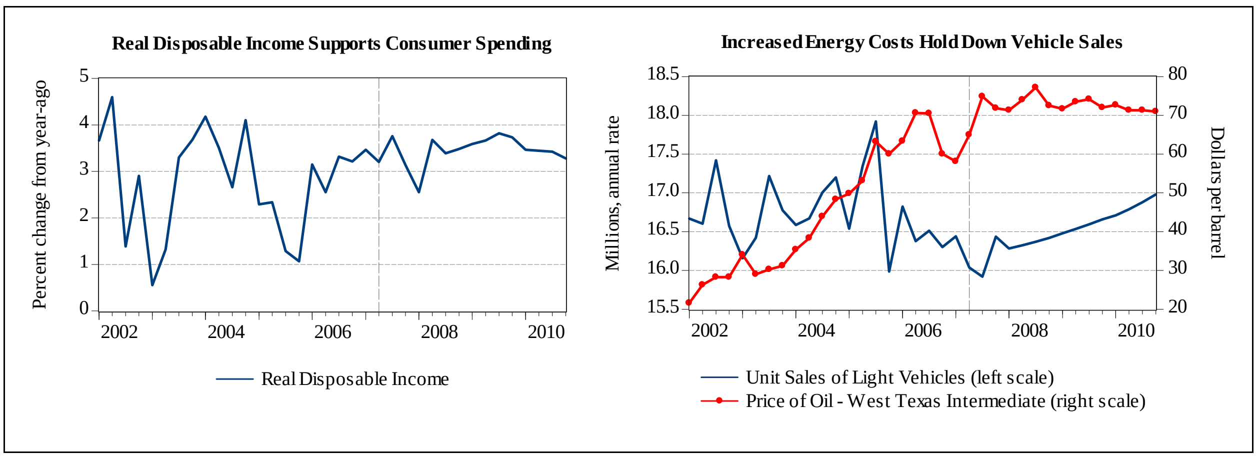
The slowdown in housing starts is behind the weak forecast for residential investment, which falls 12.2% in the third quarter and 15.0% for the year, chopping about one percentage point off GDP growth in both the fourth quarter and for 2007. Inventories of new homes should continue on a gradual descent from their third-quarter 2006 cyclical peak.

Consumption

Real growth in consumer spending slowed abruptly in the second quarter, as a spike in gasoline prices stalled real income gains. With job growth slowing and home values declining, consumers will spend cautiously in the year ahead. Near-term weakness in home goods and automotive markets will be offset by strength in recreation, health, and information technology spending. Durable goods spending will accelerate in 2009, as housing markets recover.

Recent revisions to the national income accounts show weaker growth in consumer spending, but stronger gains in personal income—notably interest and dividends—over the past three years. These revisions shifted the personal saving rate from negative to positive territory, although last year's rate of 0.4% was still the lowest since 1933. Both real consumer spending and disposable income advanced 3.1% in 2006 and 2.5% (annualized) in the first half of 2007. Quarterly results show real spending decelerating sharply from a 3.7% annual pace in the first quarter to 1.3% this spring, as a surge in gasoline prices dealt a temporary setback to real disposable incomes.

Chart I.28



Real spending on light vehicles, energy, food, recreation, and drugs declined in the second quarter, while growth in spending on apparel and home furnishings subsided after big first-quarter gains. Early-summer readings are mixed. Light-vehicle sales retreated to an annual rate of 15.5 million units in June and July, their lowest pace since October 2005 (following the Gulf Coast hurricanes). Chain-store sales rebounded in July, led by strong results at high-end retailers. Both the Conference Board and Reuters/University of Michigan indices of consumer sentiment advanced in July to levels that are indicative of moderate spending growth.

Real consumer spending is projected to increase at a modest 2.5% annual pace in the second half of 2007, as gasoline prices retreat and employment continues to rise. Despite the turmoil in housing markets, solid gains in real disposable income will sustain spending growth. Although job growth is cooling somewhat, the unemployment rate is expected to remain below 5%. With wage gains accelerating and consumer price inflation moderating, real disposable income is projected to advance 3.4% in 2007 and 3.3% in 2008.

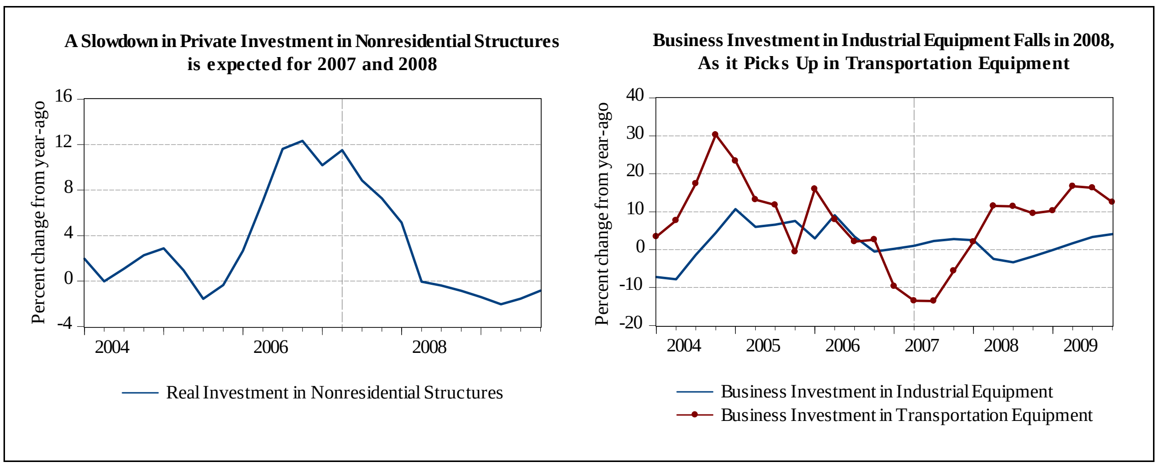
Households will spend cautiously in the year ahead, as home prices decline further and stock market gains subside. Late 2007 and early 2008 will be a difficult period for home goods retailers, as rising mortgage rates and resets on variable-rate loans cause financial stress for highly leveraged homeowners. Meanwhile, high energy prices will impede the recovery in auto sales. Light-vehicle sales are projected at just 16.2 million units this year and 16.3 million in 2008. It will be 2012 before sales surpass their 2000 peak of 17.3 million units.

Business Investment

With the economy in second gear, businesses will remain cautious in their capital expenditure plans over the next year. Based on the latest monthly durables and trade numbers, Global Insight is expecting another lackluster quarter for equipment and software. Investment in nonresidential structures posted solid first-half growth numbers. Second-half growth will slow, however, because of the side-effects of the housing slump and a drop in spending on mines and wells.

The fundamentals that drive investment are not as strong as previously thought. Profits were revised down, and dividends up. Nonfinancial corporations bought back $128 billion in company stock during the first quarter, the fifth-highest quarterly total ever, according to the latest flow-of-funds data. With the economic outlook cloudy, this might be a sign that companies do not see many great investment opportunities.

Chart I.29



According to the latest put-in-place numbers, spending on nonresidential construction increased 0.3% in June, over upwardly revised April and May data. For the year, however, nonresidential construction was up 17%. Much of its strength over the past 12 months has come from a surge in spending on lodging, which was up 62% y/y. Education (up 22%), communications (up 20%), and power (up 25%) all made solid gains in the past year.

Growth in nonfarm buildings slows in the second half of 2007 because of the side-effects of the housing slump. The housing slowdown and lower spending on mines and wells account for the spending declines during 2008. Commercial construction, in particular, will be a drag on broader building growth. In the forecast, investment in nonresidential structures adds about one-quarter of a percentage point to GDP growth in 2007, about the same as in 2006, but almost nothing in 2008 and 2009.

As mentioned, Global Insight is expecting another flat quarter for equipment and software. Third-quarter spending on information equipment will be lackluster because of flat nominal computer sales and a drop in spending on "other" information equipment. Major spending programs launched last year by manufacturers will soon be winding down, so real investment in this equipment category declines in the fourth quarter and during 2008. Further drops in construction equipment spending will result in a small third-quarter drop in "other" equipment; for the year, investment in "other" equipment falls 5.8%. Transportation equipment will rebound smartly from a dismal second quarter, as spending on heavy-duty trucks begins to turn around. Investment in transportation equipment ranges from 10-20% over year-ago levels in 2008 and 2009.

Government

Deficits are higher from 2008 to 2017 due to historical revisions to the national income and product accounts (NIPA), which made significant changes to revenues, expenditures, and the NIPA deficits, at both the state and the federal levels. At the federal level, receipts were revised down, while expenditures were revised up. Corporate tax receipts were revised down, due to lower corporate profits and a larger share of corporate income received from abroad, yielding a lower effective tax rate. In addition, social insurance receipts were revised down based on more detailed historical data from the Social Security Administration.

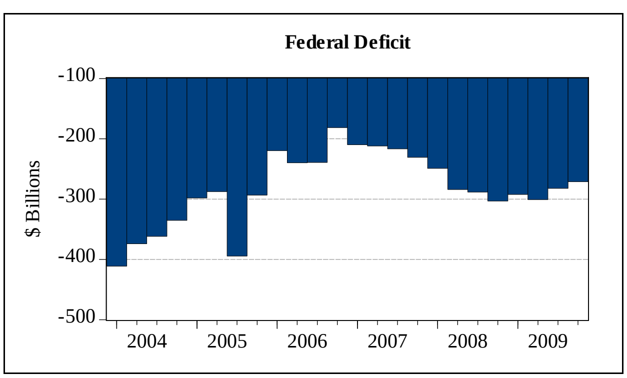
On the expenditure side, federal transfers to persons were revised up due to higher estimated Medicare payment accruals (based on new historical data from the Centers for Medicare and Medicaid Services). The net result was a significant increase in the historical NIPA deficit on the order of $61.0 billion in fiscal 2006 and $67.3 billion (annualized) in first-quarter 2007. The increase in the NIPA deficit baseline pushes up the short-term deficit forecast in 2008 and 2009 by about the same orders of magnitude. In addition, overall receipts grow somewhat slower, while the deficits (both NIPA and unified) climb a little faster over the long term due to the lower profile for long-term growth.

Historical revisions to the state and local government accounts generally worked in the opposite direction, compared to the federal level. State and local receipts were revised up due to higher estimates of property taxes and interest receipts on growing state and local reserve funds. This was only partially offset by a reduction in corporate income tax receipts. On the expenditure side, state and local consumption expenditures were reduced. The net result was a significant increase in the NIPA surplus reported for state and local governments over the period from fiscal 2004 to the second quarter of fiscal 2007 (federal fiscal-year basis).

In fact, the cumulative NIPA surplus from fiscal 2004 through second-quarter 2007 is now reported at $39.4 billion, compared with a previously reported deficit of $12.8 billion. This substantial upward revision to the NIPA surplus is more consistent with the $45.6 billion accumulation of reserve funds that state governments reported from 2003 to 2006 (state fiscal-year basis). Global Insight has raised the long-term profile for the state and local government NIPA surplus.

The federal fiscal deficit projection for 2007 remains unchanged, at about $175.5 billion. However, based on the historical revisions, the forecasts for the NIPA and unified deficit have been revised up for 2008-2017. By contrast, at the state and local level, based on historical revisions that raised the growth of receipts and lowered the growth of expenditures, the short- and long-term forecasts for the state and local (NIPA) surplus have been revised up. All told, however, the long-term NIPA deficit projections for the government sector have been raised, as the upward revisions to the federal deficit were only partially offset by upward revisions to the state and local government surpluses.

Chart I.30



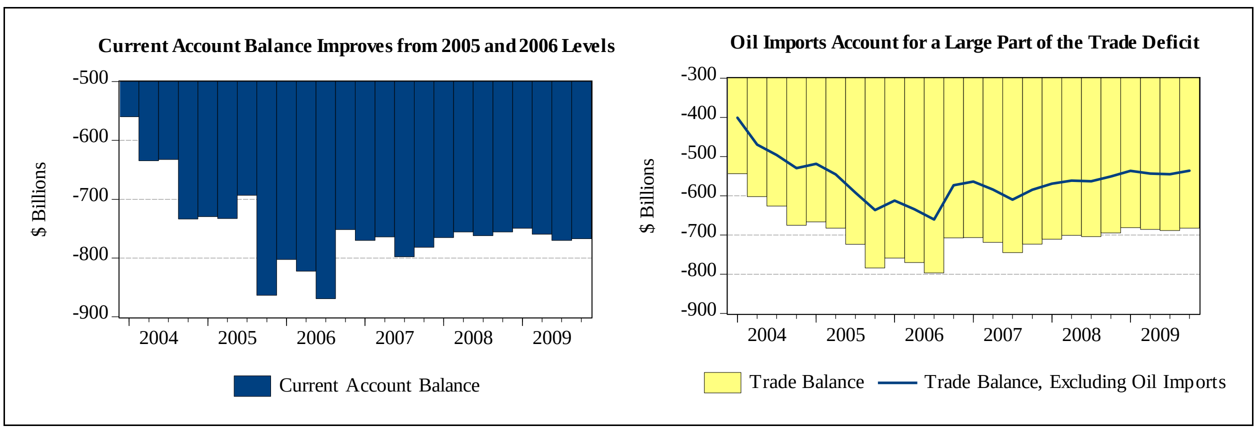
International Trade

The trade deficit shrank to $58.1 billion in June, as exports surged ahead by 1.5%. Exports remain a major plus for U.S. growth. Foreign trade balances improve over the forecast period, but the improvements slow as we move towards the end of the decade.

The oil bill was almost unchanged, as lower import volumes offset higher prices. The June improvement clearly fits the description of strong exports and restrained imports, as goods exports rose a solid 1.9%, four times as fast as imports rose. Much of the June gain was in industrial materials and echoes the revival of U.S. manufacturing. The trade gain will add to second-quarter GDP growth, raising its contribution from the initial estimate of 1.2 percentage points to about 1.7 percentage points. Over the past five quarters, foreign trade has averaged a 0.5-percentage-point plus for GDP growth—a dramatic turnaround from 2003 and 2004, when it was consistently a 0.5-percentage-point drag.

The August trade deficit projection has worsened since the May forecast, despite the robust growth in exports seen in the first half of 2007. The oil bill actually improves slightly, but total imports are higher and total exports lower, driving the deficit further into negative territory. The current account deficit is a shade narrower for the first few years of the forecast period, as the income and transfer components look better after revisions, and remains smaller than in the May forecast through the end of the decade.

Chart I.31



The inflation-adjusted trade deficit (NIPA basis) narrows by $47 billion this year and $41 billion in 2008, but flattens out by 2011 and 2012. There is little progress, if any, on trimming the "real" trade shortfall after late 2008. The improvement over the next year and a half is largely cyclical, powered by rapid growth abroad that plays to the U.S. economy's strength as a capital goods exporter. The competitive advantage produced by a declining dollar amplifies the export surge. On a nominal-dollar basis, the trade deficit declines by $37 billion in 2007, to $727 billion. A $25-billion improvement in 2008 and a $20-billion narrowing in 2009 trim the shortfall even more. The improvement in the nominal deficit is less impressive than that in the inflation-adjusted deficit because high oil prices inflate the oil import bill.

Inflation

Recovering productivity growth in 2008 facilitates a deceleration in unit labor costs and creates favorable conditions for the Fed. Core personal consumption expenditures (PCE) inflation registers 1.9% year-on-year (y/y) in the final two quarters of 2007, and bottoms out at 1.8% in the first quarter of 2008. A mild cyclical rebound leads to core PCE inflation of 2.1% y/y by the fourth quarter of 2008. It then hovers near 2% for the medium and long terms.

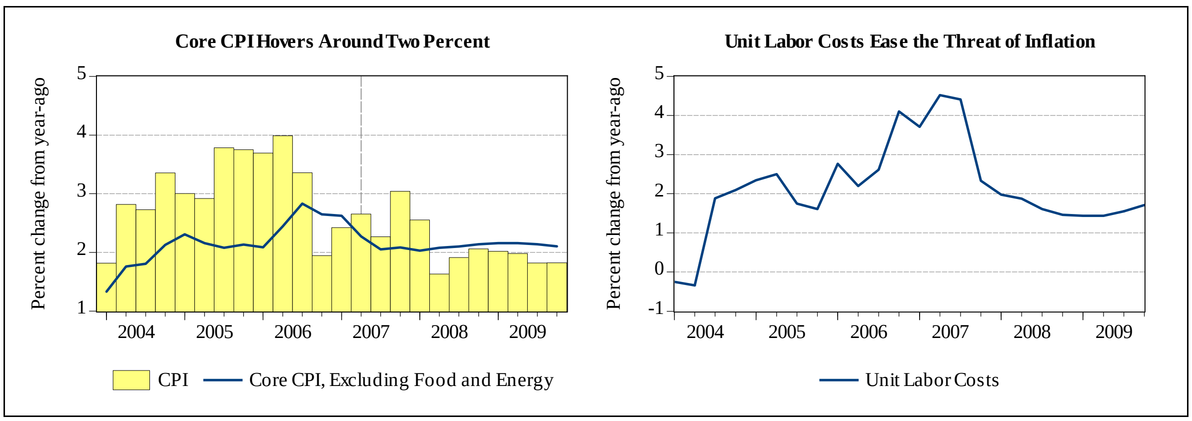
Consumer price inflation kept to a moderate path in July, with the headline CPI (Consumer Price Index) rising 0.1% and the core consumer price index (excluding food and energy) rising 0.2% for the month. Core consumer prices rose an annualized 2.5% over the past three months, compared with an unadjusted 2.2% rate over the previous 12 months.

In news indicative of a downward trajectory in inflation, the Federal Reserve's preferred measure—the year-on-year (y/y) change in the core PCE deflator—was reported at 1.9% in June. The May figure was revised upward to 2.0% in June. Nevertheless, core PCE inflation is currently running inside the Fed's presumed target range of 1-2%.

Furthermore, monthly core PCE inflation posted its fourth consecutive 0.1% increase in June, implying a three-month annualized core PCE rate of 1.6%. The three-month change has crept higher over the last two months, giving the Fed room to further insist that "a sustained moderation in inflation pressures has yet to be convincingly demonstrated" in its August 7 statement.

After rising 2.0% y/y in the second quarter, the August forecast calls for the core PCE deflator to rise 1.9% y/y in each of the final two quarters of 2007, yielding a 2.0% average rate for the year. Recovering productivity growth allows unit labor costs to decelerate to 1.7% in 2008, compared with 3.7% in 2007. Core PCE inflation bottoms out at 1.8% in the first quarter of 2008, before staging a small cyclical rebound and ending the year at 2.1% y/y. Beyond 2008, Global Insight expects core PCE inflation to hover very near the 2% mark, as the Fed continues to build a credible commitment to low and stable inflation.

Chart I.32



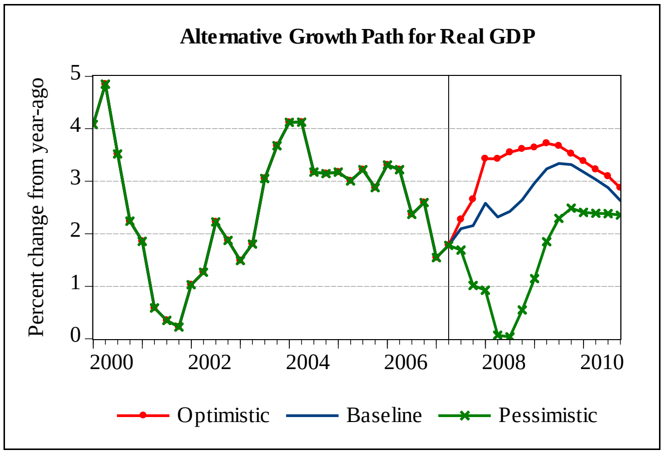
RISKS TO THE FORECAST

Productivity growth rebounded a tepid 1.8% in the second quarter after a dismal first quarter, while historical revisions lowered its average rate for 2004-06. Productivity at nonfarm businesses is now rising at just 0.6% year-over-year. For 2007, Global Insight projects it will increase 1.0%, the same as in 2006. The slowdown from the torrid rates registered earlier this decade is partly cyclical. There is evidence, however, that trend productivity growth has slowed. Based on these historical revisions, Global Insight has lowered its 10-year forecast for productivity growth from 2.2% to 2.0%.

The optimistic scenario incorporates the alternative view that productivity growth will be strong well into the future. Some academics, such as Dale Jorgenson of Harvard and Kevin Stiroh of the Federal Reserve Board, believe that the productivity boom has years to go before it runs out of steam. This alternative forecast also takes a more upbeat view on business investment spending. As the decade-long expansion of the 1990s showed, an investment boom sows the seeds of future growth. 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—notably for energy—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. Certainly, as the 1970s demonstrated, economic malaise is difficult to shake as well.

Chart I.33

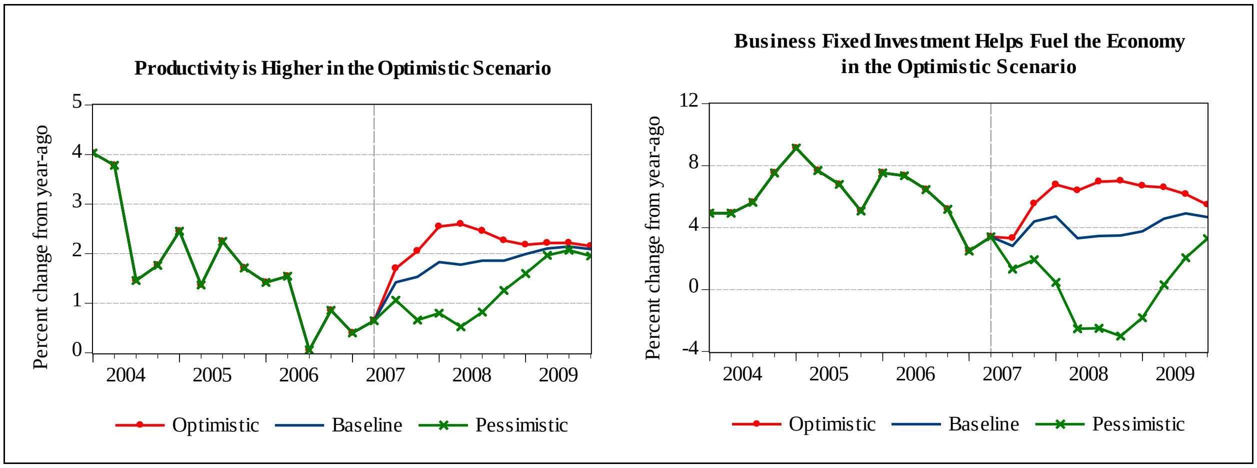


The Optimistic Scenario: The Expansion Finds New Legs (20% Probability)

Renewed strength in total factor productivity growth provides the key assumption distinguishing the optimistic scenario from the baseline forecast. Total factor productivity, a measure of how technological progress augments economic growth, is enhanced by a reinvigorated information technology sector, like in the late 1990s. Rapid productivity gains are 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. Productivity gains, combined with the stronger currency, help to contain inflation. Faster growth in supply also makes the Federal Reserve's job easier.

Business fixed investment is more robust in the optimistic scenario. In fact, the current level of business spending is below average by historical standards. In 2006, business fixed investment accounted for 10.6% of GDP, nearly a full percentage point below the current 30-year average and well below the 12.5% share recorded in 2000, at the tail end of the information technology-fueled boom. In the optimistic scenario, business spending (particularly on equipment and software) is considerably higher than in the baseline throughout the forecast period. For example, business spending peaks at 10.9% of GDP in 2009, compared with 10.6% in the baseline.

Chart I.34



Residential investment is also stronger in the optimistic scenario, with housing bouncing back more forcefully in 2008 and maintaining a higher level throughout the forecast period. Housing starts average 1.49 million units in 2008, versus 1.32 million units in the baseline. The main reasons for this are stronger job growth, lower interest rates, higher consumer confidence, and lower long-term mortgage rates.

Foreign economic growth is also stronger, boosting U.S. exports and strengthening domestic manufacturing. Both developing and industrialized economies expand more quickly than in the baseline. As a result, real exports exhibit faster growth over the forecast period, despite the stronger dollar.

Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices run $9.50- 10.50/barrel below baseline levels, while wellhead natural gas prices are also lower. Faster supply growth also produces a loosening in other tight commodity markets.

Under these assumptions, the economic outlook is much brighter. The current slowdown proves temporary, as real GDP growth rebounds to 3.6% by the fourth quarter of 2007, compared with 2.3% in the baseline. Growth in 2008 is also much stronger, averaging 3.5%, versus 2.5% in the baseline. Although economic growth and labor markets are stronger, inflation is lower, due mainly to the rapid productivity gains. Consumer price inflation remains safely within the Federal Reserve's 1-2% tolerance band throughout the forecast period, rather than hovering around 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 (20% Probability)

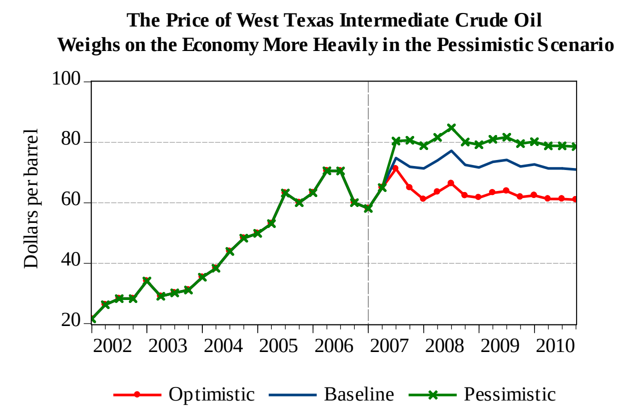
Soaring oil prices, a sliding dollar, and tightening labor markets may have produced the conditions for a serious pickup of inflation. An incipient recovery in manufacturing will not help stressed materials markets, either. The Federal Reserve is counting on continuing strong productivity gains to keep inflation at bay—but perhaps this is too sanguine a view.

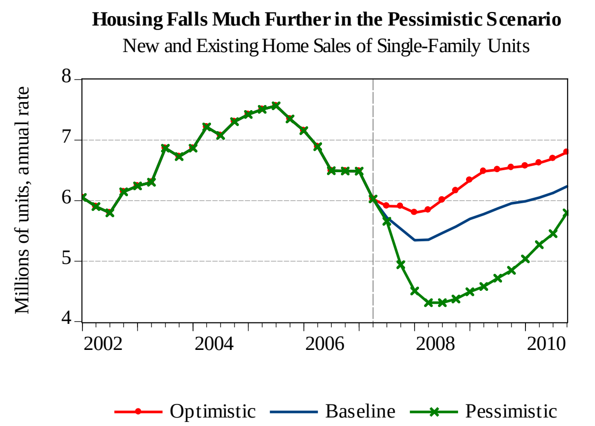
The pessimistic alternative assumes that there is less spare capacity than thought, and that the stresses and strains of early 2005 and mid-2006 will reemerge soon. Rapid technological advances and high oil prices may have rendered obsolete some of the idled capacity that theoretically remains on the books, and leaves much of it in industries where it is not needed. It also 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 as tax receipts languish. The falling dollar adds to the upward pressure on inflation.

In the pessimistic scenario, core inflation accelerates, and the Fed responds by tightening. Despite its 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 keeps hiking interest rates.

This simulation also has a deeper housing downturn than the baseline. Housing starts drop to 1.04 million units in 2008, compared with 1.32 million in the baseline. The median price of existing homes falls more than 10% below the baseline in 2008. Capital spending is also weaker. Indeed, beginning with the third quarter of 2007, equipment and software growth declines for seven straight quarters (year-over-year basis).

Chart I.35





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 and remains above 3%. Hiring falters at the same time, 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. Inflation eventually tapers off, settling at about 3%, a full percentage point above the baseline rate. Debt-burdened consumers retrench further. Finally, early in 2009, with the unemployment rate at 6.1% and the federal funds rate at 7.0%, the Fed eases up. With the weaker dollar boosting trade, GDP growth begins to accelerate, bringing the jobless rate down. As investment activity picks up, potential output increases relative to actual output, easing the upward pressure on prices.

The pessimistic scenario from late 2007 through early 2008 meets the definition of a mild recession, since employment drops four straight quarters and industrial production falls for six straight quarters. Real GDP drops in the fourth quarter of 2007 and in the second quarter of 2008. The economy expands only 0.4% in 2008, compared with 2.5% in the baseline. The ground lost relative to the baseline is never made up, and real GDP is about 6% below its baseline level at the end of 2017.

A summary of the U.S. Forecast is contained in Appendix 5.

APPENDICES

Appendix 1: Wisconsin Employment Forecast: Industry Detail (Annual)

Appendix 2: Wisconsin Employment Forecast: Industry Detail (Quarterly)

Appendix 3: Wisconsin Income Summary: Personal Income by Major Source (Annual)

Appendix 4: Wisconsin Income Summary: Personal Income by Major Source (Quarterly)

Appendix 5: U.S. Economic Forecast

APPENDIX 1

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

	History				Forecast			
	2003	2004	2005	2006	2007	2008	2009	2010
Total Nonfarm	2,775.3	2,807.1	2,842.1	2,861.1	2,871.9	2,895.8	2,926.2	2,956.6
% Change	-0.3	1.1	1.2	0.7	0.4	0.8	1.1	1.0
Private Nonfarm	2,362.5	2,394.9	2,426.8	2,445.5	2,456.5	2,479.8	2,509.6	2,538.1
% Change	-0.2	1.4	1.3	0.8	0.4	0.9	1.2	1.1
Natural Resources & Mining	3.8	3.8	4.0	3.9	4.1	3.9	3.9	3.9
% Change	-1.5	2.2	3.0	-1.3	4.9	-4.6	-0.1	1.0
Construction	124.1	126.8	127.5	127.3	124.5	120.0	119.3	119.9
% Change	0.0	2.2	0.6	-0.2	-2.2	-3.6	-0.6	0.5
Manufacturing	504.1	502.8	504.9	505.0	497.6	497.6	494.6	494.8
% Change	-4.6	-0.3	0.4	0.0	-1.5	0.0	-0.6	0.0
Trade, Transportation & Utilities	536.3	538.9	543.2	544.9	550.2	556.5	563.0	567.5
% Change	-0.1	0.5	0.8	0.3	1.0	1.1	1.2	0.8
Information	50.3	49.9	49.8	49.2	50.1	50.1	50.4	50.9
% Change	-1.6	-0.9	-0.3	-1.1	1.8	0.0	0.6	1.1
Financial Activities	156.9	158.7	159.8	161.1	161.6	163.6	166.8	170.3
% Change	2.0	1.2	0.7	0.8	0.4	1.2	2.0	2.1
Professional & Business Services	244.3	253.0	263.1	268.8	273.5	279.5	288.7	295.8
% Change	1.9	3.5	4.0	2.2	1.7	2.2	3.3	2.4
Education & Health Services	364.6	374.9	383.3	390.9	398.7	408.8	418.9	426.9
% Change	2.1	2.8	2.2	2.0	2.0	2.5	2.5	1.9
Leisure & Hospitality	245.4	250.8	255.2	258.2	259.4	262.4	265.9	269.7
% Change	2.1	2.2	1.7	1.2	0.5	1.2	1.4	1.4
Other Services	132.7	135.3	136.0	136.3	136.8	137.3	137.9	138.4
% Change	0.3	2.0	0.6	0.2	0.3	0.4	0.4	0.4
Government	412.8	412.2	415.3	415.6	415.5	416.1	416.6	418.5
% Change	-0.4	-0.2	0.8	0.1	0.0	0.1	0.1	0.4
Federal Government	29.8	29.6	29.2	29.2	28.6	28.7	28.6	29.6
% Change	-0.3	-0.8	-1.2	-0.1	-1.9	0.1	-0.2	3.4
State & Local Government	383.0	382.6	386.1	386.4	386.8	387.4	388.0	388.9
% Change	-0.5	-0.1	0.9	0.1	0.1	0.1	0.2	0.2

Household Survey Employment Measures

Labor Force	3,038.2	3,023.5	3,033.0	3,062.9	3,092.8	3,109.4	3,125.9	3,144.5
% Change	0.6	-0.5	0.3	1.0	1.0	0.5	0.5	0.6
Employment	2,867.0	2,871.0	2,887.4	2,918.2	2,936.7	2,946.9	2,968.1	2,991.3
% Change	0.2	0.1	0.6	1.1	0.6	0.3	0.7	0.8
Unemployment Rate (%)	5.6	5.0	4.8	4.7	5.1	5.2	5.0	4.9

APPENDIX 2

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

	History				Forecast			
	2006:3	2006:4	2007:1	2007:2	2007:3	2007:4	2008:1	2008:2
Total Nonfarm	2,856.6	2,867.1	2,860.9	2,867.8	2,876.8	2,882.3	2,886.3	2,892.8
% Change	-0.9	1.5	-0.9	1.0	1.3	0.8	0.6	0.9
Private Nonfarm	2,442.4	2,447.8	2,446.4	2,452.6	2,461.1	2,465.9	2,471.2	2,477.0
% Change	-0.8	0.9	-0.2	1.0	1.4	0.8	0.9	0.9
Natural Resources & Mining	3.9	3.7	4.2	4.1	4.1	4.0	3.9	3.9
% Change	-9.6	-19.0	66.0	-6.2	-5.2	-8.6	-4.2	-3.0
Construction	125.8	126.0	126.3	125.3	124.1	122.2	121.0	120.2
% Change	-7.0	0.5	1.2	-3.2	-3.8	-5.9	-3.9	-2.7
Manufacturing	505.2	502.6	496.0	496.1	497.6	500.7	499.3	498.4
% Change	-0.8	-2.0	-5.2	0.1	1.2	2.5	-1.2	-0.7
Trade, Transportation & Utilities	543.1	547.5	547.8	550.0	551.5	551.5	554.1	555.9
% Change	-1.0	3.3	0.2	1.6	1.0	0.0	1.9	1.3
Information	49.0	49.3	50.1	50.1	50.2	50.0	49.9	50.0
% Change	-1.1	2.2	6.9	-0.3	1.1	-1.7	-0.6	1.0
Financial Activities	161.0	161.5	160.7	161.4	161.9	162.6	163.0	163.3
% Change	-0.4	1.3	-2.1	1.9	1.2	1.6	1.0	0.7
Professional & Business Services	269.6	267.4	272.0	272.5	274.1	275.4	277.0	278.5
% Change	-1.2	-3.2	7.0	0.7	2.4	1.9	2.3	2.2
Education & Health Services	392.0	392.9	393.5	397.5	401.1	402.8	404.9	407.5
% Change	1.9	0.9	0.6	4.2	3.6	1.7	2.1	2.6
Leisure & Hospitality	256.8	258.9	258.4	259.1	259.9	260.1	261.2	262.0
% Change	-1.7	3.3	-0.8	1.2	1.2	0.3	1.7	1.4
Other Services	135.9	138.0	137.4	136.4	136.7	136.6	137.0	137.3
% Change	0.1	6.2	-1.6	-3.0	0.9	-0.1	1.2	0.9
Government	414.2	419.4	414.6	415.1	415.7	416.4	415.0	415.8
% Change	-1.0	5.1	-4.5	0.5	0.5	0.7	-1.3	0.7
Federal Government	29.2	29.1	28.8	28.6	28.5	28.6	28.6	28.7
% Change	-0.9	-1.4	-3.6	-3.2	-1.8	1.8	0.7	0.5
State & Local Government	385.0	390.3	385.7	386.6	387.2	387.8	386.4	387.1
% Change	-1.0	5.5	-4.6	0.9	0.6	0.6	-1.5	0.7

Household Survey Employment Measures

	2006:3	2006:4	2007:1	2007:2	2007:3	2007:4	2008:1	2008:2
Labor Force	3,066.2	3,072.4	3,091.8	3,084.4	3,094.3	3,099.9	3,103.0	3,107.3
% Change	1.0	0.8	2.6	-1.0	1.3	0.7	0.4	0.6
Employment	2,922.0	2,925.9	2,940.7	2,930.1	2,936.3	2,938.6	2,940.5	2,944.5
% Change	0.8	0.5	2.0	-1.4	0.8	0.3	0.3	0.5
Unemployment Rate (%)	4.7	4.8	4.9	5.0	5.1	5.2	5.2	5.2

APPENDIX 3

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

	History				Forecast			
	2003	2004	2005	2006	2007	2008	2009	2010
Total Personal Income	168.120	176.483	183.948	192.978	202.626	211.351	222.095	233.461
% Change	2.9	5.0	4.2	4.9	5.0	4.3	5.1	5.1
Wages and Salaries	94.381	99.118	102.108	106.793	111.832	116.336	121.669	127.405
% Change	3.0	5.0	3.0	4.6	4.7	4	4.6	4.7
Supplements to Wages and Salaries	23.225	24.501	25.927	27.202	28.421	29.495	30.627	32.064
% Change	9.3	5.5	5.8	4.9	4.5	3.8	3.8	4.7
Proprietor's Income	10.612	11.462	12.115	11.990	12.510	12.814	13.443	14.064
% Change	5.8	8.0	5.7	-1.0	4.3	2.4	4.9	4.6
Rental Income	2.406	2.281	1.681	1.351	1.480	1.300	0.975	0.874
% Change	-14.5	-5.2	-26.3	-19.6	9.6	-12.2	-25.0	-10.4
Personal Dividend Income	8.142	10.587	11.212	12.867	14.335	15.382	16.429	17.233
% Change	1.8	30.0	5.9	14.8	11.4	7.3	6.8	4.9
Personal Interest Income	16.982	16.164	17.504	17.897	18.338	19.553	21.388	23.359
% Change	-3.1	-4.8	8.3	2.2	2.5	6.6	9.4	9.2
Current Transfer Receipts	23.750	24.349	25.998	27.424	29.309	30.858	32.485	33.986
% Change	3.1	2.5	6.8	5.5	6.9	5.3	5.3	4.6
Residence Adjustment	3.016	3.144	3.303	3.487	3.688	3.923	4.190	4.476
% Change	2.2	4.3	5	5.6	5.8	6.4	6.8	6.8
Contributions to Government Social Ins.	14.392	15.123	15.900	16.815	17.669	18.310	19.111	20.000
% Change	3.4	5.1	5.1	5.8	5.1	3.6	4.4	4.7
Personal Tax & Nontax Payments	18.780	19.085	21.430	23.524	25.453	26.140	27.202	28.896
% Change	-3.9	1.6	12.3	9.8	8.2	2.7	4.1	6.2
Disposable Personal Income	149.340	157.398	162.518	169.454	177.173	185.212	194.893	204.564
% Change	3.9	5.4	3.3	4.3	4.6	4.5	5.2	5.0

Related Income Measures

Personal Income (2000 $) ($ Billions)	159.205	162.807	164.845	168.280	172.641	176.634	182.163	188.174
% Change	0.9	2.3	1.3	2.1	2.6	2.3	3.1	3.3
Per Capita Income (2000 $)	29,374	29,881	30,106	30,592	31,251	31,847	32,725	33,679
% Change	0.4	1.7	0.8	1.6	2.2	1.9	2.8	2.9
Per Capita Income ($)	31,018	32,391	33,595	35,082	36,679	38,107	39,898	41,785
% Change	2.4	4.4	3.7	4.4	4.6	3.9	4.7	4.7
Per Capita Income as a Percent of U.S.	98.7	98.1	97.0	95.9	95.1	94.8	94.8	94.9

APPENDIX 4

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE ($ Billions)
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 Personal Income	190.450	191.615	193.737	196.108	200.059	202.159	203.524	204.761
% Change	9.8	2.5	4.5	5.0	8.3	4.3	2.7	2.5
Wages and Salaries	106.147	106.033	106.532	108.461	110.349	111.209	112.615	113.157
% Change	14.5	-0.4	1.9	7.4	7.1	3.2	5.2	1.9
Supplements to Wages and Salaries	26.901	26.985	27.290	27.633	27.935	28.262	28.641	28.844
% Change	12.0	1.3	4.6	5.1	4.4	4.8	5.5	2.9
Proprietor's Income	12.011	11.980	12.021	11.949	12.323	12.542	12.564	12.612
% Change	-8.4	-1.0	1.4	-2.4	13.1	7.3	0.7	1.5
Rental Income	1.426	1.365	1.323	1.289	1.395	1.481	1.535	1.511
% Change	-12.5	-16.0	-11.9	-9.9	37.2	27.1	15.6	-6.3
Personal Dividend Income	12.193	12.620	13.091	13.562	14.000	14.380	14.297	14.665
% Change	15.8	14.7	15.8	15.2	13.6	11.3	-2.3	10.7
Personal Interest Income	17.733	18.297	18.107	17.453	18.453	18.425	18.276	18.199
% Change	-9.8	13.3	-4.1	-13.7	25	-0.6	-3.2	-1.7
Current Transfer Receipts	26.900	27.227	27.687	27.880	28.768	28.974	29.663	29.831
% Change	10.1	5	6.9	2.8	13.4	2.9	9.8	2.3
Residence Adjustment	3.464	3.486	3.478	3.518	3.610	3.655	3.715	3.773
% Change	13.9	2.6	-0.9	4.7	10.9	5.0	6.8	6.4
Contributions to Government Social Ins.	16.721	16.717	16.773	17.048	17.483	17.579	17.782	17.831
% Change	19.0	-0.1	1.3	6.7	10.6	2.2	4.7	1.1
Personal Tax & Nontax Payments	23.042	23.135	23.611	24.306	25.075	25.400	25.612	25.725
% Change	21.6	1.6	8.5	12.3	13.3	5.3	3.4	1.8
Disposable Personal Income	167.408	168.480	170.126	171.802	174.984	176.759	177.913	179.037
% Change	8.2	2.6	4.0	4.0	7.6	4.1	2.6	2.6

Related Income Measures

Personal Income (2000 $) ($ Billions)	167.827	167.101	167.874	170.317	172.273	172.252	172.777	173.262
% Change	7.9	-1.7	1.9	5.9	4.7	0.0	1.2	1.1
Per Capita Income (2000 $)	30,564	30,393	30,500	30,911	31,232	31,199	31,260	31,314
% Change	7.4	-2.2	1.4	5.5	4.2	-0.4	0.8	0.7
Per Capita Income ($)	34,684	34,852	35,199	35,591	36,269	36,616	36,824	37,007
% Change	9.3	1.9	4.0	4.5	7.8	3.9	2.3	2.0
Per Capita Income as Percent of U.S. (%)	96.2	95.7	95.9	95.7	95.3	95.5	95.0	94.5

APPENDIX 5
U.S. ECONOMIC FORECAST
GLOBAL INSIGHT

	2003	2004	2005	2006	2007	2008	2009	2010
Real GDP and its Components (Billions of Chain Weighted 2000 Dollars)								
Gross Domestic Product	10,301.1	10,675.7	11,003.5	11,319.4	11,534.1	11,821.6	12,201.7	12,559.1
% Change	2.5	3.6	3.1	2.9	1.9	2.5	3.2	2.9
Consumption	7,295.4	7,561.3	7,803.6	8,044.1	8,273.1	8,489.1	8,745.6	9,016.8
% Change	2.8	3.6	3.2	3.1	2.8	2.6	3.0	3.1
Investment (Incl. Inventory)	1,613.1	1,770.2	1,869.3	1,919.6	1,823.6	1,823.9	1,928.8	2,015.4
% Change	3.6	9.7	5.6	2.7	-5.0	0.0	5.8	4.5
Nonresidential Structures	243.5	246.7	247.8	268.6	293.9	296.6	292.3	294.8
% Change	-4.1	1.3	0.5	8.4	9.4	0.9	-1.5	0.9
Business Equipment	843.1	905.1	991.8	1050.6	1058.7	1111.9	1190.5	1244.6
% Change	2.8	7.4	9.6	5.9	0.8	5.0	7.1	4.5
Residential Fixed	509.4	560.1	597.1	569.5	483.8	428.3	454.5	488.1
% Change	8.4	10.0	6.6	-4.6	-15.0	-11.5	6.1	7.4
Inventory Change	14.3	54.3	33.3	40.3	6.5	24.4	39.8	39.0
Exports	1,026.1	1,126.1	1,203.4	1,304.1	1,393.2	1,519.0	1,647.8	1,768.6
% Change	1.3	9.7	6.9	8.4	6.8	9.0	8.5	7.3
Imports	1,545.0	1,720.0	1,821.5	1,928.6	1,971.1	2,055.9	2,175.1	2,304.4
% Change	4.1	11.3	5.9	5.9	2.2	4.3	5.8	5.9
Federal Government	687.0	715.9	726.5	742.3	753.2	768.6	769.0	769.9
% Change	6.8	4.2	1.5	2.2	1.5	2.0	0.1	0.1
State and Local Government	1,217.8	1,215.8	1,219.7	1,239.0	1,264.6	1,283.5	1,301.4	1,317.3
% Change	0.2	-0.2	0.3	1.6	2.1	1.5	1.4	1.2
GDP (Current Dollars)	10,960.8	11,685.9	12,433.9	13,194.7	13,795.2	14,424.4	15,194.2	15,951.3
% Change	4.7	6.6	6.4	6.1	4.6	4.6	5.3	5.0
Employment, Unemployment, Wages and Prices								
Nonfarm Employment (Millions)	130.0	131.4	133.7	136.2	138.0	139.5	141.5	143.5
% Change	-0.3	1.1	1.7	1.9	1.4	1.1	1.5	1.4
Unemployment Rate (%)	6.0	5.5	5.1	4.6	4.6	4.8	4.6	4.4
Compensation per Hour (% Change)	4.0	3.6	4.0	3.9	4.8	3.6	3.7	4.0
Consumer Price Index (% Change)	2.3	2.7	3.4	3.2	2.6	2.0	1.9	1.7
Producer Price Index (% Change)	5.3	6.2	7.3	4.7	4.4	3.1	1.0	0.3
GDP Price Deflator (% Change)	2.1	2.9	3.2	3.2	2.6	2.0	2.1	2.0
Industrial Production (% Change)	1.1	2.5	3.2	4.0	1.7	2.1	2.7	2.2
Price of WTI Crude Oil ($ Per Barrel)	31.1	41.5	56.6	66.1	67.4	73.8	72.8	71.6
Financial Markets								
Money Supply (M2) ($ Billions)	6,070.7	6,393.0	6,654.3	6,982.7	7,391.9	7,645.3	7,916.5	8,251.5
% Change	5.6	5.3	4.1	4.9	5.9	3.4	3.5	4.2
Prime Commercial Rate (%)	4.1	4.3	6.2	8.0	8.3	8.3	8.3	8.3
Three Month Treasury Bills (%)	1.0	1.4	3.1	4.7	4.9	4.9	5.1	5.1
Ten-Year Treasury Note Yield (%)	4.0	4.3	4.3	4.8	4.9	5.2	5.5	5.6
General Obligation AAA Municipals (%)	4.5	4.5	4.3	4.2	4.1	4.6	5.2	5.6
Thirty-Year Mortgage Rate (%)	5.8	5.8	5.9	6.4	6.4	6.8	7.1	7.2
S&P 500 Stock Index	963.7	1,130.6	1,207.1	1,310.7	1,474.6	1,540.0	1,617.6	1,697.8
Income, Profits and Savings								
Personal Income ($ Billions)	9,163.6	9,727.2	10,301.1	10,983.4	11,683.2	12,285.3	12,967.9	13,679.9
% Change	3.2	6.2	5.9	6.6	6.4	5.2	5.6	5.5
Personal Income ($ 2000) ($ Billions)	8,677.6	8,973.3	9,230.7	9,577.6	9,954.0	10,267.1	10,636.2	11,026.1
% Change	1.2	3.4	2.9	3.8	3.9	3.1	3.6	3.7
Personal Tax & Nontax Payments	1,001.1	1,046.3	1,209.1	1,354.3	1,493.7	1,556.8	1,631.8	1,752.0
% Change	-4.8	4.5	15.6	12.0	10.3	4.2	4.8	7.4
Disposable Personal Income	8,162.5	8,680.9	9,092.0	9,629.1	10,189.5	10,728.6	11,336.2	11,927.9
% Change	4.2	6.4	4.7	5.9	5.8	5.3	5.7	5.2
Savings Rate (%)	2.1	2.1	0.5	0.4	0.9	1.5	2.1	2.3
Corporate Profits Before Tax ($ Billions)	993.1	1,231.2	1,372.8	1,553.7	1,561.4	1,611.0	1,687.7	1,692.0
% Change	12.1	24.0	11.5	13.2	0.5	3.2	4.8	0.3

II. REVENUE COLLECTIONS REPORT

PRELIMINARY GENERAL PURPOSE REVENUE COLLECTIONS FOR THE 2006-2007 FISCAL YEAR

Introduction

General purpose revenue (GPR) taxes for the fiscal year (FY) ending June 30, 2007, totaled $12,613.7 million, an increase of 4.9% from FY 2006 collections of $12,030.1 million. Total collections for the fiscal year were $22.1 million or 0.2% above the Legislative Fiscal Bureau's (LFB) May 2007 estimate of $12,591.6 million.

A complete accounting of the FY 2006-2007 revenues and expenditures will be included in the Department of Administration's Annual Fiscal Report, to be released on October 15.

Individual Income Tax

Individual income tax collections increased $429.5 million (7.0%) from $6,144.3 million in FY 2006 to $6,573.8 million in FY 2007. This was $18.8 million (0.3%) above the $6,555.0 million estimate. The individual income tax share of total GPR taxes increased from 51.1% in FY 2006 to 52.1% in FY 2007.

The largest component of individual income tax collections is withholding from wages and salaries, which increased 5.3% from $5,953.4 million to $6,268.4 million. Estimated payments increased 8.8% from $1,023.9 million to $1,114.4 million, while refunds increased 3.1% from $1,499.5 million to $1,546.0 million.

General Sales and Use Tax

Collections from the 5% general sales and use tax increased 0.65% from $4,127.6 million to $4,154.4 million. This was $5.6 million (0.1%) below the $4,160.0 million estimate. Sales tax collections as a percentage of total GPR taxes decreased from 34.3% to 32.9%.

Corporation Franchise and Income Tax

Corporate collections increased 14.1% from $780.3 million in FY 2006 to $890.1 million in FY 2007. Corporate collections as a percentage of total GPR taxes increased from 6.5% to 7.1%. Corporate collections were $56,000 above the estimate of $890.0 million.

The major source of corporate collections, estimated payments, increased by 16.5% from $726.0 million in FY 2006 to $845.7 million in FY 2007.

Excise Taxes

Cigarette tax collections have decreased this year, down 1.8% from $301.5 million in fiscal year 2006 to $296.1 million in 2007. Collections in FY 2007 fell short of the estimate by $1.9 million (-0.6%).

Tobacco products tax collections have increased 6.7%, from $16.4 million in fiscal year 2006 to $17.5 million in FY07. Collections were just $15,000 more than expected.

Liquor and wine tax collections have grown 4.0% over the previous fiscal year, from $41.0 million in 2006 to $42.7 million in 2007. Collections were $674,000 (1.6%) above the estimate in FY 2007.

Beer tax collections have decreased in fiscal year 2007, shrinking 2.4% from $9.8 million in fiscal year 2006 to $9.5 million in 2007. Collections in FY 2007 were $130,000 (1.4%) more than the estimate in FY 2007.

Public Utility Taxes

In fiscal year 2007, collections of public utility taxes increased 3.6%, from $275.1 million in 2006 to $284.9 million in 2007. Collections were $2.2 million above the FY 2007 forecast.

Estate Tax

Estate tax collections have grown 11.6% during fiscal year 2007. This reflects growth from $108.6 million in FY 2006 to $121.1 million in FY 2007. Estate tax collections were $4.1 million (3.5%) above the estimate for FY 2007.

Insurance Premium Taxes

Insurance premium tax collections increased 5.0%, from $134.7 million in FY 2006 to $141.4 million in FY 2007. Collections exceeded the FY 2007 forecast by $1.4 million (1.0%).

Miscellaneous

In fiscal year 2007, miscellaneous taxes decreased from $90.8 million in 2006 to $82.1 million. This is $2.1 million above the forecast for the fiscal year. The largest component of miscellaneous tax, the real estate transfer fee, decreased 10.9%, from $80.5 millions in FY 2006 to $71.7 million in FY 2007. This reflects the depressed real estate market witnessed over the past year.

Tables

Table II.1 compares actual FY 2007 collections with the LFB May 2007 estimates. Table II.2 compares FY 2007 collections with those from FY 2006.

TABLE II.1
COMPARISON OF 2006-2007 GENERAL PURPOSE REVENUE (GPR) TAX COLLECTIONS
TO BUDGET ESTIMATES
($ Thousands)

Tax Source	May 2007 Estimates *	Preliminary Actual 2006-07	Difference	Percent Difference
Individual Income	$6,555,000	$6,573,778	$18,778	0.3%
General Sales & Use	4,160,000	4,154,411	-5,589	-0.1%
Corporation Franchise & Income	890,000	890,056	56	0.0%
Public Utility	282,700	284,940	2,240	0.8%
Excise				
Cigarette	298,000	296,130	-1,870	-0.6%
Tobacco Products	17,500	17,515	15	0.1%
Liquor	42,000	42,674	674	1.6%
Beer	9,400	9,530	130	1.4%
Estate	117,000	121,114	4,114	3.5%
Insurance Premiums	140,000	141,405	1,405	1.0%
Miscellaneous	80,000	82,127	2,127	2.7%
TOTAL **	$12,591,600	$12,613,679	$22,079	0.2%

* Prepared by Legislative Fiscal Bureau.
* * Detail may not add to totals because of rounding, and percent changes were calculated before rounding.

TABLE II.2
COMPARISON OF ACTUAL 2005-2006 AND 2006-07 GENERAL PURPOSE REVENUE (GPR)
TAX COLLECTIONS
($ Thousands)

Tax Source	Actual 2005-06 ($)	Preliminary Actual 2006-07 ($)	Difference ($)	Percent Difference	Percent of Total	
					2005-06	2006-07
Individual Income	$6,144,287	$6,573,778	$429,491	7.0%	51.1%	52.1%
General Sales & Use	4,127,585	4,154,411	26,826	0.7%	34.3%	32.9%
Corporation Franchise & Income	780,332	890,056	109,724	14.1%	6.5%	7.1%
Public Utility	275,147	284,940	9,793	3.6%	2.3%	2.3%
Excise						
Cigarette	301,490	296,130	-5,360	-1.8%	2.5%	2.3%
Tobacco Products	16,421	17,515	1,094	6.7%	0.1%	0.1%
Liquor	41,023	42,674	1,651	4.0%	0.3%	0.3%
Beer	9,759	9,530	-229	-2.3%	0.1%	0.1%
Estate	108,571	121,114	12,543	11.6%	0.9%	1.0%
Insurance Premiums	134,666	141,405	6,739	5.0%	1.1%	1.1%
Miscellaneous	90,806	82,127	-8,679	-9.6%	0.8%	0.7%
TOTAL *	$12,030,087	$12,613,679	$583,592	4.9%	100.0%	100.0%

* Detail may not add to totals because of rounding, and percent changes were calculated before rounding.