Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary
April 2007

While worldwide economic growth continues to flourish, the U.S. economy has hit a speed bump. The effects from continued weakness in housing are spreading beyond construction related industries to the financial sector in the form of rising loan defaults. Lenders are responding by tightening credit standards, which will likely delay the recovery in residential construction and could restrain consumer borrowing activity. Expanding consumer debt has been a major contributor to consumption growth in recent years. Another concern is the recent downturn in business investment. Corporate balance sheets are flush with cash, but slowing profit growth and an uncertain economic outlook are curbing the desire of corporate managers and business owners to invest that cash. Two other fairly reliable leading indicators, the interest rate spread between short-term interest rates and long-term interest rates and the Manufacturing ISM Index, are also signaling caution. There is also anecdotal evidence of economic weakness such as declining rail freight volumes and slowing package shipment growth at Federal Express and UPS. On the positive side, strong conditions in the labor market have helped to support consumer spending. However, while wage and salary growth looks solid, employment growth has been decelerating and bears watching. Another significant positive is trade. The booming economies of our major trading partners are driving strong net export growth.

Despite slowing economic growth, inflation refuses to buckle. After a dip last fall, inflationary measures are trending upward again. Elevated commodity prices, accelerating wage and salary growth, and booming economic conditions of our major trading partners are all contributing to rising inflation. This creates a dilemma for the Federal Reserve which has held rates steady since last June and now faces the challenge of containing inflation and sustaining economic growth. Recent statements by members of the Federal Reserve Board suggest that inflation is the greater evil leading us to believe that rate hikes are more likely than rate cuts. Bond yields still seem low given current and expected levels of inflation.

Annualized Real GDP growth averaged +2.4% the final three quarters of 2006 and likely slowed somewhat last quarter. Our expectation for 2007 is that Real GDP will grow +2%. If inflation stabilizes and the Federal Reserve can avoid further tightening, growth could begin to reaccelerate later in the year.

In Washington, legislative proposals to restrict trade, increase government regulation and raise taxes would have serious economic repercussions if enacted. This may be one reason business spending has slowed. We remain confident that harmful legislation will be vetoed, but with a Presidential election only 19 months away, business owners may remain wary of making long-term investments in the face of a potential sea change in U.S. economic policy. It's ironic that, just as trade is poised to become a vital contributor to U.S. economic growth, protectionist legislation is gaining momentum.

Despite a less optimistic economic outlook, we remain constructive toward stocks. We see especially good value in high quality, consistent growth companies that operate on a multi-national scale. We expect profit growth to remain steady for these types of companies while profits of companies that operate in cyclical businesses start to decline after four years of booming growth. After a long period of unusual stability, securities markets are likely to experience greater volatility going forward due to increasingly uncertain economic and geopolitical conditions and to the dramatic increase in financial leverage employed by many investors today. While unsettling at times, volatility also creates opportunities.

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To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address below.

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