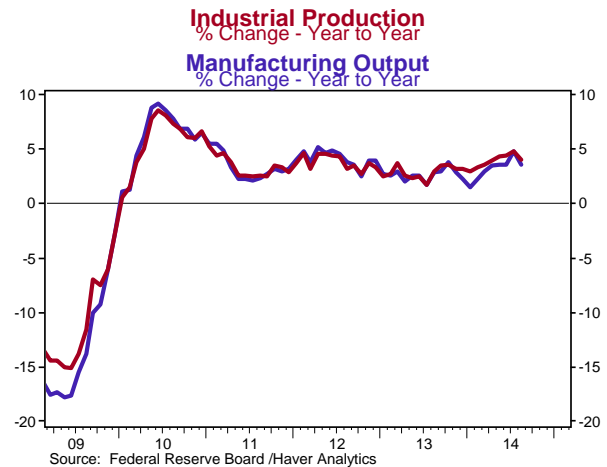


August Industrial Production / Capacity Utilization

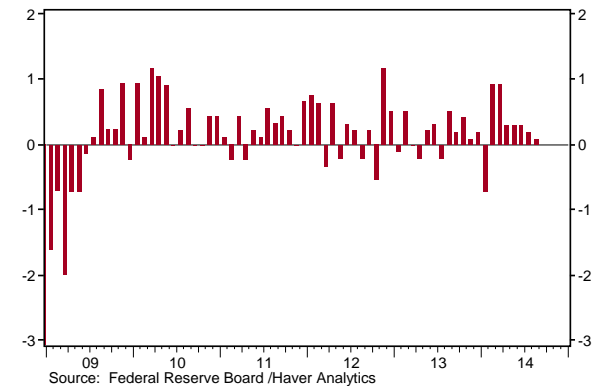
Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Industrial production declined 0.1% in August (-0.3% including revisions to prior months), coming in below the consensus expected gain of 0.3%. Production is up 4.1% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.4% in August and fell 0.5% including revisions to prior months, coming in below the consensus expected gain of 0.1%. Auto production fell 7.7% in August, while non-auto manufacturing rose 0.1%. Auto production is up 8.0% versus a year ago while non-auto manufacturing is up 3.3%.
- The production of high-tech equipment increased 1.5% in August and is up 7.4% versus a year ago.
- Overall capacity utilization declined to 78.8% in August from 79.1% in July. Manufacturing capacity slipped to 77.2% in August from 77.6% in July.



Implications: No, the sky is not falling on the US economy. Although industrial output slipped 0.1% in August, falling short of the 0.3% consensus expected gain, the decline was all due to the highly volatile auto sector. It was the first monthly drop since January and only the second monthly drop in the past year. During economic expansion, it's normal for industrial production to decline two or three times per year, and this is no different. July had the largest monthly gain for automakers since September 2009, and August simply saw a return to the pre-existing trend for that sector. Excluding July, auto production was the highest on record in August and up 8% from a year ago. Outside the auto sector, manufacturing grew 0.1% in August. We expect continued growth in the industrial sector in the year ahead. The housing recovery is still young and both businesses and consumers are in a financial position to ramp up investment and the consumption of big-ticket items, like appliances. In particular, note that the output of high-tech equipment is up 7.4% from a year ago and up at a 13.2% annual rate in the past six months, signaling companies' willingness to upgrade aging equipment. Despite a drop in August, capacity utilization still stands at 78.8%, right around the average of 78.9% over the past twenty years. Further gains in production in the year ahead will push capacity use higher, which means companies will have an increasing incentive to build out plants and equipment. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, soared to 27.5 in September versus 14.7 in August. The index is now the highest in more than four years and signals robust growth ahead for the industrial sector.

Manufacturing Ex-Autos
 % Change - Month to Month



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-14	Jul-14	Jun-14	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.1%	0.2%	0.3%	1.6%	3.6%	4.1%
Manufacturing	-0.4%	0.9%	0.3%	3.2%	5.1%	4.1%
Motor Vehicles and Parts	-7.7%	9.3%	0.0%	3.6%	7.6%	8.0%
Ex Motor Vehicles and Parts	0.1%	0.2%	0.3%	2.5%	4.4%	3.3%
Mining	0.5%	-0.2%	1.6%	7.7%	13.8%	8.8%
Utilities	1.1%	-2.8%	-1.9%	-13.5%	-16.8%	0.0%
Business Equipment	0.0%	1.2%	-0.3%	3.8%	6.4%	5.8%
Consumer Goods	-0.8%	0.8%	-0.3%	-1.2%	-1.2%	2.8%
High-Tech Equipment	1.5%	0.5%	-0.1%	7.9%	13.2%	7.4%
Total Ex. High-Tech Equipment	-0.2%	0.3%	0.3%	1.6%	3.4%	4.0%
Cap Utilization (Total)	78.8	79.1	79.1	3-mo Average	6-mo Average	12-mo Average
				79.0	79.0	78.7
Manufacturing	77.2	77.6	77.2	77.3	77.2	76.7

Source: Federal Reserve Board

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.