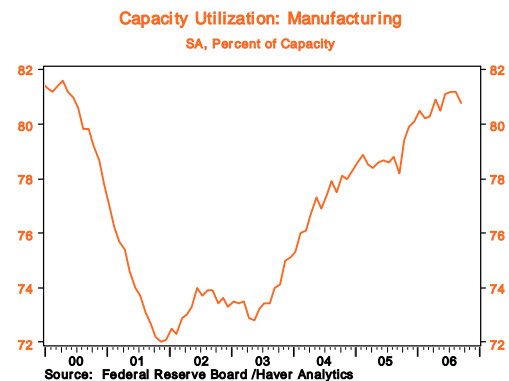
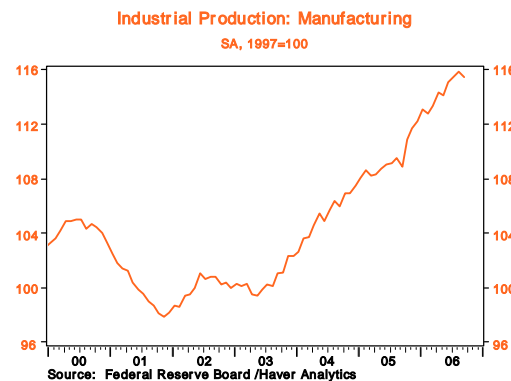
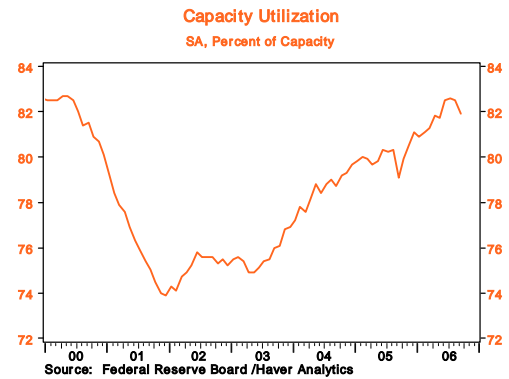
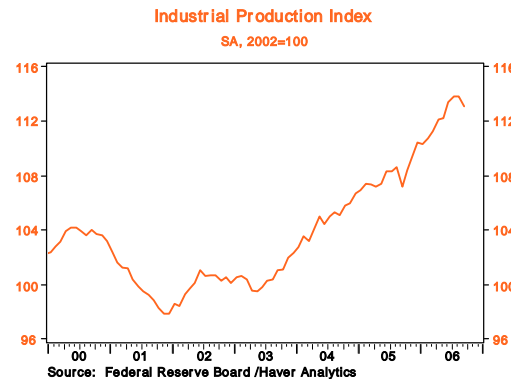


SEPTEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production decreased by a more-than-expected 0.6% in September after showing no growth in August (upwardly revised from the original 0.1% decline in August). Over the past three months industrial production has declined an annualized 1.1%, yet it remains 5.5% higher than one year ago.
- Manufacturing production decreased 0.3% in September, but after excluding motor vehicles dropped only 0.1%. In the past year, manufacturing production is up 6.0% and 7.3% when motor vehicle output is removed. Mining output rose 0.7% and utility output decreased 4.4%.
- Capacity utilization fell to 81.9% in September, after reaching a six-year the high of 82.5%.



Implications:

Industrial production was weak in September, falling by the largest amount in the past year. Despite declining over the past three months, the third quarter average is still an annualized 3.6% above the second quarter average. In the past year, total industrial production is up 5.5% (which includes mining and utilities), manufacturing output is up 6.0%, and manufacturing excluding motor vehicles output has climbed 7.3%. Industrial output has been on a tear over the past year so a pull back is neither surprising nor worrisome. The Empire State Manufacturing survey surged in October, suggesting that the economy has regained any momentum it lost in Q3. We expect Q4 real GDP to rise back to the 3.5% -4.0% range.

Industrial Production Capacity Utilization <i>All data seasonally adjusted</i>	Sep-06	Aug-06	Jul-06	3-mo % Ch annualized	6-mo % Ch. annualized	Yr over yr % Ch.
Industrial Production	-0.6%	0.0%	0.3%	-1.1%	3.4%	5.5%
Manufacturing	-0.3%	0.3%	0.3%	1.0%	3.7%	6.0%
Manufacturing Ex. Motor Vehicles	-0.1%	0.0%	1.0%	3.5%	5.0%	7.3%
Business Equipment	-0.2%	0.2%	2.0%	8.3%	11.1%	18.5%
Durable Consumer Goods	-1.8%	1.6%	-3.0%	-12.6%	-4.3%	-3.9%
Nondurable Consumer Goods	-0.6%	-0.1%	0.6%	-0.4%	2.5%	2.2%
High-Tech Equipment	1.8%	2.6%	2.1%	29.5%	27.0%	22.7%
Total Ex. High-Tech Equipment	-0.7%	-0.1%	0.3%	-2.2%	2.2%	4.7%
Mining	0.7%	-0.5%	-0.2%	0.0%	6.4%	12.2%
Utilities	-4.4%	-0.9%	0.6%	-17.4%	-2.8%	-3.7%
Capacity Utilization	81.9	82.5	82.6	82.3	82.2	81.5
Manufacturing	80.8	81.2	81.2	81.1	81.0	80.5
Mining	91.6	90.9	91.2	91.2	90.8	88.1
Utilities	84.4	88.3	89.2	87.3	87.0	86.1

Source: Federal Reserve Board

*CapU data: % of capacity & 3, 6, 12 month averages

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