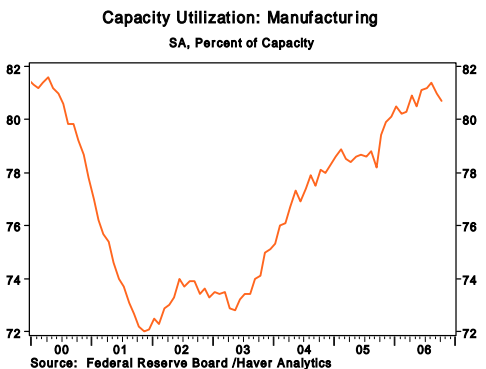
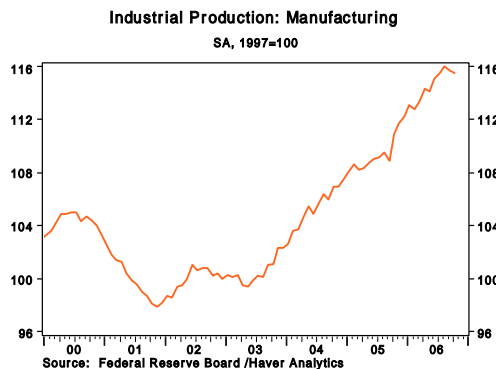
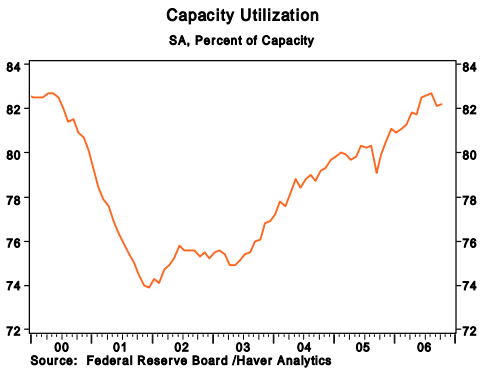
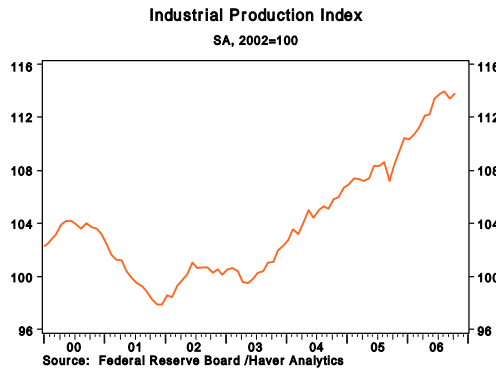


## OCTOBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

**Brian S. Wesbury**  
Chief Economist

- Industrial production increased 0.2% in October after declining 0.6% in September. Over the past six months industrial production has increased 2.9% at an annual rate, and over the past year, 4.9%.
- Manufacturing production fell 0.2% in October, but after excluding motor vehicles was up 0.1%. In the past year, total manufacturing production is up 4.1%, while non-auto manufacturing output is up 5.5%. Mining output rose 0.6% in October. Utility output rose 4.1%.
- Capacity utilization rose marginally to 82.2% in October, while manufacturing Cap-U fell to 80.7%.

**Implications:** Industrial production rebounded in October, as both utility output and manufacturing output (excluding autos) reversed September losses. High-tech equipment production has been particularly strong, rising 2.2% in October and 39.3% at an annual rate in the past three months. Motor vehicle and parts production fell 4.0% in October after a 1.9% drop in September. Excluding motor vehicles, manufacturing output grew just 1.0% at an annual rate over the past 3 months. This slowdown mirrors weakness in both regional and national manufacturing surveys. Part of the problem here is due to significant weakness in residential construction, which clearly draws on many manufactured goods. The rebound in the Philadelphia Fed Index in October to 5.1, after two consecutive months below zero, and the second consecutive monthly increase in the Homebuilders Index, suggests that this softness may be behind us. As a result, we view the slight increase in October Industrial Production as a sign of renewed economic strength and continue to forecast stronger growth in the quarters ahead.



<b>Industrial Production Capacity Utilization</b> <i>All data seasonally adjusted</i>	<b>Oct-06</b>	<b>Sep-06</b>	<b>Aug-06</b>	<b>3-mo % Ch annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr over yr % Ch.</b>
<b>Industrial Production</b>	<b>0.2%</b>	-0.6%	0.3%	0.0%	2.9%	4.9%
<b>Manufacturing</b>	<b>-0.2%</b>	-0.3%	0.4%	0.0%	2.1%	4.1%
<b>Manufacturing Ex. Motor Vehicles</b>	<b>0.1%</b>	-0.1%	0.3%	1.0%	3.7%	5.5%
<b>Business Equipment</b>	<b>0.7%</b>	-0.1%	0.4%	3.6%	7.7%	11.7%
<b>Durable Consumer Goods</b>	<b>-2.6%</b>	-1.9%	1.7%	-10.9%	-8.5%	-6.8%
<b>Nondurable Consumer Goods</b>	<b>0.3%</b>	-0.6%	0.0%	-1.1%	3.1%	2.6%
<b>High-Tech Equipment</b>	<b>2.2%</b>	2.7%	3.5%	39.3%	32.6%	26.3%
<b>Total Ex. High-Tech Equipment</b>	<b>0.1%</b>	-0.7%	0.1%	-2.2%	1.3%	3.8%
<b>Mining</b>	<b>0.6%</b>	0.4%	-0.8%	0.8%	2.8%	13.8%
<b>Utilities</b>	<b>4.1%</b>	-4.6%	0.2%	-2.2%	9.2%	2.8%
<b>Capacity Utilization</b>	<b>82.2</b>	82.1	82.7	82.3	82.3	81.7
<b>Manufacturing</b>	<b>80.7</b>	81.0	81.4	81.0	81.0	80.7
<b>Mining</b>	<b>91.8</b>	91.1	90.6	91.2	91.0	89.0
<b>Utilities</b>	<b>88.2</b>	84.8	88.9	87.3	87.6	86.3

Source: Federal Reserve Board

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

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