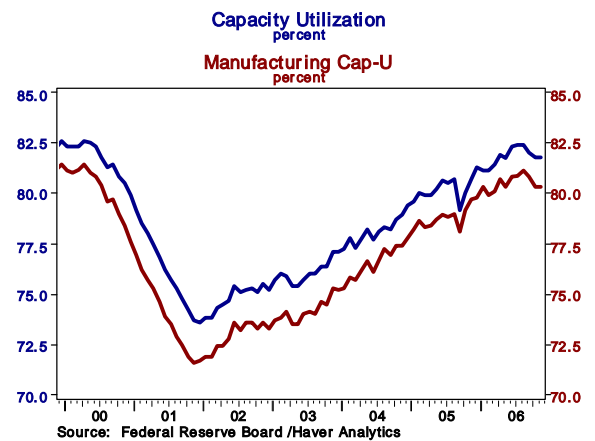
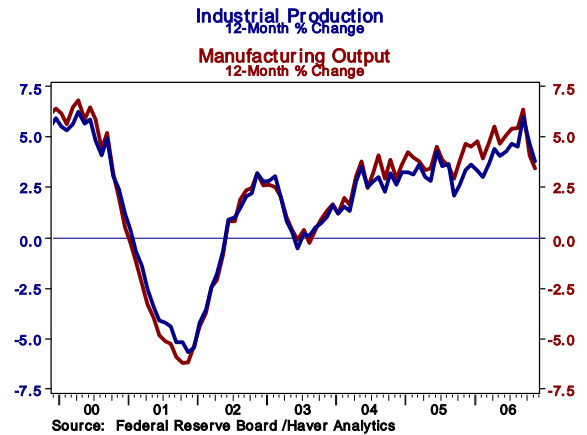


NOVEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.2% in November, beating the market expectation of zero change. Even netting out slightly negative revisions for prior months puts the level of industrial production higher than the market expected. Over the past year, production is up 3.8%.
- Manufacturing production also increased 0.2% in November and is up 3.5% versus last year. A rebound in motor vehicle production of 3.7%, after a decline of 3.5% in October, accounted for the gains in manufacturing. The production of high-tech equipment continues to stand out, rising 2.2% in November. The trend growth rate in high-tech continues to accelerate, with production up 25.6% versus a year ago, but up at a 29.1% annual rate the past six months and up at a 32.3% rate the past three months.
- Capacity utilization was unchanged from a downwardly-revised 81.8% in October. Utilization in the manufacturing sector was unchanged from a downwardly revised 80.3%.

Implications: Today's report on industrial production adds to the case that the moderate growth of the spring and summer is behind us and that the underlying trend in the US economy remains strong. Note the strength in business equipment production, which includes high-tech. The output of business equipment increased 1.2% in November and is up 9.6% versus a year ago. This suggests firms are confident in the future and likely to continue increasing output and expanding payrolls. Consistent with this, the Empire State Manufacturing Survey bested the market expectation of a 17.7 reading, instead coming in at a much stronger 23.1. These data are not a recipe for the kind of slowdown expected by those too focused on the decline in the housing market, a decline which has so far been (and we believe will continue to be) a drag on residential construction, not the rest of the economy.



Industrial Production Capacity Utilization <i>All data seasonally adjusted</i>	Nov-06	Oct-06	Sep-06	3-mo % Ch annualized	6-mo % Ch. annualized	Yr over yr % Ch.
Industrial Production	0.2%	0.0%	-0.4%	-0.7%	2.5%	3.8%
Manufacturing	0.2%	-0.5%	0.0%	-1.4%	2.3%	3.5%
Motor Vehicles and Parts	3.7%	-3.5%	-1.5%	-5.4%	-3.3%	-2.4%
Ex Motor Vehicles and Parts	0.0%	-0.3%	0.1%	-1.0%	2.8%	3.9%
Mining	-0.3%	0.5%	0.9%	4.5%	0.6%	6.5%
Utilities	-0.1%	4.3%	-4.1%	-0.4%	5.8%	3.9%
Business Equipment	1.2%	0.2%	0.0%	5.4%	9.0%	9.6%
Consumer Goods	0.4%	-0.4%	-0.4%	-1.5%	1.9%	1.2%
High-Tech Equipment	2.2%	1.8%	3.0%	32.3%	29.1%	25.6%
Total Ex. High-Tech Equipment	0.1%	-0.1%	-0.6%	-2.2%	1.3%	2.7%
Cap Utilization (total)*	81.8	81.8	82.0	3-mo Average	6-mo Average	12-mo Average
Manufacturing*	80.3	80.3	80.8	81.9	82.1	81.8
				80.5	80.7	80.4

Source: Federal Reserve Board

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

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