

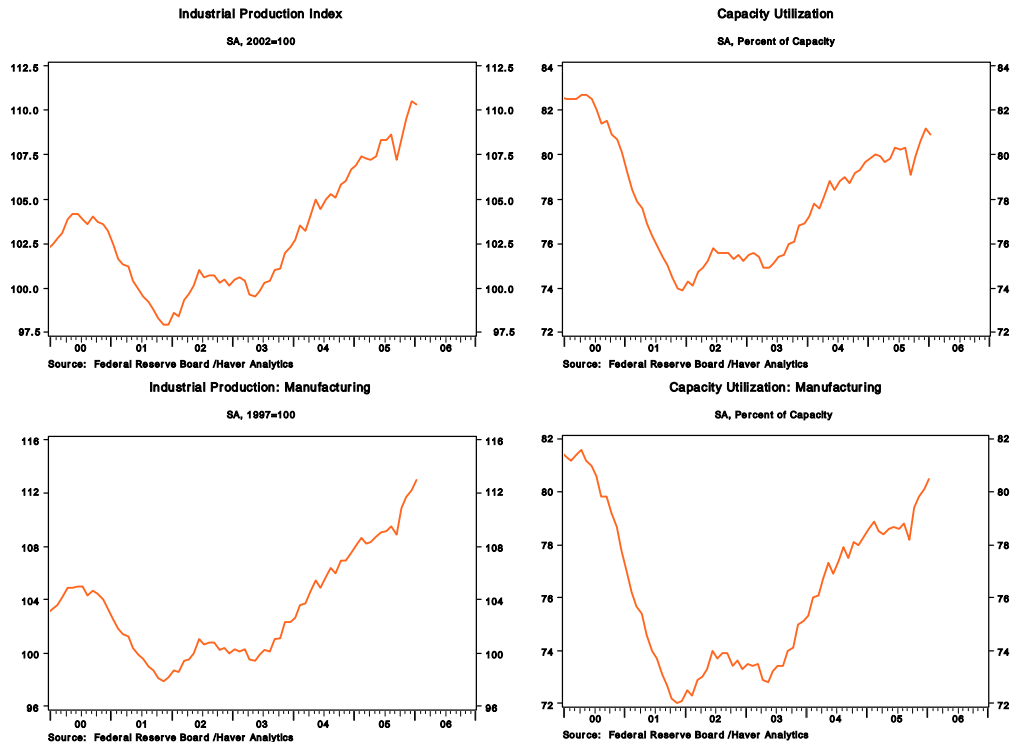
JANUARY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production unexpectedly fell 0.2% in January after a revised 0.9% gain in December (originally +0.6%). Industrial production is up 3.2% in the past year.
- A warmer-than-usual January pulled utilities production down by 10.2%. Mining output increased 1.7%. Manufacturing production surged 0.7% and 0.5% after excluding motor vehicle output.
- Manufacturing capacity utilization increased to 80.5% in January versus 80.1% in December.

Implications: An unusually warm winter pulled utility output down by a record 10.2% in January. This caused industrial production to decline 0.2%. Nonetheless, manufacturing output jumped 0.7%, and has climbed at an annualized 7.8% over the past three months. Excluding motor vehicles, manufacturing output increased 0.5%

in January, while high-tech output increased 1.6%. All of these measures rose to all-time record highs in January – the US has never produced more “stuff” in its history. It is an underreported fact that the US is experiencing a manufacturing renaissance. While the doomsayers focus on China, India and outsourcing, US manufacturers are producing and exporting more than ever. Turning to the Fed, manufacturing capacity utilization (at 80.5%) is at a 5 ½ year high, and the unemployment rate at a four-year low. This data will force the Fed’s Phillips Curve models to boost their assessment of the inflation threat level to “red.” As a result, a 5.0% fed funds rate in May is becoming more likely.



Industrial Production Capacity Utilization <i>All data seasonally adjusted</i>	Jan-06	Dec-05	Nov-05	3-mo % Ch annualized	6-mo % Ch. annualized	Yr over yr % Ch.
Industrial Production	-0.2%	0.9%	1.1%	7.2%	3.7%	3.2%
Manufacturing	0.7%	0.4%	0.7%	7.8%	7.3%	4.5%
Manufacturing Ex. Motor Vehicles	0.5%	0.7%	1.2%	10.1%	7.5%	4.7%
Business Equipment	1.0%	0.6%	1.9%	15.1%	12.9%	10.7%
Durable Consumer Goods	1.3%	-1.0%	-2.7%	-9.2%	6.3%	3.9%
Nondurable Consumer Goods	-1.0%	0.8%	0.4%	0.4%	-0.8%	1.1%
High-Tech Equipment	1.6%	3.0%	3.4%	37.2%	30.7%	24.3%
Total Ex. High-Tech Equipment	-0.3%	0.8%	1.0%	5.8%	2.5%	2.1%
Mining	1.7%	2.8%	5.4%	46.9%	-3.4%	-1.8%
Utilities	-10.2%	2.8%	0.3%	-26.4%	-17.6%	-4.7%
Capacity Utilization	80.9	81.2	80.6	80.9	80.3	80.2
Manufacturing	80.5	80.1	79.8	80.1	79.5	79.0
Mining	87.7	86.2	83.9	85.9	84.5	87.0
Utilities	79.9	89.0	86.5	85.1	86.3	85.8

Source: Federal Reserve Board

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

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