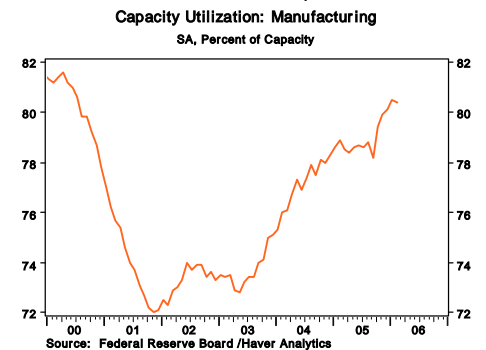
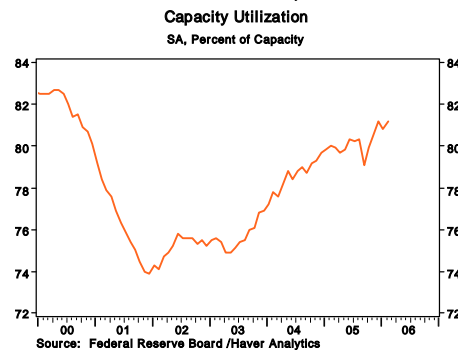
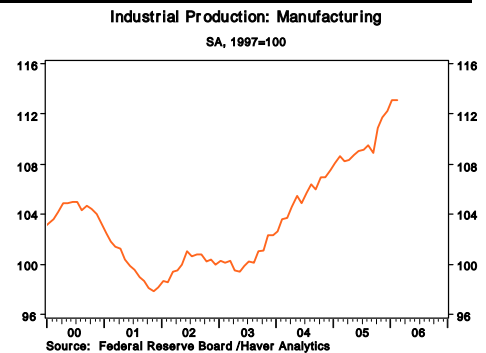
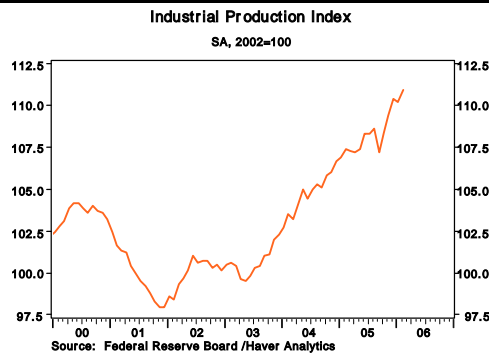


FEB INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

- Industrial production increased 0.7% in February after a 0.3% decline in January. Industrial production is up 3.3% in the past 12 months and 5.6% at an annualized rate in the past three months.
- Cold weather in February pushed utility output up 7.9% following an 11.5% decline in the warmer-than-normal January. Mining output fell 0.5% last month versus a 2.2% increase in January. Manufacturing production was flat in February but is up 5.1% at an annualized rate in the past 3 months.
- Capacity utilization rose to 81.2% versus 80.8% in January. Capacity utilization has been on a steady climb since bottoming out at 73.9% in December 2001.



Implications: As expected, industrial production rebounded in February after a weather-induced decline in utility output pulled the index down in January. While manufacturing production was unchanged in February, the trend looks strong - manufacturing output has increased by an annualized rate of 4.2% in the first two months of 2006. This continues a near three-year long boom at the nation's factories, as industrial production and manufacturing output have risen to all-time high levels. This is in direct contrast to the constant stream of pessimism that focuses on China, India and outsourcing. In reality, manufacturers - especially those that have put a premium on flexibility and productivity - are in the midst of a renaissance. We expect the strength in industrial production to continue through all of 2006. As a result, capacity utilization should continue to climb. With capacity utilization at a 5-year high, the unemployment rate just above the post-recession low and the Fed's Phillips curve models flashing inflation warning signals, the Fed will remain in a tightening mode. In addition, as capacity is stretched, business investment will accelerate.

Industrial Production Capacity Utilization <i>All data seasonally adjusted</i>	Feb-06	Jan-06	Dec-05	3-mo % Ch annualized	6-mo % Ch. annualized	Yr over yr % Ch.
Industrial Production	0.7%	-0.3%	1.0%	5.6%	4.3%	3.3%
Manufacturing	0.0%	0.8%	0.4%	5.1%	6.7%	4.1%
Manufacturing Ex. Motor Vehicles	0.1%	0.6%	0.6%	5.5%	7.7%	4.8%
Business Equipment	0.1%	1.2%	0.5%	7.2%	13.6%	10.4%
Durable Consumer Goods	0.1%	1.0%	-1.0%	0.4%	0.2%	0.5%
Nondurable Consumer Goods	1.0%	-1.4%	1.6%	4.7%	2.3%	2.2%
High-Tech Equipment	2.3%	0.0%	1.6%	16.7%	22.3%	21.8%
Total Ex. High-Tech Equipment	0.6%	-0.3%	0.9%	5.0%	3.4%	2.3%
Mining	-0.5%	2.2%	2.8%	19.3%	-3.8%	-3.6%
Utilities	7.9%	-11.5%	3.9%	-3.0%	-8.0%	2.3%
Capacity Utilization	81.2	80.8	81.2	81.1	80.5	80.2
Manufacturing	80.4	80.5	80.1	80.3	79.8	79.2
Mining	87.1	87.5	85.5	86.7	83.9	86.6
Utilities	84.7	78.5	88.7	84.0	85.3	85.7

Source: Federal Reserve Board

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

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.