

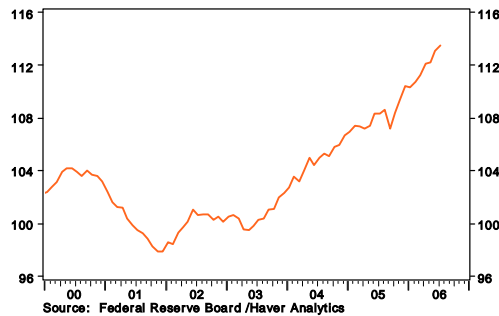
JULY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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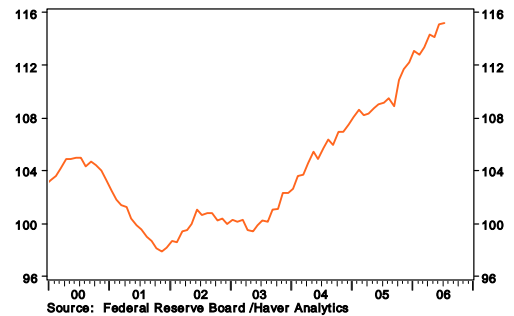
- Industrial production increased a less-than-expected 0.4% in July after a 0.8% gain in June. Industrial production is up 5.9% at an annual rate in the past six months and 4.8% in the past year.
- Manufacturing production increased 0.1% in July, while manufacturing production excluding motor vehicles rose 0.7%. In the past year, manufacturing production is up 5.6% and 6.2% when motor vehicle output is removed. Mining output rose 0.7% and utility output increased 2.0%.
- Capacity utilization was 82.4% in July, the highest in six years.

Implications: Industrial production was strong in July, although it increased at a slower rate than the consensus had expected. This is because motor vehicle production fell 9.5% last month. Excluding motor vehicles, industrial production increased 0.8% which was above consensus expectations. Both overall industrial production and manufacturing output rose to record high levels in July. Even with high energy prices and competition from abroad, US manufacturers have never produced more. Moreover, business equipment production jumped 1.7% in July and is up 12.3% in the past year. This suggests the supply-side of the economy is booming, and that growth is unlikely to significantly slow in the second half of this year. Even with this surge in business investment (which increases capacity), capacity utilization has risen to levels not seen since 2000. While we do not believe high capacity utilization causes inflation, the Fed's Phillips curve models do. Today's data suggests that not much has changed in the economy. Manufacturing activity is strong, business investment is booming and inflationary pressures continue to build.

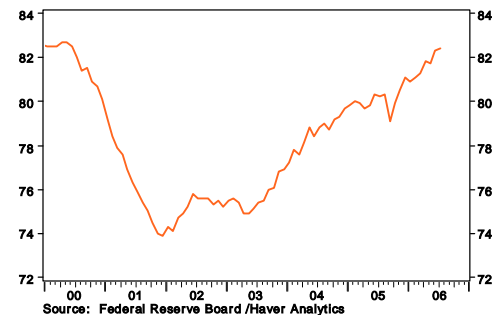
Industrial Production Index
SA, 2002=100



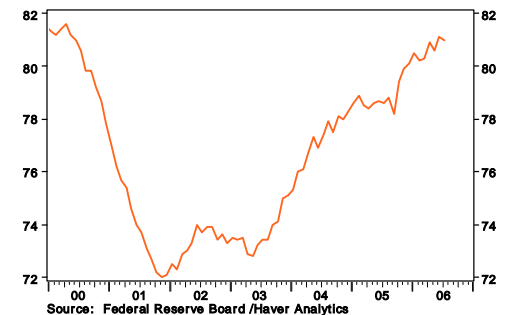
Industrial Production: Manufacturing
SA, 1997=100



Capacity Utilization
SA, Percent of Capacity



Capacity Utilization: Manufacturing
SA, Percent of Capacity



Industrial Production Capacity Utilization <i>All data seasonally adjusted</i>	Jul-06	Jun-06	May-06	3-mo % Ch annualized	6-mo % Ch. annualized	Yr over yr % Ch.
Industrial Production	0.4%	0.8%	0.0%	5.1%	5.9%	4.8%
Manufacturing	0.1%	0.9%	-0.2%	3.2%	3.7%	5.6%
Manufacturing Ex. Motor Vehicles	0.7%	0.6%	0.0%	5.3%	4.8%	6.2%
Business Equipment	1.1%	0.8%	-0.3%	6.8%	11.4%	12.3%
Durable Consumer Goods	-3.2%	2.1%	-0.5%	-6.7%	-3.4%	1.1%
Nondurable Consumer Goods	0.8%	0.8%	-0.1%	5.8%	5.7%	2.0%
High-Tech Equipment	1.2%	2.0%	2.3%	24.0%	20.4%	22.3%
Total Ex. High-Tech Equipment	0.4%	0.7%	-0.1%	4.1%	5.1%	4.0%
Mining	0.7%	1.1%	0.3%	8.7%	9.2%	2.3%
Utilities	2.0%	0.9%	1.3%	18.0%	22.1%	0.5%
Capacity Utilization	82.4	82.3	81.7	82.1	81.8	81.0
Manufacturing	81.0	81.1	80.6	80.9	80.7	80.1
Mining	92.1	91.2	90.2	91.2	89.9	87.0
Utilities	88.2	86.5	85.8	86.8	86.0	86.1

Source: Federal Reserve Board

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

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