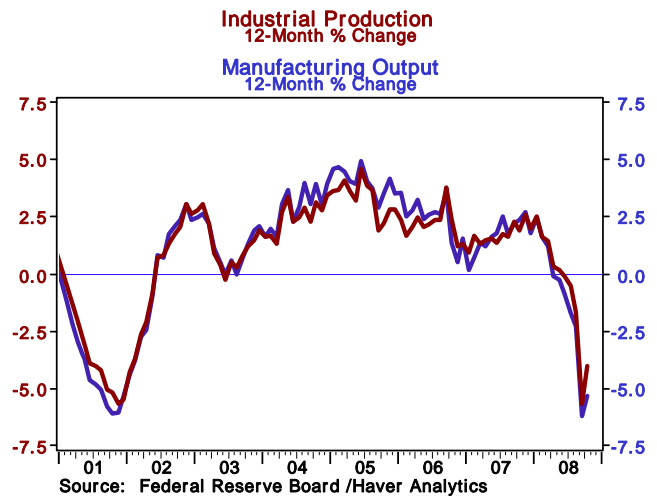


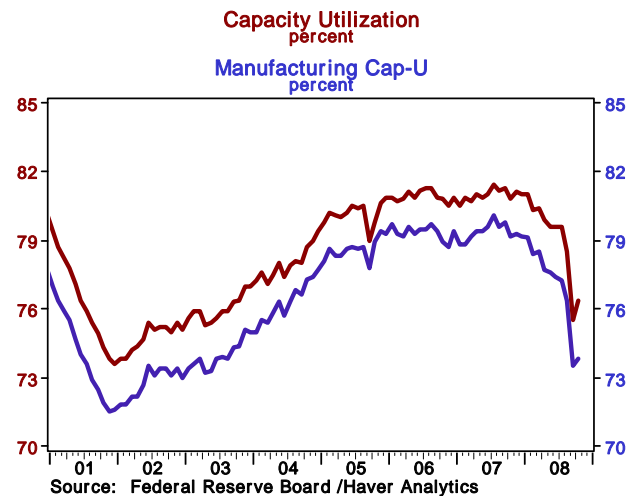
OCTOBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Industrial production increased 1.3% in October, easily beating the consensus expected rise of 0.2%. Production is down 4.0% versus a year ago.
- Manufacturing output was up 0.6% in October, despite a 3.5% decline in motor vehicle and parts production. The partial rebound from the steep decline in September was due to chemicals and petroleum/coal.
- The production of high-tech equipment fell 0.9% in October, was revised down for August and September, but is up 9.9% versus last year.
- Overall capacity utilization rose to 76.4% in October from 75.5% in September. Manufacturing capacity utilization increased to 73.8% versus 73.5% in September.



Implications: The temporary effects of Hurricanes Gustav and Ike plus a strike at Boeing caused a plunge in industrial production in September and now a partial rebound in October. Without these events, the Federal Reserve says production would have been down 0.7% in September and 0.6% in October, which is consistent with our view that real GDP will contract at about a 4% annual rate in the fourth quarter. The worst data point in today’s report was that high-tech equipment production fell 0.9% in October and increases in August/September were revised into declines. There will probably be some further declines in the months ahead. However, we are not even close to the end of the high-tech revolution. Business spending on equipment and software has been subdued relative to corporate cash flow and should pick up quickly as soon as the recession ends early next year.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-08	Sep-08	Aug-08	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	1.3%	-3.7%	-1.2%	-13.9%	-7.2%	-4.0%
Manufacturing	0.6%	-3.7%	-1.0%	-15.9%	-8.4%	-5.2%
Motor Vehicles and Parts	-3.5%	1.3%	-11.0%	-42.7%	-12.8%	-18.4%
Ex Motor Vehicles and Parts	0.8%	-4.0%	-0.4%	-13.3%	-8.0%	-4.3%
Mining	6.1%	-8.5%	-0.2%	-11.9%	-3.1%	1.1%
Utilities	0.4%	2.5%	-4.1%	-5.4%	-4.8%	-0.6%
Business Equipment	-2.2%	-7.1%	-0.2%	-32.6%	-16.9%	-8.8%
Consumer Goods	1.4%	-1.2%	-2.0%	-7.0%	-3.5%	-2.8%
High-Tech Equipment	-0.9%	-0.7%	-0.5%	-8.4%	-1.6%	9.9%
Total Ex. High-Tech Equipment	1.4%	-3.9%	-1.2%	-14.3%	-7.6%	-4.7%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.4	75.5	78.5	76.8	78.2	79.4
Manufacturing	73.8	73.5	76.4	74.6	76.0	77.3

Source: Federal Reserve Board

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