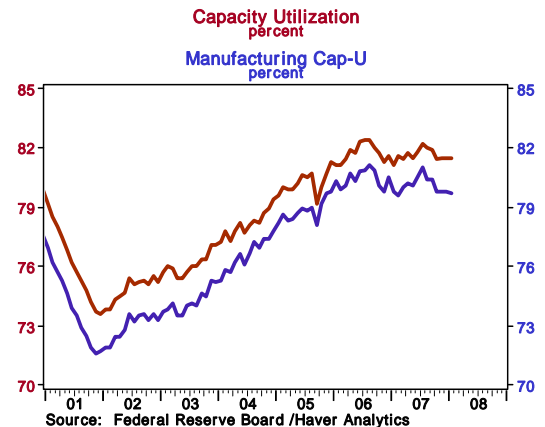
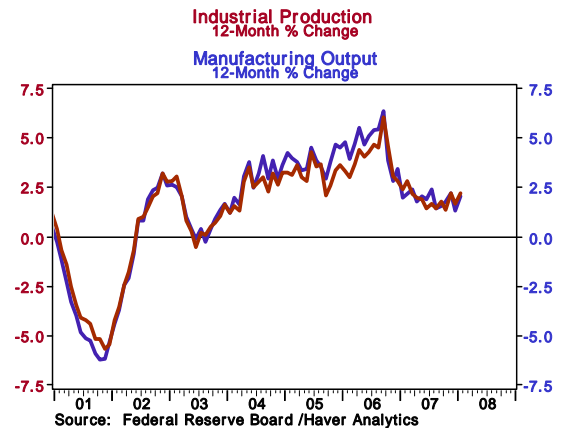


JANUARY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production was up 0.1% in January, matching consensus expectations. Production was revised up in both November and December and is up 2.2% versus a year ago.
- Manufacturing output was unchanged in January but was revised up to a 0.2% gain in December (originally reported as unchanged). Manufacturing output is up 2.0% versus a year ago. The production of high-tech equipment grew 1.8% in January and is up 18.7% versus last year.
- Capacity utilization was unchanged at 81.5% in January. The consensus expected 81.3%. In the manufacturing sector, capacity utilization ticked down to 79.7% versus an upwardly revised 79.8% in the previous month.

Implications: The increase in industrial production in January further undermines the theory the US is in recession. The 0.1% increase in January was small, but positive, while upward revisions to previous months bring the annual growth rate of production to 2.5% during the past three months. Note that the output of business equipment increased 0.4% in January and is up at an 8% annual rate in the past three months, a sign of strength for future productivity. Remember these are “real” numbers. In other news this morning, the Empire State Index (a measure of manufacturing in New York) dropped to -11.7, the first negative reading since 2005. We believe the drop will prove to be sentiment-related, similar to the temporary drop at the start of the Iraq War in 2003. We also received news today on inflation and it was bad. Import prices increased 1.7% in January and are up 13.7% versus a year ago, the largest one-year increase on record. Excluding petroleum, import prices are up 3.6% versus a year ago. In the late 1990s and early part of this decade these prices were falling, not rising. Export prices increased 1.2% in January (the most for any month since 1989) and are up 6.7% versus a year ago (also the largest gain since the 1980s).



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-08	Dec-07	Nov-07	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.1%	0.1%	0.4%	2.5%	0.0%	2.2%
Manufacturing	0.0%	0.2%	0.3%	2.1%	-1.2%	2.0%
Motor Vehicles and Parts	-1.2%	0.2%	1.1%	0.4%	-11.2%	1.2%
Ex Motor Vehicles and Parts	0.2%	0.2%	0.2%	2.1%	-0.3%	2.1%
Mining	-1.8%	-0.1%	1.7%	-1.2%	-0.4%	0.9%
Utilities	2.2%	-0.2%	0.4%	9.9%	10.4%	6.2%
Business Equipment	0.4%	0.9%	0.7%	8.0%	3.3%	5.7%
Consumer Goods	0.3%	0.0%	0.2%	1.9%	-1.3%	1.5%
High-Tech Equipment	1.8%	1.0%	1.3%	17.8%	16.0%	18.7%
Total Ex. High-Tech Equipment	0.0%	0.1%	0.4%	1.9%	-0.7%	1.5%
Cap Utilization (Total)	81.5	81.5	81.5	3-mo Average	6-mo Average	12-mo Average
				79.7	79.8	79.8
Manufacturing	79.7	79.8	79.8	79.8	80.0	80.1

Source: Federal Reserve Board

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