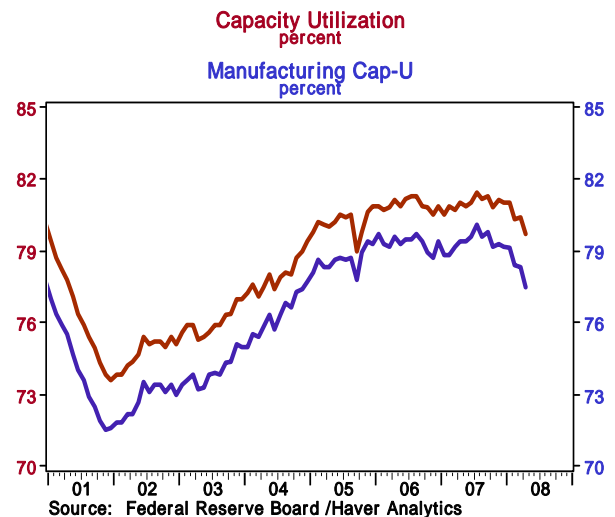
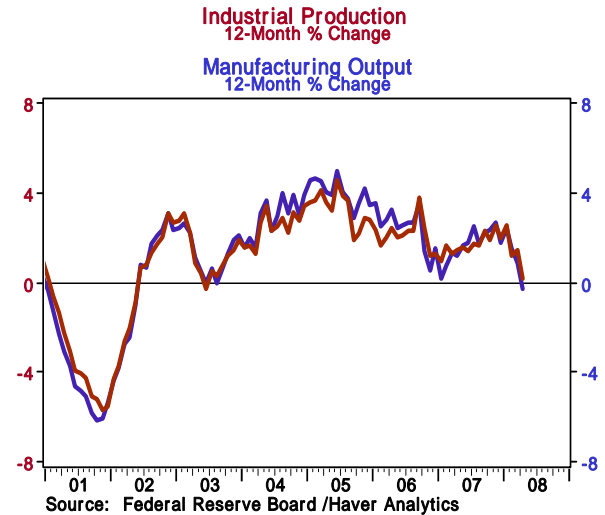


# APRIL INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production declined 0.7% in April versus a consensus expected drop of 0.3%. Production is up 0.2% versus a year ago but down at a 4.9% annual rate in the past three months.
- Manufacturing output declined 0.8% in April, mostly due to an 8.2% drop in the output of motor vehicles and parts. The production of high-tech equipment grew 1.0% in April and is up 24.5% versus last year.
- Overall capacity utilization declined to 79.7% in April. Manufacturing capacity utilization dropped to 77.5%. With the exception of the month after Hurricanes Katrina/Rita, the decline in manufacturing capacity use was the steepest for any month since the 2001 recession.

**Implications:** Industrial production was weak in April. Capacity use in manufacturing dropped faster than at any time since 2001 (with the exception of Hurricanes Katrina/Rita). However, most of the decline in manufacturing was due to the auto sector, which is dealing with a strike at GM’s biggest axle supplier. Excluding autos, manufacturing fell 0.3%. More importantly, recent declines are consistent with sluggish overall economic growth, not recession. Similar weakness occurred in early 2003, after which the economy roared ahead, rather than weakening further. We also believe the Federal Reserve’s rate cuts temporarily slowed business activity as some firms waited for rates to hit bottom. Now that rates are unlikely to drop again, production will rise from here. In other news this morning, new claims for unemployment insurance increased 6,000 last week to 371,000, still well below recession levels. Continuing claims increased 28,000 to 3.06 million. Meanwhile, regional manufacturing indexes were mixed. The Philadelphia Fed index rose more than expected to -15.6 from -24.9 last month. The component indexes for shipments, new orders, and employment, all increased. The Empire State index, which covers New York, declined to -3.2 from +0.6 in April, largely on weaker shipments.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Apr-08	Mar-08	Feb-08	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>-0.7%</b>	0.2%	-0.7%	-4.9%	-1.1%	0.2%
<b>Manufacturing</b>	<b>-0.8%</b>	0.0%	-0.7%	-5.8%	-2.3%	-0.1%
<b>Motor Vehicles and Parts</b>	<b>-8.2%</b>	-4.3%	-1.3%	-43.5%	-26.4%	-16.8%
<b>Ex Motor Vehicles and Parts</b>	<b>-0.3%</b>	0.3%	-0.7%	-3.1%	-0.7%	0.9%
<b>Mining</b>	<b>-0.8%</b>	1.0%	0.3%	1.9%	5.2%	3.2%
<b>Utilities</b>	<b>0.4%</b>	0.7%	-2.3%	-5.0%	2.2%	0.8%
<b>Business Equipment</b>	<b>-1.1%</b>	0.7%	-0.2%	-2.1%	1.2%	3.0%
<b>Consumer Goods</b>	<b>-0.8%</b>	-0.4%	-0.8%	-7.9%	-2.8%	-1.6%
<b>High-Tech Equipment</b>	<b>1.0%</b>	2.3%	2.0%	23.5%	16.9%	24.5%
<b>Total Ex. High-Tech Equipment</b>	<b>-0.7%</b>	0.1%	-0.9%	-6.2%	-1.9%	-0.8%
<b>Cap Utilization (Total)</b>	<b>79.7</b>	80.4	80.3	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>77.5</b>	78.3	78.4	80.1	80.6	80.8
				78.1	78.6	79.1

Source: Federal Reserve Board

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