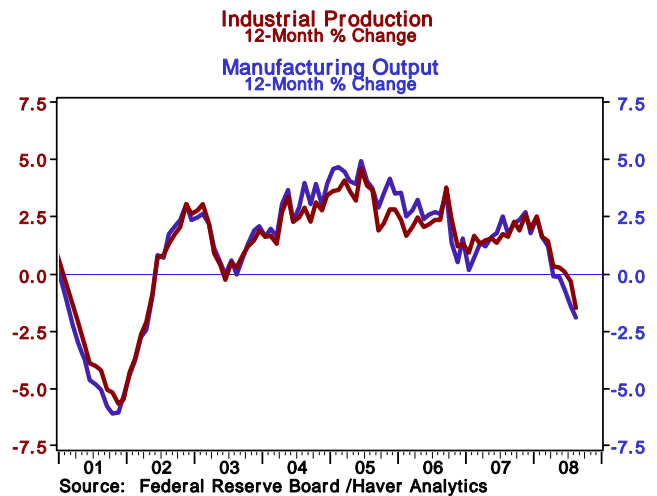


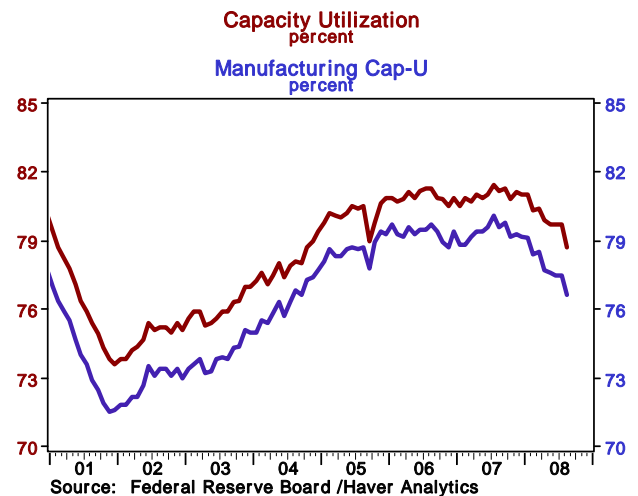
AUGUST INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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

- Industrial production dropped 1.1% in August versus a consensus expected decline of 0.3%. Production is down 1.5% versus a year ago.
- Manufacturing output was down 1.0% in August, with most of the loss due to a 11.9% drop in motor vehicles and parts, ending the sharp rebound that had occurred in June/July. Manufacturing production outside the auto sector fell 0.3%. The production of high-tech equipment grew only 0.1% in August but was revised up substantially for July and is up 19.4% versus last year.
- Overall capacity utilization declined to 78.7% in August. Manufacturing capacity utilization dropped to 76.6% versus 77.5% in July.



Implications: Industrial output fell substantially in August, the largest single-month drop since 1990 (except for the month of Hurricanes Katrina/Rita). However, the decline was not widespread. Weakness was concentrated in two sectors – autos and utilities – both of which are notoriously volatile. As a result, we do not think today’s data signal the US is in recession, despite the fact that industrial production is down 1.5% versus a year ago, something which during the past 50 years has only happened during recessions. We also do not think the Federal Reserve is going to cut rates tomorrow, even though a 25 basis point cut is now the consensus forecast among investors. We believe the Fed realizes that cutting rates further is not a good way to address financial market turmoil and that it risks exacerbating the inflation problem.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-08	Jul-08	Jun-08	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-1.1%	0.1%	0.2%	-3.5%	-3.5%	-1.5%
Manufacturing	-1.0%	0.1%	0.0%	-3.1%	-2.8%	-1.7%
Motor Vehicles and Parts	-11.9%	2.4%	4.8%	-19.9%	-28.4%	-20.7%
Ex Motor Vehicles and Parts	-0.3%	0.0%	-0.3%	-2.4%	-1.2%	-0.6%
Mining	-0.4%	1.1%	0.2%	3.5%	2.3%	3.6%
Utilities	-3.2%	-1.6%	1.9%	-11.7%	-13.5%	-4.2%
Business Equipment	-0.6%	0.2%	0.2%	-0.6%	-1.2%	0.7%
Consumer Goods	-2.0%	0.2%	0.7%	-4.5%	-5.8%	-3.0%
High-Tech Equipment	0.1%	1.3%	0.6%	8.1%	15.3%	19.4%
Total Ex. High-Tech Equipment	-1.2%	0.0%	0.2%	-4.1%	-4.4%	-2.4%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.7	79.7	79.7	79.4	79.7	80.3
Manufacturing	76.6	77.5	77.5	77.2	77.6	78.4

Source: Federal Reserve Board

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