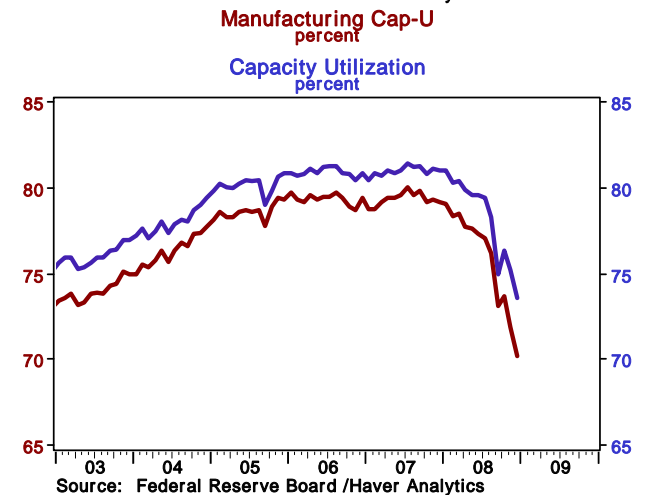
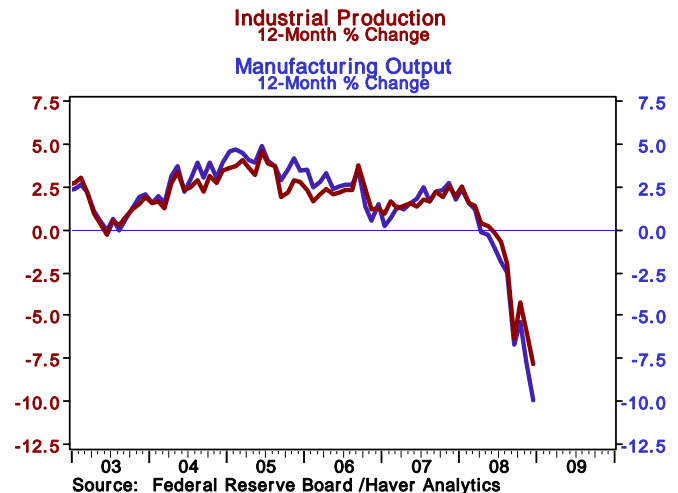


DECEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

Chief Economist – Brian S. Wesbury
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- Industrial production declined 2.0% in December versus a consensus expected -1.0%. Production is down 7.8% versus a year ago.
- Manufacturing output fell 2.4% in December, due to weak auto production and widespread losses in other sectors. Manufacturing output is down 10.0% versus a year ago.
- The production of high-tech equipment fell 4.1% in December, was revised down substantially for November, and is now down 6.5% versus last year.
- Overall capacity utilization fell to 73.6% in December from 75.2% in November. Manufacturing capacity utilization declined to 70.2% versus 71.9% in November.



Implications: Today's report on industrial output was ugly, but may have been influenced by an unusually cold December and extra snowfall in the Midwest and upper Northwest. Manufacturing output fell 2.4% in December and has dropped at a 16.7% annual rate in the past six months. Capacity use in the manufacturing sector is now down to 70.2%, the lowest since 1983. These data are consistent with a contraction in real GDP of 5% at an annual rate in the last quarter of 2008, the fastest decline since 1982. Although the production of business equipment increased 1.8% in December, this was all due to a rebound in transportation equipment related to the end of a strike at Boeing. The production of high-tech equipment was particularly weak in December, falling 4.1% on top of last month's drop of 5.9%. In recent months, high-tech spending has declined faster than it ever did during the high-tech bust of 2001-02. These reductions are not sustainable. Business spending on high-tech equipment has been very subdued relative to corporate cash flow the past several years and must eventually pick up due to obsolescence.

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| Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i> | Dec-08 | Nov-08 | Oct-08 | 3-mo % Ch annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|--|---------------|---------------|---------------|---------------------------------|----------------------------------|------------------------------|
| Industrial Production | -2.0% | -1.3% | 1.8% | -5.9% | -13.4% | -7.8% |
| Manufacturing | -2.4% | -2.2% | 0.9% | -14.1% | -16.7% | -10.0% |
| Motor Vehicles and Parts | -7.3% | -2.5% | -3.6% | -42.3% | -35.1% | -26.7% |
| Ex Motor Vehicles and Parts | -2.0% | -2.2% | 1.1% | -11.9% | -15.1% | -8.8% |
| Mining | -1.5% | 2.2% | 7.5% | 36.5% | -2.5% | -1.0% |
| Utilities | -0.1% | 0.9% | 2.2% | 12.7% | -2.3% | 0.5% |
| Business Equipment | 1.8% | 2.9% | -2.6% | 8.6% | -11.9% | -6.7% |
| Consumer Goods | -1.7% | -1.0% | 2.2% | -1.9% | -8.1% | -5.2% |
| High-Tech Equipment | -4.1% | -5.9% | -2.3% | -39.3% | -24.4% | -6.5% |
| Total Ex. High-Tech Equipment | -1.9% | -1.2% | 2.0% | -4.3% | -12.8% | -7.9% |
| | | | | 3-mo Average | 6-mo Average | 12-mo Average |
| Cap Utilization (Total) | 73.6 | 75.2 | 76.3 | 75.0 | 76.3 | 78.2 |
| Manufacturing | 70.2 | 71.9 | 73.7 | 71.9 | 73.7 | 75.9 |

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