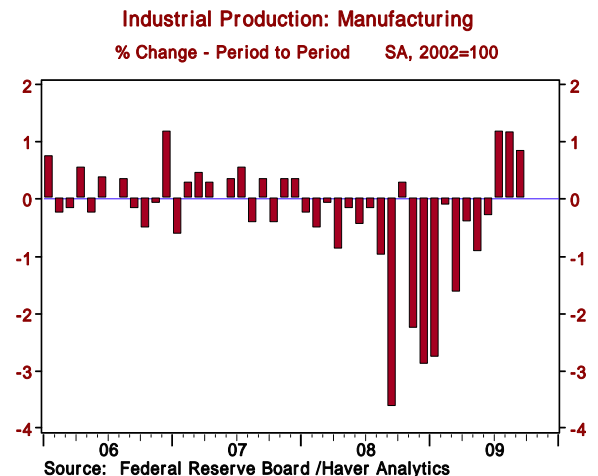
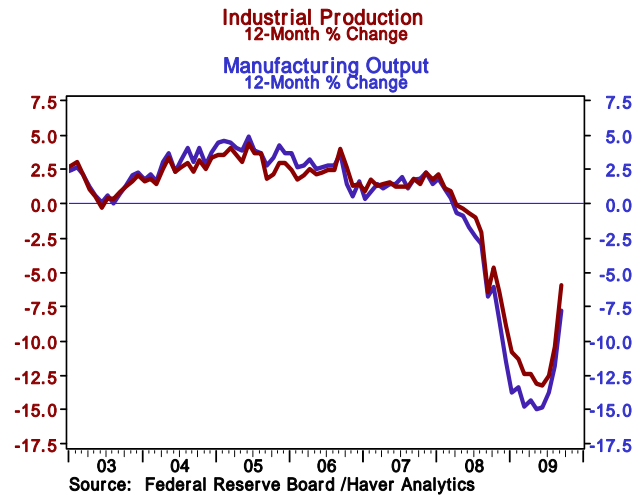


# SEPTEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.7% in September, easily beating the consensus expected gain of 0.2%. Production is up three months in a row, at an 11.8% annual rate.
- Manufacturing output increased 0.8% in September. Motor vehicle/parts production rose 7.9% while manufacturing ex-autos increased 0.4%, the third straight monthly gain.
- The production of high-tech equipment has been unchanged the past two months but that follows an upwardly revised 2.8% leap in July.
- Overall capacity utilization increased to 70.5% in September, crushing the consensus expected 69.8%. Manufacturing capacity utilization rose to 67.5% versus 66.8% in August.

**Implications:** The revenge of the smokestack continued into September, with another large monthly gain and upward revisions for August. Manufacturing output is up at a 14.5% annual rate in the past three months, the fastest pace for the initial stages of any recovery since the one in the early 1980s. This is not just due to cash for clunkers artificially and temporarily boosting auto production. Excluding autos, manufacturing is up at a 7.5% annual rate, also beating the initial stages of any recovery since the one in the early 1980s. After the last two recessions (1990-91 and 2001), the service sector led while manufacturing lagged. This time around, the manufacturing sector is leading the way in this V-shaped recovery. In other news this morning, the University of Michigan's measure of consumer sentiment unexpectedly fell 3.9 points in early October to 69.4. This follows a 7.8 point increase in September and we do not believe the decline in early October is indicative of a consumer pullback given strong recent data on retail sales.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Sep-09	Aug-09	Jul-09	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	<b>0.7%</b>	1.2%	0.9%	11.8%	1.6%	-6.0%
<b>Manufacturing</b>	<b>0.8%</b>	1.2%	1.2%	14.5%	3.5%	-7.2%
<b>Motor Vehicles and Parts</b>	<b>7.9%</b>	6.1%	17.9%	232.1%	43.4%	-15.0%
<b>Ex Motor Vehicles and Parts</b>	<b>0.4%</b>	0.9%	0.5%	7.5%	1.2%	-7.3%
<b>Mining</b>	<b>0.7%</b>	1.1%	1.3%	13.0%	-4.2%	0.2%
<b>Utilities</b>	<b>-0.7%</b>	1.9%	-1.4%	-1.2%	-4.8%	-2.1%
<b>Business Equipment</b>	<b>0.2%</b>	1.1%	0.9%	9.4%	-4.1%	-8.0%
<b>Consumer Goods</b>	<b>1.1%</b>	1.5%	0.6%	14.0%	2.7%	-1.8%
<b>High-Tech Equipment</b>	<b>0.0%</b>	0.0%	2.8%	11.6%	6.2%	-14.0%
<b>Total Ex. High-Tech Equipment</b>	<b>0.6%</b>	1.3%	0.8%	11.3%	1.3%	-5.8%
				3-mo Average	6-mo Average	12-mo Average
<b>Cap Utilization (Total)</b>	<b>70.5</b>	69.9	69.0	69.8	69.2	70.8
<b>Manufacturing</b>	<b>67.5</b>	66.8	66.0	66.8	66.1	67.5

Source: Federal Reserve Board

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