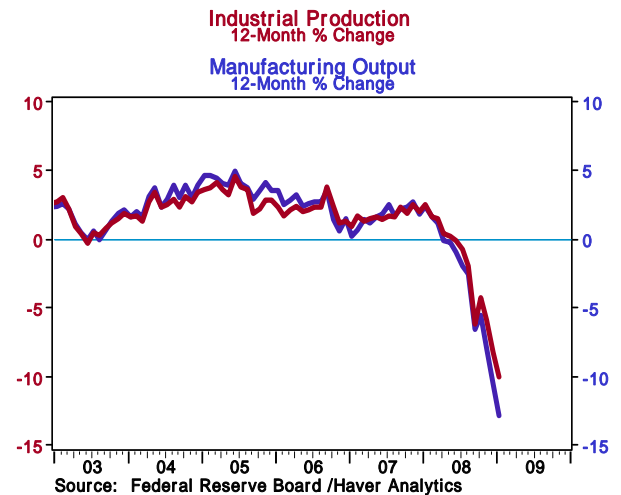


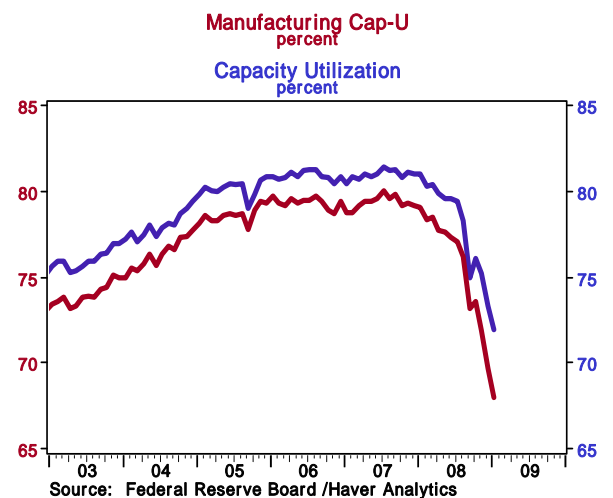
JANUARY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production declined 1.8% in January versus a consensus expected -1.5%. Production is down 10.0% versus a year ago.
- Manufacturing output fell 2.6% in January, with about half the drop due to weak auto production and the other half due to widespread losses outside the auto sector. Manufacturing output is down 12.9% versus a year ago.
- The production of high-tech equipment fell 3.2% in January, was revised down for previous months, and is now down 12.8% versus last year.
- Overall capacity utilization fell to 72.0% in January from 73.3% in December. Manufacturing capacity utilization declined to 68.0% versus 69.7% in December.



Implications: Industrial production in January continued the forceful descent that started late last summer. The assembly of autos and light trucks (pick-ups, SUVs, and some minivans), fell off a cliff, dropping to a 3.7 million annual rate in January from a 6.4 million rate in December. To put this in perspective, these assemblies normally run at an 11 to 12 million annual rate. At the worst part of the 1981-82 recession, we assembled these vehicles at a 5.1 million rate. Meanwhile, the production of high-tech equipment fell 3.2% in January, the sixth straight decline. 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 for the past several years and must eventually pick up due to obsolescence. A few weeks ago, the government reported that real GDP fell at a 3.8% annual rate in the fourth quarter of 2008. Today's data, along with recent figures on inventories, construction, and trade, suggest this will be revised down to -5.7%.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-09	Dec-08	Nov-08	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-1.8%	-2.4%	-1.2%	-19.7%	-17.0%	-10.0%
Manufacturing	-2.6%	-2.9%	-2.2%	-27.0%	-21.8%	-12.9%
Motor Vehicles and Parts	-23.3%	-8.1%	-2.2%	-77.5%	-64.6%	-43.7%
Ex Motor Vehicles and Parts	-1.4%	-2.6%	-2.2%	-22.3%	-18.1%	-10.8%
Mining	-1.3%	-1.0%	2.4%	0.4%	-6.1%	-0.7%
Utilities	2.7%	-0.2%	2.0%	19.5%	6.3%	1.4%
Business Equipment	-3.7%	2.4%	2.1%	2.8%	-18.6%	-10.9%
Consumer Goods	-1.8%	-2.0%	-0.9%	-17.2%	-12.1%	-7.9%
High-Tech Equipment	-3.2%	-6.2%	-6.1%	-47.0%	-34.2%	-12.8%
Total Ex. High-Tech Equipment	-1.7%	-2.3%	-1.0%	-18.2%	-16.3%	-9.9%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	72.0	73.3	75.2	73.5	75.0	77.4
Manufacturing	68.0	69.7	71.9	69.9	72.1	74.9

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