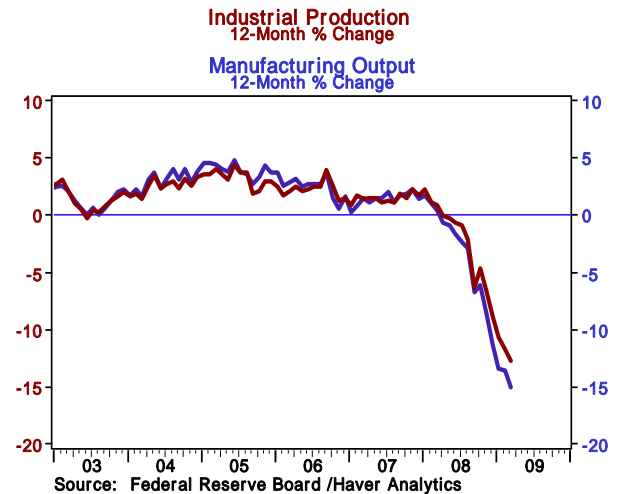


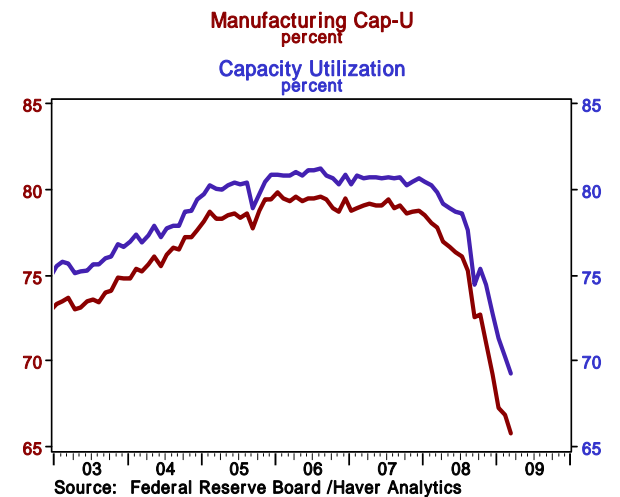
# MARCH INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production declined 1.5% in March versus a consensus expected -0.9%. Production is down 12.7% versus a year ago.
- Manufacturing output fell 1.7% in March. Motor vehicle/parts production increased 1.4% but output in the rest of the manufacturing sector declined 1.9%. Manufacturing output is down 14.9% versus a year ago.
- The production of high-tech equipment fell 3.1% in March but was revised up for previous months. High-tech output is down 22.7% versus last year.
- Overall capacity utilization fell to 69.3% in March from 70.3% in February. Manufacturing capacity utilization declined to 65.8% versus 66.9% in February.



**Implications:** Industrial production continued to fall in March and is down 12.7% versus last year, the steepest one-year decline since the end of World War II. When consumption fell off a cliff in late 2008, businesses were caught off guard and inventory-to-sales ratios increased dramatically. Now, firms are clearing out inventory by bringing production levels down *even though consumption has started to revive*. Due to slower production and higher sales, the inventory correction is now underway and is clearing the path for future substantial increases in production. This process is already generating gains in auto production. The assembly of autos and light trucks (pick-ups and SUVs) is up 30% in the past two months but is still so slow that auto dealers will be able to work off excess inventories. In other news this morning, the Empire State Index, a measure of manufacturing in New York, rebounded sharply to -14.7 in April (the highest in even months) from -38.2 in March. This supports our view that the economic contraction is rapidly losing steam.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Mar-09	Feb-09	Jan-09	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	-1.5%	-1.5%	-2.1%	-18.5%	-13.6%	-12.7%
<b>Manufacturing</b>	-1.7%	-0.6%	-2.8%	-17.9%	-17.5%	-14.9%
<b>Motor Vehicles and Parts</b>	1.4%	9.6%	-25.0%	-51.7%	-47.1%	-34.5%
<b>Ex Motor Vehicles and Parts</b>	-1.9%	-1.0%	-1.5%	-16.3%	-15.8%	-13.8%
<b>Mining</b>	-3.2%	-1.0%	-1.4%	-20.0%	2.1%	-7.0%
<b>Utilities</b>	1.9%	-7.8%	1.3%	-18.1%	0.2%	-2.8%
<b>Business Equipment</b>	-2.4%	-1.5%	-4.0%	-27.6%	-9.5%	-14.4%
<b>Consumer Goods</b>	-0.4%	-0.7%	-2.2%	-12.5%	-7.7%	-7.8%
<b>High-Tech Equipment</b>	-3.1%	-3.1%	-0.5%	-23.8%	-36.1%	-22.7%
<b>Total Ex. High-Tech Equipment</b>	-1.5%	-1.3%	-2.2%	-18.5%	-12.7%	-12.4%
<b>Cap Utilization (Total)</b>	<b>69.3</b>	70.3	71.3	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	<b>65.8</b>	66.9	67.3	70.3	72.3	75.1
				66.7	68.8	72.2

Source: Federal Reserve Board

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