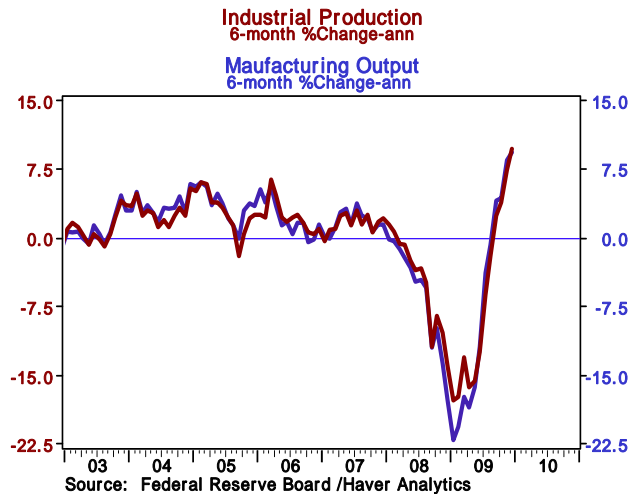


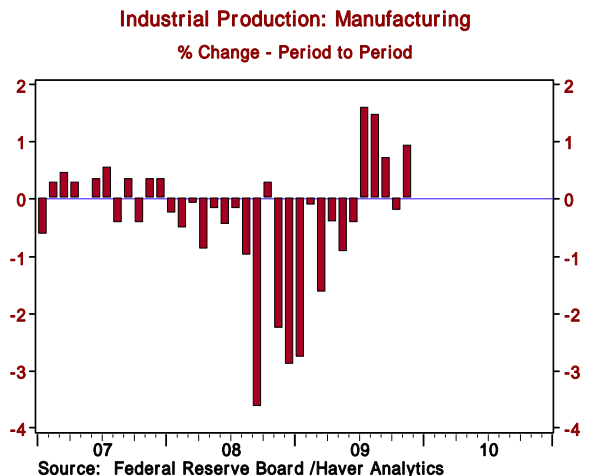
DECEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.6% in December, exactly as the consensus expected. Production is up at a 9.6% annual rate in the past six months.
- Manufacturing output was unchanged in December but down 0.1% excluding autos. In the past six months, total manufacturing is up at a 9.6% annual rate while manufacturing ex-autos is up at a 6.2% rate.
- The production of high-tech equipment increased 2.4% in December and was revised up for the previous few months.
- Overall capacity utilization increased to 72.0% in December, beating the consensus expected 71.8%. Manufacturing capacity utilization rose to 68.6%.



Implications: Industrial production increased exactly as the consensus expected in December, but the “mix” of production was unusual due to uncommonly severe weather. Manufacturing was unchanged in December while the strength in overall production was almost all due to utility output, which increased 6%, the most in 20 years. We don’t see flat manufacturing in December as a reason to think the recovery is stalling out. First, this December was the second coldest in the past 20 years and much of the Eastern seaboard was hit by the largest snowfall in recorded history. So the same weather that boosted utilities temporarily suppressed manufacturing. Second, now that we have both auto production and sales numbers for December, we estimate that auto dealers now have too few cars/trucks on their lots. As a result, auto production – which grew at a 38% annual rate in Q4 – is likely to grow rapidly again in Q1. Third, in other news this morning, the Empire State Index, a measure of manufacturing in New York, jumped to 15.9 in January from 4.5 in December. The indexes for new orders and shipments were both above 20 and even the employment index was in positive territory. We anticipate a clear rebound in manufacturing next month.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-09	Nov-09	Oct-09	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Industrial Production	0.6%	0.6%	0.2%	5.8%	9.6%	-2.1%
Manufacturing	0.0%	0.9%	-0.2%	3.7%	9.6%	-1.4%
Motor Vehicles and Parts	0.0%	1.5%	-2.5%	-4.0%	90.4%	-1.3%
Ex Motor Vehicles and Parts	-0.1%	0.9%	0.0%	3.2%	6.2%	-2.0%
Mining	0.2%	1.9%	0.0%	8.5%	11.2%	-4.4%
Utilities	6.0%	-2.4%	2.6%	26.5%	13.1%	-0.8%
Business Equipment	0.9%	-0.7%	0.6%	3.0%	6.5%	-9.6%
Consumer Goods	0.6%	0.0%	0.6%	4.9%	9.8%	0.3%
High-Tech Equipment	2.4%	0.1%	0.9%	14.4%	12.1%	3.2%
Total Ex. High-Tech Equipment	0.6%	0.5%	0.2%	5.6%	9.6%	-2.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	72.0	71.5	71.0	71.5	70.8	70.2
Manufacturing	68.6	68.5	67.8	68.3	67.7	66.9

Source: Federal Reserve Board

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.