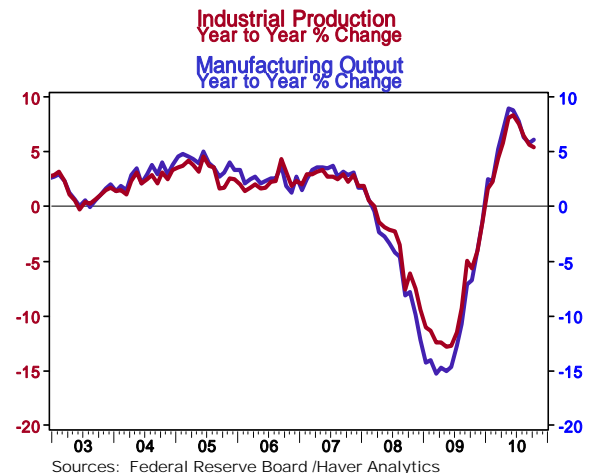


OCTOBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

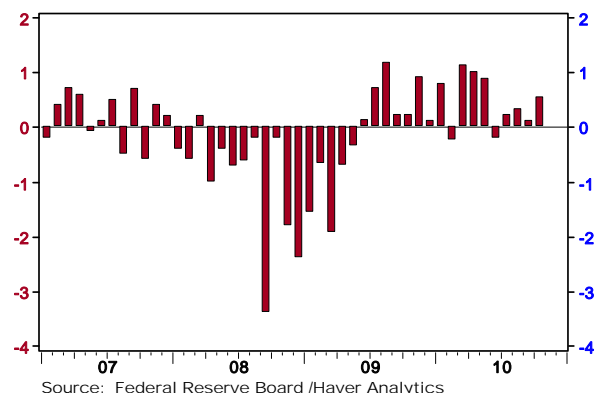
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- A large drop in utility output offset increases in manufacturing to leave industrial production unchanged in October versus a consensus expected gain of 0.3%. Production is up at a 4.2% annual rate in the past six months.
- Manufacturing production increased 0.6% in October, with auto production rising 1.6% and non-auto production rising 0.5%. In the past six months, auto production is up at a 19.2% annual rate while non-auto manufacturing is up at a 3.8% rate.
- The production of high-tech equipment was unchanged in October, was revised down for previous months, but is still up at a 4.6% annual rate in the past six months.
- Overall capacity utilization held steady at 74.8% in October but is still up 6.6 percentage points from the low in June 2009, the fastest increase since the early 1980s. Manufacturing capacity use increased to 72.7%.



Implications: Ignore the headline that says “industrial production was flat in October.” Mild weather cut utility output by 3.4%, which offset a robust 0.6% gain in factory production – the largest gain in three months and the fourth consecutive increase. Including upward revisions to prior months, factory output was 0.9% above the previous estimate for September. In the past six months, manufacturing output is up at a 4.9% annual rate, while non-auto production is up at a 3.8% rate. Although capacity utilization in the industrial sector is at 74.8% -- versus a long-term average of 80% -- capacity use is well above the low of 68.2% at the bottom of the recession in mid-2009. Two factors are boosting utilization: expanding output and a depreciating capital stock. In fact, manufacturing capacity has fallen back down to 2007 levels. Even with increases in business investment, our forecast of roughly 4% real GDP growth in 2011 should push capacity utilization back to the long-term average of 80% next year. This trend will force companies to expand capacity, which they clearly have the incentive to do. Record levels of cash remain on corporate balance sheets, earning virtually nothing.

Industrial Production: Manufacturing Excl Motor Vehicles & Parts
% Change - Period to Period SA, 2007=100



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Oct-10	Sep-10	Aug-10	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Industrial Production	0.0%	-0.2%	0.2%	0.4%	4.2%	5.4%
Manufacturing	0.6%	0.1%	0.0%	3.5%	4.9%	6.7%
Motor Vehicles and Parts	1.6%	0.0%	-6.2%	-17.6%	19.2%	13.4%
Ex Motor Vehicles and Parts	0.5%	0.1%	0.3%	4.0%	3.8%	5.7%
Mining	0.0%	0.1%	2.3%	9.9%	4.8%	7.5%
Utilities	-3.4%	-2.2%	-1.0%	-23.4%	1.3%	-2.5%
Business Equipment	1.2%	0.2%	0.2%	6.5%	10.3%	10.4%
Consumer Goods	0.0%	-0.4%	-0.5%	-3.7%	5.0%	2.6%
High-Tech Equipment	0.0%	0.2%	0.6%	3.1%	4.6%	10.1%
Total Ex. High-Tech Equipment	0.0%	-0.1%	0.2%	0.4%	4.2%	5.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	74.8	74.8	74.9	74.8	74.6	73.4
Manufacturing	72.7	72.3	72.2	72.4	72.2	71.0

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.