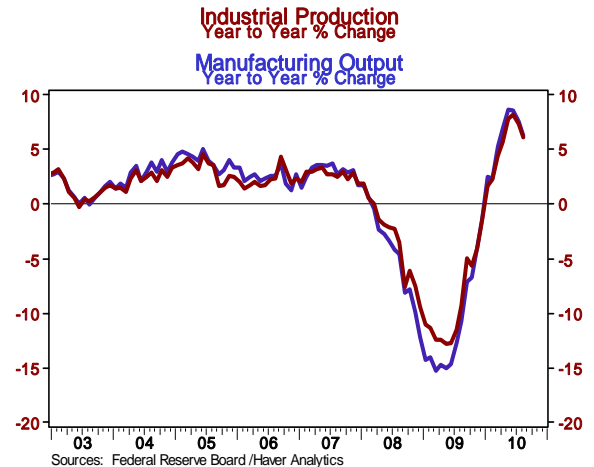


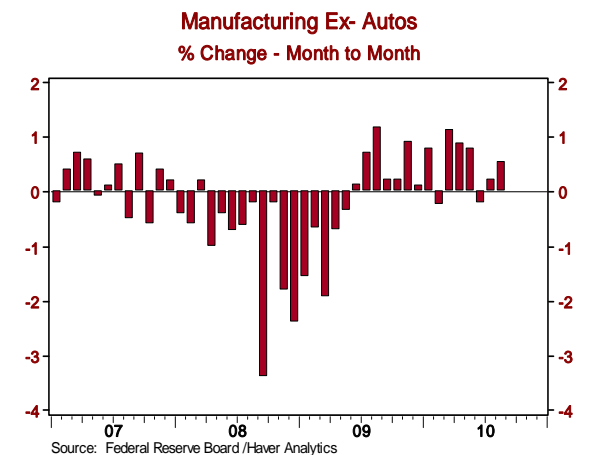
# AUGUST INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production increased 0.2% in August, matching consensus expectations. Production is up at a 6.1% annual rate in the past six months.
- After spiking up 9.4% in July, auto production fell 5.0% in August. Despite the drop, overall manufacturing increased 0.1% in August as non-auto production increased a healthy 0.5%. In the past six months, auto production is up at a 16.2% annual rate while non-auto manufacturing is up at a 6.9% annual rate.
- The production of high-tech equipment increased 0.9% in August and is up at a 10.5% annual rate in the past six months.
- Overall capacity utilization ticked up to 74.7% in August and is up 6.5 percentage points from the low in June 2009, the fastest increase since the early 1980s. Manufacturing capacity use ticked up to 72.2%.



**Implications:** Still no sign of either a double-dip or deflation. Industrial production continued the alternating strong month / weak month pattern it has shown all year, with large increases in one month followed by smaller increases or flat output in the next. Production was up 0.6% in July, so the modest 0.2% gain in August came as no surprise. The “weak” news in the report was that including revisions to prior months, overall production was down 0.2% in August. However, the underlying trend remains upward: manufacturing ex-autos, the most stable part of the report, was up 0.5% in August and is up at a 6.9% annual rate in the past six months. It is also up in five of the past six months. The softness in August was largely due to autos, which are extremely volatile, and utilities, where production is often weather-dependent. In other news this morning, the Empire State Index, a measure of manufacturing in New York, declined to 4.1 in September from 7.1 in August. However, the sub-indexes for new orders, shipments, and employment all improved. On the inflation front, import prices increased 0.6% in August while export prices gained 0.8%. Both price measures are up 4.1% in the past year. Ex-petroleum, import prices are up 3.1% versus a year ago; ex-agriculture, export prices are up 3.9% versus a year ago. When trade prices, which are from extremely competitive markets, are growing faster than overall consumer prices, it’s a signal that overall inflation is headed higher.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-10	Jul-10	Jun-10	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Industrial Production</b>	0.2%	0.6%	0.1%	3.5%	6.1%	6.2%
<b>Manufacturing</b>	0.1%	0.8%	-0.3%	2.2%	7.4%	6.5%
<b>Motor Vehicles and Parts</b>	-5.0%	9.4%	-2.5%	5.3%	16.2%	19.3%
<b>Ex Motor Vehicles and Parts</b>	0.5%	0.2%	-0.2%	2.2%	6.9%	5.5%
<b>Mining</b>	1.2%	0.9%	-0.6%	6.2%	7.7%	5.6%
<b>Utilities</b>	-1.6%	-0.3%	3.9%	8.3%	-2.7%	6.0%
<b>Business Equipment</b>	0.6%	1.0%	0.8%	9.9%	14.0%	9.9%
<b>Consumer Goods</b>	-0.4%	0.7%	-0.1%	0.9%	3.3%	4.4%
<b>High-Tech Equipment</b>	0.9%	0.9%	0.1%	7.9%	10.5%	13.5%
<b>Total Ex. High-Tech Equipment</b>	0.1%	0.7%	0.0%	3.1%	5.9%	5.9%
<b>Cap Utilization (Total)</b>	74.7	74.6	74.1	3-mo Average	6-mo Average	12-mo Average
<b>Manufacturing</b>	72.2	72.1	71.6	74.5	73.9	72.7
				72.0	71.5	70.3

Source: Federal Reserve Board

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