

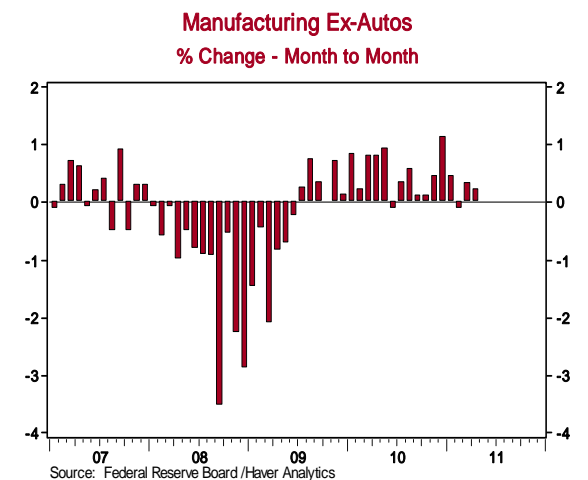
APRIL INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production was unchanged in April, coming in below the consensus expected gain of 0.4%. Including revisions to prior months, production declined 0.5%. Production is up 5.0% in the past year.
- Manufacturing, which excludes mining/utilities, was down 0.4% in April. Including downward revisions to prior months, manufacturing fell 1.1%. The decline in April was due to auto production, which dropped 8.9%. Non-auto manufacturing increased 0.2%. Auto production is up 8.3% versus a year ago while non-auto manufacturing has risen 4.5%.
- The production of high-tech equipment increased 2.3% in April and is up 13.6% versus a year ago.
- Overall capacity utilization declined slightly to 76.9% in April. Manufacturing capacity use declined to 74.4%.



Implications: Industrial production took a breather in April coming in unchanged, which was below the consensus expected gain of 0.4%. While mining and utility production both increased for the second straight month, manufacturing declined 0.4%. However, all of the drop in manufacturing was due to a 8.9% decline in auto production. Given temporary shortages of parts related to the earthquake, tsunami, and nuclear/electricity problems in Japan, some US automakers are shifting their traditional summer shutdowns into the spring. As a result, auto production will slip in Q2 and then surge sharply again in Q3. So for the next few months, we will continue to focus on manufacturing *excluding autos* in order to figure out the underlying trend. This measure of output was up 0.2% in April and is up 4.5% versus last year, so no problems there. High tech equipment continues to grow, up 2.3% in April and, despite downward revisions for prior months, up at a 23.1% annual rate in the past six months. Production is going to continue to move higher and will likely keep being led by business equipment. Inventories are low, corporate profits are at a record high and so is cash on the balance sheets of non-financial companies. In other recent news on the manufacturing sector, the Empire State index, a measure of manufacturing activity in New York, declined to a still solid +11.9 in May from +19.6 in April, suggesting continued growth in the factory sector, but not quite as quickly as earlier this spring.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Apr-11	Mar-11	Feb-11	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.0%	0.7%	-0.3%	1.7%	4.4%	5.0%
Manufacturing	-0.4%	0.7%	0.1%	1.8%	5.0%	5.1%
Motor Vehicles and Parts	-8.9%	3.6%	4.9%	-4.0%	-1.3%	8.3%
Ex Motor Vehicles and Parts	0.2%	0.3%	-0.1%	1.8%	5.0%	4.5%
Mining	0.8%	1.5%	-1.0%	5.1%	-0.2%	4.1%
Utilities	1.7%	0.7%	-2.3%	0.0%	9.5%	7.9%
Business Equipment	-0.4%	-0.4%	0.9%	0.0%	6.7%	9.9%
Consumer Goods	-0.7%	0.9%	-0.5%	-1.7%	2.0%	3.9%
High-Tech Equipment	2.3%	1.3%	-0.1%	15.4%	23.1%	13.6%
Total Ex. High-Tech Equipment	-0.1%	0.7%	-0.2%	1.3%	3.6%	4.6%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	76.9	77.0	76.5	76.8	76.6	75.9
Manufacturing	74.4	74.8	74.4	74.5	74.2	73.3

Source: Federal Reserve Board

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