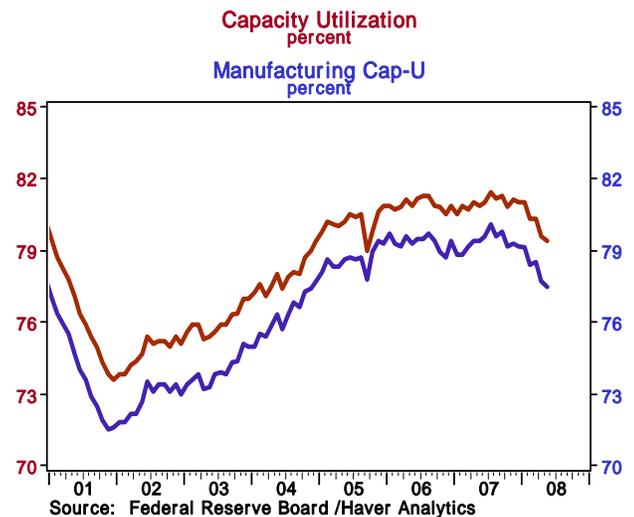


MAY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production declined 0.2% in May versus a consensus expected increase of 0.1%. Production is down 0.1% versus a year ago.
- Manufacturing output was unchanged in May. The output of motor vehicles and parts increased for the first time in six months due to the end of the American Axle strike. Meanwhile, manufacturing production outside the auto sector fell 0.1%. The production of high-tech equipment grew 1.1% in May and is up 25.0% versus last year.
- Overall capacity utilization declined to 79.4% in May. Manufacturing capacity utilization dropped to 77.5%, the lowest level since 2004.

Implications: Industrial production has been weak in recent months but the slowdown resembles the period of sluggish growth we experienced in early 2003, not a full blown recession. As in 2003, we expect the sluggishness to transition to more rapid growth in the months ahead. In our view, the Federal Reserve's rate cuts temporarily slowed business activity as some firms waited for rates to hit bottom. Now that rates are unlikely to drop again, and more likely to rise, production should increase from this point forward. In other recent news, the Empire State index, which covers manufacturing in New York, declined to -8.7 in June from -3.2 in May, a larger decline than the consensus expected. However, the survey's assessment of economic conditions in six months improved substantially, hitting +32.2 in June versus +23.9 in May. Expectations regarding new orders, shipments, the number of workers, and capital spending were all bullish.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-08	Apr-08	Mar-08	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-0.2%	-0.7%	0.1%	-3.2%	-2.5%	-0.1%
Manufacturing	0.0%	-0.9%	0.3%	-2.4%	-2.4%	-0.1%
Motor Vehicles and Parts	1.0%	-6.9%	-4.9%	-36.2%	-24.6%	-14.7%
Ex Motor Vehicles and Parts	-0.1%	-0.4%	0.5%	0.0%	-1.0%	0.7%
Mining	0.1%	-0.5%	-0.4%	-3.1%	-0.2%	2.2%
Utilities	-1.8%	0.0%	0.0%	-7.1%	-3.8%	-0.6%
Business Equipment	0.0%	-1.7%	0.7%	-3.9%	-0.3%	2.2%
Consumer Goods	-0.2%	-1.1%	-0.2%	-5.8%	-3.3%	-1.6%
High-Tech Equipment	1.1%	1.7%	2.0%	21.1%	16.6%	25.0%
Total Ex. High-Tech Equipment	-0.3%	-0.8%	0.1%	-4.1%	-3.3%	-1.2%
Cap Utilization (Total)	79.4	79.6	80.3	3-mo Average 79.8	6-mo Average 80.3	12-mo Average 80.7
Manufacturing	77.5	77.7	78.5	77.9	78.4	79.0

Source: Federal Reserve Board

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