FIRST Trust ADVISORS L.P.

Data Watch

May 16, 2006 • 630.322.7756 • http://www.ftportfolios.com

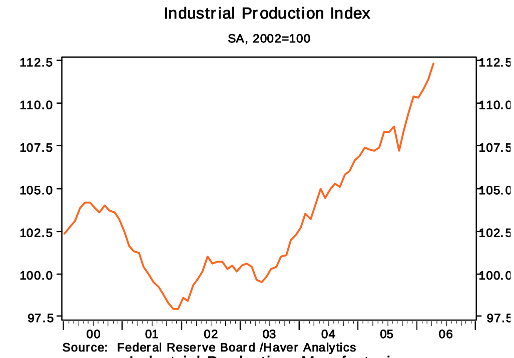
APR INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

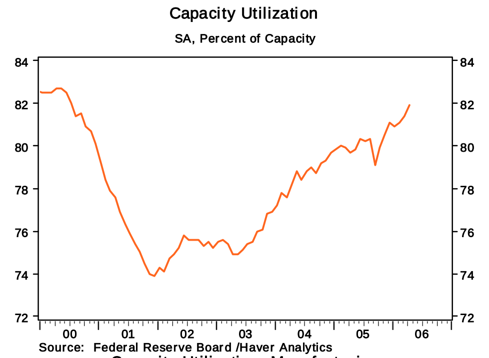
Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

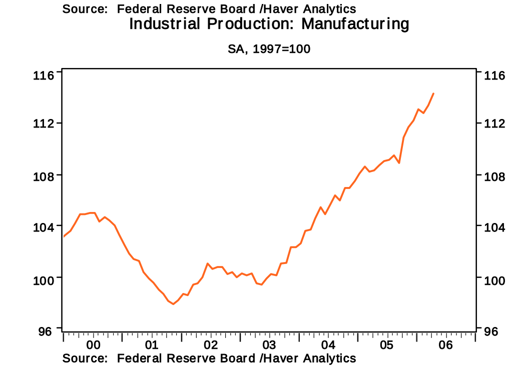
- Industrial production increased 0.8% in April after a 0.6% increase in March. Industrial production is up 4.8% in the past 12 months and 7.3% at an annualized rate in the past six months.

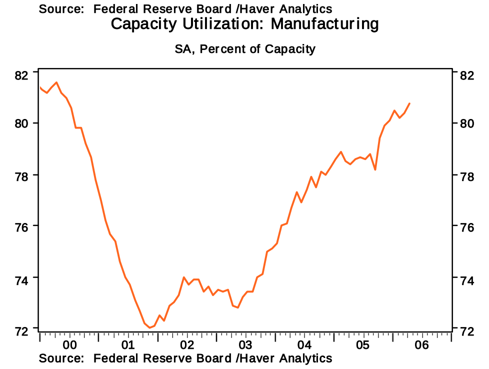
- Manufacturing production also increased 0.8% in April, while manufacturing production excluding motor vehicles jumped 0.9%. In the past year, manufacturing production is up 5.5%, but 5.7% when motor vehicle output is removed. Utility and mining output both increased 0.9% last month.

- Capacity utilization jumped to 81.9% in April, the highest level since July 2000.









Implications: In sharp contrast to weakness in the housing sector, industrial production surged in April, led by a 1.7% increase in business equipment output and a 1.6% jump in high-tech equipment output. Both overall industrial production and manufacturing output rose to record high levels in April and manufacturing output is up an annualized 5.7% in the first four months of 2006. In the past three years, manufacturing output has risen 14.8%, while real GDP has increased 12.3%. This fact contradicts the conventional wisdom that the US manufacturing sector is unable to compete in today's global economy. In reality, US manufacturers – especially those that have put a premium on flexibility and productivity – are in the midst of a renaissance. Deflation in the early 2000s caused interest rates to fall to extremely low levels. Those low interest rates were utilized in the housing market – for new purchases, refinancing and equity withdrawal. Now that inflation and interest rates are rising, demand for capital is shifting away from housing and toward business investment. This surge in production is boosting capacity utilization – which has now back at levels not seen since 2000. These developments put the Fed in a quandary. While a slowdown in housing is likely to encourage a pause in rate hikes, capacity constraints are always viewed as a threat in Phillips Curve models. We expect a pickup in production will offset the slowdown in housing and keep the economy strong. With the economy strong and capacity constraints evident, the Fed is likely to stay in a tightening mode.

Industrial Production Capacity Utilization *All data seasonally adjusted*	**Apr-06**	**Mar-06**	**Feb-06**	**3-mo % Ch *annualized***	**6-mo % Ch. *annualized***	**Yr over yr % Ch.**
Industrial Production	**0.8%**	0.6%	0.4%	7.5%	7.3%	4.8%
Manufacturing	**0.8%**	0.5%	-0.3%	4.3%	6.2%	5.5%
Manufacturing Ex. Motor Vehicles	**0.9%**	0.4%	-0.2%	4.7%	7.6%	5.7%
Business Equipment	**1.7%**	0.7%	0.5%	12.1%	13.8%	12.4%
Durable Consumer Goods	**-0.4%**	0.7%	-0.3%	0.4%	-4.9%	4.1%
Nondurable Consumer Goods	**0.4%**	0.8%	0.7%	7.5%	3.1%	2.1%
High-Tech Equipment	**1.6%**	1.3%	1.3%	18.0%	21.0%	22.3%
Total Ex. High-Tech Equipment	**0.7%**	0.6%	0.3%	6.5%	6.6%	3.8%
Mining	**0.9%**	0.9%	0.7%	10.6%	26.5%	-0.3%
Utilities	**0.9%**	0.7%	5.9%	33.7%	-0.4%	2.5%
Capacity Utilization	**81.9**	81.4	81.1	81.5	81.2	80.5
Manufacturing	**80.8**	80.4	80.2	80.5	80.3	79.5
Mining	**89.8**	88.9	88.0	88.9	87.1	86.7
Utilities	**86.0**	85.3	84.8	85.4	85.1	86.1

Source: Federal Reserve Board ****CapU data: % of capacity & 3, 6, 12 month averages***