Data Watch

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FEBRUARY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

- Industrial production increased 1.0% in February, the largest increase since November 2005. The consensus expected gain was 0.3%. In the past twelve months, industrial production is up 3.4%. In the past three months, production is up at a 5.9% annual rate.
- Manufacturing production increased 0.4% in February on top of an upwardly revised level of production in January. Manufacturing output is up 2.8% versus a year ago and up at a 3.9% annual rate in the past three months.
- The production of high-tech equipment continues to stand out, rising 3.2% in February and up 29.4% versus a year ago, the largest 12-month increase since January 2001. Motor vehicle production rose 3.1%, a partial rebound from the 5.8% drop in January.
- Capacity utilization rose to 82.0% from an upwardly revised 81.4% in January. The consensus forecast was 81.3%. In the manufacturing sector, capacity utilization increased to 80.1%.

Implications: There is no denying the strength of today's report on industrial production. When last month's weak industrial production report was released, we said "we believe the drop in production is due to an inventory correction which is coming to an end." Today's data confirm this view. The US economy is nowhere near a recession or prolonged slowdown.

Industrial Production 12-Month % Change Manufacturing Output 7.5 7.5 5.0 5.0 2.5 2.5 0.0 0.0 -2.5 2.5 -5.0 5.0 -7.5 \ -7.5 07 01 02 03 04 05 06 Source: Federal Reserve Board /Haver Analytics Capacity Utilization Manufacturing Cap-U 82.5 2.5 80.0 80.0 77.5 77.5 75.0 75.0 72.5 72.5 **70.0**⁺ 70.0 01 02 03 04 05 06 Source: Federal Reserve Board /Haver Analytics 07

Industrial Production Capacity Utilization All Data Seasonally Adjusted	Feb-07	Jan-07	Dec-06	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	1.0%	-0.3%	0.8%	5.9%	1.1%	3.4%
Manufacturing	0.4%	-0.4%	1.1%	3.9%	0.0%	2.8%
Motor Vehicles and Parts	3.1%	-5.8%	1.7%	-4.7%	-5.2%	-3.3%
Ex Motor Vehicles and Parts	0.2%	-0.1%	1.0%	4.3%	0.3%	3.2%
Mining	0.1%	-1.4%	2.1%	3.2%	3.2%	3.0%
Utilities	6.8%	2.2%	-2.4%	28.5%	9.2%	9.6%
Business Equipment	0.4%	-2.1%	2.2%	1.9%	2.3%	8.5%
Consumer Goods	1.5%	0.0%	0.4%	7.6%	3.4%	3.4%
High-Tech Equipment	3.2%	2.1%	1.2%	29.2%	27.3%	29.4%
Total Ex. High-Tech Equipment	0.8%	-0.5%	0.7%	4.5%	-0.2%	2.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	82.0	81.4	81.7	81.7	81.7	81.9
Manufacturing	80.1	79.9	80.5	80.2	80.2	80.4

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.

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