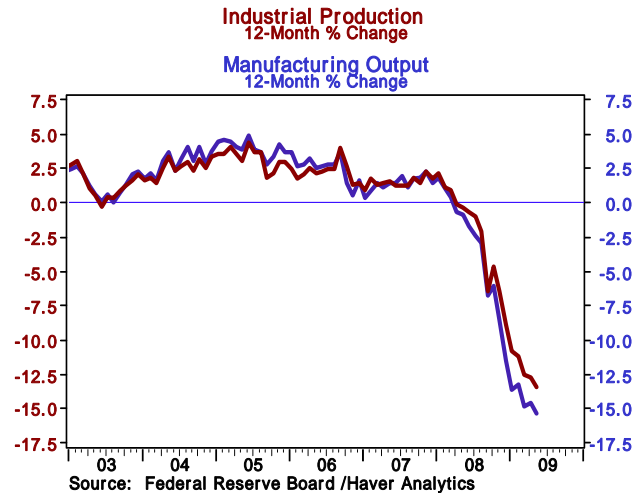


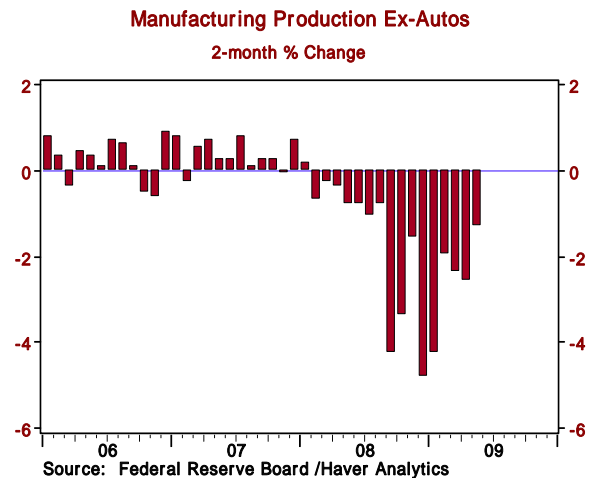
MAY INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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- Industrial production declined 1.1% in May, almost exactly as the consensus expected. Production is down 13.5% versus a year ago.
- Manufacturing output fell 1.0% in May. Motor vehicle/parts production fell 8.0% while output in the rest of the manufacturing sector declined 0.7%. Manufacturing output is down 15.2% versus a year ago.
- The production of high-tech equipment declined 1.9% in May but upward revisions for previous months exceeded the monthly decline in May. High-tech output is down 20.9% versus last year.
- Overall capacity utilization fell to 68.3% in May from 69.0% in April. Manufacturing capacity utilization declined to 65.0% versus 65.6% in April.



Implications: Industrial production fell again in May but this does not undermine our belief that the economy has already bottomed and is now in a V-shaped recovery. Typically, industrial production does not increase until 1-3 months after recessions come to an end. We are likely to get that increase as auto companies are scheduled to ramp up production substantially (on a seasonally adjusted basis) this summer and the drag from the non-auto part of manufacturing is diminishing, as the adjacent chart shows. Recent continued declines in industrial production are due to companies making deep cuts into the excess inventories that developed late last year. We think the inventory correction will be finished around mid-year, at which point industrial production will start rising again. We expect high-tech to play a major role in the rebound. Although it declined 1.9% in May, upward revisions to prior months outweighed the decline and recent tech earnings reports are a bullish sign for the sector.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	May-09	Apr-09	Mar-09	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-1.1%	-0.7%	-1.8%	-13.7%	-16.4%	-13.5%
Manufacturing	-1.0%	-0.6%	-1.8%	-12.3%	-16.6%	-15.2%
Motor Vehicles and Parts	-8.0%	-1.1%	1.2%	-27.9%	-51.5%	-38.4%
Ex Motor Vehicles and Parts	-0.7%	-0.6%	-2.0%	-12.4%	-14.9%	-14.0%
Mining	-2.2%	-3.2%	-1.9%	-25.6%	-20.8%	-10.6%
Utilities	-1.4%	0.7%	-1.0%	-7.0%	-8.3%	-3.4%
Business Equipment	-1.4%	-1.9%	-2.7%	-21.5%	-16.9%	-16.5%
Consumer Goods	-0.9%	-0.2%	-0.5%	-6.3%	-9.2%	-7.2%
High-Tech Equipment	-1.9%	0.5%	0.0%	-5.5%	-14.5%	-20.9%
Total Ex. High-Tech Equipment	-1.1%	-0.7%	-1.9%	-13.9%	-16.4%	-13.0%
Cap Utilization (Total)	68.3	69.0	69.4	3-mo Average	6-mo Average	12-mo Average
Manufacturing	65.0	65.6	65.9	68.9	70.2	73.4
				65.5	66.6	70.3

Source: Federal Reserve Board

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