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Data Watch

December 15, 2010 • 630.517.7756 • http://www.ftportfolios.com

NOVEMBER INDUSTRIAL PRODUCTION / CAPACITY UTILIZATION

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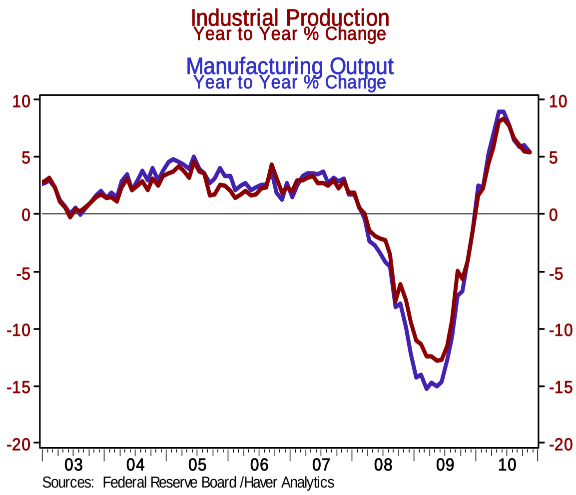
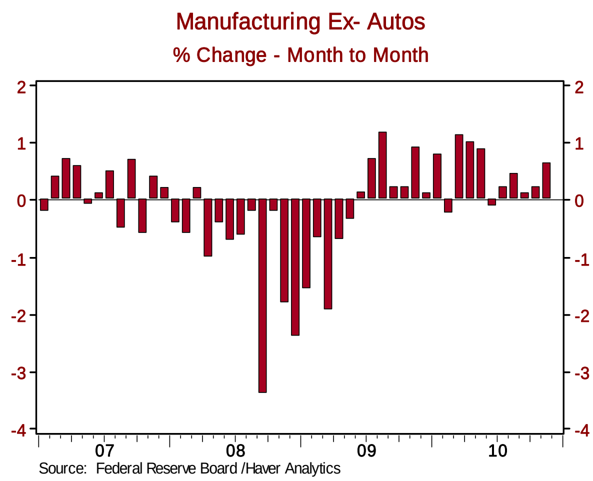
- Industrial production increased 0.4% in November, beating a consensus expected gain of 0.3%. Production is up at a 2.8% annual rate in the past six months.
- Despite a 6.0% drop in auto production, manufacturing output rose 0.3% in November despite a 6.0% decline in autos. Non-auto manufacturing rose a strong 0.7%. In the past six months, auto production is down at a 4.7% annual rate while non-auto manufacturing is up at a 3.1% rate.
- The production of high-tech equipment was up 0.9% in November and is up at a 2.9% annual rate in the past six months.
- Overall capacity utilization rose to 75.2% in November, the highest since October 2008. Manufacturing capacity use increased to 72.8%, the highest since the failure of Lehman Brothers.



Implications: Another month, another increase in factory output and no sign of a double dip. Many analysts are using the election and tax deal to turn bullish. They are scrambling to catch up to an economy that was already growing before a single person cast a vote. Like retail sales, manufacturing output rose for the fifth consecutive month in November. Due to a 2% increase in utility output, overall industrial production rose 0.4%. Look for another surge in utility output next month as December is turning out to be unusually cold in much of the country. In mid-2009, capacity utilization was at a 45-year low of 68.2%. Now, only 17 months later, capacity utilization is 7 percentage points higher, at 75.2%. Two factors are boosting utilization: expanding output and a depreciating capital stock. In fact, because of depreciation, total capacity (the ability to produce) in manufacturing has fallen back down to 2007 levels. Assuming we are correct that real GDP expands 4% in 2011, capacity utilization will climb to near the long-term average of 80% next year. Not only will companies be forced to invest but the Federal Reserve will face greater fears of inflation coming from a constrained sector of the economy. In other news this morning, the Empire State index, a measure of manufacturing in New York, rebounded sharply in December, climbing from -11.1 in November to +10.6.



Industrial Production Capacity Utilization *All Data Seasonally Adjusted*	Nov-10	Oct-10	Sep-10	3-mo % Ch *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Industrial Production	**0.4%**	-0.2%	0.1%	1.3%	2.8%	5.4%
Manufacturing	**0.3%**	0.3%	0.1%	3.5%	3.1%	6.0%
Motor Vehicles and Parts	**-6.0%**	1.5%	0.4%	-15.5%	-4.7%	4.5%
Ex Motor Vehicles and Parts	**0.7%**	0.2%	0.1%	4.0%	3.1%	5.3%
Mining	**-0.1%**	-0.2%	1.1%	3.1%	8.4%	7.7%
Utilities	**2.0%**	-3.7%	-1.3%	-11.7%	-2.0%	2.5%
Business Equipment	**0.9%**	1.4%	0.5%	11.9%	9.2%	12.5%
Consumer Goods	**-0.5%**	-0.2%	-0.4%	-4.5%	-0.4%	2.3%
High-Tech Equipment	**0.9%**	-0.6%	-0.3%	-0.3%	2.9%	10.1%
Total Ex. High-Tech Equipment	**0.4%**	-0.2%	0.1%	1.3%	2.9%	5.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	**75.2**	74.9	75.1	75.1	74.9	73.8
Manufacturing	**72.8**	72.6	72.4	72.6	72.4	71.4

Source: Federal Reserve Board