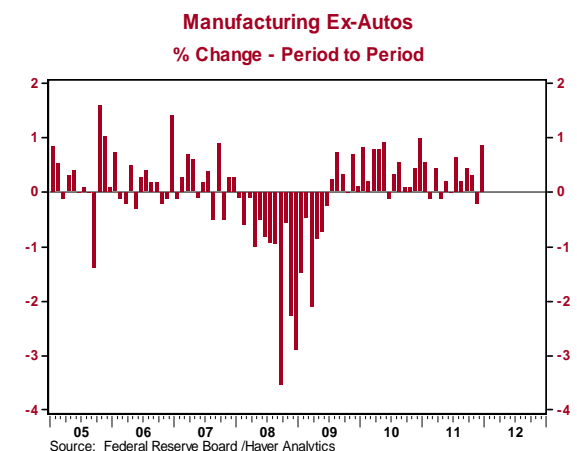
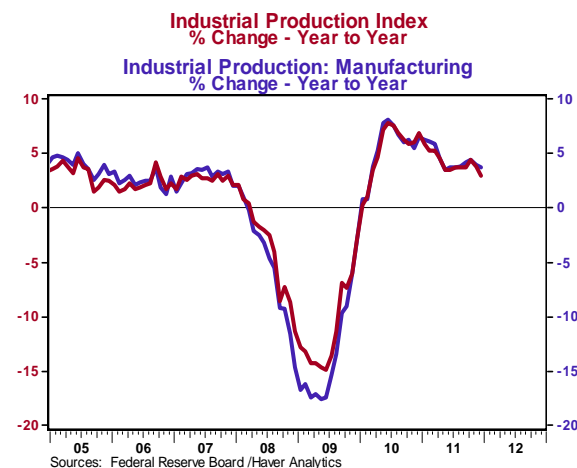


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December Industrial Production / Capacity Utilization

- Industrial production increased 0.4% in December, falling just short of the consensus expected gain of 0.5%. Including revisions to prior months, production increased 0.5% and is up 2.9% in the past year.
- Manufacturing, which excludes mining/utilities, surged 0.9% in December. Auto production increased 0.6% while non-auto manufacturing spiked 0.9%. Auto production is up 10.3% versus a year ago while non-auto manufacturing is up 3.3%.
- The production of high-tech equipment increased 0.6% in December but is only up 0.8% versus a year ago.
- Overall capacity utilization increased to 78.1% in December from 77.8% in November. Manufacturing capacity use rose to 75.9% in December from 75.3% in November.

Implications: Excellent news on the factory sector in December. Although industrial production grew slightly less than the consensus expected, revisions to prior months put growth on par with expectations. More importantly, overall industrial production was held down by a 2.7% drop in utility output, a result of unusually warm December weather. Talking out utilities and mining (which was up in December), manufacturing surged 0.9%, the largest gain in 2011. Sometimes large increases in manufacturing are due by a temporary spike in auto production, but not this time. Manufacturing ex-autos was up 0.9%, also the largest gain this year. We have been following these numbers all year, to try to focus on the underlying trend, and that trend is still accelerating, up 3.3% versus a year ago, but up at a 4% annual rate in the past three months. High-tech is another good sign. After falling for three straight months due to major flooding in Thailand (one of the world's leading production centers for hard disk drives and semiconductors), high tech output increased 0.6% in December. More timely news on the manufacturing sector is also good. The Empire State index, a measure of activity in New York, increased to +13.5 in January from +8.2 in December. As recently as October, the index was -7.2. On the housing front, the market index from the National Association of Home Builders, which measures their confidence, increased to 25 in January, easily beating consensus expectations and the highest reading since 2007. As recently as September, the index was at 14.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Dec-11	Nov-11	Oct-11	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr % Change
Industrial Production	0.4%	-0.3%	0.6%	3.0%	4.8%	2.9%
Manufacturing	0.9%	-0.3%	0.4%	4.4%	5.1%	4.0%
Motor Vehicles and Parts	0.6%	-2.6%	3.5%	5.9%	13.6%	10.3%
Ex Motor Vehicles and Parts	0.9%	-0.2%	0.3%	4.0%	4.7%	3.3%
Mining	0.4%	0.5%	1.6%	9.9%	10.2%	6.5%
Utilities	-2.7%	-0.6%	-0.2%	-13.1%	-5.5%	-6.6%
Business Equipment	0.7%	0.0%	1.3%	8.3%	10.7%	9.4%
Consumer Goods	0.2%	-0.7%	0.6%	0.4%	2.2%	0.9%
High-Tech Equipment	0.6%	-0.2%	-1.5%	-4.7%	-1.3%	0.8%
Total Ex. High-Tech Equipment	0.4%	-0.2%	0.6%	3.5%	5.1%	3.1%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	78.1	77.8	78.1	78.0	77.8	77.3
Manufacturing	75.9	75.3	75.6	75.6	75.3	74.9

Source: Federal Reserve Board

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