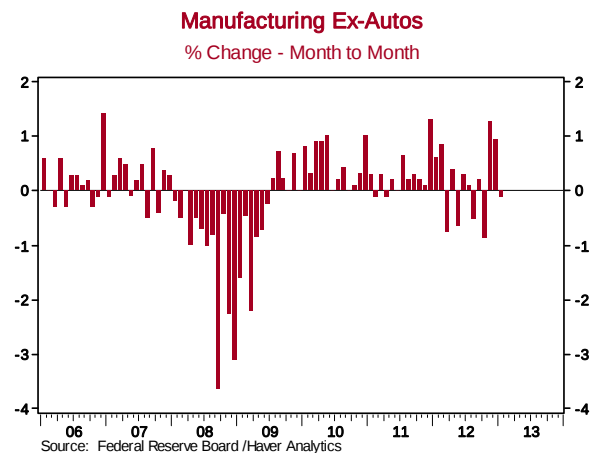
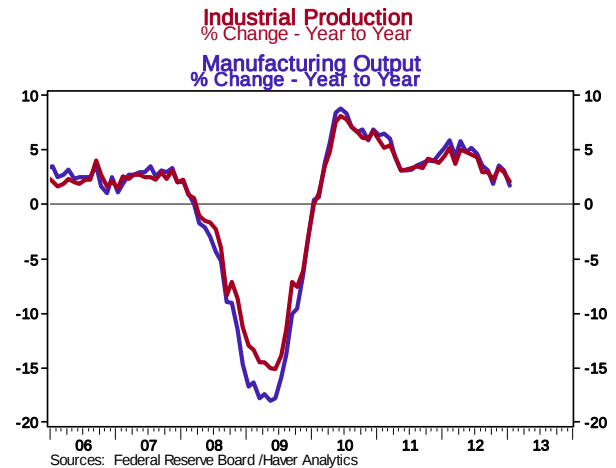


January Industrial Production / Capacity Utilization

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- Industrial production declined 0.1% in January, coming in below the consensus expected gain of 0.2%. Production is up 2.1% in the past year.
- Manufacturing, which excludes mining/utilities, declined 0.4% in January. Auto production fell 3.2%, while non-auto manufacturing declined 0.1%. Auto production is up 7.5% versus a year ago while non-auto manufacturing is up 1.3%.
- The production of high-tech equipment fell 0.1% in January, and is down 2.2% versus a year ago.
- Overall capacity utilization slipped to 79.1% in January from 79.3% in December. Manufacturing capacity use fell to 77.6% in January from 78.0% in December.

Implications: Industrial production declined slightly in January with overall output down 0.1% and manufacturing falling 0.4%. But the “big story” in today’s report was the large upward revisions for November/December. Including revisions for prior months, both overall production and manufacturing were up 0.5%. In addition, the upward revisions to production pushed capacity utilization in December to the highest level since 2005. It was only from that near-term peak that capacity use ticked down in January. Two factors might explain the dip in production in January itself: first, normal month-to-month volatility; second, some privately-held firms pushing production out the door before year-end so they could book revenue before higher tax rates took effect on January 1. Even including the decline in January, production has accelerated considerably in the past three months, with overall production up at a 6.8% annual rate and manufacturing up at a 10.1% annual rate. In the past year auto production is up 7.5%, while manufacturing ex-autos is up a slower 1.3%. We expect the gap between those two growth rates to narrow considerably in 2013, with slower growth in autos and faster growth elsewhere in manufacturing. Capacity utilization fell to 79.1% in December, only slightly below the average of 79.2% in the past 20 years. Continued gains in production will push capacity use higher, which means companies will have an increasing incentive to build out plant and equipment. Meanwhile, corporate profits and cash on the balance sheet show they have the ability to make these investments. In other news today, the Empire State manufacturing index, a measure of factory sentiment in New York, increased to +10.0 in February from -7.8 in January. The index is now the highest since last May. In other recent news, new claims for unemployment insurance fell 27,000 last week to 341,000. Lately, claims have been bouncing wildly around a four-week moving average of 353,000. Continuing claims for regular state benefits fell 130,000 to 3.11 million. These figures are consistent with continued moderate payroll growth in February.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Jan-13	Dec-12	Nov-12	3-mo % Ch annualized	6-mo % Ch annualized	Yr to Yr % Change
Industrial Production	-0.1%	0.4%	1.4%	6.8%	1.4%	2.1%
Manufacturing	-0.4%	1.1%	1.7%	10.1%	2.1%	2.1%
Motor Vehicles and Parts	-3.2%	2.9%	5.9%	24.0%	0.9%	7.5%
Ex Motor Vehicles and Parts	-0.1%	1.0%	1.3%	8.9%	1.9%	1.3%
Mining	-0.9%	0.0%	0.9%	-0.3%	3.8%	1.8%
Utilities	3.5%	-4.4%	0.6%	-2.0%	-4.4%	6.0%
Business Equipment	0.0%	0.3%	3.1%	14.3%	2.5%	6.8%
Consumer Goods	-0.2%	0.4%	1.5%	7.1%	0.9%	1.4%
High-Tech Equipment	-0.1%	-0.9%	-0.1%	-4.1%	-3.9%	-2.2%
Total Ex. High-Tech Equipment	-0.1%	0.4%	1.5%	7.3%	1.4%	2.2%
				3-mo Average	6-mo Average	12-mo Average
Cap Utilization (Total)	79.1	79.3	79.1	79.2	78.7	78.8
Manufacturing	77.6	78.0	77.3	77.6	77.1	77.3

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.