First Trust DATAWATCH

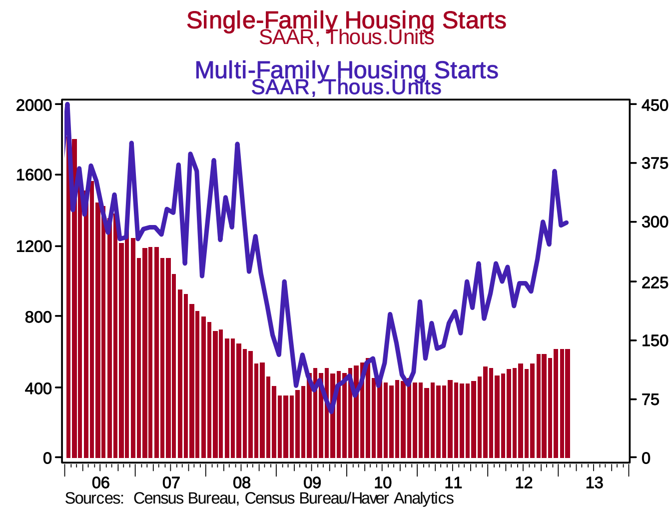
March 19, 2013 • 630.517.7756 • www.ftportfolios.com

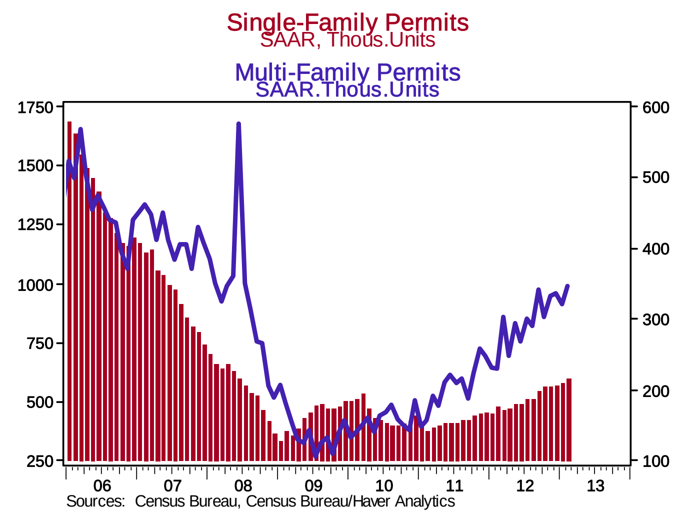
February Housing Starts

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- Housing starts rose 0.8% in February to 917,000 units at an annual rate, very close to the consensus expected 915,000 pace. Starts are up 27.7% versus a year ago.
- The increase in starts in February was due to both single-family and multi-family starts, which rose 0.5% and 1.4%, respectively. Single-family starts are up 31.5% from a year ago while multi-family starts are up 20.6%.
- Starts in February were up in the Northeast and Midwest, but down in the South and West.
- New building permits rose 4.6% in February to a 946,000 annual rate, beating the consensus expected 925,000 pace. Compared to a year ago, permits for single-unit homes are up 25.5% while permits for multi-family units are up 51.1%.

Implications: The housing recovery continues to build momentum and has much further to go. Housing starts rose 0.8% in February, with gains for both single- and multi-family starts. Single-family starts are up 31.5% from a year ago and the highest since mid-2008. Multi-family starts, which can be very volatile from month to month, are up 20.6% from a year ago. The total number of homes under construction (started, but not yet finished) was up 2.3% in February and is up 27.8% from a year ago. The most bullish part of the report was that building permits increased 4.6% in February and are up 33.8% from a year ago, signaling continued growth in home building. As the two charts to the right show, the underlying trend is clearly upward for home building. We think it will remain so for the next few years. Based on population growth and "scrappage," housing starts will eventually rise to about 1.5 million units per year (probably by 2015). In other recent housing news, the NAHB index, which measures confidence among home builders, slipped to 44 in March from 46 in February. The indexes for future sales and foot traffic increased, but the index for current sales declined. Don't get worked up about this dip; given the improvement in the forward-looking parts of the report, look for a rebound in the overall index next month. The bottom line is that housing construction, prices, and sales are well into recovery and will continue along this path for the next few years. That path will not be perfectly straight; there will be zigs and zags along the way. Just don't let those temporary deviations distract from the trend.





Housing Starts SAAR, thousands	**Monthly** % Ch.	**Feb-13** Level	**Jan-13** Level	**Dec-12** Level	**3-mth** moving avg	**6-mth** moving avg	**Yr to Yr** % Change
Housing Starts	**0.8%**	917	910	982	936	897	27.7%
Northeast	**18.4%**	103	87	116	102	88	56.1%
Midwest	**37.5%**	132	96	187	138	145	33.3%
South	**-5.7%**	463	491	465	473	454	10.5%
West	**-7.2%**	219	236	214	223	209	63.4%
Single-Unit Starts	**0.5%**	618	615	617	617	600	31.5%
Multi-Unit Starts	**1.4%**	299	295	365	320	297	20.6%
Building Permits	**4.6%**	946	904	909	920	903	33.8%
Single-Unit Permits	**2.7%**	600	584	573	586	574	25.5%

Source: U.S. Census Bureau