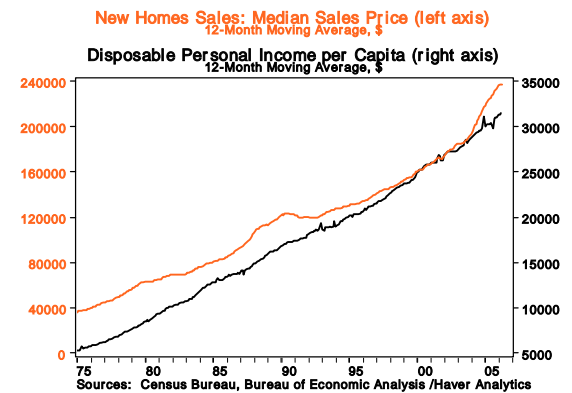
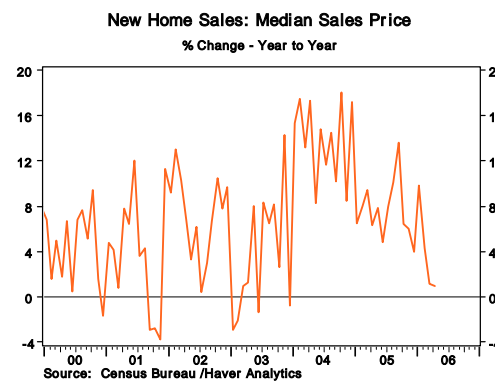
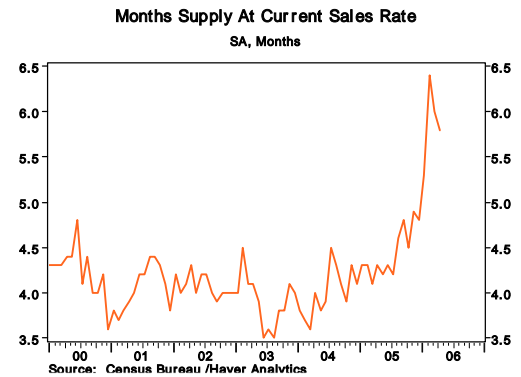
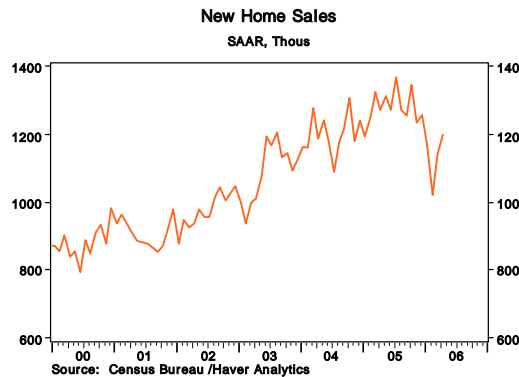


Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

APRIL NEW HOME SALES

- New single-family home sales unexpectedly jumped 4.9% in April to a 1.198 million unit level, the second consecutive monthly increase. While March new home sales were downwardly revised to 1.142 million units, they were still 12% higher than in February.
- The median price of a new home rose to a non-seasonally adjusted \$238,500 in April, up 0.9% in the past year.
- At the current sales pace, the supply of new homes fell to 5.8 months in April versus 6.0 months in March. From 1970-2000 the inventory of new homes on the market averaged 6.4 months.



Implications: Following significant declines in the first two months of 2006, new home sales have increased for two consecutive months (4.9% in April and 12.0% in March). Removing this volatility, new home sales have averaged 1.133 million units in the first four months of 2006. While this is 11.5% lower than the average level in 2005, it is 28.8% higher than the average in 2000. This suggests that, as we expected, the housing market is in the midst of a slowdown. We still believe that a severe collapse is highly unlikely. A strong economy, demographic trends and favorable tax policy will support housing activity in 2006 and we expect housing sales to remain between 1.0 - 1.2 million units. This pull-back in housing activity will not have a noticeable impact on the overall economy as resources that would have formerly been put into housing will be shifted toward other sectors. Business investment, which jumped an annualized 14.3% in Q1 when adjusted for inflation, is likely to make up for a cooling housing market in 2006. As a result, a slowing housing market is not the silver bullet so many bearish forecasters assume. The Fed is still behind the curve. A neutral federal funds rate remains somewhere in the 5.5% to 6.0% range. As long as the Fed gets rates into this range, inflation will remain contained, while the economy remains strong. Stopping short risks inflation, going too far risks an economic slowdown. Our models suggest 6% would be just right – monetary policy nirvana.

New Home Sales <i>all data seasonally adjusted, thous.</i>	Apr-06		Mar-06	Feb-06	3-mo moving avg	6-mo moving avg	Yr over yr % ch.
	% Ch	Level					
New Single Family Homes Sales	4.9%	1198	1142	1020	1120	1171	-5.7
Northeast	8.2%	66	61	66	64	69	-33.3
Midwest	-1.1%	172	174	182	176	181	-16.9
South	7.8%	649	602	530	594	615	6.7
West	2.0%	311	305	242	286	307	-12.6
Months Supply at current sales rate	-3.3%	5.8	6.0	6.4	6.1	5.5	34.9
Median Sales Price (\$, NSA)	2.8%	238,500	232,000	247,400	239,300	239,883	0.9
Average Sales Price (\$, NSA)	2.4%	298,300	291,200	307,400	298,967	297,083	3.2

Source: Bureau of the Census

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