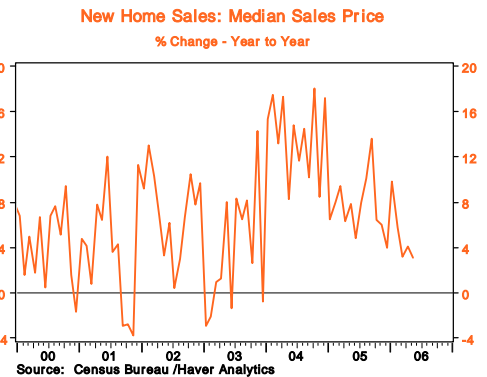
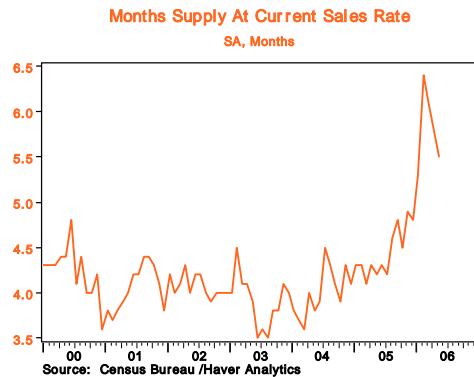
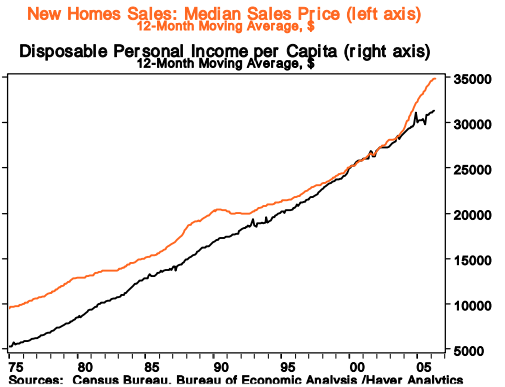
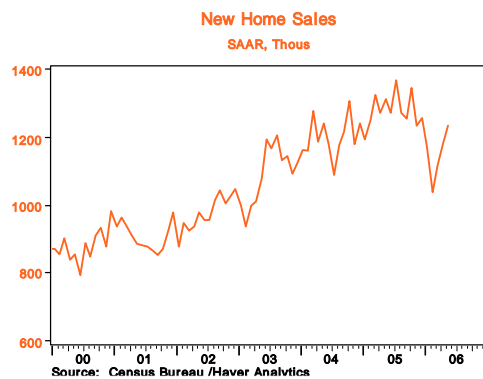


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## MAY NEW HOME SALES

- New single-family home sales unexpectedly jumped 4.6% in May to a 1.234 million units, the highest level of the year. Consensus had expected sales to fall to a 1.150M unit level.
- The median price of a new home fell to a non-seasonally adjusted \$235,300 in May but is up 3.1% in the past year.
- At the current sales pace, the supply of new homes fell to 5.5 months in May versus 5.8 months in April. 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 three consecutive months (7.3% in March, 5.9% in April and 4.6% in May). Removing this volatility, new home sales have averaged 1.148 million units in the first five months of 2006. This is 9.9% lower than the average level in 2005 and suggests that – despite the recent increases – the housing market is in the midst of a slowdown. We expect this pull-back to be orderly and do not anticipate a widespread housing collapse. A strong economy, demographic trends and favorable tax policy should continue to support housing activity for the rest of the year. This should remove the threat of an emergency in the housing market and keep the Fed in a tightening mode for the near future.

| <b>New Home Sales</b><br><i>all data seasonally adjusted, thous.</i> | <b>May-06</b> |                | Apr-06  | Mar-06  | <b>3-mo</b><br><i>moving avg</i> | <b>6-mo</b><br><i>moving avg</i> | <b>Yr over yr</b><br><i>% ch.</i> |
|--|---------------|----------------|---------|---------|----------------------------------|----------------------------------|-----------------------------------|
|  | <b>% Ch</b>   | <b>Level</b>   |         |         |                                  |                                  |                                   |
| <b>New Single Family Homes Sales</b>                                 | <b>4.6%</b>   | <b>1234</b>    | 1180    | 1114    | 1176                             | 1166                             | -5.9                              |
| <b>Northeast</b>   | <b>-7.9%</b>  | <b>58</b>      | 63      | 59      | 60                               | 63                               | -36.3                             |
| <b>Midwest</b>   | <b>2.7%</b>   | <b>190</b>     | 185     | 170     | 182                              | 186                              | -20.8                             |
| <b>South</b>   | <b>6.0%</b>   | <b>669</b>     | 631     | 580     | 627                              | 612                              | 8.4                               |
| <b>West</b>  | <b>5.3%</b>   | <b>317</b>     | 301     | 305     | 308                              | 306                              | -12.7                             |
| <b>Months Supply at current sales rate</b>                           | <b>-5.2%</b>  | <b>5.5</b>     | 5.8     | 6.1     | 5.8                              | 5.7                              | 31.0                              |
| <b>Median Sales Price (\$, NSA)</b>                                  | <b>-4.3%</b>  | <b>235,300</b> | 245,900 | 236,600 | 239,267                          | 242,017                          | 3.1                               |
| <b>Average Sales Price (\$, NSA)</b>                                 | <b>-2.6%</b>  | <b>294,300</b> | 302,200 | 295,300 | 297,267                          | 298,483                          | 2.4                               |

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.