

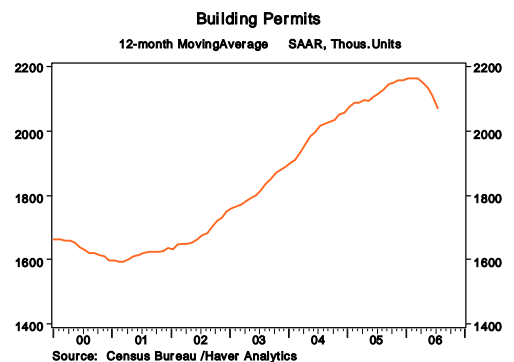
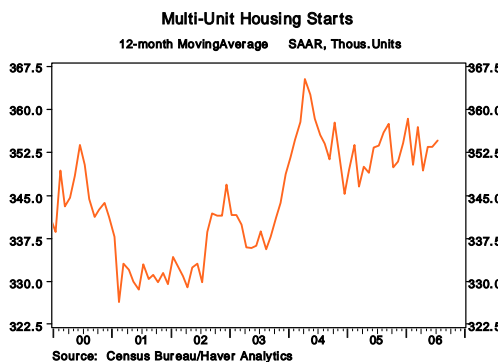
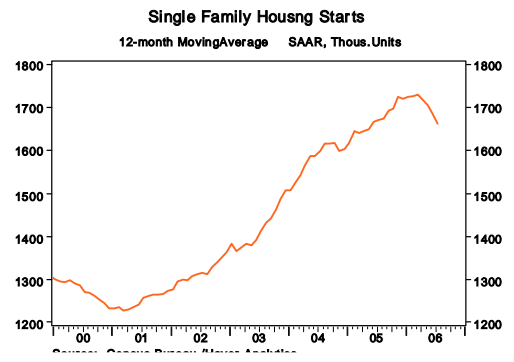
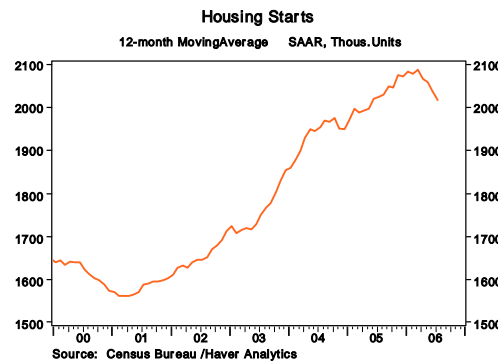
JULY HOUSING STARTS

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- Housing starts fell 2.5% in July to 1.795 million units at an annual rate. Single family starts declined 2.3% while multi-unit starts slid 3.4%.
- New building permits declined 6.5% in July to an annualized 1.747 million units – the lowest level in over three years.
- Housing completions fell 5.4% to 1.927 million units in July.

Implications: Housing starts declined in July for the fifth time in the last six months. Housing starts have averaged 1.970 million during the first seven months of this year, which is 5.0% below the 2005 average of 2.073 million, but 15.2% above the 2002 level. Even if housing starts leveled off at their July pace of 1.795 million units, they would still be 5.0% above the

2002 average of 1.710 million. Clearly, the housing market has slowed sharply. However, we do not view the slowdown as a sign of excessively tight money or the leading edge of a recession. Rather, housing is pulling back to more sustainable levels. During recent years, the housing market was driven higher by low tax rates, absurdly low interest rates and inflationary pressures which showed up first in housing prices. While interest rates have climbed, the average conventional 30-year mortgage rate of 6.8% in July remains well below the 1995-99 average of 7.6%. Moreover, employment, wage growth, consumer spending, and business investment remain strong. While the pull-back in housing will be a mild drag on GDP throughout the rest of the year, resources that would have been spent on housing will be shifted into other sectors of the economy. As a result, we continue to forecast real GDP to grow at a 3.5% to 4.0% pace in the second half of this year.



Housing Starts SAAR, thousands	Monthly % Ch.	Jul-06 Level	Jun-06 Level	May-06 Level	3-mth moving avg	6-mth moving avg	Yr over Yr % Ch.
Housing Starts	-2.5%	1795	1841	1953	1863	1921	-13.3%
Northeast	-7.0%	159	171	198	176	176	-18.9%
Midwest	0.7%	306	304	294	301	310	-16.6%
South	-2.5%	889	912	950	917	949	-10.7%
West	-2.9%	441	454	511	469	485	-13.9%
Single-unit	-2.3%	1452	1486	1587	1508	1579	-16.6%
Multi-unit	-3.4%	343	355	366	355	342	3.9%
2-4 unit	83.7%	79	43	51	58	50	119.4%
5 unit	-15.4%	264	312	315	297	292	-10.2%
Building Permits	-6.5%	1747	1869	1946	1854	1961	-20.8%
Single-unit	-6.1%	1318	1404	1488	1403	1481	-23.5%
2-4 unit	29.9%	87	67	84	79	80	-12.1%
5 unit	-14.1%	342	398	374	371	400	-11.2%

Source: U.S. Census Bureau

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