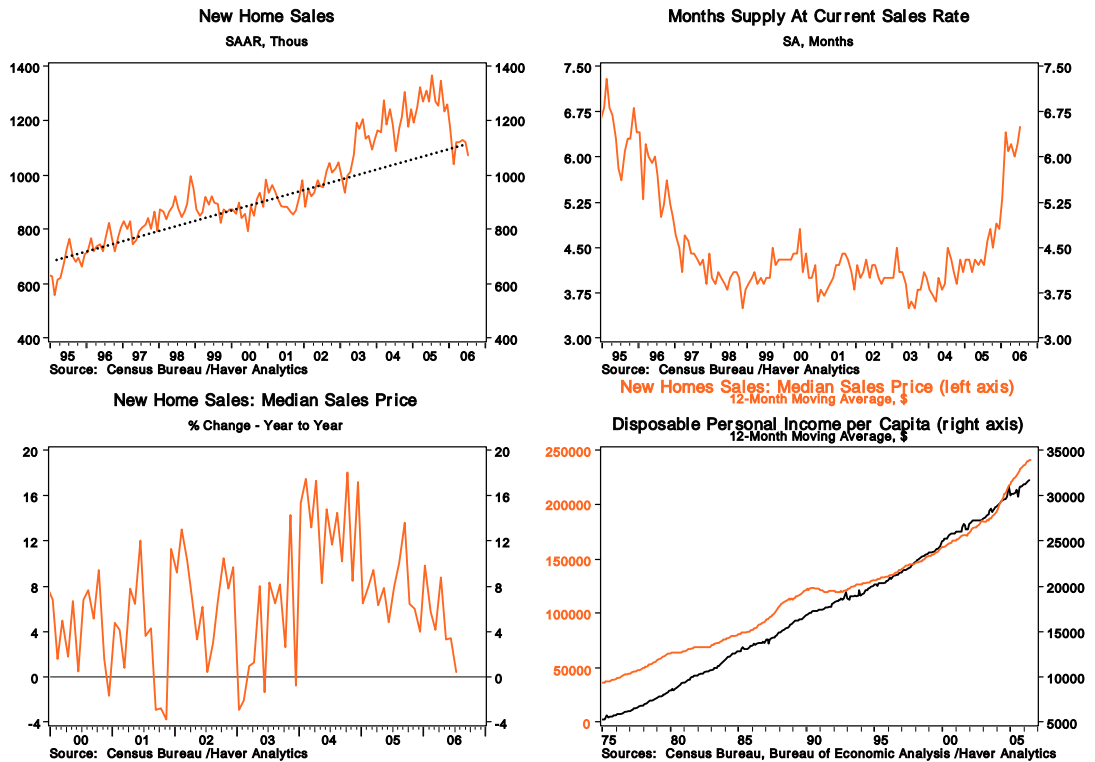


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JULY NEW HOME SALES

- New single-family home sales fell a more-than-expected 4.3% in July to 1.072 million units. Consensus had expected sales to be 1.100 million.
- The median price of a new home fell to a non-seasonally adjusted \$230,000 in July - 0.3% higher than a year ago.
- At the current sales pace, the supply of new homes rose to 6.5 months in July versus 6.2 months in June. From 1970-2000 the inventory of new homes averaged 6.4 months.

Implications: New home sales fell 4.3% in July and are down 21.6% from the all time high of 1.367 million in November 2005. This coincides with an 18.8% decline in housing starts and a 12.9% decline in existing home sales from their 2005 respective peaks. Moreover, price appreciation of a new home is at the lowest level since 2003 and inventories are at the highest level since 1995. The housing market is clearly in the midst of a sharp slowdown from the low-interest-rate-induced boom of 2003-2005. This retreat to more normal levels has heightened forecasts of economic turmoil (and possible rate cuts by the Fed), however we do not believe the housing pullback will be a major drag on the economy. Contrary to conventional wisdom, housing has not been the predominant reason for growth over the past two years. Residential construction added 0.5% to both the 3.9% real GDP growth in 2004 and the 3.2% real GDP growth in 2005. We expect housing will subtract roughly 0.5% from growth throughout the rest of the year (residential construction reduced real GDP growth by 0.4% in Q2). This slight drag will be offset by a boom in non-residential construction (real structure spending is up 6.3% in the past year) and equipment and software spending (real investment in equipment and software is up 6.9% in the past year). The strength in July's durable goods orders excluding transportation is especially encouraging. As a result, the overall economy should continue to grow in the 3.5%-4.0% range. This resiliency of economic growth even with a weakening housing market will likely give the Fed the resolve to restart rate hikes before the end of the year.



New Home Sales <i>all data seasonally adjusted, thous.</i>	Jul-06		Jun-06	May-06	3-mo moving avg	6-mo moving avg	Yr over yr % ch.
	% Ch	Level					
New Single Family Homes Sales	-4.3%	1072	1120	1130	1107	1100	-21.6
Northeast	1.8%	56	55	65	59	60	-42.9
Midwest	-21.3%	133	169	181	161	166	-35.4
South	-8.0%	550	598	613	587	583	-12.4
West	11.7%	333	298	271	301	292	-23.4
Months Supply at current sales rate	4.8%	6.5	6.2	6	6.2	6.2	54.8
Median Sales Price (\$, NSA)	-1.6%	230,000	233,800	235,800	233,200	241,033	0.3
Average Sales Price (\$, NSA)	1.5%	293,500	289,300	291,900	291,567	298,617	1.5

Source: Bureau of the Census

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