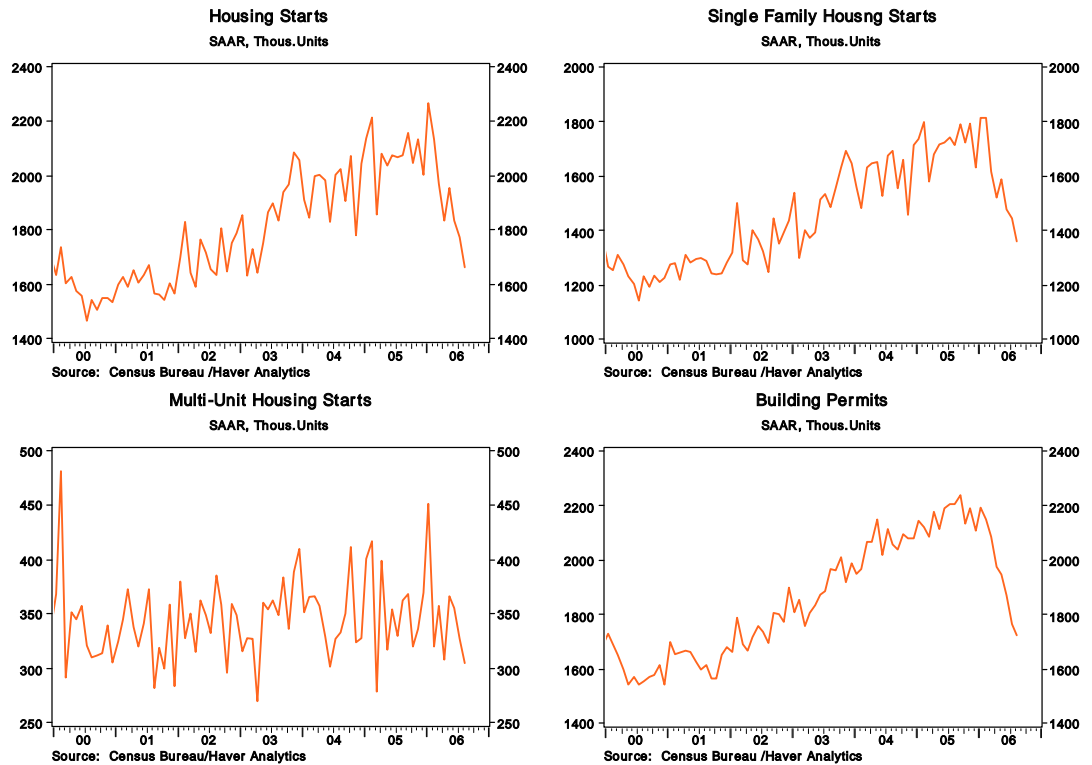


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## AUGUST HOUSING STARTS

- Housing starts fell 6.0% in August to 1.665 million units at an annual rate. Single family starts declined 5.9% while multi-unit starts slid 6.7%.
- New building permits declined 2.3% in August to an annualized 1.722 million units – the lowest level in over four years.
- Housing completions fell 3.2% to 1.868 million units in August.

**Implications:** Housing starts declined in August for the sixth time in the last seven months. Housing starts have fallen 26.5% from their peak in January of this year. However, housing starts are still 5.8% above their 2000 average.



While the housing market has slowed faster and more sharply than we anticipated, 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 6.5% in August remains well below the 1995-99 average of 7.6%. Moreover, employment, wage growth, 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 3.0% to 3.5% annualized pace in the second half of this year.

Housing Starts SAAR, thousands	Monthly % Ch.	Aug-06 Level	Jul-06 Level	Jun-06 Level	3-mth moving avg	6-mth moving avg	Yr over Yr % Ch.
<b>Housing Starts</b>	<b>-6.0%</b>	<b>1665</b>	<b>1772</b>	<b>1833</b>	<b>1757</b>	<b>1838</b>	<b>-19.8%</b>
<b>Northeast</b>	<b>5.4%</b>	<b>155</b>	<b>147</b>	<b>168</b>	<b>157</b>	<b>169</b>	<b>-24.0%</b>
<b>Midwest</b>	<b>-12.2%</b>	<b>267</b>	<b>304</b>	<b>298</b>	<b>290</b>	<b>299</b>	<b>-28.8%</b>
<b>South</b>	<b>-6.1%</b>	<b>833</b>	<b>887</b>	<b>910</b>	<b>877</b>	<b>914</b>	<b>-9.9%</b>
<b>West</b>	<b>-5.5%</b>	<b>410</b>	<b>434</b>	<b>457</b>	<b>434</b>	<b>456</b>	<b>-28.2%</b>
<b>Single-unit</b>	<b>-5.9%</b>	<b>1360</b>	<b>1445</b>	<b>1478</b>	<b>1428</b>	<b>1502</b>	<b>-20.6%</b>
<b>Multi-unit</b>	<b>-6.7%</b>	<b>305</b>	<b>327</b>	<b>355</b>	<b>329</b>	<b>336</b>	<b>-15.7%</b>
<b>2-4 unit</b>	<b>-51.2%</b>	<b>40</b>	<b>82</b>	<b>44</b>	<b>55</b>	<b>52</b>	<b>-7.0%</b>
<b>5 unit</b>	<b>8.2%</b>	<b>265</b>	<b>245</b>	<b>311</b>	<b>274</b>	<b>285</b>	<b>-16.9%</b>
<b>Building Permits</b>	<b>-2.3%</b>	<b>1722</b>	<b>1763</b>	<b>1869</b>	<b>1785</b>	<b>1893</b>	<b>-21.9%</b>
<b>Single-unit</b>	<b>-3.5%</b>	<b>1279</b>	<b>1325</b>	<b>1404</b>	<b>1336</b>	<b>1425</b>	<b>-25.0%</b>
<b>2-4 unit</b>	<b>-14.1%</b>	<b>73</b>	<b>85</b>	<b>67</b>	<b>75</b>	<b>77</b>	<b>-16.1%</b>
<b>5 unit</b>	<b>4.8%</b>	<b>370</b>	<b>353</b>	<b>398</b>	<b>374</b>	<b>391</b>	<b>-10.2%</b>

Source: U.S. Census Bureau

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