

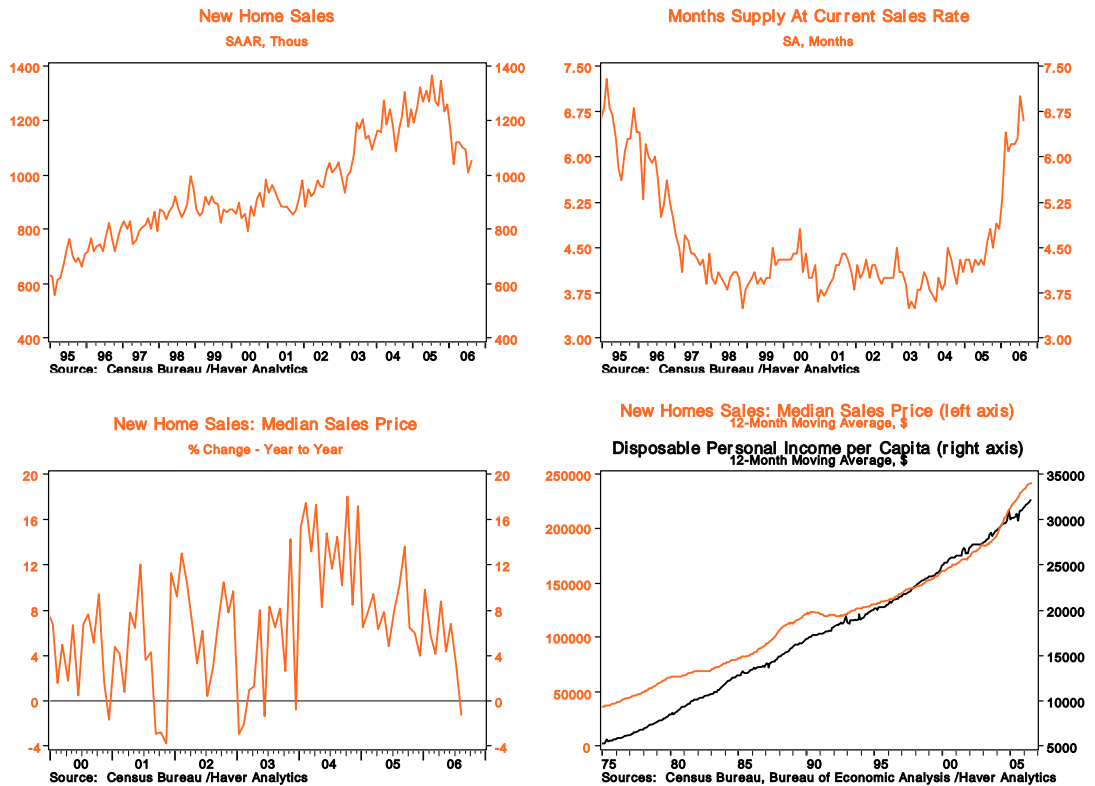
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AUGUST NEW HOME SALES

- New single-family home sales jumped 4.1% in August to 1.050 million units versus 1.009 million units in July (originally 1.072 million). Consensus had expected sales to be 1.040 million.
- The median price of a new home rose to a non-seasonally adjusted \$237,000 in August, but was 1.3% lower than a year ago.
- At the current sales pace, the supply of new homes fell to 6.6 months in August versus 7.0 months in July. From 1970-2000 the inventory of new homes averaged 6.4 months.

Implications: New home sales stabilized in August, rising 4.1% - the first increase since March

of this year. This increase is somewhat misleading, as July's data was downwardly revised by 5.9%. Moreover, the median price of a new home has fallen 1.3% in the past year – the first decline in the YOY rate since 2003. There is no doubt that the housing market hit a wall this year. Nonetheless, today's data suggest that after falling 23.2% from their peak, new home sales seem to be finding a bottom. While the decline has bled into other pieces of data (i.e. today's durable goods report), it should not be a significant long-term drag on the economy. Non-residential construction is booming and business investment looks healthy in Q3. Between 2003 and 2005 housing was lifted above trend because of extremely low interest rates. With the Fed pushing rates back up to more normal levels, housing has fallen back to slightly below trend. While the housing market could remain below trend for quite some time, we expect stabilization in new home sales near 1 million units per year. Talk of a housing-led recession is overly pessimistic.



| New Home Sales <i>all data seasonally adjusted, thous.</i> | Aug-06 | | Jul-06 | Jun-06 | 3-mo moving avg | 6-mo moving avg | Yr over yr % ch. |
|---|---------------|----------------|---------|---------|--------------------|--------------------|---------------------|
| | % Ch | Level | | | | | |
| New Single Family Homes Sales | 4.1% | 1050 | 1009 | 1091 | 1050 | 1082 | -17.4 |
| Northeast | 21.7% | 84 | 69 | 64 | 72 | 68 | 5.0 |
| Midwest | 12.2% | 156 | 139 | 173 | 156 | 163 | -19.6 |
| South | 11.1% | 582 | 524 | 576 | 561 | 577 | -10.2 |
| West | -17.7% | 228 | 277 | 278 | 261 | 275 | -34.7 |
| Months Supply at current sales rate | -5.7% | 6.6 | 7.0 | 6.3 | 6.6 | 6.4 | 43.5 |
| Median Sales Price (\$, NSA) | 0.3% | 237,000 | 236,200 | 241,500 | 238,233 | 241,450 | -1.3 |
| Average Sales Price (\$, NSA) | -3.1% | 304,400 | 314,200 | 305,900 | 308,167 | 304,583 | 3.2 |

Source: Bureau of the Census

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