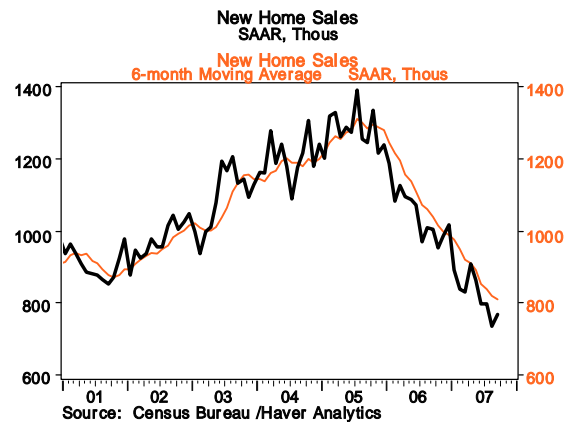


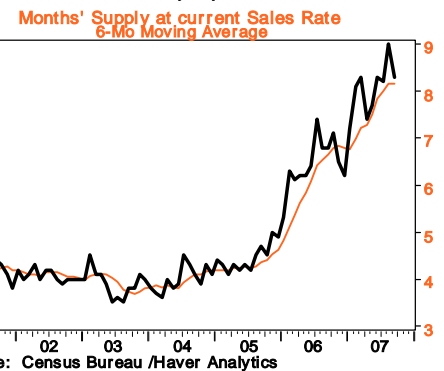
## SEPTEMBER NEW HOME SALES

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- New single-family home sales unexpectedly increased by 4.8% in September (the consensus expected a 3.1% decline). However, August sales were revised sharply lower (to 735,000 from 795,000). In the end, September sales were exactly on consensus at 770,000 for the month.
- By region, sales dropped in the Northeast and Midwest, were steady in the South and rose sharply in the West.
- At the current sales pace, the supply of unsold new homes fell to 8.3 months in September from 9.0 months in August. The inventory of new homes for sale dropped to 523,000, the sixth consecutive monthly decline, down 6.6% from last September, or 37,000 homes.
- The median price of new homes sold was \$238,000 in September, up 5% versus a year ago. The average price of new homes sold declined to \$288,000, down 2.8% versus last year.



Months' Supply at current Sales Rate Seasonally Adjusted



**Implications:** Today's new home sales report is a piece of good news floating in a sea of worries. The question is whether or not it can be trusted. Housing data is notoriously volatile – the August revision shows that it can be off by many orders of magnitude.

Nonetheless, the data suggest a pattern of slow improvement in an overbuilt marketplace. Housing starts have slowed more sharply than new home sales, builders are cutting prices, and inventories have fallen for six straight months. While the light at the end of the tunnel is still one to three years off, we do trust today's data, and believe its underlying message. That message is that the housing market is slowly healing itself. Once inventories are worked off, we believe positive trends will reassert themselves, including low tax rates, worker mobility, favorable demographics, rising incomes, low unemployment, and low interest rates. Rather than cutting interest rates, the Fed should let this process run its course naturally. The rotten fruit of lax lending standards is at the root of the housing market's problems, not tight money or high interest rates. In fact, interest rates remain low by any historical standard.

New Home Sales <i>All Data Seasonally Adjusted, Levels in Thousands</i>	Sep-07		Aug-07	Jul-07	3-mo	6-mo	Yr to Yr
	% Ch	Level			moving avg	moving avg	% Change
<b>New Single Family Homes Sales</b>	4.8%	770	735	798	768	811	-23.3
Northeast	-6.6%	57	61	45	54	66	-8.1
Midwest	-19.5%	99	123	106	109	117	-28.3
South	0.5%	391	389	437	406	432	-28.9
West	37.7%	223	162	210	198	197	-12.2
<b>Median Sales Price (\$, NSA)</b>	2.5%	238,000	232,100	245,600	238,567	239,783	5.0
		<b>Sep-07</b>	<b>Aug-07</b>	<b>Jul-07</b>	<b>3-mo Avg</b>	<b>6-mo Avg</b>	<b>12-mo Avg</b>
<b>Months' Supply at Current Sales Rate (Levels)</b>		8.3	9.0	8.2	8.5	8.2	7.7

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.