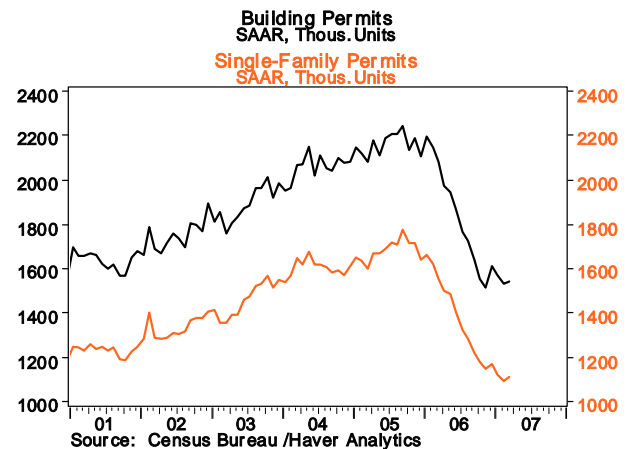
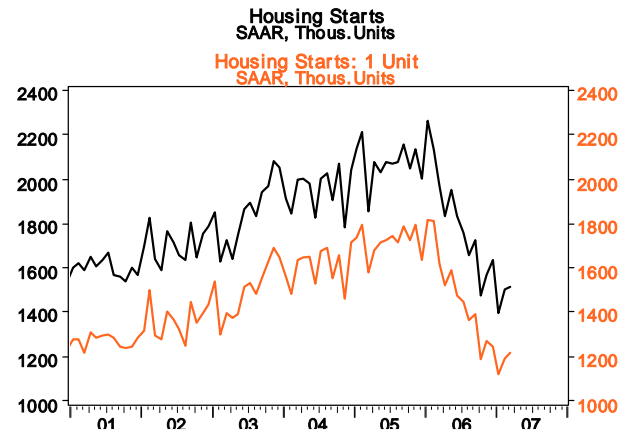


MARCH HOUSING STARTS

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- Housing starts increased 0.8% in March to 1.518 million units at an annual rate. The consensus had expected a slower 1.495 million rate.
- Nationwide, single-family starts rose 2.0% and multiple-unit starts dropped 3.8%. By region, the rise in starts was entirely due to activity in the Midwest, where starts jumped 44.5%. Starts declined in every other region.
- New building permits rose 0.8% in March to 1.544 million units at an annual rate, better than the consensus expected decline of 1.4%. All of the increase in building permits was attributable to single-family units. Building permits were down 25.9% versus March 2006.

Implications: Despite the headline increase in overall starts, the pain is not over in the housing sector. All of the increase in starts in March was due to just one region (the Midwest). The three-month moving average of starts fell for the thirteenth straight month and starts are down 23% versus March 2006. Moreover, in April the National Association of Home Builders Market Index dropped for the second straight month down to 33. It had been 39 as recently as February. The glimmer of light at the end of the (long) tunnel is that the three-month moving average of permits seems to have flattened out late last fall. Our view is that housing is not in free fall but rather in a correction being borne disproportionately by large builders who over-built and bought too much land based on unreasonable projections back in 2005. We believe that housing will continue to be a drag on real GDP growth as this overhang gets worked off, but will not drag the rest of the economy into a recession.



Housing Starts SAAR, thousands	Monthly % Ch.	Mar-07 Level	Feb-07 Level	Jan-07 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	0.8%	1518	1506	1399	1474	1517	-23.0%
Northeast	-6.1%	123	131	187	147	152	-25.9%
Midwest	44.5%	237	164	191	197	213	-19.4%
South	-2.7%	784	806	699	763	774	-23.4%
West	-7.7%	374	405	322	367	377	-23.5%
Single-Unit Starts	2.0%	1218	1194	1119	1177	1206	-24.6%
Multi-Unit Starts	-3.8%	300	312	280	297	311	-16.0%
Building Permits	0.8%	1544	1532	1571	1549	1554	-25.9%
Single-Unit Permits	1.4%	1114	1099	1124	1112	1139	-28.4%

Source: U.S. Census Bureau