

## Home Sales Hitting Bottom

On a nationwide basis, analysis by First Trust suggests home building will continue to fall throughout most, if not all, of 2008. In addition, home prices probably will not bottom until mid-2009.

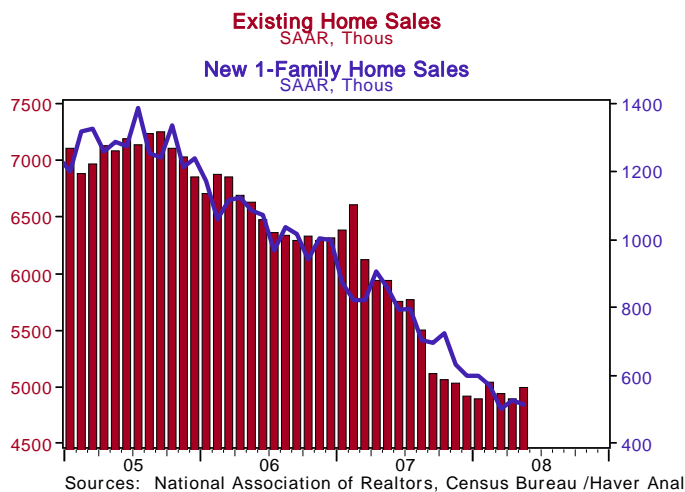
According to the Case-Shiller index, which focuses on major metropolitan areas, home prices are down 16.3% versus a year ago. We expect the index to decline an additional 8% in the year ahead. The OFHEO home purchase price index, which focuses on homes financed by “conforming” mortgages, has declined 4.6% in the past year. We expect a further decline of 1% in the year ahead.

Despite this, home sales seem to be bottoming. Builders and lenders in many regions of the country that did not make widespread use of sub-prime loans or significantly overbuild tell us markets have improved considerably. The early signs of an eventual housing recovery are starting to fall into place. We believe these factors will outweigh the negative impact of recent turmoil at subprime lender IndyMac plus Fannie Mae and Freddie Mac.

nine months. We expect this to become ten months when June data are released on July 24. Although pending home sales fell 4.7% in May, this measure of contracts on existing homes is still above the low set in March.

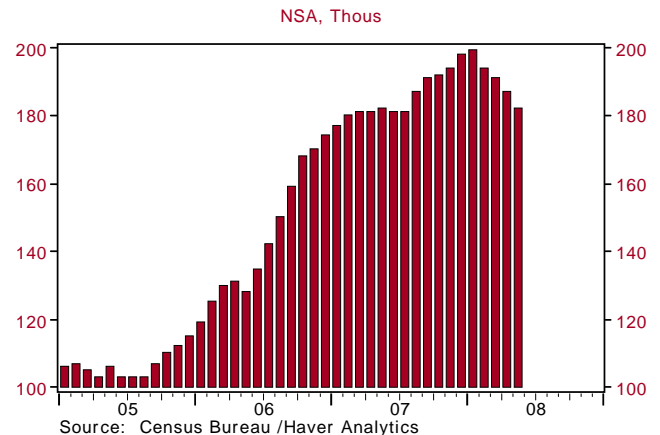
New home sales also appear to be bottoming. These sales – counted when a contract is signed – are down more than 60% from the peak in July 2005, but have spent the past two months above the bottom set in March.

Even at this slow pace of sales, the inventory of completed new homes has finally started to recede after an unprecedented spike from 2005 through January 2008. In the past four months the inventory of completed new homes has dropped 17,000, the fastest pace in more than twenty years. Our analysis suggests it is this segment of inventory that has the greatest impact on the pace of home building and the level of prices.



Existing home sales are down 30%+ from the peak in September 2005. However, these sales – which are counted at closing – have been hovering in the same range (between 4.89 and 5.11 million) for the past

Inventory of Completed New 1-Family Homes



Despite the sharp decline in completed home inventories, they remain elevated. As a result, even as home sales bottom, prices and building should continue to decline on a nationwide basis. It will still take some time before builders, especially those in large and overbuilt areas, will be comfortable taking significant additional risk.

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