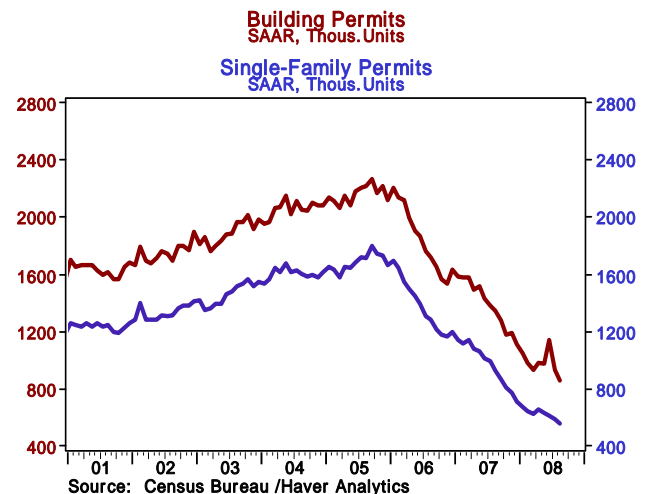
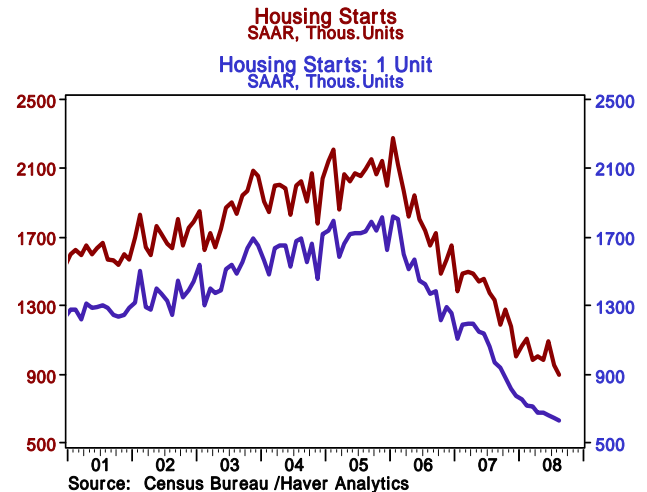


# AUGUST HOUSING STARTS

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- Housing starts declined 6.2% in August to 895,000 units at an annual rate, well below the consensus expected 950,000 rate. Starts are down 33.1% versus a year ago and off 60.6% from the peak in January 2006.
- Most of the decline in starts in August was due to multiple-unit starts, which fell 15.1%. Single-family starts fell 1.9% in August and are down 34.9% versus last year.
- Starts declined in the Northeast, Midwest, and South but increased in the West.
- New building permits fell 8.9% in August to 854,000 units at an annual rate, versus a consensus expected rate of 925,000. Single-family permits declined 5.1% in August, are down 40.3% versus last year and 69.2% since the peak in September 2005.

**Implications:** Housing starts fell more than the consensus expected in August but most of the decline was due to multi-unit starts, which are extremely volatile on a monthly basis. Single-family starts fell only 1.9%, which is a small decline relative to the past few years. In addition, starts declined the most in the South (in raw number terms, not by percent), which could be related to hurricane season. In other news this morning, the Mortgage Bankers Association reported that mortgage refinance applications spiked 88.1% last week, to the highest level since May, with the average refi loan size surging 12.6%. Mortgage rates have plummeted since the Treasury Department stepped in to take over Fannie Mae and Freddie Mac and homeowners are taking advantage of this opportunity. However, there is more pain ahead in the housing sector. The number of homes under construction is likely to decline through the end of 2008 and national average home prices still have about 5% further to drop by mid-2009. That said, the level of home building is now low enough to consistently bring down inventories – a necessary step toward a sustainable national recovery, rather than scattered pockets of recovery in some cities around the country. We expect that by mid-2009 housing will contribute positively to real GDP growth.



Housing Starts SAAR, thousands	Monthly % Ch.	Aug-08 Level	Jul-08 Level	Jun-08 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>-6.2%</b>	895	954	1089	979	985	-33.1%
<b>Northeast</b>	<b>-14.5%</b>	153	179	251	194	152	56.1%
<b>Midwest</b>	<b>-13.6%</b>	133	154	139	142	144	-44.6%
<b>South</b>	<b>-7.4%</b>	403	435	490	443	475	-42.1%
<b>West</b>	<b>10.8%</b>	206	186	209	200	215	-32.0%
<b>Single-Unit Starts</b>	<b>-1.9%</b>	630	642	663	645	668	-34.9%
<b>Multi-Unit Starts</b>	<b>-15.1%</b>	265	312	426	334	317	-28.2%
<b>Building Permits</b>	<b>-8.9%</b>	854	937	1138	976	970	-36.4%
<b>Single-Unit Permits</b>	<b>-5.1%</b>	554	584	616	585	610	-40.3%

Source: U.S. Census Bureau

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.