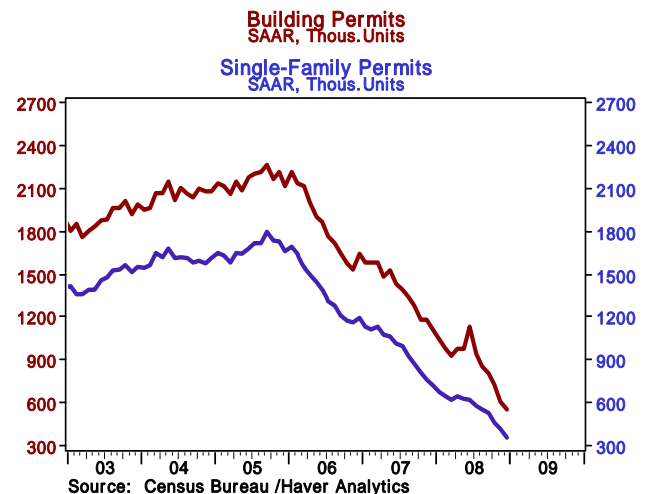
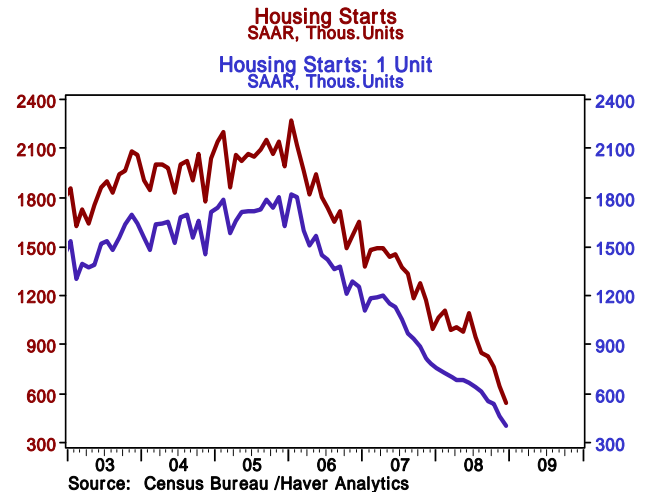


DECEMBER HOUSING STARTS

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

- Housing starts declined 15.5% in December to 550,000 units at an annual rate, below the consensus expected 605,000 rate. Starts are down 45.0% versus a year ago and off 75.8% from the peak in January 2006.
- December starts declined for both single-family homes, which fell 13.5%, and multi-family units, which fell 20.4%.
- Starts fell substantially in the Midwest and South, declined slightly in the West, but rose in the Northeast.
- New building permits fell 10.7% in December to 549,000 units at an annual rate, below the consensus expected rate of 600,000. Single-family permits declined 12.3% in December, are down 49.2% versus last year, and 79.8% since the peak in September 2005.



Implications: Housing starts and building permits continued to decline in December, hitting record lows dating back 50 years. Two factors were at work in December. First, home builders continue to clear out excess inventory by focusing their work crews on finishing homes that were already under construction. Second, December weather was worse than usual, with national average temperatures well below average and unusually high snowfall in the Midwest and upper Northwest. Home builders may continue to reduce starts a bit in the months ahead, but there is not that much room left for major declines. There are about 130 million homes in the US with home building now at only a 550,000 annual rate. At that pace of building the average house would have to last 236 years before it got replaced, roughly the age of Jefferson’s Monticello! Typically, the “replacement rate” is about 70 years. In other words, building is well below the long-term sustainable pace in order to work off excess inventories. Once inventories get back to normal by early 2010, there is room for an eventual major bounce in home building. In other news this morning, initial claims for unemployment insurance increased 62,000 last week to 589,000, tying the cycle high set in mid-December. The pop up in initial claims last week may have been due to the oncoming MLK holiday, plus inaugural activities. Meanwhile, continuing claims rose 97,000 to 4.607 million, slightly below the cycle high.

Housing Starts SAAR, thousands	Monthly % Ch.	Dec-08 Level	Nov-08 Level	Oct-08 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-15.5%	550	651	767	656	766	-45.0%
Northeast	12.7%	62	55	76	64	101	-38.6%
Midwest	-24.5%	80	106	121	102	121	-41.6%
South	-22.2%	277	356	409	347	382	-49.5%
West	-2.2%	131	134	161	142	161	-38.5%
Single-Unit Starts	-13.5%	398	460	536	465	534	-48.9%
Multi-Unit Starts	-20.4%	152	191	231	191	232	-31.2%
Building Permits	-10.7%	549	615	730	631	749	-50.6%
Single-Unit Permits	-12.3%	363	414	470	416	487	-49.2%

Source: U.S. Census Bureau

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