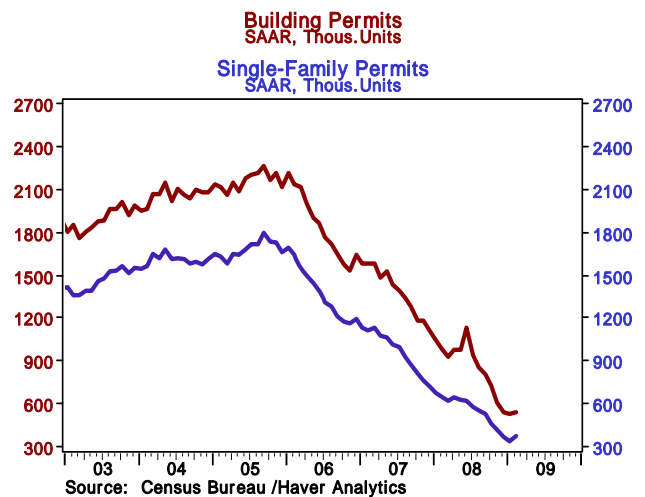
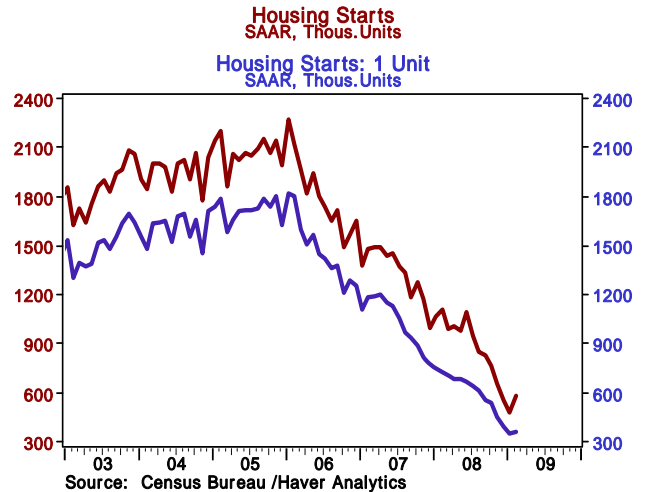


FEBRUARY HOUSING STARTS

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- Housing starts increased 22.2% in February to 583,000 units at an annual rate, far above the consensus expected 450,000 rate. Starts are down 47.3% versus a year ago.
- Almost all of the increase in starts in February was due to multiple-family units, which rose 82.3%. Starts for single-family homes increased 1.1%.
- Starts increased in the Northeast, Midwest, and South, but fell in the West.
- New building permits increased 3.0% in February to 547,000 units at an annual rate, easily beating the consensus expected rate of 500,000. Single-family permits rose 11.0% in February, but are down 42.3% versus last year.



Implications: Housing starts spiked upward in February, the first hint of a major turnaround in home building that will begin late this year and contribute substantially to the economy in 2010-11. As we wrote last month, a 279 year replacement rate for homes cannot be sustained. There are about 130 million homes in the US. Last month, the Census Bureau reported that homes were started at a 466,000 annual rate in January (now revised to 477,000). At that pace, the average age of homes would eventually have to go up to 279 years (and that’s assuming zero expansion in the number of homes, despite a rising population.) Today’s data bring the replacement rate back down to 223 years, which is still too high. Long-term, given both population growth and knock-downs, housing starts should be running at an average annual rate of *at least* 1.5 million (almost triple the recent level). However, the housing sector still has an excess inventory of 1.5 to 2 million units that needs to be worked off further before the total number of homes under construction begins to rise. As a result, homes under construction fell in February and will not recover until several months after the recovery in housing starts. Also, the leap in starts in February was concentrated in multiple-family units and may be partially due to unusually warm and dry weather for the month. A pullback in March is possible, but we think the January low for starts was the bottom.

Housing Starts SAAR, thousands	Monthly % Ch.	Feb-09 Level	Jan-09 Level	Dec-08 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	22.2%	583	477	558	539	644	-47.3%
Northeast	88.6%	66	35	63	55	68	-48.8%
Midwest	58.5%	84	53	77	71	97	-45.5%
South	30.2%	332	255	284	290	341	-42.5%
West	-24.6%	101	134	134	123	139	-59.1%
Single-Unit Starts	1.1%	357	353	394	368	441	-50.6%
Multi-Unit Starts	82.3%	226	124	164	171	203	-41.3%
Building Permits	3.0%	547	531	547	542	629	-44.2%
Single-Unit Permits	11.0%	373	336	364	358	416	-42.3%

Source: U.S. Census Bureau

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