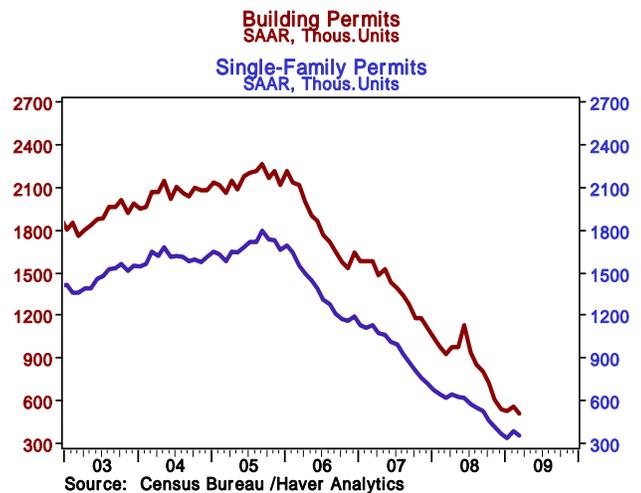
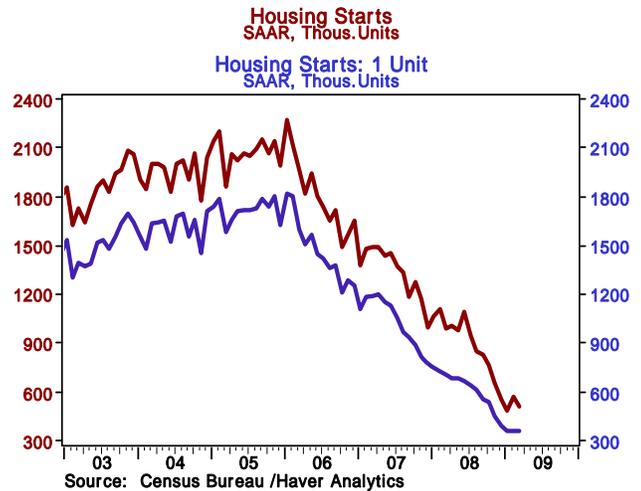


MARCH HOUSING STARTS

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- Housing starts declined 10.8% in March to 510,000 units at an annual rate. This was below the consensus expected 540,000 rate and starts are down 48.4% versus a year ago.
- All of the drop in starts in March was due to multiple-family units, which fell 29.0%. Starts for single-family homes were unchanged.
- Starts declined in the South and West, but increased in the Northeast and Midwest.
- New building permits declined 9.0% in March to 513,000 units at an annual rate versus a consensus expected pace of 549,000. Single-family permits declined 7.4% in March and are down 41.9% versus last year.



Implications: After peaking in early 2006 and falling dramatically for three years, housing starts finally hit bottom in the first quarter of this year. Although overall housing starts fell 10.8% in March, single-unit starts were unchanged and have been above the January level for the past two months. Due to excess housing inventories (roughly 1.5 - 2 million homes), the recovery in starts will be gradual at first. However, the stage is now set for a major turnaround in home building that will begin late this year and contribute substantially to the economy in 2010-11. Once the excess inventory is worked off completely, population growth and knock-downs will require about 1.6 million starts per year, which is more than triple the current rate. In other words, starts must climb 200% in the next few years just to get back to normal! In other news this morning, new claims for unemployment insurance plummeted 53,000 last week to 610,000. These data may have been influenced by Good Friday.

However, this news fits with other data showing that a turnaround in economic activity has begun. Because this recession is due to a sharp drop in the velocity of money, the consumer will lead us out of it and producers will follow. As a result, employment and manufacturing data will lag significantly. Today's Philadelphia Fed manufacturing index is a perfect example. The current index reading, while still negative, improved sharply to -24.4 from -35.0, but the outlook index (for six months from now) rose to +36.2, its highest reading since October 2007.

Housing Starts SAAR, thousands	Monthly % Ch.	Mar-09 Level	Feb-09 Level	Jan-09 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-10.8%	510	572	488	523	592	-48.4%
Northeast	6.3%	67	63	37	56	60	-41.7%
Midwest	15.9%	102	88	59	83	92	-24.4%
South	-16.8%	268	322	254	281	315	-48.0%
West	-26.3%	73	99	138	103	124	-67.3%
Single-Unit Starts	0.0%	358	358	356	357	410	-49.6%
Multi-Unit Starts	-29.0%	152	214	132	166	182	-45.1%
Building Permits	-9.0%	513	564	531	536	583	-45.0%
Single-Unit Permits	-7.4%	361	390	336	362	389	-41.9%

Source: U.S. Census Bureau

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