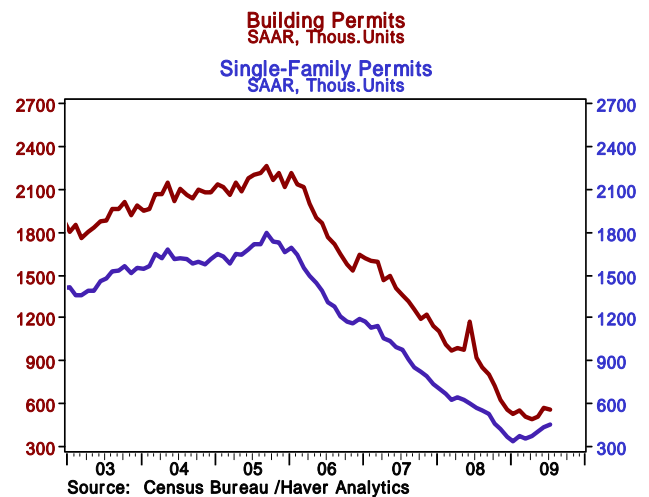
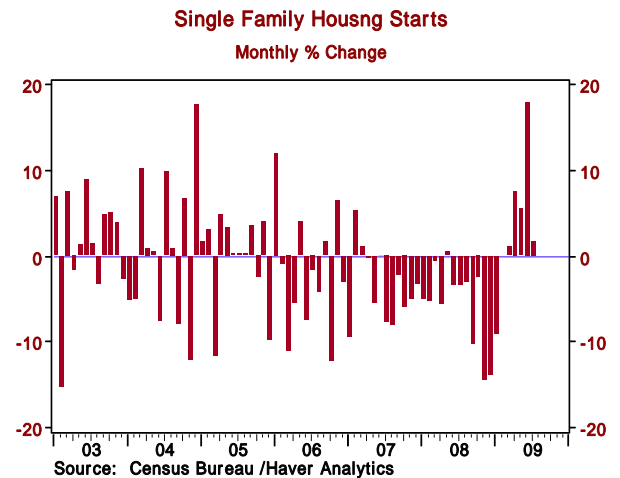


# JULY HOUSING STARTS

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

- Housing starts declined 1.0% in July to 581,000 units at an annual rate, below the consensus expected pace of 599,000.
- All of the decline in starts was due to a 13.3% drop in multi-family units. Single-family starts increased 1.7%, the fifth straight monthly gain, for a total rise of 37.3% since February.
- Starts declined in the Northeast, South, and West, but increased in the Midwest. Single-family starts increased in all the regions where overall starts declined.
- New building permits declined 1.8% in July to 560,000 units at an annual rate, below the consensus expected pace of 577,000. Permits for single-family units increased 5.8%, the fourth straight gain.

**Implications:** Housing starts fell in July, but the most important news in today's report was that single-family starts increased for the fifth consecutive month (see top chart to right) and are up 37.3% in the past five months. The reason overall starts fell was that multiple-family starts – the most volatile part of the industry – dropped 13.3%. Given the volatility in multi-family starts, where big declines are usually followed by big increases (and vice-versa), plus the underlying upward trend in single-family starts, we expect a large increase in overall starts in August. The turnaround in housing starts since February is beginning to generate a shift in overall home building. The number of single-family homes under construction fell the least since early 2006, when the housing bust was in its infancy. We expect the number of homes being built to hit bottom within the next few months. The US will then experience a substantial recovery in residential construction over the next few years. Supporting this forecast, permits to build single-family homes increased 5.8% in July, the fourth straight monthly gain. Although there are still excess inventories in the housing market, the rate of home building got so low earlier this year that inventories can continue to fall rapidly even as building recovers. In other recent news, the Empire State manufacturing index, a measure of manufacturing activity in New York, increased to +12.1 in August from -0.6 in July. The index is now the highest since November 2007.



Housing Starts SAAR, thousands	Monthly % Ch.	Jul-09 Level	Jun-09 Level	May-09 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>-1.0%</b>	581	587	551	573	549	-37.7%
<b>Northeast</b>	<b>-16.3%</b>	67	80	59	69	65	-58.6%
<b>Midwest</b>	<b>12.9%</b>	114	101	79	98	95	-25.5%
<b>South</b>	<b>-1.4%</b>	276	280	276	277	274	-36.7%
<b>West</b>	<b>-1.6%</b>	124	126	137	129	116	-31.9%
<b>Single-Unit Starts</b>	<b>1.7%</b>	490	482	409	460	415	-22.5%
<b>Multi-Unit Starts</b>	<b>-13.3%</b>	91	105	142	113	134	-69.8%
<b>Building Permits</b>	<b>-1.8%</b>	560	570	518	549	535	-39.4%
<b>Single-Unit Permits</b>	<b>5.8%</b>	458	433	406	432	403	-20.3%

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.