

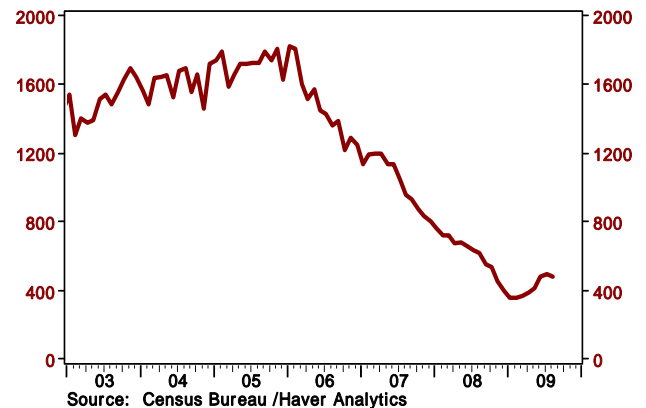
AUGUST HOUSING STARTS

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

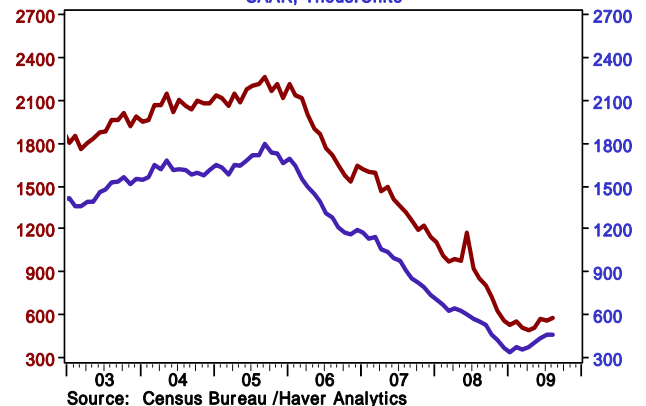
- Housing starts increased 1.5% in August to 598,000 units at an annual rate, exactly as the consensus expected.
- All of the increase in starts was due to a 25.3% gain in multi-family units. Single-family starts declined 3.0%, the first drop since January after a 38.4% rebound in the past five months.
- Starts rose in the Northeast and Midwest, were unchanged in the West, and fell in the South.
- New building permits increased 2.7% in August to 579,000 units at an annual rate, only slightly below the consensus expected pace of 583,000. Permits for single-family units declined 0.2% after a 28.6% increase in the previous four months.

Implications: Overall housing starts increased in August and are substantially off the bottom hit early this year. We expect this trend to continue. However, after the strongest 5-month rebound since the early 1990s, single-family housing starts took a breather in August, falling a modest 3%. Single-family permits have also soared in recent months but fell 0.2% in August. Don't expect another breather in September. Instead, the trend rise in single-family starts and permits should not only reassert itself but soon lead to a bottom in the number of homes under construction as well as the number of housing completions. Based on all data available so far this quarter, overall residential investment may be up in Q3, which would be the first gain since 2005. In 2010-11, and perhaps beyond, home building will add substantially to the growth rate of real GDP. There is still a large excess inventory in the housing market, but the rate of home building is still so far below the underlying demand for housing (about 1.6 million per year), based on population growth and "scrappage" (for reasons such as fires, disasters, and knock-downs). As a result, inventories can continue to decline rapidly even as building continues to recover. In other news this morning, new claims for unemployment insurance fell 12,000 last week to 545,000. Meanwhile, the 4-week average of continuing claims fell to 6.18 million. Also, the Philadelphia Fed Index, a measure of manufacturing in that region, increased to +14.1 in September versus 4.2 in August. Note that this region does not have an unusually large focus on autos.

Single Family Housing Starts
SAAR, Thous. Units



Building Permits SAAR, Thous. Units
Single-Family Permits SAAR, Thous. Units



Housing Starts SAAR, thousands	Monthly % Ch.	Aug-09 Level	Jul-09 Level	Jun-09 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	1.5%	598	589	590	592	555	-29.6%
Northeast	23.8%	78	63	81	74	67	-41.8%
Midwest	0.9%	114	113	107	111	99	-10.9%
South	-2.4%	279	286	276	280	270	-29.7%
West	0.0%	127	127	126	127	119	-33.2%
Single-Unit Starts	-3.0%	479	494	478	484	435	-21.7%
Multi-Unit Starts	25.3%	119	95	112	109	120	-49.8%
Building Permits	2.7%	579	564	570	571	540	-32.4%
Single-Unit Permits	-0.2%	462	463	433	453	417	-15.7%

Source: U.S. Census Bureau

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