

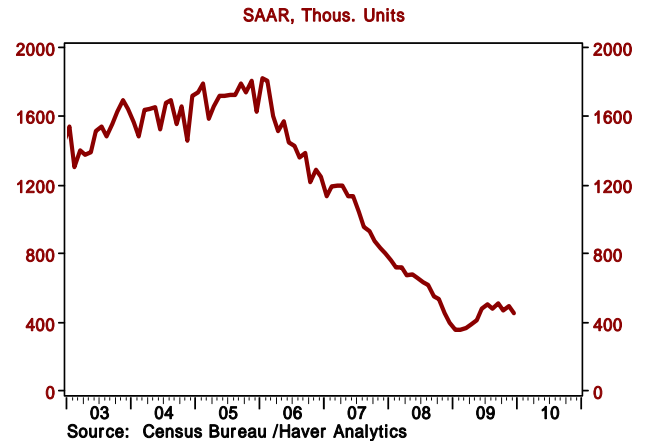
DECEMBER HOUSING STARTS

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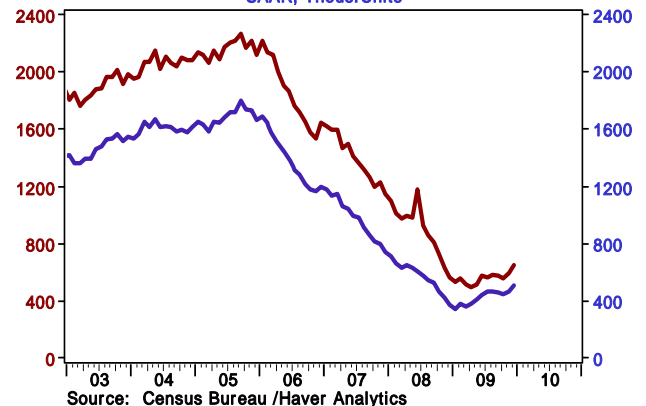
- Housing starts declined 4.0% in December to 557,000 units at an annual rate, falling short of the consensus expected 575,000 pace.
- All of the decline in starts in December was in single-family units, which fell 6.9% but remain 27.7% above the January/February 2009 low. Multi-unit starts, which are normally very volatile, increased 12.2% in December on top of a 69.8% rebound in November.
- Starts declined in the Northeast and Midwest, ticked down only slightly in the West, and increased in the South.
- New building permits increased 10.9% in December to a 653,000 annual rate, substantially above the consensus expected level of 580,000. Permits for single-family units increased 8.3% and are up 48.5% versus the low in January 2009.

Implications: Housing starts fell in December but we believe home building is on the verge of a significant rebound. This December was both colder and wetter than usual with much of the eastern seaboard getting the largest December snowfall in recorded history. Although data on housing starts are seasonally-adjusted, the adjustment only considers *typical* December weather, and is therefore vulnerable to unusually harsh weather the likes of which we got this past month. By contrast, the weather has much less impact on building permits and these are up dramatically. In fact, the 18.5% gain in the past two months is the largest in 20 years. This spike upward has lifted the ratio of permits to starts to the highest level on record (going back to 1960). This figure shows that home builders anticipate being much busier in the year ahead. Although we still have an excess inventory of homes (mainly in California, Florida, Nevada, Arizona, and Michigan), the level of housing starts got so unsustainably slow by early 2009 that inventories can still be worked off even as home building rebounds. Normally, we should be starting homes at a 1.6 million annual rate. Recently, the pace of starts has only been about one-third that level. So once excess home inventories are gone by three years from now, the pace of starts is going to have to be roughly triple recent levels just to prevent an eventual housing shortage.

Single Family Housing Starts



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



Housing Starts SAAR, thousands	Monthly % Ch.	Dec-09 Level	Nov-09 Level	Oct-09 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-4.0%	557	580	524	554	570	0.2%
Northeast	-19.0%	51	63	54	56	61	-19.0%
Midwest	-18.5%	88	108	99	98	103	15.8%
South	3.3%	310	300	265	292	291	9.5%
West	-0.9%	108	109	106	108	116	-19.4%
Single-Unit Starts	-6.9%	456	490	471	472	485	16.0%
Multi-Unit Starts	12.2%	101	90	53	81	85	-38.0%
Building Permits	10.9%	653	589	551	598	585	15.8%
Single-Unit Permits	8.3%	508	469	449	475	468	37.3%

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.