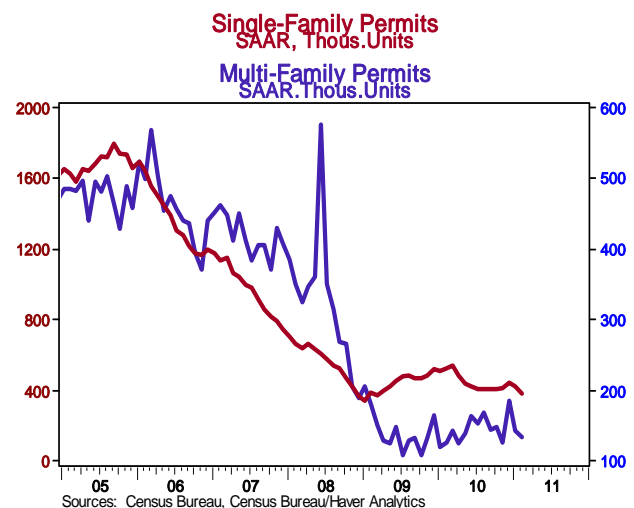
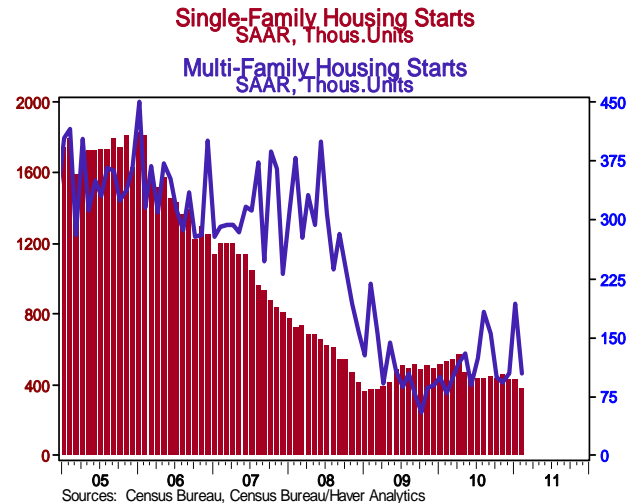


# FEBRUARY HOUSING STARTS

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

- Housing starts fell 22.5% in February to 479,000 units at an annual rate, well below the consensus expected pace of 566,000. Starts are down 20.8% versus a year ago.
- The decline in February was mostly due to a huge 46.1% drop in multi-family starts, which can be extremely volatile from month to month. Single-family starts also dropped 11.8% and are down 28.8% versus a year ago.
- Starts fell in all major regions of the country.
- New building permits fell 8.2% in February to a 517,000 annual rate, coming in well below the consensus expected pace of 570,000. Permits are down 20.5% versus a year ago with permits for single-family units down 27.0%.

**Implications:** The housing news today was not pretty. Starts fell very close to the April 2009 low, which is also the lowest level on record dating back to the 1950s. After spiking up sharply in January, multi-family units, which are extremely volatile from month to month, pulled back in February. Meanwhile, single-family starts also fell and continue to scrape along the bottom. Some of the February decline is probably due to unusually bad winter weather, which shifts builders away from breaking ground and gets them inside. Supporting this idea, home completions jumped 14%, and both single- and multi-family completions increased. In addition, anyone who has taken out a mortgage lately knows the lending process can be like torture. We still believe housing will normalize to much higher rates of both building activity and sales over the next several years, but unreasonably tight credit right now is slowing down that progress. Also, despite the weakness in February, the general upward trend in multi-family units remains intact. That should continue, in part due to tight credit but also foreclosures, as owners shift to renting. In other recent news, the Empire State index, a measure of manufacturing activity in that state, increased to +17.5 in March from +15.4 in February, a larger increase than the consensus expected. So while housing suffers, manufacturing continues to improve.



Housing Starts SAAR, thousands	Monthly % Ch.	Feb-11 Level	Jan-11 Level	Dec-10 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>-22.5%</b>	479	618	522	540	550	-20.8%
<b>Northeast</b>	<b>-37.5%</b>	55	88	57	67	71	-23.6%
<b>Midwest</b>	<b>-48.6%</b>	57	111	66	78	89	-45.7%
<b>South</b>	<b>-6.3%</b>	282	301	266	283	280	-1.1%
<b>West</b>	<b>-28.0%</b>	85	118	133	112	110	-40.6%
<b>Single-Unit Starts</b>	<b>-11.8%</b>	375	425	419	406	426	-28.8%
<b>Multi-Unit Starts</b>	<b>-46.1%</b>	104	193	103	133	125	33.3%
<b>Building Permits</b>	<b>-8.2%</b>	517	563	627	569	558	-20.5%
<b>Single-Unit Permits</b>	<b>-9.3%</b>	382	421	442	415	411	-27.0%

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.