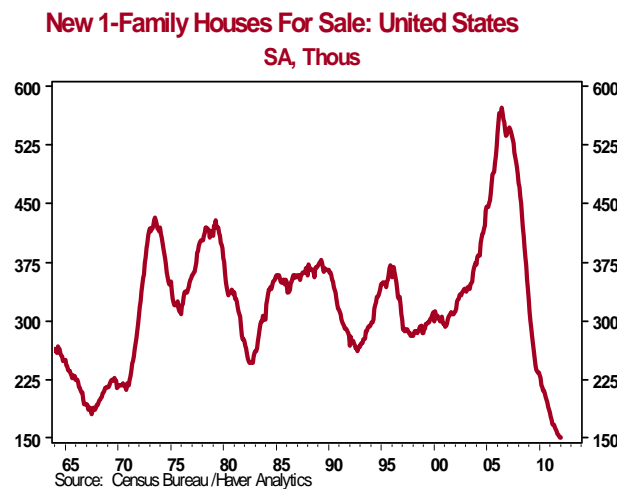
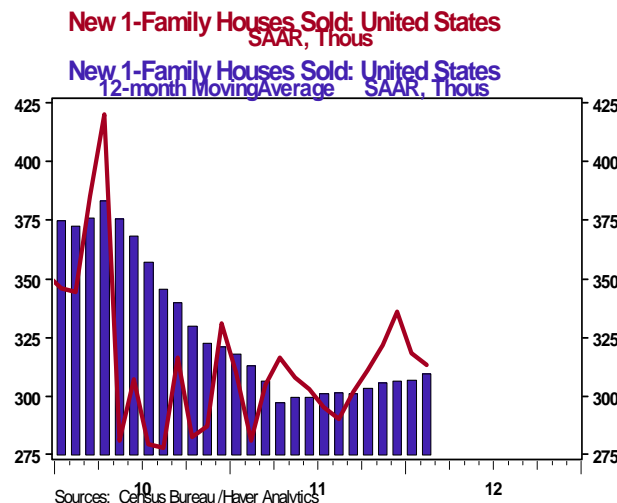


February New Home Sales

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- New single-family home sales declined 1.6% in February to a 313,000 annual rate, coming in below the consensus expected pace of 325,000.
- Sales were down in the South and Midwest, but up in the Northeast and West.
- The months' supply of new homes (how long it would take to sell the homes in inventory) rose to 5.8. The rise in the months' supply was all due to a slower selling pace. Inventories remained unchanged at record lows (dating back to 1963).
- The median price of new homes sold was \$233,700 in February, up 6.2% from a year ago. The average price of new homes sold was \$267,700, up 1.9% versus last year.

Implications: The housing market is on the mend, but new home sales will be the last thing to fully recover. Home building hit an upward inflection point in the middle of last year, home prices have leveled off in much of the country, and existing home sales have been in an upward trend for the past several months. As the chart to the right shows, new home sales have also been trending up. Even though they slipped 1.6% in February, they're up 11.4% versus a year ago. But, with banks now able to move forward with the foreclosure process, a large inventory of bargain-priced existing homes should temporarily attract more buyers away from the new home market. We still expect a full recovery for new home sales; sometime over the next several years, sales will rise to an annual pace of about 950,000. But the recovery in new home sales will take longer than the recovery in the rest of housing. The other problem affecting new home sales is a lack of inventory. The number of unsold but completed new homes is the lowest since 1971; the number of unsold new homes that are still under construction is the lowest since the early 1960s. Notably, the inventory of new homes where the builder has yet to break ground continues to climb, showing that builders are getting ready for what they believe will be more buyers. We think they're right. In other recent housing news, the FHFA index, a measure of prices for homes financed by conforming mortgages, was unchanged in January (seasonally-adjusted) and is down 0.7% from a year ago. The index has been roughly unchanged since mid-2011. We expect a slight price increase in the year ahead, the first since 2006-07. In other news on the broader economy, new claims for unemployment insurance declined 5,000 last week to 348,000, the lowest level since March 2008. Continuing claims for regular state benefits dropped 9,000 to 3.35 million, the lowest since August 2008. At present, it looks like private payrolls expanded by another 200,000 in March.



New Home Sales	Feb-12		Jan-12	Dec-11	3-mo moving avg	6-mo moving avg	Yr to Yr % Change
	% Ch	Level					
<i>All Data Seasonally Adjusted, Levels in Thousands</i>							
New Single Family Homes Sales	-1.6%	313	318	336	322	317	11.4
Northeast	14.3%	24	21	19	21	20	26.3
Midwest	-2.4%	40	41	57	46	48	29.0
South	-7.2%	168	181	174	174	173	-1.2
West	8.0%	81	75	86	81	77	32.8
Median Sales Price (\$, NSA)	8.3%	233,700	215,700	218,500	222,633	220,667	6.2
		Feb-12	Jan-12	Dec-11	3-mo Avg	6-mo Avg	12-mo Avg
Months' Supply at Current Sales Rate (Levels)		5.8	5.7	5.5	5.7	5.9	6.3

Source: Bureau of the Census

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.