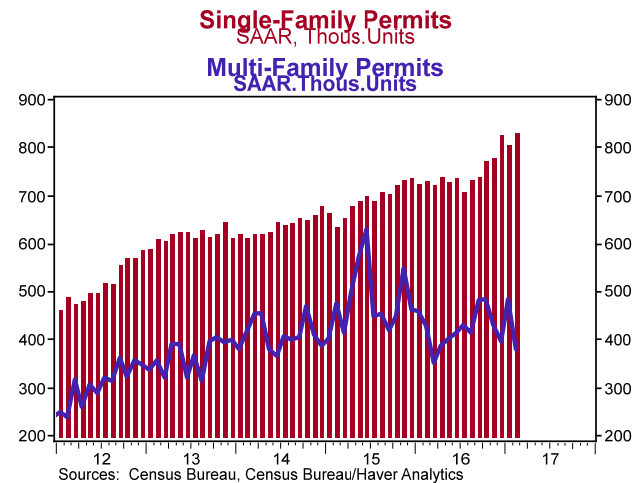
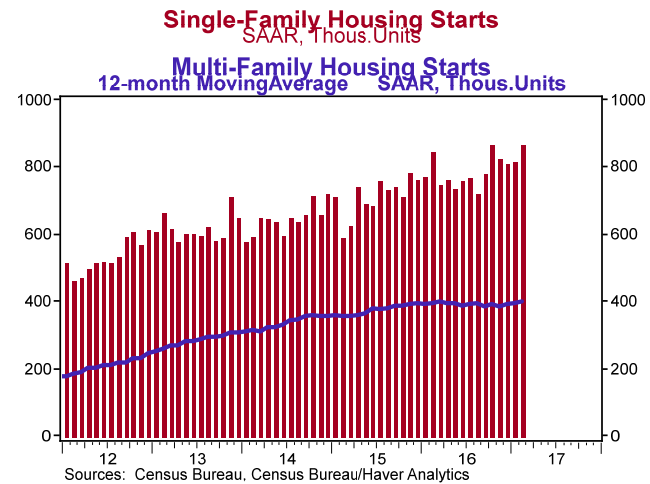


February Housing Starts

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Housing starts rose 3.0% in February to a 1.288 million annual rate, beating the consensus expected 1.264 million. Starts are up 6.2% versus a year ago.
- The rise in starts in February was entirely due to single family units; multi-family starts declined. In the past year, single-family starts are up 3.2% while multi-family starts are up 13.0%.
- Starts in February rose in the West, but declined in the Northeast, Midwest, and South.
- New building permits declined 6.2% in February to a 1.213 million annual rate, falling well short of the consensus expected 1.268 million. Compared to a year ago, permits for single-family units are up 13.5% while permits for multi-family homes are down 11.2%.

Implications: February was a good month for home building. Housing starts rose 3% overall, led by a surge in single-family starts to the highest level since 2007. Although multi-family starts fell in February, this is a very volatile series from month to month and is still up 13% from a year ago. Part of the reason for strength in February was unusually warm weather last month, but the underlying trend in homebuilding remains up as well. Although permits for new homes declined in February, all of the decline was due to the volatile multi-family sector; permits to build single-family homes rose 3.1% to the highest level since 2007. In other words, don't expect the drop in overall permits in February to lead to a decline in the future pace of home building. Based on population growth and "scrappage," housing starts should eventually rise to about 1.5 million units per year, so much of the recovery in home building is still ahead of us. Moreover, like in January, the "mix" of construction has been generally shifting toward single-family building. The shift toward single-family is a positive sign for the economy because, on average, each single-family home contributes to GDP about twice the amount of a multi-family unit. In other recent housing news, the NAHB index, which measures sentiment among home builders, rose to 71 in March, the highest reading for the index since 2005. More jobs, faster wage growth, and, for at least the time being, optimism about more market-friendly policies from a Trump Administration, are encouraging both prospective home buyers and builders. More broadly, new claims for jobless benefits fell 2,000 last week to 241,000. Continuing claims declined 30,000 to 2.03 million. It's still early, but it looks like nonfarm payrolls will be up in the 175,000 to 200,000 range in March, another solid month. On the manufacturing front, the Philadelphia Fed index, which measures factory sentiment in that region, fell to a still very strong 32.8 in March from a stellar 43.3 in February. Despite the decline, the March number still represents the second highest reading since late 2014 and continues to signal optimism about a major positive shift in economic policies. With figures like these, investors should not casually dismiss the possibility of a fourth rate hike later this year, despite yesterday's news that the Fed is still projecting only three rate hikes in 2017.



Housing Starts SAAR, thousands	Monthly % Ch.	Feb-17 Level	Jan-17 Level	Dec-16 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	3.0%	1288	1251	1275	1271	1223	6.2%
Northeast	-9.8%	119	132	90	114	113	48.8%
Midwest	-4.6%	187	196	225	203	195	-11.4%
South	-3.8%	659	685	568	637	608	7.7%
West	35.7%	323	238	392	318	307	4.2%
Single-Unit Starts	6.5%	872	819	809	833	829	3.2%
Multi-Unit Starts	-3.7%	416	432	466	438	393	13.0%
Building Permits	-6.2%	1213	1293	1228	1245	1239	4.4%
Single-Unit Permits	3.1%	832	807	830	823	794	13.5%

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.