## Like Many Housing Metrics, Builder Confidence is Just Waiting For Lower Rates

Historically low interest rates may not have guaranteed historically high levels of housing activity, but exceptionally high rates have definitely muted activity in a measurable way. We've cataloged this incessantly when it comes to refinance activity, but there's a correlation with home sales as well. The Housing Market Index (HMI) from the National Association of Homebuilders is just another way to see it.

A de facto measurement of builder confidence/sentiment, the HMI had been flying high (all time highs, actually) shortly after the initial covid lockdowns. At the time, rates were at all-time lows and pent-up buying demand was being unleashed. Notably, that level of confidence was achieved despite housing starts only being about 2/3rds of their 2005 peak.

KV Mortgage
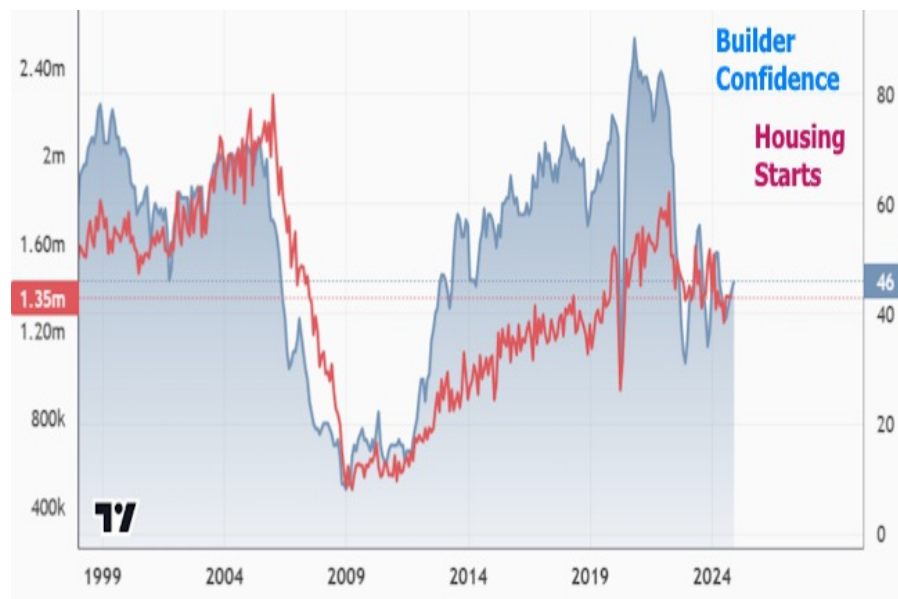
Just as notable, as seen in the chart above, housing starts merely fell back to levels there were still higher than most of 2019 (a time when builder confidence was fairly close to all-time highs). So why would builder confidence swoon so much more than the activity level in the homebuilding sector would suggest?

If the title and intro wasn't a giveaway, we'll make it clear: RATES!

We could review a chart of rates compared to builder confidence, but that would look like an ink blot test with each line moving in opposite directions. Instead, the chart below uses the price of mortgage-backed-securities (MBS)--the bonds that dictate mortgage rates. The convenience of MBS in this context is that they'll move exactly like mortgage rates, but in the inverse (thus allowing us to more easily see the correlation between rate movement and the confidence swan dive).

MBS Price
(higher = low mortgage rates)

Builder Confidence

In short, both rates and builder confidence (along with many other housing metrics) are just counting the arduous days between now and whenever something changes to put an end to the repression. In all likelihood, a big improvement in rates will be required to see a big improvement elsewhere.