

Fixed Income Insight

January 3, 2003

Municipal Sector Supply

Municipal Sector Supply in 2002

The end of the year volume statistics have been tallied. Volume hit a new all-time record high of \$357.1 billion (up 24.6% from last year), beating the old high of \$293 billion set in 1993. Our municipal outlook report for 2002 predicted a supply figure in the range of \$260 billion to \$320 billion, depending on interest rates. Also in the 2002 report, we projected that lower interest rates, if they occurred, would drive the higher volume number leading to a new all-time record.

Surges in refundings coupled with record new money issuance were responsible for the heavy volume. Refundings totaled \$91.9 billion for the year and while the refunding pace was up a strong 45%, the year's count ranked only third on the all-time list, falling short of the total refundings done in 1992 and 1993. New money issuance, however, totaled \$239 billion, which easily surpassed the 2001 record \$198 billion mark. Big increases in financing for schools and general public infrastructure projects were responsible for the bulk of this growth.

Bonds insured by a financial guaranty company came in just under 50% of the total volume (49.4%), somewhat higher than last year when 46% of all bonds were insured. The record for percentage of bonds insured is 50.7%, which was achieved in 1998. FSA led this year as the leading insurer with a market share of 31.3%. Close behind was MBIA, with a share of 30.5%.

Estimates for 2003

On a preliminary review basis, we are estimating that 2003 volume will range in the \$280 to \$330 billion range, assuming no dramatic change in interest rates. It will be more difficult to drive refundings in 2003 unless we see a protracted decline in interest rates of more than 50 to 100 basis points.

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