
Rising Pension Debts Checking Muni Supply, Morgan Stanley Says.

- Muni market sees low new money issuance compared to mid-2000s
- Government credit not facing 'imminent deterioration'

A drop in the sale of state and local government debt this year may have a culprit other than rising interest rates.

Analysts at Morgan Stanley, led by Michael Zezas, said the rising retirement-system costs has made government more leery of running up new debts. State and local revenues have not kept pace with growth in total liabilities that now amount to $4.97 trillion, the analysts say.

Despite January seeing a year-over-year rebound in tax revenues, the unfunded pension liabilities pressures "would make this a hollow victory if they aren't sustained," the analysts added. Unfunded pension obligations have risen to $1.9 trillion from $292 billion since 2007, according to data compiled by Bloomberg.

The drop-off in muni new money issuance comes as unfunded pension liabilities continue to pressure many municipalities' budgets, ranging from Chicago Public Schools to the Dallas Police and Fire Pension.

Escalating pension bills for the city of Chicago triggered Moody's Investors Service to downgrade its credit to junk. S&P Global Ratings has warned Dallas and Houston could have their ratings lowered if they don't shore up their pension funds while New Jersey's rating has been cut repeatedly due to underfunded pension obligations.

As state tax collection growth is slowly decelerating, the analysts say investors should limit their exposure. Investors should note that this trend won't add more pressure to the municipalities than they're already facing.

"None of this is to suggest a crisis or imminent deterioration in general government credit," the analysts said in a note.

Blooomberg

by Jordyn Holman

March 21, 2017, 9:28 AM PDT