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Moody's: 2013 US Public Finance Rating Revisions Suggest Stabilizing Credit Conditions for Most Sectors.

Although downgrades continued to dominate rating actions, US public finance rating revisions for 2013 showed signs of improving credit conditions, says Moody's Investors Service in the new report "Downgrades Reign in 2013, but Par Value of Upgrades Reach Highest Level Since 2010." In 2013, downgrades accounted for 79% of all rating actions, nearly matching the 82% share in 2012, but were only 69% of the rating actions in the fourth quarter, the lowest quarterly level since 2010.

Downgraded par value of rated debt, however, dropped by nearly a third in 2013, to $208 billion from $311 billion. Upgraded par value for 2013 increased to $41 billion, the highest level since 2010 and a 68% increase from 2012's $24 billion.

Overall there were fewer rating changes in 2013 compared to the prior year, with the number of rating changes decreasing 12% to 885, from 1,011 and the par value of affected debt decreasing 26% to $249 billion, from $336 billion. The large majority of public finance ratings were stable in both years, with only 6.3% of unique Moody's-rated public finance issuers seeing a rating change up or down in 2013 and 7.2% in 2012.

"The rating activity is consistent with recent revisions of most of our sector outlooks to stable from negative, many becoming stable for the first time since the recession began," said Chandra Ghosal, Analyst at Moody's and co-author of the report. "Despite increased stability, pockets of credit pressure remain throughout the country, and we do not expect credit conditions to change materially over the next 12-18 months."

In the local government sector, the amount of debt upgraded nearly quadrupled during 2013, to $20.2 billion from $5.3 billion the year before. The amount of downgraded debt decreased slightly during the year, to $87.8 billion in 2013 from $94.4 billion in 2012. In all, there were 120 upgrades and 514 downgrades in 2013, compared to 112 upgrades and 608 downgrades in 2012. Rating changes in the quarter mirrored the rest of the year, with changes concentrated in California, Illinois, Michigan and New York.

States and state-related issuers experienced a dramatic drop in the amount of debt downgraded, with $47.6 billion of debt downgraded in 2013 compared with $127.3 billion in 2012. A total of $5.8 billion of debt was upgraded in 2013, versus $3.5 billion the year before. In all, there were four rating upgrades among these issuers in 2013 and nine rating downgrades, compared with five upgrades and 42 downgrades in 2012.

The higher education sector experienced more rating activity in 2013 than in 2012. Last year there were 14 upgrades and 41 downgrades (55 actions total), compared with three upgrades and 34 downgrades (37 actions total) the year before. In all, Moody's upgraded $2.4 billion of higher education debt in 2013, compared with $169 million in 2012, and downgraded $7.2 billion, versus $5 billion the year before.

For more information, Moody's research subscribers can access this report at:

https://www.moodys.com/research/US-Public-Finance-Rating-Revisions-fo--2013-including-Q4-Downgrades–PBM_PBM163180

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