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SIFMA Survey Projects Slip in Long-Term Muni Issuance this Year.

WASHINGTON – Long-term municipal bond issuance is expected to fall to $417.5 billion this year from $423.8 billion last year, according to a survey released by the Securities Industry and Financial Markets Association on Wednesday.

Total muni issuance is expected to rise to $461 billion in 2017, with increases in short-term munis, but a decline in refundings, the survey of six municipal market firms showed.

SIFMA conducted its 2017 Municipal Bond Issuance Survey between Nov. 14 and Feb. 3 based on the median values of figures submitted from: Bank of America-Merrill Lynch; Hilltop Securities; J.P. Morgan Chase & Co.; RBC Capital Markets; Stoever Glass; and Wells Fargo Securities.

The $461 billion of total muni issuance would be up from $459.4 billion in 2016. That increase is tied to an expected jump in short-term issuance to $43.5 billion from $35.6 billion in 2016, according to the survey results. The participating firms said long-term issuance would reach anywhere from $320 billion to $450 billion for 2017, the median of which is $417.5 billion. Long-term tax-exempt muni issuance is expected to reach $375 billion in 2017, a 2.1% drop from the $383.1 billion in 2016. The firms expect taxable issuances to rise to $30 billion in 2017 from $28.5 billion in 2016, a 5.2% increase. Alternative minimum tax issuance is also expected to rise to $12.5 billion in 2017 from $12.2 billion in 2016.

Of the total issuances, only 41% are expected to be refundings in 2017 compared to the 51% in 2016.

Michael Decker, managing director and co-head of munis for SIFMA, said the lower number of refundings is likely due to the expectations of further Federal Reserve Board rate increases and the fact that 2007 was a relatively weak year for issuance. "Many bonds are issued with ten-year par calls so one of the driving factors for refunding volume is … the new money issuance volume ten years ago," Decker said. "2007 was a relatively weak year so there will be relatively fewer issues that come up for refunding in 2017. That, compounded with the rate increase we saw toward the end of last year and maybe a smaller uptick in rates throughout this year, will together cause refunding volume to be lower than it has been."

The Fed's Federal Open Market Committee raised the federal funds target rate to 0.50% to 0.75% in December. The federal funds rate is expected to rise from 0.62% by the end of March 2017 to 0.94% by the end of December 2017, according to the survey. Most survey respondents said the largest sector of new munis would be general purpose for the next year. The balance will be evenly split between transportation, education, and public facilities, they said. General purpose has traditionally been the largest issuing sector by gross amount in past years.

The most likely event that would have the greatest effect on the muni market during the year is the possible curtailment of the tax exemption for municipal bond interest, the survey participants said. Muni groups have been actively lobbying legislators and federal government officials about the importance of maintaining the tax exemption for munis. Regulatory and compliance burdens dealers and others continue to experience will also have a large impact on the market in 2017, according to the surveyed firms.

The firms also said they expect the number of issuers that will default in 2017 to range from 20 to 25, comprising a par value that could range from $400 million to $26 billion. The survey defined default as the occurrence of a missed interest or principal payment or a bankruptcy filing.

The Bond Buyer

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