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Municipal Bond Dearth Reducing Borrower Cost.

Municipal bond prices have rebounded from their worst first-quarter slump of the past 15 years.

The uptick comes as U.S. states and cities continue to curb borrowing, the Wall Street Journal reports.

Municipalities borrowed $156 billion in the first two quarters of this year, a 17% drop from the year earlier. Citigroup estimates that the year-over-year decline will reach 25% by the end of the 2018.

Supply is on the low end for several reasons, including a decision last year by Congress to end tax exemption for early refinancings of outstanding municipal bonds. Low supply, meanwhile, has lifted the value of existing bonds and reduced borrowing costs for some governments, particularly on riskier bond deals, the Journal notes. As an example, 12-year bonds backed by settlement payments from tobacco companies to the state of California sold with yields of 3.07% in June, compared with yields of 3.25% in March of last year.

“It’s a seller’s market,” Howard Cure, director of municipal-bond research at Evercore Wealth Management, tells the publication. “We’re trying to be careful about that aspect of it and not go down that path of sacrificing for a little extra yield and having a big decline in credit quality.”

The Bloomberg Barclays Municipal Bond Total Return Index ticked up 0.87% in the second quarter. This is after falling by 1.11% in the first quarter.

–Cheryl Winokur Munk

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