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September 22, 1955

CAPITAL MARKET DEVELOPMENTS

The volume of large issues publicly offered for new capital during the week ending September 16 was 181 million dollars for corporations and 21 million for State and local governments. Large corporate offerings expected this week total 57 million dollars. State and local governments are scheduled to float 36 million dollars of large issues.

Most new issues of corporate and State and local government securities have been favorably received by investors in recent weeks. During this period of relatively light new offering volume, State and local government bond dealers have been able not only to dispose of new issues rapidly but have also reduced their inventories. The volume of unsold advertised municipal bonds is currently the smallest it has been in 22 months. Investment bankers have also been able to sell readily the relatively small volume of new corporate issues without price concessions.

Bond yields - Treasury obligation yields increased one basis point during the week ending September 16. Yields on corporate Aaa and on State and local government Aaa bonds declined one and two basis points respectively.

Corporate Baa and State and local government Baa bond yields did not change. Yields on State and local government revenue bonds decreased one basis point.

Daily figures indicate a slight rise in corporate Aaa yields and a slight decrease in corporate Baa yields on Tuesday of this week. U. S. Government bond yields declined on Monday and remained steady on Tuesday.

As shown in Exhibit G, a 30-year first mortgage electric power bond issue with an A-rating, offered on September 14, yielded 23 basis points more than similarly rated outstanding bonds of somewhat shorter maturity. This spread is seven points lower than it was at the end of last month.

Stock prices - Stock prices, as measured by the SEC index of 265 common stocks, reached a new high of 267.4 during the week ending September 16 in the heaviest trading since early July. According to daily indexes, prices showed little change on balance through Wednesday of this week.

Institutional Savings and Investment  
First Half 1955

Sources of funds - The net flow of new savings into life insurance companies, savings and loan associations and mutual savings banks during the first half of 1955 totaled a record 6.5 billion dollars. As may be determined from the table on page 3, however, such saving was only 260 million dollars, or 4 per cent, greater than in the corresponding period of 1954. These were the smallest year-to-year increases for any first half year since 1951, when consumer purchases were stimulated by the Far Eastern situation. New savings flowing into life insurance companies and savings and loan associations increased only one-third and one-half as much, respectively, from the first half of 1954 to the first half of 1955 as they had from 1953 to 1954, while the volume of new saving through mutual savings banks actually declined this year.

These institutions as a group increased their holdings of U. S. Government securities by 218 million dollars during the first half of the year, whereas last year liquidation of Government securities provided 553 million dollars of funds for other types of investment. Most of this difference was accounted for by changes in life insurance holdings of Government securities; during the first half of this year these companies increased their holdings of such securities, while last year there was a substantial reduction. Savings and loan associations increased their holdings more, and mutual savings banks decreased their holdings less, this year than last. A reduction of cash supplied some additional investment funds this year--185 million dollars--while last year cash was accumulated, principally by savings and loan associations. Other miscellaneous sources provided 819 million of funds this year, four times the amount supplied last year. The principal factor in this change was an increase this year in advances obtained by savings and loan associations from the Federal Home Loan Banks, in contrast to a decrease in such advances during the first half of last year.

Uses of funds - The three types of institutions increased their holdings of mortgages 5,554 million dollars during the first half of 1955, 1,550 million or 40 per cent more than during the corresponding period last year. This expansion in mortgage holdings accounted for 77 per cent of all uses of funds this year compared to only 60 per cent last year, as life insurance companies and mutual savings banks increased the proportion of their funds used to acquire mortgages. Despite the increased importance of mortgage investment to these institutions, however, they accounted for a smaller proportion of the net increase in all mortgage debt outstanding this year than last--64 per cent this year, compared with 77 per cent last year.

Uses and Sources of Funds by Major Types of Savings Institutions  
First Half 1953-1955

(In millions of dollars)

1st Half	Uses - Net purchases of:					Sources of funds				
	Total uses 1/	Business securities	Mortgages	State and local govt. bonds	Other assets	Total sources	New savings	Reduction of U.S. Govt. securities	Reduction of cash	Other sources
Total - Major Types of Savings Institutions										
1955	7,254	939	5,554	178	583	7,254	6,468	-218	185	819
1954	6,812	1,361	4,007	488	956	6,812	6,207	553	-175	227
1953	5,742	1,800	3,465	123	355	5,742	5,373	-83	215	238
Life Insurance Companies										
1955	3,026	982	1,556	124	364	3,026	2,915	-25	136	--
1954	3,315	1,135	1,109	363	708	3,315	2,780	124	111	--
1953	2,725	1,515	976	69	165	2,725	2,369	165	191	--
Savings and Loan Associations										
1955	3,017	--	2,846	2/	171	3,017	2,580	-261	10	688
1954	2,149	--	1,965	2/	184	2,149	2,385	-38	-282	84
1953	1,909	--	1,763	2/	146	1,909	1,997	-206	-27	145
Mutual Savings Banks										
1955	1,211	-43	1,152	54	48	1,211	973	68	39	131
1954	1,348	226	933	125	64	1,348	1,042	167	-4	143
1953	1,108	285	726	53	44	1,108	1,007	-42	51	93

1/ Uses of funds consist of net changes in asset holdings other than cash and U. S. Government securities.

2/ Change of less than 500 thousand dollars.

Note.--Details may not add to totals because of rounding.

Sources of data.--Institute of Life Insurance, Federal Savings and Loan Insurance Corporation, and National Association of Mutual Savings Banks.

Holdings of business securities by the three types of institutional investors increased 939 million dollars during the first half of 1955, 425 million dollars or 30 per cent less than during the corresponding period last year. The change in holdings of such securities accounted for only 13 per cent of the increase in invested funds this year, compared to 20 per cent last year, as life insurance companies used a slightly smaller proportion of their available funds for such investments, while holdings of business securities by mutual savings banks declined this year in contrast to last year when they increased substantially. The lesser importance of additions to business security holdings at these institutions this year than last is partially the result of a smaller increase in the total volume of corporate securities outstanding. In part, however, it also reflects the fact that these institutions were less important in the corporate security market this year than last, for they accounted for only 30 per cent of the net increase in corporate securities outstanding this year compared with 40 per cent last year. This in turn was the result partially of the increased use of funds for mortgage investment, in preference to investment in business securities. In addition, it probably also reflects the smaller increase in corporate debt instruments, which are largely held by these institutions, particularly the insurance companies, this year than last and a larger increase in aggregate equity financing.

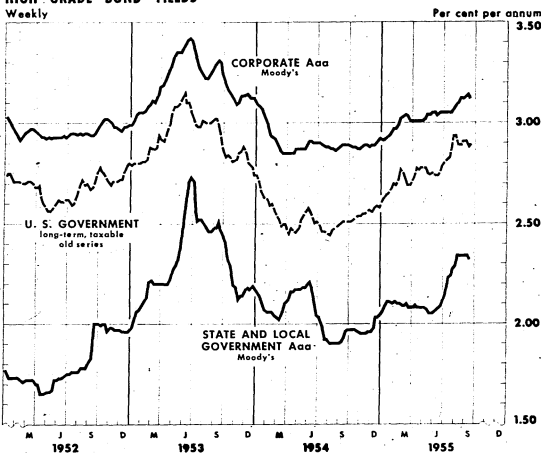
Life insurance companies, savings and loan associations and mutual savings banks increased their holding of State and local government securities only 178 million dollars this year compared to an increase of 488 million last year. The smaller increase this year undoubtedly resulted in part from the large supply of competing types of investments but also reflected a smaller volume of new issues of long-maturity, high-yielding revenue bonds--the type of State and local bonds of particular attractiveness to these institutions--this year than last. A smaller amount of funds were invested this year than last in miscellaneous other assets.

More detailed information concerning recent capital market developments will be found in the attached exhibits.

Business Finance and Capital Markets Section,  
Division of Research and Statistics,  
Board of Governors of the Federal Reserve System.

EXHIBIT A

HIGH-GRADE BOND YIELDS



Date	Corporate Aaa 1/	U. S. Govt. long-term 2/	State and local govt., Aaa 3/	Spread between U. S. Govt. and	
				Corporate Aaa	State and local Aaa
(Per cent)					
1952 - High	3.03 (1/4)	2.79 (12/27)	2.00 (10/23)	.37	1.02
Low	2.91 (2/15)	2.56 (5/17)	1.65 (5/1)	.19	.71
1953 - High	3.42 (6/19)	3.15 (6/6)	2.73 (6/25)	.38	.84
Low	2.99 (1/9)	2.78 (12/26)	1.98 (1/8)	.19	.30
1954 - High	3.09 (1/8)	2.74 (1/9)	2.21 (6/10)	.43	.61
Low	2.85 (4/23)	2.44 (8/7)	1.90 (9/2)	.32	.29
1955 - High	3.14 (9/9)	2.94 (8/5)	2.34 (9/8)	.34	.70
Low	2.91 (1/7)	2.62 (1/7)	2.05 (5/26)	.13	.54
August 19	3.12	2.89	2.34	.23	.55
August 26	3.12	2.91	2.34	.21	.57
September 2	3.13	2.91	2.34	.22	.57
September 9	3.14	2.88	2.34	.26	.54
September 16	3.13	2.89	2.32	.24	.57

1/ Weekly average of daily figures. Average term of bonds included is 25-26 years.

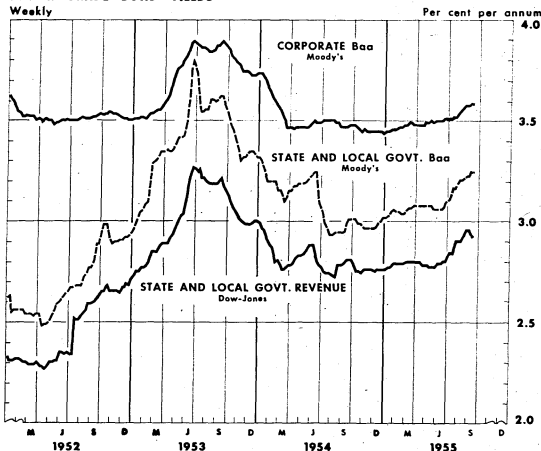
2/ Weekly average of daily figures; old series. Average term to first call of bonds included is 13-14 years.

3/ Thursday figures. Only general obligation bonds are included; average term is 20 years.

Note.—Highs and lows are for individual series and may be on different dates for different series.

## EXHIBIT B

## LOWER-GRADE BOND YIELDS



Date	Corporate Baa 1/	State and local govt. Baa 2/	State and local govt. rev. 3/
	(Per cent)		
1952 - High	3.63 (1/4)	2.98 (10/23)	2.69 (12/19)
Low	3.48 (5/16)	2.48 (4/17)	2.27 (4/25)
1953 - High	3.89 (9/18)	3.79 (6/25)	3.27 (6/26)
Low	3.50 (1/2)	2.96 (1/8)	2.71 (1/2)
1954 - High	3.74 (1/8)	3.32 (1/7)	3.00 (1/1)
Low	3.44 (12/31)	2.93 (8/5)	2.72 (8/13)
1955 - High	3.59 (9/16)	3.25 (9/15)	2.95 (9/2)
Low	3.45 (1/14)	3.02 (1/6)	2.76 (1/7)
August 19	3.57	3.22	2.93
August 26	3.58	3.23	2.95
September 2	3.58	3.23	2.95
September 9	3.59	3.25	2.93
September 16	3.59	3.25	2.92

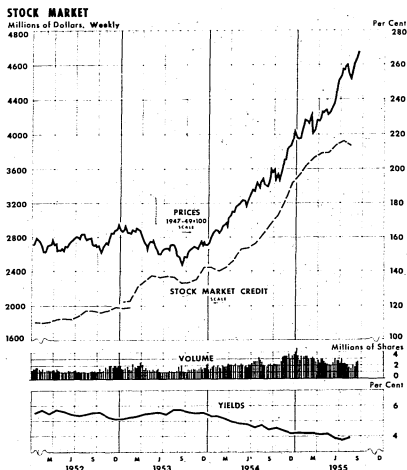
1/ Weekly average of daily figures. Average term of bonds included is 25-26 years.

2/ Thursday figures. Only general obligation bonds are included; average term is 20 years.

3/ Friday figures. Average rating of bonds included is between Baa and A; average term is 20 years.

Note.—Highs and lows are for individual series and may be on different dates for different series.

## EXHIBIT C



Date	Stock price index 1/	Trading volume 2/ (millions of shares)	Common stock yields 3/ (per cent)	Stock market customer credit		
				Total	Customers' debit bal- ances 4/	Bank loans to "others" 5/
(Millions of dollars)						
1952 - High	165.3 (12/26)	2.0	5.77	1,986	1,332	656
Low	151.7 (10/24)	0.9	5.13	1,804	1,241	552
1953 - High	167.1 (1/2)	2.5	5.75	2,445	1,665	780
Low	144.0 (9/18)	0.9	5.15	2,055	1,314	664
1954 - High	221.4 (12/31)	3.7	5.33	3,436	2,388	1,048
Low	156.5 (1/6)	1.4	4.20	2,405	1,653	746
1955 - High	267.4 (9/16)	4.6	4.22	3,911	2,734	1,177
Low	217.4 (1/14)	1.5	3.78	3,537	2,517	1,018
July	257.3	2.4	3.78	3,911	2,734	1,177
August	254.5	1.8	3.91	3,865	2,710	1,155
September 2	260.6	5/1.8	n.a.	n.a.	n.a.	1,155
September 9	262.3	5/2.4	n.a.	n.a.	n.a.	1,157
September 16	267.4	2.6	n.a.	n.a.	n.a.	n.a.

2/ Corrected.

n.a. Not available.

1/ SEC index of 265 common stocks, weekly closing prices, 1939=100; converted to 1947-49=100 by Federal Reserve. The conversion factor is 123.91.

2/ Averages of daily trading volume on the New York Stock Exchange.

3/ Moody's 200 common stocks; end of month figures.

4/ End of month figures for member firms of the New York Stock Exchange which carry margin accounts; excludes balances secured by U. S. Government obligations.

5/ Wednesday figures for weekly reporting member banks. Excludes all loans for purchasing or carrying U. S. Governments for 1952; since 1953 only these loans at banks in New York and Chicago are excluded. Weekly reporting banks account for about 72 per cent of loans to others.

Note.—Highs and lows are for individual series and may be on different dates for different series.

Exhibit E

Large Public Security Issues for New Capital  
(Other than U. S. Treasury) 1/

Proceeds of Large Issues Offered

(Millions of dollars)

Month	Corporate	State and local government	Other 2/
1954 - August	75	86	--
September	364	455	--
October	433	388	--
November	0	268	--
December	121	689	30
1955 - January	141	341	35
February	63	107	--
March	750	337	--
April	175	238	15
May	483	152	--
June	182	409	--
July	101	278	--
August	405	72	--

Large Individual Issues Offered September 1 through 16

Issuer	Type 3/	Amount (millions of dollars)	Maturity	Coupon rate or net interest cost	Offering yield	Rating
<u>CORPORATE</u>						
Utah Power & Light	1st mtg. bds.	15.0	1985	3 5/8	3.50	A
Tenn. Gas Transmission	1st mtg. PL	50.0	1976	3 7/8	3.80	A
Tenn. Gas Transmission	Common stk.	16.0				
CIT Financial	Deb.	100.0	1970	3 5/8	3.75	--
<u>STATE AND LOCAL GOVERNMENT</u>						
State of Delaware	G.O.	7.0	1956-75	2.12	1.45-2.20	Aa
Essex County, New Jersey	G.O.	8.8	1956-76	2.20	1.50-2.25	Aa
Middlesex Co. Sewerage Authority, N. J.	Rev.	25.0	1962-95	3.33	2.50-3.35	--
Buffalo, New York	G.O.	12.8	1956-70	1.89	1.40-2.00	Aaa
Volusia Co., Florida	G.R.	8.0	1961-84	3.35	2.60-3.35	Baa
<u>OTHER</u>						
None						



1/ Includes corporate and other security offerings of 15 million dollars and over; State and local government security offerings of 5 million and over.

2/ Includes foreign government and International Bank for Reconstruction and Development issues.

3/ In the case of State and local government securities, G.O. denotes general obligation; Rev., revenue bonds; G.R., general obligations additionally secured by facilities revenues; and, L.L. limited liability obligations secured by pledge of designated revenues.

Forthcoming Large Public Security Offerings for New Capital  
(Other than U. S. Treasury) 1/

Expected Proceeds from Forthcoming Large Issues

Date of computation	During month following date shown			Subsequent to date shown		
	Corporate	State and local govt.	Other 2/	Corporate	State and local govt.	Other 2/
1954 - Aug. 31	334	300	--	608	1,876	--
Sept. 30	343	383	--	414	2,153	--
Oct. 29	15	436	--	135	1,957	30
Nov. 30	94	661	30	246	2,682	30
Dec. 31	184	567	--	216	2,144	35
1955 - Jan. 31	16	682	--	422	1,961	--
Feb. 28	710	524	--	1,395	1,978	--
Mar. 31	211	208	--	922	2,009	--
Apr. 29	425	116	--	1,141	1,917	--
May 31	160	339	--	850	1,861	--
June 30	67	344	--	830	1,845	--
July 29	407	100	--	1,135	2,018	--
Aug. 31	222	184	--	920	1,971	--

Forthcoming Large Offerings, as of September 16

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
<u>CORPORATE</u>			
Ohio Power	1st mtg. bds.	17.0	September 20
Columbia Gas	Deb.	40.0	September 21
Public Service Electric and Gas	Pfd. stock	25.0	October 4
Public Service Electric and Gas	Deb.	35.0	October 4
American Telephone and Telegraph	Conv. deb.	637.2	October 13
Southern Bell Telephone and Telegraph	Deb.	30.0	October 17
Long Island Lighting	1st mtg. bds.	15.0	October 26
New York State Electric and Gas	1st mtg. bds.	15.0	October
Kaiser Aluminum & Chemical	Pfd. stock	35.0	October
Southern California Gas	Bonds	40.0	November
*Pacific Gas and Electric	Pfd. stock	25.0	November
Freedom Insurance Company	Common stk.	22.0	1955
<u>STATE AND LOCAL GOVERNMENT</u>			
Detroit, Michigan	G.O.	9.1	September 20
Los Angeles, California	Rev.	18.0	September 21
State of New Mexico	L.L.	8.9	September 23

## Forthcoming Large Offerings, as of September 16 (Cont'd)

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
<u>STATE AND LOCAL GOVERNMENT (Cont'd)</u>			
*Warren Township, Michigan	G.O.	15.0	September 27
*Baltimore County, Maryland	G.O.	15.9	September 28
Sedgwick County, Kansas	G.O.	5.8	September 28
Richmond-Petersburg Turnpike Auth.	Rev.	69.0	September 28
Chicago Regional Port Dist., Ill.	Rev.	24.0	September 4
*Indianapolis, Indiana	n.a.	6.6	October 4
*Orleans Parish, Louisiana	n.a.	6.0	October 13
Philadelphia, Pennsylvania	n.a.	39.9	October 18
Texas Turnpike Company	Rev.	130.0	October
Illinois Turnpike Authority	Rev.	400.0	October
*Cook County, Illinois	n.a.	40.0	October
State of California	n.a.	60.0	November 2
Territory of Hawaii	n.a.	7.5	November 16
Connecticut Expressway	Rev.	100.0	1955
Inter-American Center Auth., Fla.	Rev.	25.0	1955
Michigan Turnpike Authority	Rev.	186.0	1955
State of Louisiana	n.a.	80.0	1955
California Toll Bridge Authority	Rev.	235.0	1955
Louisiana Turnpike Commission	Rev.	100.0	1955
California Toll Bridge Authority	Rev.	43.0	1955
New York State Thruway Authority	G.R.	125.0	1955
Oklahoma Turnpike Authority	Rev.	146.0	1955
Washington State Toll Bridge Auth.	Rev.	227.0	1956
<u>OTHER</u>			
None			

1/ Includes corporate and other issues of 15 million dollars and over; State and local government issues of 5 million and over.

2/ Includes foreign government and International Bank for Reconstruction and Development issues.

n.a., Not available.

\*--Included in table for first time.

Yields on New and Outstanding  
Electric Power Bonds, Rated Aa and A 1/

Date	Aa-rated offering yields		A-rated offering yields	
	Actual (per cent)	Amount above seasoned yields (basis points)	Actual (per cent)	Amount above seasoned yields (basis points)
1952 average	3.16	13	3.35	12
1953 average	3.46	16	3.78	26
1954 average	3.03	3	3.12	-3
1954 - January	3.19	6	*3.35	2
February	3.01	-1	*3.20	-1
March	*2.93	0	3.05	-10
April	2.99	5	3.10	-6
May	3.00	4	3.14	0
June	*3.00	1	3.14	-2
July	None	--	*3.13	-1
August	None	--	3.11	-1
September	3.02	3	*3.10	-3
October	3.03	3	3.10	-2
November	None	--	None	--
December	None	--	3.11	0
1955 - January	*3.15	13	None	--
February	*3.14	7	*3.23	9
March	*3.17	8	3.29	14
April	None	--	3.31	16
May 11			3.35	14
11			3.32	11
18	3.22	10		
24			3.37	16
June 9			3.30	10
22	3.20	7		
July	None	--	None	--
August 31			3.57	30
September 14			3.50	23

1/ Covers only 30-year first mortgage bonds, as reported in Moody's Bond Survey. Except where indicated, the actual yield figure and the amount above seasoned yields are averages of offerings during the indicated period and of the differences between these new offering yields and yields on seasoned issues of similar quality for the same day. Average maturity for the seasoned issues varies from 26 to 28 years.

\*--Single observation, not an average.