

H.14

August 29, 1956

CAPITAL MARKET DEVELOPMENTS

Large public security offerings issued for new capital during the week ending August 24 totaled \$133 million for corporations and \$13 million for State and local governments. This week, just before the Labor Day weekend, only one corporate and one municipal issue are scheduled. Rights expire on a \$19 million corporate debenture issue and a \$12 million tax-exempt offering is scheduled for sale.

Bond yields - Yields on all types of outstanding bonds rose sharply to new highs for the year last week. The increase was particularly sharp for yields on high-grade issues.

Offering yields on new issues also continue to increase. The recent Chicago, Illinois Park District offering of A-rated general obligation bonds provides an opportunity to compare this issue with a similar offering made in May last year. Each issue has an average maturity of 11 1/3 years, with the longest maturity running to 20 years. Information concerning these two Chicago issues is summarized below.

Date	Amount of issue (\$ million)	Net Interest Cost (Avg. for all maturities)	Yield on 20 year maturity	
			New Issue	Outstanding 1/
May 24, 1955	6.0	2.21	2.30	2.55
Aug. 28, 1956	12.0	3.25	3.15	3.04

1/ As measured by Moody's A municipal bond yield averages.

Net costs to the borrower increased, over this 15 month period, by 104 basis points while the reoffering yield on the longest maturity increased only 85 points. Yields on comparable outstanding issues rose only 49 basis points in this period. The widening spread between borrowers' cost, reoffering yield and the return on existing securities may reflect underwriters' reaction to the difficulties of marketing new securities in a period of rapidly changing interest rates.

Stock prices - Stock prices, as measured by the SEC index of 265 common stocks, declined sharply last week, closing at 286.7 on August 24. Daily figures through Wednesday of this week indicate a further decline in prices, with the daily indexes back to early July levels. Trading volume also declined the first three days of this week - reaching a six month low.

State and Local Government Security Offerings
in the Second Quarter 1956

Purpose of Issue

New bond issues amounting to \$1.6 billion were offered by State and local governments during the second quarter of 1956. As can be seen in Table 1, this represents the largest second quarter volume for any recent year except 1954, when the heavy turnpike financing contributed to the unusually large volume of issues by both States and special authorities. Turnpike flotations this year have been much less than in the peak years of 1952 and 1954, and are down considerable from 1955.

Of the 1956 second quarter total, only \$14 million was for refunding purposes; the remainder represented new capital. The most important purposes for which the new money was intended were school construction (\$394 million), miscellaneous public service enterprises (\$245 million, of which the Grant County, Washington, Public Utility District accounted for \$166 million), and sewer and water facilities (\$213 million). As noted above, new financing for highways, bridges and tunnels was low (\$159 million); issues to finance the building of residential housing (\$114 million) were also moderately lower than during the three preceding second quarters.

Type of Issuer

When securities floated during the second quarter are classified according to issuing unit, special authorities accounted for the largest volume. Authorities offered more than one-third of all issues of \$500,000 or more. Municipalities issued 31%, and school districts accounted for an additional 20%. Offerings amounting to at least \$500,000 by each of these issuing units exceeded comparable flotations during the second quarter of 1955. On the other hand, offerings by States and counties were small and substantially less than the previous year.

Type of Issue

Two-thirds of the long-term securities issued by State and local governments during the second quarter of 1956 were general obligations; 33% were revenue bonds. Although turnpike financing, which is customarily through revenue issues, fell sharply this year, one large utility bond flotation kept the proportion of revenue to total issues about the same as in 1955 second-quarter financing. This, however, was considerably below the 1952 and 1954 proportions, when revenue bonds made up 40% and 47% respectively of all new issues.

The importance of revenue bonds as a method of financing capital expenditures varied widely according to the type of issuing authority and the purpose of the issue. As can be seen from Table 2, special authorities derived 64% of their new long-term capital from revenue bonds whereas school districts relied on general obligations for 98% of their funds.

In terms of the purpose for which the borrowing was intended, it can be noted that revenue bond financing provided the bulk of the funds for industrial buildings (a minor item), for miscellaneous public service enterprises, and for ports and airports. Highways and sewer and water facilities also acquired a substantial portion of their capital (approximately two-fifths) from revenue issues. For other purposes (e.g. schools, recreation and veterans aid), however, revenue bond financing was either insignificant or was not used.

More detailed information concerning recent capital market developments is presented in the attached exhibits.

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

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Table 1

Long-Term Security Issues of State and Local Governments

2nd Quarter

(In millions of dollars)

	1956	1955	1954	1953	1952
Issuing authority:					
State	164	254	668	136	405
County and township	53	134	118	66	50
Municipality	452	363	466	299	310
School district	287	241	247	263	170
Special authority	196	312	745	524	416
Unidentified 1/	165	125	129	154	149
Total	1,617	1,429	2,372	1,442	1,500
Purpose of issue:					
New capital total	1,603	1,418	2,334	1,412	1,477
Schools	394	365	502	416	294
Highways, bridges, tunnels	159	226	1,068	323	532
Residential buildings	114	140	133	122	73
Hospitals and institutions	15	28	43	44	9
Sewer and water	213	192	162	178	138
Misc. public service enterprises	245	37	57	30	55
Recreation	6	14	8	13	8
Port and airport	76	58	22	9	13
Veterans aid	68	20	25	10	98
Industrial buildings	3	3	1	2	0
Other	116	210	186	111	107
Unidentified 1/	165	125	127	153	149
Refunding	14	11	39	30	23
Total	1,617	1,429	2,372	1,442	1,500
Type of issue:					
General obligation	1,084	972	1,247	924	897
Revenue	533	457	1,126	393	603
General revenue 2/	0	0	0	125	0
Total	1,617	1,429	2,372	1,442	1,500

1/ Issues of less than \$500,000 not further classified.

2/ Total of issues with proceeds of \$5 million or over.

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

Source.—Bond Buyer and Federal Reserve.

Table 2

Distribution of State and Local Government Security
Issues between Revenue Bonds and General
Obligations

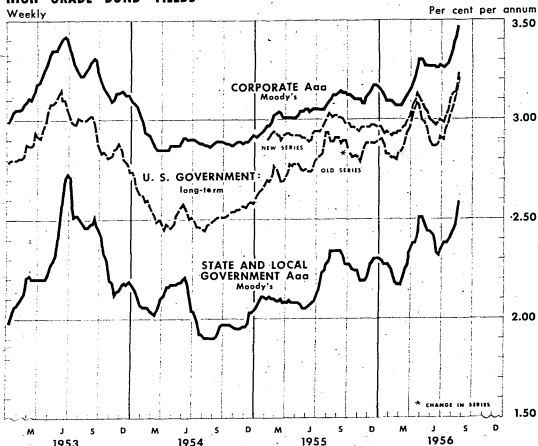
2nd Quarter, 1956

	<u>Revenue</u>	<u>General Obligations</u>	<u>Total</u>
<u>Issuing authority</u>			
Special authority	64%	36%	100%
State	42	58	100
Municipality	25	75	100
County	5	95	100
School district	2	98	100
Total	<u>33</u>	<u>67</u>	<u>100</u>
<u>Purpose of Issue</u>			
Total	33%	67%	100%
Industrial buildings	100	0	100
Miscellaneous Public Service Enterprises	92	8	100
Port and Airport	75	25	100
Highways	40	60	100
Sewer and water	39	61	100
Residential buildings	10	90	100
Schools	8	92	100
Bridges and Tunnels	0	100	100
Recreation	0	100	100
Veterans aid	0	100	100
Other	23	77	100

Source.—Bond Buyer and Federal Reserve.

EXHIBIT A

HIGH-GRADE BOND YIELDS



Date	Corporate Aaa ^{1/}	U. S. Govt., long-term ^{2/}		State and local gov. Aaa ^{3/}	Spread between U. S. Govt. (old series) and Corporate Aaa / State and local Aaa	
		Old series	New series		Corporate Aaa	State and local Aaa
(Per cent)						
1953 - High	3.42 (6/19)	3.15 (6/6)	n.a.	2.73 (6/25)	.38	.84
Low	2.99 (1/9)	2.78 (12/26)	n.a.	1.98 (1/8)	.19	.30
1954 - High	3.09 (1/8)	2.74 (1/9)	n.a.	2.21 (6/10)	.43	.61
Low	2.85 (4/23)	2.44 (8/7)	n.a.	1.90 (9/2)	.32	.29
1955 - High	3.17 (12/23)	2.94 (8/5)	3.03 (8/5)	2.34 (9/8)	.34	.70
Low	2.91 (1/7)	2.62 (1/7)	2.89 (6/10)	2.05 (5/26)	.13	.54
1956 - High	3.47 (8/24)	3.21 (8/24)	3.23 (8/24)	2.59 (8/23)	.40	.68
Low	3.07 (3/2)	2.80 (2/17)	2.92 (2/3)	2.17 (2/23)	.13	.45
July 27	3.30	3.02	3.10	2.41	.28	.61
August 3	3.35	3.06	3.13	2.45	.29	.61
August 10	3.38	3.09	3.14	2.47	.29	.62
August 17	3.42	3.14	3.18	2.53	.28	.61
August 24	3.47	3.21	3.23	2.59	.26	.62

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

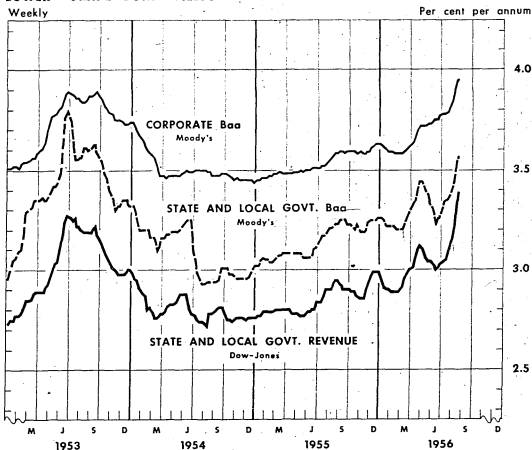
^{2/} Weekly averages of daily figures. The old series includes fully taxable, marketable 2 1/2 per cent bonds due or first callable after 12 years through September 1955, and those due or callable in 10-12 years thereafter; the average term to first call of the bonds included declined from 14 years in early 1953 to 11 1/2 years in early 1956. The new series is comprised of the 3 per cent bond of 1955 and the 3 1/4 per cent bond of 1978-83.

^{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)		
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	3.63 (12/30)	3.26 (12/29)	2.99 (12/30)
Low	3.45 (1/14)	3.02 (1/6)	2.76 (1/7)
1956 - High	3.95 (8/24)	3.57 (8/23)	3.39 (8/24)
Low	3.58 (3/9)	3.20 (3/8)	2.89 (2/24)
July 27	3.82	3.37	3.11
August 3	3.85	3.42	3.16
August 10	3.90	3.46	3.22
August 17	3.94	3.54	3.31
August 24	3.95	3.57	3.39

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

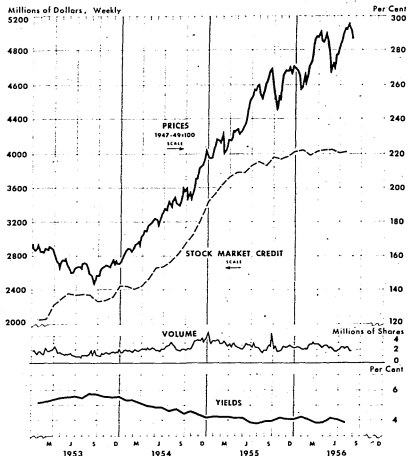
^{2/} Thursday figures. Only general obligation bonds are included; average term is 20 years.

^{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

STOCK MARKET



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)						
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	270.7 (12/30)	4.6	4.22	4,030	2,805	1,244
Low	217.4 (1/4)	1.5	3.78	3,537	2,517	1,018
1956 - High	295.5 (8/3)	3.1	4.21	4,047	2,810	1,267
Low	257.4 (1/20)	1.6	3.86	3,991	2,740	1,200
June	275.5	1.8	4.01	4,009	2,786	1,223
July	290.1	2.2	3.87	4,026	2,812	1,214
August 10	293.3	2.3	n.a.	n.a.	n.a.	1,204
August 17	291.4	1.8	n.a.	n.a.	n.a.	1,200
August 24	286.7	1.8	n.a.	n.a.	n.a.	n.a.

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 loans for purchasing or carrying U. S. Government securities at banks in New York and Chicago. 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.

Corporate and State and Local Government
Security Offerings and Placements

(In millions of dollars)

	New capital					
	Corporate			State and local		
	1956	1955	1954	1956	1955	1954
January	579	535	547	404	535	396
February	704	407	426	696	312	411
March	790	1,223	635	390	538	565
April	816	478	497	377	427	734
May	1,144	886	656	490	350	748
June	830	687	842	e/730	641	853
July	e/1,120	597	909	e/380	470	279
August	e/600	644	335	e/200	249	261
September		670	747		406	649
October		1,162 ^{1/}	1,003		919	594
November		632	290		658	423
December		900	604		408	877
1st quarter	2,073	2,165	1,608	1,490	1,385	1,372
2nd quarter	2,790	2,052	1,995	e/1,597	1,418	2,334
3rd quarter		1,911	1,991		1,124	1,188
4th quarter		2,695	1,896		1,984	1,894
Year		8,821	7,490		5,911	6,789
	Excluding finance companies ^{2/}					
1st quarter	1,617	1,727	1,527			
2nd quarter	e/2,590	1,870	1,927			
3rd quarter		1,434	1,911			
4th quarter		2,554	1,792			
Year		7,569	7,158			

e/ Estimated.

^{1/} Includes \$637.2 million AT&T convertible debenture issue.

^{2/} Total new capital issues excluding offerings of sales and personal finance companies.

Note.--Details may not add to totals due to rounding.

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/
1955 - July	101	278	--
August	405	65	--
September	328	234	--
October	805	716	--
November	221	401	25
December	263	227	50
1956 - January	95	192	--
February	212	444	--
March	278	163	--
April	395	157	50
May	623	233	--
June	185	463	20
July	592	164	--

Large Individual Issues Offered August 1 through August 24

Issuer	Type 3/	Amount (millions of dollars)	Maturity	Coupon rate or net interest cost	Offering yield	Rating
<u>CORPORATE</u>						
El Paso Natural Gas Co.	Pfd. stk.	25.0				
Consumers Power Co.	1st mtg. bds.	40.0	1986	4	3.94	Aaa
Pacific Tel. & Tel. Co.	Deb.	78.0	1988	4 3/8	4.23	Aa
Minneapolis-Honeywell Co.	S.F. deb.	25.0	1976	3 3/4	3.79	Aa
Associates Investment Co.	Deb.	30.0	1976	4 1/2	4.38	--
<u>STATE & LOCAL GOVERNMENT</u>						
Suffolk Co., New York	G.O.	9.3	1957-81	2.95	2.00-3.00	A
State of Delaware	G.O.	7.0	1957-76	2.64	2.00-2.65	Aa
Yonkers, New York	G.O.	6.4	1957-76	3.29	2.30-3.25	A
<u>OTHER</u>						
Metropolitan Toronto	Deb.	36.5	1957-86	4-4 1/8	3.60-4.40	A

1/ Includes corporate and other security offerings of \$15 million 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; 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/
1955 - July 29	407	100	--	1,135	2,018	--
Aug. 31	222	184	--	920	1,971	--
Sept. 30	805	843	--	909	2,205	--
Oct. 31	202	330	--	412	1,650	--
Nov. 30	215	205	50	230	756	50
Dec. 31	70	121	--	85	618	--
1956 - Jan. 31	176	327	--	376	917	--
Feb. 29	123	220	--	233	785	--
Mar. 30	380	132	--	1,013	811	--
Apr. 30	568	173	--	818	832	--
May 31	198	332	--	448	911	--
June 30	437	81	--	567	690	--
July 31	247	--	37	1,096	726	37

Forthcoming Large Offerings, as of August 24

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
<u>CORPORATE</u>			
Mack Trucks, Inc.	S.F. deb.	19.2	August 30 (rights expire)
Gulf States Utilities Co.	1st mtg. bds.	15.0	September 10
General Telephone Co. of Calif.	1st mtg. bds.	20.0	September 11
Northern States Power Co.	1st mtg. bds.	15.0	September 12
*Procter & Gamble Co.	Deb.	70.0	September 13
Detroit Edison Co.	Conv. deb.	59.8	September 14 (rights expire)
*Southern Pacific R.R. Co.	1st mtg. bds.	35.0	September 19
North American Aviation, Inc.	Cap. stk.	40.0	September 24 (rights expire)
*Virginia Electric & Power Co.	1st mtg. bds.	20.0	September 25
New England Tel. & Tel. Co.	Cap. stk.	18.9	September 28 (rights expire)
*Southern California Edison	Common stk.	25.0	September
American Tel. & Tel. Co. 3/	Common stk.	580.0	November 5 (rights expire)
J. P. Stevens & Co.	S.F. deb.	28.7	1956

Forthcoming Large Offerings, as of August 24 (Cont'd)

Issuer	Type	Amount (millions of dollars)	Approximate date of offering
<u>CORPORATE</u> (Cont'd)			
CIT Financial Corp.	Deb.	75.0	1956
Pacific Finance Corp.	Deb.	25.0	1956
Michigan Wisconsin Pipe Line Co.	1st mtg. bds.	25.0	1956
Southern California Edison Co.	1st mtg. bds.	40.0	1956
Commercial Credit Co.	Notes	50.0	1956
<u>STATE AND LOCAL GOVERNMENT</u>			
Chicago, Ill., Park District	G.O.	12.0	August 28
*Port of New York Auth., N.Y.	G.O.	25.0	September 6
*Allegheny Co. Inst. Dist., Pa.	G.O.	6.3	September 11
Oakland Unified School Dist., Cal.	G.O.	10.0	September 11
Los Angeles School Dist., Cal.	G.O.	29.0	September 18
Jacksonville Expressway Authority	Rev.	42.0	September
Memphis, Tennessee	Elec. rev.	135.0	September
Washington State Toll Bridge Auth.	Rev.	5.4	Fall
Florida State Turnpike Authority	Rev.	185.0	Fall
Oklahoma Turnpike Authority	Rev.	65.0	1956
Pennsylvania Turnpike Commission	Rev.	62.0	1956
Washington State Toll Bridge Auth.	Rev.	227.0	1956
Inter-American Center Auth., Fla.	Rev.	70.0	1956
New Jersey Highway Authority	Rev.	25.0	1956
New York State Thruway Authority	G.O.	50.0	1956
<u>OTHER</u>			
None			

*--Included in table for first time.

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

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

3/ Subject to stockholders' approval on September 5, 1956.