SUPPLEMENT D

Projected Holdings of State and Local Government Obligations, 1966–75

Materials presented in chapters 21 to 30 provide an array of projections and related commentary concerning the future holdings of State and local government obligations by various investor groups. Some are stated in terms of estimated holdings in 1975 (commercial banks and personal trust funds), some are stated in terms of annual net flows (mutual savings banks, fire and casualty insurance companies, and "individuals"), and some are suggestive as to the likely course of holdings (downward), but they do not present quantitative data (State and local public retirement funds, State and local governments). Where the materials in the respective chapters do not deal with future holdings, subsequent discussion with the chapter authors or trade association officials provided a basis for this writer to make appropriate projections (life insurance companies, municipal bond investment funds, and other corporations).

Altogether, these various sources furnish a framework of investor group data, which could be woven into a projected structure of holdings of State and local government obligations for the years 1966–75 by these 10 investor groups.[1] Essentially, the projections involve, where there are projected holdings in 1975, an annual proration of the computed net change in holdings between 1965 and 1975, assuming an annual rate of increase of 5.5 percent, or estimates of annual net expansion of holdings during the years 1966–75, based on extrapolations of recent expansion (or contraction) experience. The actual methodology for each investor group is described in the text below. The projected holdings of the investor groups for the years 1966–75 are presented in table D1.

It should be noted that the projections for each investor group were made independently of the other projections. While each may be internally consistent with respect to growth trends and distributions of assets invested in municipal securities, it is conceivable that in the aggregate they result in total holdings of municipal securities that are more optimistic than might otherwise be projected, had there been a comprehensive projection of sources and uses of capital funds for all investor groups.

1. COMMERCIAL BANKS

At the end of 1965 commercial bank loans and investments totaled $306.1 billion, of which $38.7 billion, or 12.6 percent, were accounted for by municipal securities. According to the materials presented in chapter 21, by 1975 total loans and investments are expected to increase to $475 billion, including $115 billion of municipal securities, or 24.2 percent of total loans and investments, on the basis of performance during the years 1944–64. If, however, projections are based on the experience of 1954–64, by 1975 total loans and investments would be $525 billion, and municipal securities would be $100 billion. Averaging these two projections, it is estimated that by 1975 total loans and

[1] To round out the picture, it is assumed that "other identifiable financial institutions" and Federal credit agencies will expand their holdings by the same annual amounts experienced in 1961–65.