NEW YORK, Jan 2 (Reuters) - The amount of unsecured short-term debt sold by U.S. companies has sunk to a 3-year low, the Federal Reserve said on Thursday.

The supply of so-called commercial paper ended 2002 at $1.322 trillion, down 8 percent from $1.439 trillion a year ago, and the lowest month-end total since October 1999, Fed data show. Companies often fund day-to-day operations with commercial paper, which matures within 270 days.

The decline resulted in part from falling credit quality and companies' migration to other capital markets. Ford Motor Co.'s finance arm, for example, is selling more asset-backed debt, and General Electric Co.'s finance arm is selling more long-term debt.

While the drop reflects tighter capital markets, analysts said it suggests neither a credit crunch nor a worrying extension of 2002's capital spending slowdown.

"A lot of the balance sheet remaking that companies undertook to combat perceived liquidity problems has already taken place," said Deborah Cunningham, a senior
portfolio manager responsible for $130 billion of short-term debt at Federated Investors in Pittsburgh.

"What I'm hearing from corporate treasurers is that they are anticipating an increase in their short-term debt outstanding in the first quarter of 2003, as their balance sheets and the economic outlook improve," she added.

Last month, credit rating agency Standard & Poor's said demand for commercial paper should "rebound gradually" as the economy, business inventories and capacity utilization grow, and as worries about accounting and trading practices ebb.

RATINGS DECLINE

Companies with the highest, "Tier-1" ratings find it easiest to sell commercial paper. Those with "Tier-2" ratings have more difficulty because the potential investor pool is smaller. Companies with lower ratings, and even some "Tier-2" companies, generally cannot sell commercial paper.

Henry Shilling, senior vice president in the managed funds group at Moody's Investors Service, said money market mutual fund asset managers have in the last year shown "greater selectivity" in buying commercial paper -- either purchasing less overall, or favoring asset-backed paper.
"Tier-2" supply fell 27 percent to $72.2 billion in November from $98.3 billion in December 2001, and 49 percent from a July 2000 peak of $141.1 billion, Fed data show.

Qwest Communications International Inc. and Tyco International Ltd, among others, stopped selling commercial paper as their credit ratings fell.

Last year more than 30 companies lost their "Tier-1" ratings from either Moody's or S&P.

Even such "Tier-1" issuers as GE and Verizon Communications Inc. sold less commercial paper under pressure from investors and rating agencies to diversify funding sources.

Thirty-day "Tier-1" paper yields an average 1.28 percent, and 30-day "Tier-2" nonfinancial paper yields 1.67 percent.

NON-FINANCIAL SUPPLY FALLS

The Fed also said the supply of commercial paper from nonfinancial companies ended 2002 at $135 billion, down from $210.5 billion a year ago and $351.9 billion in August 2000.

John Atkins, a corporate analyst for market research firm Ideaglobal in New York, said that drop suggests a corporate spending rebound might not come before July. Still, he said no crunch is imminent, just limited demand for selected credits.
"If and when capital spending enjoys a resurgence, there will be easy access to the market among at least those companies most likely to significantly raise spending targets, which by and large would be the most credit-worthy companies," Atkins said. More mergers might also boost issuance, he said.

Federated's Cunningham said the short-term debt market may shrink if the economy stops growing or slips into recession. The market's current size is a "modest positive" for capital spending, she said.