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Z.1

Flow of Funds Accounts of the United States

*Flows and Outstandings
Second Quarter 1997*

Flow of Funds Summary Statistics Second Quarter 1997

Debt of domestic nonfinancial sectors decelerated to a seasonally adjusted annual rate of 3-3/4 percent in the second quarter of 1997. This slowdown owed solely to its federal component, which contracted at a 2-1/2 percent pace as tax receipts surged early in the quarter. In contrast, growth in debt of the nonfederal sectors accelerated to a 6 percent annual rate in the second quarter.

Business debt grew at a 6 percent pace in the second quarter, boosted by financing for a large advance in capital outlays. Borrowing from banks and issuance of corporate bonds remained strong, while commercial mortgage borrowing increased to its highest level since 1989. State and local government debt rose briskly in the second quarter, reflecting increased issuance of debt to fund new

capital projects. In the household sector, growth of debt slowed, as both consumer credit borrowing and mortgage borrowing declined.

The level of domestic nonfinancial debt outstanding was \$14.8 trillion at the end of the second quarter of 1997. Debt of the nonfederal sectors was \$11.0 trillion, and federal debt was \$3.8 trillion.

Figures on the growth and level of debt are found on tables D.1 through D.3. Tables with financial flows, amounts outstanding, and selected sector balance sheets are included in the remaining pages of this release.

Growth of Domestic Nonfinancial Debt¹

Percent changes; quarterly data are seasonally adjusted annual rates

	Total	Federal	Nonfederal			
			Total	Households	Business	State and local govts.
1986	12.1	13.6	11.7	11.2	12.4	10.8
1987	9.2	8.0	9.6	12.0	6.9	12.1
1988	8.9	8.0	9.2	9.5	9.8	6.5
1989	7.6	7.0	7.8	8.5	7.7	5.7
1990	6.5	11.0	5.3	7.5	3.3	5.1
1991	4.3	11.1	2.3	4.9	-1.8	8.4
1992	4.8	10.9	2.8	5.1	0.6	2.0
1993	5.2	8.3	4.1	6.2	1.5	5.7
1994	4.8	4.7	4.8	8.2	3.7	-4.0
1995	5.3	4.1	5.8	7.8	6.2	-3.8
1996	5.2	4.0	5.6	7.4	4.7	1.2
1996:Q1	6.2	6.2	6.2	9.0	4.3	0.7
:Q2	5.0	1.7	6.1	7.5	5.2	3.5
:Q3	4.8	4.4	4.9	6.9	5.1	-4.7
:Q4	4.4	3.4	4.8	5.5	3.7	5.2
1997:Q1	4.7	2.1	5.6	6.4	5.3	3.2
:Q2	3.7	-2.6	5.9	5.5	6.0	7.7

1. Changes shown are on an end-of-period basis and may differ from month-average data in the H.6 release.

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Flow of Funds Accounts, Second Quarter 1997

This publication presents the flow of funds accounts for 1997:Q2.

Data revisions and other changes. The statistics shown in these tables reflect use of new or revised source data. Most significant revisions appear in recent quarters; however, new source information resulted in changes to data for earlier periods. The revisions included the following:

1. New seasonal factors for quarterly financial flows have been calculated for the period 1987:Q1 forward. The factors were generated using the Statistics Canada X-11ARIMA/88 seasonal adjustment program.

2. Data for investment and depreciation flows for all sectors have been revised as a result of the release of new estimates for fixed reproducible tangible wealth by the Bureau of Economic Analysis of the Department of Commerce (BEA). Saving and investment flows for sectors are flow of funds allocations of totals from the national income and product accounts (NIPA) that reflect the distribution of flows in the tangible wealth data.

3. This release includes updated balance sheet tables for the household and nonprofit organizations sector (B.100) and for the nonfarm nonfinancial corporate business sector (B.102). Stock-flow reconciliation tables for the sectors (R.100 and R.102) have also been included. The balance sheet and reconciliation tables had previously been part of a separate publication, the C.9 statistical release, which has been discontinued. In the future, balance sheet and stock-flow reconciliation tables will be updated and published in this release (the Z.I). The data for tangible wealth noted above are the major source for the sector estimates of the values of residential and nonresidential structures and for nonresidential equipment.

4. For the household and nonprofit organizations sector balance sheet (table B.100), estimates of the value of real estate have been revised using the American Housing Survey (AHS) as the

primary source. The AHS is conducted biennially by the U.S. Census Bureau; the most recent AHS data are for 1995. For years in which the AHS is not available, estimates in the flow of funds accounts are based on residential investment flows and depreciation from the NIPA and on reported changes in residential real estate prices.

5. Investment in and depreciation on residential structures of farm households have been moved from the farm business sector to the households and nonprofit organizations sector (table F.100), in order to better distinguish between business and nonbusiness economic activities. The farm business sector (table F.104) now agrees in definition with that used by the U.S. Department of Agriculture (USDA). USDA publications on farm assets and liabilities are the source for much of the information on tables F.104 and L.104.

6. Revisions to the nonfarm noncorporate business sector (tables F.103 and L.103) reflect the benchmarking of financial assets to the Internal Revenue Service Statistics of Income for 1994.

7. Revisions to the rest of the world sector (tables F.107 and L.107) reflect new estimates from the Department of Commerce for the period from 1974 through 1996. Most of the revisions involved changes to the levels of international investment positions from the early 1990s forward, although a few data series were revised back further.

8. In the other insurance companies sector (tables F.118 and L.118), quarterly data from 1996:Q2 through 1997:Q1 were revised based on information from A. M. Best Company. Previously, only annual data were available. The A. M. Best data are aggregates produced from quarterly financial statements that insurance companies file with state insurance commissioners.

9. In the state and local government employee retirement funds sector (tables F.120 and L.120), lines were added for fixed nonresidential investment and gross saving. These two series are

based on estimates of the acquisition of real estate assets and depreciation on existing assets, respectively. Pension fund reserves (line 17), the liabilities of the sector, are now equal to the sum of fixed nonresidential investment and the net acquisition of financial assets less gross saving.

10. Accounting in the mutual funds sector (table F.122) was altered to ensure that capital gains (and losses) are excluded from sector financial flows. A discrepancy (line 14) was introduced to the statement for this sector. The discrepancy represents the difference between total sources of funds (which equals the sum of gross saving and net share issues) and uses of funds (which equals the net acquisition of financial assets). Gross saving in the sector is a component of total retained earnings of all financial corporations reported in the NIPA and reflects the subtraction of dividend payments to shareholders from sector profits. Because the NIPA method includes realized capital gains as dividends, gross saving for the mutual fund sector is typically negative.

11. The results of a June 1996 survey of finance companies have been incorporated into this publication. The details of the survey were reported in an article in the July 1997 issue of the Federal Reserve Bulletin. In addition to data revisions noted in that article, the survey provided more detail on finance company assets, permitting the addition of several new series to the flow of funds accounts.

--Consumer leases are now reported as a separate memo item in the finance company sector (tables F.127 and L.127), and securitized consumer leases are reported as a separate memo item in the issuers of asset-backed securities sector (tables F.126 and L.126).

--Mortgage lending and mortgage assets of finance companies are now reported separately for home mortgages (tables F.218 and L.218), multifamily residential mortgages (tables F.219 and L.219), and commercial mortgages (tables F.220 and L.220).

12. In the issuers of asset-backed securities sector (table F.126), lines were added for fixed nonresidential investment and gross saving and a sector discrepancy. The lines for fixed nonresidential investment and gross saving derive from estimates of

investment in equipment and vehicles by the sector. Because a variety of sources of data are used to compile information on this sector, a discrepancy between sources and uses of funds may arise. For the time periods shown in this publication, however, the discrepancy is zero.

Explanatory notes for tables D.1, D.2, and D.3. Domestic debt includes credit market funds borrowed by U.S. entities from both domestic and foreign sources, while foreign debt represents amounts borrowed by foreign financial and nonfinancial entities in U.S. markets only. Financial sectors consist of government-sponsored enterprises, federally related mortgage pools, and private financial institutions. Credit market debt consists of debt securities, mortgages, bank loans, commercial paper, consumer credit, U.S. government loans, and other loans and advances; it excludes trade debt, loans for the purpose of carrying securities, and funds raised from equity sources.

Growth rates in table D.1 are calculated by dividing seasonally adjusted flows from table D.2 by seasonally adjusted levels at the end of the previous period from table D.3. Seasonally adjusted levels in flow of funds statistics are derived by carrying forward year-end levels by seasonally adjusted flows. Growth rates calculated from changes in unadjusted levels printed in table L.2 can differ from those in table D.1.

Relation of Flows to Outstandings. Estimates of financial assets and liabilities outstanding are linked to data on flows. However, figures on outstandings contain discontinuities or breaks in series that could affect analysis of particular relationships over time. Specifically, outstandings in the flow of funds accounts are related to the flows in the following way:

$$\text{Outstanding}_t = \text{Outstanding}_{t-1} + \text{Flow}_t + \text{Discontinuity}_t$$

where t is the time period.

Discontinuities result from changes in valuation, breaks in source data, and changes in definitions. For most series, the value of the discontinuity is zero for nearly all time periods. However, in a few instances, the discontinuity is nonzero for almost all time periods, or is quite large in a particular quarter, such as a period when there is a sharp increase or decrease in equity prices or a major break in source data.

The discontinuities in the series can distort estimated rates of growth in assets and liabilities between periods. In order to minimize these distortions, percentage changes in assets and liabilities in flow of funds releases should be calculated in the following manner:

$$\text{Percentage change}_t = (\text{Flow}_t / \text{Outstanding}_{t-1}) * 100$$

Preliminary Estimates. Figures shown for the most recent quarter in these tables are based on preliminary and incomplete information. A summary list of the principal sources of information available when the latest quarter's data were compiled is provided in a table following this introduction. The distinction between "available" data and "missing" data is not between final and preliminary versions of data, but rather between those source estimates that are fully ready when the latest quarterly publication is compiled and those that are not yet completed. However, the items that are shown as available are, in general, also preliminary in the sense that they are subject to revision by source agencies.

Margins of Uncertainty. Flow of funds statistics are subject to uncertainties resulting from measurement errors in source data, incompatibilities among data from different sources, potential revisions in both financial and nonfinancial series, and incomplete data in parts of the accounts. The size of these uncertainties cannot be quantified in precise statistical terms, but allowance for them is explicitly made throughout the accounts by the inclusion of "discrepancies" for various sectors and instrument types. A discrepancy for a sector is the difference between its measured sources of funds and its measured uses of funds. For an instrument category, a discrepancy is the difference between measured funds borrowed through the financial instrument less measured funds lent through that instrument. The size of such discrepancies relative to the main asset or liability components is one indication of the quality of source data, especially on an annual basis. For quarterly data, differences in seasonal adjustment procedures for financial and nonfinancial components of the accounts sometimes result in discrepancies that cancel in annual data.

Availability of Data. Flow of funds statistics are updated about nine weeks following the end of a quarter. This publication--the Z.1 release--is available from the Board's Publications Services. Flow of

funds data are also available electronically through the

Internet at the following location:

<http://www.bog.frb.fed.us/releases/>

and through the Economic Bulletin Board of the Department of Commerce.

Data from the flow of funds accounts are also available on 3-1/2 inch diskettes. The diskettes contain quarterly data beginning in 1952, organized in files that correspond to the tables published in this release. One diskette contains the seasonally adjusted flows, a second diskette contains unadjusted flows, and a third diskette contains quarterly outstandings, which are not seasonally adjusted. In addition, the third diskette contains quarterly data for the debt tables (tables D.1, D.2, and D.3) and available balance sheet tables, as well as monthly data from January 1955 forward for the monthly debt aggregate published in the Board's H.6 release, "Money Stock, Liquid Assets, and Debt Measures."

Subscription Information. The Federal Reserve Board charges for subscriptions to all statistical releases. Inquiries for releases or the diskettes should be directed to:

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A *Guide to the Flow of Funds Accounts* is available. The 670-page *Guide* explains in detail how the U.S. financial accounts are prepared and the principles underlying the accounts.

Availability of Data for Latest Quarter

	<u>Available at time of publication</u>	<u>Major items missing</u>
1. National income and product accounts (NIPA)	Preliminary estimates, seasonally adjusted, for 1997:Q2.	Unadjusted flows since 1992.
2. Household sector (tables F.100 and L.100)	Estimates for this sector are largely residual and derived from data for other sectors. Availability of data depends on schedules for other sectors. Data for consumer credit, which are estimated directly, are available through 1997:Q2.	
3. Nonfinancial corporate business (tables F.102 and L.102)	<i>Quarterly Financial Report</i> (QFR) of the Census Bureau through 1997:Q1; Internal Revenue Service <i>Statistics of Income</i> data through 1994, securities offerings, mortgages, bank loans, commercial paper, and other loans through 1997:Q2.	<i>Statistics of Income</i> data since 1994; QFR data for 1997:Q2.
4. Nonfarm noncorporate business (tables F.103 and L.103)	Internal Revenue Service <i>Statistics of Income</i> data through 1994; bank and finance company loans and mortgage borrowing for 1997:Q2.	<i>Statistics of Income</i> data since 1994.
5. Farm business (tables F.104 and L.104)	Mortgages, bank loans, loans from government-sponsored enterprises, and equity in government-sponsored enterprises through 1997:Q2; trade payables through 1996:Q4.	Data for U.S. government loans to farms since 1994:Q4; data for consumption of fixed capital since 1995; undistributed profits since 1994; checkable deposits and currency since 1996; and trade payables since 1996.
6. State and local governments (tables F.105 and L.105)	Gross security offerings and retirements, deposits at banks, and nonmarketable U.S. government securities issues for 1997:Q2; asset data through 1995:Q2 from the <i>Comprehensive Annual Financial Reports</i> of states that account for most of financial asset holdings of the sector.	Other asset items since 1995:Q2.

7. Federal government (tables F.106 and L.106)	Data on federal receipts and outlays from the <i>Monthly Treasury Statement of Receipts and Outlays</i> through 1997:Q2; data from the Federal Financing Bank statement through 1997:Q2.	Data for loans outstanding since 1994 except at the Federal Financing Bank.
8. Rest of the world (U.S. international transactions) (tables F.107 and L.107)	Balance of payments data through 1997:Q2; NIPA estimates, data from bank reports of condition and Treasury International Capital System data through 1997:Q2.	None.
9. Monetary authority (tables F.108 and L.108)	All data through 1997:Q2.	None.
10. Commercial banking (tables F.109 and L.109)	All data through 1997:Q2 for U.S.-chartered banks, foreign banking offices in the U.S., bank holding companies, and commercial banks in U.S.-affiliated areas.	Data since 1995 for branches of domestic commercial banks located in U.S.-affiliated areas.
11. Savings institutions (tables F.114 and L.114)	All data through 1997:Q2.	None.
12. Credit unions (tables F.115 and L.115)	All data through 1997:Q2.	None.
13. Bank personal trusts and estates (tables F.116 and L.116)	All data through 1996.	Data since 1996.
14. Life insurance companies (tables F.117 and L.117)	Asset data through 1997:Q1 and liability data through 1996.	Asset data for 1997:Q2 and liability data since 1996.
15. Other insurance companies (tables F.118 and L.118)	All data through 1996:Q4.	Data since 1996:Q4
16. Private pension funds (including FERS) (tables F. 119 and L.119)	Quarterly data through 1997:Q2; Internal Revenue Service Form 5500 data through 1993.	Form 5500 data since 1993.
17. State and local government employee retirement funds (tables F.120 and L.120)	All data through 1997:Q1.	Data for 1997:Q2.
18. Money market mutual funds (tables F.121 and L.121)	All data through 1997:Q2.	None.
19. Mutual funds (tables F.122 and L.122)	All data through 1997:Q2.	None.
20. Closed-end funds (tables F.123 and L.123)	All data through 1995.	Data since 1995.

21. Government-sponsored enterprises (tables F.124 and L.124)	Balance sheet data for FHLBs, FNMA, FHLMC, SLMA, FCS, FICO, and REFCORP for 1997:Q2.	None.
22. Federally related mortgage pools (tables F.125 and L.125)	All data through 1997:Q2.	None.
23. Issuers of asset-backed securities (ABSs) (tables F.126 and L.126)	All data from Trepp/PSA Information Services and data for private mortgage pools, consumer credit, business loans, student loans, consumer leases, and trade credit securitization through 1997:Q2.	None.
24. Finance companies (tables F.127 and L.127)	All data through 1997:Q2.	None.
25. Mortgage companies (tables F.128 and L.128)	Mortgage data through 1997:Q1.	Data for 1997:Q2.
26. Real estate investment trusts (REITs) (tables F.129 and L.129)	Data through 1996:Q3; equity issuance through 1997:Q2.	Data since 1996:Q3.
27. Security brokers and dealers (tables F.130 and L.130)	Data for firms filing FOCUS reports through 1997:Q2; data for firms filing FOGS reports through 1996:Q3.	Data from FOGS reports for 1996:Q4 through 1997:Q2.
28. Funding corporations (tables F.131 and L.131)	Estimates for this sector are largely residual and derived from data for other sectors.	