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Z.1

Flow of Funds Accounts of the United States

*Flows and Outstandings
Fourth Quarter 2003*

Flow of Funds Summary Statistics Fourth Quarter 2003

Domestic nonfinancial debt rose at a seasonally adjusted annual rate of 6-1/2 percent in the fourth quarter of 2003, about half a percentage point less than the pace in the third quarter. The slowdown in debt growth was accounted for by the household sector; slower growth of mortgage debt and consumer credit pushed total household debt growth down from an annual rate of 10 percent in the third quarter to a pace of 8-1/4 percent last quarter. Growth of federal government debt held by the public edged up to a seasonally adjusted annual rate of 9 percent last quarter, and growth of state and local government debt rose to an 8 percent pace. Debt of nonfinancial businesses increased at an annual rate of 3 percent, matching the pace of the previous quarter. On balance, borrowing in the form of bank loans and other types of loans by financial institutions rose last quarter, while commercial

mortgage borrowing continued at about the third-quarter pace. By contrast, commercial paper outstanding contracted sharply last quarter and net issuance of corporate bonds slowed further.

For 2003 as a whole, domestic nonfinancial debt rose 8.1 percent, a percentage point more than in the previous year. The pickup in the pace of borrowing last year was widespread, reflecting faster debt growth of the federal government, nonfinancial businesses, and the household sector.

The level of domestic nonfinancial debt outstanding was \$22.4 trillion at the end of 2003. Debt of nonfederal sectors was \$18.4 trillion, and federal debt was \$4.0 trillion.

Growth of Domestic Nonfinancial Debt¹

Percentage changes; quarterly data are seasonally adjusted annual rates

	Total	Federal	Nonfederal			
			Total	Households	Business	State and local govts.
1994	4.6	4.7	4.6	7.7	3.8	-4.0
1995	5.3	4.1	5.7	7.3	7.2	-5.5
1996	5.3	4.0	5.8	7.1	6.2	-1.5
1997	5.4	0.6	7.1	6.1	9.0	4.0
1998	6.9	-1.4	9.7	8.2	12.2	6.3
1999	6.3	-1.9	8.8	8.2	10.6	3.4
2000	4.9	-8.0	8.4	8.7	9.5	1.3
2001	6.3	-0.2	7.7	9.1	6.0	8.9
2002	7.1	7.6	7.0	10.0	2.8	11.1
2003	8.1	10.9	7.5	10.4	3.9	8.2
2002:Q3	6.4	7.4	6.2	9.4	1.7	10.7
Q4	8.2	6.8	8.5	11.1	4.4	13.7
2003:Q1	6.5	4.5	6.9	9.9	3.5	5.7
Q2	11.3	20.4	9.4	11.8	5.9	12.3
Q3	7.0	8.2	6.8	9.9	3.0	6.1
Q4	6.6	9.0	6.1	8.3	3.0	7.9

1. Changes shown are on an end-of-period basis.

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Flow of Funds Accounts, Fourth Quarter 2003

This publication presents the flow of funds accounts for 2003:Q4.

Data revisions and other changes. The statistics in the attached tables reflect the 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.

In the nonfarm noncorporate business sector (tables F.103 and L.103), data have been revised from 1998:Q1 onward, owing to methodological changes and benchmark statistics available from the Internal Revenue Service *Statistics of Income* for 2001.

Explanatory notes for tables D.1, D.2, and D.3. Domestic debt comprises 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, outstanding in the flow of funds accounts are related to the flows in the following way:

Outstanding_t = Outstanding_{t-1} + Flow_t + 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 a 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 as:

Percentage change_t = (Flow_t / 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 and measured funds lent through that instrument. The size of such discrepancies relative to the main asset or liability component 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 ten 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.federalreserve.gov/releases/Z1>

The Internet site also provides quarterly data beginning in 1952, organized in compressed files that correspond to the tables published in this release. There are files for quarterly data for seasonally adjusted flows, unadjusted flows, outstandings, balance sheets, and debt (tables D.1, D.2, and D.3).

A Guide to the Flow of Funds Accounts is available. The 1,200-page Guide, in two volumes, explains in detail how the U.S. financial accounts are prepared and

the principles underlying the accounts. The Guide can be purchased for \$20.00 from the Board's Publications Services. Publications Services accepts orders accompanied by checks as well as credit card orders.

The Internet site for this release at the location shown above contains a link to an order form for the Guide that can be mailed or faxed to Publications Services.

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

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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 2003:Q4.	Unadjusted flows since 2001; profit data for 2003:Q4.
2. Households and nonprofit organizations sector (tables F.100 and L.100)	Estimates for this sector are largely residuals and are 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 2003:Q4. The source for nonprofit organizations data (tables F.100.a and L.100.a) is the Internal Revenue Service <i>Statistics of Income</i> . Data for nonprofit organizations are available for 1987 through 2000.	
3. Nonfarm nonfinancial corporate business (tables F.102 and L.102)	<i>Quarterly Financial Report (QFR)</i> of the Census Bureau through 2003:Q3; Internal Revenue Service <i>Statistics of Income (IRS/SOI)</i> data through 2001; securities offerings, mortgages, bank loans, commercial paper, and other loans through 2003:Q4.	<i>Statistics of Income</i> data since 2001.
4. Nonfarm noncorporate business (tables F.103 and L.103)	IRS/SOI data through 2001; bank and finance company loans and mortgage borrowing through 2003:Q4.	<i>Statistics of Income</i> data since 2001.
5. Farm business (tables F.104 and L.104)	Mortgages, bank loans, loans from government-sponsored enterprises, U.S. government loans to farms, and equity in government-sponsored enterprises through 2003:Q4; preliminary data for checkable deposits and currency and trade payables through 2003.	Consumption of fixed capital and undistributed profits since 2000.
6. State and local governments (tables F.105 and L.105)	Gross offerings and retirements of municipal securities, deposits at banks, and nonmarketable U.S. government security issues through 2003:Q4; selected financial assets through 1999:Q2 from the comprehensive annual financial reports of state and local governments that account for most of the holdings of the sector, and data from Standard & Poor's on local government investment pools.	Selected financial asset items since 1999:Q2.

7. Federal government (tables F.106 and L.106)	Data from the <i>Monthly Treasury Statement of Receipts and Outlays</i> through 2003:Q4; Treasury data for loan programs through 2003:Q4.	None.
8. Rest of the world (U.S. international transactions) (tables F.107 and L.107)	Balance of payments data through 2003:Q3; NIPA estimates; data from bank Reports of Condition and Treasury International Capital System through 2003:Q4.	Balance of payments data for 2003:Q4
9. Monetary authority (tables F.108 and L.108)	All data through 2003:Q4.	None.
10. Commercial banking (tables F.109 through F.113 and tables L.109 through L.113)	All data through 2003:Q4 for U.S.-chartered commercial banks, foreign banking offices in the U.S., bank holding companies, and commercial banks in U.S.-affiliated areas.	Data since 2002 for branches of domestic commercial banks located in U.S.-affiliated areas.
11. Savings institutions (tables F.114 and L.114)	All data through 2003:Q4.	None.
12. Credit unions (tables F.115 and L.115)	All data through 2003:Q4.	None.
13. Bank personal trusts and estates (tables F.116 and L.116)	All data through 2003:Q4.	None.
14. Life insurance companies (tables F.117 and L.117)	All data through 2003:Q3.	Data for 2003:Q4.
15. Other insurance companies (tables F.118 and L.118)	All data through 2003:Q3.	Data for 2003:Q4.
16. Private pension funds (tables F.119 and L.119)	Quarterly data through 2003:Q4; Internal Revenue Service/Department of Labor/Pension Benefit Guaranty Corporation Form 5500 data through 1998.	Form 5500 data since 1998.
17. State and local government employee retirement funds (tables F.120 and L.120)	All data through 2003:Q2.	Data since 2003:Q2.
18. Federal government retirement funds (tables F.121 and L.121)	Data from the Monthly Treasury Statement, the Thrift Savings Plan, and the National Railroad Retirement Investment Trust through 2003:Q4.	None.

19. Money market mutual funds (tables F.122 and L.122)	All data through 2003:Q4.	None.
20. Mutual funds (tables F.123 and L.123)	All data through 2003:Q4.	None.
21. Closed-end funds (tables F.124 and L.124)	All data through 2003:Q3.	Data for 2003:Q4.
22. Exchange-traded funds (tables F.124 and L.124)	All data through 2003:Q4.	None.
23. Government-sponsored enterprises (tables F.125 and L.125)	Data for Fannie Mae, FHLBs, FCS, Sallie Mae, FICO, and REFCORP through 2003:Q3; preliminary data for 2003:Q4 for these GSEs.	Data since 2002:Q4 for Freddie Mac; final data for 2003:Q4 for the other GSEs.
24. Federally related mortgage pools (tables F.126 and L.126)	All data through 2003:Q4.	None.
25. Issuers of asset-backed securities (ABSs) (tables F.127 and L.127)	All data for private mortgage pools, consumer credit, business loans, student loans, consumer leases, and trade credit securitization through 2003:Q4.	None.
26. Finance companies (tables F.128 and L.128)	All data through 2003:Q4.	None.
27. Mortgage companies (tables F.129 and L.129)	Mortgage data through 1997:Q4.	Data after 1997:Q4.
28. Real estate investment trusts (REITs) (tables F.130 and L.130)	Data from SNL REIT DataSource through 2003:Q3; preliminary data for 2003:Q4.	Final data for 2003:Q4.
29. Security brokers and dealers (tables F.131 and L.131)	Data for firms filing FOCUS and FOGS reports through 2003:Q4.	None.
30. Funding corporations (tables F.132 and L.132)	Estimates for this sector are largely residuals and are derived from data for other sectors.	