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Z.1

Flow of Funds Accounts of the United States

*Flows and Outstandings
Second Quarter 2006*

Flow of Funds Summary Statistics

Second Quarter 2006

Debt of the domestic nonfinancial sectors rose at a seasonally adjusted annual rate of 6-1/2 percent in the second quarter of 2006, three percentage points slower than in the previous quarter. The deceleration in domestic nonfinancial debt was accounted for by decreased borrowing by all sectors except state and local governments.

Household debt expanded at an annual rate of 9 percent in the second quarter of 2006, a bit less rapidly than in the previous quarter. Consumer credit posted a sizeable increase in the second quarter, but growth of home mortgage debt slowed to a single-digit pace for the first time in several years. In the second quarter, nonfinancial business debt rose at a 7-1/2 percent pace, two percentage points less than the rate in the first quarter. The deceleration of business debt last quarter mainly reflected slower short-term lending by banks and other financial institutions.

State and local government debt rose at an annual rate of 6-1/2 percent in the second quarter, after having increased only 3-1/2 percent in the previous quarter. The second-quarter acceleration of municipal debt reflected stronger net issuance for capital projects and advance refundings. In the second quarter of 2006, federal government debt contracted at a seasonally adjusted annual rate of 2-1/2 percent, following an 11-1/4 percent increase in the previous quarter.

At the end of the second quarter of 2006, the level of domestic nonfinancial debt outstanding was \$27.7 trillion. Household debt amounted to \$12.4 trillion, and nonfinancial business debt was \$8.6 trillion. Combined, state and local governments and the federal government had outstanding debt of \$6.7 trillion.

Growth of Domestic Nonfinancial Debt¹

Percentage changes; quarterly data are seasonally adjusted annual rates

	Total	Households	Business	State and local govts.	Federal
1996	5.2	6.7	6.2	-1.5	4.0
1997	5.3	5.8	9.0	4.3	0.6
1998	6.8	7.8	12.3	6.3	-1.4
1999	6.4	8.4	10.7	3.4	-1.9
2000	4.9	9.0	9.2	1.3	-8.0
2001	6.3	9.4	6.0	8.8	-0.2
2002	7.2	10.6	2.5	11.0	7.6
2003	8.2	11.6	2.6	8.3	10.9
2004	8.9	11.6	5.9	7.4	9.0
2005	9.5	11.7	7.7	10.2	7.0
2005:Q1	9.3	9.6	6.5	9.9	13.0
Q2	8.2	11.9	7.7	7.4	0.6
Q3	9.7	11.9	8.1	12.3	5.8
Q4	9.6	11.7	7.7	9.7	8.0
2006:Q1	9.5	9.6	9.6	3.5	11.3
Q2	6.4	9.1	7.6	6.6	-2.4

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

Table of Contents

<i>Title</i>	<i>Table</i>	<i>Page</i>
Flow of Funds Accounts, Second Quarter 2006		1
Availability of Data for Latest Quarter		3
Debt Growth by Sector	D.1	6
Borrowing by Sector	D.2	7
Debt Outstanding by Sector	D.3	8

<i>Title</i>	<i>Flows</i>		<i>Levels</i>	
	<i>Table</i>	<i>Page</i>	<i>Table</i>	<i>Page</i>
Summaries				
Total Net Borrowing and Lending in Credit Markets	F.1	9	L.1	58
Credit Market Borrowing by Nonfinancial Sectors	F.2	10	L.2	59
Credit Market Borrowing by Financial Sectors	F.3	10	L.3	59
Credit Market Borrowing, All Sectors, by Instrument	F.4	11	L.4	60
Total Liabilities and Its Relation to Total Financial Assets	F.5	11	L.5	60
Distribution of Gross Domestic Product	F.6	12		
Distribution of National Income	F.7	13		
Saving and Investment	F.8	14		
Net Capital Transfers	F.9	14		
Derivation of Measures of Personal Saving	F.10	15	L.10	61

<i>Title</i>	<i>Flows</i>		<i>Levels</i>	
	<i>Table</i>	<i>Page</i>	<i>Table</i>	<i>Page</i>
Sectors				
Households and Nonprofit Organizations	F.100	16	L.100	62
Nonfinancial Business	F.101	17	L.101	63
Nonfarm Nonfinancial Corporate Business	F.102	18	L.102	64
Nonfarm Noncorporate Business	F.103	19	L.103	65
Farm Business	F.104	19	L.104	65
State and Local Governments	F.105	20	L.105	66
Federal Government	F.106	21	L.106	66
Rest of the World	F.107	22	L.107	67
Monetary Authority	F.108	23	L.108	68
Commercial Banking	F.109	24	L.109	69
U.S.-Chartered Commercial Banks	F.110	25	L.110	70
Foreign Banking Offices in U.S.	F.111	26	L.111	71
Bank Holding Companies	F.112	27	L.112	72
Banks in U.S.-Affiliated Areas	F.113	27	L.113	72
Savings Institutions	F.114	28	L.114	73
Credit Unions	F.115	29	L.115	74
Property-Casualty Insurance Companies	F.116	29	L.116	74
Life Insurance Companies	F.117	30	L.117	75
Private Pension Funds	F.118	30	L.118	75
State and Local Government Employee Retirement Funds	F.119	31	L.119	76
Federal Government Retirement Funds	F.120	31	L.120	76
Money Market Mutual Funds	F.121	32	L.121	77
Mutual Funds	F.122	32	L.122	77

<i>Title</i>	<i>Flows</i>		<i>Levels</i>	
	<i>Table</i>	<i>Page</i>	<i>Table</i>	<i>Page</i>
Closed-End and Exchange-Traded Funds	F.123	32	L.123	77
Government-Sponsored Enterprises	F.124	33	L.124	78
Agency- and GSE-backed Mortgage Pools	F.125	33	L.125	78
Issuers of Asset-Backed Securities	F.126	34	L.126	79
Finance Companies	F.127	34	L.127	79
Real Estate Investment Trusts	F.128	35	L.128	80
Security Brokers and Dealers	F.129	36	L.129	81
Funding Corporations	F.130	36	L.130	81

Instruments

Gold and Official Foreign Exchange Holdings	F.200	37	L.200	82
SDR Certificates and Treasury Currency	F.201	37	L.201	82
U.S. Deposits in Foreign Countries	F.202	37	L.202	82
Net Interbank Transactions	F.203	38	L.203	83
Checkable Deposits and Currency	F.204	39	L.204	84
Time and Savings Deposits	F.205	40	L.205	85
Money Market Mutual Fund Shares	F.206	40	L.206	85
Federal Funds and Security Repurchase Agreements	F.207	41	L.207	86
Open Market Paper	F.208	41	L.208	86
Treasury Securities	F.209	42	L.209	87

<i>Title</i>	<i>Flows</i>		<i>Levels</i>	
	<i>Table</i>	<i>Page</i>	<i>Table</i>	<i>Page</i>
Agency- and GSE-backed Securities	F.210	43	L.210	88
Municipal Securities and Loans	F.211	44	L.211	89
Corporate and Foreign Bonds	F.212	44	L.212	89
Corporate Equities	F.213	45	L.213	90
Mutual Fund Shares	F.214	45	L.214	90
Bank Loans Not Elsewhere Classified	F.215	46	L.215	91
Other Loans and Advances	F.216	47	L.216	92
Total Mortgages	F.217	48	L.217	93
Home Mortgages	F.218	49	L.218	94
Multifamily Residential Mortgages	F.219	49	L.219	94
Commercial Mortgages	F.220	50	L.220	95
Farm Mortgages	F.221	50	L.221	95
Consumer Credit	F.222	51	L.222	96
Trade Credit	F.223	51	L.223	96
Security Credit	F.224	51	L.224	96
Life Insurance and Pension Fund Reserves	F.225	52	L.225	97
Taxes Payable by Businesses	F.226	52	L.226	97
Proprietors' Equity in Noncorporate Business	F.227	52	L.227	97
Total Miscellaneous Financial Claims	F.228	53	L.228	98
Identified Miscellaneous Financial Claims - Part I	F.229	54	L.229	99
Identified Miscellaneous Financial Claims - Part II	F.230	55	L.230	100
Unidentified Miscellaneous Financial Claims	F.231	56	L.231	101
Sector Discrepancies	F.11	57		
Instrument Discrepancies	F.12	57		

<i>Title</i>	<i>Balance Sheet</i>		<i>Reconciliation</i>	
	<i>Table</i>	<i>Page</i>	<i>Table</i>	<i>Page</i>
Balance Sheet and Reconciliation Tables				
Households and Nonprofit Organizations	B.100	102	R.100	105
Nonfinancial Corporate Business	B.102	103	R.102	106
Nonfarm Noncorporate Business	B.103	104	R.103	107

<i>Title</i>	<i>Flows</i>		<i>Levels</i>	
	<i>Table</i>	<i>Page</i>	<i>Table</i>	<i>Page</i>
Supplementary Tables				
Nonprofit Organizations	F.100.a	108	L.100.a	109
Consolidated Statement for Federal, State, and Local Governments	F.106.c	110	L.106.c	111
Private Pension Funds: Defined Benefit Plans	F.118.b	112	L.118.b	113
Private Pension Funds: Defined Contribution Plans	F.118.c	112	L.118.c	113
Individual Retirement Accounts (IRAs)	F.225.i	112	L.225.i	113
Flow of Funds Matrix for 2005		114		115
Balance Sheet of Households and Nonprofit Organizations with Equity Detail			B.100.e	116

Flow of Funds Accounts, Second Quarter 2006

This publication presents the flow of funds accounts for 2006:Q2.

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.

1. Seasonal factors for quarterly financial flows have been recalculated for the period 1996:Q1 onward. The factors were generated using the X-12-ARIMA/88 seasonal adjustment program.
2. The statistics in this publication reflect the annual revisions to the national income and product accounts from 2003 forward released by the Bureau of Economic Analysis (BEA) of the Department of Commerce on July 28, 2006, and subsequent information for 2006:Q2 released on August 30, 2006. The August 2006 issue of the *Survey of Current Business* details the major features of the annual revision of the national income and product accounts.
3. Data for investment and depreciation flows of all sectors, and capital stocks for the household, nonfarm nonfinancial corporate business, and nonfarm noncorporate business sectors have been revised beginning in 2003 to reflect updated annual estimates of fixed assets from the BEA.
4. Revisions to the rest of the world sector (tables F.107 and L.107) reflect new estimates of the balance of payments and the international investment position from the BEA for 1995 through 2005. The new estimates are detailed in the July 2006 issue of the *Survey of Current Business*.
5. The rest of the world sector (tables F.107 and L.107) was modified to include an additional asset category, municipal securities.
6. For the private pension fund sector (tables F.118, F.118.b, F.118.c and L.118, L.118.b, L.118.c), estimates have been revised to reflect figures from the U.S. Internal Revenue Service/Department of Labor/Pension Benefit Guaranty Corporation Form 5500 filed for plan year 2002.
7. The issuers of asset-backed securities (ABS) sector (tables F.126 and L.126) was modified to include an additional asset category, Treasury securities. Estimates of this sector's holdings of commercial and multi-family residential mortgages have been revised from 1997:Q1 forward to reflect new data.
8. Data for the finance company sector (tables F.127 and L.127) have been revised beginning in 2000:Q3 as a result of benchmarking to the Federal Reserve System's 2005 quinquennial finance company survey. The survey gathered asset and liability information as of December 31, 2005.
9. The mortgage company sector (previously shown in tables F.128 and L.128) has been combined with the finance company sector (tables F.127 and L.127). All sector flow and level tables after F.127 and L.127 have been renumbered.
10. Total consumer credit (tables F.222 and L.222) has been revised from 1996:Q1 forward owing to new seasonal factors and other changes reflected in the Board's G.19 statistical release on September 8, 2006.
11. Market values for residential real estate (tables B.100, B.102, and B.103 and R.100, R.102, and R.103) have been revised from 1990:Q4 as a result of using the seasonally-adjusted purchase-only house price index produced by the Office of Federal Housing Enterprise Oversight (OFHEO) to estimate holding gains. Previously, OFHEO's repeat-transactions house price index (HPI) was used.

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, agency- and GSE-backed 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 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 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*, published in two volumes in January 2000, 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. 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. In addition, the Internet site includes a link to the *Guide*'s descriptions of the tables in the flow of funds accounts.

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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 2006:Q2.	Unadjusted flows since 2004.
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 2006:Q2. 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</i> (QFR) of the Census Bureau through 2006:Q2; Internal Revenue Service <i>Statistics of Income</i> (IRS/SOI) preliminary data through 2004; securities offerings, mortgages, bank loans, commercial paper, and other loans through 2006:Q2.	<i>Statistics of Income</i> data since 2004.
4. Nonfarm noncorporate business (tables F.103 and L.103)	IRS/SOI data through 2003; bank and finance company loans and mortgage borrowing through 2006:Q2.	<i>Statistics of Income</i> data since 2003.
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 2006:Q2; preliminary data for checkable deposits and currency and trade payables through 2004.	Consumption of fixed capital and undistributed profits since 2003.
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 2006:Q2; selected financial assets through 2004:Q2 from Census data and the comprehensive annual financial reports of state and local governments.	Selected financial asset items since 2004:Q2.
7. Federal government (tables F.106 and L.106)	Data from the <i>Monthly Treasury Statement of Receipts and Outlays</i> through 2006:Q2; Treasury data for loan programs through 2006:Q2.	None.

8. Rest of the world (U.S. international transactions) (tables F.107 and L.107)	Balance of payments data through 2006:Q2; NIPA estimates; data from bank Reports of Condition and from Treasury International Capital System through 2006:Q2.	None.
9. Monetary authority (tables F.108 and L.108)	All data through 2006:Q2.	None.
10. Commercial banking (tables F.109 through F.113 and tables L.109 through L.113)	All data through 2006:Q2 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 2005 for branches of domestic commercial banks located in U.S.-affiliated areas.
11. Savings institutions (tables F.114 and L.114)	All data through 2006:Q2.	None.
12. Credit unions (tables F.115 and L.115)	All data through 2006:Q2.	None.
13. Property-casualty insurance companies (tables F.116 and L.116)	All data through 2005:Q4; preliminary data for 2006:Q1.	Final data since 2006:Q1.
14. Life insurance companies (tables F.117 and L.117)	All data through 2005:Q4; preliminary data for 2006:Q1.	Final data since 2006:Q1.
15. Private pension funds (tables F.118 and L.118)	Quarterly data through 2006:Q2; Internal Revenue Service/Department of Labor/Pension Benefit Guaranty Corporation Form 5500 data through 2002.	Form 5500 data since 2002.
16. State and local government employee retirement funds (tables F.119 and L.119)	Selected financial assets through 2006:Q1 from Census data and the comprehensive annual financial reports of state and local pension funds.	Data for 2006:Q2.
17. Federal government retirement funds (tables F.120 and L.120)	Data from the Monthly Treasury Statement, the Thrift Savings Plan, and the National Railroad Retirement Investment Trust through 2006:Q2.	None.
18. Money market mutual funds (tables F.121 and L.121)	All data through 2006:Q2.	None.
19. Mutual funds (tables F.122 and L.122)	All data through 2006:Q2.	None.
20. Closed-end funds (tables F.123 and L.123)	All data through 2006:Q2.	None.

21. Exchange-traded funds (tables F.123 and L.123)	All data through 2006:Q2.	None.
22. Government-sponsored enterprises (tables F.124 and L.124)	Data for FHLBs, Farmer Mac, FCS, FICO and REFCORP through 2006:Q2. Complete data for Fannie Mae through 2004:Q2 and for Freddie Mac through 2005:Q2.	Much of the source data for Fannie Mae beginning in 2004:Q3 and for Freddie Mac beginning in 2005:Q3.
23. Agency- and GSE-backed mortgage pools (tables F.125 and L.125)	All data through 2006:Q2.	None.
24. Issuers of asset-backed securities (ABSs) (tables F.126 and L.126)	All data for private mortgage pools, consumer credit, business loans, student loans, consumer leases, and trade credit securitization through 2006:Q2.	None.
25. Finance companies (tables F.127 and L.127)	All data through 2006:Q2.	None.
26. Real estate investment trusts (REITs) (tables F.128 and L.128)	Data from SNL REIT DataSource through 2006:Q2.	None.
27. Security brokers and dealers (tables F.129 and L.129)	Data for firms filing FOCUS and FOGS reports through 2006:Q2.	None.
28. Funding corporations (tables F.130 and L.130)	Estimates for this sector are largely residuals and are derived from data for other sectors.	