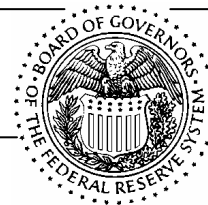


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FEDERAL RESERVE statistical release



Z.1

Flow of Funds Accounts of the United States

*Flows and Outstandings
Fourth Quarter 2008*

Flow of Funds Summary Statistics

Fourth Quarter 2008

Debt of the domestic nonfinancial sectors is estimated to have expanded at a seasonally adjusted annual rate of 6¼ percent in the fourth quarter of 2008, almost 2 percentage points less than in the previous quarter. The deceleration was evident in all sectors. For 2008 as a whole, domestic nonfinancial debt rose 5¾ percent, about 2¾ percentage points below the 2007 pace.

Household debt contracted at an annual rate of 2 percent in the fourth quarter, following two quarters of very weak growth. In the fourth quarter, home mortgage debt decreased at an annual rate of 1½ percent, while consumer credit decreased at an annual rate of 3¼ percent. In 2008, household debt increased ½ percent, 6¼ percentage points less than in the previous year.

Nonfinancial business debt rose at an annual rate of 1¾ percent in the fourth quarter, 2½ percentage points less than in the previous quarter. The slowdown was concentrated in commercial paper, loans, and commercial mortgage borrowing. The 4¾ percent increase in nonfinancial business debt in 2008 was

over 8¼ percentage points less than in the previous year.

State and local government debt increased at an annual rate of 1¼ percent last quarter, and expanded 2¼ percent over all of 2008. Federal government debt surged at an annual rate of 37 percent in the fourth quarter, similar to the third-quarter pace. In 2008, federal government debt rose more than 24 percent, after a 5 percent increase in 2007.

At the end of the fourth quarter of 2008, the level of domestic nonfinancial debt outstanding was \$33.5 trillion; household debt was \$13.8 trillion, nonfinancial business debt was \$11.1 trillion, and total government debt was \$8.6 trillion.

Household net worth—the difference between the value of assets and liabilities—was an estimated \$51.5 trillion at the end of the fourth quarter of 2008, \$5.1 trillion dollars less than in the preceding quarter. For 2008 as a whole, household net worth fell \$11.2 trillion.

Growth of Domestic Nonfinancial Debt¹

Percentage changes; quarterly data are seasonally adjusted annual rates

	Total	Households	Business	State and local govts.	Federal
1999	6.4	8.4	10.8	3.3	-1.9
2000	5.0	9.1	9.3	1.4	-8.0
2001	6.3	9.6	5.8	8.8	-0.2
2002	7.3	10.8	2.6	11.1	7.6
2003	8.1	11.6	2.5	8.3	10.9
2004	8.9	11.2	6.2	7.4	9.0
2005	9.5	11.1	8.7	10.2	7.0
2006	8.9	10.0	10.5	8.2	3.9
2007	8.6	6.6	13.1	9.3	4.9
2008	5.8	0.4	4.8	2.2	24.2
2007:Q1	8.1	7.0	10.5	10.9	5.5
Q2	8.1	7.2	12.9	10.0	0.3
Q3	9.1	5.9	14.3	7.2	8.0
Q4	8.0	5.6	12.4	7.7	5.3
2008:Q1	5.2	3.0	7.2	3.5	8.1
Q2	3.1	0.3	5.8	0.9	5.9
Q3	8.1	0.2	4.1	3.1	39.2
Q4	6.3	-2.0	1.7	1.2	37.0

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

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Flow of Funds Accounts, Fourth Quarter 2008

This publication presents the flow of funds accounts for 2008: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.

1. Assets of the nonfarm nonfinancial corporate business sector (tables F.102 and L.102) were revised from 2006:Q1 onward to reflect final data from the Internal Revenue Service (IRS) Statistics of Income (SOI) for 2006.

2. The federal government sector (tables F.106, L.106, F.106.c, and L.106.c) was modified to include an additional asset category, corporate equities, reflecting the federal government's purchase of preferred shares issued by financial corporations under the Troubled Assets Relief Program (TARP) and by government-sponsored enterprises (GSEs). In addition, on F.106, net capital transfers (line 20) was adjusted to remove what the Bureau of Economic Analysis (BEA) assumed was the implied subsidy cost of capital injections to distressed businesses where the government acquired assets in 2008:Q4. On L.106, the value of corporate equities excludes this implied subsidy.

3. The monetary authority sector (tables F.108 and L.108) has been expanded to show new asset detail for bank loans n.e.c. related to the creation of Maiden Lane II LLC, Maiden Lane III LLC, and Commercial Paper Funding Facility LLC (CPFF).

4. For the private pension fund sector (tables F.118, F.118.b, F.118.c, L.118, L.118.b, and L.118.c), estimates have been revised from 2006:Q1 onward to reflect new data from the U.S. Internal Revenue Service/Department of Labor/Pension Benefit Guaranty Corporation Form 5500 filed for plan year 2006.

5. The government-sponsored enterprises sector (table F.124) was modified to include an additional liability category, corporate equities.

6. The finance companies sector (tables F.127 and L.127) was modified to include two additional asset categories, time and savings deposits and corporate

bonds. Data for corporate bonds begin in 1984:Q1. Estimates of checkable deposits and time and savings deposits have been revised from 1945 forward to reflect new information available on the Domestic Finance Company Report of Consolidated Assets and Liabilities (FR2248).

7. The funding corporation sector (table F.130) was modified to include an additional liability category, corporate equities, reflecting American International Group's (AIG) issuance of preferred shares to the federal government in 2008:Q4 under the TARP.

8. The market value of real estate (tables B.100, B.102, and B.103) has been revised from 2004:Q4 forward due to a shift from using the NCREIF appraisal-based commercial and multi-family indexes to transaction-based indexes.

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:

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). This data is also available as a customizable download dataset through the Data Download Program (DDP) at the following location:

www.federalreserve.gov/datadownload/Choose.aspx?rel=Z.1

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. 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. In addition, the Internet site includes a link to the *Guide's* descriptions of the tables in the flow of funds accounts.

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 2008:Q4.	Unadjusted flows since 2007 for the government sectors. Unadjusted flows since 2006 for all other sectors.
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 2008: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 2008:Q3; Internal Revenue Service <i>Statistics of Income (IRS/SOI)</i> final data through 2006; securities offerings, mortgages, bank loans, commercial paper, and other loans through 2008:Q4.	<i>Statistics of Income</i> data since 2006. QFR since 2008:Q3.
4. Nonfarm noncorporate business (tables F.103 and L.103)	IRS/SOI data through 2006; bank and finance company loans and mortgage borrowing through 2008:Q4.	<i>Statistics of Income</i> data since 2006.
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 2008:Q4; preliminary data for checkable deposits and currency and trade payables through 2007.	Consumption of fixed capital and undistributed profits since 2007.
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 2008:Q4; total financial assets through 2006:Q2 from the Census Bureau; breakdown of financial assets through 2004:Q2 from the comprehensive annual financial reports of state and local governments.	Total financial assets since 2006:Q2 and selected financial asset detail since 2004:Q2.
7. Federal government (tables F.106 and L.106)	Data from the <i>Monthly Treasury Statement of Receipts and Outlays</i> and Treasury data for loan programs and the Troubled Assets Relief Program (TARP) through 2008:Q4.	None.

8. Rest of the world (U.S. international transactions) (tables F.107 and L.107)	Balance of payments data through 2008:Q3. NIPA estimates; data from bank Reports of Condition and from Treasury International Capital System through 2008:Q4.	Balance of payments data for 2008:Q4.
9. Monetary authority (tables F.108 and L.108)	All data through 2008:Q4.	None.
10. Commercial banking (tables F.109 through F.113 and tables L.109 through L.113)	All data through 2008: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 2007 for branches of domestic commercial banks located in U.S.-affiliated areas.
11. Savings institutions (tables F.114 and L.114)	All data through 2008:Q4.	None.
12. Credit unions (tables F.115 and L.115)	All data through 2008:Q4.	None.
13. Property-casualty insurance companies (tables F.116 and L.116)	All data through 2008:Q3.	Data for 2008:Q4.
14. Life insurance companies (tables F.117 and L.117)	All data through 2008:Q3.	Data for 2008:Q4.
15. Private pension funds (tables F.118 and L.118)	Quarterly data through 2008:Q4; Internal Revenue Service/Department of Labor/Pension Benefit Guaranty Corporation Form 5500 data through 2006.	Form 5500 data since 2006.
16. State and local government employee retirement funds (tables F.119 and L.119)	Detailed data through 2006:Q2 from the Census Bureau; sample data through 2008:Q3 from the Census Bureau.	Detailed data since 2006:Q2 and sample data for 2008:Q4.
17. Federal government retirement funds (tables F.120 and L.120)	Data from the <i>Monthly Treasury Statement of Receipts and Outlays</i> , the Thrift Savings Plan, and the National Railroad Retirement Investment Trust through 2008:Q4.	None.
18. Money market mutual funds (tables F.121 and L.121)	All data through 2008:Q4.	None.
19. Mutual funds (tables F.122 and L.122)	All data through 2008:Q4.	None.
20. Closed-end funds (tables F.123 and L.123)	All data through 2008:Q4.	None.
21. Exchange-traded funds (tables F.123 and L.123)	All data through 2008:Q4.	None.

22. Government-sponsored enterprises (tables F.124 and L.124)	Data for Fannie Mae, FICO, FCS, and REFCORP through 2008:Q4 and for Freddie Mac, FHLBs, and Farmer Mac through 2008:Q3.	Data for Freddie Mac, FHLBs, and Farmer Mac since 2008:Q3.
23. Agency- and GSE-backed mortgage pools (tables F.125 and L.125)	Data for Fannie Mae and Ginnie Mae through 2008:Q4 and for Freddie Mac through 2008:Q3.	Data for Freddie Mac since 2008:Q3.
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 2008:Q4.	None.
25. Finance companies (tables F.127 and L.127)	All data through 2008:Q4.	None.
26. Real estate investment trusts (REITs) (tables F.128 and L.128)	Data from SNL REIT DataSource through 2008:Q4.	None.
27. Security brokers and dealers (tables F.129 and L.129)	Data for firms filing FOCUS and FOGS reports through 2008:Q4.	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.	