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Z.1

Flow of Funds Accounts of the United States

*Flows and Outstandings
Third Quarter 1996*

Flow of Funds Summary Statistics Third Quarter 1996

Debt of domestic nonfinancial sectors grew at a seasonally adjusted annual rate of 4-3/4 percent in the third quarter of 1996, near the pace of the second quarter. Federal debt strengthened to a 4-1/4 percent rate, and was in line with average growth over recent quarters. Debt of nonfederal sectors dropped to a 4-3/4 percent pace in the third quarter, after rising about 6 percent at an annual rate in the second quarter. Growth of household debt slowed further to a 6-1/4 percent rate; both home mortgage and consumer credit borrowing slowed. Business debt growth picked up to a 6 percent rate. Business borrowing at banks was particularly robust and net issuance of corporate bonds remained brisk. Debt of state and local governments ran off at a 7 percent

pace in the third quarter, after rising a bit in the second quarter. Retirements of previously refunded debt were particularly large in the third quarter and outpaced new issuance by a wide margin.

The level of domestic nonfinancial debt outstanding was \$14.4 trillion at the end of the third quarter of 1996. Debt of the nonfederal sectors was \$10.7 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. Financial flows and amounts outstanding by sectors and instruments are found on pages 9 through 101 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.
1989	7.6	7.0	7.8	8.7	7.5	5.7
1990	6.6	11.0	5.3	7.9	3.1	4.9
1991	4.4	11.1	2.4	5.0	-1.7	8.2
1992	4.8	10.9	2.8	5.2	0.5	2.0
1993	5.3	8.3	4.2	6.4	1.4	5.7
1994	5.0	4.7	5.1	8.7	3.6	-3.7
1995	5.5	4.1	6.0	8.2	6.2	-4.4
1995:Q1	6.4	7.1	6.2	8.2	6.9	-4.9
:Q2	6.5	5.2	6.9	8.2	7.6	-0.8
:Q3	4.3	2.4	4.9	8.8	4.4	-10.0
:Q4	4.3	1.6	5.3	6.8	5.3	-1.9
1996:Q1	6.3	6.6	6.2	9.2	4.5	-1.2
:Q2	4.9	1.7	6.1	7.7	4.8	2.8
:Q3	4.7	4.3	4.8	6.3	6.0	-7.1

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, Third Quarter 1996

This publication presents the flow of funds accounts for 1996:Q3.

Data revisions and other changes. Revisions to the flow of funds accounts have been made to data as far back as 1952. Significant changes include:

1. Estimates of foreign holdings of U.S. currency for the period 1970:Q1 forward have been incorporated into the accounts. The effect of adding the new estimates is to raise foreign acquisition of financial assets (table F.107, line 11, and table L.107, line 1) and to reduce the net acquisition of financial assets by the household and nonprofit organizations sector (table F.100, line 16, and table L.100, line 1). The use of the new data also means that the net capital inflows from abroad shown in the flow of funds accounts differ from those in the Balance of Payments accounts. A description of the estimation method for foreign holdings of U.S. currency is available in Richard D. Porter and Ruth A. Judson, "The Location of U.S. Currency: How Much Is Abroad?," *Federal Reserve Bulletin*, vol. 82 (October 1996), pp. 883-903.

2. The market value of domestic nonfinancial corporate equity outstanding (table L.213, line 2) has been revised from 1952:Q4 forward. The revisions, which are small, reflect additional historical data for publicly traded securities.

3. Consumer credit (tables F.222 and L.222) was revised from 1970:Q1 forward to reflect revisions to source data (published in the Board's G.19 release).

4. For the state and local government employee retirement funds sector (tables F.120 and L.120), data have been revised from 1990:Q3 forward based on fiscal year-end information for 1991 and 1992 from the Census of Governments. The Census of Governments provides a benchmark for all pension funds in the sector. Revisions to flows from the benchmark are generally small, but the level of assets is higher. Quarterly data are based on a separate Census Bureau report, which provides data for funds holding about 82 percent of the assets of the sector.

5. Data for savings institutions (tables F.114 and L.114) were revised for 1996:Q1 and 1996:Q2, owing to revisions to reports of condition filed by savings institutions reporting to the Office of Thrift Supervision (OTS).

6. The bank holding companies sector is now shown as an issuer of corporate equities (table F.112, line 22). The estimates of net issuance of equity are available for 1990:Q1 forward.

7. Seasonal factors for both domestic and foreign nonfinancial commercial paper (table F.208) have been re-estimated individually from 1988:Q1 forward.

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 ac-

counts 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 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:

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 estimate 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), 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."

Owing to a delay in receiving source material compiled at the Department of Commerce, the "Balance Sheets for the U.S. Economy" (C.9 release) is not available at this time, and NIPA data for the period before 1959 are those published by the Department of Commerce before the latest annual revision.

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

Publications Services, Stop 127
 Board of Governors
 of the Federal Reserve System
 20th Street and Constitution Avenue, N.W.
 Washington, DC 20551
 (202) 452-3244

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 1996:Q3.	Unadjusted flows.
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 rather than through a residual calculation, are available through 1996:Q3.	
3. Nonfinancial corporate business (tables F.102 and L.102)	<i>Quarterly Financial Report</i> (QFR) of the Census Bureau through 1996:Q2; Internal Revenue Service <i>Statistics of Income</i> data through 1993, securities offerings, mortgages, bank loans, commercial paper, and other loans through 1996:Q3.	<i>Statistics of Income</i> data since 1993; QFR data for 1996:Q3.
4. Nonfarm noncorporate business (tables F.103 and L.103)	Internal Revenue Service <i>Statistics of Income</i> data for 1993; bank and finance company loans and mortgage borrowing for 1996:Q3.	<i>Statistics of Income</i> data since 1993.
5. Farm business (tables F.104 and L.104)	Mortgages, bank loans, loans from government-sponsored enterprises, and equity in government-sponsored enterprises through 1996:Q3; trade payables through 1995:Q4.	Data for U.S. government loans to farms since 1994:Q4; data for consumption of fixed capital since 1994; data for undistributed profits and checkable deposits and currency since 1993; trade payables since 1995.
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 1996:Q3; <i>Census of Government Finances</i> data asset items and debt outstanding through 1992:Q2.	Other asset items since 1992: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 1996:Q3; data from the Federal Financing Bank statement through 1996:Q3.	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)	NIPA estimates, data from bank reports of condition, Treasury International Capital System data, and Balance of Payments data through 1996:Q3.	None.
9. Monetary authority (tables F.108 and L.108)	All data through 1996:Q3.	None.
10. Commercial banking (tables F.109 and L.109)	All data through 1996:Q3 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 1996:Q3.	None.
12. Credit unions (tables F.115 and L.115)	All data through 1996:Q3.	None.
13. Bank personal trusts and estates (tables F.116 and L.116)	All data through 1995.	Data since 1995.
14. Life insurance companies (tables F.117 and L.117)	Asset data through 1996:Q2 and liability data through 1995.	Asset data for 1996:Q3 and liability data since 1995.
15. Other insurance companies (tables F.118 and L.118)	All data through 1995.	Data since 1995.
16. Private pension funds (including FERS) (tables F. 119 and L.119)	All data through 1996:Q3.	None.
17. State and local government employee retirement funds (tables F.120 and L.120)	All data through 1996:Q2.	Data for 1996:Q3.
18. Money market mutual funds (tables F.121 and L.121)	All data through 1996:Q3.	None.
19. Mutual funds (tables F.122 and L.122)	All data through 1996:Q3.	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 FNMA, Federal Home Loan Banks, FHLMC, SLMA, FICO, REFCORP, and FCA for 1996:Q3.	None.

22. Federally related mortgage pools (tables F.125 and L.125)	All data through 1996:Q3.	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, and trade credit securitization through 1996:Q3.	None.
24. Finance companies (tables F.127 and L.127)	All data through 1996:Q3.	None.
25. Mortgage companies (tables F.128 and L.128)	Mortgage data through 1996:Q2.	Data for 1996:Q3.
26. Real estate investment trusts (REITs) (tables F.129 and L.129)	Data through 1995:Q3; equity issuance through 1996:Q3.	Data since 1995:Q3.
27. Security brokers and dealers (tables F.130 and L.130)	Data for firms filing FOCUS reports through 1996:Q3; data for firms filing FOGS reports through 1996:Q2.	Data from FOGS reports for 1996:Q3.
28. Funding corporations (tables F.131 and L.131)	Estimates for this sector are largely residual and derived from data for other sectors.	