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Z.1

Flow of Funds Accounts of the United States

*Flows and Outstandings
Fourth Quarter 1996*

Flow of Funds Summary Statistics Fourth Quarter 1996

Debt of domestic nonfinancial sectors slowed to a seasonally adjusted annual rate of 4-1/2 percent in the fourth quarter of 1996. For the year 1996, debt of domestic nonfinancial sectors was up about 5-1/2 percent, the same as in 1995. Growth of federal debt slowed to a 3 percent rate in the fourth quarter of last year; but at 4 percent for 1996 as a whole, it was about unchanged from the pace in 1995. Debt of nonfederal sectors rose at a 5 percent rate in the fourth quarter of 1996. Growth of household debt declined to a 5-1/2 percent rate, well below rates of increase recorded earlier in the year. Both home mortgage borrowing and consumer credit moderated in the fourth quarter. Business debt growth slowed to a 3-1/2 percent rate in the quarter, with borrowing focused on the corporate bond market. Debt of state

and local governments increased to nearly a 7 percent rate, as issuance of new municipal debt outpaced retirements of existing debt; for the year, growth of debt of state and local governments was 1-1/4 percent, the first annual increase since 1993.

The level of domestic nonfinancial debt outstanding was \$14.6 trillion at the end of 1996. Debt of the nonfederal sectors was \$10.9 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	4.5	11.1	2.5	5.2	-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	1.5	5.7
1994	5.0	4.7	5.1	8.7	3.5	-3.4
1995	5.5	4.1	5.9	8.2	6.0	-3.5
1996	5.4	4.0	5.9	7.8	4.7	1.2
1995:Q1	6.4	7.1	6.2	8.3	6.7	-4.0
:Q2	6.5	5.2	7.0	8.2	7.4	0.0
:Q3	4.2	2.4	4.8	8.5	4.2	-9.2
:Q4	4.3	1.6	5.3	6.7	5.2	-1.1
1996:Q1	6.4	6.6	6.3	9.3	4.3	-0.3
:Q2	5.2	1.7	6.5	8.4	4.6	4.1
:Q3	5.1	4.3	5.3	7.1	5.9	-5.7
:Q4	4.5	3.1	4.9	5.6	3.6	6.9

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

Table of Contents

<i>Title</i>	<i>Table</i>	<i>Page</i>
Flow of Fund Accounts, Fourth Quarter 1996		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	57
Credit Market Borrowing by Nonfinancial Sectors	F.2	10	L.2	58
Credit Market Borrowing by Financial Sectors	F.3	10	L.3	58
Credit Market Borrowing, All Sectors, by Instrument	F.4	11	L.4	59
Total Liabilities and Their Relation to Total Financial Assets	F.5	11	L.5	59
Distribution of Gross Domestic Product	F.6	12		
Distribution of National Income	F.7	13		
Gross Saving and Investment	F.8	14		
Derivation of Measures of Personal Saving	F.9	15	L.9	60

<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	61
Nonfinancial Business	F.101	17	L.101	62
Nonfarm Nonfinancial Corporate Business	F.102	18	L.102	63
Nonfarm Noncorporate Business	F.103	19	L.103	64
Farm Business	F.104	19	L.104	64
State and Local Governments	F.105	20	L.105	65
Federal Government	F.106	21	L.106	65
Rest of the World	F.107	22	L.107	66
Monetary Authority	F.108	23	L.108	67
Commercial Banking	F.109	24	L.109	68
U.S.-Chartered Commercial Banks	F.110	25	L.110	69
Foreign Banking Offices in U.S.	F.111	26	L.111	70
Bank Holding Companies	F.112	27	L.112	71
Banks in U.S.-Affiliated Areas	F.113	27	L.113	71
Savings Institutions	F.114	28	L.114	72
Credit Unions	F.115	29	L.115	73
Bank Personal Trusts and Estates	F.116	29	L.116	73
Life Insurance Companies	F.117	30	L.117	74
Other Insurance Companies	F.118	30	L.118	74
Private Pension Funds	F.119	31	L.119	75
State and Local Government Employee Retirement Funds	F.120	31	L.120	75
Money Market Mutual Funds	F.121	32	L.121	76
Mutual Funds	F.122	32	L.122	76
Closed-End Funds	F.123	32	L.123	76

<i>Title</i>	<i>Flows</i>		<i>Levels</i>	
	<i>Table</i>	<i>Page</i>	<i>Table</i>	<i>Page</i>
Government-Sponsored Enterprises	F.124	33	L.124	77
Federally Related Mortgage Pools	F.125	33	L.125	77
Issuers of Asset Backed Securities	F.126	33	L.126	77
Finance Companies	F.127	34	L.127	78
Mortgage Companies	F.128	34	L.128	78
Real Estate Investment Trusts	F.129	34	L.129	78
Security Brokers and Dealers	F.130	35	L.130	79
Funding Corporations	F.131	35	L.131	79

Instruments

Gold and Official Foreign Exchange Holdings	F.200	36	L.200	80
SDR Certificates and Treasury Currency	F.201	36	L.201	80
U.S. Deposits in Foreign Countries	F.202	36	L.202	80
Net Interbank Transactions	F.203	37	L.203	81
Checkable Deposits and Currency	F.204	38	L.204	82
Time and Savings Deposits	F.205	39	L.205	83
Money Market Mutual Fund Shares	F.206	39	L.206	83
Federal Funds and Security Repurchase Agreements	F.207	40	L.207	84
Open Market Paper	F.208	40	L.208	84
Treasury Securities	F.209	41	L.209	85
Agency Securities	F.210	42	L.210	86
Municipal Securities and Loans	F.211	43	L.211	87
Corporate and Foreign Bonds	F.212	43	L.212	87
Corporate Equities	F.213	44	L.213	88

<i>Title</i>	<i>Flows</i>		<i>Levels</i>	
	<i>Table</i>	<i>Page</i>	<i>Table</i>	<i>Page</i>
Mutual Fund Shares	F.214	44	L.214	88
Bank Loans Not Elsewhere Classified	F.215	45	L.215	89
Other Loans and Advances	F.216	46	L.216	90
Total Mortgages	F.217	47	L.217	91
Home Mortgages	F.218	48	L.218	92
Multifamily Residential Mortgages	F.219	48	L.219	92
Commercial Mortgages	F.220	49	L.220	93
Farm Mortgages	F.221	49	L.221	93
Consumer Credit	F.222	50	L.222	94
Trade Credit	F.223	50	L.223	94
Security Credit	F.224	50	L.224	94
Life Insurance and Pension Fund Reserves	F.225	51	L.225	95
Taxes Payable by Businesses	F.226	51	L.226	95
Investment in Bank Personal Trusts	F.227	51	L.227	95
Proprietors' Equity in Noncorporate Business	F.228	51		
Total Miscellaneous Financial Claims	F.229	52	L.229	96
Identified Miscellaneous Financial Claims - Part I	F.230	53	L.230	97
Identified Miscellaneous Financial Claims - Part II	F.231	54	L.231	98
Unidentified Miscellaneous Financial Claims	F.232	55	L.232	99
Sector Discrepancies	F.10	56		
Instrument Discrepancies	F.11	56		
Supplementary Tables				
Nonprofit Organizations	F.100.a	100	L.100.a	101

Flow of Funds Accounts, Fourth Quarter 1996

This publication presents the flow of funds accounts for 1996:Q4.

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, two structural changes to the accounts resulted in changes to data for earlier periods. The more significant revisions included the following:

1. The state and local governments sector (tables F.105 and L.105) was modified to include additional asset categories. In addition, estimates for existing categories of assets were revised. The new data are based on information from reports of states that hold a majority of the financial assets of all states in the sector. For each state, the reports used included the *Comprehensive Annual Financial Report* of the state, reports of the investment pools of the state and its local governments, and financial statements of the retirement funds for the state.

2. In the Government-Sponsored Enterprises sector (tables F.124 and L.124) about \$6.3 billion of student loans previously held by the Student Loan Marketing Corporation (Sallie Mae) were purchased by the SLM Funding Corporation (a special purpose finance subsidiary of Sallie Mae) and sold to trusts which issued asset-backed securities. These securitized student loans are now shown as an asset item in the Issuers of Asset Backed Securities sector (tables F.126 and L.126). (Securitized student loans from commercial banks and thrifts continue to be included with securitized consumer credit.)

3. In the Issuers of Asset Backed Securities sector (tables F.126 and L.126), the value of securitized loans outstanding under home equity lines of credit is now included in the mortgage asset category. Previously, only the value of securitized closed-end home equity loans was included.

4. Estimates for household assets held in the Bank Personal Trusts and Estates sector (tables F.116 and L.116) have been increased to reflect the equity

value of real estate held by these trusts.

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 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 in the historical data set 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:Q4.	Unadjusted flows. Corporate profits for 1996:Q4.
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 1996:Q4.	
3. Nonfinancial corporate business (tables F.102 and L.102)	<i>Quarterly Financial Report</i> (QFR) of the Census Bureau through 1996:Q3; Internal Revenue Service <i>Statistics of Income</i> data through 1993, securities offerings, mortgages, bank loans, commercial paper, and other loans through 1996:Q4.	<i>Statistics of Income</i> data since 1993; QFR data for 1996:Q4.
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:Q4.	<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:Q4; 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:Q4; <i>Census of Government Finances</i> 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:Q4; data from the Federal Financing Bank statement through 1996:Q4.	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:Q4.	None.
9. Monetary authority (tables F.108 and L.108)	All data through 1996:Q4.	None.
10. Commercial banking (tables F.109 and L.109)	All data through 1996:Q4 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:Q4.	None.
12. Credit unions (tables F.115 and L.115)	All data through 1996:Q4.	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:Q3 and liability data through 1995.	Asset data for 1996:Q4 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:Q4.	None.
17. State and local government employee retirement funds (tables F.120 and L.120)	All data through 1996:Q3.	Data for 1996:Q4.
18. Money market mutual funds (tables F.121 and L.121)	All data through 1996:Q4.	None.
19. Mutual funds (tables F.122 and L.122)	All data through 1996:Q4.	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:Q4.	None.

22. Federally related mortgage pools (tables F.125 and L.125)	All data through 1996:Q4.	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, and trade credit securitization through 1996:Q4.	None.
24. Finance companies (tables F.127 and L.127)	All data through 1996:Q4.	None.
25. Mortgage companies (tables F.128 and L.128)	Mortgage data through 1996:Q3.	Data for 1996:Q4.
26. Real estate investment trusts (REITs) (tables F.129 and L.129)	Data through 1995:Q3; equity issuance through 1996:Q4.	Data since 1995:Q3.
27. Security brokers and dealers (tables F.130 and L.130)	Data for firms filing FOCUS reports through 1996:Q4; data for firms filing FOGS reports through 1996:Q3.	Data from FOGS reports for 1996:Q4.
28. Funding corporations (tables F.131 and L.131)	Estimates for this sector are largely residual and derived from data for other sectors.	