

*For use at 4:00 p.m., E.D.T.  
Friday  
September 11, 1998*

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**FEDERAL RESERVE** statistical release

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*Z.1*

# *Flow of Funds Accounts of the United States*

*Flows and Outstandings  
Second Quarter 1998*

## Flow of Funds Summary Statistics Second Quarter 1998

Debt of domestic nonfinancial sectors increased at a seasonally adjusted annual rate of 6 percent in the second quarter of 1998, about the same pace as in the first quarter. Federal government debt continued to contract, while borrowing by the nonfederal sectors remained brisk.

Household debt growth picked up to an 8-1/2 percent annual rate in the second quarter, led by strong mortgage borrowing. Growth of consumer credit was up a bit from the first quarter, but remained in the relatively moderate range recorded over the past year. The growth of nonfinancial business debt was at a 9-1/2 percent rate in the second quarter, boosted by a large shortfall of internal funds relative to capital outlays and outsized share retirements. State and local government debt growth moderated to a 5-3/4 percent rate, in part

reflecting a slowing in refundings of higher-cost debt in advance of retirement dates that had increased borrowing at the end of 1997 and early in 1998.

The level of domestic nonfinancial debt outstanding was \$15.7 trillion at the end of the second quarter of 1998. Debt of the nonfederal sectors was \$11.9 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. Tables that show financial flows, amounts outstanding, and selected sector balance sheets are included in the remaining pages of this release.

### Growth of Domestic Nonfinancial Debt<sup>1</sup>

Percent changes; quarterly data are seasonally adjusted annual rates

	Total	Federal	Nonfederal			
			Total	Households	Business	State and local govts.
1989	7.3	7.0	7.3	8.6	6.7	5.6
1990	6.4	11.0	5.2	7.5	3.1	5.0
1991	4.3	11.1	2.3	4.7	-1.7	8.6
1992	4.6	10.9	2.6	4.3	.8	2.2
1993	5.0	8.3	3.8	5.3	1.6	6.0
1994	4.6	4.7	4.6	7.5	4.0	-4.0
1995	5.4	4.1	5.9	7.8	6.6	-4.6
1996	5.3	4.0	5.8	7.8	5.1	-.6
1997	5.3	.6	7.0	6.8	7.6	5.3
1997:Q1	4.7	1.7	5.7	6.3	6.0	1.6
:Q2	4.2	-1.1	6.1	6.1	6.6	4.0
:Q3	5.6	.8	7.3	6.9	7.8	6.7
:Q4	6.4	1.1	8.2	7.3	9.1	8.4
1998:Q1	6.0	-.8	8.3	7.9	8.8	8.4
:Q2	6.1	-1.8	8.6	8.5	9.5	5.7

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, Second Quarter 1998

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This publication presents the flow of funds accounts for 1998:Q2.

**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, new source information resulted in changes to data for earlier periods. The revisions include the following:

1. Seasonal factors for quarterly financial flows have been recalculated for the period 1988:Q1 onward. The factors were generated using the Statistics Canada X-11-ARIMA/88 seasonal adjustment program. Seasonal factors for total consumer credit (tables F.222 and L.222) were recalculated for the period 1993:Q1 onward. The seasonal factors for this particular instrument are derived from seasonally adjusted figures published in the Federal Reserve Board's G.19 statistical release.

2. In the rest of the world sector (tables F.107 and L.107), data were revised to reflect new estimates in the balance of payments statistics of the Department of Commerce for the period from 1986 onward. The changes incorporate information from the Treasury Department's benchmark surveys of portfolio investment. Also, data for direct investment (tables F.230 and L.230) were revised to reflect the 1994 benchmark survey of U.S. direct investment abroad and reclassification of direct investment positions of certain types of financial affiliates. Articles in the Department of Commerce's July 1998 issue of the *Survey of Current Business* describe the revisions in more detail.

3. Newly available estimates of foreign holdings of U.S. currency for 1964:Q4 through 1973:Q3 were incorporated into the flow of funds accounts (tables F.204 and L.204). The figures, which are not reflected in the Department of Commerce's balance of payments accounts, affect total assets of the rest of the world sector and that sector's discrepancy (tables F.107 and L.107). In addition, the estimates for currency held by foreigners were revised down from 1973:Q4 onward.

4. For the life insurance companies sector (tables F.117 and L.117), estimates for 1997:Q4 onward are based on data compiled by A.M. Best Company from annual and quarterly statements filed with state insurance commissioners. The use of the new source data results in discontinuities in series for asset and liability categories. Equity holdings of life insurance companies from 1988:Q4 through 1997:Q3 have been revised to reflect changes reported by the American Council of Life Insurance.

5. For the other insurance companies sector (tables F.118 and L.118), data for 1997:Q1 forward reflect improvements to data from newly available detail on the distribution of types of fixed income securities. The introduction of these new source data results in discontinuities in the time series for amounts outstanding between 1996:Q4 and 1997:Q1.

6. Newly available detail for redemptions of specific types of municipal securities resulted in upward revisions for the period from 1992:Q1 onward to net issuance of industrial revenue bonds by nonfinancial corporations (tables F.211 and L.211) and a reduction in net issuance of bonds by state and local governments. Borrowing by nonprofit organizations in the municipal bond market was also revised, based on new information on redemptions of health care bonds and securities issued to finance student loans.

7. The statistics in this publication reflect the annual revisions to the national income and product accounts released by the Department of Commerce on July 31, 1998, and subsequent information for 1998:Q2 released on August 27, 1998. The August 1998 issue of the *Survey of Current Business* details the major features of the annual revision of the national income and product accounts.

**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, outstandings in the flow of funds accounts are related to the flows in the following way:

Outstanding<sub>t</sub> = Outstanding<sub>t-1</sub> + Flow<sub>t</sub> + Discontinuity<sub>t</sub>  
 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 in the following manner:

Percentage change<sub>t</sub> = (Flow<sub>t</sub> / Outstanding<sub>t-1</sub>) \* 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 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.federalreserve.gov/releases/Z1>

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) and available balance sheet tables and supplemental tables, as well as monthly data from January 1955 onward for the monthly debt aggregate published in the Board's H.6 statistical release, "Money Stock, Liquid Assets, and Debt Measures."

**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.



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## Availability of Data for Latest Quarter

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	<u>Available at time of publication</u>	<u>Major items missing</u>
1. National income and product accounts (NIPA)	Preliminary estimates, seasonally adjusted, for 1998:Q2; unadjusted flows through 1996.	Unadjusted flows since 1996.
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 1998:Q2.	
3. Nonfarm nonfinancial corporate business (tables F.102 and L.102)	<i>Quarterly Financial Report</i> (QFR) of the Census Bureau through 1998:Q1; Internal Revenue Service <i>Statistics of Income</i> data through 1995; securities offerings, mortgages, bank loans, commercial paper, and other loans through 1998:Q2.	<i>Statistics of Income</i> data since 1995; QFR data for 1998:Q2.
4. Nonfarm noncorporate business (tables F.103 and L.103)	Internal Revenue Service <i>Statistics of Income</i> data through 1995; bank and finance company loans and mortgage borrowing for 1998:Q2.	<i>Statistics of Income</i> data since 1995.
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 1998:Q2; checkable deposits and currency and trade payables through 1997.	Data for consumption of fixed capital and undistributed profits since 1996.
6. State and local governments (tables F.105 and L.105)	Gross offerings and retirements of municipal securities, deposits at banks, holdings of mortgages and nonmarketable U.S. government securities issues through 1998:Q2; selected financial assets through 1997:Q2 from the <i>Comprehensive Annual Financial Reports</i> 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 1997:Q2.

7. Federal government (tables F.106 and L.106)	Data from the <i>Monthly Treasury Statement of Receipts and Outlays</i> through 1998:Q2; data from the Federal Financing Bank through 1998:Q2; Treasury data for loan programs through 1998:Q2.	None.
8. Rest of the world (U.S. international transactions) (tables F.107 and L.107)	Balance of payments data through 1998:Q2; NIPA estimates, data from bank Reports of Condition and aggregate Treasury International Capital System data through 1998:Q2.	Detail for Treasury International Capital System data since 1997:Q4.
9. Monetary authority (tables F.108 and L.108)	All data through 1998:Q2.	None.
10. Commercial banking (tables F.109 and L.109)	All data through 1998:Q2 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 1996 for branches of domestic commercial banks located in U.S.-affiliated areas.
11. Savings institutions (tables F.114 and L.114)	All data through 1998:Q2.	None.
12. Credit unions (tables F.115 and L.115)	All data through 1998:Q2.	None.
13. Bank personal trusts and estates (tables F.116 and L.116)	All data through 1997.	Data since 1997:Q4.
14. Life insurance companies (tables F.117 and L.117)	Asset data through 1998:Q1 and liability data through 1997.	Asset data for 1998:Q2 and liability data since 1997:Q4.
15. Other insurance companies (tables F.118 and L.118)	All data through 1998:Q1.	Data for 1998:Q2.
16. Private pension funds (including FERS Thrift Savings Plan) (tables F. 119 and L.119)	Quarterly data through 1998:Q2; Internal Revenue Service/ Department of Labor/Pension Benefit Guaranty Corporation Form 5500 data through 1994.	Form 5500 data since 1994.
17. State and local government employee retirement funds (tables F.120 and L.120)	All data through 1998:Q1.	Data for 1998:Q2.
18. Money market mutual funds (tables F.121 and L.121)	All data through 1998:Q2.	None.
19. Mutual funds (tables F.122 and L.122)	All data through 1998:Q2.	None.

20. Closed-end funds (tables F.123 and L.123)	All data through 1996.	Data since 1996.
21. Government-sponsored enterprises (tables F.124 and L.124)	Balance sheet data for FHLBs, Fannie Mae, Freddie Mac, Sallie Mae, FCS, FICO, and REFCORP through 1998:Q2.	None.
22. Federally related mortgage pools (tables F.125 and L.125)	All data through 1998:Q2.	None.
23. Issuers of asset-backed securities (ABSs) (tables F.126 and L.126)	All data from Trepp/PSA Information Services of the Muller Data Corporation and data for private mortgage pools, consumer credit, business loans, student loans, consumer leases, and trade credit securitization through 1998:Q2.	None.
24. Finance companies (tables F.127 and L.127)	All data through 1998:Q2.	None.
25. Mortgage companies (tables F.128 and L.128)	Mortgage data through 1997:Q4.	Data since 1997:Q4.
26. Real estate investment trusts (REITs) (tables F.129 and L.129)	Data through 1997:Q3; equity and unsecured debt issuance through 1998:Q2.	Data since 1997:Q3.
27. Security brokers and dealers (tables F.130 and L.130)	Data for firms filing FOCUS reports through 1998:Q2 data for firms filing FOGS reports through 1998:Q1.	Data for firms filing FOGS reports for 1998:Q2.
28. Funding corporations (tables F.131 and L.131)	Estimates for this sector are largely residual and derived from data for other sectors.	