OVERVIEW OF FLOW OF FUNDS ACCOUNTS

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Flow of Funds Section
Board of Governors of the Federal Reserve System
Presentation Outline

- General Overview of the Flow of Funds Accounts (FFA)
  - Sectors
  - Instruments
- Household Sector
  - Real estate, mortgage debt, owners’ equity
  - Net worth
    - Assets and Debt

Note: these views in this presentation are solely my own, and do not reflect those of the Board of Governors or its staff.
Some General Features of the FFA

- Set of aggregate integrated financial accounts that measure sources and uses of funds for the economy as a whole, and by sector.
- U.S. FFA were first published in the 1950s. Annual data begin in 1945, quarterly in 1952.
- Published quarterly about 10 weeks after the end of the quarter.
- The FFA present both flows and levels
- The economy is organized by sectors and instruments
Sectors in the FFA

- Households and nonprofit organizations
- Nonfinancial business
  - Corporate, noncorporate
- Governments
  - Federal and state and local
- Financial businesses
  - Monetary authority (the Fed)
  - Depositories
  - Insurance and pension funds
  - Investment companies
  - Securitization sectors
- Rest of the world
Examples of Instruments in the FFA

- Deposits
- Credit market instruments: open market paper, Treasury and agency securities, municipal securities, corporate bonds, mortgages, consumer credit, other loans
- Corporate equities and mutual fund shares
- Insurance and pension fund reserves
- Trade credit, security credit, and taxes payable
- Proprietors’ equity in noncorporate business
Household Net Worth

- Net worth = assets − liabilities
- Household net worth sometimes is considered a measure of the asset wealth of the private sector
- The value of the corporate sector enters through the value of corporate equities
- The value of the noncorporate sector enters directly (more on this later)
- Not exactly equal to total wealth of the economy (government is excluded).
Real Estate Owned by Households

- Units in structures with from one to four units, condos and coops, manufactures homes, and vacant land.
- Only owner-occupied (OO) and vacant homes; rental homes (full- or part-time rentals) are considered businesses.
- Through 2005 we benchmarked the value of OO and vacant homes to the American Housing Survey (AHS)
- Our judgment is that the 2007 and 2009 AHS surveys were biased upward; we did not use them.
Value of Residential Real Estate Owned by Households and AHS Reference Points, Owner-occupied and vacant homes
(2000:Q1 to 2012:Q1)

Billions of Dollars

- AHS 2001, 2003, 2005
- AHS 2007 & 2009
- FFA published series

Gap = 9%
Gap = 25%

Source: FFA and American Housing Survey (www.census.gov)
## Evolution of the Value of Residential Real Estate Owned by Households Beginning in 2000

(billions of dollars)

<table>
<thead>
<tr>
<th>Change in Value (billions of dollars)</th>
<th>Net Investment (billions of dollars)</th>
<th>Appreciation in the Value of Existing Homes (billions of dollars)</th>
<th>Percent Change in the CoreLogic House Price Index</th>
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</thead>
<tbody>
<tr>
<td><strong>Cumulative Changes:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000:Q1-2006:Q4</td>
<td>11,579</td>
<td>2,569</td>
<td>9,010</td>
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<tr>
<td>2007:Q1-2012:Q1</td>
<td>-5,921</td>
<td>692</td>
<td>-6,613</td>
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<tr>
<td>2007</td>
<td>-1,751</td>
<td>327</td>
<td>-2,078</td>
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<tr>
<td>2008</td>
<td>-3,141</td>
<td>181</td>
<td>-3,322</td>
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<tr>
<td>2009</td>
<td>-381</td>
<td>87</td>
<td>-468</td>
</tr>
<tr>
<td>2010</td>
<td>-532</td>
<td>79</td>
<td>-611</td>
</tr>
<tr>
<td>2011</td>
<td>-470</td>
<td>72</td>
<td>-542</td>
</tr>
<tr>
<td>2012:Q1&lt;1&gt;</td>
<td>1,418</td>
<td>-213</td>
<td>1,631</td>
</tr>
</tbody>
</table>

1. Annual rate.
Source: FFA.
Households
Value of Homes, Mortgage Debt, and Owners' Equity
(1980:Q1 to 2012:Q1)

Billions of dollars

Source: FFA
Changes in Home Values, Mortgage Debt, and Owners' Equity
(1990:Q1-2012:Q1, change from four quarters earlier)

- Value of real estate
- Mortgage debt
- Owners' equity

Source: FFA
Mortgage Debt and Owners' Equity as a Share of Home Values
(1960:Q1 to 2012:Q1)

Source: FFA
Household Net Worth to Disposable Income
(1960:Q1 to 2012:Q1)

6.80

Source: FFA
Household Financial Assets and Credit Market Debt to Disposable Income
(1960:Q1 to 2012:Q1)

Source: FFA.
Selected Components of Households' Financial Assets as a Share of Disposable Income
(1960:Q1 to 2012:Q1)

- Deposits
- Credit market instruments
- Corporate equities and mutual funds
- Life insurance and pension fund reserves
Selected Components of Household Net Worth as a Share of Disposable Income
(1960:Q1 to 2012:Q1)

Source: FFA