The Flow of Funds Accounts

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The Flow of Funds Accounts

- What are the FFA?
- Why are the FFA useful?
- What are the main limitations of the FFA?
What are the FFA?

- Set of aggregate integrated financial accounts that measure sources and uses of funds economy-wide and by sector

- Incorporates data from NIPA and ITA
  - savings and capital expenditures from NIPAs
  - balance of payments data from ITA

- Wide variety of government and private data sources on financial flows and outstandings
Main components

1. Income & saving (NIPA)
2. Net increase in liabilities
3. Capital accumulation (NIPA)
4. Net acquisition of financial assets
5. Capital gains (revaluations)
6. Other factors
7. Balance sheet position
Example: Households and Nonprofit Organizations (tables 100)

- **Sources of funds:** Table F.100
  - Personal saving (line 5)
  - Net increase in liabilities (line 39)

- **Uses of funds:** Table F.100
  - Capital expenditures (line 12)
  - Net acquisition of financial assets (line 17)
Example: Households and Nonprofit Organizations (tables 100)

- Balance sheets: Table B.100
- Outstanding (t) = Outstanding (t-1) + flows + revaluations
Organization of the FFA

- Sectors
- Instruments
- Flows
- Levels (outstandings)
- Balance sheet and reconciliation tables
- Supplementary tables
Sectors in the FFA

- Major groupings of sectors:
  - Households and nonprofits (tables 100)
  - Nonfinancial business (tables 101-104)
  - Governments (tables 105 & 106)
  - Rest of the world (tables 107)
  - Monetary authority (tables 108)
  - Financial intermediaries (tables 109 -130)
Nonfinancial Business Sectors

- Nonfarm nonfinancial corporate (tables 102)
- Nonfarm noncorporate (tables 103)
- Farm (tables 104)
Government sectors

- State & local govts.; excludes employee retirement funds (tables 105)

- Federal govt.; excludes the Social Security Trust Fund (tables 106)
Financial Intermediaries

- Depository institutions
  - commercial banking (tables 109 – 113)
  - savings institutions (tables 114)
  - credit unions (tables 115)
Financial Intermediaries

- Insurance companies
  - Property-casualty insurance companies (tables 116)
  - Life insurance companies (tables 117)

- Pension funds
  - Private (tables 118)
  - State and local govt. employees (tables 119)
  - Federal govt. employees (tables 120)
Financial Intermediaries

- Mutual funds
  - Money market (tables 121)
  - Open-end (tables 122)
  - Closed-end and exchange-traded (tables 123)

- Govt.-sponsored enterprises (tables 124)

- Agency- and GSE-backed mortgage pools (tables 125)
Financial Intermediaries

- Issuers of asset-backed securities (tables 126)
- Finance companies (tables 127)
- REITs (tables 128)
- Brokers and dealers (tables 129)
- Funding corporations (tables 130)
Instruments

- 32 instrument tables (tables 200 – 231)
- Classified by type of instrument
  - Monetary reserves
  - Deposits and fed funds
  - Interbank transactions
  - Credit market instruments
  - Equity issues
  - Insurance and pension fund reserves
  - Other claims
Outstandings or Levels (L and B tables)

- Market value
  - Equities
  - Equities in mutual fund shares
  - Real estate

- Book value
  - Credit market instr. (bonds, bank loans, etc.)
  - Bonds in mutual fund shares
  - Financial assets other than equities
Outstandings or Levels (L and B tables)

- Replacement Cost
  - Equipment and software
  - Inventories
  - Consumer durable goods
Supplementary Tables

- Private pension funds
  - Defined benefit plans (tables 118.b)
  - Defined contribution plans (tables 118.c)

- IRAs (tables 225.i)

- Household balance sheets
Why are the FFA useful?

- Measure the acquisition of physical and financial assets throughout the U.S. economy
- Track the sources of funds used to acquire the assets
- Record the net volume of transactions in financial instruments
Why are the FFA useful?

- Provide a means of analyzing the development of instruments and the behavior of series over business cycles.
- Record the role of financial intermediaries in transferring funds between sectors.
Uses of the FFA

- Provides the only aggregate data on household balance sheets
Uses of the FFA

- Provides data on households’ exposure in the stock market and the housing market.
Uses of the FFA
Monetary Authority Sector Assets

Total Assets - Levels

- Bank loans to TALF
- Bank loans to CPFF
- Bank loans to LLCs
- Bank loans to primary dealer credit facility
- Agency- and GSE-backed securities
- AMLF
- Discount window loans
- Swap lines
- Treasury securities
- Security RPs
- Equities
- Other

Quarterly

Billions

Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4
2008  2009
What are the main limitations of the FFA?

- Household sector has few direct data sources
- FFA reports aggregates, not their distribution
Household sector

- Few or no high-frequency direct surveys on household asset holdings
- Household sector often a residual
- But estimates match surveys such as the SCF
- Similar problems for noncorporate businesses (usually small businesses)
Aggregate versus distribution

- The data is aggregate, not micro
- Wealth inequality is huge
- Micro surveys (SCF, PSID, and others)
- SCF best matches FFA
Merging information

- Use snapshots from micro surveys
- Extrapolate changes using aggregate statistics
- E.g. evolution of share of assets held by various demographic groups
- E.g. start from the portfolio composition of a specific group and extrapolate.