



IFC Workshop on the use of financial accounts, co-organised with the Central Bank of the Republic of Turkey

18-20 March 2019, Istanbul, Turkey

Policy uses of financial accounts: The U.S. Fed's perspective¹

Susan Hume McIntosh and Elizabeth Holmquist,
Board of Governors of the Federal Reserve System

¹ This presentation was prepared for the meeting. The views expressed are those of the authors and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.



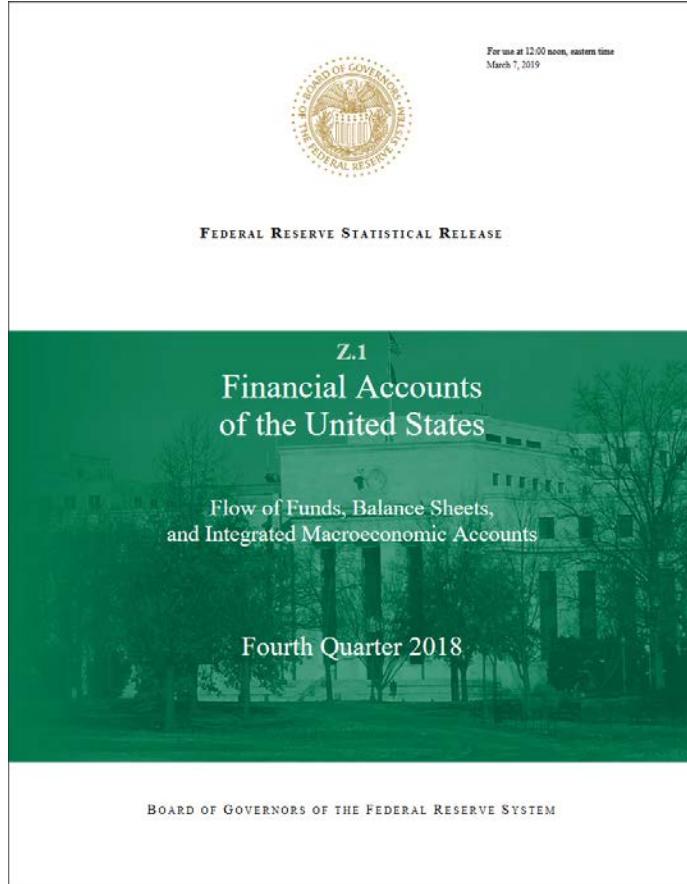
Policy Uses of Financial Accounts: The U.S. Fed's Perspective

Susan Hume McIntosh and Elizabeth Holmquist
Flow of Funds Section
Board of Governors of the Federal Reserve System

Workshop on the Use of Financial Accounts
Istanbul, Turkey
March 19, 2019



Financial Accounts of the United States



www.federalreserve.gov/releases/Z1/

- Time series:
 - Annual 1945 – 2018
 - Quarterly 1951:Q4 – 2018:Q4
- Includes flows, levels, some balance sheets, Integrated Macroeconomic Accounts, and more
- Published 10 weeks after the end of the reference quarter
- All data available in the Federal Reserve's Data Download Program (DDP)
www.federalreserve.gov/datadownload/Choose.aspx?rel=Z.1

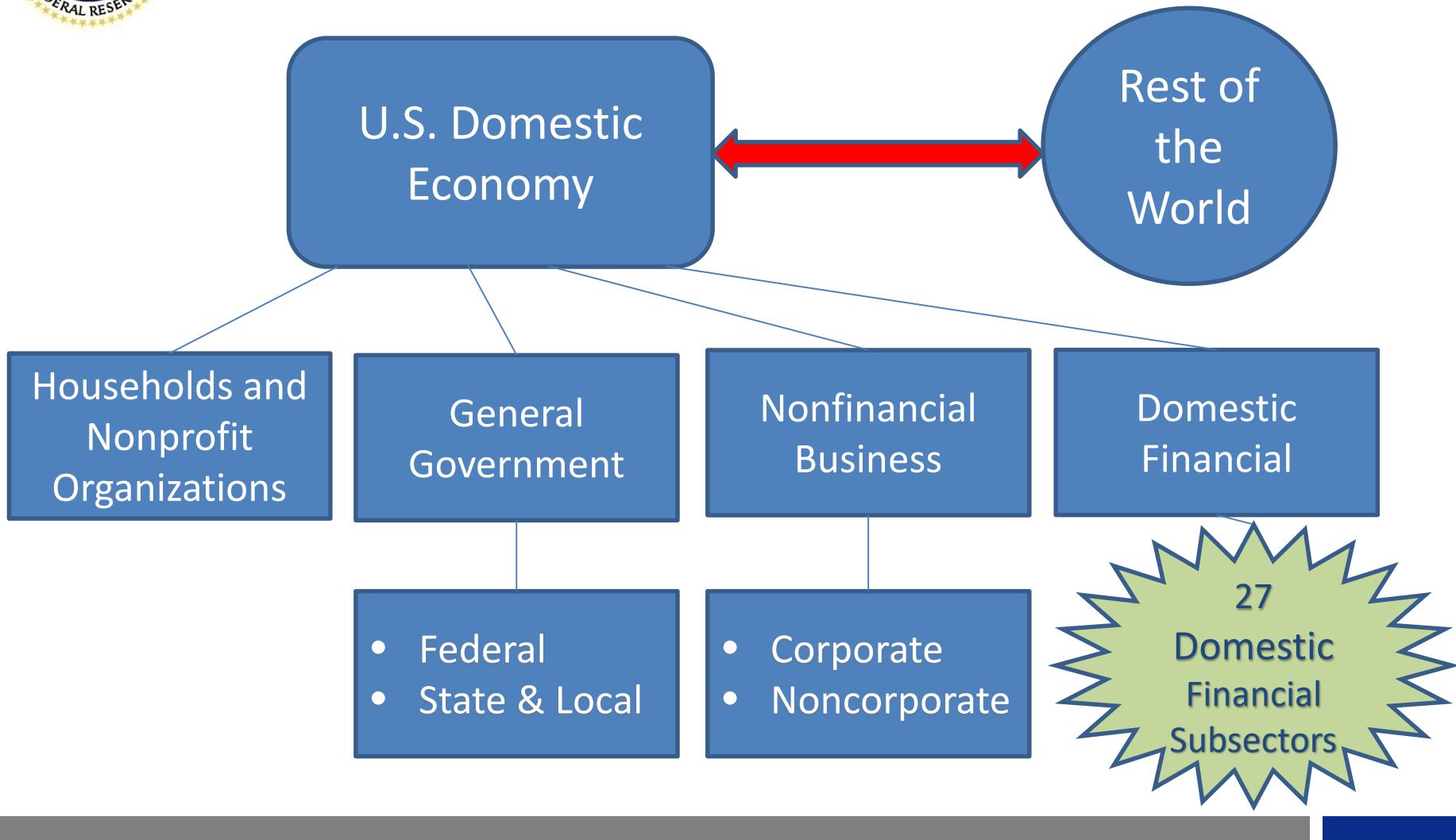


Uses of the Financial Accounts

- 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
- Provide a means of analyzing the development of instruments and the behavior of sectors over business cycles
- Monitor the role of financial intermediaries in transferring funds between sectors

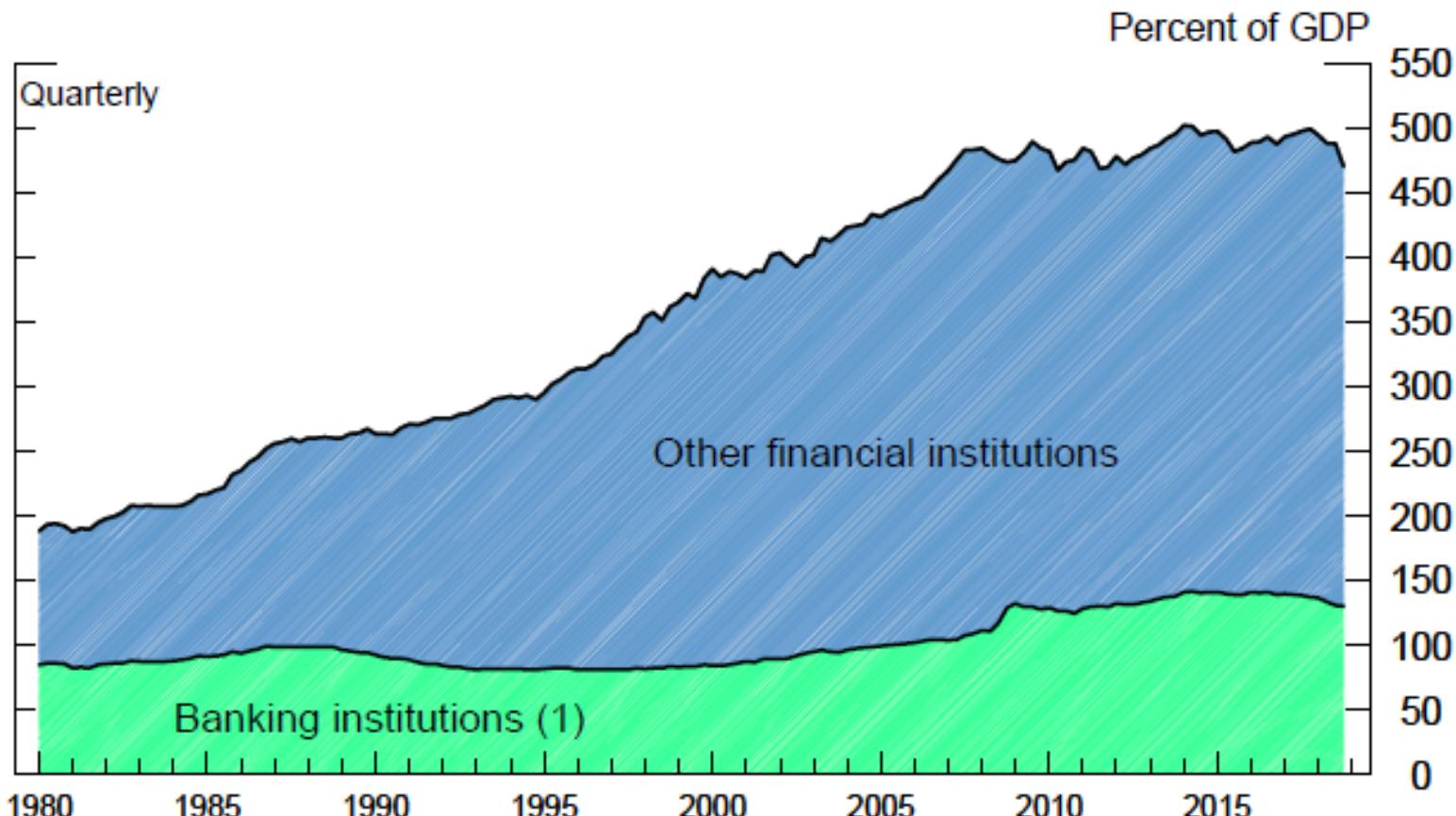


Sectors in the Financial Accounts





Financial Business Sector



Source: Financial Accounts of the United States, March 7, 2019.

(1) Includes the monetary authority, private depository institutions, and bank holding companies.

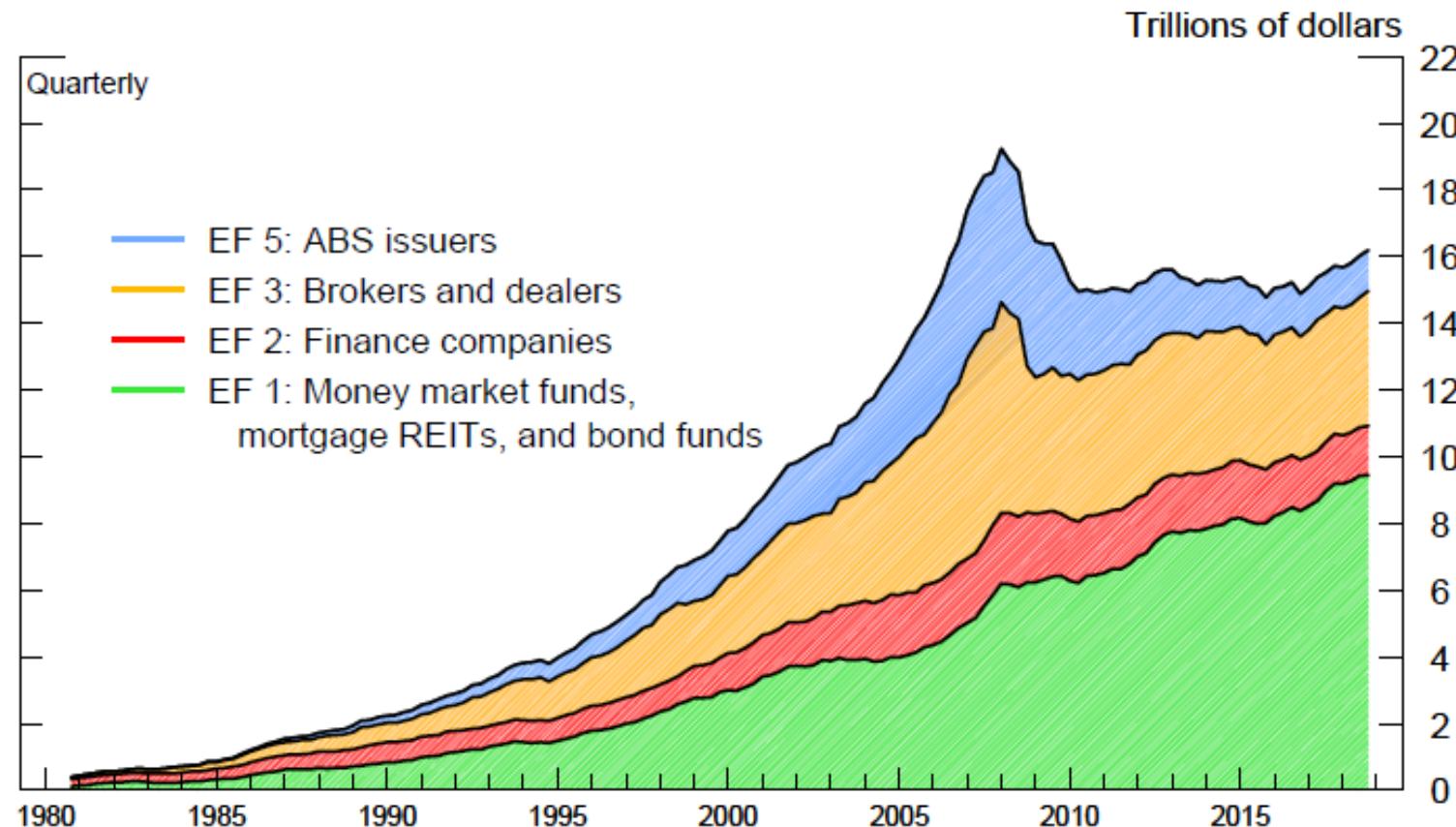


Shadow Banking by Economic Function

FSB: Entities by Economic Function	Financial Accounts: Sectors
1. Entities that are susceptible to runs	Money market funds, mortgage REITs, and bond funds
2. Lending dependent on short-term funding	Finance companies
3. Market intermediation dependent on short-term funding or secured funding of client assets	Security brokers and dealers and securities lending
4. Facilitating credit creation	Financial and mortgage guarantors
5. Securitization-based intermediation	Issuers of asset-backed securities



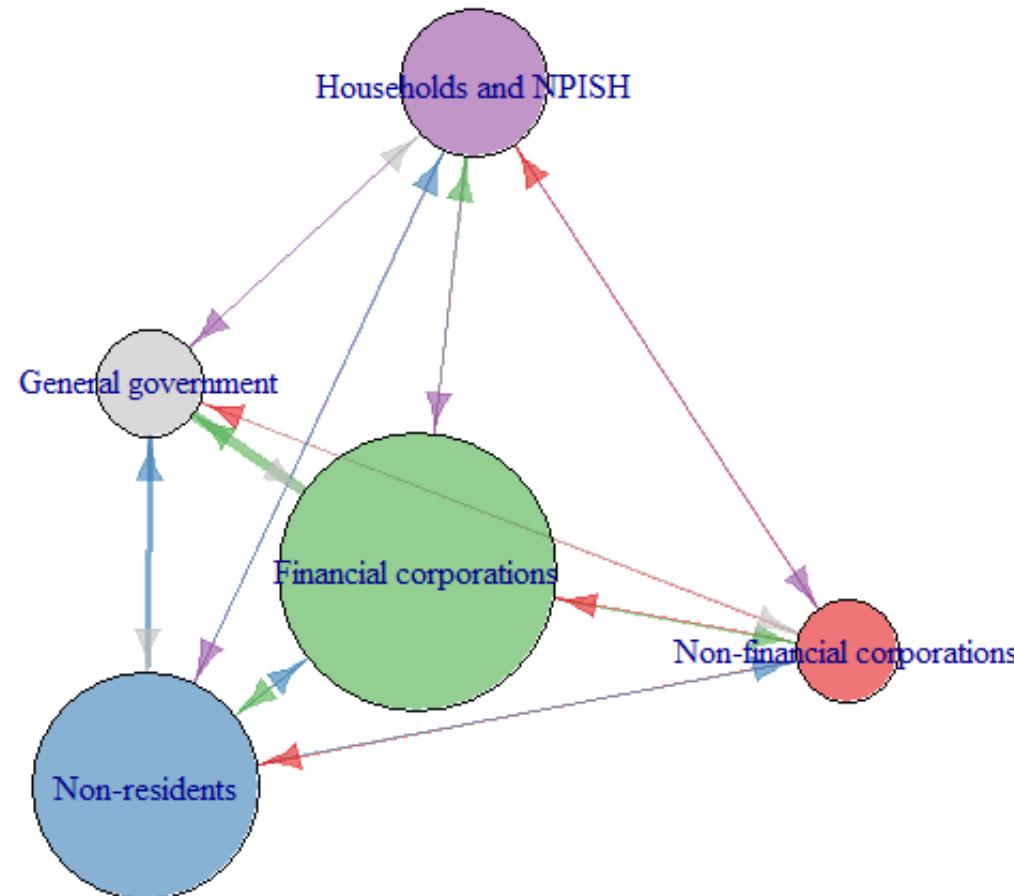
Shadow Banking by Economic Function



Source: Financial Accounts of the United States, March 7, 2019.

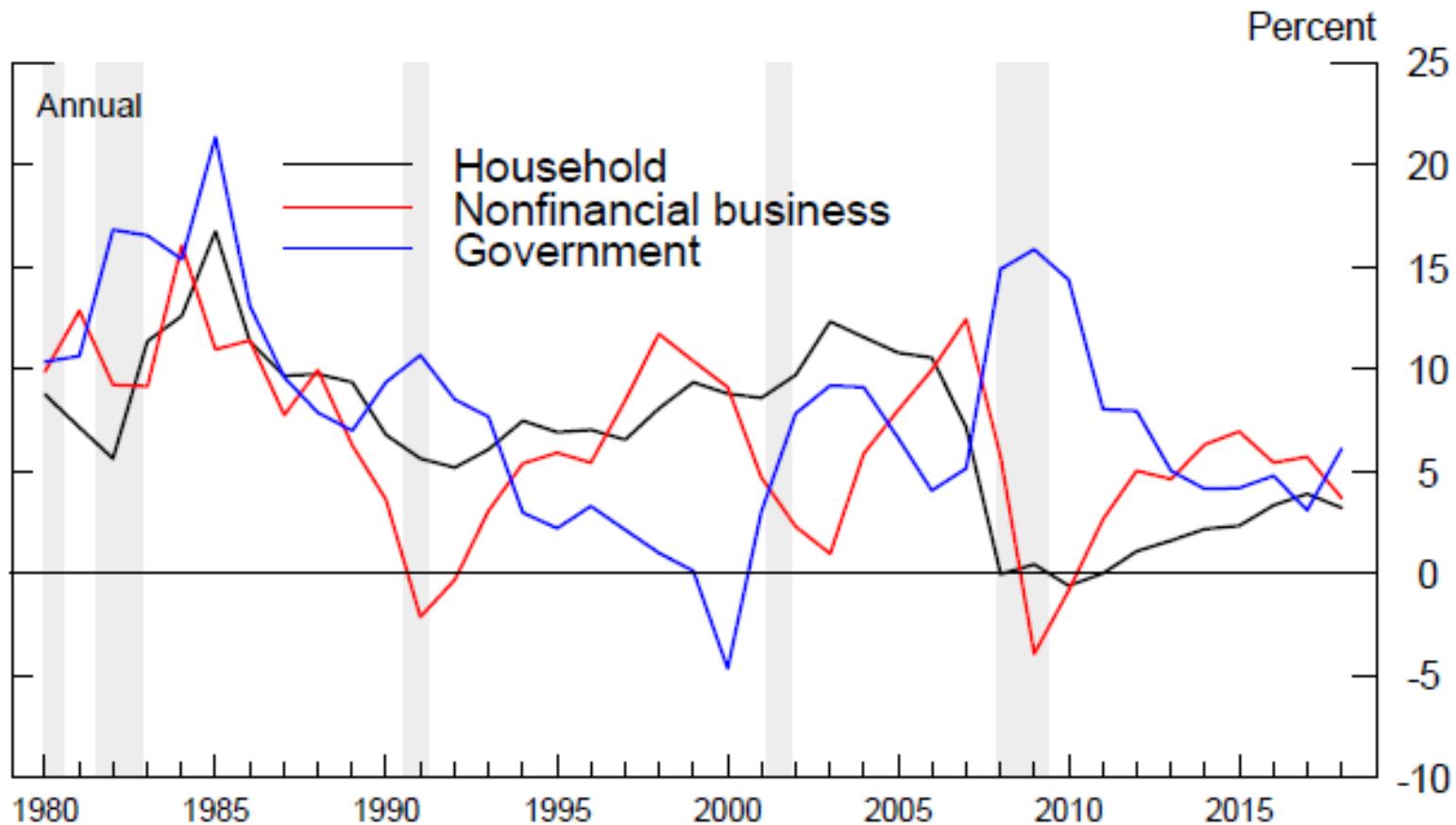


From-Whom-to-Whom Holdings of Debt Securities: 2017





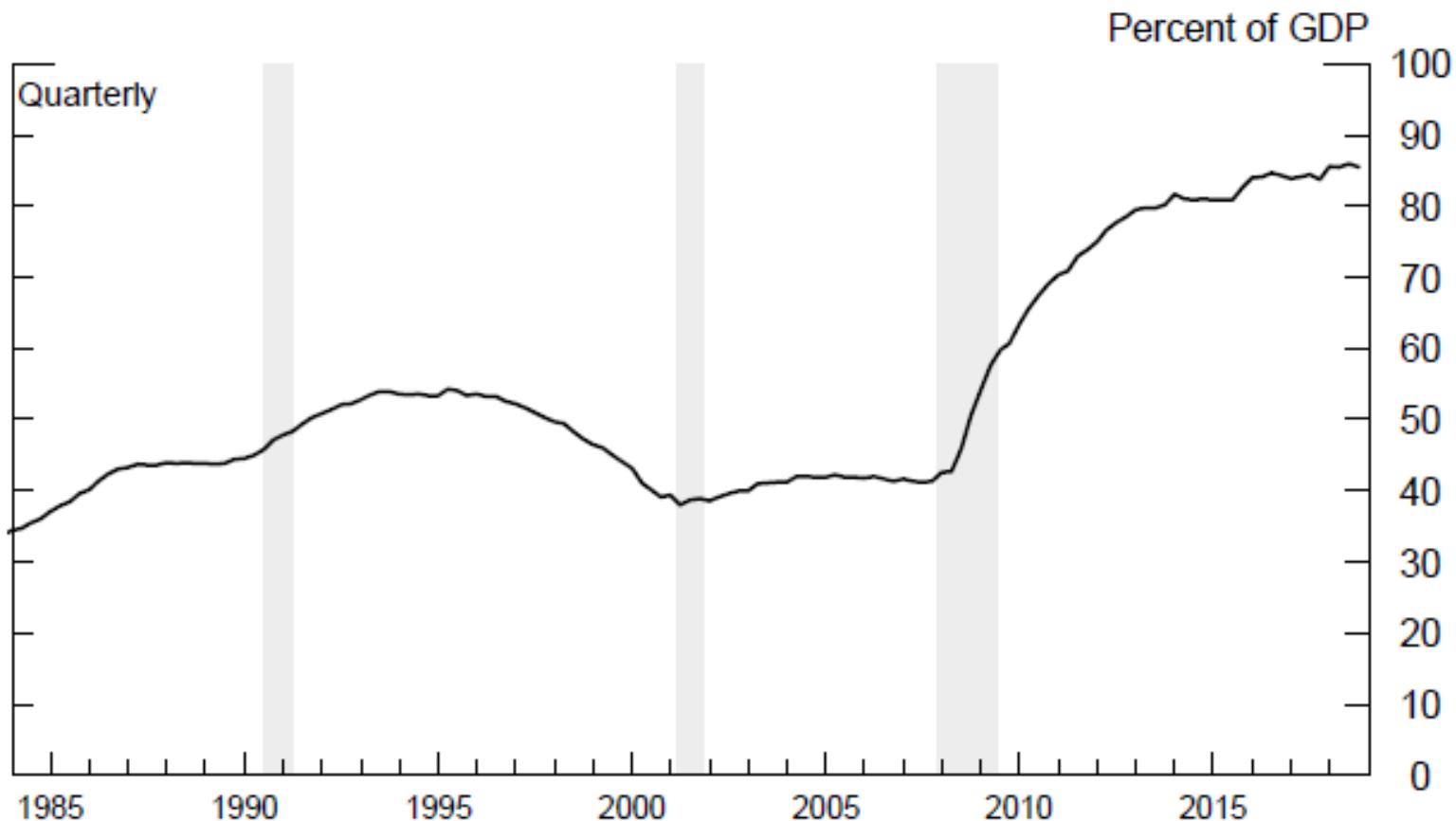
Debt Growth of Domestic Nonfinancial Sectors



Source: Financial Accounts of the United States, March 7, 2019.



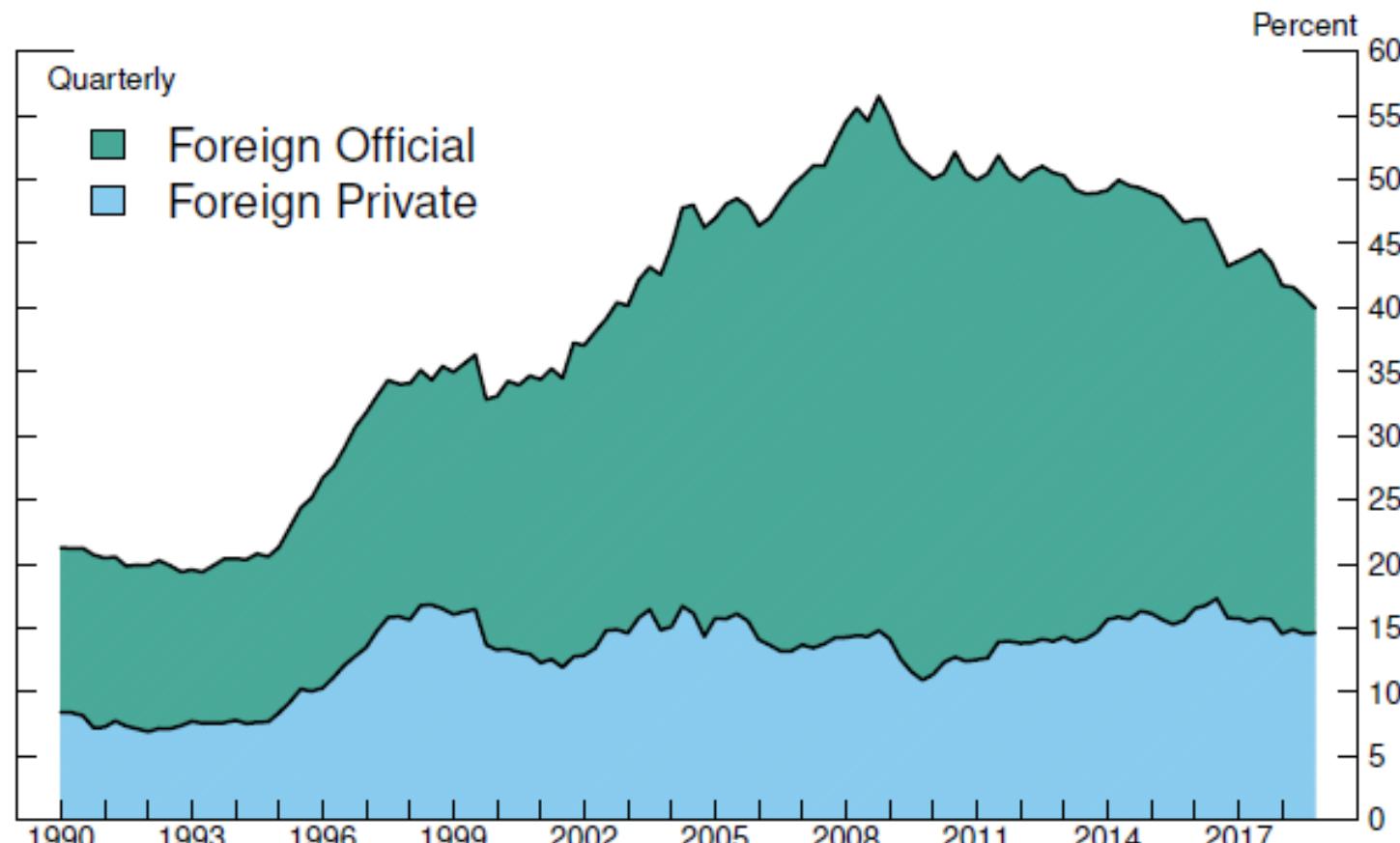
Federal Government Debt



Source: Financial Accounts of the United States, March 7, 2019.



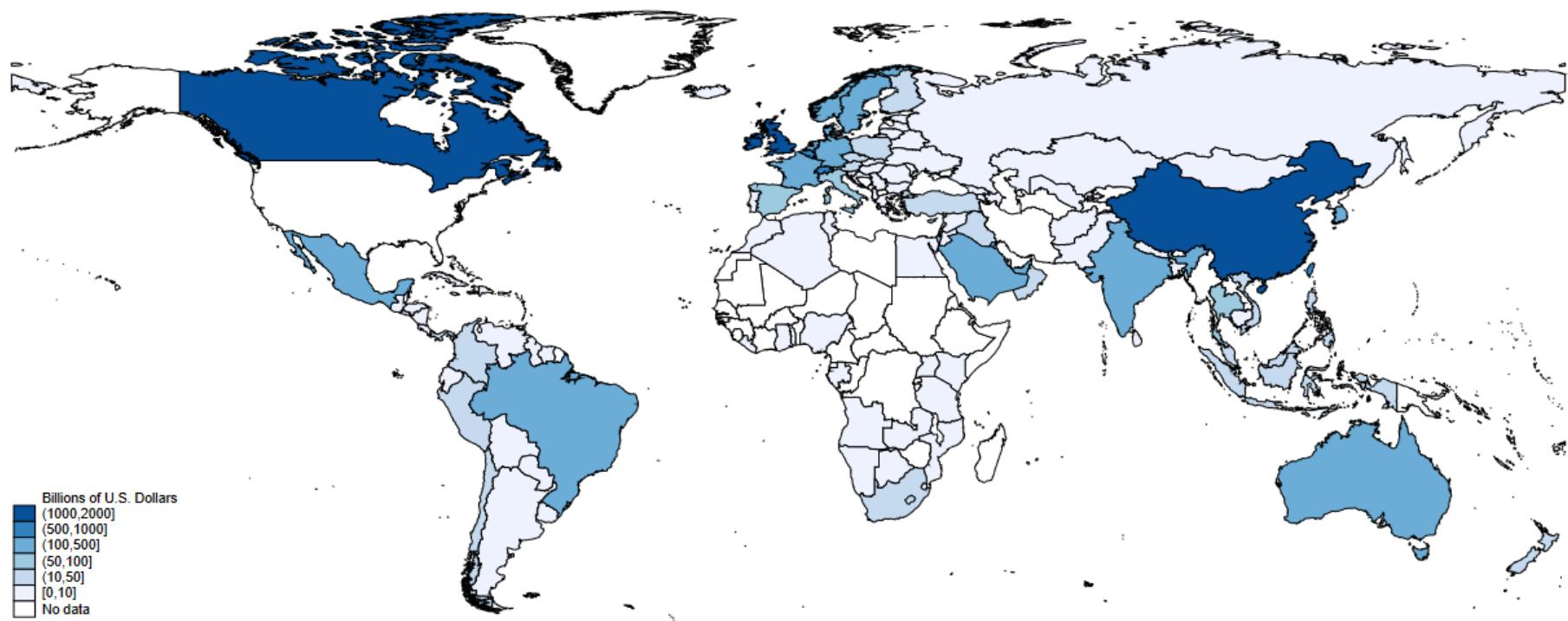
Foreign Holdings of U.S. Treasury Marketable Securities



Source: Financial Accounts of the United States, March 7, 2019.



Foreign Residents' Holdings of Total U.S Long-Term Securities, August 2018



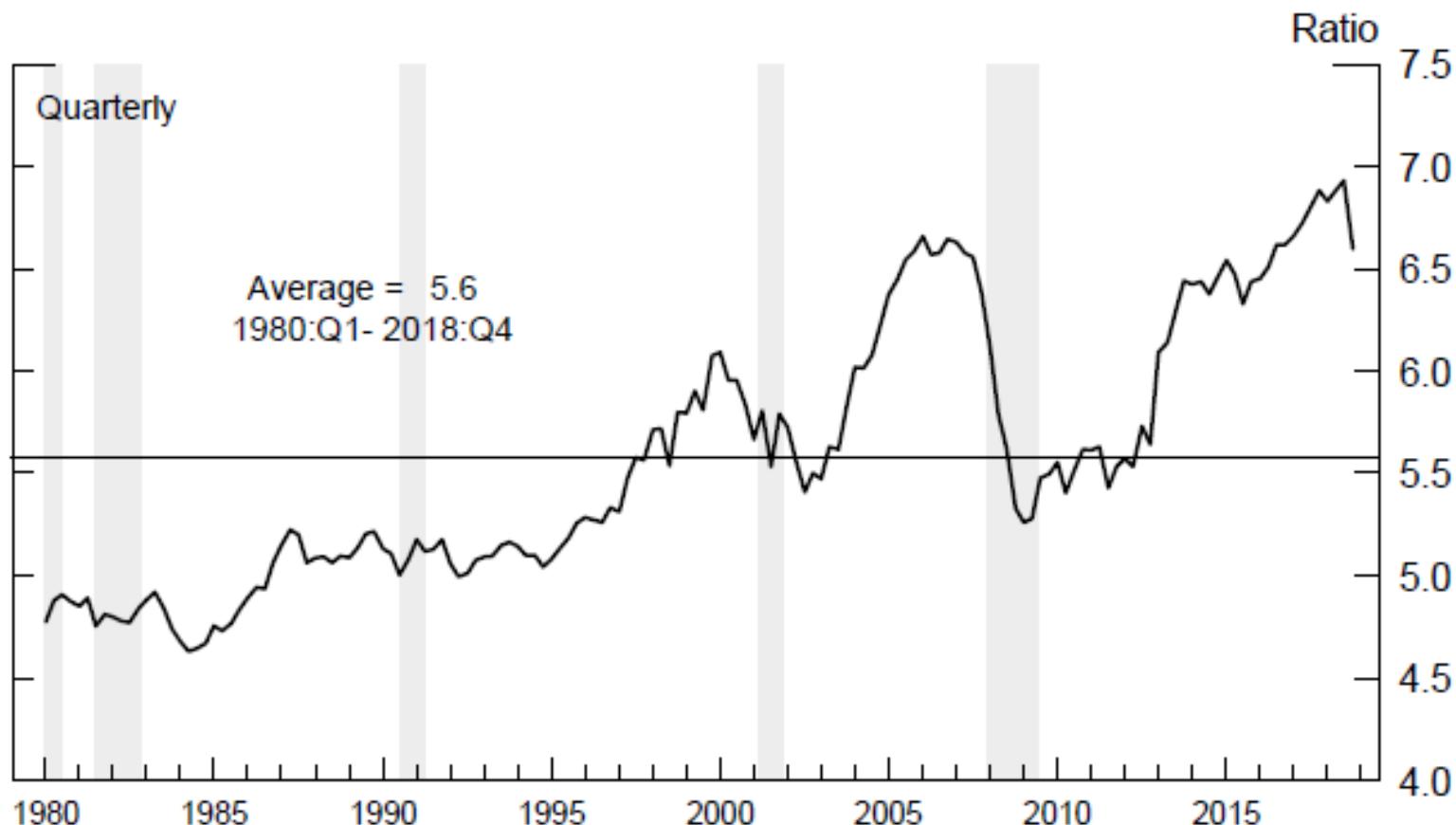


Use of Household Sector Data

- Full balance sheet for households and nonprofit organizations has nonfinancial assets, financial assets, liabilities, and thus net worth.
- Financial Accounts only timely and quarterly source for this series.
- Net worth is important in the Federal Reserve's model of household consumption which feeds into the forecast of GDP.
- Our group prepares a forecast of net worth based on assumptions about future movements in the real estate and stock markets and the personal savings rate.



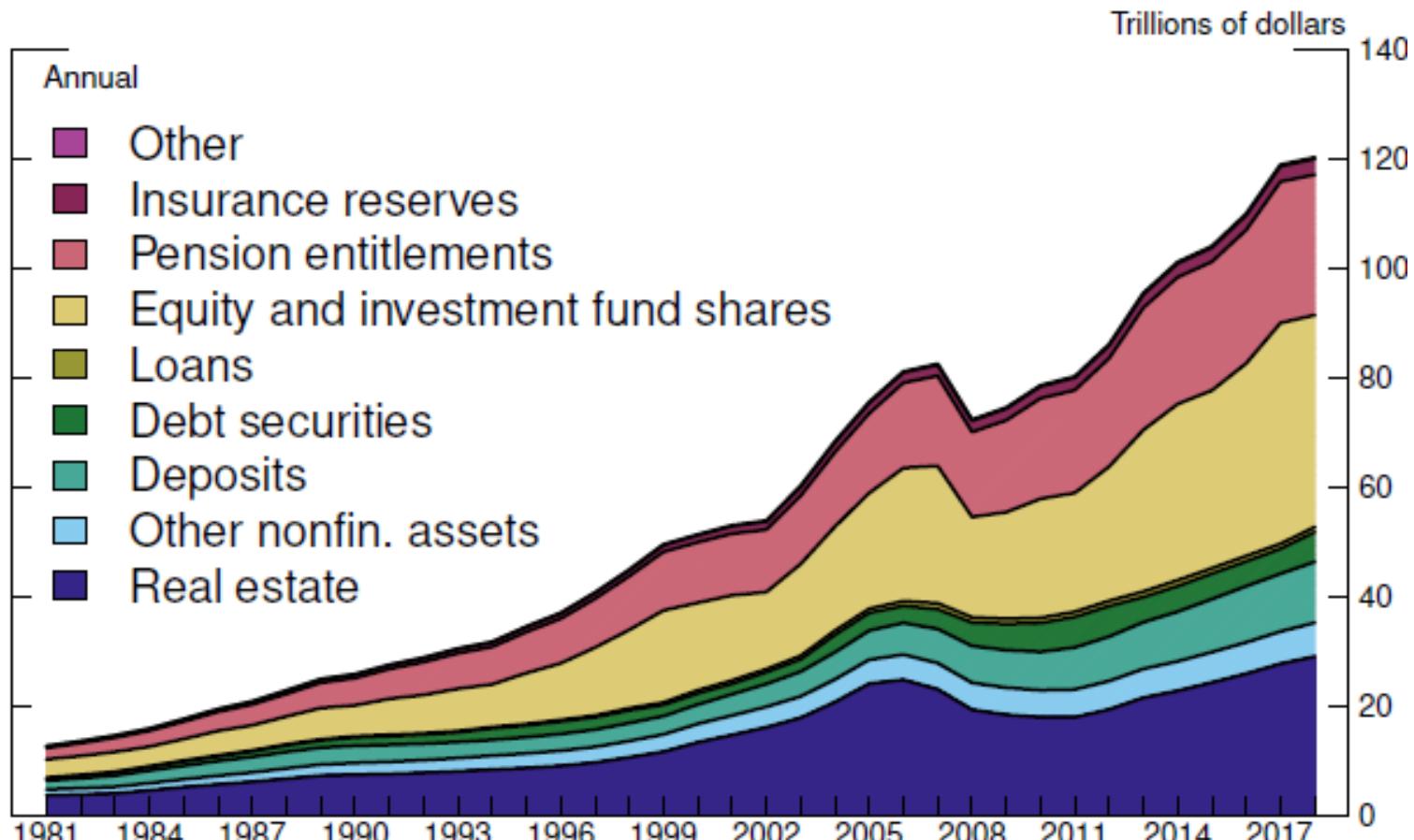
Household Net Worth Relative to Disposable Personal Income



Source: Financial Accounts of the United States, March 7, 2019.



Household Assets



Source: Financial Accounts of the United States, March 7, 2019.

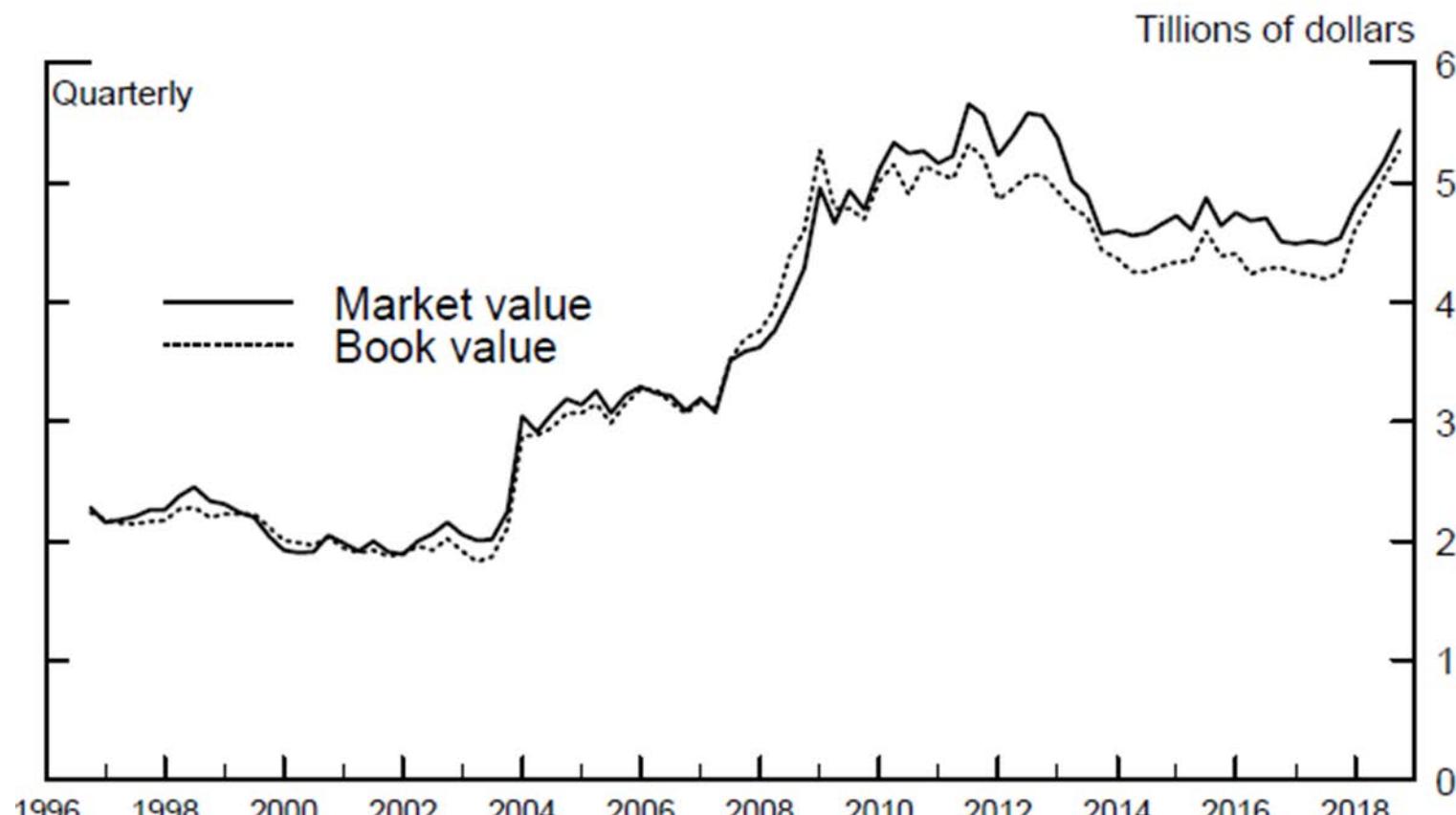


Market Value of Debt Securities

- FA debt securities include separate measures for commercial paper, Treasury securities, state and local securities, agency- and GSE-backed securities, and corporate and foreign bonds.
- Historically, FA reported most debt security holdings at book value; household sector holdings calculated residually.
- Several years ago, FA moved towards reporting market values for debt securities, one sector at a time.
- Now, the market value of household holdings of debt securities are calculated using market indexes, beginning 1996. Transactions continue to be residually calculated.



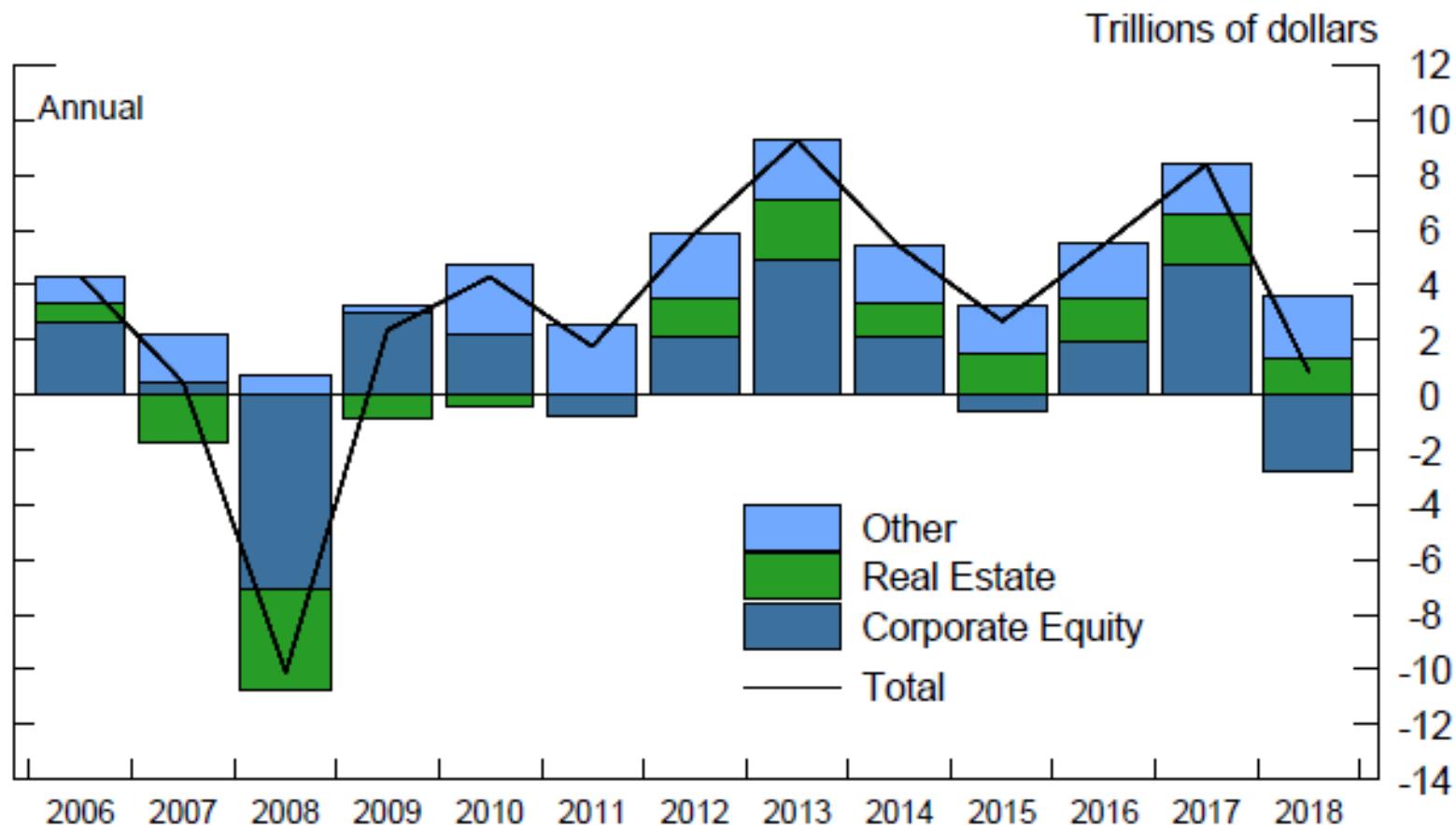
Market versus Book Value of Debt Securities Held by Households



Source: Financial Accounts of the United States, March 7, 2019.



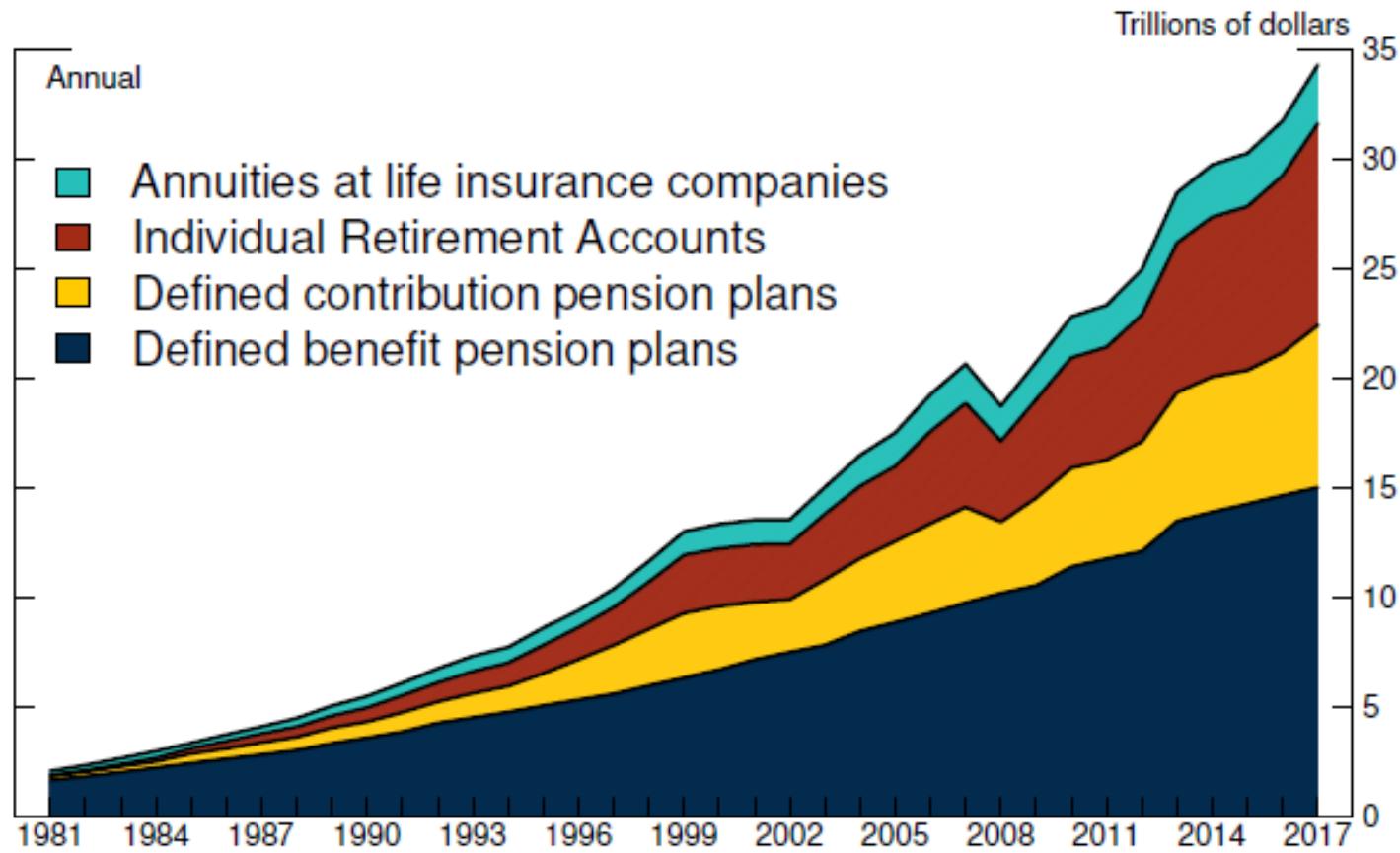
Change in Household Net Worth



Source: Financial Accounts of the United States, March 7, 2019.



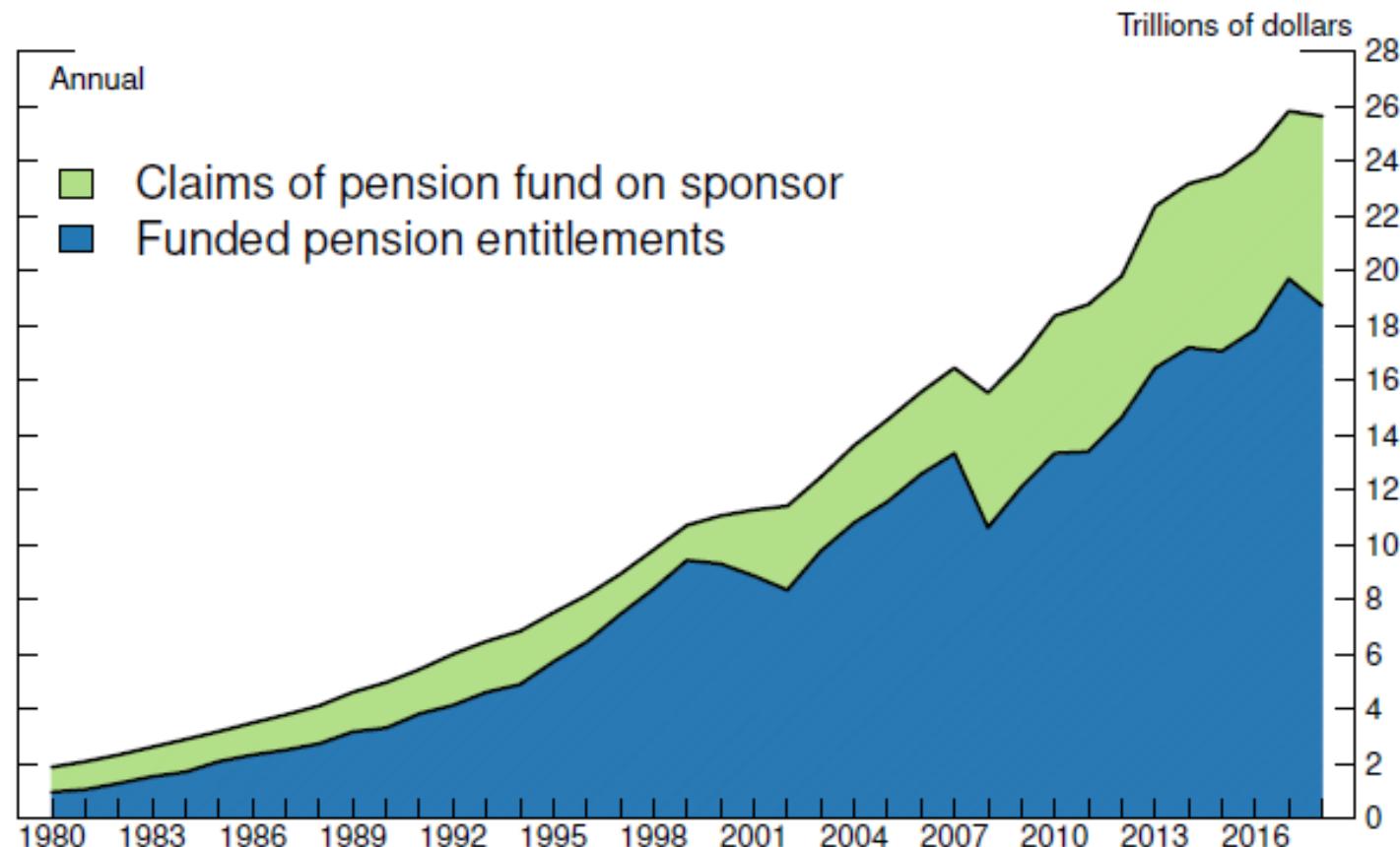
Household Retirement Assets



Source: Financial Accounts of the United States, March 7, 2019.



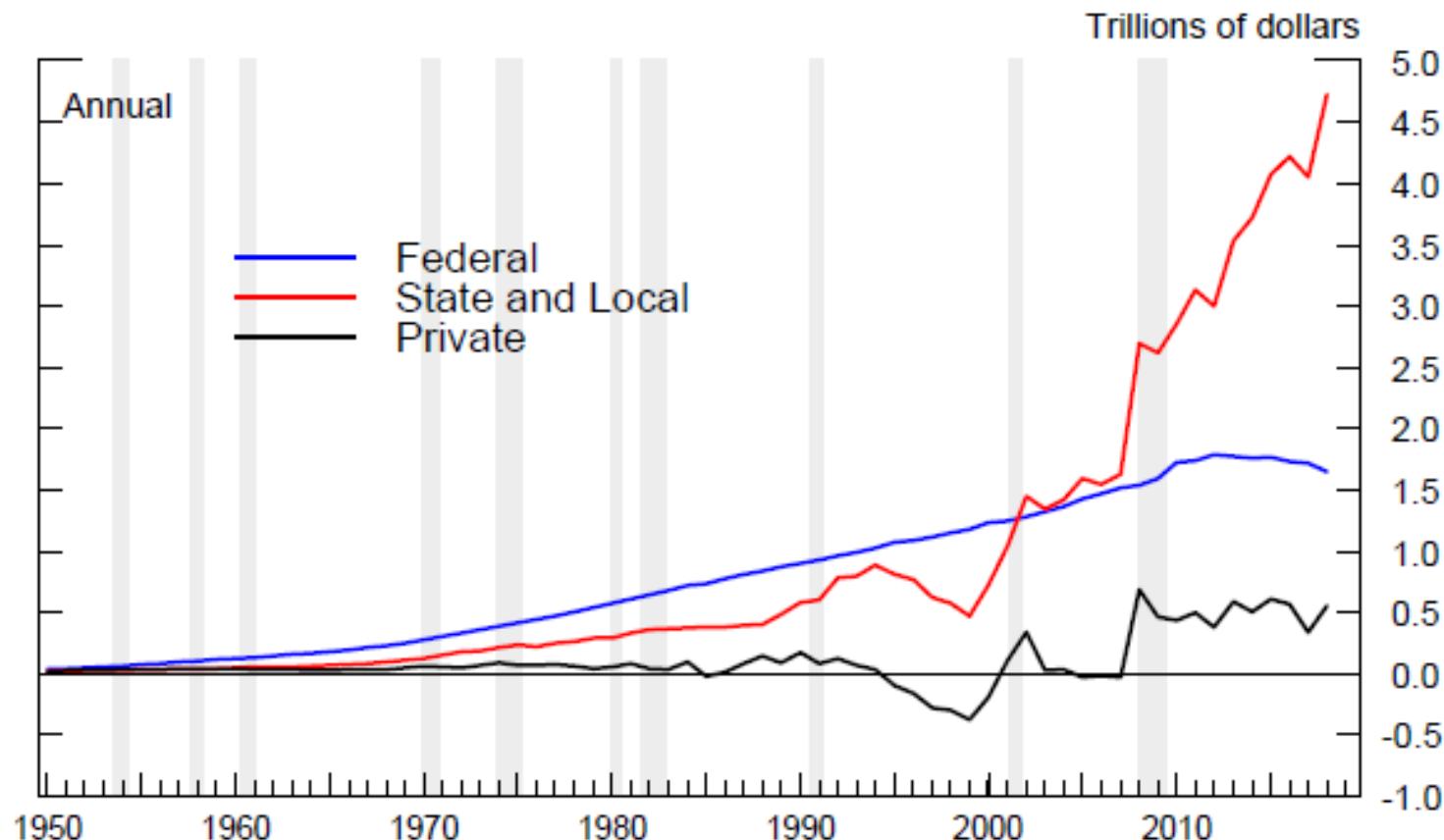
Pension Entitlements of the Household Sector



Source: Financial Accounts of the United States, March 7, 2019.



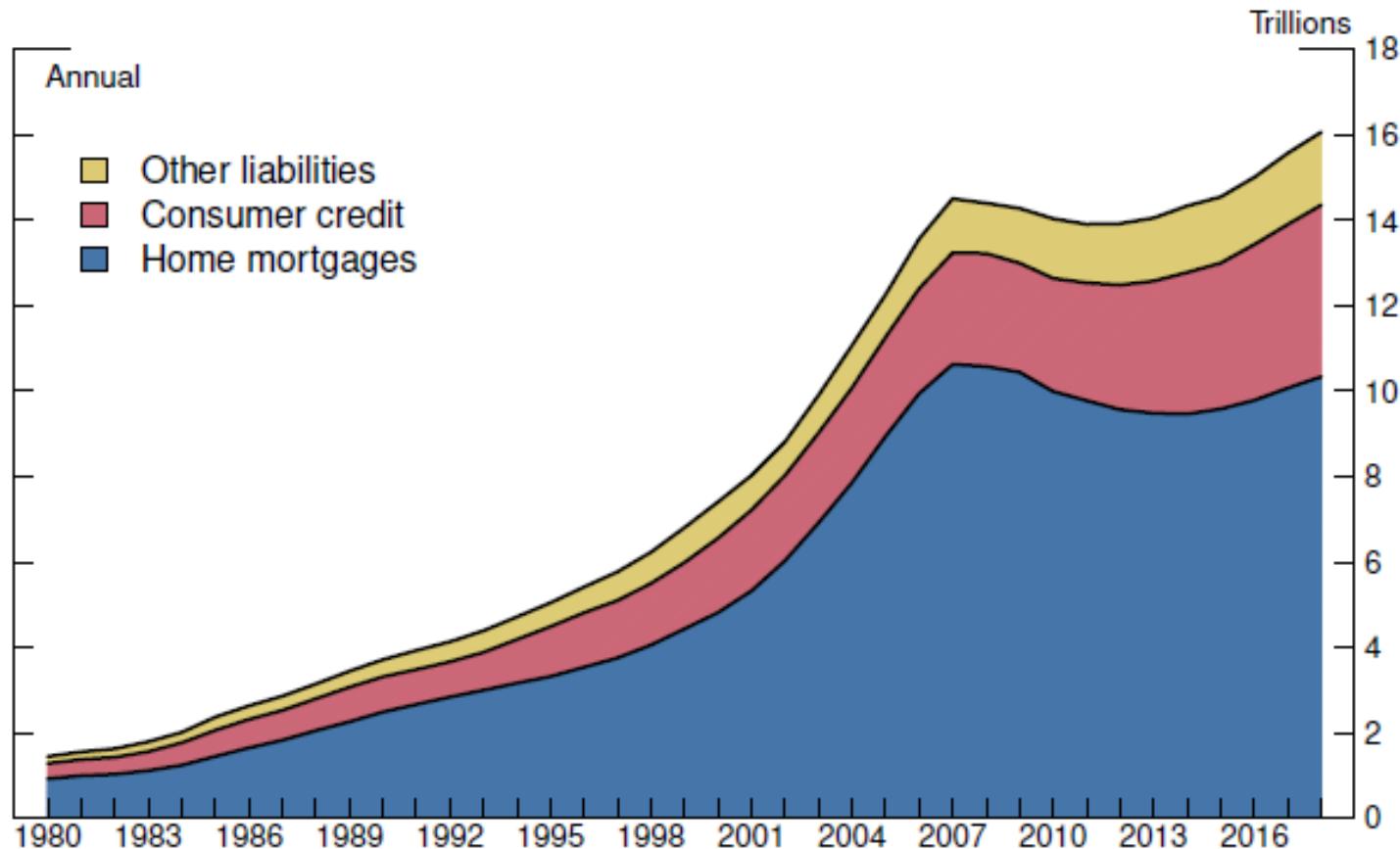
Claims of Pension Funds on Sponsors



Source: Financial Accounts of the United States, March 7, 2019.



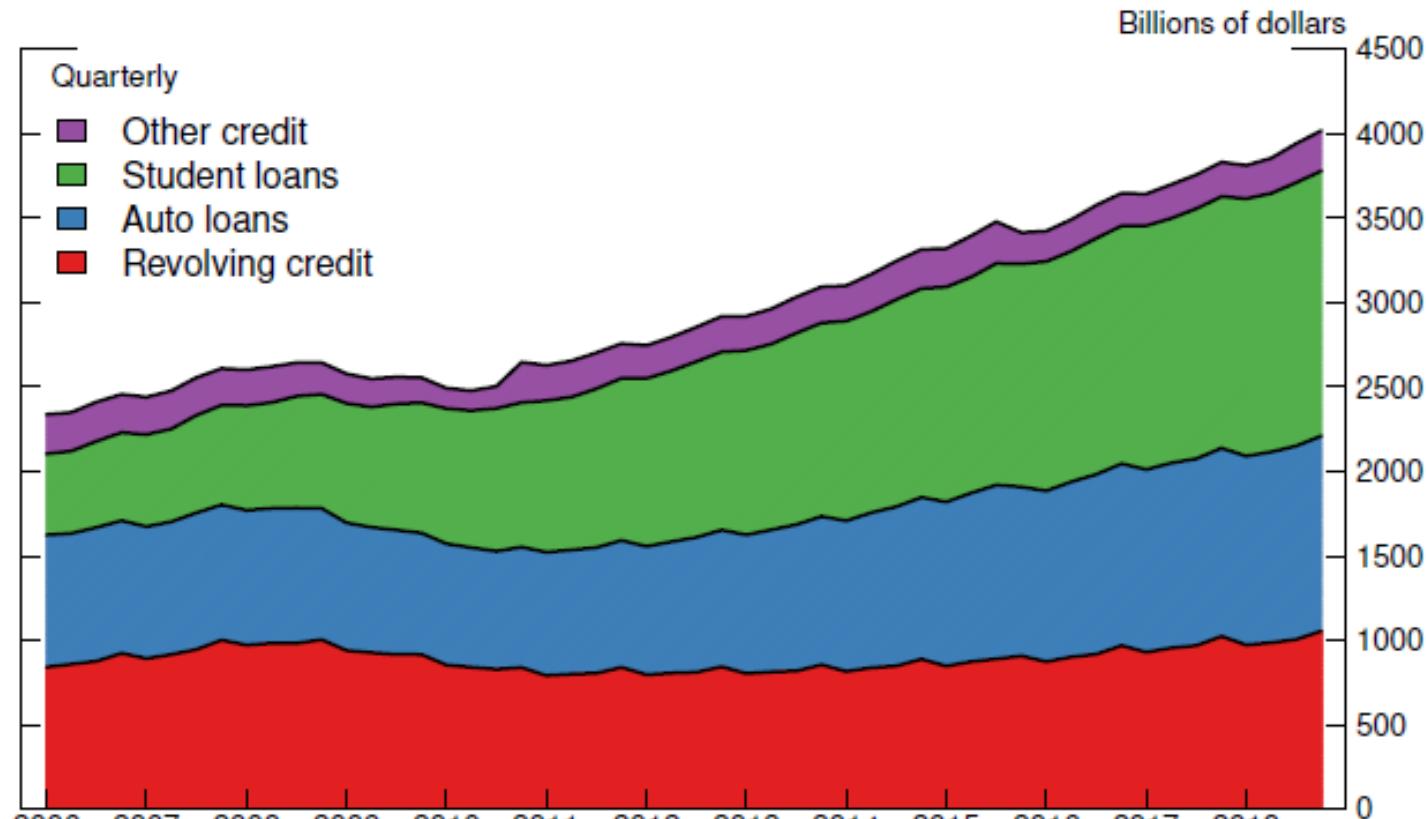
Household Liabilities



Source: Financial Accounts of the United States, March 7, 2019.



Consumer Credit



Source: Financial Accounts of the United States, March 7, 2019.



Distributional Financial Accounts (DFA)

- **Goal:** create a Distributional Financial Accounts (DFA), a quarterly data set that shows household wealth by income quintile
- Combines two different source data sets:
 1. **Survey of Consumer Finance (SCF):** a nationally representative micro-level survey of the financial wellbeing of households
 2. **Financial Accounts of the United States (FA):** an integrated macro-level data set that shows a balance sheet for households and nonprofits
- **Method:**
 - Separate nonprofit organizations from FA households
 - Match instrument categories between SCF and FA
 - Apply SCF-based income shares to FA aggregates

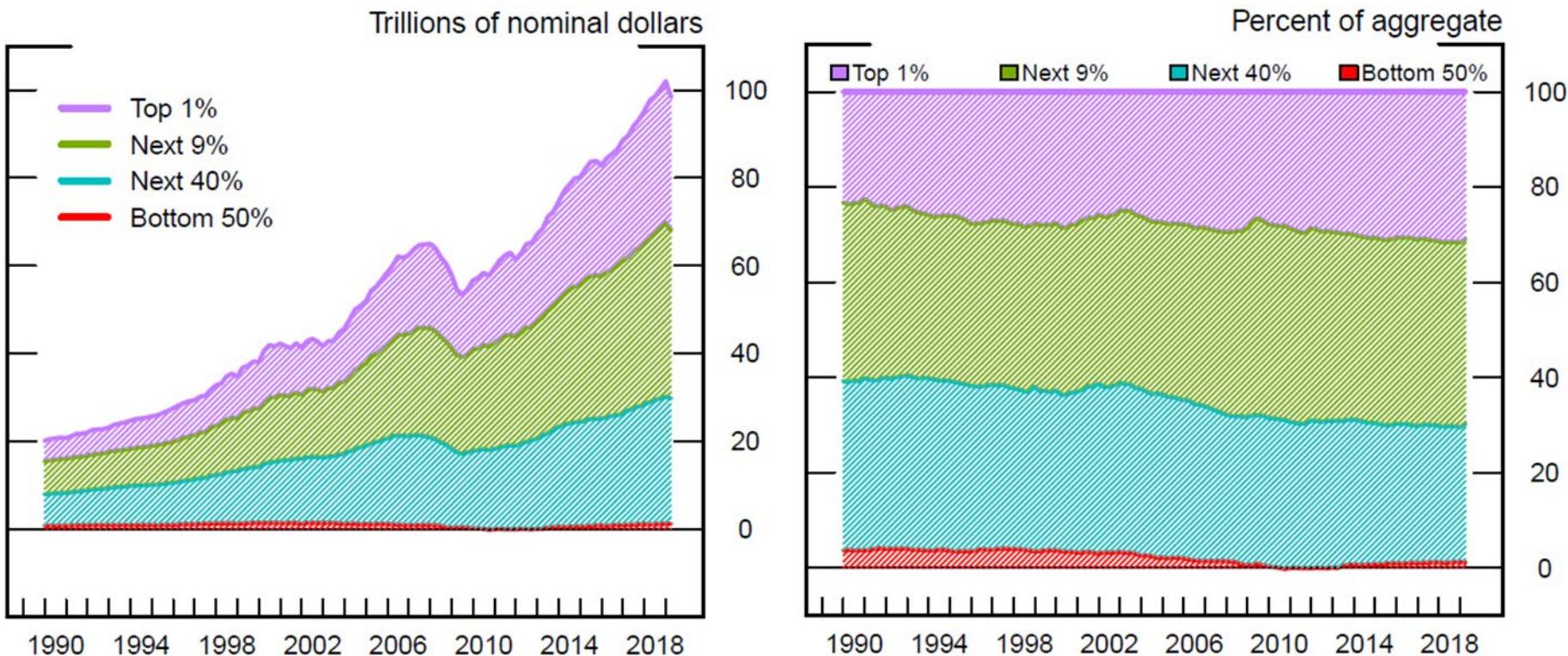


Distributional Financial Accounts (DFA)

- **Higher frequency:** quarterly vs. triennial (FA)
- **More timely:** latest quarter available with a 10 week lag (FA)
- **More comparable:** consistent with international reporting standards (FA)
- **More detailed:** household demographic information (SCF)



DFA: Household Net Worth by Wealth Percentiles



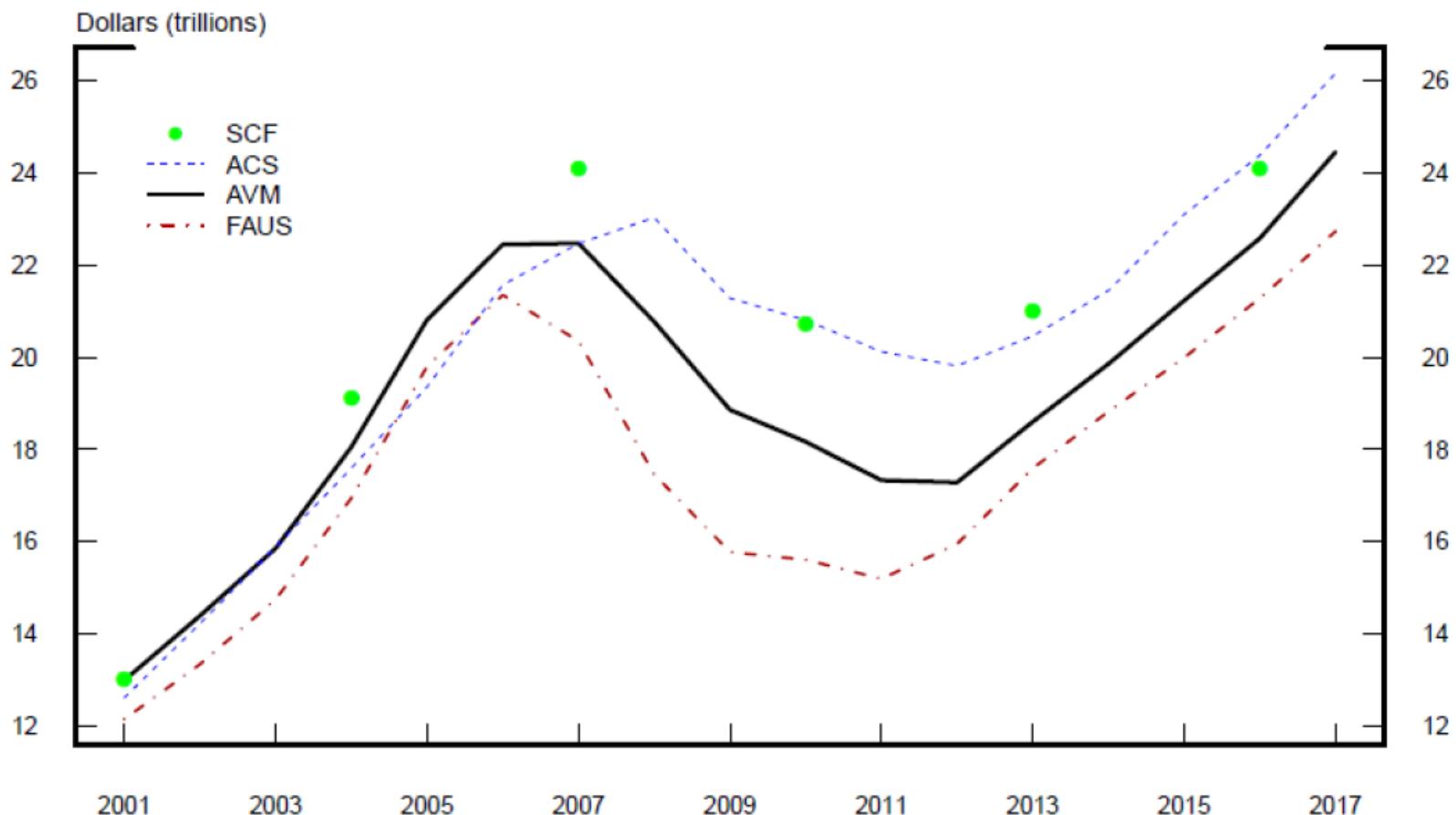


Measuring the Market Value of Residential Real Estate

- Current: American Housing Survey (AHS) benchmarks (2005) and a repeat-sales house price index
- New: “Big data” automated valuation models (AVM) for average prices and property counts from Census
 - Advantages:
 - Values entire stock
 - Captures changing dwelling characteristics
 - Valuations disciplined by market prices
 - Model predictions testable against actual prices for traded units
 - Disadvantages:
 - Limited historical data
 - Rental properties included in AVM prices



Aggregate Housing Wealth



Source: American Community Survey (U.S. Census Bureau), Financial Accounts of the United States, Survey of Consumer Finance (triennial), and Zillow.

