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U.S. Municipal Bond Market Shrinks to \$3.803 trln in Q3-Fed.

Dec 7 (Reuters) - The U.S. municipal bond market shrank to \$3.803 trillion in the third quarter of 2017 after growing to \$3.827 in the previous quarter, according to a quarterly report from the Federal Reserve released on Thursday.

Households, or retail investors, held \$1.562 trillion of debt sold by states, cities, schools and other muni issuers in the latest quarter, down from \$1.612 trillion in the second quarter, the Fed report said.

U.S. banks' muni bond buying fell to \$7.1 billion in the third quarter from \$10.9 billion in the second quarter. Property and casualty insurance companies also acquired fewer munis in 2017's third quarter at \$3.4 billion versus \$5.8 billion in the second quarter. Life insurance companies picked up \$5.4 billion of the bonds.

(Reporting By Karen Pierog Editing by Chizu Nomiyama)

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