



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for June and the *Daily Treasury Statements* for July

August 6, 2008

The federal budget deficit was about \$371 billion for the first 10 months of fiscal year 2008, CBO estimates, \$213 billion more than the shortfall recorded over the same period in 2007. Revenues were about 1 percent lower than in the same period last year, whereas outlays have grown by almost 9 percent. CBO estimates that the federal government will end fiscal year 2008 with a deficit in the vicinity of \$400 billion, close to the amount the agency projected last March after accounting for proposed supplemental appropriations.

JUNE RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	255	260	5
Outlays	205	209	5
Surplus	51	51	*

Sources: Department of the Treasury; CBO.

Note: * = between zero and \$500 million.

The Treasury reported a surplus of \$51 billion in June, about the same as CBO had projected on the basis of the *Daily Treasury Statements*. The differences in revenues and outlays occurred primarily because more tax rebates were classified as outlays (rather than as offsets to revenues) than CBO anticipated.

ESTIMATES FOR JULY (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	170	166	-5
Outlays	207	268	61
Deficit (-)	-36	-102	-65

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$102 billion in July, about \$65 billion more than the deficit recorded in July 2007. About \$14 billion of that increase was attributable to rebate payments stemming from the Economic Stimulus Act of 2008, which are recorded either as reductions in revenues or as increases in outlays.

Receipts were about \$5 billion (or 3 percent) lower in July 2008 than they were in July 2007, CBO estimates. Tax rebate payments of \$8 billion account for that decline.

Partially offsetting the effect of the rebates on receipts was an increase of about \$2 billion in withholding for payroll and individual income taxes and an increase of \$1 billion in nonwithheld taxes. Net corporate income taxes increased by \$1 billion this month, the first increase in more than a year, probably because of collections of prior years' taxes.

Outlays were \$61 billion higher this July than in the same month last year because of growth in spending and the effects of the calendar. July 1, 2007, fell on a weekend, which shifted about \$21 billion in outlays from July into June last year. Without that timing shift, the growth in outlays this July would have totaled \$40 billion (or about 15 percent). The largest factor contributing to that increase was the \$15 billion disbursed in July 2008 by the Federal Deposit Insurance Corporation (FDIC) to cover insured deposits at failed financial institutions. (Much of that cost should be recovered in the future as the FDIC liquidates the assets held by those institutions and collects higher insurance premiums.) Defense spending grew by \$6 billion compared with last July, while outlays for rebate payments and Medicare each contributed about \$5 billion to the increase. Growth in spending for Medicaid and Social Security accounts for much of the remaining difference.

BUDGET TOTALS THROUGH JULY (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	2,116	2,100	-16
Outlays	2,273	2,470	197
Deficit (-)	-157	-371	-213

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of about \$371 billion for the first 10 months of fiscal year 2008, more than double last year's shortfall of \$157 billion for the same period. Outlays are higher and revenues lower than they were during the same period last year.

Note: Unless otherwise indicated, the figures in this report include the Social Security trust funds and the Postal Service fund, which are off-budget. Numbers may not add up to totals because of rounding.

RECEIPTS THROUGH JULY
(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change
Individual Income	965	949	-1.6
Corporate Income	289	248	-14.4
Social Insurance	729	758	4.0
Other	<u>133</u>	<u>145</u>	8.9
Total	2,116	2,100	-0.8

Sources: Department of the Treasury; CBO.

Total receipts for the first 10 months of fiscal year 2008 were about \$16 billion (or 1 percent) lower than in the same period last year. Individual income tax receipts were about \$16 billion (or 2 percent) lower because of higher refunds paid to individuals. Net corporate tax receipts fell by about \$42 billion (or 14 percent). Offsetting those declines were gains in social insurance receipts of \$29 billion (or 4 percent) and \$12 billion in other receipts, primarily Federal Reserve receipts (up \$4 billion) and estate and gift taxes (up \$3 billion).

Higher refunds of individual income taxes resulted mainly from the payments to individuals of the tax rebates authorized in the Economic Stimulus Act of 2008. CBO estimates that about \$93 billion in rebates was paid through July, of which \$56 billion was classified as tax refunds. (The remainder is classified as outlays because the rebate payments exceeded the taxes the individuals paid for 2007.) If the rebates are excluded from the year-to-date activity, overall receipts would have been about \$40 billion (or 2 percent) higher than those in the same period last year.

Partially offsetting the effect of the rebates on individual income tax receipts were gains in withheld and nonwithheld individual income taxes of \$34 billion (or 4 percent) and \$20 billion (or 5 percent), respectively. Withholding growth has weakened recently; the year-over-year gain of about 3 percent experienced from April through July contrasts with a gain of about 5 percent during the first half of fiscal year 2008.

Of the components of nonwithheld receipts, final payments with tax returns have increased by about 6 percent this year, CBO estimates. That increase, recorded mainly in April, largely reflects 2007 tax liabilities. Quarterly estimated payments of tax, the other main component, increased by about 4 percent. Those payments mainly reflect taxpayers' estimates of 2008 tax liabilities.

The decline in corporate receipts reflects diminishing profits and, to a lesser extent, enactment in February of the Economic Stimulus Act of 2008, which provided for enhanced depreciation allowances in 2008.

OUTLAYS THROUGH JULY
(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	438	490	11.9	10.8
Social Security				
Benefits	479	504	5.4	5.4
Medicare ^b	311	321	3.3	4.8
Medicaid	159	169	6.1	6.1
Other Programs and Activities	<u>677</u>	<u>773</u>	14.1	13.2
Subtotal	2,064	2,257	9.4	9.1
Net Interest on the Public Debt	<u>209</u>	<u>213</u>	1.8	1.8
Total	2,273	2,470	8.7	8.4

Sources: Department of the Treasury; CBO.

- a. Excludes the effects of payments that were shifted because of weekends or holidays.
- b. Medicare outlays are net of proprietary receipts.

After adjusting for shifts in the timing of certain payments, outlays through July were about 8 percent higher than in the same period last year. That rate of growth is slightly faster than the 7 percent annual gains averaged over the 2002-2007 period.

Outlays for the broad category of other programs and activities grew rapidly through July, rising by 13 percent, or \$90 billion, on an adjusted basis. Roughly \$37 billion of that amount stemmed from rebate payments and another \$15 billion came from the upfront cost of covering insured deposits at failed financial institutions. Apart from those two types of payments, outlays for the category rose by about 6 percent.

Defense spending also experienced strong growth through July, increasing by 11 percent relative to the first 10 months of fiscal year 2007. The Army's expenditures rose by 16 percent over that period, driven largely by higher procurement and operations and maintenance costs. All other defense spending rose by 8 percent.

Medicare and Medicaid grew at similar rates through July, increasing by 5 percent and 6 percent, respectively, on an adjusted basis. The growth in Medicare was slightly lower because of reductions in payments to prescription drug providers to correct for overpayments made in 2006. Excluding those corrections, Medicare spending increased by 6 percent through July. In 2007, outlays for Medicare and Medicaid rose by an average of 8 percent.

