



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for November and the *Daily Treasury Statements* for December

January 7, 2008

The federal budget deficit was about \$107 billion in the first quarter of fiscal year 2008, CBO estimates—about \$27 billion more than in the same period last year. Outlays have risen by 9 percent compared with their level in the first three months of 2007, whereas revenues have grown by about 6 percent. Later this month, CBO will issue new budget projections for 2008 and the following 10 years.

NOVEMBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	151	151	*
Outlays	252	249	-3
Deficit (-)	-101	-98	3

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$98 billion for the month of November. That sum is about \$3 billion less than CBO had estimated on the basis of the *Daily Treasury Statements*, primarily because spending was lower than expected for international assistance and the Department of Agriculture.

ESTIMATES FOR DECEMBER (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	260	276	16
Outlays	218	229	11
Surplus	42	47	5

Sources: Department of the Treasury; CBO.

The surplus in December was \$47 billion, CBO estimates, \$5 billion more than the surplus recorded in December 2006. The budget results in December tend to be better than those in many other months because most corporations make quarterly income tax payments and withholding for individuals is relatively high because of year-end bonuses and seasonal employment.

Total receipts in December 2007 were about \$16 billion (or 6 percent) higher than those collected in the previous December, CBO estimates. Withholding for income and social insurance (payroll) taxes accounts for that increase,

with a gain of \$16 billion, or 10.5 percent. Some of that growth reflects the fact that December 2007 ended on a Monday, the biggest withholding day, whereas December 2006 ended on a Friday—thus boosting receipts in December 2007 at the expense of those in early January. Gross corporate payments, which include the final estimated payment by most corporations for tax year 2007, were higher in December 2007 than in December 2006, but that increase was roughly offset by higher refunds.

Outlays were \$11 billion (or 5 percent) higher this December than in the same month last year, CBO estimates. A large, one-time receipt and shifts in the timing of certain payments affected the spending growth. Outlays in December 2006 were reduced by the receipt of \$12.7 billion from an auction of licenses to use the electromagnetic spectrum; but, at the same time, about \$10 billion in payments were shifted into December 2006 because January 1 is a holiday. In contrast, payment shifts because of weekends or holidays decreased outlays in December 2007 by about \$9 billion. In the absence of those factors, outlays in December would have grown by about 8 percent from 2006 to 2007. Outlays for net interest on the public debt and the Department of Defense increased by about \$4 billion each compared with spending last December, while spending for Social Security grew by about \$3 billion.

BUDGET TOTALS THROUGH DECEMBER (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	574	605	32
Outlays	654	712	59
Deficit (-)	-80	-107	-27

Sources: Department of the Treasury; CBO.

The government recorded a deficit of \$107 billion for the first three months of fiscal year 2008, CBO estimates, compared with a deficit of \$80 billion recorded in 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 DECEMBER
(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change
Individual Income	251	269	7.3
Corporate Income	99	94	-5.0
Social Insurance	186	201	8.1
Other	<u>38</u>	<u>41</u>	9.2
Total	574	605	5.6

Sources: Department of the Treasury; CBO.

Total receipts for the first quarter of fiscal year 2008 were about \$32 billion (or 5.6 percent) higher than receipts for the first quarter of fiscal year 2007, CBO estimates. Withholding for income and payroll taxes accounted for more than all of the gain, \$35 billion, an increase of almost 9 percent. A portion of that growth represents effects of the calendar: An extra business day in the first quarter of 2008 and the timing of business days in late December boosted receipts this December (and will reduce them in January). Those effects probably account for roughly 1.5 percentage points of the year-over-year growth in total receipts.

Estimated taxes for the quarter are only a small portion of the total for the fiscal year; no significant payments of individual estimated taxes were due in the quarter. The final payment of estimated individual income taxes for calendar year 2007 is due on January 17.

Corporate receipts for the quarter fell by about \$5 billion (or 5 percent) compared with collections in the same quarter of fiscal year 2007, CBO estimates. Receipts in the first two months of the quarter showed double-digit declines from the comparable periods of the previous year, but December receipts, which included the final estimated payment for calendar year 2007 for most corporations, were about the same as those in the previous December. The decrease in receipts for the quarter was slightly greater than the 3 percent reduction in receipts for the previous six months, which contained the first three estimated payments for most corporations for tax year 2007. The decline in receipts probably reflects a drop in corporate profits that has occurred over the past year.

OUTLAYS THROUGH DECEMBER
(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	141	155	9.6	7.9
Social Security				
Benefits	139	147	5.8	5.8
Medicare ^b	95	91	-4.6	0.3
Medicaid	46	50	10.6	10.6
Other Programs				
and Activities	<u>178</u>	<u>205</u>	15.3	12.0
Subtotal	599	648	8.2	7.7
Net Interest on the				
Public Debt	<u>55</u>	<u>64</u>	17.1	17.1
Total	654	712	8.9	8.5

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 December were about 8 percent higher than those in the first quarter of fiscal year 2007, CBO estimates. Defense and nondefense spending each rose by about 8 percent, while net interest on the public debt increased by 17 percent.

Medicaid spending in the first quarter was almost 11 percent more than the program's outlays in the first three months of 2007. By contrast, Medicare outlays rose by less than 1 percent on an adjusted basis, largely because payments to prescription drug plans have been adjusted to reconcile estimated and actual costs for 2007. Initial payments to those plans are based on projected expenses, and upward or downward adjustments are made in the subsequent year to compensate for substantial under- or overpayments. In 2007, actual costs were lower than projected, resulting in a reduction in the net amounts paid to plans so far this year.

Adjusted for payment shifts, outlays through December for other programs and activities were 12 percent higher than spending in the first quarter of 2007. Much of that gain reflects the effects of the \$12.7 billion that was collected in the first quarter of fiscal year 2007 from the auction of licenses to use the electromagnetic spectrum. Excluding those receipts, spending for this category increased by about 4 percent.

Roughly half of the growth in first-quarter outlays for net interest on the public debt was due to the increased cost of inflation-indexed securities. The remaining increase results from additional debt and higher intragovernmental interest payments.