



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

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

September 5, 2008

The federal budget deficit was \$486 billion in the first 11 months of fiscal year 2008, CBO estimates, \$212 billion more than the shortfall recorded over the same period last year. CBO anticipates that the government will realize a surplus in September, stemming from quarterly payments of estimated income taxes. The result will be a deficit in the vicinity of \$400 billion for the fiscal year. CBO will release a new estimate of the 2008 deficit and updated baseline projections for fiscal years 2009–2018 on September 9.

JULY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	166	160	-5
Outlays	268	263	-4
Deficit (-)	-102	-103	-1

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$103 billion in July, about \$1 billion more than 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 offsets to revenues (rather than outlays) than CBO anticipated.

ESTIMATES FOR AUGUST (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	167	157	-10
Outlays	284	272	-12
Deficit (-)	-117	-115	2

Sources: Department of the Treasury; CBO.

The deficit in August was \$115 billion, CBO estimates, \$2 billion less than the shortfall recorded a year ago. However, without the shift of certain payments from September to August in 2007, the deficit for the month this year would have been about \$24 billion above last year's amount.

Receipts in August were about \$10 billion (or 6 percent) lower than they were in August 2007, CBO estimates. Withholding for individual income and payroll taxes declined by \$4 billion (or 3 percent), primarily because

this year August had two fewer business days. Adjusting for that difference, CBO estimates that withheld receipts would have risen by about \$3 billion, an increase of about 2 percent. Refunds of individual income taxes were about \$1 billion higher than last August's amounts, reflecting tax rebate payments of \$1 billion this August. Receipts from the Federal Reserve were about \$2 billion lower, in part due to the strengthening of the U.S. dollar (which reduces the value of its holdings of foreign-denominated assets) and lower interest rates.

Various programs had higher spending this August as compared with last year, but total outlays were smaller this year because of a calendar-related payment shift in 2007. Because September 3, 2007, was a holiday (Labor Day), about \$26 billion in Social Security payments normally made at the beginning of September were instead made at the end of August. In the absence of that adjustment, spending in August would have grown by about \$14 billion (or 5 percent) from 2007 to 2008. Spending for defense and Social Security grew by about \$4 billion each after adjusting for shifts in the timing of payments. Net interest payments were up by about \$3 billion, and spending by the Federal Deposit Insurance Corporation (FDIC) grew by about \$2 billion.

BUDGET TOTALS THROUGH AUGUST (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	2,282	2,251	-31
Outlays	2,557	2,737	181
Deficit (-)	-274	-486	-212

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$486 billion during the first 11 months of fiscal year 2008, compared with a shortfall of \$274 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 AUGUST
(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change
Individual Income	1,042	1,014	-2.7
Corporate Income	294	251	-14.6
Social Insurance	798	829	3.8
Other	<u>148</u>	<u>158</u>	6.4
Total	2,282	2,251	-1.4

Sources: Department of the Treasury; CBO.

Total receipts for the first 11 months of fiscal year 2008 were about \$31 billion, or 1.4 percent, lower than receipts in the same period in fiscal year 2007, CBO estimates. Individual income taxes showed a decline in receipts of \$28 billion (or 3 percent), primarily due to the payment of tax rebates. Social insurance (payroll tax) receipts grew by \$30 billion, or about 4 percent. Corporate receipts fell by \$43 billion, or about 15 percent, during the period.

Withholding of income and payroll taxes was \$58 billion, or about 3.5 percent, higher than in the same period last year. (The split between the two sources is estimated by the Treasury and will not be known precisely for a number of months.) That is about half the rate of growth of nearly 7 percent recorded in both 2006 and 2007. Those receipts tend to follow the growth of wages and salaries, which have grown more slowly in recent months as a result of the economic slowdown.

Nonwithheld receipts from income and payroll taxes were \$20 billion, or about 5 percent, higher than in the first 11 months of 2007. Those receipts tend to track growth in personal income from sources other than wages and salaries, such as income from partnerships and sole proprietorships, capital gains, interest, dividends, and retirement income. Most of that gain can be attributed to the tax filings for calendar year 2007.

Through August, refunds of individual income taxes were about \$76 billion, or 38 percent, higher than the corresponding amounts last year, mostly because of the tax rebates. A total of about \$93 billion has been paid in rebates through August; about \$62 billion of that amount has been recorded as a reduction in revenues. (The remainder, about \$32 billion, is classified as outlays because those rebates exceeded the taxes owed by individuals for 2007.)

Corporate income tax receipts fell by about \$43 billion, or 15 percent, through the first 11 months of fiscal year 2008. The drop reflects declining profits throughout the

year and, to a lesser extent, enhanced depreciation allowances for 2008 enacted in the Economic Stimulus Act of 2008.

OUTLAYS THROUGH AUGUST
(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	486	543	11.8	10.9
Social Security				
Benefits	556	556	0.0	5.5
Medicare ^b	353	368	4.4	4.7
Medicaid	176	185	4.8	4.8
Other Programs				
and Activities	<u>753</u>	<u>845</u>	12.1	11.4
Subtotal	2,324	2,497	7.4	8.4
Net Interest on the Public Debt	<u>233</u>	<u>241</u>	3.4	3.4
Total	2,557	2,737	7.1	8.0

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.

Outlays through August were 7 percent higher than in the same period last year, CBO estimates. After adjusting for calendar-related shifts (including the August 2007 shift in Social Security payments), the overall growth in outlays was about 8 percent.

Defense spending experienced strong growth through August, rising by almost 11 percent—higher than the roughly 7 percent averaged over the past two years. In contrast, spending for the three major entitlement programs (Social Security, Medicare, and Medicaid) rose by an average of 5 percent after adjusting for shifts in payment dates, somewhat less than the annual growth of about 7 percent averaged over the previous two years.

The broad group of other programs and activities was the fastest-growing category of spending through August. Roughly \$32 billion of that growth was due to rebate payments to individuals whose rebate exceeded their federal income tax liability. The FDIC accounted for an additional \$17 billion of the increase, primarily because of the up-front cost of covering 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.) Outlays for other programs and activities in this category rose by about 5 percent.