



# MONTHLY BUDGET REVIEW

## Fiscal Year 2007

### A Congressional Budget Office Analysis

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

August 6, 2007

The federal budget deficit was about \$158 billion for the first 10 months of fiscal year 2007, CBO estimates, \$81 billion less than the shortfall recorded over the same period in 2006. Revenues are about 7 percent higher than in the same period last year, outpacing the nearly 3 percent growth in outlays. CBO had previously indicated that the deficit for the fiscal year would be between \$150 billion and \$200 billion; the result is likely to be toward the lower end of that range. CBO will issue an updated estimate for the current fiscal year and new 10-year budget projections on August 23.

#### JUNE RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	277	277	*
Outlays	252	249	-2
Surplus	25	27	2

Sources: Department of the Treasury; CBO.

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

The Treasury reported a surplus of \$27 billion in June, about \$2 billion more than CBO projected on the basis of the *Daily Treasury Statements*. The difference occurred largely because outlays were lower than expected for the Departments of Agriculture and State.

#### ESTIMATES FOR JULY (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	160	170	11
Outlays	193	208	15
Deficit (-)	-33	-37	-4

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$37 billion in July, CBO estimates, about \$4 billion more than the deficit incurred in the same month last year.

Receipts in July 2007 were about \$10.5 billion (or 7 percent) higher than they were in July 2006, CBO estimates. Higher withholding for individual income and payroll taxes explains the gains, with an increase of almost \$11 billion (or 8 percent). Net corporate receipts for the small number of companies that make income tax payments in July were lower by about \$1 billion (or 10 percent).

Outlays were \$15 billion (or 8 percent) greater this July than they were last July, CBO estimates. Defense spending accounted for the strongest growth, up by about \$6 billion (or 14 percent), largely in the areas of operations, maintenance, and procurement. Medicare outlays grew by \$4 billion (or 13 percent) after adjusting for timing shifts, while spending for Social Security and net interest on the public debt were up by \$3 billion (or 6 percent) and \$2 billion (or 8 percent) respectively.

#### BUDGET TOTALS THROUGH JULY (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	1,970	2,116	146
Outlays	2,209	2,274	65
Deficit (-)	-240	-158	81

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of about \$158 billion for the first 10 months of 2007, CBO estimates, compared with a deficit of \$240 billion during the comparable period last year. Although revenues are growing more slowly this year than they did in 2006, they have still risen by more than 7 percent. By contrast, outlays are up by less than 3 percent.

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 FY2006	Preliminary FY2007	Percentage Change
Individual Income	867	965	11.4
Corporate Income	261	289	10.5
Social Insurance	702	729	3.8
Other	<u>139</u>	<u>133</u>	-4.7
Total	1,970	2,116	7.4

Sources: Department of the Treasury; CBO.

Total receipts were about \$146 billion higher in the first 10 months of fiscal year 2007 than in the same period last year. Individual income tax receipts rose by about 11 percent during the period and account for almost 70 percent (or \$99 billion) of the increase. Corporate income tax receipts increased by about 10 percent, adding another \$27 billion to total receipts for the 10 months. Social insurance taxes grew by about 4 percent, or \$26 billion. Partially offsetting those gains were decreases in other taxes of about \$7 billion, primarily caused by a decline in receipts from telephone excise taxes; court rulings caused both the elimination of some of those taxes and refunds of some of the past taxes paid.

Withholding for payroll and income taxes was almost \$95 billion (or 7 percent) higher than during the same period in 2006. The growth in withholding is broadly consistent with the gains in wages and salaries reflected in the most recently issued data for the national income and product accounts, which show increases of about 6.4 percent for the first three quarters of the fiscal year.

Nonwithheld income and payroll taxes increased by about \$48 billion (or 13 percent) for the fiscal year to date. These payments, which comprise a mix of individuals' payments of quarterly estimated taxes and final payments made with tax returns, primarily represent payments of tax liabilities for 2006.

The 10 percent increase in corporate receipts is considerably less than their growth over the 2004-2006 period. That outcome is consistent with the slower year-to-year growth of profits shown in the national income and product accounts. Those profits, which grew by more than 30 percent from calendar year 2004 to 2005, rose by less than 15 percent from 2005 to 2006.

**OUTLAYS THROUGH JULY**  
(Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	410	438	6.8	6.8
Social Security				
Benefits	453	479	5.8	5.9
Medicare	314	364	16.1	13.1
Medicaid	150	160	6.2	6.2
Other Programs				
and Activities	<u>688</u>	<u>624</u>	-9.3	-9.2
Subtotal	2,015	2,065	2.5	2.1
Net Interest on the				
Public Debt	<u>194</u>	<u>209</u>	7.6	7.6
Total	2,209	2,274	2.9	2.6

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays. Also adjusts 2006 Social Security outlays for corrections to amounts withheld for taxes on Social Security benefits.

The fastest-growing major category of spending this year is for the government's two largest health care programs, Medicare and Medicaid. In total, outlays for those two programs have risen by 11 percent through July, similar to the growth recorded in 2006. Medicare growth has been about twice that of Medicaid (13.1 percent compared with 6.2 percent), but part of that difference stems from the fact that some costs previously borne by Medicaid are now covered by Medicare's prescription drug program.

Defense spending has increased by just under 7 percent so far this year, about the same as the average rate of growth over the past two years. Outlays for operations in Iraq and Afghanistan and for the war on terrorism have averaged between \$9 billion and \$10 billion per month in 2007, CBO estimates.

Growth in Social Security spending has held steady throughout 2007 at about 6 percent, the same rate recorded in 2006. Outlays for net interest on the public debt were up by 7.6 percent through July, considerably less than the 24 percent growth recorded last year.

Much of the growth in outlays for defense and the major entitlement programs was offset by lower spending for the broad category of "other programs and activities," which fell by 9 percent relative to its level in the first 10 months of 2006. Much of that decline was due to lower spending this year for flood insurance, disaster relief, and agriculture programs, as well as higher receipts from Medicare premiums and auctions of licenses for use of the electromagnetic spectrum.