



MONTHLY BUDGET REVIEW

Fiscal Year 2007

A Congressional Budget Office Analysis

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

September 7, 2007

The federal budget deficit was about \$272 billion in the first 11 months of 2007, CBO estimates, \$33 billion less than the shortfall in the same period last year. CBO anticipates that the government will realize a substantial surplus in September, stemming from quarterly payments of estimated income taxes and lower-than-normal outlays for Social Security and certain other benefits. (Because September 1 fell on a Saturday and September 3 was Labor Day, some benefit payments normally made on those dates were instead made in August.) The September surplus will bring the deficit down to \$158 billion for the fiscal year ending September 30, CBO estimates. Relative to the size of the economy, the deficit for 2007 is expected to equal 1.2 percent of gross domestic product, down from 1.9 percent for 2006.

JULY RESULTS

The Treasury reported a deficit of \$36 billion for July, about \$1 billion less than CBO projected on the basis of the *Daily Treasury Statements*. Revenues were roughly what CBO anticipated, whereas outlays were \$1 billion less than it expected.

ESTIMATES FOR AUGUST (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	154	166	12
Outlays	219	281	62
Deficit (-)	-65	-115	-50

Sources: Department of the Treasury; CBO.

The deficit in August was \$115 billion, CBO estimates, \$50 billion more than the shortfall recorded a year ago. However, without the shift of certain payments from September to August, the deficit would have been only about \$7 billion above last year's level.

Receipts were about \$12 billion (or 8 percent) higher than they were last August. Higher withholding for individual income and payroll taxes, which rose by about \$11 billion, continues to explain most of the gains. Refunds of individual income taxes were about \$5 billion lower than last August's amounts, primarily because an accounting adjustment added \$6 billion to refunds recorded in August 2006. That adjustment corrected earlier errors in accounting for taxes withheld from Social Security benefits and, when combined with a corresponding change in outlays, did not affect the overall budget deficit. Receipts of corporate income taxes were about \$3 billion lower than they were last August. (Corporate receipts in August can be especially volatile because a relatively small number of corporations make quarterly estimated payments in that month.)

Two unusual circumstances contributed significantly to the \$62 billion growth in outlays this August. First, because the first two days of September fell on a weekend and September 3 was a holiday (Labor Day), about \$43 billion in payments normally made at the beginning of September—including \$25 billion in Social Security benefits—were instead made at the end of August. Second, outlays in August 2006 were reduced by about \$6 billion as part of the accounting correction discussed above. In the absence of those calendar and accounting adjustments, spending in August would have grown by about 6 percent from 2006 to 2007.

BUDGET TOTALS THROUGH AUGUST (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	2,123	2,282	158
Outlays	2,428	2,554	126
Deficit (-)	-304	-272	33

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$272 billion during the first 11 months of fiscal year 2007, compared with a shortfall of \$304 billion recorded in the same period last year.

RECEIPTS THROUGH AUGUST (Billions of dollars)

Major Source	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	933	1,043	11.8
Corporate Income	268	293	9.3
Social Insurance	768	798	3.9
Other	154	148	-4.1
Total	2,123	2,282	7.5

Sources: Department of the Treasury; CBO.

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.

Total receipts for the first 11 months of fiscal year 2007 were about \$158 billion, or 7.5 percent, higher than receipts in the same period in fiscal year 2006, CBO estimates. Individual income taxes showed the largest gain—\$110 billion, or 12 percent—above 2006 levels. Social insurance (payroll tax) receipts grew by about \$30 billion, or about 4 percent.

Withholding for income and payroll taxes was \$105 billion, or 7 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.) Those receipts tend to follow the growth of wages and salaries in the economy.

Nonwithheld receipts from income and payroll taxes were \$48 billion, or about 13 percent, higher than in the first 11 months of 2006. 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. Through August, refunds of individual income taxes were about \$11 billion, or 6 percent, higher than the corresponding amounts last year.

Corporate income tax receipts rose by about \$25 billion, or 9 percent, through the first 11 months of fiscal year 2007. Growth in corporate receipts was much higher earlier in the year and during the previous three years. In fact, in July and August, those receipts were lower than the amounts collected in the same months of 2006.

OUTLAYS THROUGH AUGUST (Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	454	486	7.0	6.0
Social Security				
Benefits	499	553	10.9	5.9
Medicare	352	413	17.5	11.9
Medicaid	167	176	5.5	5.5
Other Programs and Activities	<u>740</u>	<u>693</u>	-6.4	-7.5
Subtotal	2,212	2,321	4.9	2.4
Net Interest on the Public Debt	<u>216</u>	<u>233</u>	7.9	7.6
Total	2,428	2,554	5.2	2.8

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.

In CBO's estimation, outlays through August were 5 percent higher than in the same period last year. After adjusting for calendar-related shifts and the effects of the August 2006 correction to the outlays recorded for Social

Security benefits, the overall growth of outlays was less than 3 percent.

Health care programs were the fastest-growing categories of spending through August. Outlays for Medicare and Medicaid combined have risen by 10 percent (on an adjusted basis) relative to the same period last year. The rate of growth for Medicare has been roughly double that for Medicaid (11.9 percent compared with 5.5 percent), partly because some costs previously covered by Medicaid are now paid by Medicare's prescription drug program.

The government's interest costs have grown by almost 8 percent this year because of rising debt and higher interest rates. Offsetting some of the growth in other areas of the budget are lower outlays for the broad category of other programs and activities. Much of that decline is related to substantial spending in 2006 by the Federal Emergency Management Agency for flood insurance and disaster relief.

PROJECTIONS FOR FISCAL YEAR 2007 (Billions of dollars)

	CBO, March 2007	CBO, August 2007	OMB's <i>Mid-Session Review</i>
Receipts	2,542	2,577	2,574
Outlays	2,719	2,735	2,779
Deficit (-)	-177	-158	-205

Sources: CBO; Office of Management and Budget.

Both CBO and the Office of Management and Budget (OMB) have issued updated estimates of the deficit for 2007 to reflect legislative actions, economic trends, and other developments. CBO now estimates that the deficit will total \$158 billion, \$19 billion less than the deficit that the agency projected in March. CBO anticipates that revenues and outlays will exceed its March estimates by \$35 billion and \$16 billion, respectively. Higher receipts from individual income taxes and additional spending resulting from supplemental appropriations enacted in May account for much of those differences.

In July, OMB estimated that the 2007 deficit would total \$205 billion, \$47 billion more than the deficit estimated by CBO. The two agencies anticipate a similar amount of revenues, but CBO estimates that outlays will be \$44 billion lower than the amount OMB projects. CBO's estimate of discretionary spending is \$30 billion below OMB's forecast; much of the difference is attributable to defense and international assistance programs. CBO also expects that outlays for Medicaid and flood insurance will come in below the Administration's estimates. For more details on CBO's projections, see *The Budget and Economic Outlook: An Update*, available at www.cbo.gov.