



# MONTHLY BUDGET REVIEW

## Fiscal Year 2004

### A Congressional Budget Office Analysis

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

August 5, 2004

CBO now projects a budget deficit of \$422 billion for fiscal year 2004, about \$56 billion less than CBO projected in March. Nearly all of that change results from higher-than-anticipated revenues. In dollar terms, a deficit of \$422 billion would be the largest in U.S. history; however, at 3.6 percent of gross domestic product, it would be well below the peak levels of the 1980s relative to the size of the economy. (CBO will issue its revised 10-year projections on September 7.) In the first 10 months of this fiscal year, the federal government ran a deficit of about \$392 billion, CBO estimates, \$68 billion more than in the same period last year.

#### JUNE RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	215	214	-1
Outlays	198	195	-3
Surplus	16	19	3

Sources: Department of the Treasury; CBO.

The Treasury reported a surplus of \$19 billion in June, about \$3 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were \$3 billion smaller than expected; about half of that shortfall resulted from an accounting adjustment that was made retroactive to December instead of being recorded in June, as CBO had anticipated. Revenues were about \$1 billion less than CBO had estimated.

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

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	124	134	11
Outlays	178	200	22
Deficit (-)	-54	-66	-11

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$66 billion in July, CBO estimates, about \$11 billion more than the deficit incurred in the same month last year.

Revenues exceeded those of last July by about \$11 billion, or 9 percent. Around 40 percent of that difference reflects the fact that revenues in July 2003 were reduced by about \$4.5 billion because the Treasury Department mailed refund checks as advance payments for the increase in the child credit enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). This July, net receipts of corporate income taxes continued to show strength, exceeding last July's amount by almost \$3 billion. Withholding for income and payroll taxes rose

by about \$4 billion, or 3 percent, compared with the same month last year, even though July had one fewer business day in 2004 than in 2003.

Outlays in July were \$22 billion higher this year than last year, but about half of that difference resulted from shifts in the timing of certain payments. Outlays in July 2004 were unusually high because the first day of August fell on a weekend. As a result, roughly \$11 billion in payments that would ordinarily have been made on August 1 were instead made at the end of July. Excluding the effects of that payment shift, outlays were about \$11 billion higher than in July 2003, an increase of 6 percent. Most of the additional spending was for defense, net interest on the public debt, and Social Security.

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

	October-July FY2003	October-July FY2004	Estimated Change
Receipts	1,476	1,535	58
Outlays	1,800	1,927	127
Deficit (-)	-324	-392	-68

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$392 billion for the first 10 months of fiscal year 2004, about \$68 billion larger than the deficit for the same period last year.

#### RECEIPTS THROUGH JULY (Billions of dollars)

Major Source	October-July FY2003	October-July FY2004	Percentage Change
Individual Income	659	657	-0.3
Corporate Income	100	146	45.5
Social Insurance	598	612	2.2
Other	119	120	1.2
Total	1,476	1,535	4.0

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.

Revenues in the first 10 months of fiscal year 2004 surpassed those in the same period last year by about \$58 billion, or 4 percent. Corporate tax receipts accounted for about \$45 billion, or almost 80 percent, of that increase. Withholding for income and payroll taxes was also higher—by about \$15 billion, or 1 percent. Replenishment of the state unemployment insurance trust funds accounted for another \$5 billion of the increase in receipts so far this year.

Notable exceptions to the general growth in revenues in 2004 are nonwithheld income and payroll taxes, which declined by about \$5 billion compared with the same period last year, and refunds of individual income taxes, which increased by about \$5 billion. Those declines in net receipts resulted from the JGTRRA tax cuts. Nonwithheld receipts (net of refunds) have actually been greater than expected.

### OUTLAYS THROUGH JULY (Billions of dollars)

Major Category	October-July		Percentage Change	
	FY2003	FY2004	Actual	Adjusted <sup>a</sup>
Defense—Military	318	364	14.3	13.3
Social Security				
Benefits	388	405	4.4	4.4
Medicare	230	250	8.9	7.5
Medicaid	133	147	10.7	10.7
Other Programs and Activities	<u>596</u>	<u>623</u>	4.4	3.6
Subtotal	1,665	1,789	7.4	6.7
Net Interest on the Public Debt	<u>135</u>	<u>138</u>	2.2	2.2
Total	1,800	1,927	7.0	6.4

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays.

Total federal outlays grew by about 7 percent in the first 10 months of fiscal year 2004, CBO estimates, or by about 6.4 percent excluding the effects of shifts in payment dates. Defense spending had the fastest growth of all major categories of outlays: 13.3 percent compared with the same period last year. Medicaid spending also grew rapidly—by almost 11 percent. That rate of growth should moderate somewhat now that a temporary increase in the federal matching rate has expired.

### BASELINE PROJECTIONS FOR FISCAL YEAR 2004 (Billions of dollars)

	CBO, March 2004	CBO, August 2004	OMB's <i>Mid-Session Review</i>
Receipts	1,817	1,871	1,875
Outlays	2,295	2,293	2,319
Deficit (-)	-477	-422	-444

Sources: Office of Management and Budget; CBO.

CBO recently updated its estimate of the deficit for 2004 to reflect legislative actions, economic developments, and other new information. It now projects that the deficit for the year will total \$422 billion—\$56 billion less than CBO estimated in March.

Virtually all of that change stems from increases in revenue projections. CBO now anticipates that receipts will total about \$1,871 billion in 2004, \$54 billion more than it projected in March. About \$30 billion of that increase reflects the fact that individual taxpayers received smaller refunds than expected, and made larger final payments than anticipated, when they filed their 2003 income tax returns this year. (The causes of that strength cannot be fully understood until information from tax returns becomes available next year.) In addition, CBO raised its earlier projection of 2004 corporate income tax receipts by about \$20 billion because corporate profits have grown strongly so far this year.

CBO also made a number of revisions to its outlay projections for 2004, but the net change is small—a downward adjustment of about \$2 billion. Outlays for unemployment benefits, agriculture, transportation, and reconstruction activities in Iraq are expected to be lower than CBO previously estimated, but outlays for student loans, payments from the September 11th Victim Compensation Fund, refundable tax credits, and Medicaid are likely to be higher.

On July 30, the Office of Management and Budget (OMB) projected a baseline deficit of \$444 billion for 2004—\$22 billion more than CBO now estimates. (Including the effect of proposed legislation raises OMB's estimate of the deficit to \$445 billion.) Most of the difference between the two agencies' deficit projections occurs because CBO expects \$26 billion less in spending this year than the Administration does. The largest differences are for the Departments of Health and Human Services (CBO's estimate is \$8 billion lower than OMB's), Transportation (\$5 billion lower), Homeland Security (\$4 billion lower), and Agriculture (\$4 billion lower). In addition, CBO's revenue projection is about \$4 billion lower than OMB's.