



MONTHLY BUDGET REVIEW

Fiscal Year 2007

A Congressional Budget Office Analysis

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

July 6, 2007

The federal government incurred a deficit of \$123 billion for the first nine months of fiscal year 2007, CBO estimates, \$83 billion less than the shortfall recorded during the same period in 2006. Revenues have risen by more than 7 percent, whereas outlays have grown by less than 3 percent. Both rates of growth are noticeably smaller than the rates of increase in fiscal years 2005 and 2006, which averaged about 13 percent for revenues and close to 8 percent for outlays.

MAY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	164	164	*
Outlays	236	232	-4
Deficit (-)	-71	-68	3

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$68 billion in May, about \$3 billion less 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 Defense, Homeland Security, and Labor, and for the Postal Service.

ESTIMATES FOR JUNE (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	264	277	12
Outlays	244	252	8
Surplus	21	25	4

Sources: Department of the Treasury; CBO.

Quarterly payments of estimated individual income taxes and corporate income taxes typically result in budget surpluses in June. The surplus this year was about \$25 billion, CBO estimates, \$4 billion more than the corresponding figure in the same month last year.

CBO estimates that receipts were about \$12 billion (or 5 percent) higher this June than they were in June 2006, a smaller rate of increase than the 8 percent realized in the first eight months of the fiscal year. Individual income

and payroll taxes accounted for almost all of that increase. Nonwithheld payments of individual income and payroll taxes grew by over \$7 billion (or 13 percent), resulting primarily from the quarterly payment of estimated individual income and payroll taxes due on June 15. Withholding for individual income and payroll taxes gained \$4 billion (or 3 percent). Net corporate receipts were about \$2 billion (or 3 percent) higher than receipts last June. That increase stemmed primarily from unusually high payments made on June 1, which probably represent back taxes for a prior year.

Outlays were \$8 billion (or 3 percent) greater this June than they were last June, CBO estimates. Social Security spending grew by about \$2 billion (or 5 percent); outlays for Medicare and the Defense Department were up by about \$1 billion each (or 3 percent) after adjusting for shifts in payment dates. Those increases were partially offset by a decline in Medicaid spending in June (though Medicaid outlays for the year to date are still about 6 percent above those in the same period last year).

BUDGET TOTALS THROUGH JUNE (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	1,810	1,945	136
Outlays	2,016	2,069	53
Deficit (-)	-206	-123	83

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government incurred a deficit of \$123 billion for the first three quarters of fiscal year 2007, compared with a shortfall of \$206 billion recorded for the same period last year. Receipts were about \$136 billion (or 7.5 percent) higher than in the same nine months of last year, and outlays were about \$53 billion (or 2.6 percent) higher.

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 JUNE
(Billions of dollars)

Major Source	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	794	884	11.4
Corporate Income	251	280	11.6
Social Insurance	639	663	3.6
Other	<u>125</u>	<u>118</u>	-5.7
Total	1,810	1,945	7.5

Sources: Department of the Treasury; CBO.

About 85 percent of the revenue gain this year is attributable to increased receipts of individual income and payroll taxes, which combined grew by almost 8 percent. Withholding accounts for most of the increases, up by \$83 billion (or 7 percent). Nonwithheld tax receipts also showed significant gains, up by \$48 billion (or 13 percent); those receipts are a mixture of estimated payments for calendar years 2006 and 2007, as well as final payments for calendar year 2006. Partially offsetting the gains in individual income and payroll tax collections were increases in refunds of individual income taxes of about \$15 billion (or 8 percent). The growth in receipts of income and payroll taxes combined has slowed in 2007, from the average annual rate of 10.5 percent experienced over the past two fiscal years.

Growth in corporate income taxes has slowed substantially throughout the year—from 22 percent in the first quarter to 11 percent in the second quarter and to about 4 percent in the past three months, relative to receipts in the corresponding period last year. During the 2004-2006 period, those receipts increased at an average annual rate of nearly 40 percent.

Offsetting the increases in the three primary sources of revenues is a decline of about \$8 billion (or 14 percent) in excise taxes. That drop-off can be attributed largely to a decrease in receipts from telephone excise taxes, the result of court rulings that caused both a permanent reduction in the tax and refunds of some of the past taxes paid.

OUTLAYS THROUGH JUNE
(Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	375	397	5.9	5.9
Social Security				
Benefits	406	430	5.8	5.9
Medicare	291	334	15.1	11.9
Medicaid	135	143	6.0	6.0
Other Programs and Activities	<u>637</u>	<u>579</u>	-9.1	-9.1
Subtotal	1,844	1,884	2.1	1.6
Net Interest on the Public Debt	<u>172</u>	<u>185</u>	7.6	7.6
Total	2,016	2,069	2.6	2.1

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.

Adjusted for shifts in the timing of certain payments, outlays through June were 2 percent higher than spending in the same period last year, CBO estimates. That rate of growth is well below last year's 8.6 percent increase, primarily because net outlays for the broad category of "other programs and activities" were 9 percent lower than in the first nine months of 2006. By contrast, outlays for the five major programs or categories that account for more than two-thirds of the budget rose by 8 percent through June, compared with 9 percent in fiscal year 2006.

Defense outlays increased by 6 percent over the nine-month period, about the same rate of growth experienced in fiscal year 2006. That spending was up by 10 percent in the first three months of the year but grew by an average of about 4 percent during the second and third quarters. The differential was due largely to outlays for procurement and research and development, which surged by 19 percent in the first quarter but rose by about 6 percent over the subsequent six-month period.

Total spending for Medicare and Medicaid increased by 10 percent (on an adjusted basis) relative to outlays in the first nine months of 2006, slightly below the gain of 11 percent in fiscal year 2006. Medicare and Medicaid each grew by about 7.5 percent in the third quarter.

The 9 percent decline in net outlays for other programs and activities primarily reflects lower spending for flood insurance, disaster assistance, and agriculture programs, as well as higher receipts from Medicare premiums and from auctions of licenses to use the electromagnetic spectrum.