



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

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

October 7, 2008

CBO estimates that the federal budget deficit was about \$438 billion in fiscal year 2008, \$276 billion more than the shortfall recorded in 2007. Relative to the size of the economy, the 2008 deficit was equal to 3.1 percent of gross domestic product, compared with a deficit of 1.2 percent in 2007 and an average deficit of 2.6 percent over the 2002-2006 period. CBO's deficit estimate is based on data from the *Daily Treasury Statements* and CBO's projections; the Treasury Department will report the actual deficit for fiscal year 2008 later this month.

AUGUST RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	157	157	*
Outlays	272	269	-3
Deficit (-)	-115	-112	3

Sources: Department of the Treasury; CBO.

Note: * = between zero and \$500 million

The Treasury reported a deficit of \$112 billion in August. That amount is about \$3 billion less than CBO had estimated on the basis of the *Daily Treasury Statements*, primarily because spending was lower than expected.

ESTIMATES FOR SEPTEMBER (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	285	272	-13
Outlays	172	227	54
Surplus	113	45	-68

Sources: Department of the Treasury; CBO.

The budget surplus was about \$45 billion in September, CBO estimates, \$68 billion less than the surplus recorded in the same month last year. The government typically runs a surplus in September because of the influx of revenues from quarterly tax payments.

CBO estimates that receipts in September were \$13 billion (or 5 percent) lower than in September 2007, primarily because of lower net corporate income tax receipts. Those receipts fell by about \$22 billion (or almost 30 percent) from their level in September 2007. That is the largest decline for a month that encompasses major estimated payments since the downturn in corporate receipts began last year, indicating further weakening in taxable corporate profits. That decline was partially offset

by higher withheld receipts for individual income and payroll taxes, which rose by about \$12 billion (or 10 percent) relative to collections in September 2007; roughly two-thirds of the increase came from two additional business days in September 2008. Nonwithheld receipts of individual income and payroll taxes, mainly for quarterly estimated payments, fell by about \$2 billion (or 2 percent).

Total outlays were around \$54 billion (or 32 percent) higher in September 2008 than in September 2007 because of shifts in the timing of certain payments and increases in program spending. About half of the increase was due to a calendar-related shift in Social Security payments in 2007. Because Labor Day 2007 fell on September 3, nearly \$26 billion in Social Security payments were shifted to the end of August rather than the beginning of September. Thus, after adjusting for that shift, outlays in September were about \$29 billion (or 14 percent) higher in 2008 than in 2007. Spending for defense was up by about \$8 billion compared with the same month last year. Medicare outlays grew by about \$4 billion (adjusted for timing shifts), and unemployment benefits went up by about \$3 billion. Other federal spending rose by about \$14 billion, including increases in outlays for Medicaid, the Federal Deposit Insurance Corporation (FDIC), international assistance, and the Department of Agriculture.

BUDGET TOTALS THROUGH SEPTEMBER (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	2,568	2,523	-44
Outlays	2,729	2,962	232
Deficit (-)	-162	-438	-276

Sources: Department of the Treasury; CBO.

CBO estimates that the federal deficit was about \$438 billion in 2008, up from \$162 billion in 2007. That figure is about \$31 billion higher than the \$407 billion deficit CBO projected this summer, primarily due to lower-than-projected revenues and higher-than-expected spending for defense and deposit insurance.

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 SEPTEMBER
(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Individual Income	1,163	1,145	-1.6	
Corporate Income	370	305	-17.6	
Social Insurance	870	900	3.5	
Other	<u>164</u>	<u>173</u>	5.4	
Total	2,568	2,523	-1.7	

Sources: Department of the Treasury; CBO.

CBO estimates that receipts in 2008 were about \$44 billion (or 1.7 percent) below receipts in 2007. That year-over-year decline would be the first since 2003; it follows increases of 7 percent in 2007, 12 percent in 2006, and 15 percent in 2005. CBO estimates that revenues fell from 18.8 percent of GDP in 2007 to about 17.7 percent of GDP in 2008.

Corporate income taxes declined the most, falling by about \$65 billion (18 percent). That decline reflects weakness in corporate earnings throughout the fiscal year and, to a lesser extent, enhanced tax depreciation rules enacted earlier this year that apply to equipment purchased in 2008. The decline in corporate receipts followed a rapid run-up from 2003 to 2006, when receipts rose by nearly 40 percent a year.

Individual income tax receipts, the largest tax source, declined by about \$19 billion (or 1.6 percent) relative to receipts in fiscal year 2007. An increase in refunds of about \$77 billion—of which \$62 billion represents rebate payments that began in late April—outweighed an increase in income tax payments. Receipts of social insurance (payroll) taxes, the second largest source, rose by about \$31 billion (or 3.5 percent). Other receipts increased by about \$9 billion (or 5.4 percent).

The change in receipts from individual income and social insurance taxes can also be divided into the portions withheld by employers and payments made directly by individuals. Both grew by about 4 percent in 2008, more slowly than in the past three fiscal years. The change in withheld taxes reflects slowing growth in wages and salaries. Nonwithheld receipts experienced double-digit growth in each of the three years through 2007, and the sharp decline in the rate of increase probably reflects a slowing of growth in income from sources other than wages and salaries.

Outlays ended the year about 8.5 percent above 2007 levels, CBO estimates. After adjusting for calendar-related shifts in the timing of certain payments, the rate of growth was 8.3 percent. Spending increased from about 20.0 percent of GDP in fiscal year 2007 to 20.8 percent in 2008, primarily because of higher expenditures for national defense, rebate payments, and deposit insurance.

OUTLAYS THROUGH SEPTEMBER
(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	529	593	12.2	11.3
Social Security				
Benefits	577	607	5.2	5.2
Medicare ^b	374	389	4.0	5.3
Medicaid	191	202	5.8	5.8
Other Programs and Activities	<u>807</u>	<u>911</u>	12.9	12.1
Subtotal	2,477	2,702	9.1	8.9
Net Interest on the Public Debt	<u>252</u>	<u>260</u>	3.0	3.0
Total	2,729	2,962	8.5	8.3

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.

The broad category of other programs and activities experienced rapid growth in 2008, increasing by 12 percent on an adjusted basis. Two activities accounted for more than half of that increase: stimulus rebates paid to individuals whose rebates exceeded their income tax liability (\$32 billion) and FDIC's payments to cover insured deposits at failed financial institutions (\$23 billion, which should be offset by future proceeds from the liquidation of assets and insurance premiums.) The increase in outlays was tempered by higher receipts from auctions of licenses for use of the electromagnetic spectrum and from Outer Continental Shelf leases, which together rose by \$17 billion in 2008. Spending for the remaining activities in this category was about 7 percent higher than in 2007, almost double the annual rate of growth averaged over the past three years.

The 11 percent increase in defense spending was the largest since 2004, well above the 7 percent average for the past three years. That boost was mostly due to higher spending for operations, maintenance, and procurement activities, which rose by an average of 14 percent in 2008 versus 8 percent last year.

In contrast, Medicare outlays rose more slowly than in prior years—outlays were up by 5 percent in 2008, about half the annual rate of growth averaged over the past three years—largely because of lower payments to prescription drug providers to correct for overpayments made in 2006. Spending for Medicare's hospital and supplemental medical insurance programs increased by 8 percent, close to the 9 percent annual gains experienced over the past three years.