



MONTHLY BUDGET REVIEW

Fiscal Year 2007

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for February and the *Daily Treasury Statements* for March

April 5, 2007

The federal government recorded a deficit of \$257 billion for the first six months of fiscal year 2007, CBO estimates, \$46 billion less than the shortfall incurred during the same period in 2006. Revenues have risen by 8 percent in the first half of the year, whereas outlays have grown by about 3 percent.

FEBRUARY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	120	120	*
Outlays	243	240	-3
Deficit (-)	-123	-120	3

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$120 billion for the month of February. That sum is about \$3 billion less than CBO had estimated on the basis of the *Daily Treasury Statements*, primarily because spending in February was lower than expected.

ESTIMATES FOR MARCH (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	165	166	2
Outlays	250	261	11
Deficit (-)	-85	-95	-10

Sources: Department of the Treasury; CBO.

The deficit in March was \$95 billion, CBO estimates, \$10 billion more than the deficit in the same month last year. Receipts totaled about \$166 billion in March, CBO estimates, about \$2 billion (or 1 percent) higher than receipts in March 2006. Withholding for income and payroll taxes showed the largest gain—an increase of over \$5 billion, or 3.5 percent. CBO estimates that withholding growth would have been over 6 percent this March if calendar effects were considered (March 2007 contained one less Wednesday, usually one of the stronger days for withheld receipts). Net corporate receipts rose

by almost \$5 billion, or 13 percent; they generally represent the final corporate tax payments for 2006. Higher refunds of individual income taxes (up by \$4 billion, or 8 percent) and a decline of \$3 billion in other revenues offset some of the gains.

Outlays were \$11 billion (or 4 percent) higher this March than in the same month last year, but a number of unusual circumstances contributed to that increase. About \$3 billion of that increase was due to the annual payments to Egypt and Israel for military aid—in fiscal year 2006, those payments were made in December. In addition, revisions to the estimated subsidy costs of loans and loan guarantees made in previous years added about \$3 billion to spending growth in March. Last year, such adjustments (for the Export-Import Bank, the Department of Veterans Affairs, and the Small Business Administration) lowered outlays by almost \$4 billion. In March of this year, such subsidy adjustments were smaller, lowering outlays by about \$1 billion for the Department of Veterans Affairs.

Spending for Social Security and net interest on the public debt each increased by \$2 billion relative to their levels last March; Medicaid outlays grew by about \$1.5 billion.

BUDGET TOTALS THROUGH MARCH (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	1,038	1,121	83
Outlays	1,341	1,378	37
Deficit (-)	-303	-257	46

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$257 billion for the first half of fiscal year 2007, CBO estimates, compared with a shortfall of \$303 billion during the same period last year. Outlays have grown by \$37 billion, but revenues grew more, rising by \$83 billion.

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 MARCH
(Billions of dollars)

Major Source	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	433	482	11.4
Corporate Income	130	154	18.5
Social Insurance	394	409	3.9
Other	<u>81</u>	<u>75</u>	-7.3
Total	1,038	1,121	8.0

Sources: Department of the Treasury; CBO.

In the first half of the fiscal year, receipts rose by about 8 percent, compared with their level in the first half of 2006. About \$65 billion of the \$83 billion increase—almost 80 percent—resulted from higher net receipts of individual income and payroll taxes; most of that amount (about \$58 billion) came from higher withheld taxes on compensation paid to employees. The estimated 7 percent growth in withholding during the first six months of this fiscal year was slightly higher than the increase in the same period last year, which suggests continued strength in wage growth.

About \$17 billion of the gains in receipts resulted from higher collections of nonwithheld income and payroll taxes, which generally represent payments of estimated taxes by individuals. That 18 percent growth in nonwithheld receipts comes on the heels of 19 percent growth last year and probably resulted primarily from a significant increase in nonwage income.

Higher refunds of individual income taxes (up by about \$10 billion) offset some of those gains. By this point in the filing season, about two-thirds of such refunds would typically have been paid.

Net corporate income taxes continue to show gains, although the growth is not as strong as in recent years. Those receipts have risen by about \$24 billion, or 18.5 percent, so far this year. By this point in the fiscal year, slightly more than one-third of net corporate payments have usually been made. The payments to date are largely for tax year 2006 and, therefore, provide little indication about current earnings.

The next several weeks will provide a clearer picture of the revenue outlook for this fiscal year. Nonwithheld payments are typically very high in April and early May, when the Treasury processes individuals' final payments of 2006 taxes and the first quarterly payments of estimated taxes for the current tax year.

OUTLAYS THROUGH MARCH
(Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	251	268	7.0	7.0
Social Security				
Benefits	268	283	5.7	5.9
Medicare	187	224	20.2	14.2
Medicaid	90	94	5.2	5.2
Other Programs				
and Activities	<u>435</u>	<u>392</u>	-9.8	-9.7
Subtotal	1,230	1,262	2.6	1.8
Net Interest on the				
Public Debt	<u>111</u>	<u>116</u>	4.4	4.4
Total	1,341	1,378	2.8	2.0

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 calendar-related shifts in the timing of certain payments, outlays through March were 2 percent higher than in the same period last year, CBO estimates. That rate of growth is well below the 7 percent gains averaged over the past five fiscal years, primarily because spending for the broad category of “other programs and activities” fell by 10 percent, or \$42 billion, relative to its level in the first six 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.

Outlays through March for all other categories of spending were up by roughly 8 percent. Total spending for Medicare and Medicaid rose by 11 percent through March (on an adjusted basis). Some of that growth was due to the fact that the new Medicare prescription drug benefit, which has cost an average of \$4.1 billion a month so far this year, did not take effect until the second quarter of fiscal year 2006. A portion of Medicare's higher spending was offset by a reduction in Medicaid outlays because some costs previously paid by Medicaid are covered by the new drug benefit.

Defense outlays through March were 7 percent higher than in the first six months of 2006, driven largely by double-digit growth in procurement and research and development expenditures. Spending for military personnel increased by about 3 percent relative to outlays in the same period last year.