



MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

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

July 9, 2003

In the first three quarters of fiscal year 2003, the federal government ran a deficit of about \$271 billion, CBO estimates, significantly more than the \$116 billion shortfall recorded over the same period last year. Receipts were about \$50 billion lower than at the same time last year. After peaking in 2001, revenues in the October-June period have fallen below the amount collected in 1999. Outlays were about \$105 billion, or almost 7 percent, higher than during the same period last year. CBO projects that the deficit for fiscal year 2003 will exceed \$400 billion.

MAY RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	102	103	1
Outlays	192	194	2
Deficit (-)	-90	-90	-1

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$90 billion in May, about \$1 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Revenues were higher than CBO had anticipated, primarily as a result of increased individual income taxes. Outlays were about \$2 billion more than CBO had estimated, largely as a result of higher-than-expected spending for the Department of Education, the Department of Homeland Security, and international assistance.

ESTIMATES FOR JUNE (In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	183	192	9
Outlays	154	171	18
Surplus	29	21	-8

SOURCES: Department of the Treasury; CBO.

The surplus in June was about \$21 billion, CBO estimates—\$8 billion less than the surplus recorded in the same month last year. Outlays were about 12 percent above the June 2002 levels, and revenues were 5 percent higher.

Receipts were about \$9 billion higher this June than they were last June, CBO estimates. Receipts from corporate income taxes were \$6 billion higher, as firms' second quarterly payments of income taxes boosted those receipts above last June's depressed level. In addition, receipts from individual income taxes were

\$4 billion higher than in June of last year. That net rise stemmed from an increase in withheld taxes of \$8 billion and a decrease in nonwithheld payments of \$4 billion. Withheld taxes were higher in part because of an extra business day but also because of growth in the economy since last June. The tax cuts enacted in May as a part of the Jobs and Growth Tax Relief Reconciliation Act of 2003 began shrinking income tax receipts in June, although the precise magnitude of the decline is unclear. Many employers were able to reduce their employees' withholding in June, although they were not required to implement the changes until July 1. In addition, corporations and individuals may have reduced their quarterly estimated payments of income taxes to reflect elements of the tax cut.

Outlays were \$18 billion greater this June than they were last June, CBO estimates. Over one-third of that growth resulted from higher defense spending. Medicare, Medicaid, and Social Security accounted for much of the remaining increase. The June 2003 outlay figure also includes \$1.5 billion to reflect the Administration's revised estimate of the subsidy costs for mortgage guarantees made by the Federal Housing Administration.

BUDGET TOTALS THROUGH JUNE (In billions of dollars)

	October-June		Estimated Change
	FY2002	FY2003	
Receipts	1,401	1,352	-50
Outlays	1,518	1,623	105
Deficit (-)	-116	-271	-155

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government will record a deficit of \$271 billion for the first three quarters of fiscal year 2003—more than double the shortfall that occurred during the same period last year. Receipts from October through June of this year were about \$50 billion (or 3.6 percent) lower than receipts for the same nine months last year, and outlays were about \$105 billion (or 6.9 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
(In billions of dollars)

Major Source	October-June		Percentage Change
	FY2002	FY2003	
Individual Income	643	603	-6.3
Corporate Income	116	98	-15.2
Social Insurance	535	545	1.7
Other	<u>107</u>	<u>106</u>	-0.8
Total	1,401	1,352	-3.6

SOURCES: Department of the Treasury; CBO.

Individual income taxes accounted for most of the decline in receipts—a drop of about \$40 billion, or 6.3 percent. About \$31 billion of that decline has occurred in nonwithheld receipts, mostly because of weaker liabilities for tax year 2002 that were paid either in final settlements due on April 15 or, to a lesser extent, in estimated payments made in January. Withheld income tax receipts, furthermore, were \$8 billion lower in the October-June period than during the same period in 2002. CBO estimates that without the tax cuts enacted since 2001, withholding would have risen slightly.

Receipts from corporate income taxes in the first three quarters of fiscal year 2003 have fallen by \$18 billion, compared with the same period in 2002. But last year, receipts were boosted by about \$23 billion because of a shift in payment dates enacted in 2001. The effects on corporate taxes of other recent changes in law, most notably the bonus depreciation provisions enacted in March 2002 and then enhanced this year, cannot be known precisely. CBO estimates that if the effects of tax legislation enacted since 2001 (including the \$23 billion payment shift last year) were removed, corporate receipts so far this year would have risen.

Social insurance receipts, which have not been directly affected by recent tax cuts and which largely follow wages and salaries, have risen by \$9 billion, or 1.7 percent, over the first nine months of fiscal year 2003. Miscellaneous other receipts have fallen by \$1 billion. Declines in estate and gift tax receipts of \$3 billion have been nearly offset by increases in customs duties and other miscellaneous fees and fines.

OUTLAYS THROUGH JUNE
(In billions of dollars)

Major Category	October-June		Percentage Change	
	FY2002	FY2003	Actual	Adjusted ^a
Defense—Military	245	284	16.1	14.9
Social Security				
Benefits	334	348	4.2	4.2
Medicare	189	206	9.0	7.2
Medicaid	110	118	7.3	7.3
Unemployment				
Insurance	40	44	11.1	11.1
Other Programs				
and Activities	<u>464</u>	<u>496</u>	7.0	7.6
Subtotal	1,383	1,498	8.3	8.1
Net Interest on the				
Public Debt	<u>135</u>	<u>125</u>	-7.3	-7.3
Total	1,518	1,623	6.9	6.7

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, legislative action, or changes in the accounting for certain health payments of the Department of Defense.

Excluding outlays for net interest, which are lower than they were last year, spending through June was \$115 billion, or about 8 percent, above the comparable level in 2002. Spending growth for categories other than net interest averaged about 3 percent a year from 1992 to 1999 but has accelerated noticeably since then. Compared with last year at this time, defense spending has grown by almost 15 percent, whereas nondefense spending is up by less than 7 percent.

Outlays rose more in the third quarter of the fiscal year (7.6 percent) than they did in the first half of the year (6.3 percent). Defense spending surged in the third quarter, averaging \$34 billion a month compared with an average of \$30 billion in the previous six months of 2003. Adjusted for changes in accounting for health care costs, average monthly outlays for military personnel were about 16 percent higher in the third quarter than in the preceding six months. Similarly adjusted, defense outlays in the third quarter were about 21 percent higher than in the same period last year. The rate of increase was only 11.7 percent in the first half of 2003.

Spending for nondefense discretionary programs also picked up in the third quarter, in part because the final appropriations for 2003 were signed into law in late February.