



# MONTHLY BUDGET REVIEW

## Fiscal Year 2009

### A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for November and the *Daily Treasury Statements* for December

January 8, 2009

CBO estimates that the Treasury Department will report a federal budget deficit of \$485 billion for the first quarter of fiscal year 2009, \$378 billion higher than in the same period last year. That figure includes estimated net outlays of \$245 billion for the Troubled Asset Relief Program (TARP). Although the Treasury is recording most spending for TARP on a cash basis, CBO believes that the budget should record the program's equity investments on a net present value basis adjusted for market risk, as specified in the Emergency Economic Stabilization Act of 2008. Using that approach, CBO estimates that outlays of \$64 billion should be recorded for TARP through December, resulting in a deficit of \$303 billion for the first quarter of fiscal year 2009. The discussion below focuses on the budget figures as they are being reported by the Treasury. CBO's most recent budget projections for fiscal year 2009 and subsequent years can be found in the *Budget and Economic Outlook: 2009 to 2019*, which was released on January 7, 2009.

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

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	277	238	-39
Outlays	229	321	92
Surplus/Deficit (-)	48	-83	-131

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$83 billion for December. In the previous three years, the government has run a surplus in December because of the receipt of quarterly corporate income tax payments; however, this year, lower receipts and higher outlays result in a \$131 billion shift from surplus to deficit, compared with December 2007.

CBO estimates that federal revenues in December were \$39 billion, or 14 percent, lower than those in December 2007. The decline was especially pronounced in receipts of corporate income taxes, which fell by \$35 billion, or about 41 percent. That is the biggest drop in those receipts for a major quarterly payment month since the recession began about a year ago. Lower corporate receipts reflect the recession's continuing toll on taxable corporate profits. Withholding for individual income and social insurance (payroll) taxes declined by about \$7 billion, or 4 percent, in December; the decrease would have been greater if December 2008 had not had two extra business days. The reduction in withholding indicates that wages and salaries fell, presumably reflecting substantial declines in year-end bonuses and higher unemployment.

Outlays in December were \$92 billion (or 40 percent) greater than those in the same month last year. Adjusting for calendar-related timing shifts, the difference would have been \$72 billion (or 30 percent). Outlays of \$53 billion for TARP make up most of that increase. Adjusted for timing shifts, net outlays for programs other than TARP have grown by \$19 billion (or 8 percent). Spending for defense rose by \$9 billion, Medicare by \$7 billion, unemployment benefits by \$4 billion, Social Security payments by \$3 billion, Medicaid by \$2 billion, and other programs by \$6 billion. Those increases were partially offset by a \$9 billion decrease in payments of net interest on the public debt and by a \$3 billion decline in net outlays of the Federal Deposit Insurance Corporation.

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

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	606	548	-58
Outlays	713	1,032	319
		Deficit (-)	
Treasury Basis	-107	-485	-378
CBO Estimate	-107	-303	-197

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$485 billion for the first quarter of fiscal year 2009, more than four times the \$107 billion deficit recorded in the first three months of fiscal year 2008.

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 DECEMBER**

(Billions of dollars)

Major Source	Actual FY2008	Preliminary FY2009	Percentage Change
Individual Income	274	258	-5.7
Corporate Income	93	51	-44.6
Social Insurance	198	197	-0.4
Other	<u>42</u>	<u>41</u>	-1.7
Total	606	548	-9.6

Sources: Department of the Treasury; CBO.

CBO estimates that in the first quarter of the fiscal year, revenues decreased by about \$58 billion, or 10 percent, compared with receipts in the same period a year ago. The largest drop was in receipts from corporate income taxes, which fell by about \$41 billion, or 45 percent. Most of that decline occurred in December, the month in which most corporations made their final quarterly payments for tax year 2008. The decline in corporate receipts is consistent with a sharp drop in profits during the current recession.

Receipts from other sources also decreased overall in the first quarter of the fiscal year. Receipts from individual income taxes fell by almost \$16 billion, or 6 percent, and those from payroll taxes fell by almost \$1 billion, or 0.4 percent. Combined, receipts from those two sources decreased by 3.5 percent. (Because of the way the data are collected, the breakdown of receipts between individual income and payroll taxes is estimated initially and corrected later.) The component of those combined receipts that derives from withholding from paychecks fell by about \$9 billion, or 2 percent; declines in December, when year-end bonuses were especially weak, accounted for most of the three-month drop. Refunds of individual income taxes increased by about \$5 billion in the first quarter, and nonwithheld payments of income and payroll taxes fell by about \$2 billion.

The Treasury will report outlays of \$1,032 billion through December 2008, CBO estimates, \$319 billion more than in the same period last year. Outlays for TARP and a government-sponsored enterprise, Freddie Mac, accounted for about 80 percent, or \$259 billion, of the net increase in spending over that period. Outlays for all other federal programs rose by 12 percent relative to spending in the first quarter of fiscal year 2008; in contrast, payments for net interest on the public debt fell by 28 percent.

**OUTLAYS THROUGH DECEMBER**

(Billions of dollars)

Major Category	Actual FY2008	Preliminary FY2009	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	156	174	11.3	11.6
Social Security				
Benefits	147	156	5.6	5.6
Medicare <sup>b</sup>	91	103	13.9	13.9
Medicaid	50	54	6.4	6.4
Other Activities	<u>204</u>	<u>240</u>	18.1	18.5
Subtotal	648	727	12.1	12.3
Net Interest on the				
Public Debt	65	47	-27.6	-27.6
TARP	0	245	n.a.	n.a.
Payments to GSEs	<u>0</u>	<u>14</u>	n.a.	n.a.
Total	713	1,032	44.8	45.4

Sources: Department of the Treasury; CBO.

Notes: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise; n.a. = not applicable.

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 activities” posted above-average gains in the first quarter, up 18.5 percent on an adjusted basis. Outlays for unemployment benefits were nearly double the amount paid in the first quarter last year, and spending for food and nutrition programs rose by almost 25 percent. CBO expects that the growth in this category will moderate in the months ahead and end the year up by about 7 percent.

The 14 percent growth in Medicare spending partly reflects unusually low spending in the first quarter of fiscal year 2008 for prescription drug benefits. Payments to providers were reduced last year to correct for overpayments made in 2006. Excluding the effects of those corrections, Medicare outlays rose by about 12 percent through December, somewhat faster than the 9 percent growth that CBO anticipates for the entire year.

Defense outlays increased by nearly 12 percent through December, led by higher spending for procurement and for operations and maintenance activities. Assuming enactment of supplemental appropriations for military operations in Iraq and Afghanistan, CBO projects that defense spending will be about 10 percent higher in 2009 than in 2008.