



MONTHLY BUDGET REVIEW

Fiscal Year 2002

A Congressional Budget Office Analysis

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

January 9, 2002

The federal budget deficit was about \$40 billion during the first quarter of fiscal year 2002, CBO estimates, a substantially larger shortfall than those recorded in fiscal years 2000 (\$20 billion) and 2001 (\$2 billion). The deficit would have been greater but for the shift of \$23 billion in corporate income tax payments from September 2001 to October 2001.

NOVEMBER RESULTS

(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	121	121	1
Outlays	175	176	1
Deficit	-54	-54	*

SOURCES: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$54.3 billion in November, about the same as CBO's projection based on the *Daily Treasury Statements*. Both revenues and outlays were slightly higher than CBO had anticipated.

Receipts from other sources were generally close to the amounts of December 2000. An extra Monday during December 2001 pushed up receipts from withholding taxes this year, but that increase was partly offset by the effects of the tax cuts enacted last May in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

The decline in outlays relative to December 2000 occurred because December 1, 2001, fell on a weekend. As a result, roughly \$11 billion in payments that would ordinarily be made on the first day of the month were instead made at the end of November. (A similar shift occurred in payments that were due to be made on January 1, but that shift occurs every year.) In the absence of the December 1 payment shift, outlays for the month would have grown by about \$6 billion from 2000 to 2001.

ESTIMATES FOR DECEMBER

(In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	200	186	-15
Outlays	168	162	-6
Surplus	33	24	-9

SOURCES: Department of the Treasury; CBO.

The government ran a surplus of \$24 billion in December, CBO estimates, \$9 billion less than the surplus in December 2000. Although outlays were an estimated \$6 billion less than they were last year, receipts fell \$15 billion short of last year's figure.

The decline in revenues occurred because of continued weakness in corporate income tax receipts, which fell by \$15 billion, or almost 30 percent, compared with their level last December. For each of the major quarterly payments made by corporations during calendar year 2001, receipts were substantially below the previous year's figure.

BUDGET TOTALS THROUGH DECEMBER

(In billions of dollars)

	October-December		Estimated Change
	FY2001	FY2002	
Receipts	462	464	2
Outlays	464	504	40
Deficit	-2	-40	-38

SOURCES: Department of the Treasury; CBO.

The government recorded a deficit of about \$40 billion for the first three months of fiscal year 2002, CBO estimates—about \$38 billion more than for the same period last year. Receipts were slightly higher than during the first quarter of last year, but outlays were about \$40 billion higher. Adjusted for shifts in the timing of certain receipts and expenditures, the first-quarter deficit was the largest since fiscal year 1996.

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
(In billions of dollars)

Major Source	October-December		Percentage Change
	FY2001	FY2002	
Individual Income	220	222	1.2
Corporate Income	55	56	1.8
Social Insurance	152	153	0.7
Other	<u>34</u>	<u>32</u>	-5.0
Total	462	464	0.5

SOURCES: Department of the Treasury; CBO.

Total receipts, by CBO's estimate, were up by \$2 billion, or 0.5 percent, in the first three months of fiscal year 2002, compared with the same three months in fiscal year 2001. Receipts from individual income and corporate income taxes, as well as social insurance receipts, were each up by about 1 percent to 2 percent. Other receipts—which represent less than 10 percent of total annual receipts—were lower by 5 percent as a result of weak excise tax payments.

Without two temporary factors that boosted receipts in the past three months, however, total receipts would have been lower than in the same quarter a year ago. First, corporations made \$23 billion in estimated payments on October 1, 2001, instead of on the normal deadline of September 15, because firms were allowed the delay by EGTRRA. Without the timing shift, corporate receipts would have been down by about 40 percent in the first three months of fiscal year 2002. In addition, an extra business day in the quarter added about \$5 billion to receipts. Without those two factors, total receipts would have fallen by about \$26 billion, or more than 5 percent, in the first quarter of fiscal year 2002. Of that decline, roughly \$5 billion resulted from the cuts in individual income taxes enacted in EGTRRA, and about \$21 billion was caused by the recession—especially its effects on corporate profits—and other factors.

OUTLAYS THROUGH DECEMBER
(In billions of dollars)

Major Category	October-December		Percentage Change	
	FY2001	FY2002	Actual	Adjusted ^a
Defense—Military	71	82	14.8	10.3
Social Security				
Benefits	103	109	5.9	5.9
Medicare	59	63	6.7	6.7
Medicaid	31	37	18.6	18.6
Other Programs and Activities	<u>144</u>	<u>167</u>	15.8	12.5
Subtotal	408	457	12.0	10.1
Net Interest on the Public Debt	<u>56</u>	<u>47</u>	-16.5	-16.5
Total	464	504	8.6	6.9

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted from October 2000 to September because October 1 was a Sunday.

Outlays through December are running more than 8 percent ahead of last year's pace. But October 1, 2000, fell on a weekend, and about \$7 billion in payments ordinarily made on the first of the month were made in September instead. Adjusted for that timing shift, the growth rate was about 7 percent. (In each of the past two years, outlays grew by between 4 percent and 5 percent, after increasing at an annual rate of about 3 percent over the preceding several years.)

Medicaid spending is rising rapidly—up by more than 18 percent so far this fiscal year, after increasing by 10.5 percent from 2000 to 2001. Defense spending in the first quarter is up by approximately 10 percent (after adjusting for last year's pay-date shift), in part because of U.S. military activity in Afghanistan. Spending for many of the government's other programs and activities has also grown. The largest increases are for unemployment benefits (up by more than \$4 billion), as a result of the weakening economy, and for transportation programs (up by about \$3 billion), including \$1.5 billion for the emergency assistance provided to airlines after the September 11 terrorist attacks.

Outlays for Medicare and Social Security have grown at more modest rates so far this year—by about 7 percent and 6 percent, respectively. The government's net interest costs continue to fall, primarily the result of lower interest rates on short-term debt.