



MONTHLY BUDGET REVIEW

Fiscal Year 2004

A Congressional Budget Office Analysis

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

January 7, 2004

The federal budget deficit was about \$126 billion during the first three months of fiscal year 2004, CBO estimates, \$18 billion more than the shortfall recorded over the same period last year. Revenues have risen by almost 3 percent compared with their level in the first quarter of fiscal year 2003, but outlays have grown by more than 5 percent. CBO will issue new budget projections for 2004 and the following 10 years later this month.

NOVEMBER RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	118	118	*
Outlays	162	161	-1
Deficit (-)	-44	-43	1

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

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$43 billion in November 2003, about \$1 billion less than CBO's projection based on the *Daily Treasury Statements*. Although revenues were the same as CBO anticipated, outlays were about \$1 billion lower than expected.

ESTIMATES FOR DECEMBER (In billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	183	185	2
Outlays	178	199	21
Surplus or Deficit (-)	5	-13	-18

SOURCES: Department of the Treasury; CBO.

The deficit in December 2003 was about \$13 billion, CBO estimates, a swing of \$18 billion relative to the \$5 billion surplus for the same month in 2002. Outlays were about 12 percent above their December 2002 level, and revenues were 1 percent higher.

CBO estimates that receipts in December were about \$185 billion, an increase of \$2 billion from the amount in December 2002. Withholding of income and payroll taxes rose by about \$4 billion. Although such receipts

were boosted by an extra business day in December 2003, CBO estimates that they were diminished by a similar amount because income tax rates were lower in 2003. In December, most corporations made their fourth quarterly payment of income taxes for tax year 2003. Those payments totaled nearly the same amount as in December 2002, despite the rapid run-up in profits during the past year. In addition, refunds of corporate income taxes increased by about \$3 billion, reducing net receipts.

Of the \$21 billion increase in outlays, roughly half occurred because December 1, 2002, fell on a weekend. As a result, about \$10 billion in payments that ordinarily would have been made on the first day of the month were instead made at the end of November. In the absence of last year's payment shift, outlays for December would have grown by about \$10 billion from fiscal year 2003 to 2004. After adjusting for the payment shift, defense spending was up by more than \$4 billion compared with its level last December, and outlays for the three largest entitlement programs (Social Security, Medicare, and Medicaid) together grew by about \$6 billion.

BUDGET TOTALS THROUGH DECEMBER (In billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	427	439	12
Outlays	536	565	30
Deficit (-)	-108	-126	-18

SOURCES: Department of the Treasury; CBO.

The federal government recorded a deficit of \$126 billion for the first quarter of fiscal year 2004, CBO estimates, about \$18 billion more than for the same period last year. Although revenues increased by \$12 billion compared with their level last year, outlays grew more, rising by \$30 billion.

NOTE: Unless otherwise indicated, the numbers 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.

TOTAL RECEIPTS
(In billions of dollars)

Major Source	Actual FY2003	Preliminary FY2004	Percentage Change
Individual Income	198	199	0.8
Corporate Income	33	41	23.2
Social Insurance	162	162	-0.1
Other	<u>35</u>	<u>38</u>	8.4
Total	427	439	2.8

SOURCES: Department of the Treasury; CBO.

Receipts rose by \$12 billion, or 2.8 percent, in the first three months of fiscal year 2004, compared with the same period in fiscal year 2003. Most of the receipts in those months were in the form of payroll withholding from individual income and social insurance taxes. Withheld receipts in the first three months of the fiscal year were virtually unchanged from their level in the same period of fiscal year 2003. Their growth was dampened by the tax cuts enacted in 2003 but was increased slightly by the effects of the calendar. Adjusted to remove the effects of the tax cuts and calendar, that withholding was up by between 3 percent and 4 percent in the October-December quarter, CBO estimates, compared with the same quarter of the previous year. That growth was roughly in line with the experience of the July-September quarter.

Receipts from corporate income taxes rose by \$8 billion, although \$5 billion of that increase resulted from a legislated shift in payment dates from September 15 to October 1. Corporate estimated payments grew strongly in June and September of 2003; one possible explanation for the lack of growth in December may be that firms previously overestimated their profits for the year.

Other receipts rose by about \$3 billion, or 8.4 percent, in the first three months of the fiscal year. Increases were recorded in each of the major components—Federal Reserve earnings; excise taxes; estate and gift taxes; customs duties; and miscellaneous fees and fines.

TOTAL OUTLAYS
(In billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	94	108	15.6	15.6
Social Security				
Benefits	115	119	4.2	4.2
Medicare	71	74	3.9	4.0
Medicaid	39	42	7.7	7.7
Other Programs and Activities	<u>174</u>	<u>180</u>	3.5	3.2
Subtotal	493	524	6.3	6.3
Net Interest on the Public Debt	<u>43</u>	<u>41</u>	-3.8	-3.8
Total	536	565	5.5	5.4

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of week-ends or holidays.

CBO estimates that total federal outlays grew by about 5.4 percent in the first quarter of fiscal year 2004, slightly less than the 7 percent growth recorded in fiscal year 2003. Excluding the decline in outlays for net interest on the public debt, spending has increased by about 6.3 percent.

Defense outlays continued to climb in the first quarter of fiscal year 2004, registering a 15.6 percent increase over the amount spent in the same period last year. Relative to the same quarter in the previous year, military spending has posted double-digit gains for the past eight quarters, making it the fastest growing component of the federal budget over that two-year period.

Medicaid outlays through December were 7.7 percent higher than for the same period last year, roughly identical to the rate of growth from the first quarter of 2002 to that of 2003. In 2003, Medicaid outlays ended the year about 9 percent above their 2002 level. Medicare outlays rose by 4 percent in the first quarter of fiscal year 2004; CBO expects Medicare spending to grow by about 7 percent for the entire fiscal year.

After adjusting for timing shifts, outlays for other programs and activities were \$6 billion, or 3.2 percent, higher through December than in the first quarter of 2003. First-quarter outlays were boosted by a \$5 billion payment to states for emergency fiscal relief as well as higher spending by the Department of Veterans Affairs, the Postal Service, and the Public Health Service. Some of those increases were offset, however, by lower spending for unemployment benefits and Temporary Assistance for Needy Families.