



MONTHLY BUDGET REVIEW

Fiscal Year 2006

A Congressional Budget Office Analysis

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

January 6, 2006

The federal budget deficit was about \$119 billion in the first quarter of fiscal year 2006, CBO estimates, about the same as the \$118 billion shortfall recorded during the same period last year. Tax revenues have continued to grow steadily, but spending for flood insurance and other disaster relief in the wake of Hurricane Katrina added substantially to outlays in the first quarter. CBO will issue new budget projections for 2006 and the following 10 years later this month.

NOVEMBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	138	139	*
Outlays	221	222	1
Deficit (-)	-82	-83	-1

Sources: Department of the Treasury; CBO.
Note: * = between zero and \$500 million.

The Treasury reported a deficit of \$83 billion for November, about \$1 billion more than CBO projected on the basis of the *Daily Treasury Statements*. Revenues were about the same as CBO anticipated, while outlays were \$1 billion more than expected.

ESTIMATES FOR DECEMBER (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	216	242	27
Outlays	219	231	12
Surplus or Deficit (-)	-3	12	15

Sources: Department of the Treasury; CBO.

In December, most corporations make their quarterly payments of corporate income taxes, and withheld individual income taxes are higher than in many other months (because of year-end bonuses that employees receive and a boost in seasonal employment). Consequently, December is generally a relatively favorable month for the federal budget.

The surplus in December 2005 was about \$12 billion, CBO estimates, a swing of \$15 billion from the \$3 billion deficit recorded in December 2004. Revenues were 12 percent above their December 2004 level, double the 6 percent growth in outlays.

CBO estimates that revenues rose by about \$27 billion in December compared with their level in the same month last year. Receipts from corporate income taxes grew by \$18 billion, or 33 percent, continuing their strong growth of the past two years. The payment in December represents the final quarterly payment of estimated taxes by most corporations for tax (calendar) year 2005. Withholding for individual income and social insurance (payroll) taxes accounted for most of the rest of the revenue growth relative to the previous December, increasing by \$7 billion, or about 5 percent. That rate of increase was diminished by the fact that the month contained one fewer business day than it did last year.

Outlays were \$12 billion greater this December than last December, CBO estimates. About one-quarter of that growth was due to spending by the Department of Homeland Security for expenses related to hurricane relief and recovery. Outlays for the Department of Defense, Social Security, Medicare, and net interest on the public debt grew by \$2 billion to \$3 billion each after adjusting for shifts in the timing of certain payments.

BUDGET TOTALS THROUGH DECEMBER (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	487	531	44
Outlays	605	649	44
Deficit (-)	-118	-119	-1

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$119 billion for the first three months of fiscal year 2006, about \$1 billion more than the deficit recorded for the same period last year. Revenues and outlays each grew by about \$44 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 DECEMBER

(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	214	230	7.7
Corporate Income	64	81	26.3
Social Insurance	173	180	4.3
Other	<u>36</u>	<u>39</u>	8.0
Total	487	531	9.0

Sources: Department of the Treasury; CBO.

Receipts in the first quarter of fiscal year 2006 increased by \$44 billion, or 9 percent, compared with their level in the same quarter of last year. Withholding from employees' paychecks for income and payroll taxes rose by about \$23 billion, or 6 percent, accounting for about half of the dollar growth in total receipts. Those increases reflect continued growth in wages and salaries in the economy. Withholding typically accounts for a significant part of the movement in overall receipts. Individual income and social insurance taxes together typically constitute about 80 percent of total receipts, and withholding is the dominant way both taxes are paid to the Treasury.

Receipts from corporate income taxes grew by about \$17 billion, or 26 percent, in the first quarter of the fiscal year compared with their level in the same quarter of a year ago. Growth would have been closer to 35 percent if amounts last October had not been increased by about \$4 billion as a result of legislation that allowed firms to delay payments due that September. Corporate income tax receipts grew by more than 40 percent in both 2004 and 2005, reflecting strong profit growth and, in 2005, the expiration of certain business tax incentives. It is not surprising that those receipts would continue to grow strongly in the first quarter of fiscal year 2006 (that is, the last quarter of calendar year 2005) because quarterly payments in a calendar year often show similar rates of increase as long as profits grow relatively smoothly.

OUTLAYS THROUGH DECEMBER

(Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	118	129	9.7	6.1
Social Security				
Benefits	125	132	5.6	5.6
Medicare	82	82	0.0	10.1
Medicaid	45	46	3.2	3.2
Other Programs				
and Activities	<u>193</u>	<u>203</u>	5.2	12.7
Subtotal	562	592	5.3	8.5
Net Interest on the				
Public Debt	<u>43</u>	<u>58</u>	33.2	33.2
Total	605	649	7.3	10.3

Sources: Department of the Treasury; CBO.

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

Outlays through December were about 7 percent higher than in the first quarter of fiscal year 2005, CBO estimates. That rate of increase is about 10 percent when the figures are adjusted for calendar-related shifts in the timing of various payments.

Outlays for net interest on the public debt surged in the first quarter, rising by 33 percent relative to their level in the same period last year. Costs were driven up by higher rates of inflation (which affect the amount paid on inflation-indexed securities), higher short-term interest rates, and growing debt.

Program spending (total outlays excluding net interest) rose by 8.5 percent on an adjusted basis through December, due in part to an estimated \$15 billion (or four-fold) increase in outlays for flood insurance and other disaster relief related to Hurricanes Katrina and Rita. Excluding disaster relief, first-quarter spending for both defense and nondefense programs was about 6 percent higher than in the first three months of fiscal year 2005, on an adjusted basis.

Medicare spending continues to grow rapidly, rising by 10 percent through December, the same rate of increase posted in fiscal year 2005. The growth in Medicare spending is expected to accelerate during the remainder of the year because the new prescription drug benefit took effect in January. By contrast, Medicaid spending increased by only 3 percent in the first quarter.