



MONTHLY BUDGET REVIEW

Fiscal Year 2004

A Congressional Budget Office Analysis

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

July 7, 2004

In the first three-quarters of fiscal year 2004, the federal government ran a deficit of about \$328 billion, CBO estimates, about \$58 billion more than the shortfall recorded in the same period last year. Revenues have risen by about 3.6 percent so far this year, after declining for three consecutive years. But spending has grown more rapidly—by about 6.6 percent.

MAY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	114	115	2
Outlays	178	178	*
Deficit (-)	-65	-62	2

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$62 billion in May, about \$2 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Most of that difference resulted from higher-than-expected revenues.

ESTIMATES FOR JUNE (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	193	215	22
Outlays	172	198	27
Surplus	21	16	-5

Sources: Department of the Treasury; CBO.

The federal government ran a surplus of \$16 billion in June, CBO estimates, about \$5 billion less than the surplus recorded in June 2003. The decline stemmed primarily from the effects of the calendar on the timing of outlays.

Receipts were almost \$22 billion, or 11 percent, higher this June than in the same month last year. Net payments of corporate income taxes, which grew by 38 percent, accounted for \$12 billion of that increase. (Most firms make payments of estimated taxes for the second quarter in June.) Receipts of individual income taxes and

social insurance (payroll) taxes, which together rose by about 5 percent, accounted for another \$8 billion of the increase. Most of that \$8 billion came from withheld income and payroll (FICA) taxes. Revenues from other sources were up by about \$2 billion.

Outlays also rose in June, by an estimated \$27 billion compared with the same month last year. That rise reflected a shift in payment dates: outlays were unusually low in June 2003 because June 1 fell on a weekend, which shifted about \$11 billion from June to May. It also reflected an accounting adjustment that had the effect of increasing outlays this June by \$1.5 billion. (The Treasury corrected an entry made by the Tennessee Valley Authority in December 2003.)

Excluding the effects of those two adjustments, outlays this June exceeded outlays in June 2003 by \$14 billion, or 8 percent—primarily because of higher spending for health programs, defense, and net interest on the public debt. Spending for Medicare and Medicaid rose by a total of almost \$8 billion compared with last June; defense outlays were about \$3 billion higher.

BUDGET TOTALS THROUGH JUNE (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	1,353	1,401	48
Outlays	1,622	1,729	106
Deficit (-)	-270	-328	-58

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$328 billion for the first three-quarters of fiscal year 2004. Receipts were about \$48 billion, or 3.6 percent, higher than in the same nine months last year, and outlays were about \$106 billion, or 6.6 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
(Billions of dollars)

Major Source	Actual FY2003	Preliminary FY2004	Percentage Change
Individual Income	605	594	-1.7
Corporate Income	98	140	43.8
Social Insurance	545	559	2.6
Other	<u>106</u>	<u>107</u>	1.5
Total	1,353	1,401	3.6

Sources: Department of the Treasury; CBO.

Corporate income tax receipts continued to show the most strength this fiscal year, exceeding net collections during the same period last year by about \$43 billion, or 44 percent. A little over half of that increase stemmed from rising tax collections; the rest resulted from smaller refunds. Corporate profits (as measured in the national income accounts) grew strongly in recent quarters. In addition, other factors related to the recent business cycle, and some changes in law, may have contributed to the sharp growth in corporate tax receipts.

Receipts from social insurance taxes were about \$14 billion, or 2.6 percent, higher in the first nine months of 2004 than in the same period last year—primarily because of a \$6 billion increase in FICA collections, a \$5 billion rise in unemployment insurance deposits from states, and a \$3 billion increase in payments by self-employed individuals.

Individual income tax receipts, by contrast, were about \$10 billion below last year's figure for the first three-quarters of the fiscal year. Higher refunds and lower nonwithheld taxes each reduced receipts by more than \$8 billion, whereas withheld income taxes rose by about \$6 billion. The increase in receipts from withheld income taxes, despite the tax-rate reductions enacted last year, is consistent with the strengthening of the economy in recent months.

OUTLAYS THROUGH JUNE
(Billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change
Defense—Military	285	324	13.7
Social Security			
Benefits	349	364	4.4
Medicare	206	222	7.7
Medicaid	118	134	13.4
Other Programs			
and Activities	<u>541</u>	<u>562</u>	3.9
Subtotal	1,499	1,605	7.1
Net Interest on the			
Public Debt	<u>124</u>	<u>123</u>	-0.3
Total	1,622	1,729	6.6

Sources: Department of the Treasury; CBO.

Total outlays in the first nine months of fiscal year 2004 were 6.6 percent higher than in the same period last year, CBO estimates, led by double-digit increases in spending for defense and Medicaid.

Defense outlays through June were almost 14 percent higher than in the first nine months of 2003. However, outlays in the third quarter of 2004 were only 6.7 percent higher than in the third quarter of 2003 (the first full quarter of military operations in Iraq), which suggests that the year-over-year rate of growth is likely to moderate in the months ahead.

Spending for Medicaid was more than 13 percent higher through June than in the same period last year. Over the past six months, that rate of increase was about 15 percent, in part because of the temporary rise in the federal matching rate that was in effect from April 2003 through June 2004.

Outlays for other programs and activities grew more slowly: by about 4 percent through June. Third-quarter payments for unemployment benefits were 30 percent lower than in the same period last year. Outlays for agricultural income- and price- support programs, highways, and Temporary Assistance for Needy Families also came in well below the amounts spent in the third quarter of 2003. In contrast, third-quarter spending by the Department of Justice was up 37 percent compared with the third quarter of 2003, primarily because of payments from the September 11th Victim Compensation Fund.

Outlays for net interest on the public debt were close to the amounts paid through June last year, after six years in which falling interest costs offset some of the growth in spending for programs and activities.