



MONTHLY BUDGET REVIEW

Fiscal Year 2007

A Congressional Budget Office Analysis

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

January 8, 2007

The federal budget deficit was about \$85 billion in the first quarter of fiscal year 2007, CBO estimates—about \$35 billion less than in the same period last year. Revenues have risen by 8 percent compared with their level in the first three months of 2006, substantially outpacing the 1 percent growth in outlays. Later this month, CBO will issue new budget projections for 2007 and the following 10 years.

NOVEMBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	146	146	-1
Outlays	219	221	2
Deficit (-)	-73	-76	-3

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$76 billion for November, which is \$3 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was primarily due to a \$2.6 billion error in the Treasury's reporting of outlays for the Pension Benefit Guaranty Corporation (PBGC). In the absence of that error, the deficit would have been about the same as CBO anticipated.

ESTIMATES FOR DECEMBER (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	242	260	18
Outlays	231	220	-11
Surplus	11	40	29

Sources: Department of the Treasury; CBO.

The surplus in December was \$40 billion, CBO estimates, which is about \$29 billion more than the surplus recorded in December 2005. Revenues were 7 percent above their December 2005 level, and spending was about 5 percent below outlays in the same month last year.

Receipts in December are generally higher than those in many other months because of quarterly payments of corporate income taxes and greater withholding for individual income taxes as a result of year-end bonuses and additional seasonal employment. Total receipts in

December 2006 grew by about \$18 billion, or 7 percent, from the previous December's, CBO estimates. That growth stemmed primarily from a \$13 billion (19 percent) increase in corporate tax receipts. Most of those receipts came from the final quarterly payment of estimated taxes by most corporations for tax year 2006. Withholding for payroll and income taxes accounted for almost all of the remaining growth in receipts—about \$5 billion, or 3 percent. The December increase in withholding was dampened because December 2006 had one fewer business day than the previous December.

Outlays were \$11 billion lower this December than in the same month last year, CBO estimates. The largest factor contributing to that decline was the receipt of \$12.7 billion from last summer's auction of licenses to use the electromagnetic spectrum. Spending by the Department of Homeland Security was about \$4 billion lower than in December 2005, when there was substantial spending for hurricane relief. Outlays for international assistance were down by about \$3 billion compared with the same month last year because annual payments to Egypt and Israel that occurred last December were not made in the first quarter of fiscal year 2007. In addition, the spending reported for the PBGC in December 2006 will be reduced by \$2.6 billion to correct the accounting error in November.

BUDGET TOTALS THROUGH DECEMBER (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	530	573	43
Outlays	650	658	8
Deficit (-)	-119	-85	35

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$85 billion for the first three months of fiscal year 2007—about \$35 billion less than the deficit recorded for the same period last year. Revenues grew by \$43 billion, far outpacing outlays, which rose by \$8 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 FY2006	Preliminary FY2007	Percentage Change	
			Actual	Preliminary
Individual Income	230	251	8.8	
Corporate Income	81	99	22.2	
Social Insurance	180	186	3.1	
Other	<u>39</u>	<u>38</u>	-1.9	
Total	530	573	8.1	

Sources: Department of the Treasury; CBO.

CBO estimates that total receipts rose by 8.1 percent in the first quarter of fiscal year 2007 compared with the same period in fiscal year 2006. Withholding from individuals' pay for income and payroll taxes increased by about \$22 billion (6 percent) and accounted for half of the gain in total receipts. That increase reflects the continued growth of wages and salaries. Withholding is the primary method for collecting individual income and payroll taxes in the first quarter of the fiscal year because no estimated income taxes are due during that period. The payment due on January 15 is the last payment of estimated individual income taxes for calendar year 2006.

Receipts from corporate income taxes grew by about \$18 billion, or 22 percent, in the first quarter of this fiscal year compared with the receipts collected in the first quarter of fiscal year 2006. Most of that growth was recorded in December, when most corporations made their last estimated payment for calendar year 2006. The increase in receipts indicates that profits were robust last year. The growth in receipts over the October–December quarter was just slightly slower than the 25 percent growth tallied during the prior six months, which contained the first three quarterly estimated payments for most corporations in tax year 2006. (Quarterly payments in a calendar year often show similar rates of growth when profits grow relatively smoothly throughout the year.)

OUTLAYS THROUGH DECEMBER

(Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	129	143	10.9	10.7
Social Security				
Benefits	131	139	6.2	6.6
Medicare	82	109	33.5	22.1
Medicaid	47	45	-2.8	-2.8
Other Programs				
and Activities	<u>203</u>	<u>166</u>	-18.1	-17.4
Subtotal	591	603	1.9	0.7
Net Interest on the				
Public Debt	<u>58</u>	<u>55</u>	-5.3	-5.3
Total	650	658	1.3	0.2

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays. Also adjusts 2006 Social Security outlays for corrections to amounts withheld for taxes on Social Security benefits.

Outlays through December were essentially flat relative to the first quarter of 2006, as higher offsetting receipts and lower spending for some programs offset growth in other areas. Payments for net interest on the public debt were about 5 percent lower than in the first three months of fiscal year 2006, primarily because lower inflation reduced interest costs for inflation-indexed securities.

Through December, CBO estimates, spending by the Department of Defense was 11 percent higher than spending in the same period last year. Much of that growth was due to increased outlays for procurement and for research and development.

Medicare was among the few nondefense programs to experience rapid growth in the first quarter; outlays rose by 22 percent on an adjusted basis relative to the same period last year. Nearly two-thirds of that increase stemmed from spending for the prescription drug benefit, which took effect in January 2006. By contrast, outlays for Medicaid fell by 3 percent relative to spending in the first quarter of 2006, in part because some prescription drug costs previously paid by Medicaid are now covered by Medicare.

The decline in net outlays for other programs and activities largely reflects two factors: lower spending for flood insurance and disaster assistance (\$15 billion less than in the first quarter of 2006) relative to the peak levels experienced in the wake of the 2005 Gulf Coast hurricanes, and the receipt of \$12.7 billion from a 2006 auction of licenses to use the electromagnetic spectrum. Most of the remaining drop in this category resulted from lower spending for agricultural commodity programs, higher receipts from Medicare premiums, and differences in the timing of payments to Egypt and Israel.