



MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

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

January 10, 2003

The federal budget deficit was about \$109 billion during the first quarter of fiscal year 2003, CBO estimates, significantly more than the \$35 billion shortfall recorded over the same period last year. Lower receipts, the extension of benefits for the unemployed, and other factors are likely to push the deficit for the fiscal year well above the \$145 billion estimated by CBO in August. CBO will issue new budget projections for 2003 and the following 10 years at the end of this month.

NOVEMBER RESULTS

(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	120	120	*
Outlays	180	179	-1
Deficit	-60	-59	1

SOURCES: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$59 billion in November, about \$1 billion less than CBO's projection based on the *Daily Treasury Statements*. While revenues were the same as CBO anticipated, outlays were about \$1 billion lower than expected.

The decline in receipts is attributable to several factors. Receipts from individual income taxes fell by \$14 billion, while receipts from corporate income taxes and social insurance taxes rose by about \$4 billion each. Receipts from withholding taxes, the largest component of individual income and social insurance taxes, were down by \$11 billion, even though December 2002 contained one more business day than December 2001. While a few billion dollars of that drop can be traced to lower income tax rates, some of the drop may also have been caused by smaller year-end bonuses or by other developments that held down wages and salaries.

Outlays were \$18 billion greater this December than last December, CBO estimates. Higher spending for defense, Medicare, Social Security, and unemployment benefits accounted for much of that increase.

ESTIMATES FOR DECEMBER

(In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	188	183	-5
Outlays	161	179	18
Surplus	27	4	-22

SOURCES: Department of the Treasury; CBO.

The government ran a surplus of \$4 billion in December 2002, CBO estimates. In each of the three previous years, the December surplus averaged about \$30 billion. Outlays climbed by an estimated \$18 billion over last December's total, while receipts fell by about \$5 billion. As a result, the surplus in December 2002 was \$22 billion below the December 2001 figure.

BUDGET TOTALS THROUGH DECEMBER

(In billions of dollars)

	October-December		Estimated
	FY2002	FY2003	Change
Receipts	466	428	-38
Outlays	502	537	35
Deficit	-35	-109	-73

SOURCES: Department of the Treasury; CBO.

The government recorded a deficit of about \$109 billion for the first quarter of fiscal year 2003, CBO estimates—more than three times the deficit recorded for the same period last year. Receipts were \$38 billion lower and outlays were about \$35 billion higher than in the first three months of fiscal year 2002.

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
	FY2002	FY2003	
Individual Income	226	201	-11.4
Corporate Income	56	33	-40.1
Social Insurance	153	160	4.5
Other	<u>32</u>	<u>34</u>	8.5
Total	466	428	-8.2

SOURCES: Department of the Treasury; CBO.

CBO estimates that receipts for the first quarter of fiscal year 2003 were down by 8.2 percent from the first quarter of fiscal year 2002. About \$22 billion of that decline occurred in corporate receipts. Those receipts were artificially boosted by \$23 billion in October 2001 by legislation that allowed corporations to delay making their quarterly estimated payment of income taxes normally due in September 2001. Payments since then have been on the normal schedule.

The October-December comparison is also affected, however, by a further shift in corporate payment dates. Several billion dollars in receipts that would have been paid in those months of 2001 were instead paid in January 2002 as a result of extensions provided to taxpayers affected by the September 11 terrorist attacks. On balance, corporate receipts in the first three months of 2003 were probably a little lower than they were in the first three months of 2002, even after accounting for the two shifts in payment dates.

Receipts from individual income taxes also fell in the first three months of this fiscal year, by amounts totaling \$26 billion, or 11.4 percent. Roughly \$10 billion of that decline can be attributed to the lower tax rates on income earned in 2002. Income tax withholding has also been weaker, especially in December, for reasons unrelated to changes in tax law. The declines in individual and corporate income tax receipts so far this fiscal year have been offset in part by increases in receipts from social insurance and other taxes.

OUTLAYS THROUGH DECEMBER
(In billions of dollars)

Major Category	October-December		Percentage Change	
	FY2002	FY2003	Actual	Adjusted ^a
Defense—Military	80	93	15.5	14.4
Social Security				
Benefits	109	115	5.4	5.4
Medicare	63	71	13.7	8.2
Medicaid	37	39	7.6	7.6
Unemployment				
Insurance	10	14	33.4	33.4
Other Programs and Activities	<u>156</u>	<u>162</u>	3.8	4.8
Subtotal	455	494	8.6	8.0
Net Interest on the Public Debt	<u>47</u>	<u>42</u>	-9.2	-9.2
Total	502	537	7.0	6.4

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of week-ends, holidays, legislative action, or changes in the accounting of certain health programs of the Department of Defense.

Outlays through December were about 7 percent above last year's level, CBO estimates. After adjusting for timing shifts, the rate of growth averaged 6.4 percent, below last year's 7.9 percent rate of increase. Excluding net interest costs, program outlays increased by 8.0 percent in the first quarter of 2003 (after adjusting for timing shifts) compared with about 11 percent for all of 2002.

Last year, outlays for unemployment benefits surged by 72 percent, while Medicaid spending grew by 13 percent and Medicare outlays rose by almost 9 percent. Each of those areas posted smaller gains in the first quarter of 2003. Outlays for other programs and activities also grew more slowly in the first three months of 2003, increasing by 4.8 percent (after adjusting for timing shifts) compared with almost 12 percent last year. First-quarter spending dropped below last year's level for some agencies and programs, including the Department of State, the National Aeronautics and Space Administration, agricultural commodity programs, and deposit insurance.

Defense outlays continue to grow rapidly. They have risen at a year-over-year rate of more than 14 percent in each of the past four quarters, after growing by 8.5 percent in the first quarter of 2002.

In 2002, outlays for net interest were about 17 percent lower than in 2001, which offset some of the increase in agencies' spending. Interest costs continued to decline in the first quarter of 2003, but only by 9 percent.