MONTHLY BUDGET REVIEW

Fiscal Year 2002

A Congressional Budget Office Analysis

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

July 10, 2002

The budget deficit for the first nine months of fiscal year 2002 totaled $122 billion, CBO estimates. In contrast, the government recorded a surplus of $169 billion for the first nine months of fiscal year 2001. CBO will release updated 10-year budget projections late next month.

MAY RESULTS
(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	101	102	1
Outlays	184	183	-1
Deficit (-)	-83	-81	2

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of $81 billion in May, about $2 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Revenues were slightly higher than CBO had anticipated, and outlays were slightly lower.

ESTIMATES FOR JUNE
(In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	203	182	-21
Outlays	171	157	-14
Surplus	32	25	-7

SOURCES: Department of the Treasury; CBO.

CBO estimates that the surplus in June 2002 was about $25 billion—$7 billion less than in June 2001. Receipts fell by $21 billion, and outlays declined by about $14 billion.

Revenues were lower this June than last June mainly because of the cuts in individual and corporate income taxes enacted in June 2001 and March 2002, although lower economic activity also played a role. Compared with the levels recorded last June, receipts from individual income taxes were $13 billion lower this June, and receipts from corporate income taxes were about $4 billion lower. Those corporate tax receipts were an important indicator of corporate profitability because they marked the first estimated payment that was based on profits recorded so far this calendar year. The corporate tax cuts enacted in March 2002 make it difficult to interpret those June receipts. Nonetheless, CBO estimates that, adjusted to remove the effects of the tax cuts, they were up just a little from last June's level, suggesting that taxable corporate profits have not yet rebounded much from last year's slump. In addition to the declines in individual and corporate income taxes, receipts from social insurance taxes were $4 billion lower this June than last June, and other receipts were $1 billion lower.

The decline in outlays relative to June 2001 resulted primarily from payments that were shifted because the first day of a month fell on a weekend. Roughly $11 billion in payments that would ordinarily have been made on June 1, 2002, were instead made at the end of May. Likewise, $11 billion in payments that would normally have been made on July 1, 2001, were made at the end of June 2001. In addition, $1 billion of the difference resulted from outlays recorded in June 2001 to reflect revised subsidy estimates for costs associated with certain loans and guarantees of the Export-Import Bank. In the absence of those payment shifts and credit subsidy reestimates, June outlays would have grown by about $9 billion from 2001 to 2002.

BUDGET TOTALS THROUGH JUNE
(In billions of dollars)

	October-June		Estimated
	FY2001	FY2002	Change
Receipts	1,582	1,401	-181
Outlays	1,413	1,523	110
Surplus or Deficit (-)	169	-122	-291

SOURCES: Department of the Treasury; CBO.

CBO estimates that the deficit for the first nine months of the fiscal year was $122 billion—a sharp reversal from the $169 billion surplus recorded for the same period in 2001. Receipts were about $181 billion lower than at the same time last year, and outlays were about $110 billion 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
(In billions of dollars)

Major Source	October-June FY2001	October-June FY2002	Percentage Change
Individual Income	801	643	-19.6
Corporate Income	138	116	-16.1
Social Insurance	532	535	0.7
Other	112	106	-4.7
Total	1,582	1,401	-11.4

SOURCES: Department of the Treasury; CBO.

Total receipts for the first nine months of the fiscal year fell by 11.4 percent compared with the same period a year ago. Receipts from individual income taxes accounted for most of that decline, dropping by $157 billion, or almost 20 percent. Some $119 billion of the decline involved nonwithheld individual receipts and refunds and largely occurred between February and May, when tax returns for 2001 were filed and processed. Information on the specific sources of income in 2001 responsible for that decline will not begin to become available until later in the year. However, much of the drop-off was probably caused by lower payments of taxes on capital gains, less growth in the income of higher-income taxpayers, and overall lower growth in earned incomes. Withheld income tax receipts have also fallen this fiscal year, by $38 billion, or about 6 percent, compared with the same period a year ago. However, that decrease was largely a result of the cuts in individual income taxes enacted a year ago, CBO estimates.

Corporate tax receipts have fallen by about $22 billion, or 16.1 percent, compared with the first nine months of the previous fiscal year. Changes in tax law over the past two years have complicated the year-to-year comparisons, but CBO estimates that corporate receipts would have dropped substantially even without those changes. Receipts from social insurance taxes, which were not directly affected by the tax cuts, have risen by less than 1 percent so far this fiscal year. Other receipts have fallen by 4.7 percent, with the decline affecting all of the components: excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts.

The overall drop in receipts relative to last year should abate during the remaining months of this fiscal year because certain factors from last year will not recur. First, the tax rebates paid out last summer will not be repeated this summer, as they have effectively been converted (since January) into reduced withholding spread over the year. Second, last year's corporate estimated payments were reduced substantially by tax legislation that allowed firms to make those payments in October (the beginning of the next fiscal year) rather than in September. This year, the payments are back on their normal schedule.

OUTLAYS THROUGH JUNE
(In billions of dollars)

Major Category	October-June FY2001	October-June FY2002	Percentage Change Actual	Percentage Change Adjusted[a]
Defense—Military	218	246	12.8	12.6
Social Security Benefits	317	335	5.5	5.5
Medicare	179	189	5.6	9.3
Medicaid	98	110	13.1	13.1
Unemployment Insurance	23	40	73.8	73.8
Other Programs and Activities	413	468	13.2	13.5
Subtotal	1,248	1,388	11.2	11.8
Net Interest on the Public Debt	165	135	-18.0	-18.0
Total	1,413	1,523	7.8	8.3

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, or legislative action.

Outlays in the first nine months of the fiscal year were 7.8 percent higher than in the same period last year, CBO estimates. Adjusted for payments that were shifted because of weekends, holidays, or legislative action, the growth rate was about 8.3 percent. Spending for a number of agencies has grown particularly rapidly so far this year. Net outlays for the Departments of State, the Interior, Transportation, Justice, and Education combined were about 17 percent higher than last year's level.

Outlays rose more quickly in the third quarter of the fiscal year (by an average of 9.4 percent) than in the first half of the year (7.7 percent), adjusted for timing shifts. Among the factors driving that change was net interest on the public debt. Interest payments declined more slowly in the third quarter because the spread between interest rates in 2001 and 2002 narrowed and because lower tax collections resulted in less redemption of debt held by the public. Spending continues to surge for unemployment benefits and defense activities, but faster growth in those areas has been partly offset by slower growth in spending for Medicaid, transportation, and various other programs. Medicare spending rose at a more modest pace in the third quarter because much of the growth in the first half of the year reflected higher payment rates that took effect in April 2001.

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