



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

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

June 5, 2008

The federal government incurred a deficit of about \$317 billion during the first eight months of fiscal year 2008, CBO estimates, \$168 billion more than the shortfall recorded through May of last year. About \$50 billion of that change is due to the distribution to individuals of the tax rebates enacted in the Economic Stimulus Act of 2008. That amount is just under half of the total rebates expected for this year; most of the remainder will be disbursed during the next two months.

APRIL RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	403	404	1
Outlays	243	244	2
Surplus	160	159	-1

Sources: Department of the Treasury; CBO.

The Treasury reported a surplus of \$159 billion in April, about \$1 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Most of the differences in revenues and outlays are attributable to the composition of tax refunds, and they offset each other. Refunds of individual income tax payments (which count as revenue reductions) were about \$1 billion lower than CBO had anticipated, and refundable tax credits (which count as outlays) were correspondingly higher.

ESTIMATES FOR MAY (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	164	125	-39
Outlays	232	290	58
Deficit (-)	-68	-165	-97

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$165 billion in May, about \$97 billion more than the deficit recorded in May 2007. About half of that increase was due to rebate payments, which are recorded as either reductions in revenues or increases in outlays. (When a rebate exceeds an individual's federal income tax payment, the excess is classified as an outlay in the budget.)

Receipts in May were about \$39 billion (or 24 percent) lower than receipts in May 2007, CBO estimates. Most

of the decline—\$31 billion—resulted from payments to individuals of the tax rebates. Also contributing to the decline in total receipts were nonwithheld receipts, which fell by about \$4 billion (or 34 percent) in May. This year more of the payments made with income tax returns were recorded in April rather than in early May. In addition, net corporate income tax receipts declined by about \$4 billion (or 37 percent) relative to their level in May 2007, the 11th consecutive monthly decline. Withholding for income and payroll taxes was roughly the same as in May 2007; small increases in the daily payments were offset by the effects of one fewer business day.

The growth in outlays was magnified by rebate payments of \$17 billion as well as by a shift in payment dates and accounting adjustments for certain credit programs. Because June 1, 2008, fell on a weekend, about \$22 billion in payments that would ordinarily have been made at the beginning of June were instead made at the end of May. In addition, adjustments to the estimated subsidy costs of loans and loan guarantees made in previous years by the Federal Housing Administration and the Department of Education increased outlays in May by almost \$6 billion. In the absence of those three effects, outlays in May would have grown by about 5 percent.

BUDGET TOTALS THROUGH MAY (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	1,669	1,675	6
Outlays	1,817	1,991	174
Deficit (-)	-148	-317	-168

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$317 billion in the first eight months of fiscal year 2008, about \$168 billion more than the shortfall for the same period last year. Outlays were \$174 billion higher than in the October-May period last year, far outpacing the \$6 billion growth in net revenues.

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 MAY

(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Individual Income	766	771	0.7	
Corporate Income	211	178	-15.8	
Social Insurance	588	610	3.8	
Other	<u>104</u>	<u>116</u>	11.3	
Total	1,669	1,675	0.3	

Sources: Department of the Treasury; CBO.

For the fiscal year to date, total receipts were about the same as they were last year, increasing by about \$6 billion, or 0.3 percent. Individual income and payroll tax receipts account for most of the increases seen this fiscal year. Receipts withheld from paychecks increased by \$51 billion (or 4 percent). The gain reflects larger percentage increases earlier in the fiscal year and smaller increases in recent months, consistent with slowing growth in wages and salaries and in overall economic activity. In addition, nonwithheld receipts increased by about \$20 billion (or 6 percent); most of those gains occurred in April, when many taxpayers filed tax returns for 2007. Partially offsetting those gains was an increase of \$43 billion in refunds, with \$32 billion of that sum stemming from rebate payments.

Corporate receipts declined by about \$33 billion (or 16 percent) through May. That decline resulted about equally from lower receipts of payments from corporations and higher refunds paid to them. Most of the corporate payments made to date are for taxes on calendar year 2007 earnings; the June payment (due June 16) will give some indication of the relative strength of earnings for calendar year 2008.

Each of the smaller sources of receipts—from the Federal Reserve, excise taxes, customs duties, estate and gift taxes, and miscellaneous fees and fines—increased in the fiscal year through May, totaling gains of about \$12 billion. Almost half of that increase stemmed from payments to the Treasury from the Federal Reserve, primarily due to increases in the value of its portfolio of securities and gains on its holdings of foreign currency as the dollar has depreciated.

OUTLAYS THROUGH MAY

(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	349	392	12.3	10.3
Social Security				
Benefits	381	401	5.4	5.4
Medicare ^b	249	264	6.2	3.6
Medicaid	128	136	5.9	5.9
Other Programs				
and Activities	<u>547</u>	<u>629</u>	15.0	12.6
Subtotal	1,654	1,822	10.2	8.6
Net Interest on the				
Public Debt	<u>163</u>	<u>169</u>	3.6	3.6
Total	1,817	1,991	9.6	8.1

Sources: Department of the Treasury; CBO.

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

b. Medicare outlays are net of proprietary receipts.

Outlays through May were 9.6 percent higher than in the first eight months of 2007, CBO estimates; adjusted for shifts in the timing of certain payments, spending rose by about 8 percent.

The broad category of other programs and activities accounted for almost half of the increase in outlays through May. Spending for that category was up by 12.6 percent on an adjusted basis, reflecting an estimated \$19 billion in rebate payments as well as double-digit growth in outlays for refundable tax credits, veterans' health programs, unemployment benefits, and food and nutrition services.

Defense outlays have also grown rapidly in recent months, rising by 10 percent through May, compared with 7 percent in fiscal year 2007. Much of the growth this year has been driven by a 14 percent increase in spending for military operations, maintenance, and procurement, well above last year's average gain of 8 percent for those activities.

Medicare spending has grown more slowly than in 2007—up by less than 4 percent through May, compared with 9.5 percent last year—because lower payments to prescription drug plans have offset much of the growth in spending for Medicare's traditional programs, which are running about 8 percent above last year's levels. Medicaid outlays have increased by 6 percent relative to the same period last year, close to the average rate of increase over the past five years.