



# MONTHLY BUDGET REVIEW

## Fiscal Year 2007

### A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for January and the *Daily Treasury Statements* for February

March 6, 2007

The federal government incurred a deficit of \$165 billion in the first five months of fiscal year 2007, CBO estimates, \$52 billion less than the shortfall for the same period last year. If supplemental appropriations requested by the President (mostly for military operations in Iraq and Afghanistan) are enacted, along with the President's other proposals, CBO estimates that the deficit for fiscal year 2007 will reach \$214 billion.

#### JANUARY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	261	261	*
Outlays	220	222	2
Surplus	40	38	-2

Sources: Department of the Treasury; CBO.

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

The Treasury reported a surplus of \$38 billion in January. That amount is about \$2 billion less than CBO had estimated on the basis of the *Daily Treasury Statements*, largely because defense spending was higher than expected.

#### ESTIMATES FOR FEBRUARY (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	113	120	7
Outlays	232	243	11
Deficit (-)	-119	-123	-4

Sources: Department of the Treasury; CBO.

The deficit in February was \$123 billion, CBO estimates, \$4 billion more than the deficit recorded in February 2006.

CBO estimates that revenues totaled about \$120 billion in February, an increase of about \$7 billion (or 6 percent) compared with revenues in February 2006. Withholding for income and payroll taxes rose by about \$10.5 billion, or almost 8 percent. Those increases were partially offset by higher refunds of individual income taxes and new refunds of telephone excise taxes, which together shaved an estimated \$4 billion off growth in total revenues. Net receipts from corporate income taxes were roughly unchanged, as both collections and refunds increased by comparable amounts.

Outlays were about \$11 billion (or 5 percent) greater this February than they were last February, CBO estimates. Spending for Social Security benefits and Medicare grew by \$3 billion each compared with outlays in the same month last year. Medicaid spending was up by \$2 billion in February, as was net interest on the public debt.

#### BUDGET TOTALS THROUGH FEBRUARY (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	873	954	81
Outlays	1,091	1,119	29
Deficit (-)	-218	-165	52

Sources: Department of the Treasury; CBO.

CBO estimates that the government incurred a deficit of \$165 billion in the first five months of fiscal year 2007, compared with a shortfall of \$218 billion recorded for the same period last year. Total receipts were about \$81 billion (or 9.3 percent) higher than those recorded in the same period last year. Outlays have risen by about \$29 billion (or 2.6 percent).

#### RECEIPTS THROUGH FEBRUARY (Billions of dollars)

Major Source	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	393	443	12.8
Corporate Income	94	114	21.0
Social Insurance	322	335	4.2
Other	64	61	-3.6
Total	873	954	9.3

Sources: Department of the Treasury; CBO.

Receipts of individual and corporate income taxes are more than 14 percent higher than they were in the first five months of fiscal year 2006; collections of social insurance payroll taxes are growing more slowly—by about 4 percent. Withholding for income and payroll taxes has

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.

increased by \$53 billion, or almost 8 percent, so far this year. Those receipts were especially robust in January, probably boosted by year-end bonuses. Growth in such receipts slowed in February, but remained higher than in the October-December period. Nonwithheld receipts of income and payroll taxes increased by \$18 billion, or about 21 percent. That largely reflects increases in the final quarterly estimated payment for 2006 made by taxpayers in January. Refunds of individual income taxes (which exclude outlays for refundable tax credits) have grown by about \$6 billion, or 11 percent. Refunds in February, the first full month in the tax filing season, grew by more than 5 percent. Usually by this point in the tax filing season, the Internal Revenue Service has sent out refunds to roughly 40 percent of taxpayers who will end up requesting them.

Receipts of corporate income taxes increased by about \$20 billion, or 21 percent, in the October-February period, compared with collections in the same period last year. Most of that increase occurred in December, when the last quarterly payment of taxes for tax year 2006 was made, and the only major payment month so far this year.

Other receipts have declined by about \$2 billion, or 4 percent, through February of this year because payments of excise taxes have declined. Those receipts have fallen mainly because major elements of the tax on telephone services were terminated last August, with refunds allowed for amounts paid over the past several years.

#### OUTLAYS THROUGH FEBRUARY (Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	202	219	8.3	8.2
Social Security				
Benefits	222	235	5.9	6.1
Medicare	144	179	24.3	17.6
Medicaid	74	77	4.3	4.3
Other Programs and Activities	<u>356</u>	<u>314</u>	-11.9	-11.6
Subtotal	998	1,024	2.6	1.8
Net Interest on the Public Debt	<u>92</u>	<u>95</u>	3.3	3.3
Total	1,091	1,119	2.6	1.9

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.

Excluding calendar-related shifts in the timing of certain payments, outlays through February were about 2 percent higher than in the same period last year. That rate of

growth is slightly below the 3 percent increase that CBO is projecting for the fiscal year as a whole, assuming enactment of the President's budget proposals.

Substantial spending for flood insurance and disaster relief in 2006 has a significant effect on the year-over-year comparison. Such spending has declined by \$24 billion relative to the high levels recorded in the wake of the 2005 Gulf Coast hurricanes. Excluding those programs and the \$13 billion collected this year from an auction of licenses to use the electromagnetic spectrum, outlays were up by about 5 percent compared with spending in the first five months of 2006.

More than half of the 18 percent increase in Medicare outlays through February was due to spending for the new prescription drug program, which did not take effect until the second quarter of fiscal year 2006. The growth in Medicare spending will decelerate as that disparity diminishes over the coming months, resulting in an annual gain of 9 percent (adjusted for payment shifts), CBO estimates. Medicaid spending accelerated in January and February, pushing outlays 4 percent higher than in the first five months of 2006. Medicaid outlays will grow by about 7 percent in fiscal year 2007, CBO estimates, after posting a slight decline in 2006.

#### CURRENT ESTIMATES FOR FISCAL YEAR 2007 (Billions of dollars)

	CBO	OMB
Receipts	2,533	2,540
Outlays	2,747	2,784
Deficit (-)	-214	-244

Sources: Office of Management and Budget and CBO, assuming enactment of the President's budget proposals.

Both CBO and the Office of Management and Budget (OMB) recently issued new estimates of the budget outlook for fiscal year 2007. CBO anticipates that the federal deficit will total \$214 billion in 2007 if the President's supplemental funding requests and other proposals are enacted. That shortfall would be equivalent to 1.6 percent of gross domestic product (GDP), the lowest level since 2002.

CBO's estimate of the 2007 deficit is \$30 billion lower than the shortfall projected by OMB. CBO's estimates of both spending and revenues are lower than the Administration's forecasts, by \$37 billion and \$7 billion, respectively. Roughly half of the difference in outlays results from CBO's lower estimates of spending for defense and for disaster assistance and other activities related to hurricane recovery efforts. CBO also expects outlays for many other programs to come in below the levels projected by the Administration.