



MONTHLY BUDGET REVIEW

Fiscal Year 2005

A Congressional Budget Office Analysis

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

August 4, 2005

The federal budget deficit was about \$308 billion during the first 10 months of fiscal year 2005, CBO estimates, \$88 billion less than the shortfall recorded over the same period in 2004. Revenues are about 14 percent higher than in the same period last year, outpacing the 6 percent growth in outlays. CBO will issue an updated estimate of the fiscal year 2005 deficit and new 10-year budget projections on August 15.

JUNE RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	235	235	*
Outlays	214	212	-1
Surplus	21	22	1

Sources: Department of the Treasury; CBO.

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

The Treasury reported a surplus of \$22 billion in June 2005, about \$1 billion more than CBO's projection based on the *Daily Treasury Statements*. Revenues were about the same as CBO anticipated, and outlays were about \$1 billion less than expected.

ESTIMATES FOR JULY (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	134	141	6
Outlays	204	199	-5
Deficit (-)	-69	-58	11

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$58 billion in July, CBO estimates, about \$11 billion less than the deficit incurred in the same month last year.

Revenues were about \$6 billion (or 5 percent) higher than they were last July. Receipts in July are dominated by withheld income and payroll taxes, which were up by about \$5 billion, or 4 percent. Neither individuals nor corporations make large amounts of quarterly estimated

payments or final payments with their income tax returns in July. However, for the small group of corporations that pay income taxes in July, those payments continued to show impressive gains, up by almost 44 percent, or \$2 billion.

Spending in July was \$5 billion lower than in the same month last year, CBO estimates, largely because of shifts in the timing of certain payments. Outlays in July 2004 were unusually high because the first day of August fell on a weekend. As a result, roughly \$12 billion in payments that would ordinarily have been made on August 1 were instead made at the end of July. Excluding the effects of that payment shift, outlays this year were about \$7 billion higher than in July 2004, an increase of 4 percent, according to CBO's estimates. Spending for Social Security, Medicare, and defense accounts for much of that increase.

BUDGET TOTALS THROUGH JULY (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	1,535	1,745	210
Outlays	1,931	2,053	122
Deficit (-)	-396	-308	88

Sources: Department of the Treasury; CBO.

The government recorded a deficit of about \$308 billion for the first 10 months of fiscal year 2005, CBO estimates, \$88 billion less than the deficit for the same period last year. The amount of the improvement is likely to shrink over the remaining two months of the year because of shifts in the timing of certain payments. Spending in August 2004 was less than usual because payments totaling \$12 billion were shifted from August 1 to July 30; spending this September will be bolstered because \$12 billion in outlays will shift from October 1 (a Saturday) to September 30.

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 JULY
(Billions of dollars)

Major Source	Actual FY2004	Preliminary FY2005	Percentage Change
Individual Income	657	752	14.5
Corporate Income	145	205	41.1
Social Insurance	612	664	8.6
Other	<u>121</u>	<u>124</u>	2.5
Total	1,535	1,745	13.7

Sources: Department of the Treasury; CBO.

Total receipts in the first 10 months of fiscal year 2005 were about \$210 billion, or almost 14 percent, higher than those in the same period of fiscal year 2004. Individual income taxes showed the largest gain—\$95 billion, or 14 percent—above 2004 levels. Social insurance (payroll tax) receipts grew by about \$52 billion, or 8.6 percent.

Withheld receipts of income and payroll taxes were \$69 billion, or 6 percent, higher than in the same period last year. Those tend to follow growth in wages and salaries in the economy. Nonwithheld receipts of income and payroll taxes were \$68 billion, or about 30 percent, higher than in the first 10 months of 2004. Those receipts were especially strong after taxpayers filed their tax returns for calendar year 2004. Some of that increase probably represents a shift in the timing of tax payments as a result of changes in tax laws rather than reflecting income growth. Other factors contributing to the revenue growth, such as increases in certain types of income or the distribution of the income among taxpayers with different tax rates, should become clearer when tax return data become available next year.

Corporate income tax receipts have risen by almost \$60 billion, or 41 percent, through the first 10 months of fiscal year 2005. Following similar growth last year, those receipts are on track to be more than double their 2003 level, indicating strong growth in corporate profits over that period. The increase in receipts in 2005 reflects economic activity in calendar year 2004 and the first half of 2005. Tax law changes, primarily relating to the depreciation incentives enacted in 2002 and 2003, are contributing to the growth in receipts in 2005. Those incentives reduced taxable profits from 2002 through 2004 and have boosted them this year, following expiration of the incentives at the end of 2004.

OUTLAYS THROUGH JULY
(Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	364	388	6.4	7.4
Social Security				
Benefits	405	427	5.6	5.6
Medicare	251	271	8.2	9.7
Medicaid	147	152	3.2	3.2
Other Programs and Activities	<u>626</u>	<u>658</u>	5.2	6.1
Subtotal	1,793	1,897	5.8	6.5
Net Interest on the Public Debt	<u>138</u>	<u>156</u>	12.9	12.9
Total	1,931	2,053	6.3	7.0

Sources: Department of the Treasury; CBO.

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

Outlays grew by about 6.3 percent in the first 10 months of fiscal year 2005, CBO estimates, or about 7 percent after adjusting for the effects of shifts in payment dates. Net outlays for interest on the public debt remain the fastest-growing category of spending, rising about 13 percent relative to the same period last year. That growth reflects increases in three key factors affecting interest costs: short-term interest rates, the amount of public debt, and the rate of inflation used to calculate payments for inflation-indexed bonds.

Defense spending has grown more slowly this year than in the past three years—rising by about 7 percent through July compared with an average of 14 percent during the buildup of military operations in Afghanistan and Iraq in fiscal years 2002 through 2004. Outlays for military personnel have been one of the fastest-growing elements of the defense budget so far this year (up about 8.8 percent after adjusting for payment shifts).

Adjusted for shifts in payment dates, Medicare spending in the first 10 months of the year was almost 10 percent more than in the same period last year, the highest rate of growth in the program's spending since 1995. The 5.6 percent increase in Social Security outlays through July reflects the 2.7 percent cost-of-living increase that took effect in January (higher than the 2.1 percent increase the previous year), as well as a growing number of beneficiaries and other factors. Medicaid spending has risen more slowly so far this year than last year (up by about 3 percent through July compared with 9.7 percent growth in fiscal year 2004), primarily because 2004 spending was bolstered by a temporary increase in the federal government's share of the program's costs.