



MONTHLY BUDGET REVIEW

Fiscal Year 2004

A Congressional Budget Office Analysis

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

December 5, 2003

The federal government incurred a deficit of about \$113 billion in the first two months of fiscal year 2004, CBO estimates, about the same as the shortfall recorded during the same period last year. But that comparison is affected by shifts in the timing of certain expenditures and tax payments. Adjusted for those shifts, the deficit for the first two months of this fiscal year would have been about \$16 billion higher than for the same period last year. Even with the improving economic outlook, the 2004 deficit is likely to be substantially larger than last year's \$374 billion shortfall.

OCTOBER RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	135	136	1
Outlays	206	205	*
Deficit (-)	-71	-70	1

SOURCES: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$70 billion in October, about \$1 billion less than CBO's projection based on the *Daily Treasury Statements*. Revenues were slightly higher than CBO had projected, and outlays were slightly lower.

ESTIMATES FOR NOVEMBER (In billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	120	118	-2
Outlays	179	162	-17
Deficit (-)	-59	-44	15

SOURCES: Department of the Treasury; CBO.

The federal government recorded a deficit of \$44 billion in November, CBO estimates, about \$15 billion less than the deficit in November 2002. Receipts were down by about \$2 billion, and outlays were \$17 billion lower than in November of last year.

Receipts from individual income taxes fell by \$5 billion compared with their level in November 2002. That

decrease occurred mainly because of the tax cuts enacted earlier this year and because of the fact that this November had one fewer business day than last November did. Corporate receipts rose by \$2 billion, marking the seventh increase in the past eight months.

Outlays in November were unusually low because the first day of the month fell on a weekend. Roughly \$11 billion in payments that would ordinarily have been made on November 1 were instead made at the end of October. In contrast, outlays were unusually high in November 2002 because December 1 fell on a weekend. As a result, \$11 billion in payments that would normally have been made on December 1, 2002, were made at the end of November 2002. In the absence of those two payment shifts, November outlays would have grown by about \$5 billion (or 3 percent) from 2002 to 2003. Defense and Social Security spending accounted for most of the additional spending.

BUDGET TOTALS THROUGH NOVEMBER (In billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	245	254	9
Outlays	358	367	10
Deficit (-)	-113	-113	*

SOURCES: Department of the Treasury; CBO.

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

CBO estimates that the government recorded a deficit of \$113 billion for the first two months of fiscal year 2004. Receipts and outlays were both higher than in the same period last year, and by similar amounts. Adjusted for shifts in the timing of certain receipts and expenditures, the deficit would have grown by about \$16 billion.

NOTE: Unless otherwise indicated, the numbers 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.

TOTAL RECEIPTS
(In billions of dollars)

Major Source	Actual FY2003	Preliminary FY2004	Percentage Change
Individual Income	123	118	-4.2
Corporate Income	-7	4	n.a.
Social Insurance	105	108	2.7
Other	<u>23</u>	<u>25</u>	6.4
Total	245	254	3.8

SOURCES: Department of the Treasury; CBO.

NOTE: n.a. = not applicable.

Receipts in the first two months of fiscal year 2004 rose by \$9 billion, or 3.8 percent, compared with the same two months of last year. Those results provide only a slight indication of the path of receipts for the full fiscal year. Receipts in October and November are typically lower than average because in those months most individual and corporate taxpayers are not required to remit either quarterly estimated payments of income taxes or final payments due with the filing of tax returns.

Most of the increase in receipts in October and November was generated by corporate payments. Compared with the same period a year ago, those receipts rose by \$10 billion. Half of that increase was generated by a provision in recent tax legislation that allowed firms to delay paying part of their quarterly estimated income taxes until October 1 (the normal deadline is September 15). In addition, about \$4 billion of the increase represents lower refunds. In each of the past five months, refunds have been lower than in the comparable month of the preceding year, presumably reflecting improvements in profits and the reduced effects of recent legislation that increased deductions for depreciation.

Combined receipts from individual income and social insurance taxes declined by \$2 billion over the two-month period compared with the same period last year. The income tax cuts enacted in May in the Jobs and Growth Tax Relief Reconciliation Act have reduced withheld receipts, but those effects have been roughly offset by the growing economy.

TOTAL OUTLAYS
(In billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	60	66	10.5	16.0
Social Security				
Benefits	76	79	4.1	4.1
Medicare	48	46	-4.8	1.8
Medicaid	27	28	4.3	4.3
Other Programs				
and Activities	<u>119</u>	<u>120</u>	1.4	5.5
Subtotal	330	340	3.0	6.4
Net Interest on the				
Public Debt	<u>28</u>	<u>28</u>	-0.3	-0.3
Total	358	367	2.8	5.9

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of week-ends or holidays.

Outlays were about 3 percent higher for the first two months of fiscal year 2004, CBO estimates, than for the same period last year. Adjusted for shifts in payment dates, that rate of growth increases to almost 6 percent. On an annualized basis, the rate of increase is somewhat greater because there have been 40 workdays so far this year, compared with 41 last year.

Military activities remain the fastest growing category of spending. Defense outlays have averaged about \$34 billion a month over the past nine months. That level of spending is higher by about 15 percent, or slightly more than \$4 billion a month, than the amounts spent in the 12 months before the start of the war in Iraq.

Medicare outlays averaged \$23 billion a month in October and November, about 4 percent more per day than during the last six months of fiscal year 2003. Medicaid outlays in October and November were about 6 percent more per day than during the last six months of fiscal year 2003.

Apart from October's \$5 billion in payments to states for emergency fiscal relief, spending for other programs and activities was largely unchanged in the first two months of the year (after adjusting for shifts in payment dates). This category includes many nondefense discretionary programs being funded by a continuing resolution that runs through January 31 and limits the rate of spending to the amounts provided for 2003.

Net interest on the public debt has been about the same as it was last year. That result contrasts with the experience of the past six years, when falling interest costs offset some of increase in other federal outlays.