



# MONTHLY BUDGET REVIEW

## Fiscal Year 2009

### A Congressional Budget Office Analysis

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

August 6, 2009

The federal budget deficit for the first 10 months of fiscal year 2009 reached \$1.3 trillion, CBO estimates, close to \$880 billion greater than the deficit recorded through July 2008. Outlays rose by almost \$530 billion (or 21 percent) and revenues fell by more than \$350 billion (or 17 percent) compared with the amounts recorded during the same period last year. The estimated deficit reflects outlays of \$169 billion for the Troubled Asset Relief Program (TARP), recorded on a net-present-value basis adjusted for market risk. It also includes net cash payments of \$83 billion in support of Fannie Mae and Freddie Mac, although CBO believes that those two entities should be considered federal operations and that the full scope of their activities should be incorporated in the budget in a manner similar to the TARP. CBO estimates that spending increases and revenue reductions stemming from the American Recovery and Reinvestment Act of 2009 (ARRA) have totaled more than \$125 billion so far this year (excluding the impact on the budget from the effects that the legislation has had on the economy).

#### JUNE RESULTS

The Treasury reported a deficit of \$94 billion for June, about \$2 billion lower than CBO's estimate for that month, which was based on the *Daily Treasury Statements*. The difference occurred primarily because outlays for defense and housing programs were lower than expected.

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

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	160	152	-8
Outlays	263	334	71
Deficit (-)	-103	-181	-79

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$181 billion in July, CBO estimates, \$79 billion greater than the deficit recorded in the same month last year.

According to CBO's estimates, receipts were about \$8 billion (or 5 percent) lower in July 2009 than they were in July 2008, marking the 15th consecutive month in which receipts were lower than those in the same month of the previous year. Withholding for income and payroll taxes was about \$11 billion (or 8 percent) less than that in July 2008, CBO estimates; about half of that decline resulted from provisions in ARRA, primarily the Making Work Pay tax credit. The decline would have been larger if not for the effects of the calendar (July had one additional business day this year). Refunds in that month were about \$11 billion less than they were in July 2008,

primarily because of the rebates paid in July of last year pursuant to the Economic Stimulus Act of 2008. Lower refunds partly offset the decline in other receipts. Corporate income tax receipts continue to show weakness, with a decline of about \$7 billion from July 2008.

Outlays were \$71 billion higher this July than in the same month last year because of growth in spending and the effects of the calendar. August 1, 2009, fell on a weekend, which shifted about \$24 billion in outlays from August to July. Without that timing shift, the growth in outlays this July would have totaled \$46 billion (or about 18 percent). TARP spending of \$22 billion was the largest contributing factor to that increase. In addition, unemployment benefits and Medicaid outlays rose by \$8 billion and \$5 billion, respectively, boosted by stimulus spending from ARRA. Adjusted for timing shifts, Medicare and Social Security outlays increased by \$6 billion and \$5 billion, respectively, compared with last July.

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

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	2,094	1,741	-353
Outlays	2,483	3,009	526
Deficit (-)	-389	-1,268	-879

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government incurred a deficit of \$1.3 trillion in the first 10 months of fiscal year 2009. Outlays were \$526 billion greater than those in the October-July period last year, while revenues have fallen by \$353 billion.

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 FY2008	Preliminary FY2009	Percentage Change
Individual Income	944	751	-20.4
Corporate Income	247	106	-57.3
Social Insurance	758	754	-0.6
Other	<u>145</u>	<u>130</u>	-10.2
<b>Total</b>	<b>2,094</b>	<b>1,741</b>	<b>-16.9</b>

Sources: Department of the Treasury; CBO.

Total receipts for the first 10 months of fiscal year 2009 were 17 percent lower than in the same period last year. Declining receipts from individual income and payroll taxes account for close to 60 percent of the overall decrease in receipts. Those collections are down by almost \$200 billion (or 12 percent) in the first 10 months of the year, compared with collections in the first 10 months of 2008.

Nonwithheld receipts of individual income and payroll taxes (consisting of final payments of 2008 taxes and quarterly estimated payments of 2008 and 2009 taxes) were down by about \$123 billion (or 28 percent). About three-fourths of that decline represents collections for tax year 2008, with the remainder resulting from lower estimated payments of 2009 taxes. Although recent legislation has had some impact on those receipts, most of the shortfall probably resulted from the effects of the recession on nonwage income, such as capital gains, dividends, and earnings of noncorporate businesses. Refunds were about \$17 billion (or 6 percent) lower than in the same period last year but would have risen if not for the \$61 billion in rebates paid through July of last year.

Withholding of income and payroll taxes fell by about \$89 billion (or 6 percent) compared with receipts in the same period of 2008, primarily because of the ongoing effects of the recession on wages and salaries and lower effective tax rates on that income. CBO estimates that about one-third of the decline is attributable to provisions in ARRA, primarily the Making Work Pay tax credit.

Receipts from corporate income taxes have declined sharply, falling by \$141 billion (or 57 percent). Continued weakness in corporate profits, recently enacted legislation (most notably provisions allowing more-rapid depreciation), and the ability of firms to use current-year losses to reduce tax liabilities from previous years all contributed to lower corporate receipts. Other tax receipts declined by about \$15 billion (or 10 percent); almost half of that drop is attributable to lower receipts from the Federal Reserve, which primarily resulted from lower interest rates and losses on some assets acquired from Bear Stearns and American International Group (AIG).

## OUTLAYS THROUGH JULY

(Billions of dollars)

Major Category	Actual FY2008	Preliminary FY2009	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	491	531	8.1	7.2
Social Security				
Benefits	504	546	8.4	8.4
Medicare <sup>b</sup>	321	370	15.0	11.0
Medicaid	169	209	23.7	23.7
Unemployment				
Benefits	37	96	161.2	161.2
Other Activities	<u>746</u>	<u>842</u>	12.8	11.9
<b>Subtotal</b>	<b>2,269</b>	<b>2,594</b>	<b>14.3</b>	<b>13.3</b>
Net Interest on the				
Public Debt	214	162	-24.1	-24.1
TARP	0	169	n.a.	n.a.
Payments to GSEs	<u>0</u>	<u>83</u>	n.a.	n.a.
<b>Total</b>	<b>2,483</b>	<b>3,009</b>	<b>21.2</b>	<b>20.2</b>

Sources: Department of the Treasury; CBO.

Notes: TARP = Troubled Asset Relief Program; n.a. = not applicable; GSE = government-sponsored enterprise.

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

b. Medicare outlays are net of proprietary receipts.

Outlays topped \$3.0 trillion for the first 10 months of the fiscal year, growing by 21 percent compared with outlays through July of last year—or if the estimate is adjusted to reflect the shifts in payment dates, by 20 percent. Payments for the TARP and net cash disbursements for Fannie Mae and Freddie Mac account for nearly half (or \$252 billion) of the increase over last year.

Spending for unemployment benefits is more than 2½ times what was spent in the first 10 months of 2008 because of higher unemployment and legislation that increased the amount and duration of benefits. Federal spending for health care has also grown rapidly. Medicaid spending grew by 24 percent, largely because of a provision in ARRA that temporarily increases the share of Medicaid costs paid for by the federal government. Adjusting for shifts in payment dates, Medicare spending was up by 11 percent.

If adjusted to reflect timing shifts, spending for the category “other activities” grew by 12 percent. About one-third of the increase in outlays stemmed from provisions in ARRA, particularly those affecting spending for Social Security beneficiaries, the State Fiscal Stabilization Fund, and food and nutrition programs. That growth also reflects higher spending for a wide range of programs, as well as lower earnings credited to certain government funds. By contrast, net outlays for interest on the public debt have declined by 24 percent, mainly because of lower short-term interest rates and lower costs for inflation-indexed securities.