



# MONTHLY BUDGET REVIEW

## Fiscal Year 2007

### A Congressional Budget Office Analysis

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

February 6, 2007

The federal government incurred a deficit of \$40 billion in the first four months of fiscal year 2007, CBO estimates, about \$58 billion less than the shortfall in the same period last year. Revenues increased by about 10 percent relative to receipts through January of last year, outpacing the 2 percent growth in outlays. Assuming enactment of additional funding for military operations in Iraq and Afghanistan, but no other legislation affecting spending or revenues, CBO expects that the federal government will end 2007 with a deficit in the vicinity of \$200 billion. (See *The Budget and Economic Outlook: Fiscal Years 2008 to 2017* at [www.cbo.gov](http://www.cbo.gov) for CBO's new 10-year projections.)

#### DECEMBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	260	260	*
Outlays	220	215	-4
Surplus	40	45	4

Sources: Department of the Treasury; CBO.

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

The Treasury reported a surplus of \$44.5 billion in December, about \$4 billion more than CBO projected on the basis of the *Daily Treasury Statements*. The difference occurred largely because outlays were lower than expected for the Department of Defense and a number of other agencies.

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

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	230	261	31
Outlays	209	220	11
Surplus	21	40	20

Sources: Department of the Treasury; CBO.

The federal government recorded a surplus of \$40 billion in January, CBO estimates, almost twice the surplus recorded in the same month last year. (January tends to be a favorable month for the budget because one of the estimated tax payments for individuals is due in January, and some outlays for salaries and benefits shift into December because January 1 is a holiday.)

CBO estimates that receipts in January were about \$31 billion (or 13 percent) higher than receipts in January 2006; almost all of the gains resulted from payments of individual income and payroll taxes. Withholding from paychecks increased by about \$19 billion (or 13 percent). That percentage increase was about twice the average of

recent months and probably reflects both substantial year-end bonuses and an additional business day in January 2007, compared with January 2006. (A similar but smaller upswing in withholding occurred last year, when withheld receipts grew by about 10.5 percent in January and by 6.5 percent, on average, in the other months of the year.) Nonwithheld receipts of income and payroll taxes, mainly reflecting the last quarterly payments of estimated taxes for 2006, grew by about \$10 billion, 18 percent more than the payments in January 2006. That percentage increase was about the same as the growth in the previous two quarterly payments.

Outlays in January were \$11 billion (or 5 percent) higher than in the same month last year, CBO estimates. Spending for net interest on the public debt, Medicare, and the Department of Defense grew by \$4 billion each, and Social Security outlays were up by \$3 billion. Medicaid spending grew by almost \$2 billion this January—the largest increase in more than two years. In contrast, spending for flood insurance and disaster assistance was about \$5 billion lower than in January 2006 because of last year's hurricane-related spending.

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

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	760	834	74
Outlays	859	874	16
Deficit (-)	-98	-40	58

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$40 billion for the first four months of fiscal year 2007, compared with a \$98 billion shortfall in the same period last year. Receipts have grown by 10 percent through January, while outlays have increased by about 2 percent. Assuming enactment of supplemental appropriations for ongoing military operations, but no other legislation affecting spending or revenues, CBO expects outlays to grow by about 3 percent, and revenues to rise by roughly 6 percent, for the year as a whole.

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 JANUARY**  
(Billions of dollars)

Major Source	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	360	405	12.6
Corporate Income	90	110	22.1
Social Insurance	257	268	4.0
Other	<u>53</u>	<u>51</u>	-2.9
Total	760	834	9.8

Sources: Department of the Treasury; CBO.

Receipts increased by about \$74 billion in the first four months of fiscal year 2007, compared with the same months in 2006. More than half of the increase, or \$42 billion, resulted from higher withholding for individual income and payroll taxes. Those receipts have grown by about 8 percent so far this year, which is almost 1 percentage point higher than the rate of increase in 2006. Robust increases in recent year-end bonuses and the effects of an extra business day probably contributed to the higher growth.

Nonwithheld payments of individual income and social insurance taxes were higher by about \$18 billion, or 23 percent, during the October-January period than in the same months last year. That increase resulted primarily from higher quarterly estimated payments of individual income taxes in January. The sums involved, however, represent only a small portion of nonwithheld payments for the year.

Refunds of individual income taxes were about \$4 billion, or more than 30 percent, higher in the October-January period than in the same four months of last year. Most refunds in 2007 will be made over the February-May period, after taxpayers file their tax returns.

Receipts from corporate income taxes grew by \$20 billion, or 22 percent, during the first four months of this fiscal year. Most of that increase reflects higher quarterly estimated payments in December, the result of continuing strength in corporate profits.

For the entire fiscal year, CBO projects, revenues will grow by about 5.6 percent: individual income taxes by 9.6 percent; corporate income taxes by 4.1 percent; and social insurance taxes by 4.4 percent. Revenues from other sources combined are expected to be 9 percent lower, mainly due to refunds of telephone excise taxes, which are projected to total \$13 billion in fiscal year 2007.

**OUTLAYS THROUGH JANUARY**  
(Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	164	180	9.8	9.7
Social Security				
Benefits	177	187	5.9	6.2
Medicare	113	144	27.5	19.1
Medicaid	61	61	1.0	1.0
Other Programs				
and Activities	<u>272</u>	<u>229</u>	-15.8	-15.4
Subtotal	786	801	1.9	1.0
Net Interest on the				
Public Debt	<u>72</u>	<u>73</u>	0.7	0.7
Total	859	874	1.8	0.9

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.

After adjusting for shifts in the timing of certain payments, outlays through January were about 1 percent higher than in the first four months of 2006, CBO estimates. Several programs grew at a faster pace during that period, but most of those gains were offset by lower spending in other areas and higher offsetting receipts.

The results through January do not necessarily indicate annual trends for specific programs. Nearly two-thirds of the increase in Medicare outlays through January was due to spending for the new prescription drug program, which did not exist prior to January 2006. That difference also affected the growth in Medicaid outlays because some costs previously borne by Medicaid were shifted to Medicare's drug program. CBO estimates that Medicare outlays will grow by about 9 percent for the year as a whole (adjusted for payment shifts) and that Medicaid spending will rise by about 7 percent, compared with spending in 2006.

The 15 percent drop in spending through January for other programs and activities largely resulted from lower spending for flood insurance and disaster assistance (which spiked early in 2006 in response to the 2005 Gulf Coast hurricanes) and from the receipt of \$13 billion from a 2006 auction of licenses to use radio spectrum. CBO expects that outlays for this "other" category will end the year about 7 percent below 2006 levels.

Outlays for net interest on the public debt were about the same as in the first four months of 2006 because reductions in the interest accrued on inflation-indexed securities offset increases due to higher interest rates and growing debt. CBO anticipates that net interest costs will increase by more than 5 percent for the year as a whole.