



# MONTHLY BUDGET REVIEW

## Fiscal Year 2005

### A Congressional Budget Office Analysis

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

February 4, 2005

The federal government incurred a deficit of \$106 billion in the first four months of fiscal year 2005, CBO estimates, about \$25 billion less than for the same period last year. Both revenues and spending are running ahead of last year's pace, up by about 10 percent and 6.5 percent, respectively. Assuming enactment of supplemental appropriations for military operations in Iraq and Afghanistan, but no other legislation affecting spending or revenues, CBO expects that the federal government will end 2005 with a deficit of about \$400 billion.

#### DECEMBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	218	216	-2
Outlays	217	219	2
Surplus or Deficit (-)	1	-3	-4

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of about \$3 billion in December, \$4 billion less favorable than the \$1 billion surplus CBO anticipated on the basis of the *Daily Treasury Statements*. Outlays were \$2 billion higher than expected for a number of programs and agencies, including the Postal Service, the Homeland Security Department, and international assistance. Revenues were about \$2 billion lower than expected from a number of sources, particularly corporate income taxes.

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

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	185	201	15
Outlays	187	188	2
Surplus or Deficit (-)	-1	12	14

Sources: Department of the Treasury; CBO.

The surplus in January 2005 was about \$12 billion, CBO estimates, a swing of \$14 billion relative to the \$1 billion deficit for the same month in 2004.

Total receipts in January were about \$201 billion, CBO estimates, a gain of about \$15 billion, or 8 percent, above the amount received in January 2004. Withholding for income and payroll taxes increased by about \$10 billion, or 8 percent, relative to its level in January 2004. Nonwithheld receipts increased by about \$3 billion, or 7 percent; those receipts in January largely represent individuals' last estimated payment of income taxes for

tax year 2004. Payments of corporate income taxes continued to increase, gaining about \$2 billion over last January's payments.

Outlays in January were \$2 billion higher than in the same month last year, CBO estimates. The growth in outlays was affected by shifts in the timing of certain payments that reduced outlays by about \$9 billion last month. In the absence of those payment shifts, outlays would have risen by about \$11 billion (or 6 percent) from January 2004 to January 2005. About half of that increase was due to higher spending for Medicare and Social Security.

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

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	626	688	62
Outlays	757	794	37
Deficit	-132	-106	25

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$106 billion for the first four months of fiscal year 2005, about \$25 billion less than the deficit recorded for the same period last year. The year-over-year improvement is enhanced by shifts in the timing of certain outlays; without such shifts, the deficit would be about \$17 billion lower so far this year.

CBO projects that the budget deficit for the remaining months of this fiscal year will be slightly higher than that incurred during the same period last year. Although revenues are projected to grow by 9 percent, outlays are expected to rise significantly as well. A number of factors account for that prospect. Rising interest costs and substantially higher spending for agricultural income-support programs and refundable tax credits will add to outlays during the latter part of this year. In addition, shifts in payment dates in both years add to the year-over-year increase. Some payments shifted from February to January 2004 (because February 1 was on a weekend); similar

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.

payments will shift from October to September 2005 (because October 1 is on a weekend). For that reason, outlays in the last eight months of fiscal year 2004 were unusually low, and outlays in the last eight months of this fiscal year will be unusually high—a swing of about \$24 billion.

### RECEIPTS THROUGH JANUARY (Billions of dollars)

Major Source	Actual FY2004	Preliminary FY2005	Percentage Change
Individual Income	300	326	8.8
Corporate Income	48	69	44.9
Social Insurance	230	245	6.4
Other	<u>49</u>	<u>48</u>	-1.3
Total	626	688	9.9

Sources: Department of the Treasury; CBO.

Receipts rose by about \$62 billion, or almost 10 percent, during the first four months of fiscal year 2005, compared with the same period in fiscal year 2004. Over half of the increase, or about \$32 billion, can be explained by higher withholding for individual income and payroll taxes, mostly the former. Withholding for income and payroll taxes grew by about 7 percent in the October-January period compared with the same period last year.

Nonwithheld payments of individual income and social insurance taxes rose by about \$7 billion, or 11 percent, during this period. Individual income taxes accounted for about \$5 billion of that increase.

Receipts of corporate income taxes have remained strong so far this fiscal year, increasing by about \$21 billion, or 45 percent. About two-thirds of that growth is attributable to higher collections, which largely reflect current corporate profits; the remainder is due to smaller refunds, which include settlements of old court cases.

For the entire fiscal year, CBO estimates that revenues will grow by 9.4 percent—with individual income taxes up by 11 percent, corporate income taxes up by 14 percent, and social insurance taxes up by 8 percent.

### OUTLAYS THROUGH JANUARY (Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	144	149	3.7	6.2
Social Security				
Benefits	159	167	5.3	5.3
Medicare	97	105	7.4	10.9
Medicaid	57	59	3.0	3.0
Other Programs				
and Activities	<u>246</u>	<u>256</u>	4.0	6.2
Subtotal	704	737	4.6	6.4
Net Interest on the				
Public Debt	<u>54</u>	<u>58</u>	7.7	7.7
Total	757	794	4.9	6.5

Sources: Department of the Treasury; CBO.

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

CBO estimates that outlays through January were about 5 percent higher than in the first four months of fiscal year 2004. Excluding the effects of timing shifts because of holidays or weekends, spending is up by about 6.5 percent relative to the same period last year. For the year as a whole, CBO expects outlays to grow by about 7.1 percent.

Defense and nondefense spending increased at roughly the same rate through January, each rising by an average of about 6 percent relative to the same period last year (after adjusting for timing shifts). This is in sharp contrast to trends in the past two fiscal years, when the rate of growth in defense spending was more than double that of other programs and activities. Assuming enactment of supplemental appropriations for military activities in Iraq and Afghanistan, CBO expects that defense outlays will end the year about 9 percent higher than in 2004.

Outlays for the three major entitlement programs—Social Security, Medicare, and Medicaid—were about 6.6 percent higher than in the first four months of 2004, matching the annual increase experienced in 2004. After adjusting for timing shifts, Medicare outlays were nearly 11 percent higher, but the growth in Medicaid spending was much slower through January—up 3 percent relative to the same period last year—because outlays in the first nine months of 2004 included the cost of a temporary increase in the federal share of the program's expenses.

Outlays for other programs were also about 6 percent above the levels recorded in the first four months of 2004. Spending for disaster assistance (primarily related to the 2004 hurricane season), agricultural income-support programs, and reconstruction activities in Iraq was noticeably higher than it was last year.