



MONTHLY BUDGET REVIEW

Fiscal Year 2012

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for August and the *Daily Treasury Statements* for September

October 5, 2012

The federal budget deficit was about \$1.1 trillion in fiscal year 2012, CBO estimates, approximately \$200 billion less than the shortfall recorded in 2011. At 7.0 percent of gross domestic product, the 2012 deficit was down from 8.7 percent in 2011 and 9.0 percent in 2010 but greater than in any year between 1947 and 2008. The estimated 2012 total reflects the shift of some payments from fiscal year 2012 into fiscal year 2011 (that is, from October 2011 to September 2011, because October 1 fell on a weekend); without that timing shift, the deficit in 2012 would have been about \$30 billion higher. CBO's deficit estimate is based on data from the *Daily Treasury Statements*; the Treasury Department will report the actual deficit for fiscal year 2012 later this month.

AUGUST RESULTS

The Treasury reported a deficit of \$191 billion for August, \$1 billion less than the amount CBO had projected on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR SEPTEMBER (Billions of dollars)

	Actual FY 2011	Preliminary FY 2012	Estimated Change
Receipts	240	263	23
Outlays	303	188	-115
Deficit (-)/Surplus	-63	75	138

Sources: Department of the Treasury; CBO.

The Treasury recorded a surplus of \$75 billion in September 2012, CBO estimates, in contrast with the \$63 billion deficit incurred in the same month last year. Shifts in the timing of certain payments influenced the results in both years: Payments totaling \$31 billion were shifted from October 2011 to September 2011, while payments totaling \$58 billion were shifted from September 2012 to August 2012. Adjusted for those timing shifts, the surplus in September 2012 would have been \$17 billion, in contrast with a deficit of \$32 billion in September 2011.

Adjusted for timing shifts, outlays last month would have been \$26 billion (or 10 percent) less than the amount recorded in September of last year, CBO estimates. Net payments to Fannie Mae and Freddie Mac were \$7 billion lower than in the same month last year, because the government did not provide cash infusions to the two entities this September. The government recorded receipts of \$7 billion in September from the sale of stock in American International Group; no such sale occurred in September 2011. Outlays for unemployment benefits were \$6 billion lower in September than they were a year ago. Adjusted for the

effects of shifts in the timing of some payments, spending for military activities also declined, by \$5 billion, largely because of smaller payments to contractors for goods and services. In contrast, spending for Social Security benefits was \$4 billion higher in September 2012 than in September 2011.

Receipts this September were about \$23 billion (or 9 percent) higher than those in September 2011, CBO estimates. Net receipts from the corporate income tax rose by \$17 billion (or 44 percent), reflecting higher quarterly tax payments. Net receipts from individual income and payroll taxes rose by \$5 billion (or 3 percent). Withheld receipts from those sources fell by \$1 billion, but they would have risen if not for the effects of the calendar: September 2012 had two fewer business days than September 2011. Nonwithheld receipts of individual income and payroll taxes, mainly quarterly estimated payments of 2012 taxes, rose by \$3 billion (or 6 percent). And, together, changes in refunds of individual income taxes and in collections of payroll taxes for unemployment insurance boosted receipts by \$2 billion.

FISCAL YEAR TOTALS (Billions of dollars)

	Actual FY 2011	Preliminary FY 2012	Estimated Change
Receipts	2,302	2,450	148
Outlays	3,599	3,540	-59
Deficit (-)	-1,297	-1,090	207

Sources: Department of the Treasury; CBO.

The federal deficit was just under \$1.1 trillion in 2012, CBO estimates, \$207 billion lower than the 2011 deficit and \$38 billion less than the agency projected in August. Outlays appear to have been \$23 billion lower and revenues \$15 billion higher than CBO expected.

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.

REVENUES THROUGH SEPTEMBER

(Billions of dollars)

Major Source	Actual FY 2011	Preliminary FY 2012	Percentage Change
Individual Income	1,091	1,129	3.4
Social Insurance	819	850	3.9
Corporate Income	181	242	33.7
Other	<u>211</u>	<u>229</u>	8.6
Total	2,302	2,450	6.4

Memorandum:

Combined Individual Income and Social Insurance Taxes

Withheld	1,709	1,754	2.6
Other	<u>201</u>	<u>225</u>	12.1
Total	1,910	1,979	3.6

Sources: Department of the Treasury; CBO.

Total receipts rose by \$148 billion (or 6 percent) in fiscal year 2012, CBO estimates. Corporate income taxes contributed the largest amount to the overall increase in revenues, rising by \$61 billion (or 34 percent), on net. The growth in corporate receipts is largely a result of changes in tax rules in recent years—in particular, the rules governing how quickly firms may deduct the cost of their investments in equipment.

Individual income tax receipts grew by \$37 billion (or 3 percent) in 2012, mainly because of withheld taxes for that source, which rose by \$24 billion (or 2 percent). In addition, nonwithheld payments, which included final payments made with 2011 tax returns filed earlier this year and quarterly estimated payments of 2012 taxes, increased by \$13 billion (or 4 percent). Refunds of individual income taxes were about the same in 2012 as in 2011.

Receipts from social insurance taxes rose by \$32 billion (or 4 percent) in 2012, mostly because withholding for payroll taxes grew by about \$20 billion (or 3 percent). The current reduction of 2 percentage points in the payroll tax was not in effect for the first quarter of fiscal year 2011 (October through December 2010); if it had been in effect during that time, the year-over-year increase in withholding for payroll taxes would have been about \$25 billion larger, CBO estimates. In addition, collections of unemployment insurance taxes rose by \$11 billion (or 20 percent) in 2012, as states continued to replenish trust funds depleted by the recent recession.

Receipts from other sources increased by about \$18 billion (or 9 percent) in 2012. Collections of estate and gift taxes rose by \$7 billion; receipts of excise taxes grew by \$6 billion; and, together, revenues from customs duties and miscellaneous fees and fines increased by \$6 billion. Those gains were partially offset by a decline of \$1 billion in receipts from the Federal Reserve.

OUTLAYS THROUGH SEPTEMBER

(Billions of dollars)

Major Category	Actual FY 2011	Preliminary FY 2012	Percentage Change	
			Actual	Adjusted ^a
Defense–Military	678	651	-4.0	-2.9
Social Security				
Benefits	720	762	5.9	5.9
Medicare ^b	483	469	-3.0	3.2
Medicaid	275	250	-8.9	-8.9
Unemployment				
Benefits	126	96	-23.9	-23.9
Other Activities	<u>1,089</u>	<u>1,030</u>	-5.5	-3.2
Subtotal	3,371	3,258	-3.4	-1.5
Net Interest on the				
Public Debt	266	258	-3.0	-3.0
TARP	<u>-38</u>	<u>24</u>	n.m.	n.m.
Total	3,599	3,540	-1.6	0.1

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; n.m. = not meaningful.

- a. Excludes the effects of payments shifted because of weekends or holidays and of prepayments of deposit insurance premiums.
- b. Medicare outlays are net of offsetting receipts.

Outlays were about the same in 2012 as they were in 2011, after adjusting for the effects of timing shifts, CBO estimates. Excluding adjustments recorded in the budget for the estimated cost of credit programs (mainly the Troubled Asset Relief Program), however, the government's outlays decreased by 2 percent relative to spending in 2011. Part of that decline occurred because the budget reflects a \$7 billion upward revision to estimated costs for the Treasury's purchase of mortgage-backed securities in 2011 and a downward revision of \$8 billion in the same category in 2012.

Spending fell across all major categories except Social Security and Medicare. Outlays for unemployment benefits were \$30 billion (or 24 percent) below 2011 amounts, mostly because fewer people have been receiving benefits recently. Medicaid outlays declined by \$24 billion (or 9 percent), because legislated increases in the federal share of the program's costs expired in July 2011. Defense spending decreased by about 3 percent in 2012, in part from lower spending for military operations in Afghanistan and Iraq. Spending for education, housing, transportation, and space programs also declined.

Social Security outlays rose by \$42 billion (or 6 percent) in 2012, somewhat more than in recent years. Medicare spending rose by \$15 billion (or 3 percent), slightly less than in 2011 and 2010. Outlays for veterans programs increased by \$8 billion and for the Office of Personnel Management by \$5 billion. Spending for the State Department, the Department of Homeland Security, and the Environmental Protection Agency increased by about \$2 billion each.