



# MONTHLY BUDGET REVIEW

## Fiscal Year 2006

### A Congressional Budget Office Analysis

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

July 7, 2006

In the first three quarters of fiscal year 2006, the federal government ran a deficit of about \$208 billion, CBO estimates, \$41 billion less than the shortfall recorded in the same period last year. Revenues continue to grow strongly, up by about 13 percent over receipts at the same time last year.

#### MAY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	192	193	1
Outlays	231	235	5
Deficit (-)	-39	-43	-4

Sources: Department of the Treasury; CBO.

The deficit in May was \$43 billion, \$4 billion larger than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was primarily on the spending side of the budget. In particular, a \$3 billion revision in the estimated subsidy cost for loan guarantees previously issued by the Federal Housing Administration was recorded in May, which was earlier than CBO anticipated. Outlays also were higher than expected for the Department of Education.

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

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	235	265	30
Outlays	212	246	34
Surplus	23	19	-4

Sources: Department of the Treasury; CBO.

The federal government ran a surplus of \$19 billion in June, CBO estimates, about \$4 billion less than the surplus recorded in the same month last year. Adjusted for calendar-related shifts in the timing of certain outlays, the surplus would have been \$14 billion larger than in June 2005.

CBO estimates that receipts were about \$30 billion (or 13 percent) higher this June than they were in June 2005. Individual income and payroll taxes accounted for over half of the increase. Withholding of individual income

and payroll taxes by employers rose by about \$11 billion (or 9 percent). Nonwithheld payments by individuals in June increased by about \$9 billion (or 20 percent)—primarily quarterly payments of income and payroll taxes. Receipts from corporate taxes are typically high in June because most firms make payments of estimated taxes for the second quarter. Growth in net corporate receipts slowed from the rates of recent months, increasing by about \$10 billion, or 17 percent.

More than half of the \$34 billion increase in outlays was the result of a shift in payment dates. Because July 1, 2006, fell on a weekend, about \$19 billion in payments that would ordinarily have been made in July were instead made at the end of June. The growth in outlays was also affected by a \$3 billion adjustment that was made last June to reflect the Administration's revised estimates of the subsidy cost of various loans and loan guarantees made in previous years. Adjusted for those two factors, outlays in June would have grown by about \$19 billion (or 9 percent). Spending for Medicare was up by \$5 billion (or 17 percent) this June, after adjusting for timing shifts. Net interest on the public debt rose by \$4 billion, and spending for Social Security and Medicaid grew by \$3 billion and \$1.5 billion, respectively.

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

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	1,604	1,810	206
Outlays	1,854	2,019	165
Deficit (-)	-249	-208	41

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$208 billion for the first three quarters of fiscal year 2006. Revenues were about \$206 billion higher than in the same nine months last year, and outlays were about \$165 billion higher, resulting in a net, year-over-year improvement of \$41 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 JUNE**  
(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	694	791	14.1
Corporate Income	198	250	26.4
Social Insurance	601	643	7.0
Other	<u>111</u>	<u>125</u>	12.6
Total	1,604	1,810	12.8

Sources: Department of the Treasury; CBO.

For the first nine months of fiscal year 2006, CBO estimates, total receipts rose by 12.8 percent compared with the same period in 2005. That increase represents the second-highest rate of growth for that nine-month period in the past 25 years (surpassed only by last year's strong growth). Net corporate income tax receipts continued to show the largest percentage increase, but the rate of growth waned in June. Nevertheless, net corporate receipts during the first nine months of the fiscal year grew by 26 percent, or \$52 billion, compared with the same period in 2005. Although significant uncertainty remains regarding the quarterly estimated tax payments due in September, CBO expects that corporate receipts will exceed \$330 billion for the entire fiscal year, an increase of at least 18 percent over the amount collected in 2005.

Withheld individual income and payroll taxes grew by almost \$88 billion (or 8 percent) during the first nine months of fiscal year 2006 compared with 2005. That rate of increase probably indicates that wages and salaries have been growing at a robust rate. So far this year, withheld taxes have accounted for over 40 percent of the total gains in receipts.

Nonwithheld individual income and payroll taxes showed even stronger growth, with a gain of about \$59 billion, or 20 percent, during the first three quarters of this fiscal year. Those nonwithheld payments included both final payments that individuals made when they filed their tax returns this past spring as well as quarterly estimated payments due in January, April, and June.

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

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	347	375	7.9	7.1
Social Security				
Benefits	384	406	5.8	5.8
Medicare	245	288	17.5	15.5
Medicaid	138	138	-0.2	-0.2
Other Programs and Activities	<u>598</u>	<u>639</u>	6.9	7.2
Subtotal	1,713	1,846	7.8	7.5
Net Interest on the Public Debt	<u>141</u>	<u>172</u>	22.1	22.1
Total	1,854	2,019	8.9	8.6

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, or changes in the accounting of certain health care payments of the Department of Defense.

Outlays through June were 8.6 percent higher than in the first nine months of 2005, CBO estimates, after adjusting for calendar-related shifts in the timing of certain payments. Much of that increase stems from three factors:

- Spending related to Hurricanes Katrina and Rita (payments for disaster assistance and flood insurance have quadrupled so far this year, compared with spending at the same point last year);
- Growth in net interest on the public debt (up 22 percent through June, because of both higher interest rates and rising debt); and
- Spending for the new Medicare prescription drug program (which has added \$19 billion in outlays so far this year, excluding some offsetting savings in the Medicaid program, which are not readily identifiable).

Spending on all other government activities is up by less than 5 percent relative to the 2005 level. Defense spending has risen by about 7 percent; nondefense spending (other than the specific items mentioned above) is up by about 4 percent.

Medicaid spending has been flat so far this year, partly because the new Medicare drug program is picking up some costs previously paid by Medicaid; spending for Medicare (other than prescription drugs) has grown at a 7.5 percent rate.