



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for October and the *Daily Treasury Statements* for November

December 6, 2007

The federal budget deficit was \$157 billion during the first two months of fiscal year 2008, CBO estimates, \$35 billion more than the shortfall recorded through November of last year. Close to half of that difference is the result of shifts in the timing of certain payments and a difference in the number of business days. Adjusted for those factors, the increase in the deficit would amount to about \$16 billion, CBO estimates.

OCTOBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	178	178	*
Outlays	237	234	-3
Deficit (-)	-59	-56	3

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$56 billion in October, about \$3 billion less 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 Health and Human Services.

ESTIMATES FOR NOVEMBER (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	146	151	5
Outlays	219	252	33
Deficit (-)	-73	-101	-28

Sources: Department of the Treasury; CBO.

The deficit in November was \$101 billion, CBO estimates, \$28 billion more than the deficit in the same month last year. Much of that increase is due to the effect of the calendar on the timing of certain payments.

CBO estimates that receipts totaled \$151 billion in November, an increase of about \$5 billion (or 3 percent) compared with receipts in November 2006. Withheld

income and social insurance (payroll) taxes, which were up by about \$6 billion (or 5 percent), accounted for most of the increase. Federal Reserve earnings, customs duties, and estate and gift tax receipts together increased by about \$1.5 billion. Offsetting those gains were increased refunds to individuals of about \$1 billion and decreased corporate income tax receipts of about \$1.5 billion.

More than half of the \$33 billion increase in outlays was the result of a shift in payment dates. Because December 1, 2007, fell on a weekend, about \$20 billion in payments that would ordinarily have been made in December were instead made at the end of November. Without that shift, outlays would have been about 6 percent higher than in November 2006. Spending for net interest on the public debt was \$5 billion higher this November than it was in the same month last year. Outlays for Social Security benefits and the Department of Defense grew by about \$3 billion and \$2 billion, respectively, after adjusting for timing shifts.

BUDGET TOTALS THROUGH NOVEMBER (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	314	329	15
Outlays	436	486	50
Deficit (-)	-122	-157	-35

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$157 billion for the first two months of fiscal year 2008, about \$35 billion more than the deficit recorded for the same period last year. Outlays were about \$50 billion (or 11 percent) higher than they were in 2007, while revenues were about \$15 billion (or 5 percent) higher.

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 NOVEMBER
(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change
Individual Income	149	161	7.6
Corporate Income	14	9	-35.4
Social Insurance	125	131	4.6
Other	<u>26</u>	<u>29</u>	12.5
Total	314	329	4.9

Sources: Department of the Treasury; CBO.

Increases in receipts from individual income taxes (up by \$11 billion, or 8 percent) and payroll taxes (up by \$6 billion, or 5 percent) accounted for most of the increase in revenues. Amounts withheld from employees' paychecks increased by \$19 billion (or 7 percent) in October and November relative to withholding in those months last year. CBO estimates that the growth in withholding would have been closer to 5.5 percent excluding the effect of an extra business day this year. Nonwithheld receipts have been nearly flat so far this year.

Net corporate income tax receipts declined by about \$5 billion (or 35 percent) during the first two months of fiscal year 2008, CBO estimates. The sums collected so far in this fiscal year are small, relative to the total for the year, and provide little indication of the amount of receipts that are likely to be collected during the full year. However, net corporate receipts have declined in each of the past five months compared with receipts in the same months of 2006. The first major payment of corporate taxes in this fiscal year is due to the Internal Revenue Service by December 17.

Receipts from other sources—which include excise taxes, Federal Reserve earnings, estate and gift taxes, customs duties, and miscellaneous fees and fines—have increased by \$3 billion (or 12.5 percent) so far this year. The largest increase was in Federal Reserve earnings, which rose by almost \$2 billion, in part as a result of a depreciating dollar exchange rate that has raised the value of the Federal Reserve's portfolio of foreign-denominated securities.

OUTLAYS THROUGH NOVEMBER
(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	93	106	13.8	6.6
Social Security				
Benefits	92	98	5.7	5.7
Medicare ^b	65	71	8.7	1.3
Medicaid	31	34	11.3	11.3
Other Programs				
and Activities	<u>115</u>	<u>133</u>	15.4	4.9
Subtotal	397	442	11.4	5.3
Net Interest on the				
Public Debt	<u>39</u>	<u>44</u>	12.6	12.6
Total	436	486	11.5	6.0

Sources: Department of the Treasury; CBO.

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

b. Medicare outlays are net of proprietary receipts.

After adjusting for shifts in the timing of certain payments, outlays through November were 6 percent higher than in the first two months of last year, CBO estimates. That rate of growth is slightly below the 7 percent annual increase averaged between 2002 and 2006 but well above the 2.5 percent increase recorded in 2007.

Outlays for defense and nondefense activities increased by 6.6 percent and 5.1 percent, respectively, on an adjusted basis relative to the first two months of 2006, CBO estimates. Medicaid spending rose rapidly through November, increasing by 11.3 percent compared with outlays in the same period last year. Outlays also were significantly higher for deposit insurance as well as for food and nutrition programs. By contrast, Medicare outlays were only slightly higher than the amounts spent in the first two months of 2007, up by 1.3 percent on an adjusted basis.

The 12.6 percent growth in net interest on the public debt was due to higher interest on zero-coupon bonds held by other federal agencies, increases in interest on inflation-indexed securities, and higher debt.

Note: CBO has changed its tabulation of spending for two categories in the outlay table. In previous years, CBO included Medicare's offsetting receipts (such as Medicare Part B premiums, payments from states under the prescription drug program, and recoveries from Medicare providers) in the "Other Programs and Activities" category. Going forward, those offsetting receipts will be netted against the spending for Medicare. In 2007, receipts for the Medicare program totaled \$65 billion.