



MONTHLY BUDGET REVIEW

Fiscal Year 2011

A Congressional Budget Office Analysis

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

August 5, 2011

The federal budget deficit was about \$1.1 trillion in the first 10 months of fiscal year 2011, CBO estimates—\$66 billion less than the roughly \$1.2 trillion deficit incurred through July 2010. Revenues were about 8 percent higher than they were at the same point last year, whereas outlays rose by less than 3 percent.

JUNE RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	248	250	1
Outlays	294	293	-1
Deficit (-)	-45	-43	2

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$43 billion for June, \$2 billion less than CBO had projected on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR JULY (Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	156	159	4
Outlays	321	292	-29
Deficit (-)	-165	-132	33

Sources: Department of the Treasury; CBO.

The deficit in July was \$132 billion, CBO estimates, \$33 billion less than the shortfall recorded a year ago. Much of that difference occurred because there were shifts in the timing of certain payments in 2010; adjusted for those shifts, the deficit in July 2011 was \$4 billion less than the shortfall in July 2010.

Receipts were about \$4 billion (or 2 percent) higher in July 2011 than they were in July 2010, CBO estimates, largely because refunds of individual income taxes were \$3 billion lower. In addition, receipts from withheld income and payroll taxes were \$1 billion higher, as were receipts from nonwithheld taxes, reflecting an increase in people's incomes. The gains in withheld taxes occurred despite the lower temporary payroll tax rate that went into effect in January 2011. The slight

increase in withholding would have been greater but for the fact that July 2010 had one more business day than July 2011. Receipts from corporate income taxes were about \$1 billion less than the amount collected in July 2010.

Outlays were \$29 billion lower in July than in the same month last year, primarily because of the effects of the calendar. August 1, 2010, fell on a weekend, which shifted about \$28 billion in outlays from August to July. Without that timing shift, outlays this July would have been about equal to those recorded in July 2010.

Spending for net interest on the public debt increased by \$5 billion, and outlays for Social Security benefits were up by \$2 billion. Spending for education was \$4 billion higher this July than in July 2010, mostly because the Department of Education recorded several billion dollars in estimated net receipts associated with new student loans in July 2010, but did not do so this July. (The department records those estimates periodically during the course of the year.) Those increases were largely offset by decreases in outlays for Medicaid (\$5 billion) and unemployment benefits (\$3 billion).

BUDGET TOTALS THROUGH JULY (Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	1,753	1,893	141
Outlays	2,922	2,996	75
Deficit (-)	-1,169	-1,103	66

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$1.1 trillion for the first 10 months of fiscal year 2011, \$66 billion less than the shortfall for the same period last year. Revenues increased by \$141 billion (or 8 percent), while outlays increased by \$75 billion (or less than 3 percent).

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 JULY

(Billions of dollars)

Major Source	Actual FY 2010	Preliminary FY 2011	Percentage Change
Individual Income	719	891	23.8
Social Insurance	727	686	-5.6
Corporate Income	140	140	0.4
Other	<u>167</u>	<u>177</u>	6.0
Total	1,753	1,893	8.0
Memorandum:			
Combined Individual Income and Social Insurance Taxes			
Withheld	1,385	1,437	3.8
Other	<u>61</u>	<u>139</u>	126.6
Total	1,446	1,576	9.0

Sources: Department of the Treasury; CBO.

The growth in revenues reflects a significant increase in receipts from individual income taxes combined with small changes in other receipts. Withheld income and payroll taxes rose by \$53 billion (or 4 percent). Nonwithheld income and payroll taxes also increased (by \$47 billion, or 17 percent); the bulk of that gain came from higher final payments made with 2010 individual income tax returns that were filed earlier this year. Receipts from unemployment insurance taxes rose by \$10 billion as states replenished their trust funds, which were substantially depleted because of high unemployment. Revenues also rose because refunds of individual income taxes were down by about \$21 billion (or 8 percent) during the past 10 months.

The gains in withheld and nonwithheld individual taxes alike can be attributed, at least in part, to increases in the underlying tax bases (wages and nonwage income). The withholding gain would have been even larger except for the temporary reduction in payroll taxes on employees that took effect in January 2011.

Revenues from other sources rose by about \$10 billion. An increase of \$11 billion in receipts to the Treasury from the Federal Reserve was primarily attributable to the larger portfolio of Treasury securities held by the Federal Reserve. A decline of about \$9 billion in estate and gift taxes, stemming from the temporary repeal of the estate tax for calendar year 2010, was almost entirely offset by gains in customs duties and excise taxes.

Receipts from corporate income taxes were about the same as they were in the first 10 months of fiscal year 2010, because the effects of increased profits were offset by revenue reductions from recently enacted tax provisions, particularly those that accelerated depreciation deductions.

OUTLAYS THROUGH JULY

(Billions of dollars)

Major Category	Actual FY 2010	Preliminary FY 2011	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	557	558	0.3	1.1
Social Security				
Benefits	578	598	3.5	3.5
Medicare ^b	387	384	-0.8	3.6
Medicaid	227	235	3.6	3.6
Unemployment				
Benefits	135	103	-23.1	-23.1
Other Activities	<u>914</u>	<u>927</u>	1.4	-2.7
Subtotal	2,798	2,807	0.3	-0.3
Net Interest on the Public Debt	191	226	18.4	18.4
TARP	-108	-39	n.m.	n.m.
Payments to GSEs	<u>41</u>	<u>3</u>	-93.3	-93.3
Total	2,922	2,996	2.6	1.9

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program;

GSE = government-sponsored enterprise;

n.m. = not meaningful.

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

b. Medicare outlays are net of proprietary receipts.

Outlays through July were \$75 billion (or less than 3 percent) higher than during the same period last year. With the effects of timing shifts excluded, that increase came to only 1.9 percent—and excluding adjustments recorded in the budget for the estimated cost of credit programs (mainly the Troubled Asset Relief Program), the government's other outlays increased by less than one-half of one percent compared with spending during the first 10 months of 2010.

Adjusted for calendar-related timing shifts, outlays for each of the three largest entitlement programs—Social Security, Medicare, and Medicaid—were about 3½ percent higher than they were during the same period last year. But net interest on the public debt increased by \$35 billion (or 18 percent), primarily because of the growing size of the debt. Spending for defense increased by 1.1 percent, well below the average growth experienced over the past 10 years.

The above increases were largely offset by a \$38 billion decrease in net payments to the government-sponsored enterprises, Fannie Mae and Freddie Mac, and by a \$31 billion drop in outlays for unemployment benefits.

In the category “Other Activities,” increased spending for food and nutrition assistance, veterans’ programs, and the Department of Energy was offset by decreased spending for deposit insurance (excluding receipts from prepayments of premiums) and a variety of other programs.