



MONTHLY BUDGET REVIEW

Fiscal Year 2005

A Congressional Budget Office Analysis

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

January 6, 2005

The federal budget deficit was about \$114 billion during the first three months of fiscal year 2005, CBO estimates, \$16 billion less than the shortfall recorded over the same period last year. Revenues have risen by 11 percent compared with their level in the first quarter of 2004, outpacing the 6 percent growth in outlays. CBO will issue new budget projections for 2005 and the following 10 years later this month.

NOVEMBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	134	135	*
Outlays	191	192	1
Deficit (-)	-57	-58	-1

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$58 billion in November 2004, about \$1 billion more than CBO's projection based on the *Daily Treasury Statements*. Although revenues were about the same as CBO anticipated, outlays were about \$1 billion more than expected.

ESTIMATES FOR DECEMBER (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	187	218	31
Outlays	204	217	12
Surplus or Deficit (-)	-18	1	18

Sources: Department of the Treasury; CBO.

The surplus in December 2004 was about \$1 billion, CBO estimates, a swing of \$18 billion from the \$17.6 billion deficit recorded in December 2003. Revenues were 17 percent above their December 2003 level, and outlays were 6 percent higher.

CBO estimates that receipts in December 2004 were about \$218 billion, \$31 billion more than the amount collected

in December 2003. The sharp increase was almost equally divided between payments of corporate income taxes and withholding for income and payroll taxes. In December, most corporations make their fourth quarterly payment of income taxes; CBO estimates that \$13 billion of the year-over-year increase results from those payments. In addition, refunds of corporate income taxes were about \$2 billion lower this December. As a result, net receipts from corporate income taxes were \$15 billion higher than they were in December 2003, an increase of 38 percent. Withholding for income and payroll taxes increased by about \$15 billion, or 11 percent, over the December 2003 levels. Nonwithheld income and payroll taxes were about \$1 billion higher.

Outlays were \$12 billion greater this December than last December, CBO estimates. Defense spending was up by \$4 billion; higher spending for interest on the public debt, Social Security, and agricultural price supports accounted for much of the remaining increase.

BUDGET TOTALS THROUGH DECEMBER (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	441	489	48
Outlays	571	603	33
Deficit (-)	-130	-114	16

Sources: Department of the Treasury; CBO.

The government recorded a deficit of about \$114 billion for the first quarter of fiscal year 2005, CBO estimates—about \$16 billion less than the deficit recorded for the same period last year. Although outlays were about \$33 billion higher in fiscal year 2005, receipts grew more, rising by \$48 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 DECEMBER

(Billions of dollars)

Major Source	Actual FY2004	Preliminary FY2005	Percentage Change
Individual Income	199	214	7.9
Corporate Income	43	65	50.0
Social Insurance	162	173	6.9
Other	<u>37</u>	<u>37</u>	-0.7
Total	441	489	11.0

Sources: Department of the Treasury; CBO.

Receipts rose by 11 percent in the first quarter of fiscal year 2005 compared with the same period in fiscal year 2004. Almost half of the gains in the first three months of the fiscal year resulted from higher corporate income tax receipts, which rose by almost \$22 billion, or 50 percent. Payments of corporate taxes were about \$15 billion, or 26 percent, higher than in the same period last year, reflecting substantially greater profits in recent quarters. At the same time, corporate refunds were lower—by about \$6 billion, or 37 percent.

During the first three months of fiscal year 2005, receipts from individual income taxes increased by almost 8 percent—about \$16 billion—contributing almost a third of the increase in total receipts. That increase results from gains of \$12 billion in withheld taxes and of about \$3 billion in nonwithheld payments, and refunds of individual income taxes that were about \$1 billion lower. In addition, receipts from social insurance taxes rose by about \$11 billion, or nearly 7 percent, in the first quarter of fiscal year 2005, primarily because of a gain of \$9 billion in payroll tax withholdings. The increases in income and payroll tax receipts reflect the economy's growth over the past year.

OUTLAYS THROUGH DECEMBER

(Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	108	117	8.4	8.6
Social Security Benefits	119	125	5.0	5.0
Medicare	74	82	9.5	9.3
Medicaid	43	45	4.4	4.4
Other Programs and Activities	<u>186</u>	<u>191</u>	2.8	2.7
Subtotal	530	560	5.5	5.5
Net Interest on the Public Debt	<u>41</u>	<u>44</u>	8.3	8.3
Total	571	603	5.7	5.7

Sources: Department of the Treasury; CBO.

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

CBO estimates that total federal outlays grew by close to 6 percent in the first quarter of fiscal year 2005, similar to the 6 percent rate of growth recorded in fiscal year 2004.

Defense outlays increased by almost 9 percent in the first three months of the year relative to the same period last year. That gain is less than the 14 percent average annual growth recorded over the past three years, but still higher than the 5 percent growth in all other spending in the first quarter of fiscal year 2005.

Medicare outlays through December were about 9 percent higher than for the same period last year, slightly above the 8.5 percent rate of growth recorded in fiscal year 2004. The rate of change in Medicaid outlays was much smaller—up 4.4 percent relative to the first quarter of fiscal year 2004—because spending in the first nine months of fiscal year 2004 included the cost of a temporary increase in the federal share of the program's expenses. Excluding the effects of those special payments, Medicaid outlays grew by almost 10 percent relative to the first quarter of 2004.

Outlays for other programs and activities posted a 2.7 percent increase relative to the first three months of fiscal year 2004, the same rate of growth averaged for all of 2004. Spending for agricultural price supports, disaster assistance, and education programs is up substantially, but outlays for unemployment benefits and temporary fiscal assistance to states have dropped sharply.

Spending for net interest on the public debt has been growing over the past year, after declining for several years. Outlays for net interest through December were about 8 percent higher than in the same period last year.