



MONTHLY BUDGET REVIEW

Fiscal Year 2006

A Congressional Budget Office Analysis

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

August 4, 2006

CBO now projects a deficit of \$260 billion for fiscal year 2006, about \$111 billion less than it estimated in March for the President's budget (which included supplemental appropriations that have since been enacted). Most of that reduction results from higher-than-anticipated revenues. At 2.0 percent of gross domestic product, the 2006 deficit would be smaller than the deficits recorded in the past three years—3.5 percent in 2003, 3.6 percent in 2004, and 2.6 percent in 2005. So far this fiscal year, the federal government has run a deficit of about \$239 billion, CBO estimates, \$64 billion less than in the first 10 months of last year. On August 17, CBO will issue a report that presents its new 10-year budget projections and more detail on the updated 2006 estimate.

JUNE RESULTS (Billions of dollars)

	Preliminary		Difference
	Estimate	Actual	
Receipts	265	264	*
Outlays	246	244	-2
Surplus	19	20	1

Sources: Department of the Treasury; CBO.

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

The Treasury recorded a surplus of \$20 billion in June. That sum is about \$1 billion more than CBO had estimated on the basis of the *Daily Treasury Statements*, largely because spending in June was slightly lower than expected.

ESTIMATES FOR JULY (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	142	160	18
Outlays	195	192	-3
Deficit (-)	-53	-33	21

Sources: Department of the Treasury; CBO.

CBO estimates that the deficit in July was \$33 billion, about \$21 billion less than the shortfall in July 2005. Most of that reduction resulted from a shift in the timing of certain payments.

Outlays were about \$3 billion lower this July than they were last July; however, they were affected by a change in the timing of some payments. Because July 1, 2006, fell on a weekend, payments totaling \$18.5 billion that would ordinarily have been made at the beginning of July were instead made at the end of June. Without that shift, outlays would have been about 8 percent higher than in July 2005. Spending for net interest on the public debt was \$7 billion higher, and Medicare outlays rose by almost \$5 billion (adjusted for the timing shift).

Receipts were about \$18 billion (13 percent) higher in July 2006 than they were in July 2005. Withholding for individual income and social insurance (payroll) taxes, which accounted for most of the receipts in July, rose by more than \$11 billion (almost 10 percent). This July had one more Monday and one fewer Friday than July 2005 did, which added an estimated \$2 billion to withholding. Without those effects of the calendar, withholding would have been about 8 percent higher than in the same month last year, CBO estimates. Gross receipts from the small number of corporations that make income tax payments in July rose by \$2 billion (19 percent).

BUDGET TOTALS THROUGH JULY (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	1,746	1,970	223
Outlays	2,049	2,209	160
Deficit (-)	-303	-239	64

Sources: Department of the Treasury; CBO.

The government incurred a deficit of \$239 billion in the first 10 months of fiscal year 2006, CBO estimates, \$64 billion less than the shortfall for the same period last year.

RECEIPTS THROUGH JULY (Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	756	866	14.5
Corporate Income	206	262	27.1
Social Insurance	661	703	6.3
Other	<u>123</u>	<u>139</u>	13.1
Total	1,746	1,970	12.8

Sources: Department of the Treasury; CBO.

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.

Total receipts were about \$223 billion higher in the first 10 months of fiscal year 2006 than in the same period last year, a gain of 12.8 percent. Individual income tax receipts, which rose by 14.5 percent, accounted for almost half of that increase (\$110 billion). Corporate income tax receipts accounted for another \$56 billion of that gain, growing by 27 percent. Social insurance tax receipts increased by about \$42 billion, or 6.3 percent.

The continued strength of the economy is evidenced by significant gains in all major sources of receipts during the first 10 months of this fiscal year. Withheld income and payroll taxes were about \$97 billion (almost 8 percent) higher than during the same period in 2005. The growth of withholding in the past several months is roughly consistent with recently revised data on wages and salaries from the national income and product accounts. Nonwithheld income and payroll taxes increased by about \$60 billion (20 percent). They represent individuals' payments of quarterly estimated taxes and final payments made with tax returns.

Corporate income tax receipts rose by about \$56 billion (27 percent) through the first 10 months of fiscal year 2006, consistent with continued strong increases in corporate profits. The growth rate of those receipts has slowed somewhat in recent months, probably indicating a slowdown in the growth of profits. Nonetheless, corporate tax receipts have increased markedly for three consecutive years, and CBO expects that in 2006, they will total more than two and a half times the amount collected in 2003.

OUTLAYS THROUGH JULY (Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	387	410	6.0	6.6
Social Security				
Benefits	427	452	5.9	5.9
Medicare	273	312	14.2	15.7
Medicaid	152	150	-1.2	-1.2
Other Programs and Activities	<u>654</u>	<u>690</u>	5.5	6.5
Subtotal	1,893	2,014	6.4	7.1
Net Interest on the Public Debt	<u>156</u>	<u>194</u>	24.3	24.3
Total	2,049	2,209	7.8	8.4

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 payments of the Department of Defense.

Adjusted for calendar-related shifts in the timing of certain payments, outlays through July were 8.4 percent higher than for the same period last year, CBO estimates. That growth largely resulted from higher spending for flood insurance and disaster assistance related to Hurricanes Katrina and Rita (up \$30 billion, or 330 percent), for net interest on the public debt (up \$38 billion, or 24 percent), and for the new Medicare prescription drug benefit (\$21 billion through July). All other spending grew more slowly than last year, posting an average gain of 4.5 percent through July (on an adjusted basis), compared with about 6 percent in fiscal year 2005.

ESTIMATES FOR FISCAL YEAR 2006 (Billions of dollars)

	CBO		OMB's
	March 2006	August 2006	Mid-Session Review
Receipts	2,304	2,403	2,403
Outlays	2,675	2,663	2,693
Deficit (-)	-371	-260	-290

Sources: Office of Management and Budget; CBO.

CBO recently updated its estimate of the deficit for fiscal year 2006 to reflect legislative actions, economic developments, and other new information. It now projects that the deficit for the full year will total about \$260 billion—\$58 billion less than last year's deficit and \$111 billion less than CBO's estimate in March (which included supplemental appropriations and other legislation proposed in the President's budget).

Most of that reduction reflects an increase in projected revenues. CBO now estimates that revenues will be \$99 billion higher this year than it estimated in March, largely because of greater-than-anticipated individual and corporate income tax receipts. Outlays are expected to be \$12 billion lower than CBO anticipated in March, primarily because spending on health care programs—Medicare and Medicaid—has been less than expected.

On July 11, the Office of Management and Budget (OMB) projected a baseline deficit of \$290 billion for 2006—\$31 billion more than CBO now estimates. (OMB estimated a higher deficit—\$296 billion—if certain Administration proposals were enacted.) Almost all of the difference between the two agencies' deficit projections occurs on the spending side of the budget. CBO's estimate of defense spending in 2006 is about \$10 billion lower than OMB's. In addition, CBO's projections of Medicare and Medicaid outlays are below OMB's by \$7 billion and \$3 billion, respectively.