



MONTHLY BUDGET REVIEW

Fiscal Year 2011

A Congressional Budget Office Analysis

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

February 7, 2011

The federal government incurred a budget deficit of \$424 billion in the first four months of fiscal year 2011, CBO estimates, slightly less than the shortfall recorded in the same period last year. If appropriations for the rest of this fiscal year are set at the same annualized amounts as those in effect for the first several months and the Congress were to enact no other legislation affecting spending or revenues, CBO expects that the federal government would end fiscal year 2011 with a deficit of nearly \$1.5 trillion, around \$200 billion more than the \$1.3 trillion deficit recorded in 2010. (CBO recently published projections for the coming decade in *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, which is available at www.cbo.gov.)

DECEMBER RESULTS

The Treasury reported a deficit of \$80 billion in December, about the same as CBO's estimate for the month based on the *Daily Treasury Statements*.

ESTIMATES FOR JANUARY

(Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	205	225	20
Outlays	248	278	30
Deficit (-)	-43	-53	-11

Sources: Department of the Treasury; CBO.

The deficit in January 2011 was \$53 billion, CBO estimates, \$11 billion more than the deficit recorded in the same month last year. However, if the effects of shifts in the timing of certain payments were excluded, the deficit would be \$16 billion less in January 2011 than it was in January 2010.

Receipts in January were about \$20 billion (or 10 percent) higher than receipts in January 2010, CBO estimates, mostly because of higher withholding of individual income and payroll taxes. Withheld taxes were up by \$13 billion (or 9 percent) as a result of the strengthening economy, the expiration of the Making Work Pay tax credit at the end of December, and an additional working day in January 2011. Those effects were partly offset by the temporary reduction in payroll taxes that was enacted in December. That payroll tax reduction took effect in January of this year, and although employers had until the end of January to adjust tax withholding for their employees, many did so at the beginning of the month.

Receipts in January from nonwithheld individual income and payroll taxes, which included the last quarterly estimated payment of individual income taxes for calendar year 2010, were \$2 billion (or 4 percent) higher than those a year ago. Refunds of individual income taxes were about the same as refunds in January

of last year. But the recent enactment of tax legislation delayed the filing of tax returns by taxpayers who itemize deductions, so requests for refunds were probably also delayed. Payments to the Treasury by the Federal Reserve rose by \$4 billion compared with those last January, reflecting the central bank's earnings on its asset holdings (including the Treasury securities it has recently been purchasing).

Outlays were \$30 billion higher in January than they were a year ago. The shifting of payments into December because of weekends and the New Year's holiday decreased outlays by \$12 billion in January 2011 and by \$39 billion in January 2010. Excluding those timing shifts, outlays this January would have been only \$4 billion (or 1 percent) higher than they were in January 2010. Federal deposit insurance accounted for the greatest growth—up by \$5 billion—because loans made to stabilize the corporate credit union system were repaid in January 2010, reducing net outlays for that month. Outlays for the Troubled Asset Relief Program, Social Security, and interest on the public debt also increased. Those increases were partially offset by several large decreases, including a reduction of \$2.4 billion in outlays for international security assistance, reflecting a delay in making most of the \$3 billion in annual payments to Egypt and Israel for military aid.

BUDGET TOTALS THROUGH JANUARY

(Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	693	757	64
Outlays	1,124	1,181	57
Deficit (-)	-431	-424	7

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$424 billion for the first four months of fiscal year 2011, \$7 billion less than the deficit recorded during the same period of fiscal year 2010.

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 JANUARY

(Billions of dollars)

Major Source	Actual FY 2010	Preliminary FY 2011	Percentage Change
Individual Income	311	383	23.0
Social Insurance	278	267	-4.1
Corporate Income	37	39	5.5
Other	<u>66</u>	<u>68</u>	2.1
Total	693	757	9.2
Memorandum:			
Combined Individual Income and Social Insurance Taxes			
Withheld	544	589	8.2
Other	<u>45</u>	<u>61</u>	34.0
Total	590	650	10.2

Sources: Department of the Treasury; CBO.

Receipts for the first four months of fiscal year 2011 were about \$64 billion (or 9 percent) higher than receipts during the comparable period last year, CBO estimates. Nearly all of that increase was from individual income and social insurance taxes, which together rose by \$60 billion (or 10 percent). Withholding from employees' paychecks for income and payroll taxes increased by \$45 billion (or 8 percent), at least partly reflecting higher wages and salaries; the increase would have been slightly larger but for the Making Work Pay tax credit, which was in effect in 2010, and the temporary payroll tax reduction, which started in January 2011.

Nonwithheld individual income and payroll tax receipts rose by about \$3 billion (or 4 percent) in the October–January period; most of that increase resulted from higher estimated payments in January for calendar year 2010 tax liabilities. Those receipts tend to move in conjunction with nonwage income. Collections in the first four months of the fiscal year represent only a small portion of nonwithheld receipts for the year, however. A significant amount of those receipts will be collected in April, when the 2010 tax-filing season ends. Refunds of individual income taxes were about \$7 billion lower than refunds in the first four months of last year. However, most refunds in 2011 will be made in the February–May period, after taxpayers file their 2010 tax returns. Unemployment insurance payroll taxes rose by \$5 billion because of states' continuing efforts to replenish their trust funds.

Net corporate receipts rose by \$2 billion (or 5 percent) in the first four months of the fiscal year; higher payments of estimated taxes in December more than offset higher refunds over the period. A \$4 billion decline in estate and gift taxes because of the temporary expiration of the estate tax in 2010 was more than offset by increases in other sources. Customs duties rose by \$2 billion, and receipts from the Federal Reserve rose by \$3 billion.

OUTLAYS THROUGH JANUARY

(Billions of dollars)

Major Category	Actual FY 2010	Preliminary FY 2011	Percentage Change	
			Actual	Adjusted ^a
Defense–Military	225	232	3.1	3.1
Social Security				
Benefits	229	237	3.6	3.6
Medicare ^b	145	147	1.3	1.3
Medicaid	89	96	7.9	7.9
Unemployment				
Benefits	55	45	-18.0	-18.0
Other Activities	<u>290</u>	<u>342</u>	17.9	0.8
Subtotal	1,032	1,098	6.4	1.6
Net Interest on the Public Debt	73	80	9.1	9.1
TARP	6	4	-32.9	-32.9
Payments to GSEs	<u>13</u>	<u>-1</u>	-109.1	-109.1
Total	1,124	1,181	5.1	0.7

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise

- Excludes the effects of payments shifted because of weekends or holidays and of prepayments of deposit insurance premiums.
- Medicare outlays are net of proprietary receipts.

Outlays were \$57 billion (or 5 percent) higher during the first four months of fiscal year 2011 than in the same period last year, CBO estimates. But outlays in fiscal year 2010 were reduced because of substantial advance payments of insurance premiums to the Federal Deposit Insurance Corporation (FDIC). Excluding the effect of those payments, total spending has grown by less than 1 percent in 2011, CBO estimates.

The slow rate of growth occurred in part because expenditures for unemployment benefits decreased by \$10 billion (or 18 percent), the result of fewer claims and lower average benefits. In addition, net payments to Fannie Mae and Freddie Mac dropped by \$14 billion, and net spending for Medicare has risen by only about 1 percent so far this year.

In contrast, expenditures for Medicaid increased by \$7 billion (or 8 percent), and net interest on the public debt was \$7 billion (or 9 percent) higher, reflecting the substantial growth in the national debt over the past year. Outlays for Social Security and defense grew more slowly—by \$8 billion (or 4 percent) and \$7 billion (or 3 percent) respectively. Most of the increase in defense spending was for operations and maintenance.

Net outlays in the category “Other Activities” grew by \$52 billion—but excluding last year's prepayments to the FDIC, spending in this category grew by only \$3 billion (or 1 percent). Growth in a variety of areas, including veterans' programs and food and nutrition assistance, was largely offset by reduced spending in other areas, such as refundable tax credits and international assistance.