



MONTHLY BUDGET REVIEW

Fiscal Year 2011

A Congressional Budget Office Analysis

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

March 7, 2011

CBO estimates that the federal government incurred a budget deficit of \$642 billion for the first five months of fiscal year 2011, \$10 billion less than the shortfall recorded in the same period last year. Outlays were \$58 billion higher than in the previous year, while revenues were \$68 billion higher.

JANUARY RESULTS

The Treasury reported a deficit of \$50 billion in January, about \$3 billion less than CBO projected on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR FEBRUARY

(Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	108	110	3
Outlays	328	333	5
Deficit (-)	-221	-223	-2

Sources: Department of the Treasury; CBO.

CBO estimates that the deficit in February 2011 was \$223 billion, which is very similar to the deficit recorded in February 2010.

Receipts in February were about \$3 billion (or 2 percent) higher than receipts in February 2010, CBO estimates, marking the 10th consecutive month of year-over-year increases. Receipts of individual income and payroll taxes were \$10 billion higher this February as a result of higher withheld taxes and lower refunds. Receipts from excise taxes were also up, but corporate income tax receipts were lower.

Compared with collections in February 2010, withheld income and payroll taxes rose by about \$5 billion (or 4 percent) as a result of higher wages and salaries. Those receipts rose despite the effects of the legislation enacted last December that lowered Social Security taxes paid by individuals this year. Individual income tax refunds were down by about \$5 billion compared with refunds last February. The lower refunds reflect a delay in the filing and processing of some individual income tax returns that were affected by the same legislation.

Excise taxes collected in February were about \$3 billion higher than the amount collected in February 2010. That increase primarily reflects the unusually low excise tax receipts last February, which resulted from the Treasury's reallocation between corporate receipts and

excise tax receipts to correct an earlier misallocation of certain refunds.

A decline of \$10 billion in net corporate income tax receipts partially offset the gains in the other tax receipts. The decline stemmed largely from unusually high receipts in February 2010 (in part because of the reallocation from excise taxes). In addition, some of the decline may have resulted from legislation enacted last year that allowed more rapid depreciation of investment in equipment. In CBO's estimation, neither of those factors indicates that corporate profits are weakening.

Outlays were \$5 billion (or about 1 percent) higher than in February 2010. Net interest on the federal debt was about \$4 billion higher than it was a year ago, primarily because of greater federal borrowing during the past year. Outlays were also higher in February 2011 than they were in February 2010 for Medicare (up by \$4 billion), the National Credit Union Administration (\$3 billion), Social Security (\$2 billion), and Veterans Affairs (\$2 billion). Those increases were partially offset by lower spending for unemployment compensation and certain other mandatory programs. Notably, outlays for the Small Business Administration were \$5 billion lower than they were in February 2010, when adjustments to the estimated subsidy costs of loans and loan guarantees increased outlays by nearly \$5 billion. CBO expects an adjustment of similar magnitude to occur in March 2011.

BUDGET TOTALS THROUGH FEBRUARY

(Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	801	868	68
Outlays	1,452	1,510	58
Deficit (-)	-652	-642	10

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$642 billion through February, 1.5 percent less than the deficit during the same period last year.

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 FEBRUARY

(Billions of dollars)

Major Source	Actual FY 2010	Preliminary FY 2011	Percentage Change
Individual Income	334	423	26.6
Social Insurance	344	328	-4.7
Corporate Income	45	38	-16.4
Other	<u>77</u>	<u>80</u>	3.7
Total	801	868	8.5
Memorandum:			
Combined Individual Income and Social Insurance Taxes			
Withheld	684	734	7.3
Other	<u>-6</u>	<u>17</u>	n.m.
Total	678	751	10.7

Sources: Department of the Treasury; CBO.

Note: n.m. = not meaningful.

Receipts for the first five months of fiscal year 2011 were \$68 billion (or 8.5 percent) higher than receipts for the comparable period last year, largely as a result of increases in individual income taxes. In December, in one of its regular quarterly adjustments, the Treasury reallocated about \$17 billion in payments from social insurance taxes to individual income taxes. (That adjustment in December 2009 was about \$10 billion.)

Withholding for income and payroll taxes increased by \$50 billion (or 7 percent), which reflects higher wages and salaries; the increase would have been greater but for the temporary payroll tax reduction that took effect in January 2011.

Receipts from other individual and social insurance taxes rose by \$23 billion compared with amounts in the same five-month period last fiscal year. Nonwithheld individual income and payroll tax receipts rose by about \$3 billion (or 4 percent); most of the increase resulted from higher estimated payments in January for calendar year 2010 liabilities. Refunds of individual income taxes were about \$14 billion lower than refunds in the first five months of last year; \$7 billion of that decline occurred in January and February. CBO expects that most of that decline in the past two months can be explained by the delayed processing of some individual tax returns. Receipts of unemployment insurance taxes rose by \$5 billion, as states replenished their trust funds.

Net corporate income taxes fell by about \$7 billion, primarily because of the lower receipts in February. An \$8 billion increase in combined receipts from the Federal Reserve, excise taxes, and customs duties was largely offset by a \$6 billion decline in estate and gift taxes.

OUTLAYS THROUGH FEBRUARY

(Billions of dollars)

Major Category	Actual FY 2010	Preliminary FY 2011	Percentage Change	
			Actual	Adjusted ^a
Defense–Military	274	282	3.1	3.1
Social Security				
Benefits	286	297	3.7	3.7
Medicare ^b	179	184	2.9	2.9
Medicaid	110	117	6.3	6.3
Unemployment				
Benefits	69	55	-19.8	-19.8
Other Activities	<u>424</u>	<u>471</u>	11.2	-0.4
Subtotal	1,342	1,407	4.8	1.1
Net Interest on the				
Public Debt	89	101	12.5	12.5
TARP	8	4	-51.1	-51.1
Payments to GSEs	<u>13</u>	<u>-1</u>	-109.1	-109.1
Total	1,452	1,510	4.0	0.6

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.

Spending for the first five months of fiscal year 2011 was \$58 billion (or 4 percent) higher than outlays in the same period last year, CBO estimates. That growth is almost entirely explained by advance payments made to the Federal Deposit Insurance Corporation in fiscal year 2010. In the absence of those prepayments to the government (which were recorded as negative outlays), total spending has grown by less than 1 percent in 2011, CBO estimates.

The slow growth can be attributed to lower net spending for payments to Fannie Mae and Freddie Mac (down by \$14 billion) and for the Troubled Asset Relief Program (down by \$4 billion). Additionally, outlays for unemployment benefits decreased by \$14 billion (or 20 percent) because of fewer claims and lower average benefits.

In contrast, net interest on the public debt rose by \$11 billion (or 13 percent) as a result of substantial growth in the national debt over the past year. Outlays for Medicaid increased by \$7 billion (or 6 percent). Spending for Social Security and defense grew by 4 percent and 3 percent, respectively. Medicare spending was up by only 3 percent, an unusually low rate of growth.

In the category “Other Activities,” increases in several areas, including veterans’ programs and food and nutrition assistance, were offset by reduced spending in other areas, including education programs, refundable tax credits, and international assistance.