



# MONTHLY BUDGET REVIEW

## Fiscal Year 2009

### A Congressional Budget Office Analysis

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

July 8, 2009

The federal budget deficit was \$1.1 trillion for the first nine months of fiscal year 2009, CBO estimates, more than \$800 billion greater than the deficit recorded through June 2008. Outlays are 21 percent higher than they were in the first three quarters of 2008, but revenues have fallen by 18 percent. The estimated deficit reflects outlays of \$147 billion for the Troubled Asset Relief Program (TARP), recorded on a net-present-value basis, and spending of \$83 billion in support of Fannie Mae and Freddie Mac.

#### MAY RESULTS

The Treasury reported a deficit of \$190 billion for May, about \$9 billion higher than CBO's estimate for May on the basis of the *Daily Treasury Statements*. The difference occurred largely because outlays were higher than expected for the TARP and for the Department of Education.

#### ESTIMATES FOR JUNE (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	260	214	-46
Outlays	226	311	85
Surplus/Deficit (-)	34	-97	-130

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$97 billion in June, CBO estimates. Declining revenues and increasing spending resulted in the first June deficit in more than 10 years. Quarterly payments of estimated individual income taxes and corporate income taxes typically result in a budget surplus for the month.

CBO estimates that receipts in June were about \$46 billion (or 18 percent) lower than receipts in June 2008, marking the fourteenth consecutive month in which receipts were lower than those in the previous year. Net corporate receipts were \$24 billion (or 41 percent) below those in June 2008, accounting for about half of the overall decline.

In June, nonwithheld income and payroll tax receipts, which included the second quarterly estimated tax payment for calendar year 2009, fell by \$21 billion (or 33 percent) compared with receipts in June 2008. The decline in those quarterly payments probably reflects sharp drops

in individuals' nonwage income in recent months. Withholding for income and payroll taxes was about \$13 billion (or 9 percent) less than that in June 2008. CBO estimates that more than half of the decline in withholding resulted from provisions in the American Recovery and Reinvestment Act of 2009 (ARRA), notably the Making Work Pay tax credit. Refunds fell by about \$15 billion, primarily because of the rebates paid in June 2008, providing a small offset to the decline in other receipts.

Outlays this June were \$85 billion greater than those last June, CBO estimates. Outlays last June were unusually low because the first day of the month fell on a weekend, shifting about \$22 billion in payments from June to May. Support for Fannie Mae and Freddie Mac added a net of \$24 billion in outlays this June, and TARP spending totaled an estimated \$11 billion. In addition, boosted by stimulus spending from ARRA, unemployment benefits rose by \$10 billion and Medicaid outlays increased by \$6 billion, relative to spending for those programs in June 2008. Adjusted for timing shifts, Medicare payments rose by \$6 billion, Social Security benefits by \$5 billion, and defense spending by \$4 billion.

#### BUDGET TOTALS THROUGH JUNE (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	1,934	1,588	-346
Outlays	2,220	2,676	457
Deficit (-)	-286	-1,089	-803

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government incurred a deficit of \$1.1 trillion in the first three quarters of fiscal year 2009. Outlays were \$457 billion higher than in the October-June period last year, while revenues have fallen by \$346 billion over the same period.

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 JUNE**  
(Billions of dollars)

Major Source	Actual FY2008	Preliminary FY2009	Percentage Change
Individual Income	878	687	-21.8
Corporate Income	237	104	-56.2
Social Insurance	690	683	-1.0
Other	<u>130</u>	<u>114</u>	-11.9
<b>Total</b>	<b>1,934</b>	<b>1,588</b>	<b>-17.9</b>

Sources: Department of the Treasury; CBO.

Receipts in the first three quarters of this fiscal year were 18 percent lower than in the same period last year. Receipts from corporate income taxes have declined sharply, falling by \$133 billion (or 56 percent). Continued weakness in corporate profits, recently enacted legislation (most notably provisions allowing more rapid depreciation), and the ability of firms to use current-year losses to reduce tax liabilities from previous years all contributed to lower corporate receipts. With one exception, those receipts have been lower in every month during the past two years than they were in the same month of the previous year. The lower corporate payments in June may indicate that the September quarterly payments will also show weakness because corporate receipts in the two months tend to move in tandem.

Declining receipts from individual income and payroll taxes account for almost 60 percent of the overall decrease in receipts. Those collections are down by almost \$200 billion. Nonwithheld receipts of individual income and payroll taxes fell by about \$122 billion (or 29 percent) in the first nine months of the year, compared with collections in the first nine months of 2008. About three-fourths of that decline represents collections for tax year 2008; the remainder results from lower estimated payments of 2009 taxes. Although recent legislation has had some impact on those receipts, most of the shortfall presumably resulted from the recession's effects on nonwage income, such as capital gains, dividends, and earnings from noncorporate businesses.

Withholding of income and payroll taxes fell by about \$80 billion (or 6 percent) compared with receipts in the first three quarters of 2008, primarily because of the ongoing effects of the recession on wages and salaries and the effective tax rates on that income. Other tax receipts declined by about \$15 billion (or 12 percent); almost half of that drop results from lower Federal Reserve receipts, primarily stemming from lower interest rates and losses on some assets acquired from Bear Stearns and American International Group (AIG).

**OUTLAYS THROUGH JUNE**  
(Billions of dollars)

Major Category	Actual FY2008	Preliminary FY2009	Percentage Change
Defense—Military	440	474	7.7
Social Security			
Benefits	453	490	8.2
Medicare <sup>a</sup>	285	314	10.2
Medicaid	151	186	22.9
Unemployment			
Benefits	33	83	155.6
Other Activities	<u>667</u>	<u>757</u>	13.5
<b>Subtotal</b>	<b>2,028</b>	<b>2,304</b>	<b>13.6</b>
Net Interest on the			
Public Debt	191	143	-25.5
TARP	0	147	n.a.
Payments to GSEs	<u>0</u>	<u>83</u>	n.a.
<b>Total</b>	<b>2,220</b>	<b>2,676</b>	<b>20.6</b>

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; n.a. = not applicable; GSE = government-sponsored enterprise.

a. Medicare outlays are net of proprietary receipts.

Outlays through June were \$457 billion higher than in the same period last year, CBO estimates. That total includes \$147 billion for the TARP and net cash disbursements of \$83 billion for Fannie Mae and Freddie Mac. Spending for all other federal programs rose by nearly 14 percent (or \$275 billion) relative to outlays in the first nine months of fiscal year 2008. In contrast, net outlays for interest on the public debt declined by more than 25 percent (or \$49 billion) because of lower short-term interest rates and lower costs for inflation-indexed securities.

Outlays for unemployment benefits so far this year are more than 2 ½ times what they were at this point last year. About half of that increase stems from the higher unemployment rate; the rest comes from legislation that boosted the duration and amount of those benefits. An increase in the federal share of Medicaid costs, authorized by the ARRA, accounted for about two-thirds of the growth in spending for that program, which was up by 23 percent through June. Medicare outlays rose by 10 percent over that period, compared with the 5 percent rate of increase experienced last year.

Spending for the broad category of “other activities” rose by 13 percent through June, nearly the same rate of growth recorded for fiscal year 2008. Among the programs contributing to this year’s increase were payments to Social Security beneficiaries under the ARRA (\$13 billion) and activities of the Departments of Agriculture, Homeland Security, and Veterans Affairs, and the National Credit Union Administration. Defense spending was up by 8 percent, well below last year’s 12 percent rate of increase.