



# MONTHLY BUDGET REVIEW

## Fiscal Year 2004

### A Congressional Budget Office Analysis

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

June 4, 2004

The federal budget deficit was about \$347 billion during the first eight months of fiscal year 2004, CBO estimates, \$56 billion more than the shortfall recorded over the same period last year. Although revenues have risen by about 2 percent compared with last year's levels, outlays have grown by close to 6 percent.

#### APRIL RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	222	220	-2
Outlays	207	202	-5
Surplus	15	18	3

Sources: Department of the Treasury; CBO.

The Treasury reported a surplus of \$18 billion in April, about \$3 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were lower than anticipated for a number of agencies and programs, including the Department of Education, the Commodity Credit Corporation, the Department of Defense, the Postal Service, Supplemental Security Income, and international assistance programs. The mix of tax refunds (which count as revenue reductions) and refundable tax credits (which count as outlays) was slightly different than projected. The former was \$1.6 billion higher and the latter \$1.6 billion lower than CBO had estimated.

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

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	103	114	10
Outlays	192	178	-14
Deficit (-)	-89	-65	24

Sources: Department of the Treasury; CBO.

The deficit in May was about \$65 billion, CBO estimates, \$24 billion less than the shortfall a year ago. That decline is the result of effects of the calendar on the timing of both receipts and outlays.

Receipts in May 2004 were about \$10 billion, or 10 percent, higher than in May 2003, largely because refunds this May were about \$10 billion lower. That difference occurred primarily because most refunds are reported on Fridays, and May had one fewer Friday this year than last year. (The opposite was true for April, so, over the two-month period, refunds this year were about \$3 billion higher than they were last year.)

Withheld individual income taxes were about \$4 billion less than in May 2003, reduced by one fewer workday in 2004 and the tax cuts enacted in May 2003. Social insurance (payroll) tax receipts were up by about \$3 billion, due primarily to an increase in unemployment insurance deposits received from the states. Receipts from corporate taxes were almost \$2 billion higher than in May 2003, mainly because refunds were smaller.

Outlays in May were \$14 billion lower than in the same month last year, largely because of shifts in the timing of certain payments. Calendar-related adjustments reduced outlays by about \$22 billion relative to their level in May 2003. Outlays in May 2004 were unusually low because the first day of the month fell on a weekend, shifting roughly \$11 billion in payments that ordinarily would have been made in May to the end of April. In contrast, outlays were unusually high last year because June 1 fell on a weekend, which shifted about \$11 billion from June to May 2003. Excluding the effect of those payment shifts, spending was about \$9 billion, or 5 percent, higher than in May 2003. About \$6 billion of that increase was due to adjustments in the amounts agencies recorded for the subsidy cost of loans and loan guarantees made in previous years.

Note: Unless otherwise indicated, the numbers 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.

**BUDGET TOTALS THROUGH MAY**

(Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	1,160	1,184	24
Outlays	1,451	1,531	80
Deficit (-)	-291	-347	-56

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$347 billion for the first eight months of fiscal year 2004, CBO estimates, about \$56 billion more than for the same period last year. Although revenues increased by \$24 billion, outlays grew more, rising by \$80 billion.

**RECEIPTS THROUGH MAY**

(Billions of dollars)

Major Source	Actual FY2003	Preliminary FY2004	Percentage Change
Individual Income	518	501	-3.2
Corporate Income	66	95	45.1
Social Insurance	481	493	2.5
Other	<u>95</u>	<u>94</u>	-0.6
Total	1,160	1,184	2.1

Sources: Department of the Treasury; CBO.

Receipts for the first eight months of this fiscal year were almost \$25 billion higher than last year. Corporate income taxes have shown the most strength this fiscal year and were about \$30 billion higher than in 2003. That strength is almost equally attributable to gains in corporate income tax collections and weakness in corporate income tax refunds. In addition, social insurance taxes were about \$12 billion higher. Unemployment insurance deposits from the states and Federal Insurance Contributions Act (FICA) payments were both almost \$5 billion greater than in fiscal year 2003, and payments of self-employment (SECA) taxes were almost \$3 billion higher.

A decline of about \$16 billion in individual income tax receipts offset some of the increases in other revenue sources, however. Higher individual income tax refunds decreased revenues by almost \$10 billion, and nonwithheld receipts fell by an additional \$8 billion. Most of the revenue decline from those sources occurred in April with the filing of income tax returns for 2003.

**OUTLAYS THROUGH MAY**

(Billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	253	285	12.7	14.2
Social Security				
Benefits	309	322	4.3	4.3
Medicare	186	195	4.7	6.4
Medicaid	104	116	11.8	11.8
Other Programs and Activities	<u>486</u>	<u>503</u>	3.6	4.6
Subtotal	1,337	1,421	6.3	7.1
Net Interest on the Public Debt	<u>113</u>	<u>110</u>	-3.2	-3.2
Total	1,451	1,531	5.5	6.3

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 about 5.5 percent in the first eight months of fiscal year 2004. Adjusted for shifts in payment dates, that rate of growth increases to about 6.3 percent.

After adjusting for payment shifts, defense outlays through May were about 14 percent higher than in the same period last year. (Military spending rose by 16 percent in fiscal year 2003.) So far this year, the largest increases have been for operations, maintenance, and procurement costs, which together have risen by 17 percent.

Outlays for the three major entitlement programs were about 6 percent higher than in the first eight months of 2003, led by an 11.8 percent increase in outlays for Medicaid. Growth in Medicaid spending should moderate after the expiration of the temporary increase in the federal matching rate at the end of June. Outlays for Medicare and Social Security have grown at about the same rates as last year.

Total outlays for other programs and activities rose by 4.6 percent through May, after adjusting for timing shifts. Among the factors driving up spending were the upward adjustments in the estimated cost of credit subsidies, as well as higher spending for refundable tax credits, food and nutrition programs, the Public Health Service, the Department of Justice, and interest on tax refunds. In contrast, payments through May for unemployment benefits were 13 percent lower than in the same period last year, due to declining unemployment and the expiration of the Temporary Emergency Unemployment Compensation Act.