



MONTHLY BUDGET REVIEW

Fiscal Year 2006

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for October and the *Daily Treasury Statements* for November

December 6, 2005

The federal government incurred a deficit of about \$130 billion in the first two months of fiscal year 2006, CBO estimates—approximately \$14 billion more than the shortfall recorded during the same period last year. The higher deficit thus far has occurred because spending has increased nearly twice as much as revenues have. Such a disparity is not likely to persist over the subsequent 10 months, however. CBO will issue new estimates for 2006 and baseline projections for the 2007-2016 period in late January.

OCTOBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	149	149	1
Outlays	199	197	-3
Deficit (-)	-50	-47	3

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$47 billion in October, \$3 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was primarily on the spending side of the budget. Outlays were lower than expected for a number of agencies, including the Departments of Defense, Health and Human Services, Transportation, and State.

ESTIMATES FOR NOVEMBER (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	135	138	4
Outlays	192	221	28
Deficit (-)	-58	-82	-25

Sources: Department of the Treasury; CBO.

The deficit in November was about \$82 billion, CBO estimates, \$25 billion more than the shortfall incurred in the same month last year. Revenues were 3 percent higher than in November 2004, but outlays were 15 percent higher.

Receipts totaled about \$138 billion in November 2005, CBO estimates, \$4 billion more than in November 2004.

The amount of individual income taxes and social insurance taxes withheld from paychecks rose by about \$4 billion, or 4 percent. Nonwithheld individual income and social insurance taxes dropped by less than \$1 billion, but that decline was offset by small increases in other sources of revenues.

Outlays were about \$28 billion greater this November than last November, CBO estimates. Spending by the Department of Homeland Security was roughly \$9 billion higher than in November 2004, primarily because of payments of flood insurance claims related to hurricane Katrina. Outlays for net interest were up by about \$7 billion; November's \$22 billion payment was the largest in more than five years. Outlays for Medicare and Medicaid rose by a total of \$4 billion compared with last November—or an average of 10 percent for each program. Increases in spending for Social Security and the Departments of Agriculture and Defense accounted for much of the remaining growth.

BUDGET TOTALS THROUGH NOVEMBER (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	271	288	16
Outlays	387	418	31
Deficit (-)	-115	-130	-14

Sources: Department of the Treasury; CBO.

The government incurred a deficit of \$130 billion in the first two months of fiscal year 2006, CBO estimates, compared with the \$115 billion deficit recorded during the same period in 2005. Outlays grew by \$31 billion, outpacing the \$16 billion increase in revenues.

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 NOVEMBER
(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	122	134	9.0
Corporate Income	10	9	-13.5
Social Insurance	114	120	5.0
Other	<u>25</u>	<u>26</u>	4.2
Total	271	288	6.1

Sources: Department of the Treasury; CBO.

CBO estimates that receipts in the first two months of fiscal year 2006 were about 6 percent higher than in the same period last year. Receipts from withheld individual income taxes and social insurance taxes accounted for most of the increase. Such withholding was 7 percent higher than in the first two months of 2005, indicating that wages and salaries continue to rise.

Net corporate income tax receipts were about \$1 billion (or 14 percent) lower in the first two months of 2006, CBO estimates. However, they would have been higher than last year's amounts if receipts in October 2004 had not been increased by about \$4 billion because of legislation that allowed firms to delay payments normally due in September. Corporate tax payments so far this year provide little indication of the path of receipts for the full fiscal year; the next major estimated payment of corporate income taxes is due by December 15.

OUTLAYS THROUGH NOVEMBER
(Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	73	82	12.3	5.0
Social Security				
Benefits	83	87	5.8	5.8
Medicare	52	53	1.2	9.6
Medicaid	29	31	6.4	6.4
Other Programs and Activities	<u>121</u>	<u>124</u>	3.2	15.7
Subtotal	358	378	5.6	9.3
Net Interest on the Public Debt	<u>29</u>	<u>39</u>	37.9	37.9
Total	387	418	8.0	11.4

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.

Outlays were 8 percent higher through November than in the first two months of fiscal year 2005, CBO estimates, or 11.4 percent higher adjusted for shifts in various payment dates. By comparison, outlays in 2005 as a whole grew by about 7.3 percent on an adjusted basis.

CBO has also adjusted its estimates of the year-to-year change in individual components of spending to reflect a modification in the accrual payments made on behalf of Medicare-eligible military retirees. Those payments—which are deposited in a federal trust fund and thus are intragovernmental transactions—are now being recorded on an annual rather than a monthly basis, beginning with an \$11 billion lump-sum payment at the beginning of fiscal year 2006. That payment affects the allocation of costs between the “Defense—Military” and “Other Programs and Activities” categories shown in the table above.

Adjusted for timing shifts and with those accrual payments excluded, spending for defense programs averaged about \$38 billion over the past two months, or about 5 percent more than in the same period last year. Daily expenditure rates were largely unchanged from the previous quarter.

Outlays for nondefense programs (excluding net interest on federal debt held by the public) were 11 percent higher than in the first two months of 2005, driven in part by an \$11 billion (or almost fivefold) increase in spending by the Department of Homeland Security for flood insurance and disaster relief. In addition, outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—grew by an average of 7 percent (on an adjusted basis) through November, slightly faster than their 6.5 percent average increase in 2005.

Outlays for net interest also grew rapidly in the first two months of 2006, increasing by 38 percent relative to the same period last year. About half of that rise reflected higher rates of inflation, which affect the amount paid on inflation-indexed Treasury securities. The rest of the increase resulted from higher short-term interest rates and growing debt.