



# MONTHLY BUDGET REVIEW

## Fiscal Year 2007

### A Congressional Budget Office Analysis

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

December 6, 2006

The federal budget deficit was about \$122 billion during the first two months of fiscal year 2007, CBO estimates, \$9 billion less than the shortfall recorded through November last year. Receipts have risen by 9 percent compared with receipts in the same period in fiscal year 2006, more than double the 4 percent growth in outlays.

#### OCTOBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	167	168	*
Outlays	216	217	1
Deficit (-)	-49	-49	*

Sources: Department of the Treasury; CBO.

Note: \* = between -\$500 million and \$500 million.

The Treasury reported a deficit of \$49 billion in October 2006, about the same as CBO's projection based on the *Daily Treasury Statements*.

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

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	139	146	8
Outlays	222	219	-3
Deficit (-)	-83	-73	11

Sources: Department of the Treasury; CBO.

The deficit in November was about \$73 billion, CBO estimates, \$11 billion less than the shortfall incurred in the same month last year. Higher revenues and lower outlays both contributed to that improvement.

Receipts totaled about \$146 billion in November, CBO estimates, representing a gain of about \$8 billion (5.5 percent) relative to receipts in November 2005. Withheld income and payroll taxes (up by about \$9 billion, or 7 percent) accounted for the gains in total receipts, reflecting the continued strength in wages and salaries. Refunds to individuals were up by about \$2 billion from the prior year, probably because the Internal Revenue Service (IRS) changed its procedures to allow individuals, upon request, an automatic six-month extension after April in which to file their tax returns, rather than the four months allowed last year.

Outlays were \$3 billion lower this November than they were last November, CBO estimates. Spending by the Department of Homeland Security was roughly \$9 billion lower than in November 2005, primarily because of last year's payments of flood insurance claims related to Hurricanes Katrina and Rita. Outlays for net interest on the public debt and the Department of Agriculture were also down—by \$4 billion and \$3 billion respectively. In contrast, spending grew compared to last November for Medicare (up by \$7 billion) and the Department of Defense (up by \$5 billion).

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

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	288	314	26
Outlays	419	436	17
Deficit (-)	-130	-122	9

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$122 billion for the first two months of fiscal year 2007, about \$9 billion less than the deficit recorded for the same period last year. Revenues were about \$26 billion (or 9 percent) higher than they were in 2006, while outlays were about \$17 billion (or 4 percent) higher.

#### RECEIPTS THROUGH NOVEMBER (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	134	150	12.0
Corporate Income	9	14	45.1
Social Insurance	120	125	4.2
Other	<u>26</u>	<u>26</u>	1.8
Total	288	314	9.0

Sources: Department of the Treasury; CBO.

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.

Increases in receipts from individual income taxes (up by \$16 billion, or 12 percent) and social insurance taxes (up by \$5 billion, or 4 percent) accounted for most of the increase in revenues. The bulk of the increases in those two tax sources was in amounts withheld from employees' paychecks, which increased by almost \$18 billion, or 7 percent, in October and November compared with receipts in the same two months of 2005. Those increases indicate that wages and salaries in the economy continue to grow strongly.

Nonwithheld receipts also grew by about \$7 billion. That increase largely resulted from additional payments in October because of the additional time allowed for taxpayers who requested automatic extensions for filing their tax returns. Those payments were partially offset by an increase in individual income tax refunds of about \$3 billion for the two-month period.

Net corporate income tax receipts were about \$4 billion higher than in the first two months of fiscal year 2006, CBO estimates. But the sums involved are quite small and provide little indication of the amount of receipts that are likely to be collected for the full fiscal year. The first major estimated payment of corporate income taxes in this fiscal year is due to the IRS by December 15.

### OUTLAYS THROUGH NOVEMBER (Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	81	91	12.0	11.7
Social Security				
Benefits	87	93	6.3	6.7
Medicare	53	75	41.4	23.8
Medicaid	31	31	-1.3	-1.3
Other Programs and Activities	<u>126</u>	<u>107</u>	-14.7	-13.8
Subtotal	378	397	4.8	2.8
Net Interest on the Public Debt	<u>40</u>	<u>39</u>	-2.5	-2.5
Total	419	436	4.1	2.3

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays. Also adjusts 2006 Social Security outlays for corrections to amounts withheld for taxes on Social Security benefits.

After adjusting for shifts in the timing of certain payments, outlays through November were about 2 percent higher than in the same period last year, well below the 8.6 percent full-year rate of growth experienced in fiscal year 2006.

The relatively slow outlay growth through November largely resulted from the \$18 billion, or 14 percent, drop in net spending for the broad category of "other programs and activities." Outlays for flood insurance and disaster assistance were \$11 billion below the amounts spent in the first two months of 2006, which were unusually high because of the substantial hurricane damage. Spending for agricultural price and income support programs declined by more than \$3 billion, primarily because the prices of farm commodities have risen substantially. The lower net spending in this category also reflects a \$2 billion increase in Medicare receipts, including about \$1 billion in premiums and other collections related to the new prescription drug program.

Outlays for Medicaid were slightly below the program's spending in October and November of 2005, continuing the pattern that was evident for much of the past year. However, spending has picked up in the past two months; spending per day was about 4 percent higher than it was over the last nine months of fiscal year 2006.

Payments for net interest on the public debt were about \$1 billion below the amounts spent in the first two months of fiscal year 2006—despite higher interest rates and growing debt—because a lower rate of inflation reduced the cost of inflation-indexed securities.

Elsewhere, outlays were generally higher than in the first two months of last year. Defense spending grew by about 12 percent. Medicare spending rose by \$13.5 billion, or 24 percent, on an adjusted basis; \$8 billion of that increase resulted from the new prescription drug benefit that took effect last January. Excluding spending for the new benefit, Medicare outlays rose by about 9 percent through November.

For the budget as a whole—excluding flood insurance, disaster assistance, the new Medicare prescription drug benefit, and net interest on the public debt—federal spending was up by about 4 percent through November, as compared with the first two months of fiscal year 2006. That rate of growth is slightly below the 5 percent rate of increase for 2006, as a whole, over 2005.