



MONTHLY BUDGET REVIEW

Fiscal Year 2007

A Congressional Budget Office Analysis

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

June 6, 2007

The federal government incurred a deficit of \$152 billion during the first eight months of fiscal year 2007, CBO estimates, \$75 billion less than the shortfall recorded through May of last year. In comparison with receipts collected during the same period in 2006, revenues have risen by about 8 percent; outlays have grown by less than 3 percent. CBO expects that the government will end 2007 with a deficit of between \$150 billion and \$200 billion.

APRIL RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	385	384	-1
Outlays	209	206	-3
Surplus	176	178	2

Sources: Department of the Treasury; CBO.

The Treasury reported a surplus of \$178 billion in April, \$2 billion more than CBO had projected on the basis of its analysis of the *Daily Treasury Statements*. The difference was primarily on the spending side of the budget. Outlays were \$3 billion less than projected, largely because of lower-than-expected spending by the Department of Education.

ESTIMATES FOR MAY (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	193	164	-28
Outlays	236	236	*
Deficit (-)	-43	-71	-28

Sources: Department of the Treasury; CBO.

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

The deficit in May reached about \$71 billion, CBO estimates, \$28 billion more than the shortfall recorded a year ago. The timing of certain revenue collections and a number of one-time accounting transactions contributed to that difference.

The amount of receipts collected in May was about \$28 billion lower than the amount collected in May 2006, mostly because of a \$24 billion decline in nonwithheld receipts. That drop is somewhat misleading, however, because the Internal Revenue Service processed a greater proportion of individual income tax returns in April this year than in 2006. For April and May combined, total receipts rose by about \$40 billion (or almost 8 percent) and nonwithheld receipts were up by about \$24 billion (or 11 percent).

Other receipts in May were down by \$4 billion on net. An increase of about \$5 billion (or 3 percent) in withheld individual income and social insurance (payroll) taxes was more than offset by declines in other receipts (unemployment insurance taxes, corporate income taxes, excise taxes, estate and gift taxes, and miscellaneous receipts) and by increases in refunds of individual income taxes. The fact that May included one fewer business day this year reduced growth in revenues (and in outlays as well).

The amount of outlays this May was about the same as that recorded in May 2006; however, spending in both years was affected by accounting adjustments. Changes in the Department of Education's estimates of the subsidy cost of student loans made or guaranteed in previous years increased outlays in May 2006 by about \$11 billion; no such changes have been booked so far this year. Similarly, changes to the estimated subsidy cost of loan guarantees made by the Department of Housing and Urban Development increased outlays in May 2006 by \$3 billion and decreased outlays for this May by about \$1 billion. In the absence of those adjustments, spending in May would have grown by about 7 percent from 2006 to 2007. Defense outlays grew by almost \$4 billion (or 9 percent) compared with spending in the same month last year, and outlays for Medicare and Social Security were up by about \$3 billion each (7 percent and 6 percent, respectively). Spending for both Medicaid and net interest on the public debt grew by \$2 billion, an increase of more than 10 percent each.

BUDGET TOTALS THROUGH MAY (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	1,545	1,669	124
Outlays	1,772	1,821	49
Deficit (-)	-227	-152	75

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$152 billion for the first eight months of fiscal year 2007. Revenues have risen by about \$124 billion so far this year, outpacing the \$49 billion growth in outlays.

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 MAY
(Billions of dollars)

Major Source	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	687	767	11.6
Corporate Income	184	209	13.4
Social Insurance	563	588	4.5
Other	<u>111</u>	<u>105</u>	-5.7
Total	1,545	1,669	8.0

Sources: Department of the Treasury; CBO.

About 85 percent of the revenue growth experienced this year has come from receipts of individual income and social insurance taxes. Individual income tax receipts were about \$80 billion (or 12 percent) higher, and payroll tax receipts were about \$25 billion (or 4.5 percent) higher.

Gains in withheld taxes, totaling \$79 billion (or 7.3 percent), comprise the bulk of the increases in income and payroll taxes. Those gains reflect continuing increases in wages and salaries. Growth in withholding so far this year is occurring at about the same pace as last year.

Nonwithheld income taxes increased by about \$41 billion (or 14 percent) during this period. Roughly 90 percent of those collections reflect activity for tax year 2006. Over half of the increase took place in the April-May period, the main months for processing income tax returns. Growth in nonwithheld receipts has slowed since last year, when their rate of growth was nearly 20 percent.

Refunds of individual income taxes were \$14 billion (or 8 percent) higher than refunds issued during the same period last year. While some refunds will continue to be issued through the end of the fiscal year, the bulk of them have been processed. Refunds have grown just slightly faster than they did last year.

Corporate income tax receipts for the first eight months of the fiscal year have increased by about \$25 billion (or 13 percent) compared with receipts in the same period last year. Growth in those receipts has continued to outpace growth in gross domestic product, but to a much smaller extent than in the past three years. Furthermore, it has been declining throughout most of this year, indicating likely slowing in the growth of profits. The quarterly estimated payments due on June 15 should provide a good indication of the recent strength in the corporate sector of the economy.

OUTLAYS THROUGH MAY
(Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	328	350	6.7	6.7
Social Security				
Benefits	360	381	5.7	5.9
Medicare	246	288	16.8	13.0
Medicaid	118	128	8.2	8.2
Other Programs				
and Activities	<u>568</u>	<u>510</u>	-10.2	-10.0
Subtotal	1,622	1,658	2.2	1.7
Net Interest on the				
Public Debt	<u>151</u>	<u>163</u>	8.4	8.4
Total	1,772	1,821	2.7	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.

Outlays through May were less than 3 percent higher than in the same period last year, CBO estimates. That small overall increase is primarily due to lower net spending in the broad category of “other programs and activities,” which fell by 10 percent relative to outlays in the first eight months of 2006.

About 70 percent of the decline in “other programs and activities” was due to unusually high outlays in 2006 in two categories: flood insurance and disaster relief (\$27 billion higher last year), and accounting adjustments made to previous estimates of the subsidy costs of certain credit programs (about \$14 billion higher in 2006, primarily for student loans and mortgage insurance). Other factors contributing to the decline through May included higher receipts from certain license auctions and Medicare premiums, as well as a 34 percent drop in spending for agricultural commodity programs. Apart from those five items, outlays in this category rose by 2 percent.

Outlays for defense, Social Security, Medicare, Medicaid, and interest on the public debt have grown by about 8 percent (after adjusting for shifts in payment dates). Taken together, Medicare and Medicaid spending rose by 11 percent compared with the first eight months of 2006; a significant portion of that growth was due to the new prescription drug benefit. Spending for defense and net interest on the public debt increased by 7 percent and 8 percent, respectively.