



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for February and the *Daily Treasury Statements* for March

April 4, 2008

Halfway through fiscal year 2008, the federal government has incurred a deficit of \$310 billion, CBO estimates, \$51 billion more than the shortfall incurred during the same period in 2007. Outlays have risen by 5 percent in the first half of the year, whereas revenues have grown by about 2 percent.

FEBRUARY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	109	106	-3
Outlays	283	281	-2
Deficit (-)	-174	-176	-1

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$176 billion in February, about \$1 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Most of the differences in revenues and outlays are attributable to the composition of tax refunds, and they offset each other. Refunds of individual income tax payments (which count as revenue reductions) were \$2.5 billion higher than CBO had anticipated, and refundable tax credits (which count as outlays) were \$2.5 billion lower.

ESTIMATES FOR MARCH (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	166	177	10
Outlays	263	223	-39
Deficit (-)	-96	-47	50

Sources: Department of the Treasury; CBO.

The deficit in March was \$47 billion, CBO estimates, \$50 billion less than in the same month last year. That improvement, however, is attributable to calendar-related differences in the timing of some tax refunds and certain payments. Adjusted for those differences, the deficit would have been a few billion dollars higher this March than it was last March.

Receipts in March were about \$177 billion, CBO estimates, \$10 billion higher than receipts in the same month in 2007. But revenues would have been roughly

unchanged if not for the effects of the calendar on individual income tax refunds. In particular, compared with last March, this March had one fewer Friday, the day on which most refunds are reported. Largely as a result, refunds were about \$10 billion lower in March 2008 than they were in March 2007. Compared with receipts last year, withheld income and payroll taxes grew by almost \$6 billion (or 4 percent) in March, but net corporate income taxes continued to show weakness, declining by about \$7 billion (or 18 percent).

Higher spending for various programs in March was more than offset by \$42 billion in calendar-related adjustments, resulting in a net decrease in outlays of \$39 billion relative to March 2007. Outlays this March were unusually low because the first day of the month fell on a weekend, shifting about \$22 billion in payments from March to the end of February. By contrast, outlays were unusually high in March 2007 because April 1 fell on a weekend, which shifted about \$20 billion from April to March. In addition, outlays for international assistance were about \$3 billion lower than those in March last year because the annual payments to Egypt and Israel that occurred last March were made in January this year. In the absence of those timing shifts, outlays in March would have grown by about \$6 billion (or 2 percent).

BUDGET TOTALS THROUGH MARCH (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	1,121	1,144	23
Outlays	1,379	1,454	74
Deficit (-)	-258	-310	-51

Sources: Department of the Treasury; CBO.

CBO estimates that the government incurred a deficit of \$310 billion in the first half of 2008. The deficit last year at the same point in time was \$258 billion. The \$51 billion increase in the deficit through March was largely unaffected by differences in the timing of receipts or expenditures.

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 MARCH
(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change
Individual Income	479	501	4.5
Corporate Income	154	130	-15.6
Social Insurance	412	429	4.0
Other	<u>75</u>	<u>84</u>	11.7
Total	1,121	1,144	2.1

Sources: Department of the Treasury; CBO.

In the first half of the fiscal year, receipts rose about \$23 billion, or 2 percent, above their level in the first half of 2007, CBO estimates. (For February and March, however, total receipts were 1.5 percent lower than those in the same months last year.) Over the six-month period, increases in receipts from individual income and social insurance (payroll) taxes, and to a lesser extent from miscellaneous taxes and fees, were partially offset by declines in corporate income tax receipts.

Revenues from individual income and payroll taxes combined rose by about \$38 billion, or 4.3 percent, in the first half of the year. Withholding for those taxes increased by about \$45 billion, or 5 percent. Growth in withholding has declined from the 7 percent increase recorded for 2007, reflecting slowing growth in wages and salaries. Receipts of nonwithheld income and payroll taxes rose by about \$6 billion, or 5 percent. That increase stems largely from the quarterly estimated payments made in January. Refunds of individual income taxes increased by about \$12 billion, or 10 percent. At this point in the tax filing season, roughly 60 percent of refunds have normally been paid.

Receipts from miscellaneous taxes and fees increased by about \$9 billion, or 12 percent. Those include increases in receipts from Federal Reserve earnings, excise taxes, estate and gift taxes, and customs duties.

Receipts of corporate income taxes fell by about \$24 billion, or 16 percent, in the first half of 2008. Compared with receipts in the same month of the previous year, those receipts have declined in each of the past nine months. The declines reflect weakening corporate profitability.

The next several weeks will provide important information about the near-term path for receipts. Most individuals who owe taxes will file their income tax returns this month, and individuals and corporations alike will make quarterly estimated payments of income taxes.

OUTLAYS THROUGH MARCH
(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	268	292	8.7	9.3
Social Security				
Benefits	284	299	5.4	5.4
Medicare ^b	195	184	-5.6	2.2
Medicaid	94	99	5.1	5.1
Other Programs				
and Activities	<u>422</u>	<u>451</u>	6.8	6.9
Subtotal	1,264	1,325	4.8	6.3
Net Interest on the				
Public Debt	<u>116</u>	<u>129</u>	11.3	11.3
Total	1,379	1,454	5.4	6.7

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays.

b. Medicare outlays are net of proprietary receipts.

Outlays through March were about 5 percent higher than in the same period last year, CBO estimates; adjusted for shifts in the timing of certain payments, spending was up by almost 7 percent. Net interest on the public debt was the fastest growing category of spending, rising by 11 percent, but that growth is projected to moderate in the months ahead. Defense outlays have grown by 9.3 percent (on an adjusted basis)—a rate of increase that is expected to continue in the second half of the year.

Social Security outlays grew by 5.4 percent through March, lower than the average of 5.9 percent experienced in the past three fiscal years. Spending growth slowed in the second quarter in part because the 2.3 percent cost-of-living adjustment that took effect in January was the smallest since 2004. (That adjustment was 3.3 percent in 2007 and 4.1 percent in 2006).

Medicare outlays rose by only 2 percent through March because much of the growth in Medicare's traditional benefit programs—which increased by 6.5 percent on an adjusted basis—was offset by a 22 percent decline in payments for the prescription drug benefit. That decline primarily reflects reductions to correct for overpayments made to prescription drug plans in 2006.

A number of programs experienced double-digit percentage increases in spending in the first half of the year—including food and nutrition programs, unemployment benefits, veterans' health care, federal-aid highways, and community development block grants.