



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for December and the *Daily Treasury Statements* for January

February 6, 2008

The federal government incurred a deficit of \$90 billion in the first four months of fiscal year 2008, CBO estimates, about \$48 billion more than the shortfall in the same period last year. Shifts in the timing of certain payments and receipts account for about one-third of that increase in the deficit.

DECEMBER RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	276	277	1
Outlays	229	229	*
Surplus	47	48	1

Sources: Department of the Treasury; CBO.

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

The Treasury Department reported a surplus of \$48 billion for December, about \$1 billion more than CBO projected on the basis of the *Daily Treasury Statements*. Most of that difference was due to higher-than-estimated revenues.

ESTIMATES FOR JANUARY (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	261	256	-5
Outlays	222	240	18
Surplus	38	15	-23

Sources: Department of the Treasury; CBO.

The federal government recorded a surplus of \$15 billion in January, CBO estimates, less than half the surplus recorded in the same month last year. (January tends to be a favorable month for the budget because one of the estimated tax payments for individuals is due in January, and some outlays for salaries and benefits shift into December because January 1 is a holiday.)

Receipts in January were about \$5 billion (or 2 percent) lower than receipts in January 2007, CBO estimates. The decline resulted from weaker withholding of income and

payroll taxes (down by \$7 billion, or 4 percent) and lower corporate receipts (down by \$5 billion, or more than 40 percent). Calendar differences probably shifted a significant amount of withholding from January into December this fiscal year. Counting amounts in December and January combined, withholding increased by about 3 percent compared with receipts in the same period last year. Gains of about \$6 billion (or 9.5 percent) in nonwithheld receipts of income and payroll taxes offset some of the declines in other receipts in January. Nonwithheld receipts in January largely represent the last quarterly estimated payments by individuals for tax year 2007.

Outlays were \$18 billion (or 8 percent) greater this January than they were last January, CBO estimates. Spending for net interest on the public debt accounted for the greatest growth, up by about \$5 billion (or 30 percent). Defense spending grew by about \$4 billion (or 8 percent) compared with outlays in the same month last year (after adjustments for timing shifts); spending for Social Security benefits was up by about \$3 billion (or 6 percent). About \$3 billion of the outlay increase was due to the annual payments to Egypt and Israel for military aid—in fiscal year 2007, those payments were made in March.

BUDGET TOTALS THROUGH JANUARY (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	834	862	28
Outlays	876	952	76
Deficit (-)	-42	-90	-48

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$90 billion for the first four months of fiscal year 2008, compared with a \$42 billion shortfall in the same period last year. Outlays have grown by 9 percent through January, while revenues have increased by about 3 percent.

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 JANUARY
(Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change
Individual Income	405	423	4.4
Corporate Income	110	99	-10.1
Social Insurance	268	283	5.9
Other	<u>51</u>	<u>57</u>	10.1
Total	834	862	3.3

Sources: Department of the Treasury; CBO.

Receipts for the first four months of fiscal year 2008 were about \$28 billion higher than for the comparable period last year. That growth rate of 3 percent is slower than the increase of almost 7 percent recorded in fiscal year 2007, and the rates of growth in each of the prior two years, which exceeded 10 percent.

Gains in withholding of about \$30 billion (or 5 percent) account for most of the increase in overall receipts. That growth was slower than the 7 percent growth recorded in fiscal year 2007. The withholding data indicate that in recent months, especially in December and January, wages and salaries have continued to increase, but at a slower rate than they did last year.

Nonwithheld receipts were about \$5 billion (or 6 percent) higher in the October-January period. That increase resulted primarily from higher estimated payments in January. Collections in those months represent only a small portion of nonwithheld receipts for the year, however.

Net corporate receipts were about \$11 billion (or 10 percent) lower in the first four months of the fiscal year, primarily because of higher refunds of corporate taxes during the period (up by \$8 billion). Net corporate receipts have declined in each of the past 7 months, probably reflecting declines in corporate profits. Corporate receipts grew by 4.6 percent in 2007, and at a rapid pace averaging nearly 40 percent annually over the prior three years.

CBO currently projects that, without any changes in tax law (such as rebates from fiscal stimulus legislation), receipts for the entire fiscal year will grow by about 3.4 percent—with individual income and payroll taxes rising by over 4 percent, and corporate receipts declining by about 2 percent. Revenues from other sources combined are expected to be about 3 percent higher, mainly due to gains in excise taxes and customs duties.

OUTLAYS THROUGH JANUARY
(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	181	199	9.7	8.2
Social Security				
Benefits	187	198	5.8	5.8
Medicare ^b	125	121	-3.1	0.7
Medicaid	62	67	8.4	8.4
Other Programs				
and Activities	<u>248</u>	<u>279</u>	12.5	10.0
Subtotal	803	864	7.6	7.1
Net Interest on the				
Public Debt	<u>73</u>	<u>88</u>	20.7	20.7
Total	876	952	8.7	8.2

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.

After adjusting for shifts in the timing of certain payments, outlays through January were about 8 percent higher than in the same period last year, CBO estimates. Net interest on the public debt was the fastest-growing category of spending, rising by 21 percent through January, in large part because of higher payments for inflation-indexed securities. CBO expects that the growth in net interest costs will moderate in the months ahead as debt is refinanced at lower interest rates.

Defense spending increased by 8 percent, on an adjusted basis, through January. Assuming that supplemental appropriations are provided for military operations in Iraq and Afghanistan, CBO estimates that defense spending will end the year about 9.5 percent higher than in 2007.

Medicare spending was up by less than 1 percent through January—compared with an increase of about 9.5 percent last year—partly reflecting a net reduction of about \$4 billion in payments to prescription drug plans to correct for overpayments made in 2006. Excluding that factor, the increase through January was about 4 percent—close to the 5 percent increase CBO anticipates for the year as a whole (on an adjusted basis). By contrast, Medicaid spending is projected to increase by almost 9 percent in 2008, slightly faster than the 8.4 percent gain recorded through January.

Outlays through January for other programs and activities rose by 10 percent relative to the same period last year. Over half of that increase was due to differences in the timing of collections from auctions of licenses to use the electromagnetic spectrum and payments to Egypt and Israel.