MONTHLY BUDGET REVIEW
Fiscal Year 2009
A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for August
and the *Daily Treasury Statements* for September

October 7, 2009

CBO estimates that the federal budget deficit was about $1.4 trillion in fiscal year 2009, $950 billion greater than the shortfall recorded in 2008. The 2009 deficit was equal to 9.9 percent of gross domestic product (GDP), up from 3.2 percent in 2008, and was the highest shortfall—relative to the size of the economy—since 1945. The substantial increase in the deficit resulted from both declining revenues and increased spending. Revenues in 2009 were almost $420 billion (or 17 percent) below receipts in 2008 and totaled about 15 percent of GDP, the lowest level in over 50 years. At the same time, outlays increased by over $530 billion (or 18 percent) in 2009, to nearly 25 percent of GDP, the highest level in over 50 years. Those estimates are based on data from the *Daily Treasury Statements* and CBO's projections; the Treasury Department will report the actual deficit later this month.

Almost half of the spending increase—$245 billion—resulted from outlays for the Troubled Asset Relief Program (TARP) and net payments to Fannie Mae and Freddie Mac. In addition, CBO estimates that spending increases and revenue reductions stemming from the American Recovery and Reinvestment Act of 2009 (ARRA) totaled almost $200 billion this year (excluding the impact on the budget from ARRA's effects on the economy).

ESTIMATES FOR SEPTEMBER
(Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	273	220	-53
Outlays	231	251	20
Surplus/Deficit (-)	42	-31	-73

Sources: Department of the Treasury, OMB, and CBO.

The federal government recorded a deficit of $31 billion in September, CBO estimates, in contrast with a surplus of $42 billion recorded in the same month last year. Quarterly payments of estimated individual income taxes and corporate income taxes typically result in a surplus for September; however, lower revenues and increased spending resulted in the twelfth consecutive month of budget deficits.

CBO estimates that receipts in September were about $53 billion (or 19 percent) less than receipts in September 2008; over 60 percent of the decline stemmed from lower payments of individual income and social insurance taxes. Withholding of individual income and payroll taxes decreased by about $18 billion (or 13 percent), due in part to provisions in ARRA, primarily the Making Work Pay tax credit, and continued weakness in salaries and wages. Nonwithheld individual income and payroll taxes, mainly from quarterly estimated payments of 2009 income taxes, fell by about $18 billion (or 27 percent). Net corporate income tax receipts dropped sharply—by about $24 billion (or 45 percent). Federal Reserve receipts increased by about $5 billion this month, which CBO attributes to recent purchases of large amounts of higher-yielding assets.

Outlays were $20 billion higher in September than in the same month last year. However, because September 1, 2008, was a holiday (Labor Day), about $22 billion in payments normally made at the beginning of September were instead made at the end of August. Without that shift, outlays would have been about $2 billion (or 1 percent) less than in 2008. Cash infusions to Fannie Mae and Freddie Mac (net of dividends) totaled $9 billion in September. Spending for unemployment benefits rose by $7 billion, and Medicaid and Social Security outlays increased by $5 billion each, compared with the amounts in 2008. The "cash for clunkers" program had outlays of $3 billion in September. Most of those increases in spending were offset by a decrease in outlays of $20 billion for the TARP stemming from modifications to some of the initial subsidy costs recorded for the program.

BUDGET TOTALS THROUGH SEPTEMBER
(Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	2,524	2,106	-419
Outlays	2,983	3,515	532
Deficit (-)	-459	-1,409	-950

Sources: Department of the Treasury, OMB, and CBO.

CBO estimates that the federal deficit was about $1.4 trillion in 2009, up from $459 billion in 2008. The *Monthly Treasury Statement* includes only the net cash injections made by the federal government to Fannie Mae and Freddie Mac. In contrast, in *The Budget and Economic Outlook: An Update*, issued in August, CBO had incorporated the net subsidy cost associated with including all of the activities of those two entities in the federal budget. Adjusted for that difference in budgetary treatment, the deficit of $1.4 trillion that the Treasury is expected to report for 2009 is close to the deficit estimated by CBO in its August report.

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 SEPTEMBER
(Billions of dollars)

Major Source	Actual FY2008	Preliminary FY2009	Percentage Change
Individual Income	1,146	916	-20.1
Corporate Income	304	139	-54.4
Social Insurance	900	891	-1.0
Other	174	160	-8.0
Total	**2,524**	**2,106**	**-16.6**

Sources: Department of the Treasury, OMB, and CBO.

CBO estimates that total receipts in 2009 were $419 billion less than receipts in 2008, marking the second consecutive year of declines in federal receipts. (Receipts dropped for three consecutive years from 2000 to 2003, declining by a total of 12 percent.) CBO estimates that revenues fell from 17.7 percent of GDP in 2008 to 14.9 percent of GDP in 2009.

Individual income taxes, the largest source of tax receipts, account for more than half of the total drop in receipts, declining by $230 billion (or 20 percent). Receipts of social insurance taxes, the second largest tax source, fell by about $9 billion (or 1 percent).

Withholding of individual income and payroll taxes in each month of fiscal year 2009 was lower than in the same month in the prior year, decreasing by about $117 billion (or 7 percent) for the year. Withholding began to fall markedly in December, with the weakening economy and low year-end bonuses, and fell further as a result of tax reductions in ARRA. Nonwithheld receipts declined by $142 billion (or 28 percent). About two-thirds of that decline resulted from lower payments of 2008 taxes, and the remainder represented lower estimated payments of 2009 taxes—reflecting sharp declines in nonwage income stemming from the recession. Refunds in 2009 were also lower, by $22 billion, partly offsetting the decreases in payments of individual income taxes.

Corporate tax receipts declined for the second consecutive year, falling by about $166 billion (or 54 percent). That decline continues a pattern that began in the middle of 2007 and stems from (1) weakness in corporate profits, (2) recently enacted legislation, most notably provisions that allow for more rapid depreciation of assets, and (3) the ability of firms to use current-year losses to reduce tax liabilities from previous years. Corporate receipts rose by nearly 40 percent annually, on average, from 2003 to 2006 but are now almost back to the 2003 level.

Other revenues fell by about $14 billion (or 8 percent), reflecting declines of about $5 billion each for customs duties, estate and gift taxes, and excise taxes. An increase of about $2 billion in miscellaneous receipts partially offset those declines.

OUTLAYS THROUGH SEPTEMBER
(Billions of dollars)

Major Category	Actual FY2008	Preliminary FY2009	Percentage Change
Defense—Military	595	636	7.0
Social Security Benefits	607	659	8.6
Medicare[a]	390	428	9.8
Medicaid	201	251	24.7
Unemployment Benefits	47	120	155.9
Other Activities	883	975	10.4
Subtotal	**2,723**	**3,070**	**12.7**
Net Interest on the Public Debt	260	199	-23.2
TARP	0	154	n.a.
Payments to GSEs	0	91	n.a.
Total	**2,983**	**3,515**	**17.8**

Sources: Department of the Treasury, OMB, and CBO.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise; n.a. = not applicable.

a. Medicare outlays are net of proprietary receipts.

Outlays rose by 18 percent in 2009, compared with 2008 levels. As a percentage of GDP, spending increased from 20.7 percent in 2008 to 24.7 percent in 2009.

Nearly 60 percent of the growth in spending for programs and activities other than net interest on the public debt resulted from three sources: outlays recorded for the TARP ($154 billion), Fannie Mae and Freddie Mac ($91 billion), and ARRA (over $100 billion). Other federal spending was up by about 9 percent, compared with the 7 percent average growth in outlays over the past five years. Payments for net interest on the public debt decreased by $60 billion in 2009, somewhat mitigating other increases in spending. That decline resulted mainly from lower short-term interest rates and lower costs for inflation-indexed securities.

Excluding the effects of ARRA, spending for unemployment compensation more than doubled in 2009, because of rising unemployment and increased benefits. Spending for Medicare rose by 10 percent, and outlays for Medicaid (excluding ARRA) and Social Security benefits grew by 9 percent. Defense spending increased by 7 percent in 2009, CBO estimates, lower than the average growth rate of over 9 percent during the past decade.

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