



MONTHLY BUDGET REVIEW

Fiscal Year 2011

A Congressional Budget Office Analysis

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

October 7, 2011

CBO estimates that the federal budget deficit was about \$1.30 trillion in fiscal year 2011, approximately the same dollar amount as the shortfall recorded in 2010. The 2011 deficit was equal to 8.6 percent of gross domestic product, CBO estimates, down from 8.9 percent in 2010 and 10.0 percent in 2009, but greater than in any other year since 1945. The estimated 2011 total reflects the shift of some payments from fiscal year 2012 into fiscal year 2011 (that is, from October to September, because October 1 fell on a weekend); without that shift, the deficit in 2011 would have been \$1.27 trillion. CBO's deficit estimate is based on data from the *Daily Treasury Statements*; the Treasury Department will report the actual deficit for fiscal year 2011 later this month.

RESULTS FOR AUGUST

The Treasury reported a deficit of \$134 billion for August, \$2 billion more than CBO had projected on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR SEPTEMBER (Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	245	240	-5
Outlays	280	304	24
Deficit (-)	-35	-64	-29

Sources: Department of the Treasury; CBO.

The deficit in September was \$64 billion, CBO estimates, \$29 billion greater than the shortfall recorded a year ago. Without the shift to September of certain payments that would ordinarily be made in October, the deficit in September would have been \$2 billion lower than it was in the same month in 2010.

Receipts in September were about \$5 billion (or 2 percent) lower than they were in the same month last year, CBO estimates. Net receipts from the corporate income tax declined by \$11 billion (or 22 percent). Part of that decline may be the result of an extension by the Internal Revenue Service of filing and payment deadlines for certain taxpayers in response to recent natural disasters. The decline in corporate receipts was partly offset by higher individual income and payroll taxes. Withheld receipts from those sources rose by \$3 billion (or 2 percent), despite a temporary reduction in the payroll tax rate that took effect in January 2011. Nonwithheld receipts of individual income and payroll taxes, mainly quarterly estimated payments of 2011 taxes, rose by \$4 billion (or 9 percent).

Outlays were \$24 billion higher in September than in the same month last year. The timing shift discussed earlier (affecting certain Medicare payments, military pay and retirement benefits, veterans' compensation and pensions, and Supplemental Security Income benefits) increased outlays by \$31 billion in September 2011. Without that shift, outlays would have been \$7 billion lower than they were in September 2010.

The Department of Education spent \$7 billion less in September 2011 than in September 2010, primarily because of lower net subsidy costs for student loans. Net spending for the Department of Energy was \$3 billion lower, mainly because of receipts from the sale of oil from the Strategic Petroleum Reserve. Outlays also were lower for unemployment insurance (by \$4 billion) and Medicaid (by \$3 billion).

Partially offsetting those decreases, net payments to Fannie Mae and Freddie Mac were \$3 billion higher than in September 2010. Social Security spending and net interest payments on the public debt were each \$2 billion higher.

FISCAL YEAR TOTALS (Billions of dollars)

	Actual FY 2010	Preliminary FY 2011	Estimated Change
Receipts	2,162	2,303	141
Outlays	3,456	3,600	144
Deficit (-)	-1,294	-1,298	-3

Sources: Department of the Treasury; CBO.

CBO estimates that the federal deficit was just under \$1.3 trillion in 2011, about the same as the deficit in 2010 but \$14 billion more than CBO projected in August: It appears that outlays were \$3 billion higher and revenues were \$11 billion lower than CBO expected.

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.

TOTAL REVENUES
(Billions of dollars)

Major Source	Actual FY 2010	Preliminary FY 2011	Percentage Change
Individual Income	899	1,093	21.6
Social Insurance	865	819	-5.3
Corporate Income	191	180	-5.7
Other	<u>207</u>	<u>210</u>	1.6
Total	2,162	2,303	6.5
Memorandum:			
Combined Individual Income and Social Insurance Taxes			
Withheld	1,649	1,710	3.7
Other	<u>115</u>	<u>201</u>	75.5
Total	1,763	1,912	8.4

Sources: Department of the Treasury; CBO.

CBO estimates that receipts rose by \$141 billion (or 7 percent) in 2011, with the biggest change coming from significant increases in individual income tax receipts. Withheld income and social insurance (payroll) taxes rose by \$62 billion (or 4 percent). That gain would have been larger had payroll taxes paid by employees not been reduced starting in January 2011. Nonwithheld income and payroll taxes rose by \$53 billion (or 16 percent). That increase largely reflects higher final payments made with 2010 individual income tax returns filed earlier this year; quarterly estimated payments of 2011 taxes also rose. The gains in withheld and nonwithheld individual income taxes can be attributed, at least in part, to increases in wages and in nonwage income.

Receipts from unemployment insurance taxes grew by \$12 billion in 2011 as states replenished the funds that had been substantially depleted because of high unemployment. (Those amounts are recorded as federal revenues.) Revenues also rose because refunds of individual income taxes were down by about \$22 billion (or 8 percent) during the past year.

Receipts of corporate income taxes fell by \$11 billion (or 6 percent) in 2011; that entire decline occurred in September, and it may partly reflect delays in certain filing and payment deadlines because of natural disasters. Throughout the year, revenue increases stemming from higher profits were offset by revenue reductions resulting from tax legislation enacted in 2010, particularly provisions that accelerated businesses' deductions for depreciation.

Other receipts rose by \$3 billion, on net. A \$12 billion decline in estate and gift taxes, which resulted from the temporary repeal of the estate tax for calendar year 2010, was more than offset by increases in Federal Reserve earnings, excise taxes, and customs duties.

TOTAL OUTLAYS
(Billions of dollars)

Major Category	Actual FY 2010	Preliminary FY 2011	Percentage Change	
			Actual	Adjusted ^d
Defense—Military	667	679	1.8	1.2
Social Security				
Benefits	696	720	3.5	3.5
Medicare ^b	450	483	7.1	3.9
Medicaid	273	275	0.9	0.9
Unemployment				
Benefits	162	123	-24.1	-24.1
Other Activities	<u>1,048</u>	<u>1,088</u>	3.8	-2.1
Subtotal	3,295	3,368	2.2	-0.3
Net Interest on the				
Public Debt	228	266	16.7	16.7
TARP	-108	-39	n.m.	n.m.
Payments to GSEs	<u>40</u>	<u>5</u>	-87.2	-87.2
Total	3,456	3,600	4.2	1.8

Sources: Department of the Treasury; CBO.

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

- Excludes the effects of prepayments of deposit insurance premiums and payments that were shifted because of weekends or holidays.
- Medicare outlays are net of offsetting receipts.

Outlays ended the year 4.2 percent above 2010 amounts, CBO estimates. After adjusting for the effects of timing shifts, the rate of growth was 1.8 percent. Excluding adjustments recorded in the budget for the estimated cost of credit programs (mainly the Troubled Asset Relief Program), the government's other outlays increased by less than one-half of one percent relative to spending in 2010.

Net interest on the public debt grew the most, rising by almost 17 percent (\$38 billion) above the outlays recorded in 2010, primarily because of the large increase in the government's debt during the past year. In the other direction, spending for unemployment benefits fell by 24 percent (\$39 billion) in 2011 because fewer claims were filed and, to a lesser extent, because a provision that boosted recipients' benefits by \$25 per week expired. Net payments to Fannie Mae and Freddie Mac also fell, from \$40 billion in 2010 to \$5 billion in 2011. Spending for education, commerce, housing, and space programs declined as well.

Defense spending increased by about 1 percent in 2011, after rising by an average of 7 percent per year over the 2006–2010 period. Medicaid outlays increased by just 1 percent this year, in part because the federal government's share of the program's costs declined, as previously legislated increases in that share expired. (In contrast, Medicaid spending grew by almost 9 percent in 2010.) Medicare and Social Security outlays rose by about 4 percent each this year, slightly less than they rose last year.