



MONTHLY BUDGET REVIEW

Fiscal Year 2012

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for October and the *Daily Treasury Statements* for November

December 7, 2011

The federal budget deficit was close to \$240 billion for the first two months of fiscal year 2012, more than \$50 billion below the deficit recorded through November of last year, CBO estimates. Much of that difference occurred because roughly \$30 billion in payments that would ordinarily have been made on October 1, 2011 (that is, in fiscal year 2012), were made instead in September (that is, in fiscal year 2011) because October 1 fell on a weekend. Without those shifts in the timing of payments, the decline in the deficit for the two-month period would have been about \$20 billion.

OCTOBER RESULTS

(Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	163	163	*
Outlays	257	262	4
Deficit (-)	-95	-98	4

Sources: Department of the Treasury; CBO.
 Note: * = between zero and \$500 million.

The Treasury reported a deficit of \$98 billion for October, about \$4 billion more than CBO's estimate based on the *Daily Treasury Statements*. That difference occurred largely because spending for some programs of the Departments of Agriculture and the Treasury was higher than CBO expected.

ESTIMATES FOR NOVEMBER

(Billions of dollars)

	Actual FY 2011	Preliminary FY 2012	Estimated Change
Receipts	149	153	4
Outlays	299	292	-8
Deficit (-)	-150	-139	12

Sources: Department of the Treasury; CBO.

The deficit in November was \$139 billion, CBO estimates, \$12 billion less than it was in the same month last year.

According to CBO's estimates, receipts in November 2011 totaled \$153 billion—\$4 billion (or 3 percent) higher than receipts in November 2010. Net receipts from corporate income taxes increased by \$5 billion, primarily because of lower corporate refunds. Refunds of individual income taxes were also lower, boosting net revenues by \$3 billion. A decline of \$5 billion (or 4 percent) in withheld income and payroll taxes offset some of those gains.

Outlays were \$8 billion lower in November than during the same month last year, CBO estimates. Spending declined for Medicaid (by \$4 billion), unemployment benefits (by \$3 billion), and defense (by \$5 billion, mostly in spending for procurement). In contrast, outlays for Medicare, Social Security, and net interest on the public debt each increased by \$2 billion.

BUDGET TOTALS THROUGH NOVEMBER

(Billions of dollars)

	Actual FY 2011	Preliminary FY 2012	Estimated Change
Receipts	295	316	21
Outlays	586	553	-33
Deficit (-)	-291	-237	54

Sources: Department of the Treasury; CBO.

The Treasury will record a deficit of \$237 billion for the first two months of fiscal year 2012, CBO estimates—\$54 billion less than the shortfall that was recorded in the same period last year. Revenues increased by \$21 billion (or 7 percent), and outlays fell by \$33 billion (or 6 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.

REVENUES THROUGH NOVEMBER

(Billions of dollars)

Major Source	Actual FY 2011	Preliminary FY 2012	Percentage Change
Individual Income	136	158	16.2
Social Insurance	134	121	-9.6
Corporate Income	-7	4	n.m.
Other	<u>33</u>	<u>33</u>	1.3
Total	295	316	7.1

Memorandum:

Combined Individual Income and Social Insurance Taxes

Withheld	269	270	0.4
Other	<u>1</u>	<u>9</u>	n.m.
Total	270	279	3.4

Sources: Department of the Treasury; CBO.

Note: n.m. = not meaningful.

The \$21 billion gain in revenues (compared with receipts in October and November last year) stemmed from an increase in net receipts from corporate and individual income taxes, which was partly offset by a decline in receipts from social insurance (payroll) taxes.

Corporate receipts rose by \$11 billion because tax payments were \$2 billion higher and refunds were \$9 billion lower than in the same months last year.

Receipts of individual income and social insurance taxes, other than those from withholding, rose by \$8 billion because nonwithheld payments of those taxes increased by \$3 billion and refunds of individual income taxes fell by \$4 billion.

Withheld income and payroll taxes rose slightly (by \$1 billion). That outcome was influenced by two changes in the tax system: A 2 percentage-point reduction in the payroll tax rate took effect in 2011, after the expiration at the end of December 2010 of the smaller Making Work Pay tax credit, which had been reducing income tax withholding. The net effect of those changes has been to lower growth in withholding this year. If not for those changes, withheld income and payroll taxes would have increased by roughly \$10 billion, or about 4 percent, CBO estimates.

Unemployment taxes were also \$1 billion higher because states have continued their efforts to replenish their unemployment trust funds, which were depleted during the recent recession and its aftermath.

Estate and gift taxes rose by \$2 billion; that growth was caused, in part, by reinstatement of the estate tax in 2011. In contrast, receipts from the Federal Reserve dropped by \$2 billion, largely because of a shift in its portfolio from higher-yielding, higher-risk investments to Treasury securities, which earn lower rates of interest.

OUTLAYS THROUGH NOVEMBER

(Billions of dollars)

Major Category	Actual FY 2011	Preliminary FY 2012	Percentage Change	
			Actual	Adjusted ^a
Defense–Military	123	111	-10.1	-6.9
Social Security				
Benefits	118	122	3.3	3.3
Medicare ^b	75	64	-15.0	4.7
Medicaid	48	40	-16.2	-16.2
Unemployment				
Benefits	22	16	-25.9	-25.9
Other Activities	<u>159</u>	<u>155</u>	-2.7	5.2
Subtotal	545	508	-6.9	-1.2
Net Interest on the Public Debt	<u>40</u>	<u>45</u>	12.4	12.4
Total	586	553	-5.6	-0.2

Sources: Department of the Treasury; CBO.

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

Spending for the first two months of fiscal year 2012 was about \$33 billion less than it was during the same period last year. That decline is almost entirely attributable to a shift of certain payments from October to September because October 1 fell on a weekend. Otherwise, outlays would have been virtually unchanged.

Adjusted for the payment shift, outlays for defense were \$9 billion (or 7 percent) lower than in the same period last year. Spending for unemployment benefits also declined—by \$6 billion (or 26 percent)—because fewer claims were filed and, to a lesser extent, because a provision that boosted recipients' benefits by \$25 per week expired. Spending for education programs fell—by \$4 billion (or 27 percent)—in part because the American Recovery and Reinvestment Act boosted education outlays in October and November 2010.

Adjusted for the payment shift (which affected Medicare), total expenditures for the three largest entitlement programs were about the same as they were in the same period last year. Outlays for Social Security benefits and Medicare rose by \$4 billion each (or 3 percent and 5 percent, respectively). In contrast, spending for Medicaid fell by \$8 billion (or 16 percent).

Expenditures in the broad category "Other Activities," adjusted for the payment shift, increased by \$8 billion (or 5 percent) compared with such spending in the first two months of fiscal year 2011. Spending increased for the Departments of Homeland Security and Agriculture, for veterans' benefits, and for a number of other programs. Outlays for net interest on the public debt were \$5 billion (or 12 percent) higher, reflecting the growing federal debt.