



MONTHLY BUDGET REVIEW

Fiscal Year 2011

A Congressional Budget Office Analysis

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

January 7, 2011

The federal budget deficit was \$371 billion in the first quarter of fiscal year 2011, CBO estimates, \$18 billion less than the shortfall in the same period of fiscal year 2010. Revenues were 9 percent higher than they were a year ago, whereas outlays were only 3 percent higher. Later this month, CBO will issue new budget projections for fiscal year 2011 and the following 10 years.

NOVEMBER RESULTS

The Treasury reported a deficit of \$150 billion in November, about \$8 billion more than CBO projected on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR DECEMBER

(Billions of dollars)

| | Actual FY 2010 | Preliminary FY 2011 | Estimated Change |
|-------------|-------------------|------------------------|---------------------|
| Receipts | 219 | 237 | 18 |
| Outlays | 310 | 316 | 6 |
| Deficit (-) | -91 | -80 | 12 |

Sources: Department of the Treasury; CBO.

The deficit in December 2010 was \$80 billion, CBO estimates, \$12 billion less than the deficit a year earlier. That comparison is distorted by two factors—shifts in the timing of certain government payments and large prepayments of deposit insurance premiums in December 2009. With those items excluded, the deficit for December 2010 would be \$35 billion less than it was in December 2009.

CBO estimates that receipts in December 2010 were \$18 billion (or 8 percent) higher than a year earlier. Combined, individual income and payroll taxes were \$16 billion (or 10 percent) higher. Most of that increase was in withheld taxes, which were \$14 billion (or 9 percent) higher, the result of both the strengthening economy and the effects of an additional working day in December 2010. Because a substantial amount of annual bonus income is paid in December and such payments can vary from year to year, comparisons of taxes withheld in December may not be representative of trends in the growth of individual income. Deposits of state unemployment insurance taxes, which are included in payroll taxes, were \$2 billion higher than they were a year before, as states continued to replenish their trust funds. Net corporate income tax receipts rose by \$3 billion (or 7 percent), primarily because quarterly estimated payments in December 2010 were higher than those a year before.

Outlays in December 2010 were \$6 billion more than those in December 2009, CBO estimates. The shifting of payments because of weekends and holidays boosted outlays by \$12 billion in December 2010 and almost \$39 billion in December 2009. The latter shift was so large because \$29 billion in Social Security payments scheduled for January 2010 were made in December 2009 because January 3, the scheduled payment date, fell on a Sunday. In addition, financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) were required to prepay three years of deposit insurance premiums in December 2009, reducing the FDIC's net outlays by about \$46 billion in that month and increasing its net outlays by about \$4 billion in December 2010. Excluding those timing shifts and prepayments, outlays in December 2010 would have been \$17 billion lower than they were in December 2009.

Payments this December to Fannie Mae and Freddie Mac and outlays recorded for the Troubled Asset Relief Program were smaller, by \$14 billion and \$4 billion respectively. In contrast, Medicaid spending was \$5 billion higher than a year before, in part a result of states processing claims more quickly to take advantage of federal matching rates that will decline in January.

BUDGET TOTALS THROUGH DECEMBER

(Billions of dollars)

| | Actual FY 2010 | Preliminary FY 2011 | Estimated Change |
|-------------|-------------------|------------------------|---------------------|
| Receipts | 488 | 531 | 44 |
| Outlays | 876 | 902 | 26 |
| Deficit (-) | -388 | -371 | 18 |

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$371 billion for the first quarter of fiscal year 2011, \$18 billion less than the deficit in the first quarter of 2010. Outlays and revenues alike were higher—by \$26 billion and \$44 billion, respectively—than the amounts recorded in the first quarter of fiscal year 2010.

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 DECEMBER

(Billions of dollars)

| Major Source | Actual FY 2010 | Preliminary FY 2011 | Percent Change |
|-------------------|-------------------|------------------------|-------------------|
| Individual Income | 208 | 256 | 23.1 |
| Corporate Income | 34 | 36 | 5.3 |
| Social Insurance | 196 | 191 | -2.5 |
| Other | <u>51</u> | <u>49</u> | -2.3 |
| Total | 488 | 531 | 8.9 |

Sources: Department of the Treasury; CBO.

All together, revenues from individual income and social insurance payroll taxes rose by \$43 billion (or almost 11 percent) in the first quarter. Most of that increase is attributable to withheld taxes, which rose by \$33 billion (or 8 percent) as a result of strengthening economic conditions. Revenues also increased because individual tax refunds were \$6 billion (or 19 percent) lower than the abnormally high amounts for the same period a year before. Receipts of state unemployment insurance taxes, which are included in payroll taxes, were \$4 billion higher because of states' efforts to replenish their trust funds. The first-quarter figures also reflect an anticipated reallocation in December of previously withheld payments; CBO expects that shift by the Treasury to reduce the amount reported as payroll tax revenues and increase the amount shown as income tax revenues.

Receipts from corporate income taxes, net of refunds, were \$2 billion (or 5 percent) higher than in the same period a year before, almost entirely because of estimated payments made in December 2010. Many observers had expected corporate receipts to decline in December because of legislation enacted in September that retroactively extended the ability of businesses to immediately deduct 50 percent of the investments they had made in business equipment since January 1, 2010. As a result, in December most companies could reduce estimated payments to apply a full year's deduction toward a single quarterly payment.

Customs duties rose by \$2 billion, mostly offsetting the roughly \$3 billion reduction in receipts resulting from the expiration of the estate tax.

Spending in the first quarter of fiscal year 2011 was 3 percent more than that in the same period in 2010. Adjusted to exclude shifts in the timing of government payments and the large 2009 prepayments of deposit insurance premiums, first-quarter outlays would be only slightly more than those in the same period a year before.

OUTLAYS THROUGH DECEMBER

(Billions of dollars)

| Major Category | Actual FY 2010 | Preliminary FY 2011 | Percentage Change | |
|-----------------------|-------------------|------------------------|----------------------|-----------------------|
| | | | Actual | Adjusted ^a |
| Defense–Military | 176 | 189 | 7.1 | 7.2 |
| Social Security | | | | |
| Benefits | 201 | 178 | -11.4 | 3.7 |
| Medicare ^b | 108 | 113 | 4.0 | 0.5 |
| Medicaid | 68 | 76 | 13.2 | 13.2 |
| Unemployment | | | | |
| Benefits | 40 | 34 | -14.8 | -14.8 |
| Other Activities | <u>209</u> | <u>252</u> | 20.7 | -2.2 |
| Subtotal | 802 | 842 | 5.0 | 2.1 |
| Net Interest on the | | | | |
| Public Debt | 55 | 61 | 9.5 | 9.5 |
| TARP | 6 | 0 | -92.2 | -92.2 |
| Payments to GSEs | <u>13</u> | <u>-1</u> | -109.2 | -109.2 |
| Total | 876 | 902 | 3.0 | 0.3 |

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise.

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

Defense spending was 7 percent higher than in the first quarter of fiscal year 2010; most of that increase was for procurement and operations and maintenance. Net interest on the public debt rose by 10 percent, reflecting the substantial growth in debt in the past year.

Outlays for several major entitlement programs grew at varying rates during the first quarter of fiscal year 2011. Spending for Medicaid increased by 13 percent. Adjusted for timing shifts, spending for Social Security and Medicare grew by 4 percent and by less than one percent, respectively. Expenditures for unemployment benefits decreased by 15 percent because of a decline in the number of claims and because average benefits were lower than they had been a year before.

Net outlays in the category "Other Activities" were \$43 billion (or 21 percent) higher through December 2010, mainly because the large prepayments of deposit insurance premiums reduced net outlays in December 2009. Adjusting for prepayments and timing shifts, spending for this category was down by \$5 billion (or 2.2 percent), primarily because the National Credit Union Administration received around \$11 billion in loan repayments in the first quarter of fiscal year 2011.