MONTHLY BUDGET REVIEW

Fiscal Year 2012

A Congressional Budget Office Analysis

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

November 7, 2012

The federal government incurred a budget deficit of $1.1 trillion in fiscal year 2012, the fourth consecutive year with a deficit above $1.0 trillion. As a share of the nation's gross domestic product (GDP), the deficit declined—from 8.7 percent in 2011 to 7.0 percent in 2012—but it was still the fourth highest as a share of GDP since 1946.

FISCAL YEAR TOTALS
(Billions of dollars)

	2007	2008	2009	2010	2011	2012
Receipts	2,568	2,524	2,105	2,163	2,302	2,449
Outlays	2,729	2,983	3,518	3,456	3,599	3,538
Deficit (-)						
Amount	-161	-459	-1,413	-1,293	-1,297	-1,089
Percentage of GDP	-1.2	-3.2	-10.1	-9.0	-8.7	-7.0

Sources: Department of the Treasury; Office of Management and Budget (OMB); CBO.

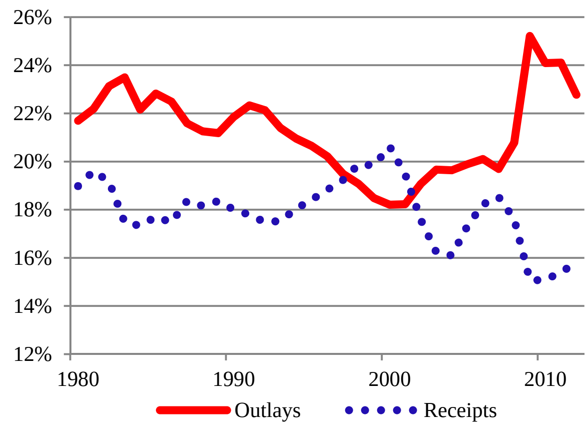
The deficit in 2012 was $207 billion less than that in 2011. That decline occurred because revenues rose by $147 billion (or about 6 percent) while outlays fell by $61 billion (or about 2 percent).

The government's receipts increased (in nominal terms) for the third consecutive year, reaching $2.4 trillion; they were, nevertheless, 5 percent below their peak in 2007. Receipts rose from 15.4 percent of GDP in 2011 to 15.8 percent of GDP in 2012 but remained well below the 40-year average of about 18 percent of GDP.

Federal spending has totaled between $3.5 trillion and $3.6 trillion in each of the past four years; spending in 2012 was just slightly more than in 2009. As a share of GDP, outlays fell in 2012—to 22.8 percent, which was less than the 24.1 percent recorded in 2011 and 2010 but still above the 40-year average of 21.0 percent.

Two unusual factors had large but mostly offsetting effects on the change in the deficit from 2011 to 2012. First, about $31 billion in payments that ordinarily would have been made on October 1, 2011, were made instead in September 2011 because October 1 fell on a weekend. Second, the estimated costs of federal credit transactions made in earlier years—mostly those of the Troubled Asset Relief Program (TARP)—were revised upward by $15 billion in 2012 but revised downward by $55 billion in 2011. Without those two factors, the 2012 deficit would have been $216 billion less than the shortfall in 2011.

RECEIPTS AND OUTLAYS AS A PERCENTAGE OF GDP



Sources: Department of the Treasury; CBO.

Revenues from all major sources increased in 2012. Corporate income taxes accounted for about 40 percent of the increase in total revenues, rising by $61 billion (or 34 percent) and increasing from 1.2 percent to 1.6 percent of GDP. The growth in corporate receipts resulted largely from changes in tax rules in recent years, particularly those that dictate how quickly firms may deduct the cost of their investments in equipment.

TOTAL RECEIPTS
(Billions of dollars)

Major Source	2010	2011	2012	Percentage Change, 2011–2012
Individual Income	899	1,091	1,132	3.7
Corporate Income	191	181	242	33.8
Social Insurance	865	819	845	3.2
Other	208	211	229	8.6
Total	2,163	2,302	2,449	6.4
Percentage of GDP	15.1	15.4	15.8	n.a.

Sources: Department of the Treasury; OMB; CBO.

Note: n.a. = not applicable.

Receipts from individual income taxes grew by $41 billion (or 4 percent), and remained at 7.3 percent of GDP in 2012. More than half of the increase came from withheld taxes, which rose by $27 billion (or

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.

3 percent). Nonwithheld payments, consisting primarily of final payments with 2011 tax returns filed earlier this year and quarterly estimated payments for 2012 taxes, grew by $14 billion (or 4 percent).

Receipts from social insurance taxes rose by $27 billion (or 3 percent), but fell from 5.5 percent of GDP in 2011 to 5.4 percent of GDP. Most of the gain came from an increase of $16 billion (or 2 percent) in withholding for payroll taxes and $10 billion (or 18 percent) in payments of unemployment insurance taxes. The current reduction of 2 percentage points in the employee's share of the payroll tax was not in effect for the first quarter of fiscal year 2011 (October through December 2010); had it been in effect then, the year-over-year increase in withholding for payroll taxes would have been $25 billion larger, CBO estimates. The increase in receipts from unemployment insurance taxes resulted from states' efforts to replenish unemployment trust funds depleted during the 2008–2009 recession. Receipts from other sources increased by $18 billion, mainly because of higher collections of estate and gift taxes and excise taxes.

TOTAL OUTLAYS
(Billions of dollars)

Major Category	2010	2011	2012	Percentage Change, 2011–2012 Actual	Percentage Change, 2011–2012 Adjusted[a]
Defense–Military	667	678	651	-4.0	-2.9
Social Security Benefits	696	720	762	6.0	6.0
Medicare[b]	450	483	469	-2.9	3.3
Medicaid	273	275	251	-8.9	-8.9
Unemployment Benefits	162	126	96	-24.0	-24.0
Other Activities	1,048	1,084	1,022	-5.7	-3.4
Subtotal	**3,295**	**3,366**	**3,251**	**-3.4**	**-1.6**
Net Interest on the Public Debt	228	266	258	-3.0	-3.0
TARP	-108	-38	24	n.m.	n.m.
Payments to GSEs	40	5	5	-5.7	-5.7
Total	**3,456**	**3,599**	**3,538**	**-1.7**	**0.1**
Percentage of GDP	24.1	24.1	22.8	n.a.	n.a.

Sources: Department of the Treasury; OMB; CBO.
Notes: TARP = Troubled Asset Relief Program; GSEs = government-sponsored enterprises, Fannie Mae and Freddie Mac; n.a. = not applicable; n.m. = not meaningful.
a. Excludes the effects of payments shifted because of weekends or holidays and of prepayments of deposit insurance premiums.
b. Medicare outlays are net of proprietary receipts.

Excluding the shift to September 2011 of certain payments that ordinarily would have been made in October and the effects of prepayments in 2009 of deposit insurance premiums that otherwise would have been made in 2011 and 2012, outlays were about the same in 2012 as in 2011. (The year-over-year changes discussed below exclude the effects of those shifts.) Outlays declined across all major categories other than the TARP, Social Security, and Medicare.

Spending for unemployment benefits was $30 billion (or 24 percent) less than in 2011, because fewer people received benefits in 2012. Medicaid spending also declined (by $24 billion, or 9 percent), because, by law, the federal government's share of the program's costs went down in July 2011. Despite the growing debt, spending for net interest on the public debt dropped by $8 billion (or 3 percent).

Defense outlays fell by $19 billion (or 3 percent) in 2012 after rising at an average annual rate of 6 percent over the past five years. Most ($17 billion) of that decline was attributable to the reduction in the number of U.S. Army personnel in Afghanistan and Iraq. Defense spending was 4.2 percent of GDP, down from 4.5 percent in 2011.

Outlays for the broad category "Other Activities" decreased by $36 billion (or 3 percent). That reduction occurred in part because of a $14 billion decrease in spending associated with the Making Work Pay tax credit, which expired in 2011. Additionally, the government collected $11 billion more from the sale of AIG stock held outside of the TARP than it did in 2011. Outlays for "Other Activities" were equal to 6.6 percent of GDP, down from 7.3 percent in 2011.

In contrast, outlays for the two largest entitlement programs—Social Security and Medicare—rose by $43 billion (or 6 percent) and $16 billion (or 3 percent), respectively. Social Security's growth rate was similar to that in recent years; Medicare's growth rate was significantly below the roughly 7 percent average annual rate for the past five years. Outlays for the two programs were just shy of 8 percent of GDP, slightly below their levels in 2010 and 2011.

FISCAL YEAR 2013
ESTIMATES FOR OCTOBER
(Billions of dollars)

	Actual FY 2012	Preliminary FY 2013	Estimated Change
Receipts	163	183	20
Outlays	262	297	35
Deficit (-)	-98	-113	-15

Sources: Department of the Treasury; CBO.

The government recorded a deficit of $113 billion this October, CBO estimates, about $15 billion more than the shortfall in October 2011. However, if not for shifts in the timing of certain payments and two additional days of tax collections this October, the deficit for that month would have been several billion dollars less than the one the year before, primarily because of increased receipts.

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