



MONTHLY BUDGET REVIEW

Fiscal Year 2007

A Congressional Budget Office Analysis

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

November 6, 2007

The federal government recorded a total budget deficit of \$163 billion in fiscal year 2007, \$85 billion less than the deficit incurred in 2006. As a share of the nation's gross domestic product (GDP), the 2007 deficit was 1.2 percent—down from the 1.9 percent recorded in 2006.

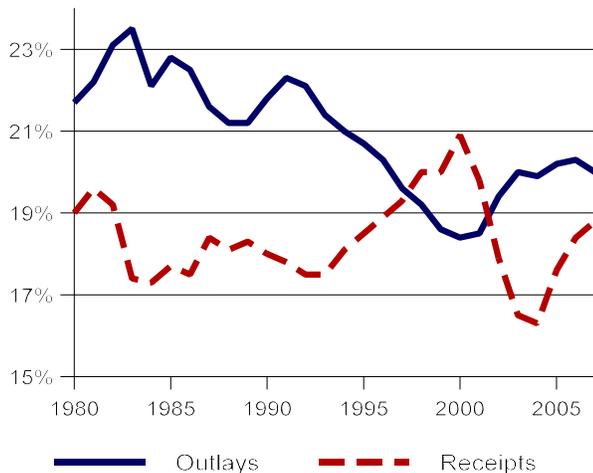
FISCAL YEAR TOTALS (Billions of dollars)

	2002	2003	2004	2005	2006	2007
Receipts	1,853	1,783	1,880	2,154	2,407	2,568
Outlays	2,011	2,160	2,293	2,472	2,655	2,731
Deficit (-)	-158	-378	-413	-318	-248	-163
Deficit (-) as a Percentage of GDP	-1.5	-3.5	-3.6	-2.6	-1.9	-1.2

Sources: Department of the Treasury; CBO.

The federal budgetary situation improved in 2007 for the third consecutive year. As a percentage of GDP, the 2007 deficit was the lowest recorded in the past six years. (The budget showed surpluses from 1998 through 2001.)

RECEIPTS AND OUTLAYS AS A PERCENTAGE OF GDP



Sources: Department of the Treasury; CBO.

Receipts in 2007 rose to \$2,568 billion, an increase of \$161 billion, or 6.7 percent, from 2006. That percentage increase represents a significant slowdown from the growth recorded in 2006 (11.8 percent) and 2005 (14.5 percent). Nevertheless, growth in receipts exceeded the growth of nominal GDP for the third consecutive year—reaching 18.8 percent of GDP, which is slightly

higher than the average of 18.2 percent recorded since 1966, and the highest percentage since 2001. Outlays also rose in 2007, up by about \$76 billion (or 2.8 percent) over their 2006 level, but declined as a percentage of GDP (to 20.0 percent, compared with 20.3 percent in 2006). Relative to the size of the economy, outlays in 2007 were close to their level of the past four years and below the average over the preceding 40 years (20.6 percent).

TOTAL RECEIPTS (Billions of dollars)

Major Source	2005	2006	2007	Percentage Change, 2006-2007
Individual Income	927	1,044	1,163	11.5
Corporate Income	278	354	370	4.6
Social Insurance	794	838	870	3.8
Other	154	171	164	-3.9
Total	2,154	2,407	2,568	6.7
Percentage of GDP	17.6	18.4	18.8	n.a.

Sources: Department of the Treasury; CBO.

Note: n.a. = not applicable.

The Treasury Department estimates that individual income tax receipts, the largest revenue source, increased by almost \$120 billion (or 11.5 percent), and social insurance (payroll) taxes, the second largest revenue source, rose by \$32 billion (or 3.8 percent). (Because of the way the data are collected, the breakdown of receipts between individual income and payroll taxes is initially estimated and then corrected later.)

Receipts from withheld individual income and payroll taxes grew by \$109 billion (or 6.8 percent), reflecting continued growth in wages and salaries. Receipts from withholding have now grown by between 6 percent and 7 percent in each of the past three years, compared with average annual growth of 5 percent during the previous 10 years. Nonwithheld income and payroll tax receipts gained about \$55 billion (or 13 percent) in 2007. Nonwithheld receipts grew more slowly than they did in 2005 (28 percent) and 2006 (19 percent), but faster than the average of the past 10 years (about 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.

Receipts in 2007 from corporate income taxes grew by \$16 billion (or 4.6 percent). That rate is substantially lower than the growth in the three prior years, which averaged 39 percent per year. Receipts slowed progressively through 2007, with gains in the first three quarters of 22 percent, 11 percent, and 4 percent, respectively, and a decline of almost 12 percent in the fourth quarter.

TOTAL OUTLAYS
(Billions of dollars)

Major Category	2005	2006	2007	Percentage Change, 2006-2007	
				Actual	Adjusted ^a
Defense—Military	474	499	530	6.1	6.6
Social Security					
Benefits	514	545	577	5.8	5.9
Medicare	336	381	440	15.5	11.7
Medicaid	182	181	191	5.5	5.5
Other Programs and Activities	<u>775</u>	<u>812</u>	<u>741</u>	-8.7	-8.6
Subtotal	2,281	2,418	2,478	2.5	2.2
Net Interest on the Public Debt	<u>191</u>	<u>237</u>	<u>252</u>	6.5	6.3
Total	2,472	2,655	2,731	2.8	2.5
Percentage of GDP	20.2	20.3	20.0	n.a.	n.a.

Sources: Department of the Treasury; CBO.

Note: n.a. = not applicable.

a. Excludes the effects of payments that were shifted because of weekends or holidays. Also adjusts 2006 Social Security outlays for corrections to amounts withheld for taxes on Social Security benefits.

After adjusting for shifts in the timing of certain payments, outlays rose by 2.5 percent in 2007. That relatively slow rate of growth partly reflects unusually high spending in 2006 for activities related to the 2005 Gulf Coast hurricanes. Excluding spending by the Federal Emergency Management Agency (FEMA), outlays rose by 3.7 percent in 2007.

Defense outlays totaled \$530 billion in 2007, 6.6 percent more than last year. Spending associated with military operations in Iraq and Afghanistan accounted for more than 20 percent of defense outlays in 2007, CBO estimates. Appropriations for war-related expenses have been concentrated in the Army, which saw outlays rise by 10.7 percent in 2007.

Outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—accounted for 8.8 percent of GDP in 2007, up from 8.5 percent last year and 8.2 percent in 2002. Virtually all of that gain was due to

the rapid growth in Medicare and Medicaid spending, which together grew by an average of 9 percent annually over the 2002-2006 period and by 9.7 percent in 2007. By contrast, Social Security outlays rose by 5.9 percent in 2007, leaving the program's share of GDP at 4.2 percent, equal to the average over the previous five years.

Much of the increase in spending for major programs was offset by the 8.6 percent decrease in outlays for "other programs." Five activities accounted for most of that decline: FEMA's flood insurance and disaster assistance programs (down \$31 billion relative to the peak levels of 2006); the Department of Education's student loan programs (down \$27 billion largely because of less loan consolidation activity); agricultural commodity programs (down \$9 billion primarily due to higher market prices); and receipts in 2007 from Medicare premiums and a 2006 auction of electromagnetic spectrum licenses (up \$13.5 billion and \$13.6 billion, respectively). Outlays for all other activities in this category increased by 3.4 percent.

Outlays for net interest on the public debt equaled 1.8 percent of GDP in 2007, the same level recorded last year. The government's net interest costs rose 6.3 percent in 2007 primarily because of growth in federal debt and higher short-term interest rates.

ESTIMATES FOR OCTOBER
(Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	168	178	10
Outlays	217	237	20
Deficit (-)	-49	-59	-10

Sources: Department of the Treasury; CBO.

The government recorded a deficit of \$59 billion in October, CBO estimates, about \$10 billion more than the deficit recorded in the same month last year. Receipts for the first month of fiscal year 2008 were about \$10 billion (or 6 percent) higher than in October 2006. Calendar differences accounted for more than half of that increase. Withholding for individual income and payroll taxes rose by about \$13 billion (or 10 percent), CBO estimates, but receipts from corporate income taxes declined by \$4 billion (or more than 40 percent).

Outlays were \$20 billion greater this October than they were last October, CBO estimates. But because October 1, 2006, fell on a weekend, about \$5 billion in payments that would ordinarily have been made in October were instead made in September. In the absence of those payment shifts, outlays would have risen by about \$16 billion (or 7 percent).