MONTHLY BUDGET REVIEW

Fiscal Year 2009

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for April
and the *Daily Treasury Statements* for May

June 4, 2009

The federal budget deficit was $984 billion for the first eight months of fiscal year 2009, CBO estimates, $664 billion more than the deficit recorded through May 2008. That estimate includes outlays for the Troubled Asset Relief Program (TARP) of about $130 billion to date for fiscal year 2009, recorded on a net-present-value basis (adjusted for market risk, as required by the Emergency Economic Stabilization Act, which created the TARP). Revenues have fallen by about 18 percent compared with the amounts collected in 2008; in contrast, outlays have grown by more than 18 percent.

APRIL RESULTS

The Treasury reported a deficit of $21 billion for April, about $2 billion higher than CBO's estimate on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR MAY

(Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	124	121	-3
Outlays	290	302	12
Deficit (-)	-166	-181	-15

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will report a deficit of $181 billion for May, about $15 billion more than the deficit recorded in May 2008.

Receipts in May were about $3 billion (or 3 percent) lower than receipts in May 2008, CBO estimates. That decline would have been much greater but for the $32 billion in rebates paid to individual taxpayers in May 2008 in accordance with the Economic Stimulus Act of 2008 (Public Law 110-185). Withheld income and payroll taxes fell by $16 billion (or 11 percent), primarily because of recent legislation and the effects of the recession. CBO estimates that more than one-third of the decline in withholding resulted from provisions in the American Recovery and Reinvestment Act of 2009 (ARRA), notably the Making Work Pay credit. Nonwithheld income and payroll taxes declined by about $3 billion (or 38 percent). Refunds decreased by about $25 billion, but would have risen by about $7 billion if not for last year's rebates.

Net corporate receipts are usually not a significant source of revenue in May. However, they continued to show weakness in May 2009, with a decline of $8 billion from May 2008. Net corporate receipts were negative; refunds were larger than gross receipts. The quarterly payment due in June should provide more information about the strength of corporate receipts for the 2009 tax year.

Estimated outlays for the TARP totaled about $12 billion in May, measured on a net-present-value basis. Payments stemming from ARRA increased outlays for Social Security by $13 billion in May (for one-time payments to program recipients) and accounted for most of the $4 billion increase in Medicaid spending compared with that of last May. Outlays for unemployment benefits were $8 billion higher than in May 2008. Some of those increases were offset by lower spending by the Treasury Department, which paid $15 billion last May to individuals whose tax rebates under the Economic Stimulus Act of 2008 exceeded their federal income tax liability. Additionally, changes in the estimated costs of certain credit programs increased spending in May 2008 by almost $6 billion.

BUDGET TOTALS THROUGH MAY

(Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	1,674	1,377	-297
Outlays	1,993	2,361	367
Deficit (-)	-319	-984	-664

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will report a deficit of $984 billion for the first eight months of fiscal year 2009, compared with a shortfall of $319 billion for the same period last year.

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 THROUGH MAY
(Billions of dollars)

Major Source	Actual FY2008	Preliminary FY2009	Percentage Change
Individual Income	769	596	-22.6
Corporate Income	178	70	-60.6
Social Insurance	610	609	-0.2
Other	116	102	-12.0
Total	1,674	1,377	-17.7

Sources: Department of the Treasury; CBO.

Receipts in the first eight months of this fiscal year were about $1.4 trillion, almost $300 billion (or 18 percent) lower than in the same period last year. Corporate receipts fell by $108 billion (or 61 percent) during the period. Continued weakness in corporate profits, recently enacted legislation (most notably bonus depreciation), and the ability of firms to use current-year losses to reduce tax liabilities from previous years all contributed to lower corporate receipts.

Declines in individual income and payroll taxes of $175 billion account for almost 60 percent of the overall decrease. Nonwithheld receipts of individual income and payroll taxes, consisting mainly of quarterly estimated payments made in January and April and final payments for 2008 made during the February–May tax-filing season, fell by about $101 billion (or 28 percent) in the first eight months of the year. The decline probably stems in part from a substantial drop in nonwage income in 2008.

Withholding of income and payroll taxes fell by about $68 billion (or 6 percent), largely because of the ongoing effects of the recession on wages and salaries. A $4 billion (or 2 percent) increase in refunds of individual income taxes added to the net decrease in total receipts, as did a decline of $14 billion (or 12 percent) in other tax receipts.

Outlays through May have reached nearly $2.4 trillion, CBO estimates, $367 billion more than those in the first eight months of 2008. More than half of the increase results from the TARP ($130 billion) and from payments to Fannie Mae and Freddie Mac ($60 billion as reported on a cash basis by the Treasury Department). No outlays occurred for those purposes in 2008. Net interest on the public debt has decreased by 26 percent ($45 billion) compared with outlays at this time last year, primarily because of lower costs for inflation-indexed securities and a decline in short-term interest rates. Spending for the rest of the federal government increased by about $222 billion (or nearly 14 percent).

OUTLAYS THROUGH MAY
(Billions of dollars)

Major Category	Actual FY2008	Preliminary FY2009	Percentage Change: Actual	Percentage Change: Adjusted[a]
Defense—Military	394	419	6.3	7.5
Social Security Benefits	401	434	8.0	8.0
Medicare[b]	265	278	4.7	9.2
Medicaid	136	164	21.2	21.2
Other Activities	628	752	19.7	21.1
Subtotal	1,824	2,046	12.2	13.6
Net Interest on the Public Debt	169	125	-26.4	-26.4
TARP	0	130	n.a.	n.a.
Payments to GSEs	0	60	n.a.	n.a.
Total	1,993	2,361	18.4	19.8

Sources: Department of the Treasury; CBO.

Notes: TARP = Troubled Asset Relief Program
n.a. = not applicable
GSE = government-sponsored enterprise

a. Excludes the effects of payments that were shifted because of weekends or holidays.

b. Medicare outlays are net of proprietary receipts.

The fastest-growing categories of spending through May were Medicaid and a variety of "other activities." Medicaid spending is up by 21 percent (or $29 billion) through May. Around $19 billion of that increase stems from a provision in ARRA that increased the federal government's share of Medicaid payments. In addition, outlays for unemployment benefits are 140 percent ($41 billion) higher than they were at this time last year. Increased lending to credit unions, lower earnings credited to certain government funds, and increased payments for food and nutrition programs also contributed to growth in "other activities." The net growth in that category also reflects the $13 billion paid to Social Security recipients under ARRA in May 2009 as well as the $19 billion disbursed through May in 2008 to individuals whose tax rebates exceeded their federal income tax liability.

Social Security benefit payments unrelated to the stimulus legislation were up by 8 percent (or $32 billion), partly because of a large cost-of-living increase in January. Adjusting for shifts in the timing of certain payments, defense spending rose by 7 percent ($29 billion) and Medicare spending grew by 9 percent (or $23 billion).

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