MONTHLY BUDGET REVIEW

Fiscal Year 2010

A Congressional Budget Office Analysis

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

December 4, 2009

The federal budget deficit was $292 billion for the first two months of fiscal year 2010, CBO estimates, about $11 billion greater than the shortfall recorded through November of last year. In the first two months of fiscal year 2009, the federal government recorded $84 billion in spending for the Troubled Asset Relief Program (TARP) and for payments to Fannie Mae and Freddie Mac, but recorded only $2 billion for those purposes so far this year. Excluding spending for the TARP, Fannie Mae, and Freddie Mac, the deficit during the first two months of fiscal year 2010 was over $90 billion greater than the shortfall recorded during the same period last year.

OCTOBER RESULTS
(Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	135	135	*
Outlays	310	312	2
Deficit (-)	-175	-176	2

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

The Treasury reported a deficit of $176 billion in October, about $2 billion more than CBO projected on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR NOVEMBER
(Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	145	132	-13
Outlays	270	247	-23
Deficit (-)	-125	-115	10

Sources: Department of the Treasury; CBO.

The deficit in November was $115 billion, CBO estimates, $10 billion less than the deficit in the same month last year.

CBO estimates that receipts totaled $132 billion in November, a decrease of about $13 billion (or 9 percent) compared with receipts in November 2008. Individual income and payroll taxes combined fell by $12 billion (or 9 percent), accounting for most of the overall decrease. Net corporate receipts fell by about $5 billion, the result of higher refunds, which may stem, in part, from recent legislation that allows corporations to use current losses to offset taxable income in up to five previous years. An increase of $5 billion in receipts to the Treasury from the Federal Reserve partially offset those declines in individual income and corporate revenues; that increase resulted primarily from the shift in the Federal Reserve's portfolio to higher-yielding investments.

Outlays were $23 billion lower in November than during the same month last year. Because November 1 fell on a weekend this year, $27 billion in payments that ordinarily would have been made in November were instead made at the end of October. A similar timing shift occurred in November of last year, but was smaller ($22 billion). Without those shifts, outlays for the month would have been $17 billion lower than in November 2008. Sharply reduced spending in connection with the turmoil in financial markets accounts for that decline. The federal government recorded spending for the TARP of $37 billion last November (when the program was in its second month), $35 billion more than the $2 billion recorded in November of this year. In addition, no payments were made to Fannie Mae and Freddie Mac in November, while almost $14 billion in net payments were made in that month last year. Those decreases were partially offset by increased spending for unemployment benefits ($7 billion), Medicare ($6 billion), Social Security ($5 billion), and Medicaid ($5 billion).

BUDGET TOTALS THROUGH NOVEMBER
(Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	310	267	-42
Outlays	590	559	-31
Deficit (-)	-281	-292	-11

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of $292 billion for the first two months of fiscal year 2010, about $11 billion more than the deficit recorded for the same period last year. Outlays and revenues were about $31 billion (or 5 percent) and $42 billion (or 14 percent) lower, respectively, than they were in fiscal year 2009.

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 2009	Preliminary FY 2010	Percentage Change
Individual Income	146	109	-25.5
Corporate Income	2	-8	n.a.
Social Insurance	135	134	-1.1
Other	26	32	23.6
Total	**310**	**267**	**-13.7**

Sources: Department of the Treasury; CBO.

Note: n.a. = not applicable.

In the first two months of this fiscal year, the three primary sources of receipts showed declines relative to revenues in the first two months of fiscal year 2009; individual income taxes decreased by $37 billion (or 26 percent), corporate income taxes fell by $10 billion, and social insurance taxes fell by about $1.5 billion (or 1 percent). Offsetting those declines was an increase of $7 billion in receipts from the Federal Reserve, primarily because of a shift in the Federal Reserve's portfolio to higher-yielding investments.

Individual income and payroll taxes combined fell by about $39 billion (or 14 percent); withholding was $26 billion (or 9 percent) lower; refunds were $10 billion higher; and nonwithheld receipts were $3 billion (or 14 percent) lower. The weakness in withholding stems from a combination of the effects of recent legislation and the slow growth of wages. Although most individual taxpayers file their returns early in the year, some file returns for the previous tax year late in the year. The amounts of refunds issued during October and November of 2009 appear to be higher than in past years, possibly because individuals' incomes were lower in tax year 2008 than they were in tax year 2007.

Receipts from corporate income taxes fell by about $10 billion during the first two months of this fiscal year compared with those in the same period in fiscal year 2009. Refunds exceeded collections in both October and November, resulting in a net decrease in corporate receipts. Much of that $10 billion decline from last year resulted from higher refunds of corporate taxes, probably from the effects of recent legislation that extended the period over which corporations could apply current-year losses to offset income in previous years. More information about the strength of corporate tax collections will become available in December, when many corporations make their quarterly estimated tax payments.

OUTLAYS THROUGH NOVEMBER
(Billions of dollars)

Major Category	Actual FY 2009	Preliminary FY 2010	Percentage Change
Defense–Military	112	112	0.6
Social Security Benefits	103	114	10.3
Medicare [a]	66	74	11.1
Medicaid	36	45	24.7
Unemployment Benefits	10	24	139.0
Other Activities	143	152	6.2
Subtotal	**470**	**520**	**10.7**
Net Interest on the Public Debt	36	36	1.4
TARP	71	2	-96.8
Payments to GSEs	14	0	-100.0
Total	**590**	**559**	**-5.3**

Sources: Department of the Treasury; CBO.

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

a. Medicare outlays are net of proprietary receipts.

By CBO's estimate, spending for the first two months of fiscal year 2010 totaled $559 billion, down $31 billion (or 5 percent) from last year. Excluding outlays for the TARP and net cash infusions for Fannie Mae and Freddie Mac, however, spending in 2010 rose by $51 billion (or 10 percent).

Outlays for Social Security benefits, Medicaid, and Medicare were all up by over 10 percent from last year. Social Security benefits rose by $11 billion (or 10 percent). The number of recipients grew as the first of the baby boomers begin to collect benefits; in addition, the average benefit has risen significantly because of the large cost-of-living increase (5.8 percent) that was effective in January 2009. Medicaid spending grew by $9 billion (or 25 percent). Spending from the American Recovery and Reinvestment Act temporarily increased the share of Medicaid paid by the federal government, accounting for around two-thirds of the year-over-year increase in federal Medicaid spending. Medicare payments rose by $7 billion (or 11 percent), resulting from noticeably higher spending in Medicare's prescription drug program. The increase occurred largely because of higher payments to prescription drug providers to correct for underpayments made in 2008.

Outlays for unemployment benefits through November more than doubled compared with spending last year. The additional $14 billion in payments reflects higher unemployment and legislated increases in both the amount and duration of benefits.

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