



MONTHLY BUDGET REVIEW

Fiscal Year 2008

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for January and the *Daily Treasury Statements* for February

March 6, 2008

The federal government incurred a deficit of \$262 billion in the first five months of fiscal year 2008, CBO estimates, \$100 billion more than the shortfall for the same period last year. If the President's proposals for the current fiscal year are enacted (mostly additional funding for military operations in Iraq and Afghanistan), the deficit for 2008 will reach \$396 billion, by CBO's estimate.

JANUARY RESULTS (Billions of dollars)

	Preliminary		Difference
	Estimate	Actual	
Receipts	256	255	*
Outlays	240	237	-3
Surplus	15	18	3

Sources: Department of the Treasury; CBO.

Note: * = between -\$500 million and \$500 million.

The Treasury reported a surplus of \$18 billion in January. That amount is about \$3 billion more than CBO had estimated on the basis of the *Daily Treasury Statements*, primarily because spending was lower than expected.

ESTIMATES FOR FEBRUARY (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	120	109	-11
Outlays	240	283	43
Deficit (-)	-120	-174	-54

Sources: Department of the Treasury; CBO.

The deficit in February was \$174 billion, CBO estimates, \$54 billion more than the deficit recorded in February 2007.

About half of the \$43 billion increase in outlays was the result of a shift in payment dates. Because March 1, 2008, fell on a weekend, about \$22 billion in payments that would ordinarily have been made in March were instead made at the end of February. Without that shift, outlays would have been about 9 percent higher than in February 2007.

Receipts this February were about \$11 billion (or 9.5 percent) lower than in February 2007. CBO estimates that revenues would have been roughly unchanged from last February if not for the extra business day this year (February 29), which substantially raised the amount of

refunds paid in that month. Although gross receipts for the month benefited from an extra day of withholding, the bulk of weekly refunds are reported on Friday, and the net effect of the extra day was to reduce net receipts. Withholding for income and payroll taxes was higher by about \$10 billion (or 7 percent), and roughly half of that growth resulted from the extra business day. Refunds for individual income taxes were higher by about \$18 billion (or 37 percent), but most of that growth reflected the additional Friday. Net corporate receipts were about \$5 billion lower than they were in February 2007, with higher corporate refunds and lower gross corporate receipts contributing equally to the decline.

BUDGET TOTALS THROUGH FEBRUARY (Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	954	970	16
Outlays	1,117	1,232	116
Deficit (-)	-162	-262	-100

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$262 billion during the first five months of fiscal year 2008, compared with a shortfall of \$162 billion recorded in the same period last year.

RECEIPTS THROUGH FEBRUARY (Billions of dollars)

Major Source	Actual FY2007	Preliminary FY2008	Percentage Change
Individual Income	444	450	1.5
Corporate Income	114	97	-14.6
Social Insurance	336	354	5.3
Other	<u>61</u>	<u>69</u>	13.1
Total	954	970	1.7

Sources: Department of the Treasury; CBO.

For the first five months of fiscal year 2008, receipts increased by about \$16 billion (or 1.7 percent), compared with those in the same months of 2007. The primary

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.

impetus in growth of receipts was increased withholding for individual income and payroll taxes, which was almost \$40 billion (or 5 percent) higher this year than in the same period last year. That growth rate was, however, slower than the 7 percent rate recorded in 2007. Receipts of nonwithheld income and payroll taxes rose by about \$5 billion (or 5 percent), reflecting the quarterly estimated payment of taxes in January. In addition, revenues from miscellaneous taxes and fees have increased by about \$8 billion (or 13 percent), primarily from Federal Reserve earnings (reflecting changes in exchange rates) and excise taxes (reflecting the cessation of last year's one-time telephone tax refunds).

Partially offsetting the growth in other revenues was a decline of about \$17 billion (or 15 percent) in net corporate receipts, reflecting lower profits. Net corporate receipts have fallen in each of the past eight months. In addition, an increase of \$20 billion (or 30 percent) in refunds of individual income taxes has reduced growth in net revenues. Most of that growth in refunds reflects the extra Friday in February, and it is likely to be offset by a decline in the amount of refunds issued in March.

This week, CBO released revised revenue projections for fiscal year 2008. CBO estimates that in the absence of further legislation, revenues will decline by about 1 percent in 2008, compared with last year. That estimate incorporates the effects of the recently enacted Economic Stimulus Act of 2008, which is anticipated to reduce receipts by about \$114 billion in 2008 (and increase refundable tax credits, which are classified as outlays, by \$38 billion). The act's largest impact stems from tax rebates to individuals that are expected to be paid beginning in May.

OUTLAYS THROUGH FEBRUARY (Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	219	247	13.1	9.9
Social Security				
Benefits	235	248	5.6	5.6
Medicare ^b	154	164	6.5	2.3
Medicaid	77	83	7.9	7.9
Other Programs and Activities	<u>336</u>	<u>382</u>	13.7	10.0
Subtotal	1,022	1,126	10.2	7.7
Net Interest on the Public Debt	<u>95</u>	<u>107</u>	12.2	12.2
Total	1,117	1,232	10.4	8.1

Sources: Department of the Treasury; CBO.

- a. Excludes the effects of payments that were shifted because of weekends or holidays.
b. Medicare outlays are net of proprietary receipts.

After adjusting for shifts in the timing of certain payments, outlays through February were 8 percent higher than in the same period last year. CBO anticipates that spending for the full year will be about 7 percent higher than in 2007, assuming enactment of the President's proposals for the current year.

Defense spending rose by about 10 percent on an adjusted basis through February and is projected to maintain that pace throughout 2008. Similarly, CBO estimates that the 10 percent growth in outlays for the broad category of other programs and activities will continue in the coming months, although the programs contributing to that growth are expected to change. The gains through February mainly reflect temporary differences in the timing of certain payments and receipts and double-digit growth in food and nutrition programs and unemployment benefits. Growth in this category for the rest of the year will result largely from the refundable tax credits associated with the recently enacted Economic Stimulus Act.

Medicare outlays, which rose by 9.5 percent in 2007, increased by about 2 percent through February. That slower growth partly stems from a net reduction of about \$4 billion in payments to prescription drug plans to correct for overpayments made in 2006. The growth in Medicare is expected to accelerate in the coming months, resulting in an annual gain of about 5.5 percent. Medicaid outlays are projected to rise by roughly 8 percent in 2008, comparable to the growth through February.

CURRENT ESTIMATES FOR FISCAL YEAR 2008 (Billions of dollars)

	CBO	OMB	Difference
Receipts	2,537	2,521	-16
Outlays	2,933	2,931	-2
Deficit (-)	-396	-410	-14

Sources: Office of Management and Budget and CBO, assuming enactment of the President's proposals for 2008.

CBO and the Office of Management and Budget (OMB) recently issued new estimates of the budget outlook for 2008. CBO expects that the federal deficit will total \$396 billion in 2008 if the President's supplemental funding requests and other proposals are enacted.

CBO's estimate of the 2008 deficit is about \$14 billion lower than OMB's projection primarily because it anticipates that revenues will exceed the Administration's estimate.