



# MONTHLY BUDGET REVIEW

## Fiscal Year 2005

### A Congressional Budget Office Analysis

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

December 6, 2004

The federal government incurred a deficit of about \$114 billion in the first two months of fiscal year 2005, CBO estimates, approximately \$2 billion more than the shortfall recorded during the same period last year. Both revenues and spending are running ahead of last year's pace, up by about 7 percent and 5 percent, respectively. CBO will issue new estimates for fiscal year 2005 and baseline projections for the 2006-2015 period in late January.

#### OCTOBER RESULTS

(Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	135	137	2
Outlays	193	194	1
Deficit (-)	-58	-57	1

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$57 billion in October, about \$1 billion less than CBO's projection based on the *Daily Treasury Statements*. Revenues were \$2 billion higher than expected, primarily because refunds of corporate income taxes were less than CBO estimated. Outlays were about \$1 billion higher than expected, largely because of higher-than-anticipated spending by the Departments of Education and Homeland Security.

#### ESTIMATES FOR NOVEMBER

(Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	118	134	16
Outlays	161	191	30
Deficit (-)	-43	-57	-14

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$57 billion in November, about \$14 billion more than the deficit in November 2003. Receipts grew by about \$16 billion compared with the same month last year, but outlays grew more, up by \$30 billion.

About \$9 billion of the increase in revenues resulted from withholding for individual and social insurance taxes, which was 8 percent higher than in November 2003. Much of that increase is attributable to the fact that this November contained two more working days than the same month last year. Nonwithholding of income and payroll taxes and refunds of individual income taxes together grew by about \$3 billion. Receipts of corporate income taxes rose by about \$2 billion, and other receipts rose by about \$1 billion.

Spending in November grew by about \$30 billion compared with the same month last year; however, outlays last November were unusually low because the first day of the month fell on a weekend. Roughly \$11 billion in payments that would ordinarily have been made on November 1, 2003, were instead made at the end of October. In the absence of that payment shift, November outlays would have grown by about \$18 billion (or about 11 percent) from 2004 to 2005. More than half of that growth (\$11.5 billion) is attributable to Medicare and defense spending, which also were affected by the increased number of working days.

#### BUDGET TOTALS THROUGH NOVEMBER

(Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	254	271	17
Outlays	367	385	19
Deficit (-)	-113	-114	-2

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$114 billion for the first two months of fiscal year 2005, a slight increase over the \$113 billion deficit recorded for the same period last year. Revenues grew by \$17 billion, while outlays grew by \$19 billion.

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 NOVEMBER**  
(Billions of dollars)

Major Source	Actual FY2004	Preliminary FY2005	Percentage Change
Individual Income	117	123	4.5
Corporate Income	4	10	163.3
Social Insurance	108	114	5.3
Other	<u>25</u>	<u>24</u>	-0.9
Total	254	271	6.8

Sources: Department of the Treasury; CBO.

Receipts in the first two months of fiscal year 2005 were almost 7 percent higher than in the same period last year. Receipts from social insurance and individual income taxes grew by a total of about \$11 billion, or roughly 5 percent, primarily because of gains in employment and income during the past year.

Receipts from corporate income taxes were more than 2.5 times the amounts collected in October and November of last year, but that is not a strong predictor of the outcome for this year. Those two months typically are not important months for corporate income tax collections. Collections in those months mostly represent relatively small and volatile amounts of estimated payments from firms that have a tax year different from the traditional calendar year, as well as refunds of past taxes. The first major estimated payment in fiscal year 2005 is due on December 15, which will give a better indication of the direction of corporate receipts.

**OUTLAYS THROUGH NOVEMBER**  
(Billions of dollars)

Major Category	Actual FY2004	Preliminary FY2005	Percentage Change
Defense—Military	67	73	9.3
Social Security			
Benefits	79	83	4.9
Medicare	45	52	14.2
Medicaid	28	29	4.5
Other Programs and Activities	<u>119</u>	<u>119</u>	0.1
Subtotal	338	356	5.3
Net Interest on the Public Debt	<u>28</u>	<u>29</u>	3.2
Total	367	385	5.2

Sources: Department of the Treasury; CBO.

Outlays in the first two months of fiscal year 2005 were 5 percent higher than in the same period last year, CBO estimates.

Military spending averaged about \$37 billion a month in October and November, 9 percent above spending during the same period last year. On a daily basis, defense outlays through November were slightly higher than the daily rate experienced in the last six months of fiscal year 2004.

Medicare spending averaged about \$26 billion a month in October and November, about 14 percent more than in the first two months of fiscal year 2004 but roughly the same as the monthly average during the second half of 2004. The change in Medicaid spending through November was smaller—outlays were 4.5 percent higher than in the first two months of fiscal year 2004—in part because outlays in the first nine months of 2004 reflected a temporary increase in the federal share of the program's costs.

Outlays through November for other programs and activities were nearly identical to spending levels during the same period last year. Among the activities recording noticeably higher outlays in the first two months of the year were agricultural commodity programs, education, disaster assistance, and interest payments on tax refunds. Those increases were largely offset by lower spending for unemployment benefits and fiscal assistance to states (which in fiscal year 2004 included \$5 billion in grants for emergency relief).