MONTHLY BUDGET REVIEW

Fiscal Year 2006

A Congressional Budget Office Analysis

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

March 6, 2006

The federal government incurred a deficit of $219 billion in the first five months of fiscal year 2006, CBO estimates, $5 billion less than for the same period last year. If the supplemental appropriations and other policies proposed by the President are enacted, CBO estimates that the deficit for fiscal year 2006 will reach $371 billion.

JANUARY RESULTS
(Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	231	230	-1
Outlays	206	209	3
Surplus	24	21	3

Sources: Department of the Treasury; CBO.

The Treasury reported a surplus of $21 billion in January, $3 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were $3 billion higher than projected, largely because of greater-than-expected spending by the Departments of the Treasury and Labor.

ESTIMATES FOR FEBRUARY
(Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	101	111	10
Outlays	215	232	17
Deficit (-)	-114	-121	-7

Sources: Department of the Treasury; CBO.

The deficit in February was about $121 billion, CBO estimates, $7 billion more than the deficit recorded in February 2005.

CBO estimates that the Treasury received about $111 billion in revenues in February, about $10 billion (or 10 percent) more than receipts in February 2005. Withholding from employees' paychecks for income and social insurance (payroll) taxes rose by about $9 billion, or almost 7 percent. Partially offsetting those gains was an increase of almost $3 billion (or 6 percent) in refunds of individual income taxes for early filers of 2005 tax returns. Receipts of corporate income taxes were up by about $3 billion, but almost $2 billion of that amount appears to represent corporate taxes from filings that were delayed as a result of Hurricane Katrina.

Outlays were about $17 billion (or 8 percent) greater this February than they were last February, CBO estimates. Spending for Medicare's new prescription drug program and for hurricane relief and recovery activities of the Federal Emergency Management Agency boosted outlays by several billion dollars. Added spending for Parts A and B of Medicare, Social Security, the Department of Defense, and net interest on the public debt account for much of the remaining increase.

BUDGET TOTALS THROUGH FEBRUARY
(Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	790	871	81
Outlays	1,014	1,090	77
Deficit (-)	-223	-219	5

Sources: Department of the Treasury; CBO.

CBO estimates that the government incurred a deficit of $219 billion in the first five months of 2006, slightly less than the shortfall recorded for the same period last year. Total receipts were about $81 billion (or 10.3 percent) higher than those recorded in the same period last year. Outlays have risen by about $77 billion (or 7.6 percent).

RECEIPTS THROUGH FEBRUARY
(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	355	391	10.3
Corporate Income	73	95	30.0
Social Insurance	304	322	6.0
Other	59	64	8.0
Total	790	871	10.3

Sources: Department of the Treasury; CBO.

All of the major sources of taxes have contributed to the revenue gains so far this year: compared with their level in the same period last year, individual income tax receipts were up by about $36 billion (or 10 percent); corporate

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.

income tax receipts were about $22 billion (or 30 percent) higher; and social insurance receipts increased by about $18 billion (or 6 percent). Withholding for individual income and social insurance taxes accounts for more than half of the fiscal year-to-date gains, increasing by about $45 billion (or 7 percent). Those gains reflect the continued strength in wages and salaries, including bonuses paid in the past few months. Nonwithheld receipts of individual income and payroll taxes grew by about $11 billion (or 15 percent), mainly because of higher quarterly payments of estimated taxes in January. (Final payments with tax return filings are also included in those amounts, but relatively few taxpayers who owe taxes file their returns before April.) Refunds of individual income taxes grew by almost $3 billion (or about 5 percent), mostly reflecting activity in February.

Corporate income taxes are up by about $22 billion (or 30 percent) for the first five months of this fiscal year. By this point in time, the Treasury has generally collected less than a third of net corporate receipts for the year because most corporations have made only one major payment, their quarterly remittance of estimated taxes in December.

OUTLAYS THROUGH FEBRUARY
(Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change: Actual	Percentage Change: Adjusted[a]
Defense—Military	188	202	7.5	6.2
Social Security Benefits	210	223	5.9	5.9
Medicare	130	144	10.4	13.7
Medicaid	73	74	1.7	1.7
Other Programs and Activities	341	356	4.6	8.0
Subtotal	942	998	6.0	7.4
Net Interest on the Public Debt	72	92	27.7	27.7
Total	1,014	1,090	7.6	8.9

Sources: Department of the Treasury; CBO.

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

Excluding the calendar-related shifts in the timing of certain payments, outlays through February were about 9 percent higher than in the same period last year. That rate of growth is similar to the increase that CBO is projecting for the fiscal year, assuming enactment of the President's proposals to provide additional funding for military operations in Iraq and Afghanistan, flood insurance, and hurricane relief and recovery.

Outlays for net interest were 28 percent higher than in the first five months of fiscal year 2005, primarily because of higher short-term interest rates, increases in the cost of inflation-indexed bonds, and growth in the amount of federal debt. That figure was boosted by an intragovernmental interest payment of about $3 billion to the federal Pension Benefit Guaranty Corporation. By the end of the year, CBO projects, net interest costs will be about 20 percent higher than in 2005.

Spending through February—except for net interest—grew by roughly 7 percent on an adjusted basis, relative to the same period last year. CBO expects that such spending will grow slightly faster in the coming months, resulting in an 8 percent increase for the year as a whole. A portion of that growth is attributable to the new Medicare prescription drug program, which is expected to add about $23 billion to Medicare outlays this year; savings in Medicaid and other federal programs will offset some of that increase. Medicaid spending, which has slowed because of payment lags in some large states, is also likely to accelerate. By contrast, the surge in spending for disaster assistance and flood insurance triggered by Hurricane Katrina is likely to moderate in the coming months, after more than quadrupling from the first five months of last year to the same period this year.

CURRENT ESTIMATES FOR FISCAL YEAR 2006
(Billions of dollars)

	CBO	OMB
Receipts	2,304	2,285
Outlays	2,675	2,709
Deficit (-)	-371	-423

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

Both CBO and the Office of Management and Budget (OMB) have recently issued new projections of the budget outlook for fiscal year 2006. CBO estimates that the federal government will incur a deficit of $371 billion in 2006, assuming enactment of the President's funding requests. At 2.8 percent of gross domestic product (GDP), the 2006 deficit would be larger than the deficit recorded in 2005 ($318 billion, or 2.6 percent of GDP).

CBO's estimate of the 2006 deficit is about $52 billion lower than the shortfall projected by OMB. CBO projects that revenues will be $19 billion higher and outlays $33 billion lower than the Administration anticipates. Most of the difference in revenues results from CBO's higher estimate of corporate income taxes. Much of the difference in outlays derives from CBO's lower estimates of spending for defense, Medicare (primarily for the new prescription drug benefit), unemployment benefits, Medicaid, and student loans.

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