



MONTHLY BUDGET REVIEW

Fiscal Year 2010

A Congressional Budget Office Analysis

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

January 7, 2010

The federal budget deficit was about \$390 billion in the first quarter of fiscal year 2010, CBO estimates—\$56 billion more than the shortfall in the same period in fiscal year 2009. Outlays were slightly lower than they were last year at this time, but revenues have fallen by about 11 percent. Later this month, CBO will issue new budget projections for 2010 and the following 10 years.

NOVEMBER RESULTS

The Treasury reported a deficit of \$120 billion in November, about \$5 billion more than CBO projected on the basis of the *Daily Treasury Statements*. The difference occurred primarily because of greater-than-expected spending for Treasury and Justice programs.

ESTIMATES FOR DECEMBER

(Billions of dollars)

	Actual FY 2009	Preliminary 2010	Estimated Change
Receipts	238	220	-18
Outlays	290	312	22
Deficit (-)	-52	-92	-40

Sources: Department of the Treasury; CBO.

The deficit in December was \$92 billion, CBO estimates, about \$40 billion more than the deficit recorded in December 2008. Adjusted to eliminate variation attributable to shifts in the timing of certain payments, the deficit was about \$11 billion greater than it was the same month last year. This is the second consecutive December that the federal government will record a budget deficit. Typically, that month yields a budget surplus because most corporations make quarterly income tax payments and withholding for individuals is relatively high owing to year-end bonuses and seasonal employment.

CBO estimates that federal receipts in December declined by \$18 billion, or 8 percent, relative to receipts in December 2008. Withholding for individual income and payroll taxes accounted for most of the total decline; those receipts were about \$13 billion (or 8 percent) lower than those in the prior year. More than half of that decline is attributable to provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) and the effects of the calendar (there was an additional Monday in December 2009, as compared with December 2008). Net corporate income tax receipts fell by \$6 billion (or 13 percent) relative to those last December. That decline was the smallest drop in corporate receipts in the last month of a quarter since

the recession began in December 2007. Those declines were partially offset by increases in other revenues, which rose by \$2 billion (or 14 percent).

Outlays in December were \$22 billion (or 8 percent) higher than spending in the same month a year ago. Several factors contributed to that increase. The shifting of payments because of weekends or holidays increased outlays by almost \$40 billion in December 2009. Similar timing shifts increased outlays in December 2008 by \$11 billion. The federal government made \$13 billion in cash payments to Fannie Mae this December (net of dividends); no payments were made in the same month last year. Outlays for unemployment benefits increased by \$8 billion from the amount a year earlier (partially because of recent legislation that temporarily extended benefits), and spending for net interest on the public debt grew by \$7 billion. Outlays for both Social Security (adjusted for timing shifts) and Medicaid were up by \$5 billion.

In contrast, net receipts for the Federal Deposit Insurance Corporation (FDIC) rose sharply, totaling \$44 billion this December, \$41 billion more than the amount in the same month last year, in response to a requirement that institutions prepay insurance premiums that would have been due over the next three years. Spending for the Troubled Asset Relief Program (TARP) declined from \$21 billion in December 2008 to \$4 billion in 2009.

BUDGET TOTALS THROUGH DECEMBER

(Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	547	489	-59
Outlays	880	877	-3
Deficit (-)	-332	-389	-56

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$389 billion for the first three months of fiscal year 2010, compared with a deficit of \$332 billion incurred in 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.

REVENUES THROUGH DECEMBER

(Billions of dollars)

Major Source	Actual FY 2009	Preliminary FY 2010	Percent Change
Individual Income	255	206	-19.2
Corporate Income	50	35	-29.7
Social Insurance	200	196	-1.9
Other	<u>42</u>	<u>51</u>	21.3
Total	547	489	-10.8

Sources: Department of the Treasury; CBO.

CBO estimates that, in the first quarter of the fiscal year, revenues were about \$59 billion (or 11 percent) lower than receipts in the same period a year ago. Individual income and payroll taxes combined fell by about \$53 billion (or 12 percent): Withholding was \$40 billion (or 9 percent) lower, refunds were \$10 billion higher, and nonwithheld receipts were \$3 billion (or 11 percent) lower. The weakness in withholding stems from the effects of recent legislation and from lower wages and salaries. Net corporate income taxes declined by about \$15 billion (or 30 percent) compared with receipts during the same period last year because of a combination of higher refunds and lower payments of estimated taxes. The decline in net corporate receipts can be attributed to weak corporate profits and the effects of recent legislation that extended the period over which corporations could apply current-year losses to offset income in previous years.

Those declines in revenues from individual income, payroll, and corporate taxes were partially offset by increases in receipts from other sources, which together rose by a net of \$9 billion (or 21 percent). Payments to the Treasury from the Federal Reserve showed the largest increase, rising by \$9 billion because of a shift in the Federal Reserve's portfolio to higher-yielding investments. Receipts from excise taxes also rose, by \$2 billion (or 13 percent), as a result of higher tax rates on tobacco products enacted last April.

Spending in the first quarter was slightly less this year than it was last year, but after adjustments for shifts in the timing of certain payments, the decline was greater—about \$32 billion (or about 4 percent). Spending for the TARP decreased by \$85 billion, and net spending by the FDIC was \$45 billion lower because of greater net receipts. Without the timing shifts and the large reductions in spending in those two areas, first quarter spending would be up by \$98 billion (or 13 percent) compared with outlays a year ago.

OUTLAYS THROUGH DECEMBER

(Billions of dollars)

Major Category	Actual FY 2009	Preliminary FY 2010	Percentage Change	
			Actual	Adjusted ^a
Defense–Military	172	178	3.2	3.1
Social Security				
Benefits	156	201	29.4	10.2
Medicare ^b	103	107	4.5	8.2
Medicaid	54	67	25.4	25.4
Unemployment				
Benefits	18	40	122.8	122.8
Other Activities	<u>226</u>	<u>210</u>	-7.2	-8.5
Subtotal	728	803	10.3	6.4
Net Interest on the				
Public Debt	47	56	17.6	17.6
TARP	91	6	-93.2	-93.2
Payments to GSEs	<u>14</u>	<u>13</u>	-7.6	-7.6
Total	880	877	-0.3	-3.6

Sources: Department of the Treasury; CBO.

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

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

Spending for unemployment benefits more than doubled from the first quarter last year, rising by \$22 billion, because of high unemployment and extensions in the duration of benefits. Medicaid spending in the first quarter was up \$14 billion (or 25 percent), nearly \$10 billion of which is attributable to a provision in ARRA that temporarily increased federal payments to states under Medicaid. Adjusted for timing shifts, Social Security benefits were up by \$16 billion (or 10 percent), and Medicare spending was up by \$8 billion (or 8 percent).

Adjusted for timing shifts, outlays in the category “Other Activities” (excluding spending by the FDIC) increased by \$26 billion (or 12 percent) through December. Spending by the Department of Education rose by \$9 billion (or 55 percent). Food and nutrition assistance rose by \$5 billion (or 29 percent). Spending by the Department of the Treasury for refundable tax credits and health insurance subsidies increased by \$4 billion. Much of the growth in those areas resulted from provisions of ARRA.