



MONTHLY BUDGET REVIEW

Fiscal Year 2009

A Congressional Budget Office Analysis

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

February 5, 2009

CBO estimates that the Treasury Department will report a deficit of \$563 billion for the first four months of fiscal year 2009, \$474 billion higher than the deficit incurred through January 2008. This year's deficit to date includes estimated outlays of \$284 billion for the Troubled Asset Relief Program (TARP). Although the Treasury is recording most spending for the TARP on a cash basis, CBO believes that the budget should record all of the program's activities, including equity investments, on a net-present-value basis adjusted for market risk, as specified in the Emergency Economic Stabilization Act of 2008. Using that approach, CBO estimates that outlays of \$76 billion should be recorded for the TARP through January, which would yield an estimated deficit of \$355 billion through January. The discussion below focuses on the budget figures as they are being reported by the Treasury.

DECEMBER RESULTS

The Treasury reported a deficit of \$84 billion for December, about \$1 billion higher than CBO's estimate for December on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR JANUARY (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	255	226	-29
Outlays	237	304	67
Surplus/Deficit (-)	18	-78	-96

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will report a deficit of \$78 billion for January, compared with an \$18 billion surplus in 2008. In most years, the federal government has run a surplus in January because revenues are boosted by quarterly payments of nonwithheld taxes by individuals, and spending is held down because certain payments are shifted into December as a result of the January 1 holiday. However, this January the budget will show a deficit because of a substantial increase in outlays and a drop in receipts. In addition, the January 1 timing shift was largely offset this year by a similar shift of payments from February into January because the first day of February fell on a weekend.

Receipts in January were about \$29 billion (or 11.5 percent) lower than receipts in January 2008, CBO estimates, as the effects of the recession continued to reduce tax collections. All of the sources of receipts showed either declines or no growth, relative to collections in January 2008. Withheld individual income and payroll taxes dropped by \$11 billion (or 7 percent). January's nonwithheld receipts, which included the last

quarterly payment of taxes for calendar year 2008, fell by almost \$11 billion (or 14 percent). Refunds of individual income taxes increased by an estimated \$3 billion at the very beginning of the tax-filing season. Receipts from the Federal Reserve were about \$3 billion lower than in January 2008, when those receipts were unusually large.

Outlays were \$67 billion (or 28 percent) higher this January than they were a year ago. Adjusted for timing shifts, January's outlays were \$45 billion (or 18 percent) higher than last year. Outlays for the TARP totaled \$42 billion; spending for other programs rose by \$27 billion, including \$6 billion disbursed for loans and other assistance to credit unions. Social Security payments increased by \$5 billion, reflecting a cost-of-living increase that took effect in January. Unemployment benefits and Medicare costs (adjusted for timing shifts) each rose by \$4 billion, outlays for refundable tax credits increased by \$3 billion, and other spending grew by \$5 billion. Those increases were offset by a \$17 billion decrease in net interest on the public debt (mostly because of lower costs for inflation-indexed securities) and by \$7 billion in collections from the 2008 auction of licenses to use the electromagnetic spectrum.

BUDGET TOTALS THROUGH JANUARY (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	861	773	-88
Outlays	950	1,337	386
Deficit (-)	-89	-563	-474

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$563 billion for the first four months of fiscal year 2009, well above the \$89 billion deficit recorded in the same period of fiscal year 2008.

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 JANUARY
(Billions of dollars)

Major Source	Actual FY2008	Preliminary FY2009	Percentage Change
Individual Income	422	379	-10.3
Corporate Income	99	56	-43.2
Social Insurance	283	285	0.5
Other	<u>57</u>	<u>54</u>	-5.8
Total	861	773	-10.2

Sources: Department of the Treasury; CBO.

Receipts for the first four months of fiscal year 2009 were about \$88 billion (or 10 percent) lower than receipts during the comparable period last year. Almost half of the decline, or \$43 billion, resulted from lower net corporate receipts, which fell by 43 percent. Declines in those receipts reflect the continued weakness in corporate profits stemming from the recession.

Withholding from employees' paychecks for income and payroll taxes was about \$19 billion (or 3 percent) lower than such receipts in the first four months of fiscal year 2008; most of that decline occurred in the past two months. Substantial declines in employment and in year-end bonuses reduced wage and salary income.

Nonwithheld receipts fell by about \$12 billion (or 12 percent) in the October–January period, with most of that decline resulting from lower estimated payments in January. Those receipts tend to move in conjunction with nonwage income. Collections in the first four months of the fiscal year represent only a small portion of nonwithheld receipts for the year, however. The next month in which a significant amount of nonwithheld receipts will be collected is April, with the end of the 2008 tax-filing season. Refunds of individual income taxes were about \$9 billion higher than those in the first four months of last year. Most refunds in 2009 will occur in the February–May period, after taxpayers file their 2008 tax returns.

Outlays through January totaled \$1,337 billion, CBO estimates—\$387 billion more than in the same period last year. Those Treasury figures include cash expenditures of \$284 billion for activities by the TARP and \$14 billion of equity injections for Freddie Mac, a government-sponsored enterprise. Spending for other federal programs was \$123 billion higher than in the first four months of 2008; adjusted for calendar-related shifts in the timing of certain payments, program outlays rose by 12 percent (about \$101 billion). In contrast, outlays for net interest on the public debt fell by 39 percent, or \$35 billion, over that period because of lower costs for inflation-indexed securities and a decline in short-term interest rates.

OUTLAYS THROUGH JANUARY
(Billions of dollars)

Major Category	Actual FY2008	Preliminary FY2009	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	201	220	9.6	7.6
Social Security				
Benefits	198	210	6.5	6.5
Medicare ^b	122	149	22.4	13.1
Medicaid	67	71	6.3	6.3
Other Programs				
and Activities	<u>276</u>	<u>335</u>	21.5	19.2
Subtotal	862	985	14.2	11.7
Net Interest on the				
Public Debt	88	54	-39.2	-39.2
TARP	0	284	n.a.	n.a.
Payments to GSEs	<u>0</u>	<u>14</u>	n.a.	n.a.
Total	950	1,337	40.6	38.4

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; GSEs = government-sponsored enterprises; n.a. = not applicable.

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

b. Medicare outlays are net of premiums and other proprietary receipts.

The broad category of other activities accounted for roughly half of the increase in program spending through January; spending for that category rose by 19 percent (about \$53 billion) on an adjusted basis. Outlays have been pushed higher by several factors, including a near doubling of payments for unemployment benefits; lower earnings credited to certain government funds; rapid growth in outlays for food and nutrition programs; payments for disaster assistance and flood insurance; and increased spending for a variety of other programs.

Medicare outlays rose by 13 percent on an adjusted basis through January, well above the 9 percent annual gains averaged over the past five years. Much of that difference reflects the lower spending in 2008 because of a \$4 billion reduction in payments to prescription drug providers to correct for overpayments made in 2006. Excluding the effects of that one-time reduction, Medicare spending through January was about 9 percent higher than in the same period last year. Medicaid outlays were about 6 percent higher than in the first four months of 2008.

Outlays for Social Security benefits, which grew by an average of about 5 percent over the past five years, rose by 6.5 percent through January. That faster growth is largely due to the 5.8 percent cost-of-living adjustment that took effect in January, the largest such adjustment since 1982.