



# MONTHLY BUDGET REVIEW

## Fiscal Year 2007

### A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for August and the *Daily Treasury Statements* for September

October 5, 2007

CBO estimates that the federal budget deficit was about \$161 billion in fiscal year 2007, \$87 billion less than the shortfall recorded in 2006. Relative to the size of the economy, that deficit was equal to 1.2 percent of gross domestic product, down from 1.9 percent in 2006. That estimate is based on data from the *Daily Treasury Statements* and CBO's projections; the Treasury Department will report the actual deficit for fiscal year 2007 later this month.

#### AUGUST RESULTS

The Treasury Department reported a deficit of \$117 billion for August, about \$2 billion more than CBO had estimated on the basis of the *Daily Treasury Statements*, primarily because spending in August was slightly higher than expected.

#### ESTIMATES FOR SEPTEMBER (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	283	285	2
Outlays	227	172	-55
Surplus	56	113	57

Sources: Department of the Treasury; CBO.

The budget surplus was about \$113 billion in September, CBO estimates, \$57 billion more than the surplus recorded in the same month last year. The government typically runs a surplus in September because of the influx of revenues from quarterly tax payments.

Shifts from September to August in the disbursement dates for Social Security benefits and certain other monthly payments substantially bolstered the September surplus. Because the first two days of the month fell on a weekend and September 3 was a holiday (Labor Day), about \$46 billion in payments normally made at the beginning of September—including \$25 billion in Social Security benefits—were instead made at the end of August.

The comparison with September 2006 is also affected by the fact that outlays in that month were unusually high. Because October 1, 2006, fell on a weekend, about \$10 billion in payments that would ordinarily have been made in October were instead made at the end of September. After adjusting for the 2006 and 2007 payment shifts, revisions in the estimated costs of credit subsidies, and certain other unusual factors that affected outlays in September 2006, spending in September declined by about 1 percent from 2006 to 2007. That reduction was

primarily due to a \$10 billion drop in outlays recorded for the Department of Education. In September 2006, the department recorded a large portion of that year's subsidy costs for consolidated student loans, whereas consolidation costs in 2007 have been spread out over the course of the year.

CBO estimates that receipts in September were about \$2 billion (or 1 percent) higher than receipts in September 2006, the result of nearly offsetting increases in receipts of individual income and payroll taxes and decreases in receipts of corporate income taxes. Nonwithheld individual income and payroll taxes, mainly from quarterly estimated payments, rose by \$7 billion (or 11.5 percent). Withholding for individual income and payroll taxes showed a more modest gain of \$3 billion (or 2 percent); that increase would have been roughly \$4 billion more but for the fact that this September contained one fewer business day than did September 2006.

Receipts from corporate income taxes fell by about \$8 billion (or 9 percent). Much of that decline occurred because of unusually high receipts last September, the result of a legislated shift in the timing of corporate payments and settlements of past years' taxes. Even without those nonrecurring effects, CBO estimates, corporate receipts would have fallen this September, consistent with weaker growth in profits over the course of this year.

#### FISCAL YEAR TOTALS (Billions of dollars)

	Actual FY2006	Preliminary FY2007	Estimated Change
Receipts	2,407	2,568	161
Outlays	2,655	2,729	74
Deficit (-)	-248	-161	87

Sources: Department of the Treasury; CBO.

CBO estimates that the federal deficit was about \$161 billion in 2007, down from \$248 billion in the previous year. The estimated deficit is about \$3 billion higher than CBO projected this summer. Both outlays and income tax receipts were slightly lower than expected.

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.

**TOTAL RECEIPTS**  
(Billions of dollars)

Major Source	Actual FY2006	Preliminary FY2007	Percentage Change
Individual Income	1,044	1,162	11.3
Corporate Income	354	372	5.0
Social Insurance	838	870	3.8
Other	<u>171</u>	<u>165</u>	-3.8
Total	2,407	2,568	6.7

Sources: Department of the Treasury; CBO.

CBO estimates that receipts in 2007 were about \$161 billion (or 6.7 percent) higher than receipts in 2006. That percentage increase is significantly smaller than the growth recorded in 2006 (11.8 percent) and 2005 (14.5 percent). Nevertheless, the growth in receipts in 2007 exceeded the increase in nominal GDP (estimated to be about 5 percent). As a result, revenues rose to about 18.8 percent of GDP, which is slightly higher than the average of 18.2 percent over the past 40 years.

Receipts of individual income taxes, the largest tax source, increased by an estimated \$118 billion (or 11 percent), and receipts of social insurance (payroll) taxes, the second largest source, rose by an estimated \$32 billion (or 4 percent). Receipts from withheld individual income and payroll taxes, the largest source of income and payroll taxes, grew by \$107 billion—or 6.7 percent. Those receipts grew at similar rates of 6.9 percent in 2006 and 6.3 percent in 2005. Those gains in withholding reflect continued growth in wages and salaries.

Nonwithheld income and payroll tax receipts gained about \$55 billion (or 13 percent) in 2007. The two main components, quarterly estimated payments and final payments with tax returns, both grew at about that same rate. Nonwithheld receipts grew more slowly than the 19 percent rate recorded in 2006. The double-digit growth in 2007 probably reflects continued strong growth in income from sources other than wages and salaries.

CBO estimates that receipts in 2007 from corporate income taxes grew by about \$18 billion (or 5 percent). That represents a substantial slowdown from the growth in the prior three years, which averaged 39 percent per year. Receipts slowed progressively through 2007, with gains in the first three quarters of 22 percent, 11 percent, and 4 percent, respectively, followed by a decline of 11 percent in the fourth quarter—reflecting slowing growth in corporate profits.

**TOTAL OUTLAYS**  
(Billions of dollars)

Major Category	Actual FY2006	Preliminary FY2007	Percentage Change	
			Actual	Adjusted <sup>a</sup>
Defense—Military	499	526	5.2	6.1
Social Security				
Benefits	545	577	5.8	5.9
Medicare	381	437	14.7	10.9
Medicaid	181	191	5.7	5.7
Other Programs				
and Activities	<u>812</u>	<u>747</u>	-8.1	-7.9
Subtotal	2,418	2,477	2.4	2.1
Net Interest on the				
Public Debt	<u>237</u>	<u>252</u>	6.5	6.3
Total	2,655	2,729	2.8	2.5

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays. Also adjusts 2006 Social Security outlays for corrections to amounts withheld for taxes on Social Security benefits.

Federal outlays increased by 2.8 percent in fiscal year 2007, CBO estimates. Adjusted for shifts in the timing of certain payments, spending rose by 2.5 percent. Outlays were equivalent to 20.0 percent of GDP in 2007, about equal to the average over the 2002-2006 period. The rate of growth was well below the 7.3 percent average over the previous five years, mostly because outlays in the broad category of “other programs and activities” declined by 8 percent relative to spending in 2006. All other outlays rose by close to 7 percent on an adjusted basis.

The decrease in outlays for “other programs” was mainly due to unusually high spending in 2006 for activities related to the 2005 Gulf Coast hurricanes and for the subsidy costs recorded for student loans. Payments received in 2007 for licenses auctioned in 2006 for use of the electromagnetic spectrum further reduced net outlays. Excluding those three activities, spending for this category rose by about 1 percent.

Total outlays for Medicare and Medicaid continued to grow rapidly in 2007, increasing by 9 percent (on an adjusted basis), a rate similar to the growth averaged by the two programs over the previous five-year period. Medicare spending grew faster than Medicaid in 2007 (10.9 percent compared with 5.7 percent), partly because some costs paid by Medicaid in 2006 are now covered by Medicare’s prescription drug program.

Defense and Social Security outlays increased by about 6 percent each in 2007 after posting similar gains in 2006. Outlays for net interest on the public debt—which surged by 24 percent in fiscal year 2006—also rose by 6 percent in 2007. Higher interest rates and growth in the amount of debt accounted for most of that increase in 2007.

