



MONTHLY BUDGET REVIEW

Fiscal Year 2002

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for June and the *Daily Treasury Statements* for July

August 9, 2002

In the first 10 months of fiscal year 2002, the federal government ran a deficit of about \$150 billion, CBO estimates, compared with a surplus of \$172 billion in the same period last year. CBO now projects a deficit of \$157 billion for fiscal year 2002, following surpluses of \$236 billion in 2000 and \$127 billion in 2001.

JUNE RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	182	183	1
Outlays	157	154	-4
Surplus	25	29	4

SOURCES: Department of the Treasury; CBO.

The Treasury reported a surplus of \$29 billion in June, about \$4 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was primarily on the spending side of the budget. Outlays were lower than CBO had anticipated for a number of agencies, including the Departments of Agriculture, Transportation, Defense, and Health and Human Services.

ESTIMATES FOR JULY (In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	128	135	8
Outlays	125	167	42
Surplus or Deficit (-)	3	-32	-34

SOURCES: Department of the Treasury; CBO.

The deficit in July was about \$32 billion, CBO estimates, a swing of \$34 billion relative to the \$3 billion surplus in July 2001. Revenues were about \$8 billion higher this July than last July, the first month with a year-over-year increase since October 2001, despite the tax cuts and economic weakness. Two main factors account for that reversal. First, last July saw the first Treasury rebate checks sent to taxpayers—a result of the tax cuts enacted in June 2001—pushing down net receipts in that month. Second, this July contained one more business day than last July.

Much of the \$42 billion increase in outlays is a result of two factors. In July 2001, the Treasury recorded a \$12.5 billion reduction in outlays to reflect revised subsidy estimates for loans associated with the auction of licenses to use the electromagnetic spectrum. In addition, \$11 billion in payments that would normally have been made on July 1, 2001, were instead made at the end of June 2001. In the absence of those adjustments, July outlays would have grown by about \$18 billion from 2001 to 2002.

BUDGET TOTALS THROUGH JULY (In billions of dollars)

	October-July		Estimated Change
	FY2001	FY2002	
Receipts	1,710	1,537	-173
Outlays	1,538	1,686	148
Surplus or Deficit (-)	172	-150	-321

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$150 billion for the first 10 months of fiscal year 2002, a sharp contrast to the \$172 billion surplus recorded for the same period last year. Outlays are well above last year's level, while revenues are running about 10 percent below last year's pace.

RECEIPTS THROUGH JULY (In billions of dollars)

Major Source	October-July		Percentage Change
	FY2001	FY2002	
Individual Income	861	710	-17.5
Corporate Income	140	116	-17.3
Social Insurance	584	589	0.8
Other	<u>124</u>	<u>122</u>	-2.1
Total	1,710	1,537	-10.1

SOURCES: Department of the Treasury; CBO.

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 from October through July of this fiscal year are \$173 billion lower than they were during the same period a year ago. About \$105 billion of that decline occurred in nonwithheld receipts and refunds of individual income taxes from February through May, when taxpayers filed their returns for tax year 2001. Withheld income tax receipts for the current year have also dropped—by almost \$40 billion overall. That decline roughly corresponds to the estimated effects on withholding of the tax cuts enacted last year.

Corporate income tax receipts declined by \$24 billion, or 17 percent, in the first 10 months of fiscal year 2002, compared with the same period a year ago—despite a provision in last year's tax legislation that allowed firms to delay about \$23 billion in estimated payments from September to October 2001. Some of the decline stems from the business tax cuts enacted in March 2002, but CBO estimates that corporate receipts would have fallen substantially this year even without the legislation enacted in the past two years.

OUTLAYS THROUGH JULY (In billions of dollars)

Major Category	October-July		Percentage Change	
	FY2001	FY2002	Actual	Adjusted ^a
Defense—Military	239	273	14.3	12.9
Social Security				
Benefits	354	372	5.2	5.2
Medicare	197	212	7.9	9.5
Medicaid	108	123	13.5	13.5
Unemployment				
Insurance	26	45	73.9	73.9
Other Programs and Activities	<u>432</u>	<u>512</u>	18.4	14.0
Subtotal	1,355	1,537	13.4	12.0
Net Interest on the Public Debt	<u>183</u>	<u>150</u>	-18.1	-18.1
Total	1,538	1,686	9.6	8.5

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, or legislative action. Also excludes the July 2001 credit reestimate for spectrum loans, which was largely reversed last September.

Outlays in the first 10 months of 2002 were 9.6 percent higher than in the same period last year, CBO estimates. Adjusted for the July 2001 credit reestimate and for shifts in the dates of certain payments, that rate of growth was 8.5 percent. Falling short-term interest rates

have lowered the government's net interest payments this year by 18 percent. But spending for all other categories, which rose by about 7 percent in 2001, has shown double-digit growth this year. Adjusted for payment shifts, such spending has increased by 12 percent.

CBO'S PROJECTIONS FOR FISCAL YEAR 2002 (In billions of dollars)

	As of March ^a	As of August	Change
Receipts	1,963	1,860	-104
Outlays	2,010	2,017	7
Deficit	-46	-157	-111
On-budget deficit	-204	-314	-110
Off-budget surplus	157	157	*

SOURCE: CBO.

NOTE: * = less than \$500 million.

a. Includes the effects of the Job Creation and Worker Assistance Act of 2002, which was enacted on March 9, 2002.

CBO has recently updated its estimate of the deficit for fiscal year 2002 to reflect changes in economic trends, legislative action, and other developments. The deficit for the year is now projected to total \$157 billion, up from the \$46 billion CBO estimated after the economic stimulus package was enacted in March.

An unexpectedly sharp drop in revenues accounts for almost all of the increase in the projected deficit for 2002. Weak nonwithheld receipts and larger-than-anticipated refunds of individual income taxes this spring account for about \$70 billion of the \$104 billion decline in estimated revenues. Roughly \$25 billion of that amount appears to result from unusually high withholdings and estimated payments in 2001 by individuals, which reduced collections in 2002. Other factors contributing to the revenue shortfall probably include changes in realizations of capital gains and lower liabilities from other income sources, such as wages and business income. Corporate receipts are also lower than CBO had anticipated in March, reducing receipts by about \$20 billion.

Higher spending accounts for only a small portion of CBO's revised estimates for 2002. Outlays are projected to be \$7 billion higher than previously estimated, largely as a result of the recently enacted supplemental appropriations. CBO's revised 10-year projections will be presented in an upcoming report, *The Budget and Economic Outlook: An Update* (which can be viewed at www.cbo.gov after its release on August 27).