



MONTHLY BUDGET REVIEW

Fiscal Year 2010

A Congressional Budget Office Analysis

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

February 4, 2010

The federal government incurred a budget deficit of \$434 billion in the first four months of fiscal year 2010, CBO estimates, almost \$40 billion more than the shortfall recorded in the same period last year. Outlays were 4 percent lower than they were last year at this time; however, revenues have fallen by 11 percent. Assuming that no other legislation affecting spending or revenues is enacted, CBO expects that the federal government will end fiscal year 2010 with a deficit of about \$1.35 trillion, slightly below the \$1.4 trillion deficit recorded in 2009. (See *The Budget and Economic Outlook: Fiscal Years 2010 to 2020* at www.cbo.gov for more details on CBO's estimate for 2010 and its most recent 10-year projections.)

DECEMBER RESULTS

(Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	220	219	1
Outlays	312	311	1
Deficit (-)	-92	-92	*

Sources: Department of the Treasury; CBO.

Note: * = between zero and \$500 million.

The Treasury reported a deficit of \$92 billion for December, about the same as CBO's estimate for that month based on the *Daily Treasury Statements*.

ESTIMATES FOR JANUARY

(Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	226	203	-23
Outlays	290	249	-41
Deficit (-)	-63	-46	17

Sources: Department of the Treasury; CBO.

The deficit in January was \$46 billion, CBO estimates, \$17 billion less than the deficit recorded in the same month last year. However, after accounting for shifts in the timing of certain payments, the deficit for January 2010 would be \$33 billion more than the shortfall in January 2009.

Receipts in January were about \$23 billion (or 10 percent) lower than receipts in January 2009, CBO estimates. Withheld individual income and payroll taxes declined by \$11 billion (or 7 percent). About one-third of that decline is attributable to provisions of the American Recovery and Reinvestment Act of 2009 (ARRA). January's nonwithheld individual income and payroll tax receipts, which included the last quarterly estimated payment of individual income taxes for

calendar year 2009, fell by \$11 billion (or 17 percent). Refunds of individual income taxes increased by \$3 billion at the beginning of the tax-filing season. Net corporate receipts declined by \$2 billion. Those changes were partially offset by increases in payments to the Treasury from the Federal Reserve, which rose by \$4 billion.

Outlays were \$41 billion (or 14 percent) lower in January than they were a year ago, but the shifting of payments because of weekends and holidays decreased outlays by \$39 billion in January 2010 and increased spending by \$11 billion in January 2009. Adjusted for those calendar effects, outlays increased by \$10 billion compared with outlays in January of last year. Spending for net interest on the public debt accounted for the greatest growth—up by \$12 billion (mostly because of higher costs for inflation-indexed securities). Outlays also increased significantly for unemployment benefits (up by \$6 billion), Medicaid and defense (\$4 billion each, adjusted for timing shifts), the Department of Education (\$4 billion), and annual payments to Egypt and Israel for military aid (\$3 billion; in fiscal year 2009, those payments were made in April). Those increases were partially offset by a decrease of \$20 billion in spending for the Troubled Asset Relief Program (TARP) and by the repayment of \$5 billion in loans made to credit unions.

BUDGET TOTALS THROUGH JANUARY

(Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	773	691	-83
Outlays	1,169	1,125	-44
Deficit (-)	-396	-434	-39

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$434 billion for the first four months of fiscal year 2010, almost \$40 billion greater than the deficit recorded during the same period of fiscal year 2009.

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 JANUARY
(Billions of dollars)

Major Source	Actual FY 2009	Preliminary FY 2010	Percentage Change
Individual Income	380	309	-18.5
Corporate Income	55	36	-33.7
Social Insurance	285	279	-2.1
Other	<u>54</u>	<u>66</u>	22.7
Total	773	691	-10.7

Sources: Department of the Treasury; CBO.

Receipts for the first four months of fiscal year 2010 were about \$83 billion (or 11 percent) lower than receipts during the comparable period last year. Nearly two-thirds of that decline stems from lower withholding from employees' paychecks for income and payroll taxes. The \$50 billion (or 8 percent) drop in withholding results primarily from the Making Work Pay credit enacted in ARRA and from lower wages and salaries. Net corporate receipts declined by \$18 billion (or 34 percent), 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.

Nonwithheld individual income and payroll tax receipts fell by about \$14 billion (or 16 percent) in the October–January period; most of that decline resulted 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, when the 2009 tax-filing season ends. Refunds of individual income taxes were about \$13 billion higher than refunds in the first four months of last year. Most refunds in 2010 will occur in the February–May period, after taxpayers file their 2009 tax returns.

Those declines in individual income, payroll, and corporate taxes were partially offset by higher payments to the Treasury from the Federal Reserve. Those payments rose by \$13 billion for the first four months of the fiscal year because of a shift in the Federal Reserve's portfolio to longer-term, riskier, and thus higher-yielding investments in support of the housing market and the broader economy.

OUTLAYS THROUGH JANUARY
(Billions of dollars)

Major Category	Actual FY 2009	Preliminary FY 2010	Percentage Change	
			Actual	Adjusted ^a
Defense–Military	219	223	1.9	3.8
Social Security				
Benefits	210	229	8.8	8.8
Medicare ^b	149	145	-2.9	5.1
Medicaid	71	89	24.7	24.7
Unemployment				
Benefits	27	55	105.1	105.1
Other Activities	<u>315</u>	<u>291</u>	-7.6	-5.6
Subtotal	991	1,031	4.0	6.4
Net Interest on the				
Public Debt	54	73	36.9	36.9
TARP	111	6	-94.3	-94.3
Payments to GSEs	<u>14</u>	<u>15</u>	10.4	10.4
Total	1,169	1,125	-3.8	-1.9

Sources: Department of the Treasury; CBO.

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

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

b. Medicare outlays are net of proprietary receipts.

Spending for the first four months of fiscal year 2010 was \$44 billion (or 4 percent) lower than it was last year through January, CBO estimates. Spending for the TARP decreased by \$105 billion, and net outlays by the Federal Deposit Insurance Corporation were down by \$44 billion because of higher receipts from the prepayment of insurance premiums. Other spending was up by \$127 billion (or 12 percent), after adjusting for shifts in the timing of certain payments.

Outlays for several major entitlement programs have increased substantially, compared with spending on those programs in the first four months of fiscal year 2009. Spending for unemployment benefits rose by \$28 billion, doubling the spending during the same period last year, because of continued high unemployment and the payment of extended benefits. Medicaid spending rose by \$18 billion (or 25 percent). A provision of ARRA that increased federal payments to states for Medicaid accounted for about \$13 billion of that growth. Social Security benefit payments also rose by \$18 billion (or 9 percent). A large cost-of-living increase provided in January 2009 combined with rising numbers of recipients fueled that increase. Adjusted for timing shifts, Medicare spending rose by \$7 billion (or 5 percent).

Outlays for net interest on the public debt grew by \$20 billion. Largely because of spending from ARRA, outlays by the Department of Education and for food and nutrition assistance also increased significantly.