MONTHLY BUDGET REVIEW
Fiscal Year 2009
A Congressional Budget Office Analysis

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

November 6, 2009

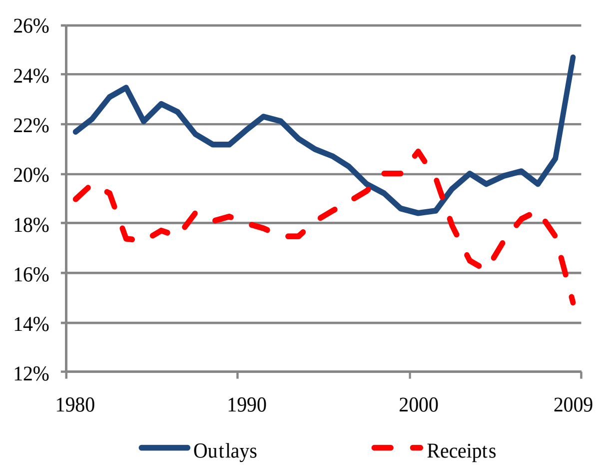
The federal government recorded a total budget deficit of $1.4 trillion in fiscal year 2009, about $960 billion more than the deficit incurred in 2008. The federal deficit rose as a share of the nation's gross domestic product (GDP) from 3.1 percent in 2008 to 9.9 percent in 2009—the highest deficit as a share of GDP since 1945.

FISCAL YEAR TOTALS
(Billions of dollars)

	2004	2005	2006	2007	2008	2009
Receipts	1,880	2,153	2,407	2,568	2,524	2,105
Outlays	2,293	2,472	2,655	2,729	2,978	3,522
Deficit	-413	-319	-248	-162	-455	-1,417
			Percentage of GDP			
Deficit	-3.5	-2.6	-1.9	-1.2	-3.1	-9.9

Federal spending and receipts diverged dramatically in 2009, reflecting the weakening economy and the federal response. The increase in the deficit of almost 7 percentage points of GDP from 2008 reflected a sharp drop in revenues and a substantial increase in spending.

RECEIPTS AND OUTLAYS AS A PERCENTAGE OF GDP



Receipts in 2009 tumbled to $2,105 billion, a decrease of $419 billion, or 17 percent, from 2008. That year-over-year decline follows a small drop in revenues for fiscal year 2008 and is the largest annual percentage decline in revenues in more than seven decades. Total revenues fell from 17.5 percent of GDP in 2008 to 14.8 percent of GDP in 2009; individual income tax receipts showed the largest decrease—from 7.9 percent to 6.4 percent of GDP.

TOTAL RECEIPTS
(Billions of dollars)

Major Source	2007	2008	2009	Percentage Change, 2008-2009
Individual Income	1,163	1,146	915	-20.1
Corporate Income	370	304	138	-54.6
Social Insurance	870	900	891	-1.0
Other	164	173	160	-8.0
Total	2,568	2,524	2,105	-16.6
Percentage of GDP	18.5	17.5	14.8	n.a.

Note: n.a. = not applicable.

The Treasury Department reported that individual income tax receipts showed the largest decline in dollar terms from 2008 to 2009—$230 billion (20 percent)—while social insurance receipts fell by about $9 billion (1 percent). About $142 billion of that combined decline resulted from a 28 percent drop in nonwithheld receipts—about two-thirds stemming from lower payments of 2008 taxes, and the remainder reflecting lower estimated payments of 2009 taxes, primarily due to effects of the recession on nonwage income. Withheld taxes also fell, but not as much. Throughout the fiscal year, withholding of individual income and payroll taxes was lower than in the previous year, causing a total decrease in withholding of $117 billion (7 percent). The decline resulted from the weakened economy, small year-end bonuses, and tax reductions enacted in the American Recovery and Reinvestment Act of 2009 (ARRA). Offsetting some of those declines was a reduction of $21 billion in refunds of individual income taxes.

Net receipts from corporate income taxes showed the largest drop in percentage terms—almost 55 percent—falling from $304 billion in 2008 to $138 billion in 2009. That decline continues the pattern that began in the middle of 2007 and can be attributed to continued weakness in corporate profits, legislation enacted during the year (most notably provisions that allow for more

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. Sources for data are CBO and the Department of the Treasury. Numbers from the Treasury for fiscal year totals differ from those reported by the Office of Management and Budget.

rapid depreciation of assets), and the ability of firms to use current-year losses to reduce tax liabilities from previous years. From 2003 to 2006, corporate receipts accelerated sharply, rising by nearly 40 percent annually, on average; corporate receipts are now almost back down to the 2003 level.

TOTAL OUTLAYS
(Billions of dollars)

Major Category	2007	2008	2009	Percentage Change, 2008-2009
Defense–Military	529	595	637	7.1
Social Security Benefits [a]	577	607	660	8.6
Medicare [b]	374	390	429	10.1
Medicaid	191	201	251	24.6
Unemployment Benefits	37	47	120	154.8
Other Activities	770	879	979	11.4
Subtotal	**2,477**	**2,719**	**3,075**	**13.1**
Net Interest on the Public Debt	252	260	202	-22.3
TARP	0	0	154	n.a.
Payments to GSEs	0	0	91	n.a.
Total	**2,729**	**2,978**	**3,522**	**18.2**
Percentage of GDP	19.6	20.6	24.7	n.a.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise; n.a. = not applicable.
a. Excludes one-time payments under ARRA.
b. Medicare outlays are net of proprietary receipts.

Outlays rose by 18 percent in 2009, the fastest rate of growth since 1975. Three initiatives—the Troubled Asset Relief Program (TARP), net cash infusions for Fannie Mae and Freddie Mac, and ARRA—drove that growth, adding $353 billion to outlays in 2009, or 2.5 percent of GDP. All other federal spending accounted for 22.2 percent of GDP in 2009, up from 20.6 percent in 2008.

Stimulus spending from ARRA totaled $108 billion in 2009—$32 billion for Medicaid, $22 billion for unemployment benefits, and $54 billion for other programs and activities.

Defense outlays grew by 7 percent ($42 billion) in 2009, well below last year's growth rate of 12 percent (adjusted for shifts in the timing of certain payments). Military spending represented 4.5 percent of GDP in 2009 compared with an average of 3.8 percent over the previous five years. Spending on procurement rose by 10 percent, the third double-digit increase in a row. CBO estimates that outlays associated with operations in Iraq and Afghanistan accounted for nearly one-quarter of total military spending in 2009, about the same portion estimated for 2008.

Outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—rose by 12 percent ($141 billion) in 2009. That increase was significantly greater than the 6 percent average annual growth for the 2004-2008 period. Social Security outlays were 4.6 percent of GDP, a 0.4 percentage point increase from five years ago. Spending for Medicare and Medicaid in 2009 (including outlays from ARRA) represented 4.8 percent of GDP, up from an average of 3.9 percent over the past five years.

Payments for unemployment benefits in 2009 were more than 2½ times the amount paid in 2008, an increase of $73 billion. That jump was caused by substantially greater unemployment and increased benefits. Conversely, spending for net interest on the public debt decreased by $58 billion (from 1.8 percent of GDP in 2008 to 1.4 percent in 2009) because of lower short-term interest rates and lower costs for inflation-indexed securities.

Spending in the category "Other Activities" increased by 11 percent, rising by $100 billion from 2008. Taken together, outlays for those activities accounted for 6.9 percent of GDP in 2009, up from an average of 6.0 percent over the previous five years. Roughly half of that increase resulted from spending under ARRA, primarily for the State Fiscal Stabilization Fund, food and nutrition programs, and one-time payments to Social Security beneficiaries.

FISCAL YEAR 2010:
ESTIMATES FOR OCTOBER
(Billions of dollars)

	Actual FY2009	Preliminary FY2010	Estimated Change
Receipts	165	135	-29
Outlays	320	310	-10
Deficit	-156	-175	-19

CBO estimates that the government recorded a deficit of $175 billion in October, about $19 billion more than the shortfall recorded in the same month last year. Revenues were $29 billion, or 18 percent, lower than they were last October; most of that decline stemmed from reductions in withheld individual income and payroll taxes resulting from continued economic weakness and the revenue-reducing provisions of ARRA. Outlays were $10 billion lower than they were last October, primarily because of a reduction in net spending for the TARP—from $33 billion in October 2008 (when the program began) to $0.2 billion this October. Excluding outlays for the TARP and adjusting for calendar-related timing shifts in spending, outlays rose by about 6 percent compared with outlays in October 2008, CBO estimates.

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