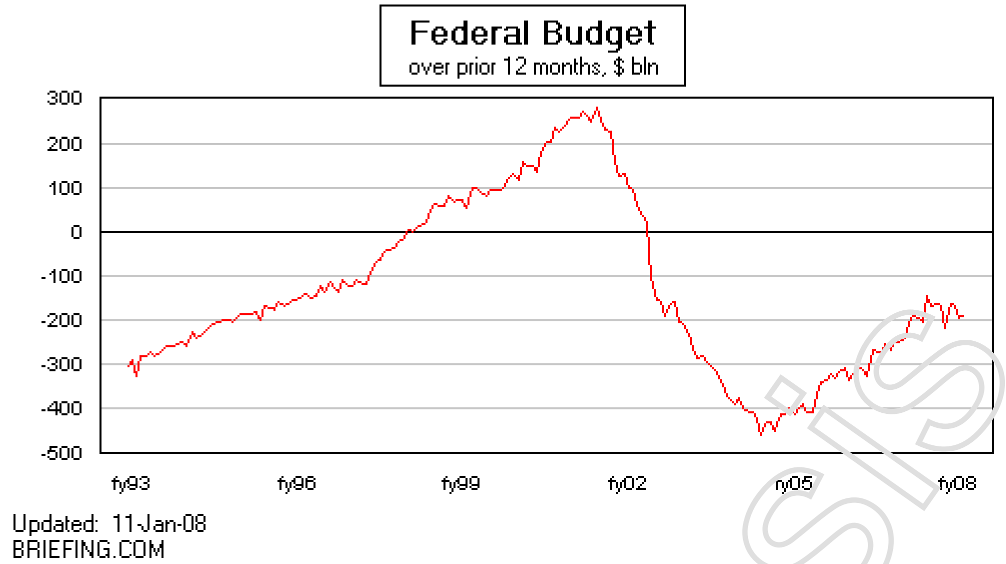
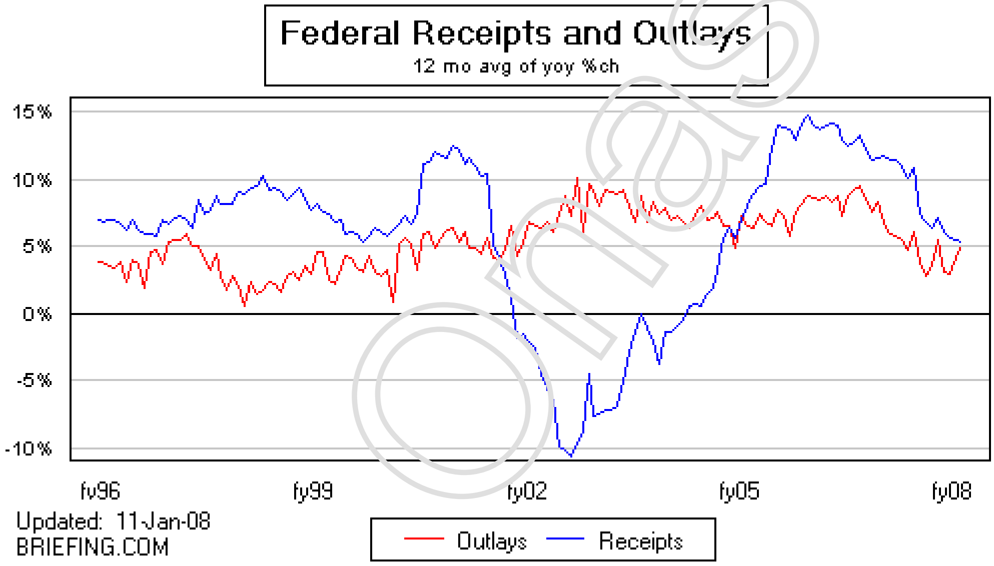
PRINT

January Treasury Budget

Updated 07-Feb-08 16:26 ET

About this release





Highlights

- **Briefing.com Forecast:** $15.0 bln
- **Market Consensus:** $30.0 bln

Key Factors

- The January surplus is expected to be $23 bln less than a year ago. Leaves FYTD defict $48 bln larger than a year ago.
- January reciepts expected to fall -2% from a year ago. Reduced withheld individual and corporate taxes.
- Spending is expected to rise 8% from a year ago lead by the increase in interest payments.
- 12 month sum has risen to -$211 bln from -$163 bln which ended FY07 and the recent low of -$145 bln in April 2007 -- a rapidly rising trend.
- FY08 deficit is expected to be significantly larger than FY07. White House estimates a -$410 bln deficit, CBO -$219 bln (excluding the fiscal stimulus).

Big Picture

- Strong tax receipt growth continued to leave a path toward lower deficits given the economy, profits and income growth. Spending was cut back to the slowest growth in ten years in FY07 despite the war expenditures. The tide has turned in FY08 as the slower economy slows receipts and increases outlays. The fiscal stimulus should add another $150 bln to the deficit. The White House has released an estimate for a -$410 bln deficit in FY08 as the CBO puts it at -$219 bln excluding the fiscal stimulus (-$369 bln with it). The size of the budget deficit reached a record -$413 bln in FY04, as a percent of GDP the 5.7% in FY87 was the record.

Category	Jan	Dec	Nov	Oct	Sep
Deficit (-)/Surplus	$15.0 B E	$48.3 B	-$98.2	-$55.6	$111.6
Deficit (-)/Surplus Fiscal YTD		-$106 B	-$154 B	-$56	-$163
Deficit (-)/Surplus over last 12 months		-$188 B	-$194 B	-$169	-$163

Up to Top

Release Details

Treasury Budget

- **Importance (A-F):** This release merits a **D**.
- **Source:** U.S. Treasury Department.
- **Release Time:** 14:00 ET, about the third week of the month for the prior month.
- **Raw Data Available At:** http://www.fms.treas.gov/mts/index.html.

In Brief

The monthly Treasury budget data follow strong seasonal patterns which produce huge month-to-month fluctuations in the deficit. These fluctuations tell us little about long term budget trends. To the extent that the market analyses the monthly Treasury data, the focus is on year/year changes in receipts and outlays, since the data are not seasonally adjusted. Only in April, the most important month for tax inflows to the Treasury, does the market pay any attention to this report. The data can be predicted with reasonable accuracy by using daily data in the Daily Treasury Statement.

In Depth

The President's Budget

The annual budget process begins in late January or early February with the presentation of the President's budget for the coming fiscal year. The President's proposals serve as an outline for Congress, particularly when the White House and Congress are controlled by the same party. In the 1980s, the conflicting agendas of the President and Congress often resulted in a final budget which bore little resemblance to the President's budget. After a quiet budget year in 1994 when Democrats controlled Congress and the White House, the Republican takeover of the House and Senate has produced more contentious budget battles in 1995 and 1996.

One of the most common misperceptions about the budget process is that the annual budgeting actually covers all federal spending. Though the President's proposed budget will include projections for all federal government outlays, less than half of all spending is actually controlled by the annual budget legislation. Roughly 67% of federal outlays are mandated by "permanent" law. Unless these laws are changed, no legislative review of spending programs funded by permanent law is required in the appropriations process. The same is true of federal receipts, where permanent law does not require annual review of taxation.

Permanent law should not by any means be construed as suggesting true permanence. Permanent laws are changed frequently, with the 1990 and 1993 budget deals being the most recent examples. These recent efforts to reduce the deficit have incorporated both changes in discretionary spending and changes in permanent laws affecting taxes and spending. Such deficit reduction efforts are usually packaged into a so-called Omnibus Budget Reconciliation Act (OBRA). In the absence of these comprehensive deficit reduction efforts, the annual budget review will only deal with discretionary spending which makes up roughly 33% of the budget. It is perhaps one of the better kept secrets in Washington that the annual budget review which seems at the core of the democratic process does not in fact review even half of all federal spending.

The Budget Resolution

Once the President has submitted his budget to Congress, the legislative process begins. Within six weeks of the date that the President presents his budget, each Congressional committee must report to the House and Senate Budget Committees regarding budget estimates for programs overseen by their committee. The Budget Committees then approve a budget resolution based on these estimates. After full House and Senate approval of these resolutions, any differences between the House and Senate versions are worked out in conference committee and then a final resolution is approved by each house. This process is scheduled to be completed by April 15, but is often delayed, as was the case this year. As the budget resolution is only a blueprint for the budget and not actual legislation, it does not require presidential approval.

Appropriations Bills

The real job of budgeting begins after the budget resolution is adopted. The appropriations process is when actual budget authority for discretionary programs is legislated. We have already noted that annual budgeting only covers discretionary programs, which are responsible for just 33% of total spending. Even these discretionary programs are not bundled into one budget package. The annual budget for discretionary spending is actually comprised of 13 separate appropriations bills. The House and Senate Appropriations Committees each include 13 subcommittees which are responsible for the 13 bills. The 13 subcommittees are listed below.

Subcommittees of the House and Senate Appropriations Committees

Agriculture	Foreign Operations	Military Construction
Commerce, Justice	Interior	Transportation
Defense	Labor, Health	Treasury, Postal Service
District of Columbia	Legislative	Veterans, HUD, Agencies
Energy, Water		

As all tax and spending bills must originate in the House, the House Appropriations subcommittees will see the first action in the appropriations process. The 13 bills are crafted individually and do not work their way through the House and Senate on the same timetable. The goal is of course to complete legislation on all 13 bills by the beginning of the fiscal year on October 1. Yet these bills proceed and are approved of on their own, and are not packaged into one comprehensive bill known simply as the budget.

Once a House Appropriations subcommittee approves its bill, the legislation proceeds to the full Committee and then to the House floor. Approval by the House sets in motion the same process in the Senate. Upon approval by the full Senate, differences between the House and Senate versions of the bill are reconciled in conference committee and then a final version of the bill is sent back to the House and Senate floors. Presidential approval of each of the 13 appropriations bills completes the process. When work on the 13 bills is delayed past the start of the fiscal year, Congress and the President must approve of continuing resolutions which fund government programs at the prior year's level until the relevant appropriations bill is signed into law.

One final note about the appropriations process is that the appropriations bills do not set actual outlays for the coming fiscal year, but instead legislate "budget authority." The Office of Management and Budget (OMB) defines budget authority as "the authority to incur legally binding obligations of the Government that will result in immediate or future outlays." Actual outlays may exceed or fall short of budget authority in any given year depending on past budget authority and the duration of a program.

Omnibus Budget Reconciliation Act

In years such as 1985, 1987, 1990, and 1993, Congress has enacted legislation aimed at long term deficit reduction. These legislative efforts occur separately from the annual appropriations process. They may change permanent laws and set caps which affect discretionary spending, but the regular budget process will nevertheless be unchanged. OBRA legislation affects permanent law and is not a substitute for annual budgets. OBRA legislation packages changes in permanent laws which will typically affect both taxation and mandatory spending. The legislative process for OBRA is completely different than the appropriations process. Legislation is still initiated in the House, but is not limited to work by the Appropriations Committee. The House Ways and Means Committee oversees tax law, and thus plays a critical role in OBRA legislation, as does its Senate counterpart, the Finance Committee. Legislation affecting entitlement programs also falls under the jurisdiction of committees other than Appropriations, i.e. proposed Medicare changes would be considered by a House Ways and Means subcommittee on health care.

Supplemental Appropriations

The 13 appropriations bills are not necessarily the last word for the year on federal spending. Supplemental appropriations bills may be approved at any time to provide additional funding for government programs. Tight caps on discretionary spending set by the 1990 and 1993 budget acts require a pay-as-you-go approach to such funding, thus limiting the number of supplemental appropriations. "Emergency" spending circumvents the pay-as-you-go mandate, however, allowing for a variety of supplemental appropriations. Past "emergencies" have covered everything from the Gulf War to extended unemployment insurance to natural disaster relief.

CLOSE WINDOW