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### Federal Budget Deficit, Debt Limit & Spending

#### *Budget Deficit Improves But Federal Spending Still Out of Control*

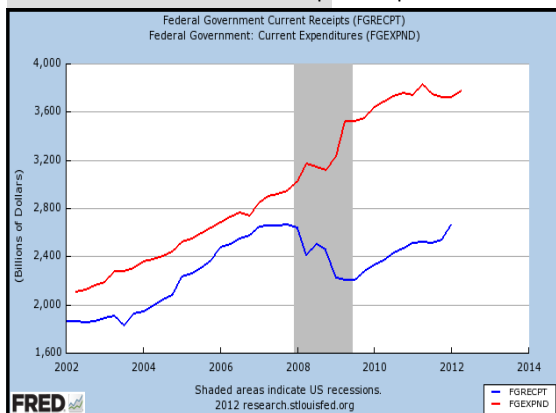
August 20, 2012 by William L. Pittenger, MAI, SRA

**The Federal Budget Deficit** for July, the tenth month of the fiscal year was about \$70 billion, down from \$129 billion a year ago. This was roughly one-billion less than the Congressional Budget Office projected deficit for the month. The July improvement however, may be a bit deceiving as a \$36 billion payment was shifted from July to June due to July 1st falling on a Sunday. Nevertheless, the deficit for the first 10 months declined by \$126 billion. That is a reduction of 11.5% compared to last fiscal year.

While some of the improvement was calendar driven, there was noticeable improvement in receipts which were up 6.1% in the first 10 months. Fiscal year to date income tax receipts were up 4.2% year over year. Corporate tax receipts surged 29.8% while year to date payroll tax collections rose 3.8%. The budget deficit will decline in fiscal 2012 as a result of strong corporate profits and the tax receipts they generate. An end to 2009 era stimulus spending and modestly increased personal tax receipt revenue will also contribute positively.

On the expense side, fiscal year to date spending was about \$10 billion less in July than the same period last year. The decline was largely the result of less military, Medicaid, unemployment insurance and education spending as well as the expiration of certain stimulus tax credits. Nevertheless, spending on Social Security, Medicare and contributions to the GSEs (Fannie Mae and Freddie Mac) rose as did the interest on the federal debt.

Federal Government Receipts v. Expenditures



Despite some improvement in the *budget* deficit, federal spending remains out of control at unsustainable levels as the government spends about \$1 trillion more than it brings in. The U.S. is currently about \$400 billion away from the negotiated \$16.39 trillion debt ceiling limit. Nevertheless, the federal government has already spent \$700 billion it doesn't have so the debt limit is likely to be reached sooner rather than later and well before calendar 2013. The Federal Reserve prepared chart (FRED = Federal Reserve Economic Data) at the left shows the exceptionally wide gap between income (blue line) and expenditures (red line).

#### **Where does the government spend money?**

The largest federal expenditures, as a percent of revenues, are 19% each for Social Security and National Defense. That is followed by other social type expenditures such as Medicare at 13%, Health at 10% and Income Security at 16%. All the other expense categories are much smaller percentages but huge real numbers. Interest accounts for 5%, Veteran affairs accounts for 4% and Education accounts for 3%. Education, Training, employment and Social Services account for 3%. Other categories such as Energy, Natural Resources, Agriculture, Community and Regional Development Justice and General Government each account for around 1% of federal expenditures.

With less than two months left in the federal fiscal year, interest on the federal debt for fiscal 2012 is projected by the U.S. Treasury to be \$323,050,646,977.43. Now that's real money!

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