



Economics Group

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Budget Deficit Narrowed in July—Challenges Remain

At -\$165.0B for the month of July, the deficit is on pace to notch a near-record reading of -\$1.3T in fiscal year 2010. Marginal improvement over 2009 stems from higher corporate profits and less emergency spending.

Deficit Remains a Challenge to Policymakers

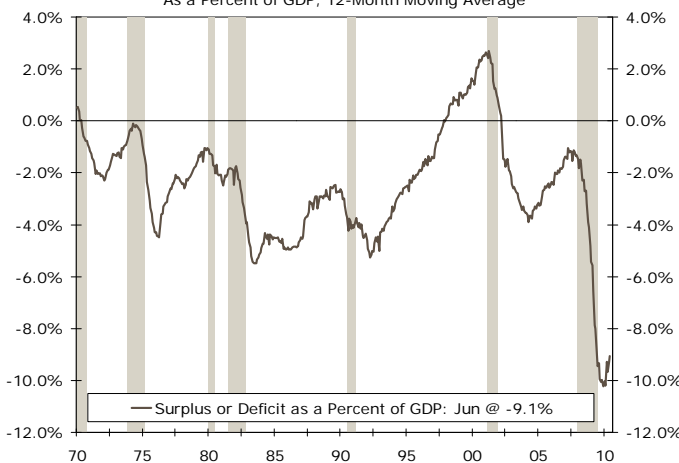
- The slight narrowing over the fiscal year to date continued in July with an outturn of -\$165.0B. While the modest improvement is welcome, the deficit remains uncomfortably large at more than 9 percent as a percent of GDP.
- Revenue growth has come primarily from corporate income tax receipts as corporations have posted large profit gains due to easy prior-year comps, but the impact will likely begin to fade.

Short-Term Spending Moving Lower

- Slower spending is largely due to a slow down in emergency programs, which this month included a large decline in TARP outlays. Permanent spending items, however, such as national health programs, continue to climb on a year-over-year basis.
- The dichotomy of high unemployment and an ominous budget deficit will continue to threaten the strength and stability of the current recovery—growth alone will not solve the imbalances.

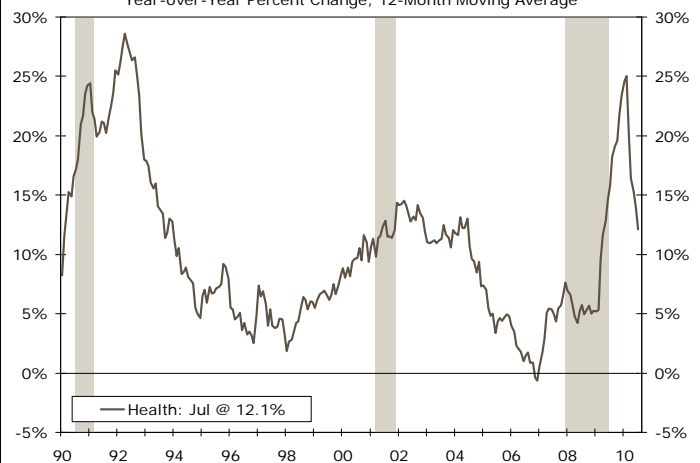
Federal Budget Surplus or Deficit

As a Percent of GDP, 12-Month Moving Average



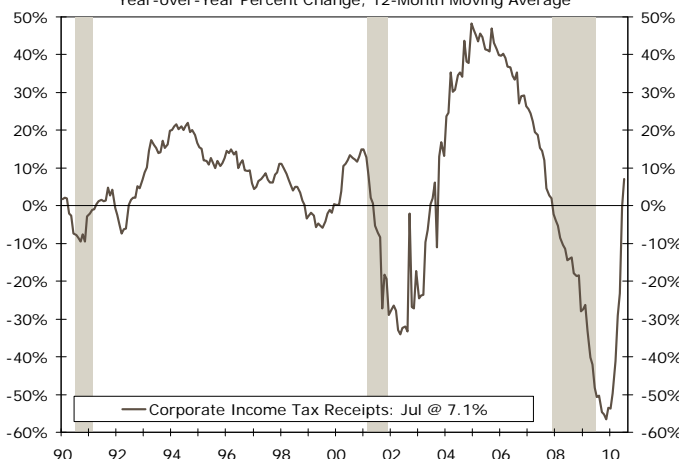
Federal Government Spending - Health

Year-over-Year Percent Change, 12-Month Moving Average



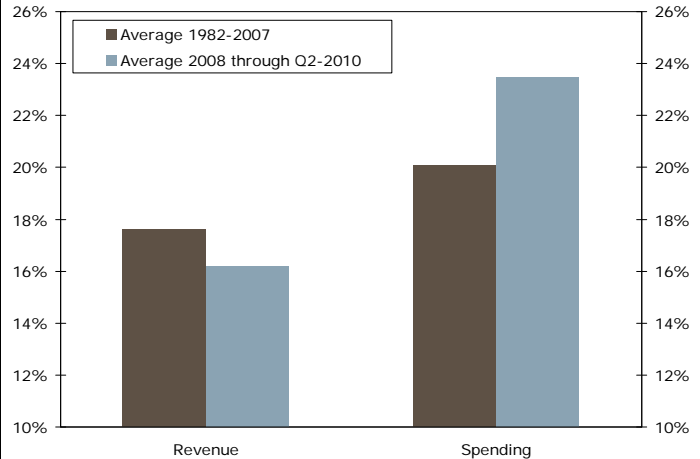
Corporate Income Tax Receipts

Year-over-Year Percent Change, 12-Month Moving Average



Federal Spending vs. Revenue

As a Percent of GDP



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