Federal budget deficit for November hits $120.3B

By MARTIN CRUTSINGER (AP) – December 11 2009

WASHINGTON — The federal deficit for the first two months of the new budget year is piling up faster than last year's record imbalance.

Economists worry the flood of red ink could push interest rates higher and raise the cost of borrowing for consumers and businesses, a potential drag on the fragile economic recovery.

The November deficit totaled $120.3 billion, the Treasury Department said Thursday. That's less than analysts had expected and down from a $176.4 billion imbalance in October. It was a record 14th straight monthly deficit.

Even with the improvement, the deficit is 5.7 percent higher than the first two months of the 2009 budget year when it hit a record $1.42 trillion. The Obama administration expects the 2010 deficit will set a new record at $1.5 trillion.

In a sign of the recession's depth, the government said individual income tax collections totaled $63.9 billion in November, less than the $70.5 billion the government collected in Social Security taxes and taxes for Medicare and disability insurance programs.

Analysts said it is not unusual for individual income taxes to fall sharply during a recession because the volatile category not only reflects the number of people working, but also bonuses and individual investment earnings that plunged during the downturn.

The amount of revenues that reflect Social Security and Medicare taxes, while down because fewer people are working than a year ago, are not subject to such large swings.

The flood of red ink reflects the downturn's effect the government's books. Both individual and corporate tax receipts have been cut sharply, while government spending on unemployment benefits, food stamps and other programs surged.

In addition, the deficit reflects heavy spending from the $700 billion financial bailout fund to stabilize the financial system, and the $787 billion economic stimulus program to jump-start growth and prevent the Great Recession from turning into another Great Depression.

For October and November, government receipts totaled $268.9 billion, down 13.1 percent from the same two months a year ago. Government outlays over the past two months totaled $565.6 billion, a drop of 4.2 percent from the year-ago period.

Spending to shore up the financial system was much lower over the past two months compared with a year ago, but the administration still projects that for the entire year, total government outlays will be 3 percent higher.

A forecasted deficit of $1.5 trillion for the fiscal year that began Oct. 1 would represent a third straight record annual imbalance. The administration in August also projected that the 2011 deficit would be $1.12 trillion and the imbalance would never fall below $739 billion over the next decade.

Over the next 10 years, the administration is forecasting that the red ink will total $9.05 trillion, an amount that would be approaching the $12 trillion current national debt, the sum of all the deficits since the country was founded more than two centuries ago.

President Barack Obama has said once the current economic crisis recedes, his administration will work to sharply trim the deficits. But private economists wonder whether Obama will be able to break the political gridlock in Washington that prevented a significant attack on deficits even before the recession made them worse.

"It is possible to bring the budget deficit under control but it will not be easy," said David Wyss, chief economist at Standard & Poor's in New York.

The administration this week did announce one improvement from its August budget review. It now projects that the losses from the $700 billion government financial rescue fund will be $141 billion over the next decade, $200 billion lower than it forecast in August. However, Democrats in Congress would like to use some of those savings to boost spending on a new effort to fight unemployment.