Federal receipts fell $44 billion between the first half of fiscal year (FY) 2001 and the first half of FY2002. In real terms, total receipts declined 6.2% over these two periods. Individual income taxes dropped $42 billion (10.9% in real terms), about half of which resulted from the 2001 tax cut. Receipts through March mostly reflect economic activity in 2001:IVQ, and do not yet confirm other macroeconomic indications of a strong rebound.

Federal outlays were $60 billion higher in the first half of the current fiscal year than in the same period last year. Adjusting for inflation and excluding the effects of payment shifts across fiscal years, total federal outlays rose 4.2%—somewhat faster than average GDP growth over the same period.

Real Medicare outlays have been stable so far this year, but Medicaid spending growth has been especially rapid, with outlays for the first half of FY2002 (October 2001–March 2002) up 9.2% from the same period in FY2001. Rising enrollment, more intensive use of services, and rising prices have ramped up health care costs; Medicare and Medicaid are growing considerably faster than in the mid-1990s.

The economic slowdown has caused real outlays on unemployment benefits to surge 57.6%. Without a quicker, sharper economic rebound, these outlays are likely to remain high because of the recent extension of unemployment benefits. Overall, federal spending is expected to strengthen in the second half of FY2002, especially in the areas of defense and transportation. Moreover, the FY2003 budget proposes to increase discretionary authority 9% in nominal terms.