Congressional Budget Office

March 7, 2018

Monthly Budget Review for February 2018

The federal budget deficit was $392 billion for the first five months of fiscal year 2018, the Congressional Budget Office estimates, $42 billion more than the shortfall recorded during the same period last year. Revenues and outlays were higher, by 2 percent and 4 percent, respectively, than during the first five months of fiscal year 2017.

As was the case last year, this year's outlays were affected by shifts in the timing of certain payments that otherwise would have been due on a weekend. If not for those shifts, outlays and the deficit through February would have been larger by more than $40 billion, both this year and last year—but the year-to-year changes would not have been very different.

Budget Totals, October–February
Billions of Dollars

	Actual, FY 2017	Preliminary, FY 2018	Estimated Change
Receipts	1,257	1,287	31
Outlays	1,607	1,679	72
Deficit (–)	–351	–392	–42

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for January 2017 and the *Daily Treasury Statements* for February 2018.

FY = fiscal year.

Total Receipts: Up by 2 Percent in the First Five Months of Fiscal Year 2018

Receipts totaled $1,287 billion during the first five months of fiscal year 2018, CBO estimates—$31 billion more than during the same period last year. That increase resulted from changes in receipts from the following sources:

- Individual income and payroll (social insurance) taxes together rose by $52 billion (or 5 percent).
    - Amounts withheld from workers' paychecks rose by $54 billion (or 5 percent). That change largely reflects increases in wages and salaries that were partly offset beginning in February by a decline in the share of income withheld for taxes. In January, the Internal Revenue Service (IRS) issued new withholding tables to reflect changes made by Public Law 115-97, the major tax legislation enacted in December 2017. All employers were required to begin using the new tables by February 15, 2018.
    - Nonwithheld payments of income and payroll taxes rose by $10 billion (or 7 percent). The first quarterly payment of estimated individual income taxes in the current fiscal year was due by January 15. (That payment was for 2017 tax liability.)

Note: The amounts shown in this report include the surplus or deficit in the Social Security trust funds and the net cash flow of the Postal Service, which are off-budget. Numbers may not add up to totals because of rounding.

  - Income tax refunds were up by $12 billion (or 14 percent), reducing net receipts. The precise timing of refund payments varies from year to year, but most will be paid in the period from February through April. The IRS reports that through the third week of February, average refunds were about one percent larger than those last year.

- Corporate income taxes fell by about $15 billion (or 17 percent). Most of that decline occurred in December, when most corporations made their final quarterly estimated payments for tax year 2017.

- Revenues from other sources fell by $6 billion (or 6 percent), largely as a result of reduced income from fees and fines.

Receipts, October–February

Billions of Dollars

Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	611	652	41	6.6
Payroll Taxes	451	463	11	2.5
Corporate Income Taxes	87	72	–15	–17.3
Other Receipts	106	100	–6	–5.8
Total	**1,257**	**1,287**	**31**	**2.4**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	992	1,046	54	5.4
Other, net of refunds	70	69	–2	–2.6
Total	**1,063**	**1,115**	**52**	**4.9**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 4 Percent in the First Five Months of Fiscal Year 2018

Outlays for the first five months of fiscal year 2018 were $1,679 billion, $72 billion higher than they were during the same period last year, CBO estimates. If not for the shift of certain payments from October to September (which also occurred last year) because the first of the month fell on a weekend, outlays so far this year would have been $44 billion larger than they were—and $75 billion (or 4.5 percent) larger than outlays during the same period last year. The discussion below reflects adjustments to account for those timing shifts.

The largest increases in outlays were in the following categories:

- Outlays for **net interest on the public debt** increased by $15 billion (or 13 percent), largely because of differences in the rate of inflation. To account for inflation, the Treasury Department adjusts the principal of its inflation-protected securities each month by using the change in the consumer price index for all urban consumers that was recorded two months earlier. That adjustment was $6 billion in the first five months of fiscal year 2017 but nearly $15 billion early in the current fiscal year.

- Social Security benefits rose by $15 billion (or 4 percent) because of increases both in the number of beneficiaries and in the average benefit payment.

- Outlays recorded for the **Department of Homeland Security,** which are included in the "Other" category below, increased by $14 billion (or 65 percent), largely because of activities related to disaster relief.

- Spending for military programs of the **Department of Defense** rose by $12 billion (or 5 percent).

Medicaid spending has slowed slightly this year, perhaps related to declining unemployment and a number of other factors. For other programs and activities, spending increased or decreased by smaller amounts.

Outlays, October–February
Billions of Dollars

Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Estimated Change	Estimated Change With Adjustments for Timing Shifts[a]: Billions of Dollars	Estimated Change With Adjustments for Timing Shifts[a]: Percent
Social Security Benefits	385	400	15	15	4.0
Medicare[b]	218	223	5	7	3.0
Medicaid	157	155	–2	–2	–1.3
Subtotal, Largest Mandatory Spending Programs	**759**	**778**	**19**	**21**	**2.6**
DoD—Military[c]	231	241	11	12	5.0
Net Interest on the Public Debt	120	135	15	15	12.7
Other	497	525	28	27	5.3
Total	**1,607**	**1,679**	**72**	**75**	**4.5**

Sources: Congressional Budget Office; Department of the Treasury.

DoD = Department of Defense; FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend. If not for those timing shifts, outlays would have been $1,648 billion in fiscal year 2017 and $1,723 billion in fiscal year 2018.

b. Medicare outlays are net of offsetting receipts.

c. Excludes a small amount of spending by DoD on civil programs.

Estimated Deficit in February 2018: $216 Billion

The federal government incurred a deficit of $216 billion in February 2018, CBO estimates—$24 billion larger than the deficit in February 2017.

CBO estimates that receipts in February 2018 totaled $157 billion—$15 billion (or 9 percent) less than those in the same month last year. Individual income tax refunds rose by $11 billion (or 17 percent); the share of total annual refunds paid in February varies from year to year. Withholding of individual income and payroll taxes fell by $3 billion (or 2 percent), further reducing receipts. Increases in wages and salaries were more than offset by a decline in the share of wages withheld for taxes, CBO estimates, reflecting the new withholding tables issued in January by the IRS.

Budget Totals for February
Billions of Dollars

	Actual, FY 2017	Preliminary, FY 2018	Estimated Change: Billions of Dollars	Estimated Change: Percent
Receipts	172	157	–15	–8.7
Outlays	364	373	9	2.6
Deficit	–192	–216	–24	12.7

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total spending in February 2018 was $373 billion, CBO estimates—$9 billion more than the sum in February 2017.

The largest changes in outlays were as follows:

- **Social Security** benefits rose by $4 billion (or 5 percent).
- Outlays recorded for the **Department of Homeland Security** rose by $2 billion (or 45 percent), largely for disaster relief.
- **Medicare** benefits rose by $2 billion (or 5 percent).
- **Net interest on the public debt** rose by $2 billion (or 8 percent).
- Spending for military programs of the **Department of Defense** rose by $2 billion (or 5 percent).

Spending for other programs and activities increased or decreased by smaller amounts.

Actual Surplus in January 2018: $49 Billion

The Treasury Department reported a surplus of $49 billion for January—$2 billion less than CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for January 2018*.

Each month, CBO issues an analysis of federal spending and revenues for the previous month and the fiscal year to date. This report is the latest in that series, available at https://go.usa.gov/xnpcA. In keeping with CBO's mandate to provide objective, impartial analysis, it makes no recommendations. Elizabeth Cove Delisle, Nathaniel Frentz, and Joshua Shakin prepared the report with guidance from Christina Hawley Anthony, Theresa Gullo, and Sam Papenfuss. It was reviewed by Robert Sunshine and Mark Hadley, edited by Kate Kelly, and prepared for publication by Darren Young. An electronic version is available on CBO's website, www.cbo.gov/publication/53638.