Congressional Budget Office

July 9, 2018

Monthly Budget Review for June 2018

The federal budget deficit was $607 billion for the first nine months of fiscal year 2018, the Congressional Budget Office estimates, $84 billion more than the shortfall recorded during the same period last year. Revenues and outlays were 1 percent and 4 percent higher, respectively, than in the same period in fiscal year 2017.

In its most recent budget projections, CBO estimated that the deficit for fiscal year 2018 (which ends on September 30, 2018) would total $793 billion, about $127 billion more than the 2017 shortfall. (See *An Analysis of the President's 2019 Budget,* Table 6, May 2018.)

Budget Totals, October–June
Billions of Dollars

	Actual, FY 2017	Preliminary, FY 2018	Estimated Change
Receipts	2,508	2,539	31
Outlays	3,031	3,146	115
Deficit (–)	–523	–607	–84

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

FY = fiscal year.

Total Receipts: Up by 1 Percent in the First Nine Months of Fiscal Year 2018

Receipts totaled $2,539 billion during the first nine months of fiscal year 2018, CBO estimates—$31 billion more than the amount received during the same period last year. The net increase resulted from changes in collections from the following sources, according to CBO's estimates:

- Individual income and payroll (social insurance) taxes together rose by $106 billion (or 5 percent).
    - Amounts withheld from workers' paychecks rose by $34 billion (or 2 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 issued new withholding tables to reflect changes made by Public Law 115-97, tax legislation enacted in December 2017 that took effect at the beginning of the current calendar year. All employers were required to begin using the new tables by February 15, 2018.
    - Nonwithheld payments of income and payroll taxes rose by $78 billion (or 16 percent). Most of that increase occurred in April, when taxpayers made their final payments of taxes for 2017.
    - Individual income tax refunds rose by $5 billion (or 2 percent), reducing net receipts.

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 sum to totals because of rounding.

- Corporate income taxes fell by $62 billion (or 28 percent), reflecting payments for the 2017 and 2018 tax years. About one-third of the decline occurred in June. Payments received in June were predominantly estimated payments for tax year 2018, and they reflect the changes made by P.L. 115-97, including the new lower corporate tax rate and the expanded ability to immediately deduct the full value of equipment purchases.
- Revenues from other sources fell by $13 billion (or 7 percent), largely because of reduced income from fees and fines.

Receipts, October–June

Billions of Dollars

Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,199	1,307	107	9.0
Payroll Taxes	888	887	–1	–0.1
Corporate Income Taxes	223	161	–62	–28.0
Other Receipts	197	184	–13	–6.6
Total	**2,508**	**2,539**	**31**	**1.2**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	1,800	1,833	34	1.9
Other, net of refunds	287	360	72	25.2
Total	**2,087**	**2,193**	**106**	**5.1**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

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

Outlays in the first nine months of fiscal year 2018 were $3,146 billion—up by $115 billion (or 4 percent) from the same period last year, CBO estimates.

The largest increases were in the following categories:

- In total, spending for the **three largest mandatory programs** increased by 4 percent:
  - Outlays for **Social Security** benefits rose by $31 billion (or 4 percent), because of increases both in the number of beneficiaries and in the average benefit payment.
  - **Medicare** spending increased by $14 billion (or 3 percent) partly because reconciliation payments typically made to Medicare Advantage plans in July were accelerated to June this year and also because of increases both in the number of beneficiaries and in the amount and cost of services. Reconciliation payments are made annually to account for unanticipated spending increases in the previous calendar year.
  - **Medicaid** outlays rose by $10 billion (or 4 percent), largely because new enrollees were added through expansions of coverage authorized by the Affordable Care Act.
- Outlays for **net interest on the public debt** increased by $39 billion (or 17 percent), partly because of a higher 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 $31 billion in the first nine months of fiscal year 2017 but $48 billion so far in the current fiscal year. The remaining increase reflects higher interest rates and larger debt in the first nine months of 2018.

- Spending for military programs of the **Department of Defense** rose by $22 billion (or 5 percent).
- The government received $20 billion less in total payments from **Fannie Mae** and **Freddie Mac,** resulting in higher outlays (included in "Other" in the table below). The quarterly payments those government-sponsored enterprises (GSEs) made to the Treasury in December 2017 were $2 billion less than the payments made in the previous December. In March 2018, the GSEs *received* a net amount of about $3 billion from the Treasury, whereas in March 2017 they made a payment of nearly $11 billion to the government—a net difference of $14 billion. (That recent cash infusion from the Treasury occurred because the GSEs' net worth was negative for the quarter because of write-downs they took on tax-deferred assets in response to last year's tax legislation. The last time Fannie Mae and Freddie Mac received such payments from the Treasury was in 2012.) In June 2018, their quarterly payments to the Treasury were $4 billion less than in the previous June.
- Outlays of the **Department of Homeland Security** (included in "Other" below), increased by $18 billion (or 51 percent), largely because of activities related to disaster relief.

In contrast, outlays for the **Department of Education** (included in "Other" below) fell by $44 billion (or 48 percent) because the department made a downward revision of $9 billion to the estimated net subsidy costs of loans and loan guarantees issued in prior years—a change very different from last year's $39 billion *upward* revision. If the effects of those revisions were excluded, outlays for the department for the first nine months of the fiscal year would have risen by $4 billion (or 9 percent).

For other programs and activities, spending increased or decreased by smaller amounts.

Outlays, October–June

Billions of Dollars

			Estimated Change	
Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Billions of Dollars	Percent
Social Security Benefits	698	728	31	4.4
Medicare[a]	439	453	14	3.2
Medicaid	278	289	10	3.8
Subtotal, Largest Mandatory Spending Programs	**1,415**	**1,470**	**55**	**3.9**
DoD—Military[b]	425	447	22	5.1
Net Interest on the Public Debt	235	274	39	16.6
Other	956	956	–1	–0.1
Total	**3,031**	**3,146**	**115**	**3.8**

Sources: Congressional Budget Office; Department of the Treasury.

DoD = Department of Defense; FY = fiscal year.

a. Medicare outlays are net of offsetting receipts.

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

Estimated Deficit in June 2018: $75 Billion

CBO estimates that the federal government realized a deficit of $75 billion in June 2018—$15 billion smaller than the shortfall in June 2017. As was the case last year, this year's June 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 in June would have been smaller, by roughly $40 billion, both this year and last year—but the month-to-month changes would not have been very different.

CBO estimates that receipts in June 2018 totaled $314 billion—$25 billion (or 7 percent) less than those in the same month last year. Individual income and payroll taxes dropped by $4 billion (or 2 percent), on net.

Withholding of individual income and payroll taxes dropped by $10 billion (or 5 percent), and nonwithheld payments rose by $5 billion (or 7 percent). Withheld taxes declined for two reasons. First, June 2018 had one fewer weekday than June of last year. Second, the share of wages withheld for taxes was lower, CBO estimates, in keeping with changes made by P.L. 115-97. Corporate revenues declined by $20 billion (or 35 percent), reflecting lower quarterly payments of estimated taxes for the 2018 tax year.

Budget Totals for June

Billions of Dollars

			Estimated Change	
	Actual, FY 2017	Preliminary, FY 2018	Billions of Dollars	Percent
Receipts	339	314	–25	–7.3
Outlays	429	389	–40	–9.2
Deficit (–)	–90	–75	15	–16.6

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total spending in June 2018 was $389 billion, CBO estimates—$40 billion less than the sum in June 2017. The largest changes were as follows:

- Outlays for the **Department of Education** fell by $48 billion (or 106 percent) because of the revisions, discussed above, to the net subsidy costs of loans and loan guarantees issued in prior years. If the effects of those revisions were excluded, outlays for the department in June 2018 would be virtually the same as those in June 2017.
- Outlays for the **Department of Housing and Urban Development** decreased by $21 billion (or 85 percent) because the department made a $21 billion upward revision during June 2017 to the estimated net subsidy costs of loans and loan guarantees issued in prior years. No such revision was made in June 2018; the department made a $14 billion upward revision in May.
- **Net interest on the public debt** rose by $7 billion (or 26 percent).
- **Medicare** benefits rose by $5 billion (or 7 percent) largely because reconciliation payments typically made to Medicare Advantage plans in July were accelerated to June this year.
- **Social Security** benefits rose by $4 billion (or 5 percent).
- The government received $4 billion less in total payments from **Fannie Mae** and **Freddie Mac,** resulting in higher outlays.

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

Actual Deficit in May 2018: $147 Billion

The Treasury Department reported a deficit of $147 billion for May—$3 billion more than CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for May 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. Nathaniel Frentz, Stephen Rabent, Dawn Sauter Regan, and Jennifer Shand prepared the report with guidance from Christina Hawley Anthony, Theresa Gullo, Sam Papenfuss, and Joshua Shakin. It was reviewed by Robert Sunshine, edited by Kate Kelly, and prepared for publication by Darren Young. An electronic version is available on CBO's website, www.cbo.gov/publication/54156.