Congressional Budget Office

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Monthly Budget Review for September 2018

The federal budget deficit was $782 billion in fiscal year 2018, the Congressional Budget Office estimates, $116 billion more than the shortfall recorded in 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, the deficit for the year would have been $826 billion—$162 billion larger than last year's amount.

The 2018 deficit equaled an estimated 3.9 percent of gross domestic product (GDP), up from 3.5 percent in 2017. (If not for the timing shifts, the 2018 deficit would have equaled 4.1 percent of GDP.) Fiscal year 2018 was the third consecutive year in which the deficit increased as a percentage of GDP.

By CBO's estimate, revenues were about the same and outlays were about 3 percent higher in 2018 than they were in the previous fiscal year. CBO's estimates are based on data from the *Daily Treasury Statements* issued by the Department of the Treasury; the department will report the actual deficit for fiscal year 2018 later this month.

A deficit of $782 billion would be about $11 billion smaller than the shortfall that CBO projected in its May 2018 report, *An Analysis of the President's 2019 Budget*. Revenues and outlays were less than CBO anticipated, but outlays were lower by a larger amount.

Fiscal Year Totals
Billions of Dollars

	Actual, FY 2017	Preliminary, FY 2018	Estimated Change
Receipts	3,315	3,328	13
Outlays	3,981	4,110	129
Deficit (–)	–666	–782	–116

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

FY = fiscal year.

Total Receipts: Up by Less Than 1 Percent in Fiscal Year 2018

Receipts totaled $3,328 billion in fiscal year 2018, CBO estimates—$13 billion more than in fiscal year 2017. That small net increase reflects the following changes:

- **Individual income and payroll (social insurance) taxes** together rose by $105 billion (or 4 percent).
  - Amounts withheld from workers' paychecks rose by $23 billion (or 1 percent). That change largely reflects increases in wages and salaries that were partly offset beginning

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.

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 last year's major tax legislation (Public Law 115-97) 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 $89 billion (or 15 percent). Most of that increase occurred in April, when taxpayers made their final payments of taxes for 2017.
- Individual income tax refunds rose by $7 billion (or 3 percent), reducing net receipts.

- **Corporate income tax** receipts fell by $92 billion (or 31 percent), reflecting payments for both the 2017 and the 2018 tax years. About half of the decline has occurred since June. Collections in June and September were mostly estimated payments for tax year 2018, when several provisions of P.L. 115-97 took effect, including the new lower corporate tax rate and the expanded ability to immediately deduct the full value of equipment purchases.
- **Revenues from other sources** rose by $1 billion (or less than 1 percent). Declines in revenues from fees and fines and in remittances from the Federal Reserve were partly offset by greater receipts from excise taxes and customs duties.

Total Receipts

Billions of Dollars

Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,587	1,683	96	6.1
Payroll Taxes	1,162	1,170	8	0.7
Corporate Income Taxes	297	205	–92	–31.0
Other Receipts	269	269	1	0.2
Total	**3,315**	**3,328**	**13**	**0.4**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	2,363	2,386	23	1.0
Other, net of refunds	386	467	81	21.0
Total	**2,749**	**2,854**	**105**	**3.8**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 3 Percent in Fiscal Year 2018

Outlays in fiscal year 2018 were $4,110 billion—up by $129 billion (or 3 percent) from the 2017 total, CBO estimates. That increase would have been $46 billion (or 4.4 percent) larger if not for the shift of certain payments from October to September in 2016 and 2017. Those shifts occurred because the regularly scheduled payment dates fell on a weekend. The discussion below reflects adjustments to remove the effects of such timing shifts.

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 $43 billion (or 5 percent), because of increases both in the number of beneficiaries and in the average benefit payment.

  - **Medicare** spending increased by $16 billion (or 3 percent) because of increases both in the number of beneficiaries and in the amount and cost of services.
  - **Medicaid** outlays rose by $14 billion (or 4 percent), in part because more new enrollees were added through expansions of coverage authorized by the Affordable Care Act.

- Outlays for **net interest on the public debt** increased by $62 billion (or 20 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 $33 billion in fiscal year 2017 but $60 billion in the current fiscal year. The remaining increase reflects higher interest rates and larger debt in 2018.

- Spending for military programs of the **Department of Defense** rose by $36 billion (or 6 percent).

- The government received $19 billion less in total payments from **Fannie Mae** and **Freddie Mac.** The two entities made quarterly payments to the Treasury in December, March, June, and September. Those payments, which are included in the "Other" category in the table below, are recorded as offsets to spending; thus, lower payments have the effect of increasing net outlays. In fiscal year 2017, those payments totaled $29 billion; in fiscal year 2018, they totaled $14 billion. The government also made a cash infusion of $4 billion to Fannie Mae and Freddie Mac in March 2018, which increased outlays. That payment from the Treasury occurred because the entities' net worth was negative for the quarter as a result of write-downs they took on their tax-deferred assets in response to P.L. 115-97.

- Outlays of the **Department of Homeland Security** (included in "Other" below), increased by $18 billion (or 36 percent), largely because of activities related to disaster relief.

- Spending by the **Department of Veterans Affairs** (also included in the "Other" category) rose by $9 billion, in part because of typical growth in the number of veterans receiving disability compensation and the amount of those payments, and in part because of continued growth in the number of veterans receiving health benefits at nondepartmental medical facilities.

- Outlays for **subsidies for health insurance** purchased through the marketplaces established under the Affordable Care Act, which are included in "Other" in the table below, rose by about $7 billion (or 17 percent). Spending climbed largely because the premiums for those plans rose this year.

Outlays in one area of the budget declined significantly:

- Outlays for the **Department of Education** (included in "Other" below) fell by $48 billion (or 43 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 would have been about the same as in 2017.

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

Total Outlays

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	Percent
Social Security Benefits	934	977	43	43	4.6
Medicare[b]	595	585	–10	16	2.7
Medicaid	375	389	14	14	3.9
Subtotal, Largest Mandatory Spending Programs	**1,903**	**1,951**	**47**	**73**	**3.8**
DoD—Military[c]	569	599	31	36	6.4
Net Interest on the Public Debt	310	371	62	62	19.9
Other	1,199	1,189	-10	5	0.4
Total	**3,981**	**4,110**	**129**	**175**	**4.4**

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, total outlays would have been $3,978 billion in fiscal year 2017 and $4,154 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 Surplus in September 2018: $116 Billion

In September, the government receives substantial revenues from payments of estimated individual and corporate income taxes. As a result, CBO estimates, the federal government realized a surplus of $116 billion in September 2018—$108 billion more than the surplus in September 2017. Outlays in September of both years were affected by shifts in the timing of certain federal payments that otherwise would have been due on a weekend or a holiday; those shifts reduced outlays in September 2018 by $71 billion but increased them in September 2017 by $44 billion. If not for those shifts, the surplus in September 2018 would have been just $44 billion—$7 billion less than the surplus in September 2017.

CBO estimates that receipts in September 2018 totaled $343 billion—$6 billion (or 2 percent) less than those in the same month last year. Revenues from corporate taxes declined by $21 billion. That decrease was partially offset by an increase of $9 billion in miscellaneous fees and fines and an increase of $5 billion in excise taxes. Revenues from income and payroll taxes were about the same as they were last September.

Budget Totals for September

Billions of Dollars

	Actual, FY 2017	Preliminary, FY 2018	Estimated Change	Estimated Change With Adjusting for Timing Shifts[a] Billions of Dollars	Percent
Receipts	349	343	–6	–6	–1.7
Outlays	341	227	–114	1	0.4
Surplus	8	116	108	–7	–13.8

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend or a holiday. If not for those timing shifts, the budget would have shown a surplus of $44 billion in September 2018, CBO estimates.

Total spending in September 2018 was $227 billion, CBO estimates—$114 billion less than the sum in September 2017. If not for timing shifts, outlays in September would have been $1 billion more than they were in the same month last year. (The changes discussed below reflect adjustments to remove the effects of those shifts.)

The largest increases in outlays were the following:

- **Net interest on the public debt** grew by $7 billion (or 30 percent).
- Outlays for **Social Security** rose by $4 billion (or 5 percent).
- Spending for military programs of the **Department of Defense** rose by $3 billion (or 7 percent).

Outlays in other areas of the budget declined.

- Spending for the **Department of Education** fell by $5 billion (or 46 percent), mainly because of decreased spending for student loans.
- Outlays for both **Medicare** and the **Department of Homeland Security** fell by $2 billion (or 4 percent and 32 percent, respectively). The decline in spending by the Department of Homeland Security was because of larger payments in September last year for disaster relief, following the major hurricanes.

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

Actual Deficit in August 2018: $214 Billion

The Treasury Department reported a deficit of $214 billion for August—$3 billion more than CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for August 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, 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 Mark Hadley and 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/54551.