Congressional Budget Office

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Monthly Budget Review for December 2018

The federal budget deficit was $317 billion for the first quarter of fiscal year 2019, the Congressional Budget Office estimates, $92 billion more than the deficit recorded during the same period last year. Revenues were about the same and outlays were $93 billion (9 percent) higher than during the first quarter of 2018.

Because January 1 is a holiday, outlays this year and last year were boosted by the shift of certain payments from January to December. However, last year's outlays for the quarter were reduced, on net, because of additional payment shifts from October 2017 (fiscal year 2018) into September 2017 (fiscal year 2017). (October 1, 2017, the first day of fiscal year 2018, fell on a weekend.) If not for those timing shifts, outlays so far this year would have been $49 billion, or 5 percent, larger than those in the same period last year, and the deficit would have risen by $47 billion.

Budget Totals, October–December
Billions of Dollars

	Actual, FY 2018	Preliminary, FY 2019	Estimated Change
Receipts	770	771	2
Outlays	994	1,088	93
Deficit (–)	–225	–317	–92

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

FY = fiscal year.

Total Receipts: Up by Less Than 1 Percent in the First Quarter of Fiscal Year 2019
Receipts totaled $771 billion during the first quarter of fiscal year 2019, CBO estimates—$2 billion more than during the same period last year. The changes between last year and this year were as follows:

- **Individual income** and **payroll (social insurance) taxes** together fell by $1 billion (or less than 1 percent).
    - Amounts withheld from workers' paychecks decreased by $6 billion (or 1 percent). That change reflects growth in wages and salaries that was more than offset by a decline in the share of income withheld for taxes. In January 2018, 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. Hence, the new withholding rates were in effect during the first quarter of this fiscal year, but not during the same quarter last year.

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.

- Nonwithheld payments of income and payroll taxes rose by $5 billion (or 11 percent), whereas individual income tax refunds fell by $1 billion (or 3 percent). Those two sources of payments are generally small at this point in the fiscal year.

- **Corporate income taxes** declined by $9 billion (or 15 percent). That decline largely reflects changes made by the 2017 tax act, which lowered the income tax rate for most corporations to 21 percent from the prior top statutory rate of 35 percent. For most corporations, the first quarterly estimated tax payment in this fiscal year was due on December 17; those payments were largely for 2018 taxes.

- Receipts from **other sources,** on net, rose by $12 billion (or 21 percent).
  - Excise taxes increased by $9 billion (or 46 percent), partly from payments received in October for the tax on health insurance providers. In 2017, that tax was subject to a one-year moratorium that was lifted for 2018. The moratorium will be in effect again for one year in 2019.
  - Customs duties increased by $8 billion (or 83 percent), largely because of new tariffs imposed by the Administration during the past year.
  - Those increases were partially offset by smaller remittances from the Federal Reserve. Those payments to the Treasury declined by $5 billion (or 26 percent), largely because short-term interest rates were higher, leading the central bank to pay depository institutions more interest on reserves. Those larger payments by the Federal Reserve led to smaller remittances to the Treasury.

Receipts, October–December

Billions of Dollars

Major Program or Category	Actual, FY 2018	Preliminary, FY 2019	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	391	374	–17	–4.2
Payroll Taxes	259	274	15	5.9
Corporate Income Taxes	62	53	–9	–14.7
Other Receipts	58	70	12	20.8
Total	**770**	**771**	**2**	**0.2**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	619	613	–6	–0.9
Other, net of refunds	31	35	4	13.8
Total	**650**	**648**	**–1**	**–0.2**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 9 Percent in the First Quarter of Fiscal Year 2019

Outlays for the first quarter of fiscal year 2019 were $1,088 billion, $93 billion higher than they were during the same period last year, CBO estimates. If not for the shift of certain payments, that year-to-year increase would be much smaller—$49 billion rather than $93 billion. The discussion below reflects adjustments to exclude the effects of those timing shifts.

The largest increases in outlays were in the following categories:

- Outlays for the largest mandatory spending programs increased by 3 percent:

  - o **Social Security** benefits rose by $12 billion (or 5 percent), because of increases both in the number of beneficiaries and in the average benefit payment.
  - o **Medicare** and **Medicaid** outlays increased by $3 billion and by $2 billion, respectively (or by 2 percent each).

- Outlays for **net interest on the public debt** increased by $16 billion (or 19 percent), largely because interest rates are substantially higher in 2019 than they were during the same period in 2018 and because the amount of federal debt is larger than it was a year ago.
- Spending for military programs of the **Department of Defense** rose by $9 billion (or 6 percent), mostly for operation and maintenance activities.
- Outlays for the **Department of Veterans Affairs** (included in the "Other" category below) increased by $5 billion (or 11 percent) because of a rise in the number of disability compensation beneficiaries and an increase in the average benefit payment.

The largest decreases in outlays were in the following categories, included in "Other" below:

- Outlays recorded for the **Department of Homeland Security** decreased by $9 billion (or 36 percent), largely because spending for disaster relief was higher than usual at the beginning of fiscal year 2018.
- The government received $4 billion more in payments this year from **Fannie Mae** and **Freddie Mac,** resulting in lower net outlays. The two entities make quarterly payments to the Treasury each December.

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

Outlays, October–December

Billions of Dollars

Major Program or Category	Actual, FY 2018	Preliminary, FY 2019	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	238	250	12	12	5.0
Medicare[b]	126	152	26	3	1.7
Medicaid	95	96	2	2	1.6
Subtotal, Largest Mandatory Spending Programs	**458**	**498**	**40**	**16**	**3.3**
DoD—Military[c]	159	173	14	9	5.8
Net Interest on the Public Debt	85	102	16	16	19.4
Other	293	316	23	7	2.3
Total	**994**	**1,088**	**93**	**49**	**4.8**

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 or holiday. If not for those timing shifts, outlays would have been $1,018 billion in fiscal year 2018 and $1,067 billion in fiscal year 2019.

b. Medicare outlays are net of offsetting receipts.

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

Estimated Deficit in December 2018: $11 Billion

The federal government incurred a deficit of $11 billion in December 2018, CBO estimates—$12 billion less than the deficit in December 2017. As was the case last year, outlays in December were affected by shifts in the timing of certain federal payments that otherwise would have been due on January 1, a holiday; those shifts increased December outlays by about $20 billion in both years. However, because December 1, 2018, fell on a weekend, certain payments shifted from December to November; those shifts lowered outlays this December by $45 billion. If not for those shifts, the deficit for the month would have been $36 billion—$32 billion more than the deficit in December 2017.

CBO estimates that receipts in December 2018 totaled $312 billion—$13 billion (or 4 percent) less than those in the same month last year. Withholding of individual income and payroll taxes declined by $2 billion (or 1 percent) and corporate income tax receipts declined by $14 billion (or 23 percent). Excise taxes and customs duties increased by $1 billion and $2 billion, respectively.

Budget Totals for December

Billions of Dollars

	Actual, FY 2018	Preliminary, FY 2019	Estimated Change	Estimated Change With Adjustments for Timing Shifts[a]: Billions of Dollars	Estimated Change With Adjustments for Timing Shifts[a]: Percent
Receipts	326	312	–13	–13	–4.1
Outlays	349	324	–25	19	5.7
Deficit	–23	–11	12	–32	n.m.

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year; n.m. = not meaningful.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a weekend or holiday. If not for those timing shifts, the budget would have shown a deficit of $3 billion in December 2017 and $36 billion in December 2018, CBO estimates.

Total spending in December 2018 was $324 billion, CBO estimates—$25 billion (or 7 percent) less than the sum in December 2017. If not for timing shifts, outlays in December would have been $19 billion (or 6 percent) *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 changes in outlays were as follows:

- **Net interest on the public debt** rose by $11 billion (or 47 percent).
- **Social Security** benefits rose by $4 billion (or 5 percent).
- The government received $4 billion more in payments from **Fannie Mae** and **Freddie Mac** than in December 2017, resulting in lower outlays.

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

Actual Deficit in November 2018: $205 Billion

The Treasury Department reported a deficit of $205 billion for November—$2 billion more than CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for November 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, found at https://go.usa.gov/xnpcA. In keeping with CBO's mandate to provide objective, impartial analysis, it makes no recommendations. 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/54905.