Congressional Budget Office

October 7, 2019

Monthly Budget Review for September 2019

The federal budget deficit was $984 billion in fiscal year 2019, the Congressional Budget Office estimates. CBO's estimate is 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 2019 later this month.

Relative to the size of the economy, the deficit—at an estimated 4.7 percent of gross domestic product (GDP)—was the highest since 2012, and 2019 was the fourth consecutive year in which the deficit increased as a percentage of GDP.

The estimated deficit is $205 billion more than the shortfall recorded in fiscal year 2018. However, that year's outlays were affected by a shift in the timing of certain payments. Because October 1, 2017, fell on a weekend, $44 billion in outlays was shifted to September of fiscal year 2017. If not for that, the 2019 deficit would have been $162 billion larger than the 2018 amount, rather than $205 billion larger. Excluding that effect, revenues were 4 percent higher and outlays were 7 percent higher in 2019 than they were in 2018, CBO estimates.

The deficit of $984 billion is about $24 billion larger than the shortfall that CBO projected in its August 2019 report, *An Update to the Budget and Economic Outlook: 2019 to 2029*. Revenues exceeded the projection by $11 billion but outlays exceeded the projection by $35 billion, according to CBO's estimates.

Fiscal Year Totals
Billions of Dollars

	Actual, FY 2018	Preliminary, FY 2019	Estimated Change
Receipts	3,329	3,462	133
Outlays	4,108	4,446	338
Deficit (–)	–779	–984	–205

Sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for August 2019 and the *Daily Treasury Statements* for September 2019.

FY = fiscal year.

Total Receipts: Up by 4 Percent in Fiscal Year 2019

Receipts totaled $3,462 billion in fiscal year 2019, CBO estimates. The increase relative to last year was the result of changes in receipts from the following sources:

- **Individual income** and **payroll (social insurance) taxes** together rose by $107 billion (or 4 percent).
  - Amounts withheld from workers' paychecks rose by $78 billion (or 3 percent). That change largely reflects increases in wages and salaries that were partly offset by a decline in the share of income withheld for taxes. The Internal Revenue Service issued new

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.

withholding tables in January 2018 to reflect changes made by the 2017 tax act (Public Law 115-97). All employers were required to begin using the new tables by February 15, 2018. Those new withholding rates were in effect this entire fiscal year but for only seven and a half months of the same period last year.

- o Nonwithheld payments of income and payroll taxes rose by $10 billion (or 1 percent).
- o Income tax refunds were down by $23 billion (or 9 percent), further boosting net receipts.
- o Unemployment insurance receipts (one kind of payroll tax) declined by $4 billion (or 9 percent).

■ **Corporate income taxes** increased by $25 billion (or 12 percent). Those receipts reflect activity in both 2018 and 2019.

■ Revenues from **other sources** increased by $1 billion (or less than 1 percent), the result of several largely offsetting changes.

- o Customs duties increased by $29 billion (or 71 percent), primarily because of tariffs imposed by the Administration during the past year on certain imports from China.
- o Excise taxes increased by $4 billion (or 4 percent), largely because of the timing of payments for a tax on health insurance providers. The payment for 2018 was due on Sunday, September 30, 2018; because that deadline fell on a weekend, $5 billion was reflected in fiscal year 2018 and $9 billion was reflected fiscal year 2019, CBO estimates. (That tax was suspended for the current fiscal year, so no payment was due on September 30, 2019.)
- o Revenue increases were partially offset by smaller remittances from the Federal Reserve to the Treasury. Remittances declined by $18 billion (or 25 percent), mainly because short-term interest rates were higher, leading the central bank to pay depository institutions more interest on reserves.
- o Miscellaneous fees and fines decreased by $8 billion (or 20 percent).
- o Estate and gift taxes decreased by $6 billion (or 28 percent), reflecting changes made by the 2017 tax act, which doubled the value of the estate tax exemption.

Total Receipts

Billions of Dollars

Major Program or Category	Actual, FY 2018	Preliminary, FY 2019	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,684	1,717	34	2.0
Payroll Taxes	1,171	1,244	73	6.2
Corporate Income Taxes	205	230	25	12.4
Other Receipts	270	271	1	0.3
Total	**3,329**	**3,462**	**133**	**4.0**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	2,386	2,465	78	3.3
Other, net of refunds	468	496	29	6.1
Total	**2,854**	**2,961**	**107**	**3.7**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 8 Percent in Fiscal Year 2019

Outlays in fiscal year 2019 were $4,446 billion—$338 billion (or 8 percent) higher than the 2018 total, CBO estimates. That increase would have been $44 billion smaller (that is, 7 percent, rather than 8 percent) if not for the shift of certain payments from October to September in 2017 because the regularly scheduled payment date 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:

- Spending for the largest mandatory spending programs increased by 6 percent:
  - Outlays for **Social Security** benefits rose by $56 billion (or 6 percent) because of increases both in the number of beneficiaries and in the average benefit payment.
  - **Medicare** outlays increased by $39 billion (or 6 percent), because of increases both in the number of beneficiaries and in the amount and cost of services.
  - **Medicaid** outlays rose by $20 billion (or 5 percent) because of increases in the cost of services.
- Outlays for **net interest on the public debt** increased by $52 billion (or 14 percent) because interest rates on short-term debt were higher, on average, during fiscal year 2019 than they were during the same period in 2018 and because the federal debt is larger than it was a year ago.
- Spending for military programs of the **Department of Defense** rose by $47 billion (or 8 percent), with the largest increases occurring in operation and maintenance, procurement, and research and development.
- Outlays for the **Department of Education** (included in the “Other” category below) rose by $42 billion (or 66 percent), mostly because the department made an upward revision of $28 billion to the estimated net subsidy costs of loans and loan guarantees issued in prior years—a change very different from the $9 billion *downward* revision made in 2018. If the effects of those revisions were excluded, outlays for the department for the fiscal year would have risen by $5 billion (or 6 percent).
- Outlays for the **Department of Veterans Affairs** (also included in “Other”) increased by $15 billion (or 8 percent) because the number of people receiving disability compensation rose, average disability benefits increased, and spending rose for a program that allows veterans to receive treatment in facilities other than those operated by the department.
- Outlays for the refundable portion of the **earned income** and **child tax credits** (also included in “Other”) rose by $11 billion (or 14 percent). That increase reflects an expansion of the child tax credit, including the refundable portion, made by the 2017 tax act.

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

- Outlays for the **Department of Housing and Urban Development** decreased by $23 billion (or 43 percent), primarily because the department made a downward revision of $14 billion to the estimated net subsidy costs of loans and loan guarantees issued in prior years—a change very different from the $14 billion *upward* revision made in 2018. If the effects of those revisions were excluded, outlays for the department would have been $4 billion more than they were in 2018.
- The Treasury received $10 billion more in net payments from **Fannie Mae** and **Freddie Mac,** resulting in lower net outlays. Those entities’ quarterly payments to the Treasury in December 2018 were $4 billion more than they made in December 2017. In March 2019, they remitted about $6 billion to the government, whereas in March 2018 they *received* net payments of about $3 billion from the Treasury—a difference of $9 billion. (March 2018 was the only time since 2012 that Fannie Mae and Freddie Mac received such payments from the Treasury.) Quarterly payments to the Treasury this June and September were, on net, $3 billion less than the payments made last in those months in 2018.
- Outlays for the **Department of Homeland Security** decreased by $11 billion (or 17 percent), primarily because spending for disaster relief was unusually high at the beginning of fiscal year 2018.

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

Total Outlays
Billions of Dollars

Major Program or Category	Actual, FY 2018	Preliminary, FY 2019	Estimated Change	Estimated Change With Adjustments to Exclude Timing Shifts[a]: Billions of Dollars	Estimated Change With Adjustments to Exclude Timing Shifts[a]: Percent
Social Security Benefits	977	1,033	56	56	5.8
Medicare[b]	585	648	63	39	6.4
Medicaid	389	409	20	20	5.2
Subtotal, Largest Mandatory Spending Programs	**1,951**	**2,090**	**139**	**116**	**5.9**
DoD—Military[c]	601	653	52	47	7.8
Net Interest on the Public Debt	371	423	52	52	14.0
Other	1,185	1,279	95	80	6.6
Total	**4,108**	**4,446**	**338**	**295**	**7.1**

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 $4,151 billion in fiscal year 2018. Fiscal year 2019 was not affected.

b. Medicare outlays are net of offsetting receipts.

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

Estimated Surplus in September 2019: $83 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 $83 billion in September 2019—$36 billion less than the surplus in September 2018. Outlays in September of both years were affected by shifts in the timing of several types of federal payments from September into August because September 1 fell on a weekend. In addition, in 2018 certain Social Security payments that were due to be made on September 3, 2018, were instead made in August of that year because September 3 was Labor Day. No such shift of Social Security payments occurred this September. If not for those shifts in the timing of payments, the surplus in September 2019 would have been $31 billion—$17 billion less than the surplus last September.

CBO estimates that receipts in September 2019 totaled $374 billion—$30 billion (or 9 percent) more than those in the same month last year. Withholding of individual and payroll taxes increased by $24 billion (or 14 percent), in part because this September had an additional Monday, a particularly strong day for withheld taxes, compared with last September. Corporate income taxes increased by $18 billion; for most corporations, a quarterly estimated tax payment was due on September 15. Miscellaneous fees and fines declined by $9 billion and excise taxes declined by $4 billion.

Budget Totals for September

Billions of Dollars

				Estimated Change With Adjustments for Timing Shifts[a]	
	Actual, FY 2018	Preliminary, FY 2019	Estimated Change	Billions of Dollars	Percent
Receipts	344	374	30	30	8.7
Outlays	224	291	66	47	15.8
Surplus	119	83	–36	–17	–35.0

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 holiday. If not for those timing shifts, the budget would have shown a surplus of $48 billion in September 2018 and $31 billion in September 2019, CBO estimates.

Total spending this September was $291 billion, CBO estimates—$66 billion more than in September 2018. If not for timing shifts, outlays this September would have been $47 billion (or 16 percent) more than they were in the same month last year. (The changes discussed below reflect adjustments to remove the effects of those shifts.)

According to CBO's estimates, the largest changes in outlays were as follows:

- Outlays for **net interest on the public debt** rose by $6 billion (or 21 percent), mostly 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 $3.7 billion in September 2019, compared with $0.2 billion in September 2018. Nevertheless, the total inflation adjustment for the fiscal year was smaller in 2019 than it was in 2018.
- In September 2019, the federal government recorded about $1 billion in payments from **Fannie Mae** and **Freddie Mac**. In September 2018, that amount was $7 billion. Such receipts decrease net outlays, so lower receipts this September resulted in an increase in outlays of $6 billion.
- Outlays for the **Department of Housing and Urban Development** increased by $5 billion, primarily because this September the department made an upward revision of $3 billion to the estimated net subsidy costs of loans and loan guarantees issued in prior years; no such revision was made in September 2018. If the effects of that revision were excluded, outlays for the department would have been $2 billion higher than they were in September 2018.
- **Social Security** outlays rose by $5 billion (or 6 percent).

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

Actual Deficit in August 2019: $200 Billion

The Treasury Department reported a deficit of $200 billion for August—the same as CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for August 2019*.

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, 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 Jon Sperl prepared the report with guidance from Christina Hawley Anthony, Theresa Gullo, John McClelland, 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/55699.