Congressional Budget Office

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Monthly Budget Review for May 2017

The federal budget deficit was $432 billion for the first eight months of fiscal year 2017, the Congressional Budget Office estimates—$26 billion more than the shortfall recorded during the same span last year. But that result was affected by shifts in 2016 in the timing of certain payments that otherwise would have been due on a weekend. If not for those shifts, the deficit for the first eight months of fiscal year 2017 would have been $68 billion larger than the one recorded for the same period last year.

Budget Totals, October–May

Billions of Dollars

	Actual, FY 2016	Preliminary, FY 2017	Estimated Change
Receipts	2,139	2,168	29
Outlays	2,545	2,600	56
Deficit (–)	–405	–432	–26

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

FY = fiscal year.

Total Receipts: Up by 1 Percent in the First Eight Months of Fiscal Year 2017

Receipts totaled $2,168 billion during the first eight months of fiscal year 2017, CBO estimates—$29 billion more than they did during the same period last year. Although receipts grew, they continue to be $60 billion to $70 billion (or 3 percent) smaller for the fiscal year to date than CBO expected when it published its January 2017 report *The Budget and Economic Outlook: 2017 to 2027*.

As reported last month, the bulk of that shortfall reflects smaller-than-anticipated payments of individual and, to a lesser extent, corporate income taxes, mostly for economic activity in 2016. Payments for 2016 activity may have been smaller than anticipated because income growth was weaker than expected in calendar year 2016 or because taxpayers may have shifted more income than projected from 2016 to later years, expecting legislation to reduce tax rates to be enacted this year. Part of the weakness in receipts may also reflect smaller-than-anticipated payments for economic activity in 2017. The sources of the shortfall will be better understood as data from tax returns start to become available later this year.

The changes between last year and this year were as follows:

- **Individual income and payroll (social insurance) taxes** together rose by $49 billion (or 3 percent).
    - Amounts withheld from workers' paychecks rose by $74 billion (or 5 percent). That change largely reflects increases in wages and salaries.

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.

- o Nonwithheld payments of income and payroll taxes fell by $13 billion (or 3 percent). Much of that decline occurred in April, when taxpayers made their final payments of taxes for 2016.
- o Individual income tax refunds rose by $10 billion (or 4 percent), further reducing net receipts.
- o Receipts from unemployment insurance taxes (one kind of payroll tax) declined by $3 billion (or 6 percent).

■ **Remittances from the Federal Reserve** to the Treasury, which are included in the "Other Receipts" category in the table below, fell by $26 billion, largely because the Fixing America's Surface Transportation Act (Public Law 114-94) required the Federal Reserve to remit most of its surplus account to the Treasury in fiscal year 2016. The central bank remitted the required amount, $19 billion, in a onetime payment in late December 2015.

■ **Corporate income taxes** rose by $5 billion (or 3 percent).

Receipts, October–May
Billions of Dollars

Major Program or Category	Actual, FY 2016	Preliminary, FY 2017	Estimated Change: Billions of Dollars	Estimated Change: Percent
Individual Income Taxes	1,038	1,049	11	1.0
Payroll Taxes	739	777	38	5.1
Corporate Income Taxes	162	167	5	3.3
Other Receipts	200	176	–25	–12.3
Total	**2,139**	**2,168**	**29**	**1.4**
Memorandum:				
Combined Individual Income and Payroll Taxes				
Withheld taxes	1,533	1,607	74	4.8
Other, net of refunds	244	218	–26	–10.5
Total	**1,777**	**1,826**	**49**	**2.7**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 2 Percent in the First Eight Months of Fiscal Year 2017

Outlays for the first eight months of fiscal year 2017 totaled $2,600 billion, CBO estimates—$56 billion (or 2 percent) more than they were during the same period last year. That increase would have been about 4 percent if not for the shift of certain payments from October 2016 to September 2016. The discussion below reflects adjustments to remove the effects of those timing shifts.

The largest increases in outlays were the following:

■ Outlays for the three largest mandatory spending programs increased by a total of $41 billion (or 3 percent).

- o **Social Security benefits** increased by $18 billion (or 3 percent), reflecting typical recent growth in the number of beneficiaries and in the average benefit payment.
- o **Medicare** spending grew by $15 billion (or 4 percent), reflecting typical growth in the number of beneficiaries and growth in the cost of services for those beneficiaries.
- o **Medicaid** spending grew by $7 billion (or 3 percent), in part because of new enrollees added through expansions of coverage authorized by the Affordable Care Act.

- Outlays for **net interest on the public debt** increased by $29 billion (or 16 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. (It uses the change in the consumer price index for all urban consumers that was recorded two months earlier to make that adjustment.) The adjustments made in the first eight months of fiscal year 2016 were negative, but those made to date in 2017 have been positive.

The following three programs, which are included in the "Other" category in the table below, also showed notable increases:

- Payments to the **Federal Communications Commission** from auctions of licenses to use the electromagnetic spectrum decreased by $8 billion. Because the proceeds from those auctions are recorded in the budget as offsetting receipts (that is, as reductions in outlays), that decrease in payments has resulted in higher outlays.
- Outlays for the **Department of Housing and Urban Development** increased by $8 billion, largely because the department made downward revisions in April 2016 to the estimated net subsidy costs of loans and loan guarantees issued in prior years but has made no such revisions yet this year.
- Outlays for **subsidies for health insurance** purchased through the marketplaces established under the Affordable Care Act rose by about $5 billion (or 25 percent). Spending climbed largely because the premiums for those plans were higher than last year.

Outlays in some areas of the budget declined:

- The government received $9 billion more in payments from **Fannie Mae and Freddie Mac** than it did last year. The two entities made quarterly payments to the Treasury in December and March. Those payments are recorded as offsets to spending and thus reduce net outlays.
- Outlays for the **Department of Education,** which are included in the "Other" category in the table below, fell by $3 billion (or 5 percent), mostly because of decreased spending for student loans and Pell grants.

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

Outlays, October–May

Billions of Dollars

				Estimated Change With Adjustments for Timing Shifts[a]	
Major Program or Category	Actual, FY 2016	Preliminary, FY 2017	Estimated Change	Billions of Dollars	Percent
Social Security Benefits	601	619	18	18	3.1
Medicare[b]	373	367	–6	15	4.1
Medicaid	242	249	7	7	2.8
Subtotal, Largest Mandatory Spending Programs	**1,217**	**1,236**	**19**	**41**	**3.3**
DoD—Military[c]	371	370	–1	3	0.8
Net Interest on the Public Debt	178	207	29	29	16.3
Other	779	787	8	24	3.1
Total	**2,545**	**2,600**	**56**	**97**	**3.8**

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. If not for those timing shifts, total outlays would have been $2,641 billion in the first eight months of fiscal year 2017.

b. Medicare outlays are net of offsetting receipts.

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

Estimated Deficit in May 2017: $87 Billion

In CBO's estimation, the federal government realized a deficit of $87 billion in May 2017—$35 billion more than the deficit in May 2016.

CBO estimates that receipts in May 2017 totaled $240 billion—$15 billion (or 7 percent) more than those in the same month last year. Withholding of individual income and payroll taxes rose by $12 billion (or 6 percent); that growth reflects increases in wages and salaries and, to a lesser extent, an additional business day in May 2017 compared with May 2016. Receipts of corporate income taxes also rose—by $3 billion, on net.

Budget Totals for May

Billions of Dollars

				Estimated Change With Adjustments for Timing Shifts[a]	
	Actual, FY 2016	Preliminary, FY 2017	Estimated Change	Billions of Dollars	Percent
Receipts	225	240	15	15	6.7
Outlays	277	327	50	9	3.0
Deficit (–)	–53	–87	–35	6	–6.1

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. If not for those timing shifts, the budget would have shown a deficit of $93 billion in May 2016, CBO estimates.

Total spending in May 2017 was $327 billion, CBO estimates—$50 billion more than spending in May 2016. If not for shifts in the timing of certain payments from May to April last year, outlays would have increased by $9 billion (or 3 percent). (The changes discussed below reflect adjustments to account for those shifts.)

Among the larger changes in outlays were the following:

- Spending for the government's three largest mandatory spending programs collectively increased by $7 billion (or 5 percent): Outlays for **Medicare** and **Social Security benefits** increased by $5 billion (or 11 percent) and $2 billion (or 3 percent), respectively, but those for **Medicaid** decreased by $1 billion (or 2 percent).
- Outlays for the **Federal Deposit Insurance Corporation** increased by $3 billion, mostly because payments for bank resolutions increased.
- Outlays for **net interest on the public debt** decreased by $3 billion (or 12 percent).

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

Actual Surplus in April 2017: $182 Billion

The Treasury Department reported a surplus of $182 billion for April—$3 billion more than CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for April 2017*.

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. 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 Mark Booth, Teri Gullo, and Jeffrey Holland. It was reviewed by Robert A. Sunshine, edited by Christine Browne, and prepared for publication by Darren Young. An electronic version is available on CBO's website (www.cbo.gov/publication/52791).