Congressional Budget Office

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Monthly Budget Review for July 2018

The federal budget deficit was $682 billion for the first 10 months of fiscal year 2018, the Congressional Budget Office estimates, $116 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.

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, outlays and the deficit through July would have been larger, by roughly $40 billion, both this year and last year—but the year-to-year changes would not have been very different.

Budget Totals, October–July
Billions of Dollars

	Actual, FY 2017	Preliminary, FY 2018	Estimated Change
Receipts	2,740	2,766	26
Outlays	3,306	3,448	143
Deficit (–)	–566	–682	–116

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

FY = fiscal year.

Projected Outcomes for 2018

CBO expects that the deficit, receipts, and outlays for fiscal year 2018 will be largely consistent with amounts in its adjusted April baseline, which were reported in *An Analysis of the President's 2019 Budget* in May 2018. At that time, CBO projected a deficit of $793 billion, outlays of $4,131 billion, and receipts of $3,339 billion.

Payments of individual income taxes received in April, mainly for 2017 taxes, were larger than CBO expected, whereas corporate income tax receipts have been smaller than anticipated. Although some provisions of last year's major tax legislation (Public Law 115-97) affect receipts, the timing of those effects is highly uncertain. The amount collected in recent months might not indicate the amount that individuals or businesses ultimately will pay for tax year 2018.

In keeping with historical patterns, and accounting for shifts in the timing of certain payments, outlays so far are consistent with CBO's May 2018 projection: Through the first 10 months of the fiscal year, federal spending totals about ten-twelfths of the amount that CBO projected for 2018.

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.

Total Receipts: Up by 1 Percent in the First 10 Months of Fiscal Year 2018

Receipts totaled $2,766 billion during the first 10 months of fiscal year 2018, CBO estimates—$26 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 $105 billion (or 5 percent).
  - Amounts withheld from workers' paychecks rose by $32 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 P.L. 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 $79 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 $6 billion (or 2 percent), reducing net receipts.
- Corporate income taxes fell by $66 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, 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 fell by $13 billion (or 6 percent), largely because of reduced collections of fees and fines.

Receipts, October–July

Billions of Dollars

			Estimated Change	
Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Billions of Dollars	Percent
Individual Income Taxes	1,313	1,416	104	7.9
Payroll Taxes	976	977	1	0.1
Corporate Income Taxes	232	167	–66	–28.3
Other Receipts	219	206	–13	–6.0
Total	**2,740**	**2,766**	**26**	**1.0**
Memorandum: Combined Individual Income and Payroll Taxes				
Withheld taxes	1,993	2,025	32	1.6
Other, net of refunds	296	369	72	24.4
Total	**2,289**	**2,394**	**105**	**4.6**

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total Outlays: Up by 4 Percent in the First 10 Months of Fiscal Year 2018

Outlays in the first 10 months of fiscal year 2018 were $3,448 billion—up by $143 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 $34 billion (or 4 percent), because of increases both in the number of beneficiaries and in the average benefit payment.
    - **Medicare** spending increased by $15 billion (or 3 percent) because of increases both in the number of beneficiaries and in the amount and cost of services. The increase in spending was partly offset because reconciliation payments typically made to Medicare Advantage plans in July were accelerated to June this year. Reconciliation payments are made annually to account for unanticipated spending increases in the previous calendar year.
    - **Medicaid** outlays rose by $10 billion (or 3 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 $48 billion (or 19 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 the first 10 months of fiscal year 2017 but $57 billion so far in the current fiscal year. The remaining increase reflects higher interest rates and larger debt in the first 10 months of 2018.
- Spending for military programs of the **Department of Defense** rose by $28 billion (or 6 percent).
- The government received $22 billion less in total payments from **Fannie Mae** and **Freddie Mac,** resulting in higher outlays (included in “Other” in the table below).
- Outlays of the **Department of Homeland Security** (included in “Other” below), increased by $19 billion (or 49 percent), largely because of activities related to disaster relief.

In contrast, outlays for the **Department of Education** (included in “Other” below) fell by $43 billion (or 46 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 10 months of the fiscal year would have risen by $5 billion (or 10 percent).

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

Outlays, October–July
Billions of Dollars

Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Estimated Change: Billions of Dollars	Estimated Change: Percent
Social Security Benefits	776	811	34	4.4
Medicare[a]	462	477	15	3.3
Medicaid	310	320	10	3.4
Subtotal, Largest Mandatory Spending Programs	**1,548**	**1,608**	**60**	**3.9**
DoD—Military[b]	466	494	28	6.1
Net Interest on the Public Debt	261	309	48	18.5
Other	1,031	1,037	6	0.6
Total	**3,306**	**3,448**	**143**	**4.3**

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 July 2018: $75 Billion

CBO estimates that the federal government incurred a deficit of $75 billion in July 2018—$32 billion more than the shortfall in July 2017. As was the case last year, this year's July 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 July would have been greater, by roughly $45 billion, both this year and last year—but the month-to-month changes would not have been very different.

CBO estimates that receipts in July 2018 totaled $225 billion—$7 billion (or 3 percent) less than those in the same month last year. Individual income and payroll taxes dropped by $1 billion, on net. Withholding of those taxes dropped by $1 billion because the share of wages withheld for taxes was lower, CBO estimates, in keeping with changes made by P.L. 115-97. That decline would have been larger except that July 2018 had one more business day than July 2017. Corporate revenues declined by $4 billion and remittances from the Federal Reserve declined by $2 billion.

Budget Totals for July
Billions of Dollars

	Actual, FY 2017	Preliminary, FY 2018	Estimated Change: Billions of Dollars	Estimated Change: Percent
Receipts	232	225	–7	–2.9
Outlays	275	301	26	9.3
Deficit (–)	–43	–75	–32	75.3

Sources: Congressional Budget Office; Department of the Treasury.

FY = fiscal year.

Total spending in July 2018 was $301 billion, CBO estimates—$26 billion more than the sum in July 2017. The largest changes were as follows:

- **Net interest on the public debt** rose by $10 billion (or 38 percent).
- **Social Security** benefits rose by $4 billion (or 5 percent).
- Spending for military programs of the **Department of Defense** rose by $3 billion (or 8 percent).

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

Actual Deficit in June 2018: $75 Billion

The Treasury Department reported a deficit of $75 billion for June—the same as CBO estimated last month, on the basis of the *Daily Treasury Statements*, in the *Monthly Budget Review for June 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, Stephen Rabent, 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/54339.