

Could We See \$230 Billion in Fourth Quarter Federal Spending?

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As we enter the second half of July federal agencies and contractors alike are preparing for the close out of fiscal year (FY) 2013, ending September 30th. This is commonly referred to as the "federal busy season," when agencies work to finish up whatever procurements they need to award within the fiscal year, and is often characterized by a flurry of last-minute spending in a "use it or lose it" mentality. So will we see such a spending spree in the age of sequestration and widely-reported budget constraints? Even with these uncertain factors, recent spending data suggests that we still could see more than \$230 billion in contracted spending in the fourth quarter (Q4) of the fiscal year.

Previously, I tried to beat back some of the fear and uncertainty with some data analysis. In a [previous blog post](#) I looked at the reported Q1-Q2 obligations among the top spending 20 federal agencies for FY 2012 to try to estimate what we might possibly see for FY 2013, even if we experience a 10% across-the-board reduction in contracted spending. Given that the Department of Defense (DoD) and several other departments tend to lag by 90 days in some of their contracts reporting I thought an update and comparison might be informative.

The results for these lagging agencies are not insignificant, especially for the defense branches. (See table below.) The Q1-Q2 data reported by the beginning of July (green) included some sizeable increases compared to the same quarters reported at the beginning of April (blue). The differences are noted in both dollars and percentage (red). Note that all the FY '13 percentages and remaining dollars are based on an assumption of 10% reduction from FY '12 levels.

Q1 and Q2 Contract Obligations for the Top 20 Federal Departments/Agencies - April 2013 & July 2013 Data Comparison

Department	FY 2013 - (April Data Pull)			FY 2013 (July Data Pull)			Difference b/t April and July Data	
	Q1+Q2 Obligations (\$B)	(Assumes 90% FY '12 Obligations)		Q1+Q2 Obligations (\$B)	(Assumes 90% FY '12 Obligations)		Q1+Q2 Obligations (\$B)	Q1+Q2 Obligations %
		Q1+Q2 % of Obligations	Potential Remaining Obligations (\$B)		Q1+Q2 % of Obligations	Potential Remaining Obligations (\$B)		
Army	17.8	18%	79.6	33.3	34%	64.1	15.5	16%
Navy	25.3	30%	59.6	41.6	49%	43.4	16.3	19%
Defense	19.1	24%	60.7	32.2	40%	47.6	13.1	16%
Air Force	17.3	28%	45.5	27.5	44%	35.3	10.2	16%
Energy	10.8	48%	11.8	10.9	48%	11.8	0.1	0%
HHS	5.7	33%	11.6	6.1	35%	11.2	0.4	2%
VA	6.0	39%	9.5	7.6	49%	7.9	1.6	10%
NASA	5.8	42%	8.1	6.2	45%	7.4	0.4	3%
DHS	4.3	38%	7.1	4.5	39%	6.9	0.2	1%
GSA	3.1	36%	5.5	3.5	39%	5.5	0.4	3%
State	1.9	26%	5.5	2.0	27%	5.4	0.1	1%
Justice	2.3	39%	3.6	2.8	48%	3.0	0.5	9%
Transportation	1.6	27%	4.2	2.2	37%	3.6	0.6	10%
Treasury	3.4	63%	1.9	3.5	67%	1.8	0.1	4%
USDA	1.6	35%	3.1	1.7	37%	3.0	0.1	2%
AID	1.5	34%	2.9	1.6	36%	2.9	0.1	2%
Interior	0.9	25%	2.8	1.0	27%	2.7	0.1	2%
Commerce	0.8	37%	1.3	0.9	41%	1.3	0.1	4%
Labor	0.7	33%	1.4	0.8	40%	1.2	0.1	7%
Education	0.8	46%	1.0	1.0	52%	0.9	0.2	6%

Source: FPDS, Deltek

The data reporting lag among these 20 agencies resulted in \$60 billion in obligations being reported in the 3 months after the close of Q2. So when it came to assessing where we are at the end of Q3 and what is potentially left to spend in Q4 I wanted to factor in this data lag to get as accurate a picture as possible, given the available data.

FY 2013 Q1-Q3 Obligations and What's Left for Q4

Completing a similar FY 2012-2013 comparison for Q1-Q3 reveals that the top 20 agencies could have over \$225 billion left to spend in Q4, even with a 10% cut from FY 2012. (See table below.) The remaining federal agencies that report to FPDS account for an additional \$5 billion under this framework.

In an attempt to account for the delayed reporting by DoD and select other agencies, the Q3 data, which is the lagging quarter, is adjusted according to the percentage difference between April and July Q1-Q2 data in the table above. While this is not perfectly precise, I believe it is a reasonable approach to mitigate for the data lag and give us a little better shot at seeing what Q4 might look like. (The 90% assumption still applies.)

Q1-Q3 Contract Obligations for the Top 20 Federal Departments/Agencies

Department	FY 2012		FY 2013 (Assumes 90% FY '12 Obligations)		
	Q1-Q3 Obligations (\$B)	Q1-Q3 % of Obligations	Q1-Q3 Obligations, Adjusted for Data Lag* (\$B)	Q1-Q3 % of Obligations	Potential Remaining Obligations (\$B)
	Army	68.8	64%	35.0	36%
Navy	67.2	71%	43.6	51%	41.3
Defense	63.9	72%	33.3	42%	46.5
Air Force	52.0	75%	28.2	45%	34.6
Energy	21.8	86%	20.5	90%	2.2
HHS	10.4	54%	10.0	58%	7.3
VA	11.5	67%	10.8	70%	4.7
NASA	11.6	76%	10.0	73%	3.6
DHS	7.9	63%	7.5	66%	3.8
GSA	6.6	67%	5.4	60%	3.5
State	3.3	40%	3.1	42%	4.3
Justice	4.5	68%	4.2	71%	1.7
Transportation	4.3	67%	4.0	70%	1.7
Treasury	4.1	70%	5.2	98%	0.1
USDA	3.0	57%	2.7	57%	2.0
AID	3.0	60%	2.6	57%	1.9
Interior	2.0	49%	1.8	48%	1.9
Commerce	1.5	64%	1.4	64%	0.8
Labor	1.5	64%	1.3	64%	0.7
Education	1.3	63%	1.6	87%	0.2

Source: FPDS, Deltek

*Q3 data is adjusted to account for delayed reporting by DoD and select other agencies.

Comparing the historical Q1-Q3 percentage of total yearly obligations for FY 2012 and a projection for the same for FY 2013 shows that many of the departments have a hefty chunk left to spend and that has been their historical norm, at least for FY 2012.

To put this into the total federal context, all reported federal contract obligations for Q4 of FY 2012 were \$161 billion and total FY 2012 contract obligations topped \$517 billion. Total FY 2013 obligations for Q1-Q3 total \$240 billion, when accounting for data reporting lags by the Defense Department and other agencies.

So if my 90% assumption were to play out and my data lag adjustment is anywhere in the ballpark we could see total FY 2013 obligations top out at \$465 billion with nearly half of FY 2013 obligations coming in the Q4. That sounds like folks will be pretty busy to me.

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