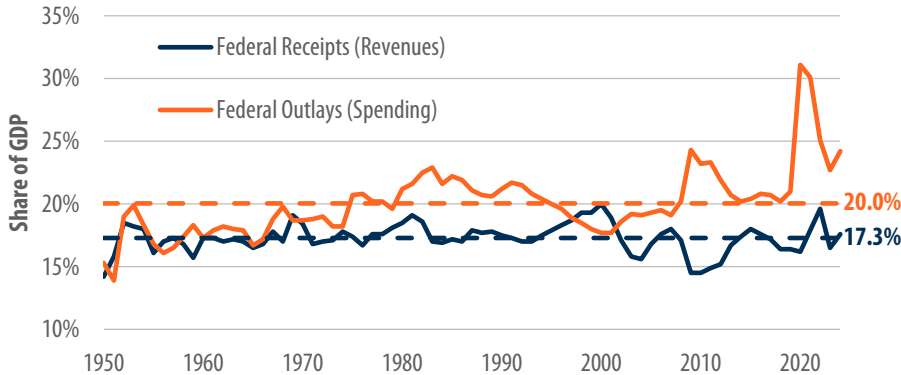


### Federal Fiscal Year 2024: Massive Spending, Deficits, and Debt

The federal government closed out fiscal year 2024 at the end of September, and in this week's "Three on Thursday," we dive into the current state of federal finances, offering a historical perspective as well. In fiscal year 2024 alone, government spending reached an astounding \$6.75 trillion. For some perspective, if the government were to seize the combined net worth of the Forbes 400 wealthiest individuals (totaling \$5.4 trillion in 2024), it would merely sustain the government's operations for a little over nine months, then they would be completely wiped out! With annual deficits now in the trillions and interest payments on government debt at record levels, it's clear that significant changes are needed. To provide further insight, we've included three informative charts below.

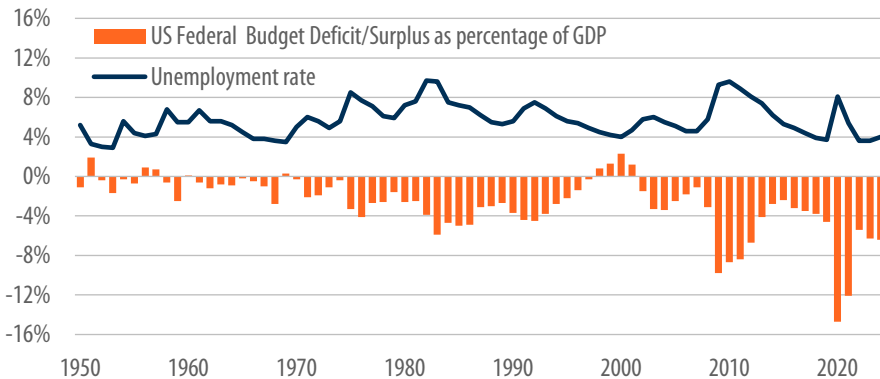
#### U.S. Federal Spending vs. Revenues



Source: The Office of Management and Budget (OMB), First Trust Advisors. Annual data 1950-2023, dashed lines are the average. 2024 data points represent OMB estimates.

Since 1950, government revenues have averaged 17.3% of GDP, while the top marginal tax rate has fluctuated significantly—from a high of 92% to a low of 28%. Notably, the strongest revenue year relative to GDP was 2000, when the top tax rate was 39.6%. Over the same period, however, government spending has averaged 20.0% of GDP, peaking at 31.1% in 2020. In fiscal year 2024, revenues reached 17.6% of GDP, slightly above the historical average, while spending grew to 24.2% of GDP, well above typical levels.

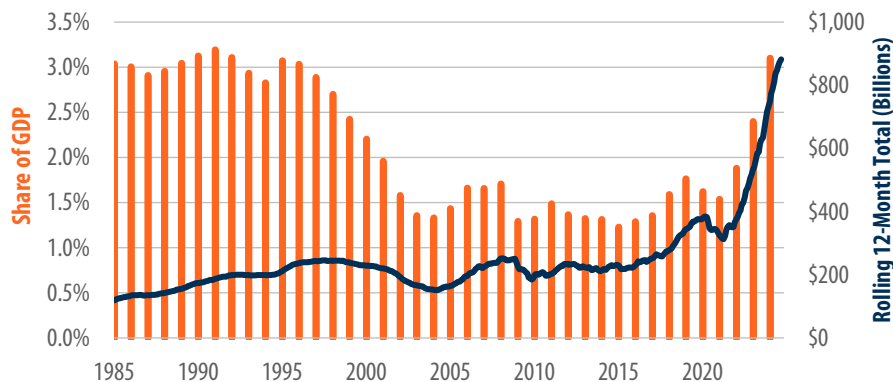
#### U.S. Federal Budget Deficit/Surplus vs. Unemployment



Source: The Office of Management and Budget (OMB), Bureau of Labor Statistics, First Trust Advisors. Annual data 1950-2023. 2024 budget data point represents First Trust estimate.

The U.S. deficit for fiscal year 2024 reached 6.4% of GDP—a notable figure, considering that from 1950 to 2008, the budget deficit never once hit this level. There is room for thoughtful debate over the appropriate size of budget deficits following major economic disruptions like the Great Recession and COVID-19 lockdowns. However, since 1950, there have been only 13 years, including 2024, when unemployment averaged 4% or lower. During those years, the federal budget deficit averaged just 2.2% of GDP. Running deficits of this magnitude today, especially in a period of relative peace and historically low unemployment, raises valid concerns.

#### U.S. Federal Net Interest



Source: U.S. Treasury, First Trust Advisors. Left axis: annual data 1950-2023, 2024 data point represents First Trust estimate. Right axis: monthly data Jan 1950 – Sep 2024.

Each year when the U.S. runs a deficit, it adds to the national debt, which now stands at an extraordinary \$35.8 trillion. The real concern, however, lies in the government's capacity to manage the interest payments on this mounting debt. In fiscal year 2024, federal net interest payments have reached a historic high of \$881.65 billion—the largest amount ever recorded. With interest rates elevated and the government both accumulating new debt and refinancing old debt at higher rates, this figure is likely to climb even further. As a share of GDP, net interest payments averaged 3.1% in FY 2024, doubling from 1.5% of GDP just three years ago in 2021.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.