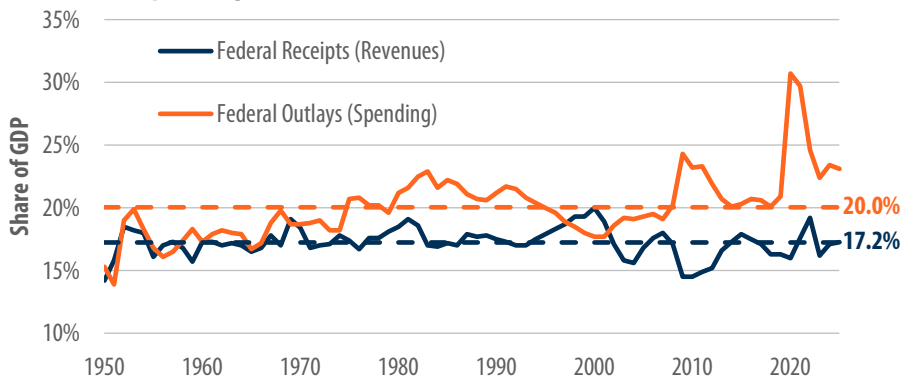


Federal Fiscal Year 2025: Massive Spending, Deficits, and Debt

The federal government closed out fiscal year 2025 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 2025, government spending breached \$7 trillion for the first time. To put this into perspective, even if the government were to seize the combined net worth of the Forbes 400 wealthiest Americans—which totals about \$6.6 trillion—it would only cover less than a year of federal spending before being completely exhausted! 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.

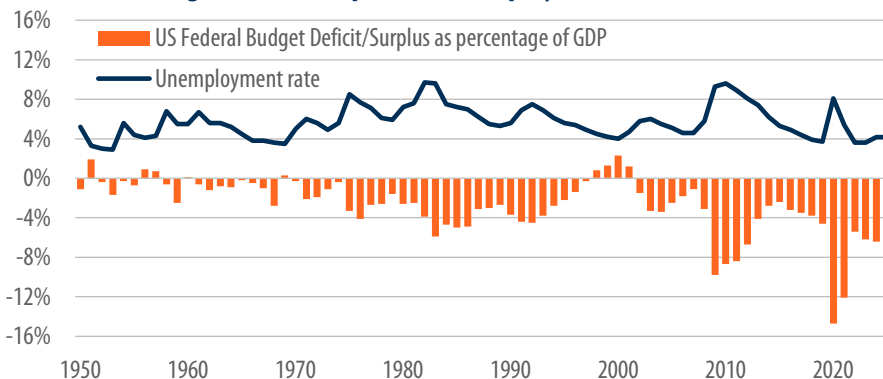
U.S. Federal Spending vs. Revenues



Source: The Office of Management and Budget (OMB), First Trust Advisors. Fiscal year 1950-2024, dashed lines are the average. 2025 data points represent First Trust estimates.

Since 1950, government revenues have averaged 17.2% 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 30.7% in 2020. In fiscal year 2025, we estimate revenues reached 17.3% of GDP, slightly above the historical average, while spending declined to 23.1% of GDP, still well above its historic average.

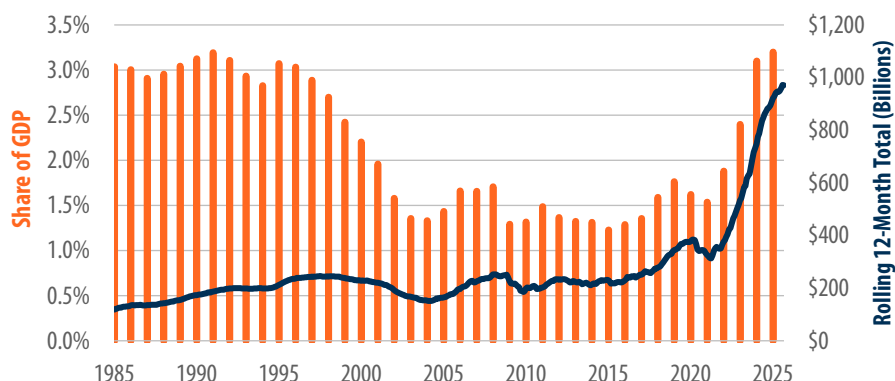
U.S. Federal Budget Deficit/Surplus vs. Unemployment



Source: The Office of Management and Budget (OMB), Bureau of Labor Statistics, First Trust Advisors. Fiscal year data 1950-2024; 2025 budget data point and unemployment rate represent First Trust estimates.

We estimate the U.S. deficit for fiscal year 2025 shrunk to 5.9% of GDP—some improvement from the 6.4% hit in 2024. 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 21 years, including 2025, when unemployment averaged 4.5% or lower. During those years, the federal budget deficit averaged just 1.7% 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: fiscal year 1950-2024, 2025 data point represents First Trust estimate. Right axis: monthly data Jan 1985 – Sep 2025.

Each year when the U.S. runs a deficit, it adds to the national debt, which now stands at \$37.9 trillion. The real concern, however, lies in the government's capacity to manage the interest payments on this mounting debt. In fiscal year 2025, federal net interest payments reached \$970.7 billion—the largest amount ever recorded. As a share of GDP, we estimate net interest payments averaged 3.2% in fiscal year 2025, more than doubling from 1.5% of GDP just four years ago in 2021. Back in 1985, net interest was also over 3.0% of GDP. Then, it concerned congress so much they passed in a vote of 61 to 31 for the Balanced Budget and Emergency Deficit Control Act of 1985, more commonly known as the Gramm-Rudman-Hollings Act, with the goal to gradually reduce the deficit to zero by 1991. This would be achieved by setting annual deficit targets and if missed, automatic across-the-board spending cuts (known as sequestration) would be triggered. However, the Supreme Court partially struck down the law in 1986, and the deficit never disappeared. Today, with interest costs once again soaring, Congress finds itself mired in another spending standoff—one that has already led to a government shutdown. Yet, unlike the 1980s, there's little sign of the same urgency or fiscal resolve.

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. There can be no assurance any estimates will be achieved. This information does not constitute a solicitation or an offer to buy or sell any security.