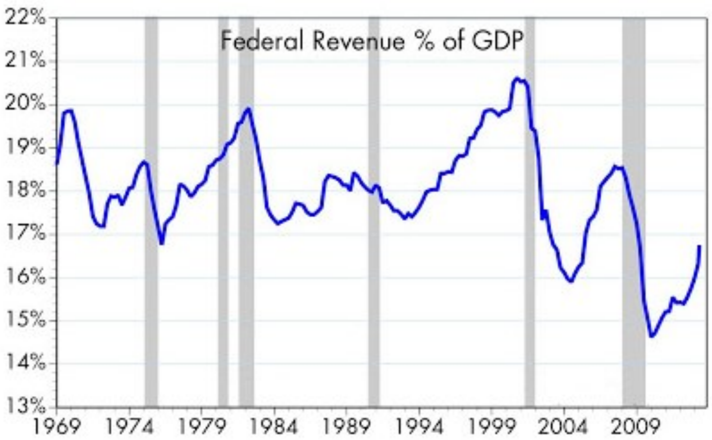
CHART OF THE MONTH

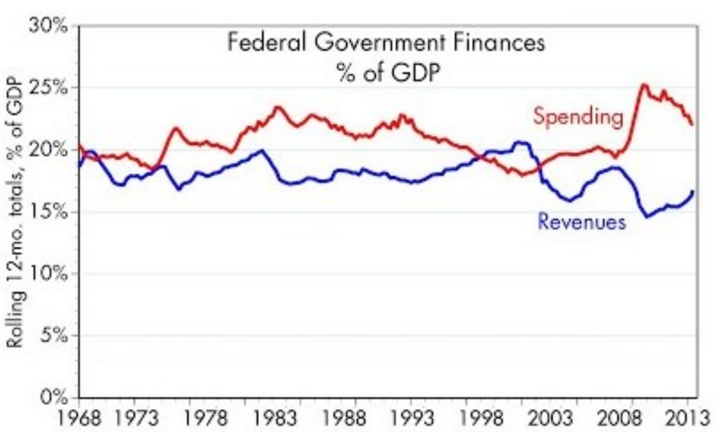
MAY 2013



Believe it or not but the finances of the federal government have been getting better, not worse, over the past three-and-a-half years. While far from ideal, the deficit has declined significantly in absolute dollars and as a percentage of Gross Domestic Product since the peak in 2009.

As shown in the graphs above and bottom left, the combination of increasing federal revenue and decreasing spending as a % of GDP since the end of the recession (noted by the gray bars) has dramatically narrowed the gap between these two measures. Therefore, as displayed at the bottom right, the deficit has shrunk from $1.47 trillion (10.5% of GDP) in 2009 to $856 billion (5.4% of GDP) as of April 2013.

Make no mistake about it, the improvement in federal (as well as corporate and household) finances has confounded the doubters and greatly benefited stock prices since the market low in March 2009. For sure, the Federal Reserve also deserves credit – at least in the short run – for its highly accommodative monetary policy. The bottom line is that the U.S. economy is in better shape than it was several years ago and the outlook is getting brighter rather than dimmer. Continued progress would go a long way toward offsetting the likelihood of interest rates normalizing over time and the unfunded liabilities that the country faces in the decades ahead.



Source: Scott Grannis

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