***Editor’s Note:*** *Due to significant uncertainty about the effect of the COVID-19 pandemic on the outlook for GDP and federal legislation, we are temporarily suspending the near-term forecast of the FIM. It will be resume in coming months.*

**TAKEAWAYS FROM THE FIRST QUARTER OF 2020**  
**By** *Kadija Yilla and Louise Sheiner*

Local, state, and federal spending and tax policies had little effect on the growth in inflation-adjusted Gross Domestic Product (GDP) in the first quarter of 2020, boosting it just 0.17 percentage point relative to its longer-run potential, according to the Hutchins Center Fiscal Impact Measure. Reflecting the onset of the COVID pandemic, GDP fell at an inflation-adjusted annual rate of 5.0 percent, according to the latest government estimate.

Real federal purchases rose at an annual rate of 1.9 percent in the first quarter, driven primarily by increases in nondefense spending. After several years of more robust growth, real state and local government purchases rose just 0.2 percent in the first quarter, a combination of an almost 1 percent decline in consumption expenditures offset by a 6.5 percent increase in investment spending. Tax and transfer policies added to the pace of growth this quarter, contributing 0.35 percentage point to the FIM.

Fiscal policy had been boosting economic growth modestly for several quarters, but had little effect this quarter. The decline from the fourth quarter is attributable to the stepdown in state and local spending and the waning of the effects of increases in federal social welfare and tax credit payments from early 2019. COVID is likely to change the trajectory of the FIM substantially as the federal government offsets some of the decline in economic activity resulting from the shutting of large parts of the economy to protect the public health. The FIM is a gauge of how much deeper the Covid-19 recession would be if not for local, state and federal fiscal policy.

The pandemic had only small effects on the FIM in the first quarter. Most notably, the real output of the state and local sector was held down by school closings and the switch to online learning. Although teachers continued to be paid, the hours of instruction fell. (The [Bureau of Economic Analysis](https://www.bea.gov/help/faq/1410) marked up the deflator in order to show lower real spending despite the same nominal spending.) In addition, the contribution of federal health spending to the FIM declined, reflecting a decline in Medicaid expenditures that is likely related to the pandemic.

We expect the FIM to increase sharply in the second quarter, reflecting both automatic stabilizers (taxes that automatically fall and spending that automatically increases when economic activity declines) as well as large fiscal packages enacted by Congress, including $268 billion in expanded unemployment insurance benefits, $660 billion in forgivable loans to smaller businesses, $300 billion in in checks to taxpayers, and $140 billion in help for public health and hospitals. Spending by state and local governments, however, is likely to fall over coming months, reflecting lower staffing needs while some offices and schools are closed, and hiring cutbacks in response to revenue shortfalls. Indeed employment by state and local governments in April was about 5% below the level in February.

The Fiscal Impact Measure goes back to 2000. It traces the significant federal fiscal stimulus during and after the Great Recession, the subsequent tightening of federal spending in the 2012-14 period, and the smaller effects that local, state, and federal fiscal policies had on the pace of economic growth in the last year.

*On July 26, the Hutchins Center updated the methodology for the FIM. In particular, the FIM now reflects contributions of fiscal policy beyond those that would occur if government purchases, taxes, and transfers were growing with the longer-run potential path of the economy. For more on these changes, see our updated* [*methodology »*](https://www.brookings.edu/research/the-hutchins-centers-fiscal-impact-measure/)*. You can also read our* [*Guide to the FIM »*](https://www.brookings.edu/2019/07/26/a-guide-to-the-hutchins-center-fiscal-impact-measure/%20/)*.*