**TAKEAWAYS FROM THE SECOND QUARTER UPDATE, 9/27/2019**   
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Local, state and federal spending and tax policies boosted growth in inflation-adjusted Gross Domestic Product (GDP) 0.8 percentage points relative to its longer-run potential in the second quarter of 2019, according to the Hutchins Fiscal Impact Measure. Government fiscal policy played an unusually large role in boosting economic growth in the second quarter. Strong federal spending, state and local government investment, and federal transfer payments helped lift the FIM to its highest value since 2010, when the Obama fiscal stimulus (the American Reinvestment and Recovery Act) was lifting the economy. The GDP grew at an annual rate of 2.0 percent, according to the latest government estimate.

Looking forward, tax and spending policies at all levels of government are expected to add about 0.5 percentage points to growth in each of the remaining quarters of 2019, and about zero in the first half of 2020. The new FIM forecast indicates that under the spending deal reached in July, federal spending will lift GDP growth by about 0.06 percentage points relative to potential in fiscal year 2020, which begins on October 1, 2019.

Federal spending rose by 8.3 percent in the second quarter, driven primarily by increases in nondefense government employee compensation and purchases of goods and services as opposed to investment. For several quarters, federal spending has grown less than one would have expected given the legislation for fiscal year 2019.

State and local government activity continued to expand in the second quarter and added 0.13 percentage point to GDP growth beyond its potential. State and local investments in structures, equipment, and intellectual property rose by 12.2 percent from the previous quarter. Employment growth at this level of government has been positive but modest in recent quarters, continuing a slow but steady recovery from its post-2010 lows. Looking ahead, state and local spending is expected to slow and fall in line with its longer-run trend, implying that the sector would have slightly negative impact on the pace of growth in the coming year.

Tax and transfer policies have added to the pace of growth since the beginning of 2019, driven mostly by unexpected increases in federal social welfare and tax credit payments. Because the FIM assumes that taxes and transfers affect household spending with a lag, those payments are expected to continue to boost the FIM by about 0.5 percentage points through the end of 2019.

The Hutchins 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 2018.