**TAKEAWAYS FROM THE THIRD QUARTER UPDATE, 10/30/2019**   
*By Sage Belz and Louise Sheiner*

Local, state, and federal spending and tax policies boosted growth in inflation-adjusted Gross Domestic Product (GDP) 0.5 percentage point relative to its longer-run potential in the third quarter of 2019, according to the Hutchins Center Fiscal Impact Measure. The GDP grew at an inflation-adjusted annual rate of 1.9 percent, according to the latest government estimate.

Federal spending and social benefits have helped lift the FIM above zero for several quarters, indicating that fiscal policy is boosting growth. The FIM is now near its highest values since 2010, when the American Reinvestment and Recovery Act was supporting the economy.

Looking forward, tax and spending policies at all levels of government are expected to add about 0.5 percentage point to growth in the final quarter of 2019, and neither add nor subtract much to growth in the first half of 2020. The FIM forecast indicates that during the fiscal year that began October 1st, federal spending will lift GDP by about 0.06 percentage point.

Federal spending rose at an annual rate of 3.4 percent in the second quarter, driven primarily by increases in nondefense government employee compensation and purchases of goods and services. Federal spending rose by less than expected at the beginning of this fiscal year, given spending legislation, but it has been stronger in the past two quarters.

State and local government activity decelerated in the quarter and had a slightly negative impact on GDP growth. State and local investments in structures, equipment, and intellectual property fell in the quarter after showing some signs of a pickup earlier in the year. Employment growth at this level of government, however, has been trending upwards 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 continue to have a 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 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 through the end of 2019.

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, the smaller effects that local, state, and federal fiscal policies had on the pace of economic growth in the last year.