**TAKEAWAYS FROM THE FOURTH QUARTER UPDATE, 2/28/2019**

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The spending and tax policies of federal, state, and local governments added little to growth in Gross Domestic Product (GDP) in the fourth quarter of 2018, according to the latest Hutchins’ Fiscal Impact Measure. Inflation adjusted GDP grew at a 2.6 annual rate in the quarter.

The most recent reading on the FIM suggests that the effects of federal legislation and increased spending at the state and local level, which boosted growth at the beginning of 2018, have begun to taper. In each of the previous four quarters, fiscal policy added about six-tenths of a percentage point to GDP; in the most recent quarter than number fell to one-quarter of a percentage point. The FIM indicates that fiscal policy has shifted from stimulating the economy at the beginning of the year to being in line with its longer-run, neutral contribution to GDP.

Federal spending added just one-tenth of a percentage point to GDP, a smaller impact than in previous quarters. Non-defense spending fell by 7 percent in the final quarter, in part reflecting reduced compensation for federal employees due to the partial government shut-down. Looking forward, most of the effects of the partial shutdown will likely be reflected in Fiscal Impact in the first quarter of 2019.

The strong economy fueled state and local spending at the beginning of 2018 but spending at that level was relatively weak in the most recent quarter. State and local construction, which showed some signs of an improvement in the last year fell by 3.6 percent in the quarter. Investment at the state and local level has yet to recover to its pre-recession levels. Employment growth in the sector also continues to be sluggish.

Taxes and transfers at all levels of government had a small positive effect on GDP in the fourth quarter. The FIM indicates that the positive effects from federal tax legislation at the beginning of 2017 have diminished but are still positive. In addition, some state and local governments are responding to the strong economy by lowering taxes, but those effects have yet to show through in the FIM.