**TAKEAWAYS FROM THE FIRST QUARTER UPDATE, 04/27/18**  
*By Louise Sheiner and Sage Belz*

According to the latest reading from the Hutchins’ Fiscal Impact Measure, federal, state and local fiscal policies had little effect on the pace of economic activity in the first quarter of 2018, adding less than 1/10th of a percentage point to first quarter GDP growth. Overall GDP rose at an inflation-adjusted rate of 2.3 percent in the first quarter.

Real state and local spending on construction turned down in the first months of the year, following a brief pickup at the end of 2017. State and local government hiring remained very weak as well. The sector has been persistently weak over the last two years, and has yet to recover to pre-Recession spending levels. Real spending on construction by state and local entities has declined by almost 9 percent since 2016, and remains about 25 percent lower than its level in 2008. Employment in the sector has grown by less than one percent in the last two years, and continues to sit below its pre-recession levels. The sluggishness of the state and local sector suggests states and localities continue to face fiscal constraints.

Federal spending slowed at the beginning of 2018 and contributed little to GDP growth. Total federal spending increased at an annual rate of 1.7 percent this quarter, due primarily to growth in defense outlays (which are highly variable quarter-to-quarter). As the funds from the $1.3 trillion omnibus spending bill get disbursed to the economy over the remainder of the current fiscal year, the FIM will help gauge the size of the bill’s stimulus effect.

Tax and transfer policies also had little effect on GDP growth this quarter. While the government’s first quarter estimate suggests personal taxes declined as a result of the recently enacted tax legislation, the FIM assumes that these declines translate only gradually to changes in spending and GDP growth.