**TAKEAWAYS FROM THE FOURTH QUARTER UPDATE, 5/30/2019**

By Sage Belz and Louise Sheiner

Government spending and tax policies—particularly at the state and local level—added 0.75 percentage points to growth in inflation-adjusted Gross Domestic Product in the first quarter of 2019, according to the Hutchins Fiscal Impact Measure. Inflation-adjusted GDP grew at a 3.1 percent annual rate in the quarter.

After neither adding nor subtracting much from GDP growth between 2015 and 2017, the combination of federal legislation and increased state and local spending added to the pace of growth through 2018. The most recent data indicate that while the waning effects of federal legislation and the partial government shutdown in January 2019 weighed on some components of the FIM, spending by state and local governments has continued to add to the pace of GDP growth.

State and local government activity expanded in the first quarter and added close to half a percentage point to GDP growth. Both investment and employment by state and local governments declined significantly during the Great Recession and remain below their pre-recession levels today. But in recent quarters the strong economy has bolstered state and local finances, and investment has picked up. State and local investments in structures, equipment and intellectual property by rose by 21 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.

Federal spending has risen only modestly over the last four quarters and made no net contribution to GDP growth in the first quarter. Nondefense spending declined by 6 percent in the first quarter, partly reflecting the effects of the partial government shutdown. Increases in spending on national defense offset these declines, however, so that the net impact on GDP was about zero. The most recent FIM reading suggests the contribution to GDP growth from increased federal spending last year has diminished significantly in recent quarters.

Tax and transfer policies at all levels of government added 0.3 percentage points to GDP, mostly driven by increases in federal transfer payments.