**TAKEAWAYS FROM THE THIRD QUARTER UPDATE, 10/26/2018**

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The spending and tax policies of federal, state, and local governments added ¾ percentage points to growth in Gross Domestic Product in the third quarter, fueled largely by an increase in spending at the state and local level, according to the latest Hutchins’ Fiscal Impact Measure. Inflation-adjusted GDP rose at a 3½ percent annual rate in the quarter.

Fiscal policies neither added to nor subtracted much from economic growth from 2014 through 2017, but recent legislation and increased spending at all levels of government have contributed positively to growth. Local, state and federal fiscal policy gave more of a boost to economy in the third quarter than at any time since the recession-era stimulus in 2010.

Spending at the state and local level grew at a 3.2 percent annual rate in the quarter. Investment by state and local governments, which had been weak for almost a decade following the Great Recession, has increased in each of the last four quarters and is now at its highest level since 2010. Growth in investment at that level has been shared broadly between intellectual property, structures and equipment. Employment at the state and local level, however, has shown almost zero growth over the last decade, and continues to sit well below its pre-recession levels. State and local governments often use private contractors for investment projects, so gains in real investment are often not mirrored in government employment.

Federal spending rose modestly in the third quarter, mostly the result of higher defense expenditures, and contributed about 1/5 a percentage point to GDP growth. Tax cuts enacted at the beginning of 2018 have boosted consumption and added to the pace of growth for the last three quarters, although the latest reading on the FIM suggests its effects on growth may have begun to taper. Transfers at all levels of government rose modestly in the quarter.

Today’s reading shows that the combination of federal, state, and local spending are providing additional stimulus to the economy beyond what is consistent with trend growth.