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

*By Sage Belz and David &or Louise*

The spending and tax policies of federal, state, and local governments—which neither added nor subtracted much to economic growth from 2014 to 2017—added ¾ percentage points to growth in Gross Domestic Product in the third quarter, according to the latest update from the Hutchins’ Fiscal Impact Measure. GDP grew at a 3.5 percent annual rate in the quarter.

Spending at the state and local moved rose by 3.2 percent in the quarter and added to overall economic growth. Investment by state and local governments, which had been weak for almost a decade following the Great Recession, has registered positive growth in each of the last four quarters and now sits 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.

Federal spending grew modestly in the third quarter, mostly on the back of higher defense expenditures, and added 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 may have begun to taper. Transfers at all levels of government grew modestly in the quarter.

The FIM now sits above what we estimate to be neutral—that is, the level at which fiscal policy’s contribution to GDP growth is in line with real potential growth. We expect the FIM to be positive, on average, but the latest reading suggests the combination of federal, state, and local spending are providing additional stimulus to the economy beyond what is consistent with trend growth.