***Editor’s Note:*** *On June 26, we reinstated the near-term forecast of the FIM. The forecast now incorporates recent federal legislation and spending due to the COVID-19 pandemic. We have also changed some of our assumptions to match the current state. See below for more information. As more information about spending and outlays becomes available, we will continue to update the FIM.*

**TAKEAWAYS FROM THE FIRST QUARTER OF 2020 & LOOKING FORWARD IN 2020 AND 2021**  
**By** *Kadija Yilla and Louise Sheiner*

Local, state, and federal spending and tax policies had little effect on the growth in inflation-adjusted Gross Domestic Product (GDP) in the first quarter of 2020, boosting it just 0.23 percentage point relative to its longer-run potential, according to the Hutchins Center Fiscal Impact Measure. Reflecting the onset of the COVID pandemic, GDP fell at an inflation-adjusted annual rate of 5.0 percent, according to the latest government estimate.

Real federal purchases rose at an annual rate of 2.0 percent in the first quarter, driven primarily by increases in nondefense spending. After several years of more robust growth, real state and local government purchases rose just 0.5 percent in the first quarter, a combination of a 1 percent decline in consumption expenditures largely offset by a 8.5 percent increase in investment spending. Policies relating to taxes, transfers, and subsidies added to the pace of growth this quarter, contributing 0.39 percentage point to the FIM.

The pandemic had only small effects on the FIM in the first quarter. Most notably, the real output of the state and local sector was held down by school closings and the switch to online learning. Although teachers continued to be paid, the hours of instruction fell. (The [Bureau of Economic Analysis](https://www.bea.gov/help/faq/1410) marked up the deflator in order to show lower real spending despite the same nominal spending.) In addition, the contribution of federal health spending to the FIM declined, reflecting a decline in Medicaid expenditures that is likely related to the pandemic.

Looking forward, tax and spending policies, due to both automatic stabilizers and legislation enacted in the first quarter, will contribute significantly to growth for the remainder of the year into the first quarter of 2021. The FIM will hit the highest level historically – more than doubling the impact to economic growth seen during the Great Recession. But as the effects of the legislation wane in the middle of 2021, we see a sharp decline in fiscal policies contribution to growth.

The impact of taxes and government transfers on the pace of GDP growth depends on the marginal propensities to consume – for instance, how much households spend versus how much they save from the $1,200/person payment that the CARES Act provided to most households. Estimating the impact of the Paycheck Protection Program on GDP is particularly difficult as it is too soon to know what share of those grants went to businesses that would have otherwise laid employees off—in which case the effects on GDP are quick and sizable—and what share should be viewed more like standard business tax cuts that have only small near-term effects on business spending.

We’ve assumed the MPCs from these grants, of which roughly 80% are dedicated to the PPP program, reflect 3/4ths of the usual MPCs from corporate tax cuts and the remaining to social benefits. Due to the progressivity of the transfers —particularly the increase in unemployment benefits—we have hastened the consumption of social benefits. We have also quickened consumption of personal income taxes. On the other hand, the effects of lockdown and social distancing could reduce consumption. Given all these uncertainties, we are presenting rough estimates that capture the basic stance of fiscal policy. The exact timing and magnitudes might be off. We will continue to update the FIM as more information becomes available.

The Fiscal Impact Measure goes back to 2000. It traces the significant federal fiscal stimulus during and after the Great Recession, the subsequent tightening of federal spending in the 2012-14 period, and the smaller effects that local, state, and federal fiscal policies had on the pace of economic growth in the last year.

*On July 26, the Hutchins Center updated the methodology for the FIM. In particular, the FIM now reflects contributions of fiscal policy beyond those that would occur if government purchases, taxes, and transfers were growing with the longer-run potential path of the economy. For more on these changes, see our updated* [*methodology »*](https://www.brookings.edu/research/the-hutchins-centers-fiscal-impact-measure/)*. You can also read our* [*Guide to the FIM »*](https://www.brookings.edu/2019/07/26/a-guide-to-the-hutchins-center-fiscal-impact-measure/%20/)*.*