**TAKEAWAYS FROM THE SECOND QUARTER UPDATE, 10/30/2019**   
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Local, state and federal spending and tax policies boosted growth in inflation-adjusted Gross Domestic Product (GDP) 0.5 percentage point relative to its longer-run potential in the third quarter of 2019, according to the Hutchins Fiscal Impact Measure. Federal spending and social benefits have helped lift the FIM above zero for several quarters now, to its highest values since the American Reinvestment and Recovery Act was supporting the economy in 2010. The GDP grew at an inflation-adjusted annual rate of 1.9 percent, according to the latest government estimate.

Looking forward, tax and spending policies at all levels of government are expected to add about 0.5 percentage points to growth in the final quarter of 2019, and about zero in the first half of 2020. The FIM forecast indicates that under the new federal budget, which began on October 1st, federal spending will lift GDP growth by about 0.06 percentage points over the next year.

Federal spending rose by 3.4 percent in the second quarter, driven primarily by increases in nondefense government employee compensation and purchases of goods and services as opposed to investment. At the beginning of the year, federal spending grew by less than one would have expected given the legislation for fiscal year 2019. But in the last two quarters spending in the sector has risen and pushed GDP growth beyond its longer-run potential growth rate.

State and local government activity decelerated in the quarter and had a slightly negative impact on GDP growth. State and local investments in structures, equipment, and intellectual property fell in the quarter after showing some signs of a pickup earlier in the year. Employment growth at this level of government, however, has been trending upwards in recent quarters, continuing a slow but steady recovery from its post-2010 lows. Looking ahead, state and local spending is expected to slow and fall in line with its longer-run trend, implying that the sector would continue to have slightly negative impact on the pace of growth in the coming year.

Tax and transfer policies have added to the pace of growth since the beginning of 2019, driven mostly by unexpected increases in federal social welfare and tax credit payments. Because the FIM assumes that taxes and transfers affect household spending with a lag, those payments are expected to continue to boost the FIM by about 0.5 percentage points through the end of 2019.

The Hutchins 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 2018.