***Editor’s Note:*** *Due to significant uncertainty about the effect of the COVID-19 pandemic on the outlook for GDP and federal legislation, we are temporarily suspending the near-term forecast of the FIM. It will be published again in coming months.*

*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 ». You can also read our Guide to the FIM ».*

**TAKEAWAYS FROM THE FOURTH QUARTER UPDATE, 02/27/2019**  
**By** *Manuel Alcalá, Kadija Yilla, and Louise Sheiner*

Local, state, and federal spending and tax policies boosted growth in inflation-adjusted Gross Domestic Product (GDP) 0.76 percentage point relative to its longer-run potential in the fourth quarter of 2019, according to the Hutchins Center Fiscal Impact Measure. The GDP grew at an inflation-adjusted annual rate of 2.1 percent, according to the latest government estimate.

Fiscal policy has been boosting economic growth modestly for several quarters, and the FIM is now near its highest values since 2010, when the American Reinvestment and Recovery Act was supporting the economy. ~~Looking forward, tax and spending policies at all levels of government are expected to be slightly contractionary in 2020 and 2021.~~

Real federal purchases rose at an annual rate of 3.8 percent in the fourth quarter, driven primarily by increases in defense spending. ~~Looking forward, purchases are expected to rise only sluggishly over the next two years.~~

Real state and local government purchases rose 1.9 percent in the fourth quarter. Investment spending, which had been strong at the beginning of the year but fell last quarter, rose at a 5.2 percent pace in the fourth quarter. State and local government employment posted modest gains in the fourth quarter, continuing the 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 have a slightly negative impact on the pace of overall economic growth in the coming years.~~

Tax and transfer policies added to the pace of growth during 2019, driven mostly by increases in federal social welfare and tax credit payments. ~~Looking forward, tax and transfer policies are projected to be a slight negative for the Fiscal Impact Measure, as tax payments are projected to rise a bit as a share of GDP.~~

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, the smaller effects that local, state, and federal fiscal policies had on the pace of economic growth in the last year.