**TAKEAWAYS FROM THE FOURTH QUARTER UPDATE, 3/28/2019**

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The spending and tax policies of federal, state, and local governments had no effect on growth in Gross Domestic Product (GDP) in the fourth quarter of 2018, according to the latest Hutchins’ Fiscal Impact Measure. Inflation-adjusted GDP rose at a 2.2 percent annual rate in the quarter.

The most recent reading on the FIM suggests that the effects of federal legislation and increased spending at the state and local level, which boosted growth at the beginning of 2018, have tapered. In each of the previous four quarters, fiscal policy added about six-tenths of a percentage point to GDP; in the most recent quarter, that number fell to zero. The FIM indicates that fiscal policy has shifted from stimulating the economy at the beginning of the year to neither boosting nor dragging GDP growth.

Federal spending added just one-tenth of a percentage point to GDP, a smaller impact than in previous quarters. Non-defense spending fell by 6 percent in the final quarter, in part reflecting the effects of the partial government shutdown. Looking forward, most of the effects of the partial shutdown will likely be reflected in Fiscal Impact in the first quarter of 2019.

State and local spending was robust at the beginning of 2018 but was weak in the most recent quarter. State and local construction, which showed some signs of an improvement in the last year, fell by 8.8 percent in the quarter. Investment at the state and local level has yet to recover to its pre-recession levels. Employment growth in the sector also continues to be sluggish.

Taxes and transfers at all levels of government had no effect on GDP in the fourth quarter. The FIM indicates that the positive effects from federal tax legislation at the beginning of 2017 have diminished. In addition, some state and local governments may be responding to the strong economy by lowering taxes, but those effects have yet to show through in the FIM.