**TAKEAWAYS FROM THE THIRD QUARTER UPDATE, 11/28/2018**

*By Sage Belz and David Wessel*

The spending and tax policies of federal, state, and local governments added 0.6 percentage points to growth in Gross Domestic Product in the third quarter, fueled by increased spending at all levels of government, according to the latest Hutchins’ Fiscal Impact Measure. Inflation-adjusted GDP rose at a 3½ percent annual rate in the quarter.

Fiscal policies neither added to nor subtracted much from economic growth from 2014 through 2017, but recent federal legislation and increased spending by state and local governments have contributed positively to growth. Local, state and federal fiscal policy have given more of a boost to the economy in 2018 than in any year since the recession-era stimulus in 2010.

Spending at the state and local level grew at a 2 percent annual rate in the quarter. Early estimates that showed a robust increase in state and local government investment in the third quarter have since been revised downwards, implying the sector’s impact on growth was smaller than previously estimated. Investment at this level has been weak since the Great Recession, but has showed some signs of recovery in the last four quarters. . Growth in investment 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 rose modestly in the third quarter, mostly the result of higher defense expenditures, and contributed 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 on growth may have begun to taper. Transfers at all levels of government rose modestly in the quarter.

Today’s reading shows that the combination of federal, state, and local spending are providing additional stimulus to the economy beyond what is consistent with trend growth.