**TAKEAWAYS FROM THE FIRST QUARTER UPDATE, 07/27/18**  
*By Louise Sheiner and Sage Belz*

According to the latest reading from the Hutchins’ Fiscal Impact Measure, federal, state and local fiscal policies added to the pace of economic activity in the second quarter of 2018, contributing more than half a percentage point to GDP growth. Overall GDP rose at an inflation-adjusted rate of 4.1 percent in the second quarter.

Tax and transfer policies had a positive effect on GDP growth this quarter. Spending on the federal government’s four largest benefit programs—Social Security, Medicare and Medicaid—continue to increase at a moderate pace[[1]](#footnote-1), while taxes on personal income have declined since the enactment of new tax legislation at the start of the year. The FIM reflects the gradual translation of lower taxes into spending and GDP growth.

Federal spending increased at an annual rate of 3½ percent in the second quarter, in large part due to higher defense spending in the last three months. Since the first of the year, interest payments on the federal debt have also picked up, reflecting increases in the size of the federal debt and higher inflation.[[2]](#footnote-2) As the funds from the $1.3 trillion omnibus spending bill are disbursed over the coming quarters, the FIM will help gauge the size of the bill’s stimulus effect on the economy.

State and local spending rose modestly in the second quarter. Sluggish hiring and slow growth in spending on construction by state and local authorities contributed very little to GDP growth this quarter. The sector has shown persistent weakness in the last two years, and has yet to recover to pre-recession spending levels. Real state and local construction has grown by less than 5 percent since 2016, and remains 25 percent lower than its level in 2008. Employment in the sector has registered almost zero growth in the last year, and continues to sit below its pre-recession levels.

*Editor’s note:* Revisions to the government’s official estimates this quarter suggest the FIM has averaged slightly higher over the last two quarters than previously estimated. Federal spending, alonside tax and transfer policies, have had a small positive effect on economic activity since the fourth quarter of 2017.

1. CBO. “Monthly Budget Review for June 2018.” <https://www.cbo.gov/system/files?file=2018-07/54126-MBR.pdf> [↑](#footnote-ref-1)
2. Net interest on the public debt rose by 21, 26, and 26 percent in April, May, and June, respectively. CBO. Budget Reviews for April, May, June 2018. <https://www.cbo.gov/about/products/major-recurring-reports#9> [↑](#footnote-ref-2)