1. 118th CONGRESS CONVENES

The 118th Congress convened on January 3. After 9 ballots, as of Thursday afternoon, the House was unable to elect a new Speaker, with leading Republican contender Kevin McCarthy (R-CA) falling short of a majority of votes as 20 Republicans voted against him. Under House rules, a Speaker can only be elected with majority support of all Members present voting. Thursday morning, McCarthy made concessions in rule changes to House operations, the operation of committees, and reducing the power of the Speaker but still failed to win over the Republican dissenters.

This debate has strong implications for the debate that will have to happen later this year on raising the debt ceiling. Rep. Ralph Norman (R-SC) said that it was “non-negotiable” that McCarthy support a move to “shut the government down rather than raise the debt ceiling [.]” But any debt ceiling agreement must also be able to win 60 votes in the Senate to pass, pushing that chamber towards greater compromise. “[A government shutdown is] not going to get 60 votes. That’s math,” said one Republican Senate aide quoted by The Hill.
Until a new Speaker is chosen, Members of the House cannot be sworn in, be assigned to committees, or undertake business, and Senator Patty Murray (D-WA), the new President pro tempore of the Senate as its longest-serving member of the majority party, is second in the order of Presidential succession.

On the Senate side, Majority Leader Chuck Schumer (D-NY) delivered an opening speech offering bipartisan cooperation: “[a]fter everything we’ve accomplished over the last two years, America is stronger, healthier and better prepared for [the] future, thanks to the Senate working together. And we must continue.” Schumer cited major legislation such as the CHIPS and Science Act and added that “[i]f Republicans are willing to work with us in the New Year, they will be met with an open hand.”

2. OMNIBUS BUDGET APPROPRIATIONS BILL

On December 23, Congress approved a $1.7 trillion omnibus appropriations bill covering all Federal spending through September 30, the end of Fiscal Year 2023. The compromise legislation resulted from negotiations between leading appropriators Senators Patrick Leahy (D-VT) and Richard Shelby (R-AL) and Rep. Rosa L. DeLauro (D-CT), then the Chair of the House Appropriations Committee. The bill provides over $850 billion for defense and $773 billion for domestic spending as well as $45 billion in assistance for Ukraine (military, economic, and humanitarian) and $27 billion to address FEMA expenses following hurricanes in Florida and Puerto Rico and other natural disasters. Every appropriations bill combined into the omnibus legislation showed a slight increase from Fiscal Year 2022 spending; other than defense and veterans’ programs, the largest increase ($10.4 billion) was for Labor, HHS, and Education. Total domestic spending, including for veterans’ programs, rose by $68 billion, or about 9 percent.

Some policy provisions that had been proposed as part of this “must-pass” legislation were not included either in this bill or other actions of the lame-duck session. Notable areas not included were immigration reform, raising the debt ceiling, funding for COVID testing and vaccines, and extending the provision for immediate amortization of research expenses (rather than over a five-year schedule).

The bill offers clarity on Medicaid redetermination, ending the moratorium prohibiting states from terminating coverage for enrollees, but delays proposed Medicare cuts for physician reimbursement and extends pandemic flexibilities on telehealth and acute home care for two years. It also raises funding for investments in early childhood education, including Child Care and Development Block Grants and Head Start, and provides additional funding for a number of initiatives related to workforce development, connecting high schools to career opportunities and for registered apprenticeships.

The omnibus also includes two milestone changes for working mothers. The Pregnant Workers Fairness Act requires employers to make reasonable accommodations for pregnant women, including workplace safety, bathroom breaks, and breaks from standing. The Providing Urgent Maternal Protections for Nursing Mothers (PUMP) Act similarly provides legal workplace protection for breastfeeding women and compels employers to provide space and time for those employees. Finally, the bill contains $58.7 billion in funding for implementation of the Infrastructure Investment and Jobs Act, and $1.8 billion for implementing the CHIPS and Science Act, including funding for the Defense Department provisions of the Act on subsidies for domestic semiconductor production. CED will continue to cover these and other issues as well as the appropriations process for Fiscal Year 2024, which will begin with the new Congress.
3. THE CONFERENCE BOARD LEADING ECONOMIC INDEX DECLINES

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 1.0 percent in November to 113.5 (2016=100), following a decline of 0.9 percent in October. The LEI is now down 3.7 percent over the six-month period between May and November 2022—a much steeper rate of decline than its 0.8 percent contraction over the previous six-month period between November 2021 and May 2022.

4. US CONSUMER CONFIDENCE BOUNCES BACK IN DECEMBER

In contrast to the Leading Economic Index, The Conference Board Consumer Confidence Index® increased in December following back-to-back monthly declines. The Index now stands at 108.3 (1985=100), up sharply from 101.4 in November. The Present Situation Index—based on consumers’ assessment of current business and labor market conditions—increased to 147.2 from 138.3 last month. The Expectations Index—based on consumers’ short-term outlook for income, business, and labor market conditions—improved to 82.4 from 76.7.

“Consumer confidence bounced back in December . . . to reach its highest level since April 2022,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “The Present Situation and Expectations Indexes improved due to consumers’ more favorable view regarding the economy and jobs. Inflation expectations retreated in December to their lowest level since September 2021, with recent declines in gas prices a major impetus. Vacation intentions improved but plans to purchase homes and big-ticket appliances cooled further. This shift in consumers’ preference from big-ticket items to services will continue in 2023, as will headwinds from inflation and interest rate hikes.”

5. FED MINUTES INDICATE TIGHTER POLICY THAN MARKETS EXPECTED

On Wednesday, the Federal Reserve Open Market Committee (FOMC) published minutes from its December meeting, at which it raised interest rates by 0.5 percentage points. This increase was smaller than the prior pace of increases; the FOMC had raised the federal funds rate 0.75 percentage points in each of the four prior meetings. One of the most important concerns discussed is expectations of how quickly the FOMC might slow the pace of its rate increases, or even reverse them, in light of a weakening economy. Broader financial conditions can tighten (making borrowing relatively expensive) or loosen (making borrowing relatively cheaper) based on expectations of future FOMC policy.

The minutes noted that markets had, in effect, priced in a slower pace of interest rate hikes going forward, stating that “financial conditions eased over the period as investor concerns about global risks edged lower and incoming data showed nascent signs of a moderation in inflationary pressures.” However, the minutes also suggested FOMC participants believed that markets were pricing in too much easing, more than the FOMC intended. “An unwarranted easing in financial conditions,” participants noted, “especially if driven by a misperception by the public of the Committee’s reaction function, would complicate the Committee’s effort to restore price stability.” In the FOMC’s view, bond markets predict a more dovish FOMC than the FOMC expects itself to be—and even an incorrect expectation of a more dovish FOMC can make policy more expansionary than the FOMC might intend. The Conference Board’s latest economic forecast from December indicates that rates will level out between 4.75 and 5 percent, just 0.5 percentage points above their current levels.
6. TRADE DEFICIT FALLS

The US trade deficit in goods and services declined to $61.5 billion in November according to data released Thursday, falling $16.3 billion from October's revised figure, largely because of falling imports. November exports were $251.9 billion, $5.1 billion less than October exports. November imports were $313.4 billion, $21.5 billion less than in October, almost entirely attributable to a decline in goods imports ($20.6 billion) across a broad variety of categories. Imports of consumer goods in total declined by $8.8 billion, including a $2.9 billion drop in pharmaceuticals and a $2.7 billion drop in cell phones and other household goods. Industrial supply and material imports decreased $3.7 billion, including a $0.9 billion decline in crude oil imports. Automotive imports declined $3.3 billion, of which $1.6 billion was passenger cars. Finally, capital goods decreased $3.0 billion, including $1.1 billion in computers and $0.7 billion in telecommunications equipment. The deficit with China decreased $5.8 billion to $20.4 billion in November, matching a $5.8 billion decline in imports. The deficit with the European Union decreased $3.6 billion to $19.5 billion in November, also due to declines in goods imports. The US continues to run a trade surplus in services, which expanded $1.0 billion to $22.5 billion.

7. MANUFACTURING GAUGES REMAIN IN DECLINE

Two separate measures of manufacturing activity, published by the Institute for Supply Management (ISM) and S&P Global, showed declining activity in December, the second month of decline in both indexes after a 29-month expansion dating back to the summer of 2020, and the worst figure for both indexes since May 2020. The ISM Purchasing Managers Index (PMI) was 48.4 for December, below 49.0 for November and below the neutral mark of 50. New orders dipped further into contraction than they had in November. On the supply side, indicators were mixed: production contracted (it had slightly increased in November), but employment expanded slightly (it had contracted in November.) S&P Global also reported declining activity, with a headline number of 46.2, down from 47.7 in November. S&P reported declining new orders as well, noting that the decline there was “among the fastest on record since May 2007.” Export demand also declined. On the supply side, production contracted and employment expanded slightly, similar to the figures reported by ISM.

8. JOB OPENINGS HOLD STEADY: QUITS RATE INCREASES

Job openings in the US remained flat at 10.5 million in November, holding steady from October data that were revised higher by roughly 200,000. Large increases in job openings in professional and business services (+212,000), manufacturing (+57,000), and retail (+37,000), were offset by declining openings in the sectors of leisure and hospitality (-118,000), financial services (-90,000), and the federal government (-44,000). In total, openings in November sat roughly 1.5 million or 12% lower compared to the March 2022 peak. Also signaling that the job market remained strong through November, total layoffs fell 95,000 and have continued to remain below pre-pandemic rates. Notably, the rate of worker quits ticked higher relative to October, marking the first monthly increase since February 2022. The uptick in November was driven predominantly by transportation, warehousing, and utilities, in addition to continued elevated levels among workers in leisure and hospitality and in healthcare; total private sector quits stand at 16% higher than the 2019 average.

9. INITIAL UNEMPLOYMENT CLAIMS

The Department of Labor reported Thursday that initial claims for unemployment insurance, a weekly indicator of labor market health, were 204,000 for the week ending December 31, a decrease of 19,000
from the previous week's revised level of 223,000, following downward revisions of 2,000. As the final
claims report for 2022, the full-year average of 215,600 ended the year below 2019’s average level of
218,423. The slight uptick in initial claims from October and November reversed in December, indicating
the historically tight labor market held firm through the end of the year. The Conference Board’s latest
economic forecast shows the unemployment rate rising to 4.5 percent, well above its current level of 3.7
percent, by the fourth quarter of 2023.

10. FED RESEARCH ON LIKELIHOOD OF RECESSION

Research from several of the regional Federal Reserve banks shows that over half of the states are
showing signs of slowing economic activity. The Federal Reserve Bank of Philadelphia has developed a
monthly series of state coincident indexes (SCIs) for each state measuring state-level economic activity.
Using this data, economists at the Federal Reserve Bank of St. Louis concluded that as of October, 27
states were experiencing negative growth as measured by the SCIs. Leaving aside the recession of 2008
during the financial crisis, an outlier in which only nine states showed negative growth before that
recession began, the average level of negative growth SCIs before a recession is 29, offering what the St.
Louis Fed termed “reasonable confidence” that a national recession is near. However, it is important to
note that the St. Louis Fed figures are not adjusted for state population size or GDP.

11. ENERGY SECRETARY ADDRESSES PETROLEUM COUNCIL, BEGINS RESERVE REPLENISHMENT

In December, Energy Secretary Jennifer Granholm spoke to the National Petroleum Council, a Federal
Advisory Committee that includes representatives of major fossil fuel producers, stating “[w]e are eager
to work with you” and recognizing that fossil fuels will remain an important part of the energy mix and
will need to increase production, even during the transition to cleaner energy. Noting the current
shortage of diesel, Granholm adding that “[m]oving too fast could have unintended consequences that
hurt people, cause backlash.” Granholm noted the “elephant in the room” of poor relations this year
between the Administration and fossil fuel producers; her remarks mark a notable change of tone.

Separately, the Department noted that it will start the formal program, first announced in October, of
repurchasing of crude oil to begin replenish the Strategic Petroleum Reserve, from which major
drawdowns were taken earlier this year following the invasion of Ukraine. The Department expects that
it will purchase the replenishment oil at prices lower than the $96 average for which it was sold, using
fixed-price contracts. The first replenishment will be for up to 3,000,000 barrels. The Administration
described the action as “a wartime bridge for domestic production to increase.” The contracts for
replenishment will be awarded next week.

12. SUPREME COURT PRESERVES TITLE 42 IMMIGRATION POLICY TEMPORARILY

On December 27, the Supreme Court allowed the “Title 42” immigration policy to remain in effect
through February when it will hear arguments from 19 state attorneys general. The immigration policy
known as Title 42 (from its citation in the US Code) was invoked in March 2020, allowing border officials
to expel migrants, including those seeking asylum, quickly, because of the public health emergency. The
move blocks a lower court opinion from November that ordered the termination of Title 42 authority.
Prior to the Supreme Court’s ruling, the Administration had requested the court delay ending the policy,
citing concerns over ongoing preparations to handle an influx of migrants expected to follow the policy’s
termination. Estimates point to nearly 2.5 million migrants turned away under the policy since early
2020 (including double-counting of repeated crossing attempts), as the percentage of migrants apprehended more than once by the Border Patrol has increased to 27 percent from 7 percent in 2019.

13. GRANTS FOR BRIDGE INVESTMENT PROGRAM

On Wednesday, the Department of Transportation announced $2.1 billion in funding towards four large bridge projects under the Infrastructure Investment and Jobs Act’s $12.2 billion Bridge Investment Program. (The law also contains a separate $26.7 billion formula grant for bridges, awarded to states.) The funding includes $1.4 billion for the Brent Spence bridge connecting Cincinnati to Covington, Kentucky, part of an area named as the second worst truck bottleneck in the nation behind only Fort Lee, New Jersey. Many freight carriers use the Cincinnati/Northern Kentucky International Airport extensively. The funding also includes $400 million for earthquake resiliency for the Golden Gate Bridge; $158 million for structural repair and load capacity for the Gold Star Memorial Bridge, on I-95 between New London and Groton, Connecticut; and $144 million for rehabilitation of four drawbridges along the Calumet River on the South Side of Chicago.

14. BROADBAND SPENDING UNDER INFRASTRUCTURE LAW

Over the holidays, several developments advanced broadband spending under the Infrastructure Investment and Jobs Act (IIJA). As of December 28, the National Telecommunications and Information Administration (NTIA) had awarded preliminary funds of $210 million to all states as planning grants before full grants for the $42.5 billion Broadband Equity, Access, and Deployment (BEAD) program are expected to be released in Summer 2023. At the FCC, the challenge process is underway to the maps the FCC released of current broadband coverage, with “thousands” of challenges already submitted. FCC approval of accurate maps of broadband coverage is a required step before BEAD funding can be released. On January 3, the FCC opened its second round of data collection from states and service providers to assist in developing the final broadband coverage map. The deadline for submissions is March 1. The FCC also released a proposed rule calling for greater transparency in pricing in broadband plans for consumers, another requirement of the IIJA. Comments are due January 17.

15. FTC PROPOSES BAN ON NON-COMPETE AGREEMENTS

The FTC proposed a rule banning non-compete clauses for workers and voiding those that already exist. The move follows the 2021 Executive Order on “Promoting Competition in the American Economy.” The FTC is acting under Section 5 of the Federal Trade Commission Act which gives it power to prohibit “unfair” methods of competition, on what Chair Lina Khan termed “a raft of economic evidence” that the clauses “undermine competition” by “locking up workers, which means that they’re not able to match with the best jobs for them” and that banning non-compete clauses enhances labor mobility. The rule would require companies to give “clear notice” of the prohibition against non-compete agreements, to be sure workers know their rights. The rule will be published shortly in the Federal Register, with comments due 30 days after publication. If the FTC proceeds with a final rule, it is expected to lead to litigation; the US Chamber of Commerce wrote in 2021 that the FTC “lacks legal authority” in this area. States such as California, Oklahoma, and North Dakota have already banned non-compete clauses under state law, but enforcement has been difficult.
16. US LIFE EXPECTANCY FALLS AGAIN

According to the National Center for Health Statistics, life expectancy in the US fell for the second consecutive year in 2021 to 76.4 years at birth, falling from 77.0 in 2020 and 78.8 years in 2019 prior to the pandemic. Death rates increased across every population group from seniors to young children, with the age-adjusted death rate for the total population increasing 5.3 percent in 2021, to 879.7 deaths per 100,000 standardized population from 835.4 in 2020. COVID-19 remained the third leading cause of death in 2021, behind heart disease and cancer – the three together account for roughly half of all US deaths. Continuing a frightening trend, drug overdose deaths surged to nearly 107,000 in 2021, a nearly 15 percent rise over the record set in 2020 that had already risen 30 percent from before the pandemic.

17. MONKEYPOX UPDATES

As of January 4, the US has confirmed a total of 29,913 cases of monkeypox. States with the highest case numbers include California (5,670), New York (4,203), Texas (2,882), Florida (2,855) and Georgia (1,984). Globally, as of January 4, 84,075 cases have been confirmed, with 82,884 cases confirmed in locations that have not historically reported monkeypox. The countries with the highest case numbers include the US (29,913), Brazil (10,498), Spain (7,500), France (4,114), and Colombia (4,021). A total of 61 deaths have been reported in locations that have not historically reported monkeypox.

FDA published a notice in the Federal Register December 30 announcing Emergency Use Authorization (EUA) for an in vitro diagnostic device from Roche Molecular Systems, Inc. The company’s “cobas MPXV” is a real-time test designed to detect DNA from monkeypox virus in lesion samples collected from individuals suspected of infection. The test targets two different areas of the genome which are less prone to mutation.