1. YELLEN TAKES ADDITIONAL “EXTRAORDINARY MEASURE” TO ADDRESS DEBT CEILING

On Tuesday, Treasury Secretary Janet Yellen notified Congress that Treasury suspended reinvestment of the Government Securities Investment Fund (G Fund) of the Thrift Savings Fund available to Federal employees in interest-bearing US securities, which Treasury is permitted to do by statute as an “extraordinary measure” now that the US has reached its debt ceiling. The Fund “will be made whole once the debt limit is increased or suspended.” Taking these extraordinary measures should keep the US from reaching the X date -- the date after which the US would not be able to pay any bills -- until some point in June. Yellen again called on Congress to take quick action to address the debt ceiling.

2. McCARTHY, MANCHIN MEET ON DEBT CEILING

After a meeting with House Speaker Kevin McCarthy (R-CA) on Wednesday, Senator Joe Manchin (D-WV) told reporters that McCarthy had agreed not to cut Social Security and Medicare in negotiations over the debt ceiling. Manchin has opposed cuts to the programs during the debt ceiling debate.

Recognizing the need for reform separate from the debt ceiling debate, Manchin in an interview this week on CNN’s “State of the Union,” called for a key change to help shore up Social Security’s ailing funds – raising the cap on payroll taxes that are used to fund the program. “The easiest and quickest thing that we can do is raise the cap,” he said, while also curbing “wasteful spending.”

3. THE CONFERENCE BOARD LEADING ECONOMIC INDEX CONTINUES DECLINE

The Conference Board Leading Economic Index® (LEI) for the US decreased by 1.0 percent in December 2022 to 110.5 (2016=100), following a decline of 1.1 percent in November. The LEI is now down 4.2
percent over the six-month period between June and December 2022 – a much steeper rate of decline than its 1.9 percent contraction over the previous six-month period (December 2021 - June 2022). “The US LEI fell sharply again in December – continuing to signal recession for the US economy in the near term,” said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. “There was widespread weakness among leading indicators in December, indicating deteriorating conditions for labor markets, manufacturing, housing construction, and financial markets in the months ahead. Meanwhile, the coincident economic index (CEI) has not weakened in the same fashion as the LEI because labor market-related indicators (employment and personal income) remain robust. Nonetheless, industrial production – also a component of the CEI – fell for the third straight month. Overall economic activity is likely to turn negative in the coming quarters before picking up again in the final quarter of 2023.”

4. GDP RISES 2.9 PERCENT DESPITE GRADUAL SOFTENING

Real GDP increased at an annual rate of 2.9 percent in the fourth quarter of 2022, according to the Bureau of Economic Analysis’ advance estimate, reflecting weaker growth than in the third quarter (3.2 percent) despite declining inflation. Though headline growth was strong, the underlying components were quite mixed with the buildup of private inventories and government expenditures contributing 1.46 and 0.64 percentage points to overall fourth quarter growth. Final sales to private domestic purchasers, which excludes government, trade, and inventories, grew just 0.2 percent, the weakest number since the second quarter of 2020. Personal consumption expenditures rose 2.1 percent for the quarter, with goods consumption rising 1.1 percent following three consecutive quarterly declines, and services consumption continuing to rise (2.6 percent). However, declines in fixed investment (6.7 percent) offset much of that increase. Higher interest rates continued to weigh down residential investment, which declined 26.7 percent, following decreases of roughly 18 percent and 27 percent in the second and third quarters. Exports also fell slightly (1.3 percent) while imports declined (4.6 percent). The Conference Board’s Economy, Strategy, and Finance Center analysis notes that “anomalies in inventories and trade mask deeper softness in the economy”; it forecasts “that a mild recession is likely to begin in Q1 2023.”

5. DURABLE GOODS ORDERS RISE SHARPLY IN DECEMBER

On Thursday, the Census Bureau released its advance report on durable goods manufacturers’ shipments, inventories, and orders. New orders rose sharply by $15.3 billion, 5.6 percent, to $286.9 billion, following a decline of 1.7 percent in November. This resumed an upward trend. The increase was driven largely by transportation equipment, which rose $15.5 billion or 16.7 percent, to $108.1 billion. Excluding transportation, orders fell by 0.1 percent. Shipments of manufactured durable goods also rose $1.4 billion or 0.5 percent to $277.7 billion, similar to November’s 0.4 increase. Transportation equipment shipments, rising $1.5 billion to $93.8 billion, also drove this figure. Inventories rose $3.5 billion, or 0.7 percent, to $493.6 billion, the twenty-third consecutive monthly increase.

6. INITIAL UNEMPLOYMENT CLAIMS FALL

The Department of Labor reported Thursday that initial claims for unemployment insurance, a weekly indicator of labor market health, were 186,000 for the week ending January 21, a decrease of 6,000 from the previous week’s revised level of 192,000, following upward revisions of 2,000. The 4-week moving average was 197,500, its lowest mark since May 2022. This level of claims is low by historical standards and well below the highs of 261,000 in July, reflecting continued labor market strength even
as some leading economic indicators tip into negative territory. The latest economic forecast from The Conference Board shows the unemployment rate rising to 4.5 percent, well above its current level of 3.5 percent, by the fourth quarter of 2023.

7. JUSTICE DEPARTMENT, EIGHT STATES SUE GOOGLE

The Justice Department and a bipartisan coalition of eight states (California, Colorado, Connecticut, New Jersey, New York, Rhode Island, Tennessee, and Virginia) filed an antitrust case against Google, charging that Google has used its dominant position in search advertising in a “systematic campaign” to “insert itself into all aspects of the digital advertising marketplace” to harm competitors and force publishers to use its products. The suit demands that Google divest many of its advertising technology products and undo “anticompetitive acquisitions,” including Google’s purchase of DoubleClick in 2008. The Justice Department also cited negative impacts on the Federal government as a purchaser of $100 million in digital advertising since 2019, providing an additional ground for the suit.

The suit quotes one Google employee asking, “Is there a deeper issue with us owning the platform, the exchange, and a huge network? The analogy would be if Goldman or Citibank owned the NYSE”; another manager was cited as saying “all or nothing – use [Google’s ad exchange] or don’t get access to our demand.” Google responded to the suit by accusing the Justice Department of an attempt “to pick winners and losers in the highly competitive advertising technology sector,” and noting that “[a]ntitrust cases shouldn’t penalize companies that offer popular, efficient services, particularly in difficult economic times. And they shouldn’t force companies to reverse 15-year-old investments that they have nurtured and worked hard to make successful, especially when those investments were already reviewed by regulators and allowed to proceed.”

Any divestiture would have a strong financial impact on Google; revenues from the advertising products were $7.9 billion in the third quarter of 2022. Antitrust cases frequently move very slowly, and it would likely take years to litigate a divestiture. Some analysts noted in that a divestiture of Google’s advertising business, the separate company could still dominate the online advertising market. Beyond this lawsuit, Google also faces another suit on Google’s search results, which may come to trial this fall, as well as a lawsuit from ten states alleging similar charges relating to the advertising business, for which discovery will continue until 2024. The European Commission is also investigating Google’s advertising business.

8. HOUSE DELAYS VOTE ON IMMIGRATION BILL

A bill introduced by some House Republicans to curtail migration at the southern border was delayed from a potential floor vote this week and transferred instead to the House Homeland Security Committee. The plan, which GOP leadership had earlier listed as “ready-to-go” legislation, has sharply divided the new Republican majority. The bill would authorize the Secretary of Homeland Security to block any foreign citizen from entering the US if deemed “necessary in order to achieve operational control over [the southern] border.” It also stipulated that the Secretary would be forced to take that action if, for any reason, agencies could not process undocumented migrants according to legal procedures. Failure to act would give state attorneys general the authority to sue the Federal government. Many moderates grew concerned about the bill’s provision preventing migrants and unaccompanied children from seeking asylum directly; those requesting asylum would be detained while their cases are being heard, a process that can take months. This controversy prompted the deal to move the bill to the committee rather than the fast-track Speaker Kevin McCarthy had earlier agreed to in negotiations. Internally, some House Republicans have expressed skepticism that bipartisan
immigration legislation could clear the House in the new Congress, pointing to members who want to prioritize border security without compromise on other reforms. In an interview, Rep. Nancy Mace (R-SC) observed “It will never pass the Senate if we’re only talking border security.”

9. NIST PREVIEWS NEW CYBERSECURITY FRAMEWORK

The National Institute of Standards and Technology (NIST) released a new concept paper previewing changes it expects to make to its Cybersecurity Framework (CSF), which it will style as CSF 2.0. This revised version comes after the agency solicited feedback to improve the framework last February. The CSF, previously known as the “Framework for Improving Critical Infrastructure Cybersecurity,” will be broadened in scope to cover a wider variety of institutions and firms. “Critical Infrastructure” refers to 16 sectors essential to the economy for which disruption would be particularly damaging. However, Congress recently directed NIST to write guidance for small business in a standalone bill -- a recommendation featured in CED’s Solutions Brief Securing Cyberspace in an Era of Evolving Threats -- and also for research institutions as part of the CHIPS and Science Act (Sec. 10228). Given these additional directives, NIST intends to ensure the CSF will benefit “organizations regardless of sector, type, or size.” Other goals for CSF 2.0 include relating CSF clearly to other NIST frameworks, such as its risk management or privacy frameworks, expanding guidance with implementation examples for CSF subcategories, expanding coverage of supply chain risk management (for example, for firms that use third-party cloud services) and facilitating international collaboration and engagement.

10. IRS BEGINS FILING SEASON

The 2023 tax filing season got underway, as the Administration hired 5,000 new customer service representatives, who will be helping customers no later than February 20, as part of the $80 billion in new funding for IRS modernization in the Inflation Reduction Act. Deputy Treasury Secretary Wally Adeyemo wrote that the IRS’ goals are for caller waiting times to be halved to 15 minutes and for 85 percent of callers to reach a human operator, instead of 15 percent last year. The President pledged to veto any attempt to repeal the IRS funding, terming the attempt “reckless.” The IRS also extended the comment period for issues related to its Taxpayer Burden Surveys for both individuals and businesses seeking information on “the current tax rules and regulations, the increased usage of tax preparation software, increased efficiency of such software, changes in tax preparation regulations, the increased use of electronic filing, the behavioral response of taxpayers to the tax system, the changing use of services, both IRS and external [.].” Comments on the surveys are due March 27.

11. MONKEYPOX UPDATES

As of January 25, the US has confirmed a total of 30,093 cases of monkeypox. States with the highest case numbers include California (5,719), New York (4,221), Texas (2,901), Florida (2,864) and Georgia (1,987). Globally, as of January 25, 85,142 cases have been confirmed, with 83,856 cases confirmed in locations that have not historically reported monkeypox. The countries with the highest case numbers include the US (30,093), Brazil (10,690), Spain (7,514), France (4,114), and Colombia (4,062). A total of 72 deaths have been reported in locations that have not historically reported monkeypox.

FDA released draft guidance for industry on “Mpox: Development of Drugs and Biological Products.” The guidance is intended to provide nonclinical, virology, and clinical considerations for mpox drug development programs. FDA’s guidance documents do not establish formal rules nor commit the agency
to approving specific products and should instead be regarded as the Agency’s current thinking and be treated as recommendations. FDA is accepting comments on the guidance through March 21.