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1. DEVELOPMENTS ON UKRAINE

As the war entered its fourth month, strong fighting continued in eastern Ukraine, including [attacks around Kharkiv](#) and Severodonetsk, as Ukrainian officials said Russia has the “[upper hand](#)” in the war in the east, with only about 5 percent of Luhansk oblast remaining under Ukrainian control. A poll by the Kyiv International Institute of Sociology [revealed](#) that 82 percent of Ukrainians oppose territorial concessions to Russia to end the war. The war has been costly for Russia, with the Pentagon [estimating](#) the loss of about 1000 tanks, 350 artillery pieces, “three dozen fighter-bomber aircraft,” and over 50 helicopters, and the UK Ministry of Defence [claiming](#) that Russia’s deaths in three months of war in Ukraine nearly equal its losses in its war in Afghanistan, thanks to “a combination of poor low-level tactics, limited air cover, a lack of flexibility, and a command approach which is prepared to reinforce

failure and repeat mistakes [.]” US Defense Secretary Lloyd Austin [announced](#) that 20 countries in the Ukraine Defense Contact Group had promised new military and security assistance, including artillery ammunition, coastal defense systems, and armored vehicles. Belarus announced checks on military equipment in long-term storage and established a [new military command](#) for southern Belarus, bordering Ukraine.

Ukrainian President Volodymyr Zelensky [warned](#) that the war was entering a difficult phase and called for “[maximum sanctions](#)” against Russia in his address to the World Economic Forum in Davos. NATO Secretary General Jens Stoltenberg [told](#) the Forum that President Putin made a “big strategic mistake” in invading Ukraine and that “freedom is more important than free trade” and defined NATO’s task as ensuring that “this brutal, heinous war doesn’t escalate to a full-fledged war in Europe between NATO and Russia, particularly through “miscalculations.” Estonian Prime Minister Kaja Kallas [said](#) that “[i]t is much more dangerous giving in to Putin than provoking him. All these seemingly small concessions to the aggressor lead to big wars. We have done this mistake already three times: Georgia, Crimea and Donbas,” [adding](#) “[w]e cannot give anything to the aggressor that it did not have before -- or the aggression will sooner or later return. . . . We must avoid a bad peace. A badly negotiated peace for Ukraine would mean a bad peace for us all.” Italy proposed a plan for peace, but Russia’s foreign ministry dismissed it as a “fantasy,” [saying](#) “You can’t supply Ukraine with weapons with one hand and come up with plans for a peaceful resolution of the situation with the other.” However, Italian Prime Minister Mario Draghi [spoke](#) with President Putin later in the week.

A French cabinet minister [said](#) he is “convinced” Ukraine will join the EU, but “it takes time and in this time we can’t allow ourselves to simply wait. We have to nurture the European hope.” French President Emmanuel Macron has proposed a new “[European political community](#)” with closer ties between the EU and aspirant states (as well as, in Macron’s view, the United Kingdom should it wish).

Sweden and Finland continued to [press Turkey](#) on support for their bids for NATO membership, with the Swedish Prime Minister saying the country is not funding terrorist organizations. Turkey [responded](#) that “the [accession] process will not move forward unless Turkey’s security concerns are addressed through concrete steps and within a certain timetable [.]” This would include ending Sweden’s current arms embargo on Turkey. The talks may be [broadened](#) to include NATO Secretary General Jens Stoltenberg. Russia [stopped](#) sending natural gas to Finland, though the country should have adequate supplies from other sources.

As the EU again failed to agree a ban on importation of Russian oil because of Hungary’s opposition, the bloc has [accepted](#) a Russian demand that EU countries purchase Russian gas through a complex system involving having two accounts at state-owned Gazprombank, so that the EU can pay in euros while Russia can technically say it has been paid in rubles. The system has been confusing for European gas companies. Russia will continue to invoice the gas in euros, but once payment is made, [according to](#) the *Washington Post*, “Russia will then take the money from the European energy company’s euro account, convert the euros into rubles, transfer the money into a special ruble account also belonging to the energy company, and then take the money once and for all.” Acceptance of this system is designed to prevent further cutoffs of gas to the EU such as Poland and Bulgaria suffered in late April and Finland experienced this week. The EU continues to maintain that direct payment in rubles would violate sanctions against transactions with Russia’s central bank but has apparently accepted that this transaction does not directly involve the central bank.

The US Treasury declined to extend a license that had Russia to pay its dollar-denominated foreign debts through American banks. When the US first imposed sanctions on Russia in February, it gave Russia until May 25 to make these payments. Treasury Secretary Janet Yellin had [signaled](#) last week that the deadline would not be extended, as it had been designed only “to allow a period for time for an orderly transition to take place, and for investors to be able to sell securities.” Russia [prepaid](#) two bonds due later this month. Russia’s next payments are due June 23, raising the possibility of Russian default in late July following a 30-day grace period. Russia [responded](#) that it would pay in rubles with “the opportunity for subsequent conversion into the original currency [.]”

Canada [announced](#) new sanctions on Russian oligarchs and associates of President Putin and the import of goods including seafood, alcoholic beverages, and non-industrial diamonds and the export of footwear, luxury clothing, and jewelry.

Efforts to permit Ukraine to resume exports of grain reached new urgency this week. On Monday, Lithuania [proposed](#) a naval “coalition of the willing” as a “non-military humanitarian mission” to break the Russian blockade of Ukrainian ports and ensure export of 80,000,000 tons of grain, with Foreign Minister Gabrielius Landsbergis saying “[t]ime is very, very short. We are closing in on a new harvest and there is no other practical way of exporting the grain except through the Black Sea port of Odesa [.] There is no way of storing this grain and no other adequate alternative route. It is imperative that we show vulnerable countries we are prepared to take the steps that are needed to feed the world.” Landsbergis proposed that the operation not be run by NATO but include countries such as Egypt that face loss of grain supplies. Italian Prime Minister Mario Draghi [spoke](#) with President Putin to seek agreement for release of wheat now stuck in Black Sea ports at risk of rotting, arguing that “millions and millions of lives are at stake.” Opening the ports would require a de-mining operation, with Ukraine demining while Russia guarantees that it will not attack during the operation. Reuters [reported](#) that “Turkey is negotiating with both Russia and Ukraine for the export of grains from Ukraine,” with a senior European diplomat adding that “Turkey is ready to contribute to a kind of monitoring of these exports from Odesa through the Black Sea because Turkey traditionally is very strong in the Black Sea and they are ready to help.” The UN Secretary General is seeking a “[package deal](#)” covering both Ukrainian grain exports and Russian food and fertilizer exports. Russia has [said](#) it required the lifting of some sanctions to open a humanitarian corridor and remove the blockade, while European Commission President Ursula von der Leyen [told](#) the World Economic Forum that Russia is “hoarding its own food exports as a form of blackmail . . . to increase global prices, or trading wheat in exchange for political support. This is using hunger and grain to wield power.”

2. INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE REMAIN STABLE

[Initial claims for unemployment insurance \(UI\)](#) decreased by 8,000 to 210,000 for the week ending May 21 (last week’s claims were revised up by 21,000). The four-week moving average, which smooths out volatility, has crept up to 207,000 from 171,000 in early April likely due to an increase in the number of [COVID-19 cases](#) in the US over the past several weeks. On a broader historical basis, the levels of initial and continuing claims remain extremely low. Continuing claims for UI totaled 1.35 million for the week ending May 14.

3. HOME SALES SLIP FOR FOURTH CONSECUTIVE MONTH

[New home sales](#) dropped 16.6 percent to 591,000 (seasonally adjusted annual rate) in April according to the US Census Bureau and the Department of Housing and Urban Development. The April level was the

lowest since April 2020, just after the onset of the COVID-19 pandemic. The median sales price was \$450,600, up from \$376,600 just one year prior and \$310,100 in April 2020. The plunge in new home sales is leading some to claim that the [COVID-related housing boom](#) is over. Rising home prices and [rising mortgage rates](#) are making new home less affordable. The 30-year fixed rate mortgage average hit a recent low of 2.65 percent in January 2021 and remained near 3 percent through the end of 2021. In April, mortgage rates topped 5 percent for the first time since 2011.

4. CONGRESSIONAL BUDGET OFFICE PREDICTS MORE DEFICITS, CONTINUED INFLATION

The Congressional Budget Office published its [2022 to 2032 Budget and Economic Outlook](#) this week with predictions of continuing budget deficits averaging \$1.6 trillion from 2023 to 2032 and inflation averaging 4.7 percent for 2022, while predicting economic growth of 3.1 percent for the year. The Federal budget deficit is expected to shrink this year to \$1.0 trillion—the most positive news from the report. The deficit as a percentage of gross domestic product is expected to reach 6.1 percent by 2032. Rising interest costs and greater spending on Social Security and Medicare are the main drivers of the expected increases. However, CBO [cautioned](#) that the figures released this week, reflecting conditions through early March, do not take full account of the impacts of Russia's invasion of Ukraine. CED's March 2022 Solutions Brief [Dealing With Fiscal Debt: A Policy Roadmap](#) addresses the long-term impact of large Federal budget deficits.

5. THE PRESIDENT'S VISIT TO ASIA

The President visited Asia. In South Korea, he reaffirmed the security partnership and promoted a [semiconductor partnership](#), including Samsung's proposed \$17 billion manufacturing facility in Texas. In Japan, the President made headlines in saying that the US would [defend Taiwan](#) if it was attacked by China: "Yes, that's the commitment we made. We agree with the 'One China' policy . . . but the idea that it can be taken by force, just taken by force, is just not appropriate. It would dislocate the entire region and be another action similar to what happened in Ukraine." He later [clarified](#) that his remarks did not represent a change in US policy. China, which was already [conducting drills](#) in the contested South China Sea, responded by [announcing](#) new military drills near Taiwan. Underscoring the military situation in northeast Asia, following the President's departure from the region, North Korea [conducted](#) three ballistic missile tests, including one that may have been a test of an intercontinental ballistic missile, while Russia and China flew joint air patrols near Japanese and South Korean positions. The visit also featured a summit of the Quad countries (Australia, India, Japan, and the US) and the announcement of the Indo-Pacific Economic Framework.

6. INDO-PACIFIC ECONOMIC FRAMEWORK

The new [Indo-Pacific Economic Framework](#) for Prosperity, first announced last fall, was formally [launched](#) during the President's visit to Japan. It includes twelve countries (Australia, Brunei, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam) that account for about 40 percent of global gross domestic product. The event was the [beginning](#) of "collective discussions towards future negotiations" on several pillars, within a framework "intended to advance resilience, sustainability, inclusiveness, economic growth, fairness and competitiveness for our economies . . . to contribute to cooperation, stability, prosperity, development, and peace within the region." The countries [invited](#) "participation from additional Indo-Pacific partners that share our goals, interests, and ambitions for the region." The President [said](#) that "I believe we'll win the competition of the 21st century together This framework is a commitment to working with our

close friends and partners in the region on challenges that matter most to ensuring economic competitiveness in the 21st century,"

Unlike traditional trade agreements such as the former [Trans-Pacific Partnership](#) (TPP, since the US withdrawal in 2017 renamed the [Comprehensive and Progressive Agreement for Trans-Pacific Partnership](#)) or the [Regional Comprehensive Economic Partnership](#), the Indo-Pacific Economic Framework will not negotiate tariff reductions or market access. Instead, it focuses on promoting economic integration through agreements on standards in the digital economy, supply chains, clean-energy infrastructure, and anti-corruption. Commerce Secretary Gina Raimondo [said](#) that the “framework is intentionally designed not to be a same old, same old traditional trade agreement [.]” A Western professor in Asia [wrote](#) that “the best analogy is the Organisation for Economic Cooperation and Development (OECD), a club of like-minded countries and a mechanism to agree on codes of conduct and guidelines, which individual countries then can follow in their own legislation.”

Parts of the framework recall the [Blue Dot Network](#), which the US, Japan, and Australia established in 2019 to [respond to China’s Belt and Road Initiative](#) and promote “infrastructure investment that is open and inclusive, transparent, economically viable, Paris [Climate] Agreement aligned, financially, environmentally and socially sustainable, and compliant with international standards, laws and regulations [.]” One Chinese academic similarly [noted](#) that “the US wants to create and set new standards for trade in the region through this framework - this is clearly aimed at China. . . . Will these standards in this framework become new conditions or new barriers for countries to further develop their economic and trade relations with China?”

Japan strongly supports the framework and wants it to be stronger. Prime Minister Fumio Kishida [said](#) that for it “to become a meaningful framework for the regional economic order, it’s important to address what we can in areas that are critical in participating countries and realize concrete outcomes at an early date [.]” Indeed, Kishida went further to [state](#) that “from a strategic standpoint, Japan hopes that the United States will return to the TPP.”

7. STATE OF THE GLOBAL CLIMATE REPORT

The World Meteorological Organization released its annual [State of the Global Climate](#) report, warning that the oceans reached their most acidic and warmest levels ever in 2021 -- the most acidic levels in at least 26,000 years -- with sea levels also rising 4.5 centimeters over the past decade from melting polar ice. The annual increase in sea levels in 2013-2021 was [more than twice](#) the level from 1993-2002. The average temperature last year was 1.11 degrees Celsius above pre-industrial levels, edging closer to the 1.5 degree mark set as the “preferable” goal in the [Paris Climate Agreement](#).

8. NEW CALIFORNIA WATER RESTRICTIONS

Facing drought, California [imposed new water restrictions](#) requiring reduction of water use by up to 20 percent by local water agencies and banning watering of ornamental lawns at commercial sites. “We are in this unprecedented drought. We need to act like it,” said California State Water Resources Control Board member Laurel Firestone. California’s [snowpack](#) was 12 percent of its usual size in early May. California is in the third year of drought, with the driest January-March ever recorded, months in which rain usually falls, and only five strong “[atmospheric river storms](#)” in the period from October to March, the third-year of below-normal storm activity.

9. NEW BILL ON DIGITAL ADVERTISING

A bipartisan group of Senators from the Judiciary subcommittee on antitrust [introduced](#) the “Competition and Transparency in Digital Advertising Act” this week, which would prohibit companies with more than \$20 billion in digital advertising revenue from operating in more than one aspect of digital advertising transactions. The bill would clearly cover Alphabet, parent company of Google, which [reported](#) over \$54 billion in advertising revenue in the first quarter of 2022 and would essentially force it to break up its digital ad business to avoid conflicts of interest.

10. ALASKA MINE BLOCKED THROUGH CLEAN WATER REGULATION

EPA used its [authority](#) under Section 404(c) of the Clean Water Act [effectively to block](#) construction on a proposed mine in southern Alaska which has been the subject of litigation. The agency believes that the mine would cause “unacceptable” injury to salmon and would harm fishing grounds used by Alaska Natives, citing economic value of \$2.2 billion from these activities in 2019 and the “permanent loss of 8.5 miles of streams” if the mine were constructed. EPA’s Region 10, headquartered in Seattle, made the Proposed Determination and will hold public hearings in June and [accept comments](#) until July 5.

11. US BIRTH RATE ROSE IN 2021

[US births](#) increased for the first time since 2014, according to provisional data released this week by the Centers for Disease Control and Prevention. The figure represents a 1 percent increase over 2020 and an estimated lifetime fertility rate of 1.66. From 2014 to 2020, US births declined at an average rate of 2 percent per year, including a decline of 4 percent from 2019 to 2020. The 2021 increase comes after the previous year’s larger than average decrease but represents a change from the general trend that birth rates have been falling over the past several decades. The 1.66 fertility rate is still below the replacement level, the level required for a generation to replace itself, as it has consistently been since 2007. CED’s April Solutions Brief [The US Labor Shortage: A Plan to Tackle the Challenge](#) addressed the implications of birth rates for future expected labor force growth.

12. FIRST QUARTER GDP REVISED DOWN SLIGHTLY

The Bureau of Economic Analysis revised [first quarter real gross domestic product \(GDP\)](#) down slightly, by 0.1 percentage points, to an annual rate of -1.5 percent. The update primarily reflected revisions to private inventory investment and residential investment that were partly offset by an upward revision to consumer spending. As talk of a [potential recession](#) heats up amid high inflation and increasing interest rates, strong consumer spending and business investment in the first quarter remain bright spots in the economy. However, CEO confidence is wavering according to [The Conference Board’s](#) most recent survey, with confidence in negative territory for the first time since the start of the pandemic.

13. ARPA-H ESTABLISHED

The National Institutes of Health [formally established](#) the Advanced Research Projects Agency for Health (ARPA-H) on Tuesday. Modeled somewhat on a similar [agency](#) at the Defense Department and signaled in the President’s [State of the Union](#) address, ARPA-H will provide “leadership for high-risk, high-reward biomedical and health research to speed application and implementation of health breakthroughs equitably”; manage “programs to catalyze the development of transformative, evidenced-based” capabilities in targeted biomedical and health research areas; facilitate partnerships across government

and with the private sector and academia; and convert “research into tangible, sustainable solutions for patients.” The new agency is expected to play a role in pandemic preparedness and response as well.

14. AUSTRALIAN ELECTION

In Australia’s federal election, the Labor Party under new Prime Minister Anthony Albanese [won at least 75 seats](#), one short of an absolute majority with four remaining to be decided. The economy, climate change, and the leadership style of former Prime Minister Scott Morrison were [key issues](#) in the election. Ten “teal” independents won seats, including [several women](#) who gained seats in suburban constituencies from the outgoing coalition’s Liberal Party. The new Prime Minister [stated](#) that “The relationship with China will remain a difficult one. It is China that has changed, not Australia and Australia should always stand up for our values [.]” China complains about blocking Huawei from Australian 5G infrastructure and has imposed [sanctions](#) on several Australian agricultural products.

15. PANDEMIC NEWS

In an [announcement](#) on Monday, Pfizer and BioNTech stated that preliminary findings from a clinical study of children six months to four years of age showed that three doses of their vaccine produced a strong enough [immune response](#) to meet criteria for Emergency Use Authorization (EUA). The three-dose regimen was 80.3 percent effective in preventing symptomatic infection in 1,678 trial participants. “Our COVID-19 vaccine has been studied in thousands of children and adolescents, and we are pleased that our formulation for the youngest children, which we carefully selected to be one-tenth of the dose strength for adults, was well tolerated and produced a strong immune response,” said Albert Bourla, Chairman and Chief Executive Officer, Pfizer. The companies said that final efficacy data would be shared “once available.”

A study by Northwestern University researchers found that most [neurological symptoms](#) of long COVID – including brain fog, numbness, tingling, headache, dizziness, blurred vision, fatigue, and tinnitus – persisted after an average of 15 months. The study is a follow-up to a [shorter-term](#) study published last spring that found that 85 percent of 100 patients studied reported at least four lasting neurological symptoms at least six weeks after their acute infections. The new study, published in the journal [Annals of Clinical and Translation Neurology](#), surveyed 52 of the original 100 participants. Approximately 80 percent were vaccinated, and all had mild symptoms during acute infection. “A lot of those patients still have difficulties with their cognition that prevent them from working like they used to,” said a study co-leader, Dr. Igor Koralnik, the chief of neuro-infectious diseases and global neurology at Northwestern Medicine, who oversees the Neuro COVID-19 Clinic.

Scientists at the Broad Institute of MIT and Harvard and the University of Massachusetts Medical School have developed a [machine-learning tool](#) that predicts future SARS-CoV-2 variants. The model, called PyR₀, analyzes millions of SARS-CoV-2 genomes and predicts which variants will likely dominate and result in cases surges. Scientists hope that the tool can help identify which parts of the viral genome will be less likely to mutate, establishing targets for vaccines that will work against future variants. PyR₀ is based on a machine-learning framework called [Pyro](#), originally developed by Uber AI Labs. “This work was the result of biologists and geneticists coming together with software engineers and computer scientists,” said Jacob Lemieux of the Harvard Medical School and Massachusetts General Hospital, a senior author of the study. “We were able to tackle some really challenging questions in public health that no single disciplinary approach could have answered on its own.”

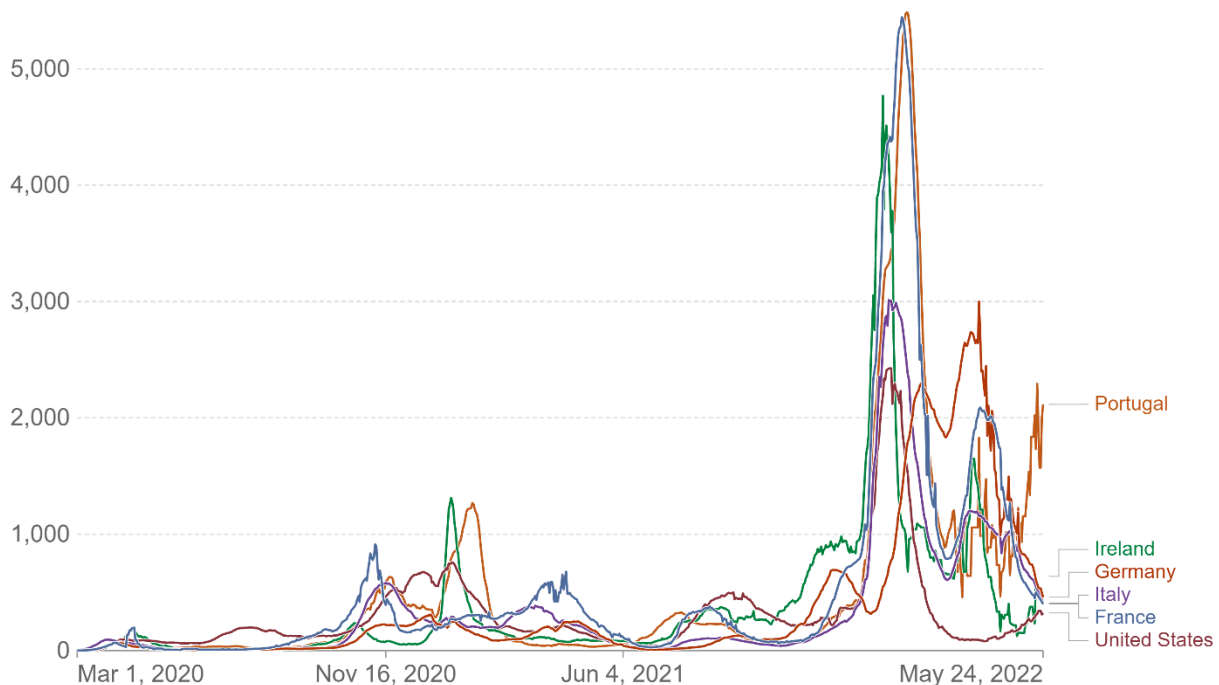
16. COUNTRY SPOTLIGHT: PORTUGAL

Portugal is currently the EU country with the [most new cases](#) of COVID-19 on a percentage basis. On May 24, Portugal reported a seven-day rolling average of 2,115 new cases per million people, followed by Ireland (637), Germany (457), Italy (406), and France (399). Despite its high vaccination rate, Portugal also has the current highest daily deaths per million inhabitants attributed to COVID-19 in the EU with a seven-day rolling average of 3.09. In response to these increased figures, the government has changed its stance on [free tests](#). Select pharmacies will once again provide free rapid antigen tests with a medical prescription through the end of June. The uptick in cases is believed to be [attributed](#) to the BA.5 lineage of the Omicron variant, which is thought to be currently dominant in Portugal.

Daily new confirmed COVID-19 cases per million people

7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.

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Source: Johns Hopkins University CSSE COVID-19 Data

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On May 12, the European Centre for Disease Control and Prevention reclassified Omicron sub-lineages BA.4 and BA.5, first detected in South Africa in January and February, from variants of interest to [variants of concern](#). As of May 8, the Portuguese National Institute of Health estimated that BA.5 accounted for approximately 37 percent of positive cases. The estimated daily growth advantage for BA.5 over BA.2 is 13 percent. The high growth rate is likely due to the variant's ability to evade immune protection induced by prior infection and/or vaccination. There is currently no indication of changes in disease severity of the BA.4 and BA.5 Omicron variants compared to previous Omicron variants.

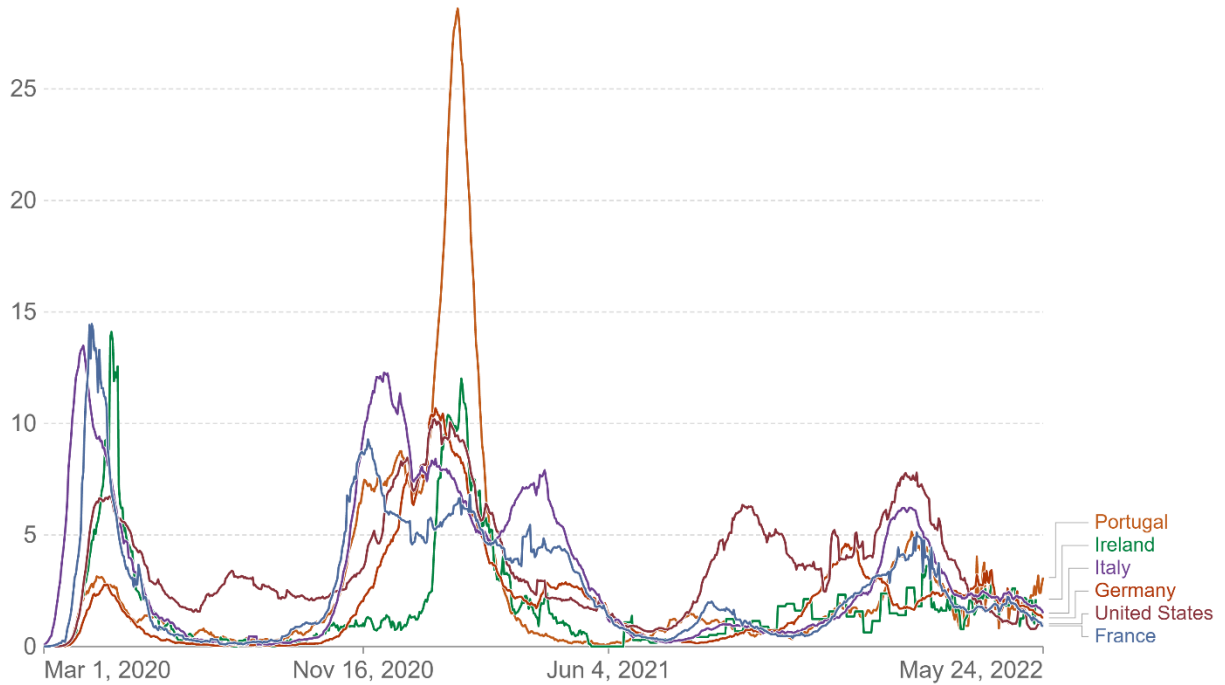
New research demonstrates that vaccination against COVID-19 offers far better protection against BA.4 and BA.5 than antibodies attained through natural infection with the original Omicron strain. A [study](#) by the Africa Health Research Institute in Durban, South Africa investigated the extent to which antibodies from 39 individuals who had recovered from the original Omicron strain could prevent infection from the BA.4 and BA.5 variants. The findings showed that the antibodies were several times less effective against the new variants than they were against the original Omicron strain. However, the antibodies

produced by the 15 individuals who had been vaccinated against COVID-19 were more effective than those attained by the individuals dependent on natural immunity alone.

Daily new confirmed COVID-19 deaths per million people

7-day rolling average. Due to varying protocols and challenges in the attribution of the cause of death, the number of confirmed deaths may not accurately represent the true number of deaths caused by COVID-19.

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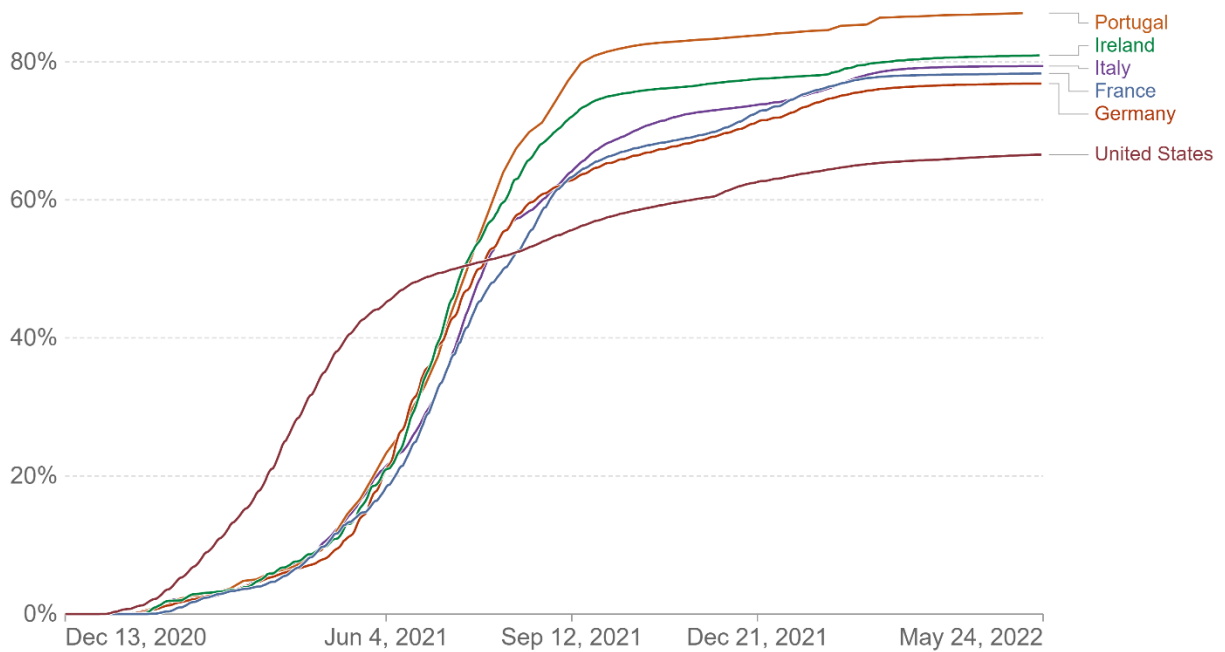
Source: Johns Hopkins University CSSE COVID-19 Data

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Share of people who completed the initial COVID-19 vaccination protocol

Total number of people who received all doses prescribed by the initial vaccination protocol, divided by the total population of the country.

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Source: Official data collated by Our World in Data

Note: Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.

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