

***CED Public Policy Watch  
Weekly News Round-up  
September 16, 2022***

1. DEVELOPMENTS ON UKRAINE
2. CPI: BROADER PRICE PRESSURES OFFSET FALLING ENERGY PRICES
3. PHILADELPHIA FED MANUFACTURING OUTLOOK MIXED
4. RETAIL SALES RISE IN AUGUST DESPITE INFLATION HEADWINDS
5. UNEMPLOYMENT INSURANCE CLAIMS CONTINUE DECLINE SINCE EARLY AUGUST
6. RAIL UNIONS, CARRIERS REACH TENTATIVE DEAL, AVERTING RAILROAD STRIKE
7. EXECUTIVE ORDER ON BIOTECHNOLOGY AND BIOMANUFACTURING
8. US SUMMER THIRD-WARMEST ON RECORD
9. CHINESE PRESIDENT IN CENTRAL ASIA; MEETING WITH PUTIN
10. MONKEYPOX UPDATES
11. NEW STUDY ON PANDEMIC AND THE WORKFORCE
12. PANDEMIC NEWS
13. ECONOMIC SPOTLIGHT: GLOBAL SEMICONDUCTOR INITIATIVES

**1. DEVELOPMENTS ON UKRAINE**

**Counteroffensive successes:** Ukraine's surprise counteroffensive in northeast Ukraine near Kharkiv recovered large amounts of territory this week, with President Zelensky estimating that Ukraine has [recovered](#) almost 3,100 square miles (8,000 square kilometers) of land, an area bigger than Delaware and Rhode Island combined, and [388](#) settlements. Operations also continued in southern Ukraine near Kherson. The UK Ministry of Defence [wrote](#) that Ukrainian successes in the northeast "have significant implications for Russia's overall operational design," noting that "[t]he already limited trust deployed troops have in Russia's senior military leadership is likely to deteriorate further." [Morale](#) among Russian troops was reportedly weak, as many fled the advancing Ukrainian troops, leaving behind military equipment. The Ukrainian general staff [claimed](#) that Russia has stopped sending new units into Ukraine; a US defense official confirmed that many retreating soldiers have returned to Russia. In response to the counteroffensive, Russian missile strikes have continued, including against industrial and civilian sites.

**Military developments:** Russia [reiterated](#) its previous statement that the US supplying long-range missiles to Ukraine, capable of striking Russian territory, would cross a "red line" (the US has supplied no such missiles). German and UK newspapers [reported](#) that Russia has likely used Iranian-made Shahed-136 drones in Ukraine.

**Energy developments:** Germany will [extend](#) the lifespans of two nuclear power plants to help with fuel shortages. The EU [plans](#) to sharply increase natural gas imports from Azerbaijan to a minimum of 20 billion cubic meters per year through the Southern Gas Corridor which connects the Caspian Sea with Europe; estimated deliveries in 2022 are 12 billion cubic meters, up from 8.1 billion last year. The EU will also work with Azerbaijan on wind and hydrogen energy projects. Bloomberg [reported](#) that Russian oil and gas revenues [fell](#) to \$11.1 billion in August, down 13 percent from July and 3.4 percent from a year ago, evidence that sanctions are forcing Russia to give price discounts to buyers and that cutoffs of gas

supplies to Europe are hurting Russia's revenues. Russia [estimated](#) that its gas exports to the EU will decline by 50 billion cubic meters this year, about a third of last year's 150 billion cubic meters; Russia now [supplies](#) about 9 percent of the EU's gas consumption, down from 40 percent last year.

**EU energy proposals:** The European Commission is [proposing](#) a revenue cap on non-gas power producers such as nuclear and renewable energy providers, which are providing power to the grid at lower prices, and a "solidarity contribution" (windfall profits tax) from the 2022 earnings of fossil fuel companies, raising approximately \$140 billion to be returned to consumers and businesses. The [proposal](#) also [includes](#) mandatory reductions of at least 5 percent in total electricity consumption during "selected peak pricing hours" and reduce demand in the 10 percent of hours with the highest expected price, part of an effort to "reduce overall electricity demand by at least" 10 percent until next March and gas consumption by 1.2 billion cubic meters over the winter. The [proposals](#) will have to be [agreed](#) by a [qualified majority](#) of all Member States and will not require unanimous agreement.

**EU State of the Union speech and Commission President visits Kyiv:** Besides discussing energy issues in her State of the Union speech, European Commission President Ursula von der Leyen [endorsed](#) some form of EU enlargement. Referring to Ukraine, Moldova, Georgia, and countries in the western Balkans, von der Leyen said "[y]ou are part of our family, you are the future of our union. Our union is not complete without you." Enlargement to full membership, if it occurs, would take many years for these countries, but it is a strong signal of the EU's continuing interest. In a [surprise visit](#) to Kyiv on Thursday, von der Leyen said that Ukraine's accession process to ultimate membership "is well on track" and that the EU would "make sure that Ukraine has more business, more income, and that it [has] as seamless access to the European single market as possible [.]". Von der Leyen also [said](#) it was "absolutely vital" that Member States continue to supply military equipment to Ukraine and fulfill commitments already made, an implicit rebuke of Germany, which has been slow to meet its commitments in this area.

**Putin-Scholz call:** After speaking on Wednesday for 90 minutes with Russian President Putin, German Chancellor Olaf Scholz [said](#) that Putin still does not believe "that it was a mistake to begin this war" and received "no indication that new attitudes are emerging" in response to recent events. Scholz pressed for a diplomatic solution to the war "based on a ceasefire, a complete withdrawal of Russian forces and respect for the territorial integrity and sovereignty of Ukraine."

**Future Ukrainian security:** Former NATO Secretary General Anders Fogh Rasmussen and Ukrainian presidential advisor Andrey Yermak co-authored a [report](#) about future security guarantees for Ukraine as part of a "Kyiv Security Compact" which might fall short of Ukraine's ultimate goal of NATO membership. [Broadly](#), the report does not propose NATO members commit troops for Ukraine but would impose no restriction on bilateral military and economic assistance from NATO member countries (which could presumably include troop commitments). The report also proposed continued weapons transfers to Ukraine, extensive joint training exercises, and a "multi-decade" investment in Ukraine's capability to "maintain a significant defensive force capable of withstanding the Russian Federation's armed forces and paramilitaries." Interestingly, the group of allied countries supporting Ukraine in this endeavor would include not only NATO members but also Australia and possibly South Korea, two of NATO's Asia-Pacific partner countries. Under the framework, Ukraine would not be forced to accept neutral status (thus preserving its eventual NATO ambition) but would be required to remain democratic

and maintain military conscription. The report also suggests that sanctions on Russia not be lifted until Russia guarantees it will not attack Ukraine and compensates it for damages from this war.

**Ammonia gas and grain:** The UN is [reportedly](#) supporting a proposal under which ammonia gas (a [component](#) of fertilizer) owned by the Russian company Uralchem would be shipped by pipeline to the Russia-Ukraine border, at which point a US commodities trading company would purchase the ammonia and sell it to global markets. The idea behind the proposal is that “having a key Russian company export through the same Black Sea corridors that the Ukrainian grain is going through stabilizes the [Ukraine-Russia-Turkey-UN grain sales] arrangement and could lead to a longer term extension of the agreement,” according to a diplomat. The proposal would respond to Russian concerns about the sale of fertilizer (of which it is a major producer), even though fertilizer is not subject to sanctions.

**Peace deal rejected in February?** Reuters, claiming three Russian sources, [reported](#) that Russian President Putin rejected a plan for Ukrainian neutrality, to which Kyiv had supposedly agreed, that would have prevented the invasion in February. Russia denied the story as “absolutely incorrect information”; Ukraine did not respond to questions on the substance of prewar peace talks but a Ukrainian official said, “[t]oday, we clearly understand that the Russian side has never been interested in a peaceful settlement.”

## 2. CPI: BROADER PRICE PRESSURES OFFSET FALLING ENERGY PRICES

The Consumer Price Index (CPI) [rose](#) 8.3 percent year-over-year in August, vs. 8.5 percent in July. Month-over-month, headline CPI rose 0.1 percent—up from zero percent in July. Though energy prices declined substantially in August (CPI for energy declined 5.0 percent, and CPI for gasoline prices fell 10.6 percent) this was offset by broader price pressures in the rest of the economy. Month-over-month, core inflation rose to 0.6 percent, vs. 0.3 percent in July; and in year-over-year terms it rose to 6.4 percent, vs. 6.0 percent in July. One of the largest components of core CPI—shelter, or the cost of housing—increased 0.7 percent in August. The producer price index (PPI), which measures wholesale price changes from the perspective of producers, [rose](#) 8.7 percent year-over-year in August but fell 0.1 percent month-over-month in August.

Read the TCB Economics, Strategy and Finance Center’s Insights on the CPI [here](#).

## 3. PHILADELPHIA FED MANUFACTURING OUTLOOK MIXED

The Philadelphia Fed’s [Manufacturing Business Outlook Survey](#) fell in September, the third decline in four months. While most firms (69 percent) reported no change in activity, the diffusion index was -9.9, meaning that the share of firms reporting declining activity (20 percent) exceeded the share reporting increasing activity (10 percent). But the report also stated that 15 percent of firms added workers and only 3 percent decreased employment, while 83 percent reported no change. Fully 56 percent of firms expect increases in third-quarter production, while only 22 percent expect declines in production. Many firms reported labor supply and supply chain pressures constraining capacity utilization (37 and 34 percent, respectively). The Philadelphia Fed noted that its “survey’s broad indicators for future activity improved but indicate subdued expectations for overall growth over the next six months.”

#### 4. RETAIL SALES RISE IN AUGUST DESPITE INFLATION HEADWINDS

Retail sales [data](#) from the US Census Bureau showed consumers continued to spend despite high inflation. Retail spending rose by \$2.0 billion to \$683.3 billion in August — rising 0.3 percent month-over-month, reversing much of the ground lost in July, and 9.1 percent from a year earlier. Consumer demand grew moderately, as falling gasoline prices granted consumers a reprieve from rising prices elsewhere. Spending at gasoline stations dropped 4.2 percent for the month as crude oil prices continued to slip from their June highs. Despite the challenges of rising prices, consumers remained ready to spend in August. However, The Conference Board's Economy, Strategy, and Finance Center [projects](#) that a combination of inflation and rising interest rates will likely result in a sustained contraction in consumer spending in the near future.

#### 5. UNEMPLOYMENT INSURANCE CLAIMS CONTINUE DECLINE SINCE EARLY AUGUST

In the week ending September 10, initial unemployment claims [fell](#) to 213,000, a decrease of 5,000 from the previous week's revised level, and a decrease of 9,000 from the previous week's advance figure. Unemployment claims have been falling since early August, after rising between March and August. One trend contemporaneous with the strengthening labor market has been a fall in energy prices over the same period; lower energy prices could allow consumers to reallocate their budgets from energy to other goods and services, increasing demand for labor in non-energy sectors.

#### 6. RAIL UNIONS, CARRIERS REACH TENTATIVE DEAL, AVERTING RAILROAD STRIKE

After a long bargaining session, freight railroads and union representatives reached a tentative agreement in advance of Friday's deadline, averting a potential strike that would have snarled supply chains and exacerbated inflation. The agreements are still subject to ratification by union membership. The Association of American Railroads, a trade group representing freight carriers, noted in a [statement](#) that the deal provides employees with a 24 percent wage increase from 2020 to 2024 (part is retroactive), including an immediate payout averaging \$11,000 on ratification. The Transportation Division of the International Association of Sheet Metal, Air, Rail, and Transportation Workers (SMART-TD), in a [statement](#), said union representatives "were able to obtain negotiated contract language exempting time off for certain medical events," which was one of unions' highest priorities. The President, whose Administration had worked with both sides on the negotiations, said in a [statement](#) that the agreement would [mean](#) "better pay, improved working conditions, and peace of mind around their health care costs" for railroad workers" and thanked Labor Secretary Marty Walsh "for his tireless, around-the-clock efforts that delivered a win for the hard working people of the US rail industry."

US freight railroads had spent the week preparing for a strike and on Monday [began](#) stopping shipments of hazardous materials so they are not stranded in the event of a strike. A [Presidential Emergency Board](#) (PEB) under the Railway Labor Act made [recommendations](#) for a settlement which essentially drew a middle line between the railroads' and unions' offers. As of Wednesday, eight unions had [accepted](#) a tentative deal but four (including two of the largest, covering conductors and engineers) had not, forcing



the marathon negotiations leading to Thursday's agreement. Unions have now agreed not to strike during the contract ratification process, which may take several weeks.

Read CED's statement on the negotiations [here](#).

## **7. EXECUTIVE ORDER ON BIOTECHNOLOGY AND BIOMANUFACTURING**

The President issued an Executive Order on "[Advancing Biotechnology and Biomanufacturing Innovation for a Sustainable, Safe, and Secure American Bioeconomy](#)." The Order establishes a "whole-of-government" approach, coordinated from the White House by the National Security Council, National Economic Council, and the Office of Science and Technology Policy and notes that beyond health care applications, "biotechnology and biomanufacturing can also be used to achieve our climate and energy goals, improve food security and sustainability, secure our supply chains, and grow the economy [.]". It also focuses on "concrete steps to reduce biological risks associated with advances in biotechnology" and ensuring that uses of biotechnology and biomanufacturing are "ethical and responsible."

## **8. US SUMMER THIRD-WARMEST ON RECORD**

The National Oceanic and Atmospheric Administration, part of the Commerce Department, published a [report](#) showing that the past summer was the US' third-warmest on record, with an average temperature in the 48 contiguous states of 78.9 degrees Fahrenheit, 2.5 degrees above average. Only 1936 and 2021 recorded warmer summers. Individual cities also [set records](#) for heat. Drought also [persisted](#) through much of the Southwest.

## **9. CHINESE PRESIDENT IN CENTRAL ASIA; MEETING WITH PUTIN**

Chinese President Xi Jinping [started](#) his first foreign trip since before the COVID-19 pandemic, landing in Astana, Kazakhstan for talks with President Kassym-Jomart Tokaev. Kazakhstan is an important country for China; it not only borders China's northwestern Xinjiang province but is also where Xi launched his "Belt and Road" trade initiative in 2013. Xi will continue to Samarkand, Uzbekistan for a meeting of the Shanghai Cooperation Organization, a grouping including China, India, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. Leaders of other countries, including Iran, Pakistan, and Turkey, also attended the summit. Kazakhstan [has not endorsed](#) Russia's war in Ukraine and respected Western sanctions, and the summit may not address the war directly.

On the margins of the summit, Xi [met](#) with "old friend" Russian President Putin. Putin told Xi that "[w]e highly value the balanced position of our Chinese friends regarding the Ukrainian crisis, we understand your questions and concerns on this matter, and during today's meeting we will of course clarify all of these in detail [.]". Xi [told](#) Putin that "[i]n the face of changes in the world, in our times and of history, China is willing to work with Russia to play a leading role in demonstrating the responsibility of major powers, and to instill stability and positive energy into a world in turmoil [.]".

Bilateral trade between Russia and China, led by increased imports of Russian oil and gas, [grew](#) 31 percent in the first eight months of 2022. Last week, in a preparatory meeting for the summit, Li Zhanshu, third in the Chinese hierarchy, [met](#) with Russian leaders and stated that China has given

“support with coordinated action” with respect to security threats “on its doorstep”; while the Russian readout of the meeting “said that Li expressed support for the war”; the Chinese readout, however, [stated](#) that “China ‘understands and fully supports’ Russia’s security interests.”

## 10. MONKEYPOX UPDATES

As of September 14, the US has [confirmed](#) 22,774 cases of monkeypox. States with the highest case numbers include California (4,300), New York (3,694), Florida (2,301), Texas (2,017), and Georgia 1,614). [Globally](#), 59,179 cases have been confirmed, with 58,602 cases confirmed in locations that have not historically reported monkeypox. The countries with the highest case numbers include the US (22,692), Spain (6,947), Brazil (6,033), France (3,833), and the UK (3,552). Nine deaths have been reported in locations that have not historically reported monkeypox. On Wednesday, CDC Director Dr. Rochelle Walensky [testified](#) that while the virus is still spreading at a rapid rate in certain regions of the US, the growth of new cases across the country and globally has been [slowing](#) in recent weeks.

Monkeypox vaccines, treatments, and tests remain [unavailable](#) in much of the world. Brazil, which has [roughly 10 percent](#) of global monkeypox cases, currently has no vaccine or treatment. The scramble for vaccines and treatments has been centered on the US and Europe, where supplies are stretched thin. Public health experts and groups have criticized the WHO for not doing more to ensure the swift movement of supplies once the WHO declared monkeypox a public health emergency of international concern on July 23, saying the issues echo those seen with COVID-19. James Krellenstein, a founder of PrEP4All, a medicines access advocacy group, said that “It doesn’t seem prudent to declare an emergency without saying anything about the tools to respond.”

## 11. NEW STUDY ON THE PANDEMIC AND THE WORKFORCE

According to a [study](#) released Monday by the National Bureau of Economic Research (NBER), illness from COVID-19 reduces the US labor supply persistently. Researchers found that workers who experience week-long absences from work because of COVID-19 illness are seven percent less likely to be in the labor force one year later compared to otherwise similarly-placed individuals who did not miss a week of work due to health issues. According to the study’s authors, economists Gopi Shah Goda of Stanford University and Evan J. Soltas of the Massachusetts Institute of Technology, COVID-19 illness shrank the US labor force by approximately 500,000 people. “If we stay where we are with Covid infection rates going forward, we expect that 500,000-person loss to persist until either exposure goes down or severity goes down,” said Mr. Soltas.

The authors “provide the most credible evidence to date about [labor-market impacts](#) for a large set of workers,” said Aaron Sojourner, an economist at the W.E. Upjohn Institute for Employment Research, who wasn’t involved in the study. The study was based on a representative population of over 300,000 workers followed over the course of 14 months in the Census Bureau’s monthly household survey, covering the period from January 2010 to June 2022. The economists used health-related, week-long absences as a proxy for probable COVID-19 illnesses. From March 2020 to June 2022, approximately ten workers per thousand missed a week of work due to health reasons, up from approximately six per thousand over the decade before the beginning of the pandemic.



## 12. PANDEMIC NEWS

The COVID-19 pandemic may be [nearing a close](#), the World Health Organization (WHO) said on Wednesday as new weekly deaths reached their lowest point last week since March 2020. Globally, the number of [new weekly deaths](#) decreased by 22 percent during the week of September 5-11, with over 11,000 fatalities reported. "We have never been in a better position to end the pandemic," WHO Director-General Tedros Adhanom Ghebreyesus said in a Wednesday briefing. "We are not there yet, but the end is in sight." However, Tedros warned that countries might see "more variants, more deaths, more disruption and more uncertainty" if they ease up on efforts to test, vaccinate, and treat.

Starting September 21, Johns Hopkins' COVID-19 [data dashboard](#) will update global case, death, and vaccine data [daily rather than every hour](#). It will also cease reporting testing numbers, which have become less reliable as people shift to testing at home. The university introduced the dashboard in January 2020 and has received over 800 million page views as government officials, researchers, and the public have scanned its data to keep up-to-date on cases, deaths, and vaccine distribution.

New Zealand prime minister Jacinda Ardern has [declared](#) that it is "time to safely turn the page" on the country's COVID-19 restrictions, scrapping all but a few remaining rules. Mask wearing will no longer be mandatory in public spaces, and the last vaccine mandates will be scrapped in two weeks. However, the government will keep in place the seven-day isolation period for those ill with the virus, rather than shortening the period to five days. The relaxation of guidelines is a major policy shift for New Zealand, which once eliminated the virus through some of the [strictest](#) pandemic rules in the world.

Following similar approvals by the US, UK, and Australia, Japan's health ministry has given the [green light](#) to Pfizer and Moderna's bivalent boosters. The health ministry on Monday approved the Omicron-specific shots after an endorsement from an expert panel. Both Pfizer and Moderna's vaccines target two strains: the original version of the virus as well as BA.1, an early version of the Omicron variant that spread across the world beginning late last year. Pfizer's Omicron booster can be administered to people aged 12 and over, while Moderna is limited to those age 18 and older.

## 13. ECONOMIC SPOTLIGHT: GLOBAL SEMICONDUCTOR INITIATIVES

On August 9, the President signed into law the [CHIPS and Science Act of 2022](#) which includes a historic \$50 billion investment to surge production of US-made semiconductors and address supply chain vulnerabilities, among other initiatives. However, the US is not the only advanced economy investing in its semiconductor capabilities during this time of tumultuous global supply chains.

The proposed [European Chips Act](#), presented to the European Commission in February, aims to mobilize €43 billion in "policy-driven investment" for the EU's semiconductor sector by 2030. The [plan](#) serves to enable immediate EU coordination against supply chain disruptions, strengthen and scale up production and innovation throughout the EU semiconductor value chain, further advance EU technical leadership, and build semiconductor international partnerships with like-minded countries. The proposed Act also includes the [EU Chips Fund](#), an €2 billion initiative which seeks to promote semiconductor start-ups in the EU itself and address the tech skills shortage. Member States are encouraged to begin coordination efforts immediately in line with a [Recommendation](#) from the European Commission to better

understand the current status of the semiconductor value chain across the bloc. Next, the European Parliament and Member States will discuss the Commission's proposals on the Act according to the ordinary legislative procedure. The European Chips Act is expecting its [final vote](#) in Parliament's Committee on Industry, Research and Energy (ITRE) in early 2023.

Japan, in a break with its previous stance of economic nationalism, is seeking to form a [coalition](#) with allies such as the US and the EU to build a semiconductor supply chain that is less geographically concentrated, making it better insulated from disasters and geopolitical instability. On July 29, at the ["two-plus-two"](#) ministerial meeting in Washington, the US and Japan [launched](#) a new high-level economic dialogue aimed at pushing back against China and the disruption caused by the Russian invasion of Ukraine. The two countries decided to establish a joint research center for next-generation semiconductors. The meeting [confirmed](#) earlier reports that the US and Japan plan to coordinate to develop leading-edge 2-nanometer (nm) semiconductor process technology to prevent overreliance on Taiwan Semiconductor Manufacturing Company's (TSMC) factories in Taiwan. A joint statement issued following the meeting noted the two longstanding allies "seek to advance efforts under the Japan-US Commercial and Industrial Partnership and other frameworks to foster supply chain resilience in strategic sectors, including, in particular, semiconductors..."

Last year, South Korea [unveiled its plan](#) to spend roughly \$450 billion in an effort to build the world's largest chipmaking base over the next decade. The plan [includes](#) tax breaks, lower interest rates, and eased regulations, among other initiatives. The South Korean National Assembly [passed](#) the National Advanced Strategic Industry Act during the administration of former President Moon Jae-in, empowering the Minister of Trade, Industry and Energy to regulate the export of advanced semiconductors to foreign companies. In his recent trip to South Korea, President Biden toured a Samsung Electronics plant as well as the semiconductor manufacturing facility that would serve as a model for one to assume operations [in Texas](#) by 2024. Biden and newly inaugurated President Yoon Suk-yeol in a [joint statement](#) outlined several areas for bilateral cooperation for addressing supply chain vulnerabilities in critical technologies. The two leaders acknowledged the importance of deepening cooperation on economic and energy security, and plan to direct respective National Security Councils to launch an economic security dialogue aimed to align the bureaucratic and policy approaches between the two governments.

China's 14<sup>th</sup> Five-Year Plan (2021-2025) has a core focus on its technology, especially the semiconductor industry. According to [analysis](#) from the Congressional Research Service (CRS), the Chinese government appears to be expanding and deepening a statist approach to developing its technologies prioritized in its [Made in China \(MIC\) 2025](#) and other industrial plans. However, details in the new Plan show that the government is still seeking specific foreign capabilities to fill critical gaps. China remains dependent on foreign semiconductor equipment, tools, and design software, many of which come from US companies. Regarding government funding of semiconductor initiatives, China has already channeled an estimated \$150 billion to China's semiconductor industry and in its 14<sup>th</sup> Five-Year Plan (2021-2025) has allocated an additional \$1.4 trillion for strategic industries, including semiconductors.