

***CED Public Policy Watch
Weekly News Round-up
October 7, 2022***

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1. DEVELOPMENTS ON UKRAINE

Annexations: Russian President Putin [signed](#) decrees on the annexation of the regions of Donetsk, Kherson, Luhansk, and Zaporizhzhia into Russia. However, Russia noted that the borders of the regions remained unclear, with Kremlin spokesperson Dmitry Peskov [saying](#) that “we are talking about the territory in which the military-civil administration operated at the time of admission [to Russia] but noting that “certain territories there will be returned, and we will continue to consult with the population that expresses a desire to live with Russia.” UN Secretary General António Guterres [called](#) the annexations a “dangerous escalation,” saying the move “would have no legal value and deserves to be condemned.” The UN Security Council [voted](#) 10-1, with four abstentions, to condemn the annexations, but Russia exercised its veto. Russia [said](#) that it would incorporate “de jure” parts of the regions it did not control and consider attacks there as acts of aggression against Russia.

Military developments: Ukraine continued its advances in eastern and southern Ukraine, including the liberation of the key city of Lyman in Donetsk, a supply point for Russian troops. With Ukraine’s advances, Russia [does not](#) fully control any of the four regions it has annexed. The UK Defence Ministry [noted](#) that “[p]olitically, Russian leaders will highly likely be concerned” by further Ukrainian advances in Luhansk. [Maps](#) displayed, intentionally or not, at a Russian defense ministry briefing on Wednesday [showed](#) a full withdrawal from Kharkiv oblast and withdrawal of 25 kilometers south towards Kherson. Russia [appears](#) to be moving forces from the east to the south, retreating to “[a pre-prepared defensive line](#)” in what may signal fierce battles for the Kherson region. The US [approved](#) another \$625 million for security assistance for Ukraine; US military aid has now reached \$16.8 billion since February. The US is

also [considering](#) establishing a new command in Germany to focus on training and equipment for Ukraine.

Evaluating risk of nuclear conflict: White House Press Secretary Karine Jean-Pierre [said](#) that “We take any nuclear weapons or nuclear saber-rattling very seriously here, but . . . we have not seen any reason to adjust our own strategic nuclear posture, nor do we have any indication that Russia is preparing to imminently use nuclear weapons.” Replying to a call from Chechen leader Ramzan Kadyrov to use nuclear weapons, Kremlin spokesperson Dmitry Peskov [told](#) reporters that “there can be no other considerations” than Russia’s nuclear doctrine and that “emotions should be kept out [.]”

Prospects for negotiations? Indian Prime Minister Narendra Modi [spoke](#) with President Zelensky and “expressed his firm conviction that there can be no military solution to the conflict and conveyed India’s readiness to contribute to any peace efforts,” according to the Indian readout of the call. Adding its voice in favor of talks, the state-owned *China Daily* [wrote](#) that the “likely sabotage [of the NordStream pipelines] should prompt members of the world community to join hands to find a peaceful solution to end the Ukraine crisis at an early date. Not least because all countries will feel the effects. . . . Talks to end the conflict are imperative to arrest the seemingly relentless spiral into an abyss.” Responding to the annexations, President Zelensky signed a [decree](#) on “the impossibility” of negotiating with President Putin, adding that “Putin does not know what dignity and honesty are. Therefore, we are ready for a dialogue with Russia, but with another president of Russia.”

New EU sanctions: The European Union [gave](#) final approval for its package of sanctions over the illegal annexations. The package [agreed on Thursday](#) also introduces EU legislation to put in place a price cap related to the maritime transport of Russian oil for third countries and further restrictions on the maritime transport of crude oil and petroleum products to third countries. These measures will prohibit providing maritime transport and technical assistance, brokering services, or financing or financial assistance related to the maritime transport to third countries of crude oil (as of December 2022) or petroleum products (as of February 2023) which originate in or are exported from Russia.

The EU is also imposing import restrictions have been imposed on wood pulp and paper, cigarettes, plastics, and cosmetics, as well as stones and precious metals used in jewelry. The sale, supply transfer, or export of goods used in the aviation sector will also be restricted. The package also includes, among other items, sanctioning individuals and entities that played a role in the illegal referenda, representatives of the defense sector, and individuals spreading disinformation about the war; the extension of the list of restricted items that may have military use; and a ban on EU nationals holding any posts on the governing bodies of certain Russian state-owned or -controlled entities or bodies.

Nuclear plant: Ukraine [charged](#) that Russia is seeking to transfer control of the Zaporizhzhia nuclear plant to the Russian nuclear agency Rosatom following Russia’s annexation of the surrounding region and that the Ukrainian head of the plant had been detained on Friday. International Atomic Energy Agency Director General Rafael Grossi visited Kyiv as part of his efforts to establish a protection zone around the plant and has [reportedly](#) sent “a number of ideas” on the issue to Moscow.

Investigations of NordStream explosions: Denmark and Sweden [reported](#) to the UN that the explosions that damaged the NordStream pipelines resulted from the equivalent of “several hundred kilograms of explosive.” Denmark [said](#) the leaks in its exclusive economic zone are under control.

World Bank on Ukrainian economy: The World Bank [predicted](#) that Ukraine’s economy will contract by 35 percent this year, “scarred by the destruction of productive capacity, damage to agricultural land, and reduced labor supply”; the Bank also estimated that more than 14,000,000 people have been displaced as a result of the war and that reconstruction of Ukraine will likely cost \$349 billion.

2. JOB OPENINGS DECLINE STEEPLY FROM NEAR RECORD HIGHS

The number of nonfarm job openings decreased to 10.1 million in August, according to the Job Openings and Labor Turnover Survey (JOLTS) [released](#) Tuesday by the Bureau of Labor Statistics. Openings had been 11.2 million the prior month and had reached an all-time high of 11.8 million in March 2022. The largest decreases in job openings were in health care and social assistance (236,000) other services (183,000), and retail trade (143,000). Declining job openings may suggest labor market tightness is abating. However, job openings remain high by historical norms, and figures on labor turnover were relatively unchanged from the prior month. The number of new hires rose modestly to 6.3 million from the prior 6.2 million, and total separations rose slightly to 6.0 million from the prior 5.8 million. Separation include quits (4.2 million) layoffs and discharges (1.5 million) and other separations (0.4 million) (figures are rounded). Each component was relatively unchanged from the prior month. The largest increase in separations came from accommodation and food services, a large industry with high labor turnover. Separations in that industry increased from 847,000 to 1.022 million.

3. TRADE DEFICIT FALLS FOR FIFTH STRAIGHT MONTH

The US Census Bureau and the Bureau of Economic Analysis [reported](#) Wednesday that the trade deficit in goods and services was \$67.4 billion in August, a decline of \$3.1 billion from July and a 37.0 percent decrease from the all-time high of \$106.9 billion set in March. The change in August resulted from a decrease (\$3.7 billion) in imports, partially offset by a decrease (\$0.7 billion) in exports. Imports have declined 7.1 percent from their March high of \$351.1 billion. A strengthening US dollar has made [imports cheaper](#) for Americans in dollar-denominated terms. The largest decline in imports was for crude oil, which decreased \$2.7 billion, reflecting lower crude prices in August. Semiconductor imports, an item with recent supply chain issues, declined \$0.5 billion. Though the trade deficit with China increased by \$0.5 billion to \$33.5 billion, this was more than offset by large declines in trade deficits with other major trading partners, including Japan (\$1.9 billion) Mexico (\$1.9 billion) and Canada (\$1.2 billion).

4. MIXED NEWS IN MANUFACTURING SURVEYS

Two surveys of manufacturers, by the Institute for Supply Management (ISM) and S&P Global, each diverged in September, with index numbers only slightly above the neutral mark of 50. The ISM Manufacturing Purchasing Managers Index (PMI) [recorded](#) 50.9, 1.9 points lower than the 52.8 in August. The figure was the lowest for ISM since May 2020. In the critical areas of new orders (47.1, down from 51.3) and employment (48.7, down from 54.2) the ISM figures represent contraction. The

S&P Global PMI [posted](#) 52.0, up from 51.5 in August's revised number. This rebound was largely driven by an increase in new orders, which had declined for three straight months in their prior surveys. S&P Global also recorded faster employment growth. The ISM PMI and the equivalent S&P Global figure tend to track each other, but in this case moved modestly in different directions, with ISM respondents more pessimistic about new orders and employment, but S&P Global respondents more optimistic.

5. CONSTRUCTION SPENDING DECLINES FOR SECOND STRAIGHT MONTH

Construction spending in August [fell](#) to a seasonally-adjusted annual rate of \$1,781.3 billion, down 0.7 percent from July's revised estimate, according to Census Bureau data released Monday. This was the second consecutive month of decline, after a 0.6 percent drop in July. Every major category of construction spending fell. Private construction projects, comprising \$1,426.0 billion, or most US construction, fell 0.6 percent. Residential construction, comprising \$912.9 billion of that private spending, fell 0.9 percent, with new single-family homes falling 2.9 percent. Nonresidential construction fell 0.1 percent. Public construction fell 0.8 percent. Construction projects are often sensitive to the cost of capital, and interest rates have risen considerably in 2022. New single-family home construction, which is particularly sensitive to mortgage rates, has now fallen four months in a row. The Conference Board's latest [economic forecast](#) shows a sustained decline in residential investment for the six quarters that began in Q2 of 2022, and a decline in nonresidential investment for the four quarters that began in Q3 of 2022.

6. WEEKLY UNEMPLOYMENT CLAIMS RISE BY 29,000

The Department of Labor [reported](#) Thursday that initial claims for unemployment insurance, a weekly indicator of labor market health, rose to 219,000 for the week ending October 1. This an increase of 29,000 over the previous week's revised level, the second largest weekly increase of the past year. The previous week's revised level, 190,000, was the lowest figure since April 2022 and identical to the immediate pre-pandemic figure of 190,000 from February 29, 2020. Claims had risen over the summer, reaching a high of 261,000 in July, but mostly declined between July and last week. The most recent figure is the first large increase since the summer. The figure is still consistent with a strong labor market; the average weekly initial claims figure in 2019, the last pre-pandemic calendar year, was 218,000. The Conference Board's [latest economic forecast](#) shows unemployment rising to 3.9 percent, above its current level of 3.7 percent, by the second quarter of next year.

7. RECORD FEDERAL TAX COLLECTIONS CONTINUE

For the first eleven months of Fiscal Year 2022 (October through August), the Federal government collected \$4.408 trillion in total taxes, up 13.5 percent from last year's record of \$3,883 trillion according to the [Monthly Treasury Statement](#). Of the new figure, just over half (\$2.404 trillion) in individual income taxes (also a record), \$1.357 trillion is social insurance and retirement taxes; and \$91.1 billion in customs duties, among major items. Still, the government ran a deficit of \$945.715 billion in this period. Major spending items over the period include Health and Human Services spending at \$1.467 trillion, the Social Security Administration at \$1.169 trillion, and the Treasury Department third at \$1.139 trillion (including \$677.6 billion in interest on the public debt and \$461.7 in other expenses). Spending for

interest on the national debt is thus higher than Defense Department spending on military programs (\$649.27 billion).

8. HURRICANE RELIEF FUNDING

As Florida continues to recover from [Hurricane Ian](#), the [continuing resolution](#) (CR) Congress passed last Friday included a [special provision](#) permitting the Federal Emergency Management Agency (FEMA) to spend funds at a higher rate to respond to Presidentially-declared disasters. (Most provisions of the CR require agencies to spend only at the rate appropriated for fiscal year 2022.) The provision permits FEMA to tap its full-year appropriation as needed now, rather than just a prorated portion of it for the duration of the CR, which expires December 16. FEMA thus has access to roughly \$35 billion in reserves. It is also possible that Congress will appropriate additional funds for FEMA (and possibly also other agencies involved in long-term relief efforts such as the Department of Housing and Urban Development and the Army Corps of Engineers) when it reconvenes after the November elections.

9. SUPREME COURT BEGINS NEW TERM

The Supreme Court [began](#) its new term on the first Monday in October, with new Associate Justice Ketanji Brown Jackson taking her seat. The Court will hear and decide a number of important and controversial cases, including on the use of race as a factor in admission to universities (two cases involving [Harvard](#) and the [University of North Carolina](#)); whether state legislatures can [override](#) the decisions of state courts ([Moore v. Harper](#)), with implications for voting rights and gerrymandering; a [case](#) on the Voting Rights Act and redistricting from Alabama ([Merrill v. Milligan](#)); and a challenge to the Clean Water Act's authority to regulate wetlands ([Sackett v. EPA](#)).

10. DEPARTMENT OF ENERGY SEEKS INPUT ON GRID RELIABILITY

The Department of Energy (DOE) Monday [announced](#) a [Request for Information](#) to determine how DOE could best use Defense Production Act authority to boost domestic production of five key energy technologies: solar; transformers and electric grid components; heat pumps, insulation, and electrolyzers; fuel cells; and platinum group metals. DOE's action derives from the President's [invocation](#) of the Act on June 6. DOE intends to use \$250 million of funds appropriated by the Inflation Reduction Act to support Defense Production Act investment in heat pump manufacturing and deployment. Responses to the Request for Information must be submitted by November 30.

11. CYBERSECURITY INVESTMENTS FOR UTILITIES

The Federal Energy Regulatory Commission (FERC) proposed a [rule](#) that would give financial incentives to utilities for making voluntary cybersecurity investments "that enhance their security posture by improving their ability to protect against, detect, respond to, or recover from a cybersecurity threat and to utilities that participate in cybersecurity threat information sharing programs to the benefit of ratepayers and national security." Utilities would apply to FERC for the incentive based on a summary of its voluntary advanced cybersecurity investments and could receive either of two types of financial incentives: either 200 basis points added to a utility's return on equity formula or "deferred cost recovery . . . that enables the utility to defer expenses and include the unamortized portion in [the] rate

base.” The incentive would last for up to five years and is designed to encourage further investments in advanced cybersecurity efforts beyond those required by Federal law.

12. CALIFORNIA DROUGHT

California is now experiencing the [driest three-year period](#) on record, with drought looking increasingly likely next year as well. California’s water year runs from October 1 to September 30; the previous water year ended with a strong September heat wave and statewide precipitation only 76 percent of average. According to the US [Drought Monitor](#), nearly 95 percent of California falls in the categories of extreme, exceptional, or severe drought. California Department of Water Resources Director Karla Nemeth said that “[t]his is our new climate reality, and we must adapt. As California transitions to a hotter, drier future, our extreme swings from wet and dry conditions will continue. We are preparing now for continued extreme drought and working with our federal, state, local and academic partners to plan for a future where we see less overall precipitation and more rain than [snow](#).”

13. OPEC+ PRODUCTION CUTS

The OPEC+ grouping, consisting of members of the Organization of Petroleum Exporting Countries plus Russia, [agreed](#) to cut in oil production by 2 million barrels per day, rebuffing the Administration’s call not to cut production at this time and raising oil prices to the benefit of Russia and other countries. National Security Adviser Jake Sullivan and National Economic Council Director Brian Deese [released](#) a statement that “The President is disappointed by the shortsighted decision by OPEC Plus to cut production quotas while the global economy is dealing with the continued negative impact of Putin’s invasion of Ukraine.” However, given that some OPEC members are not currently producing oil to their full quotas, the fall in oil production may not be as large as the 2 million barrels per day figure.

14. MONKEYPOX UPDATES

As of October 4, the [US has confirmed](#) a total of 26,194 cases of monkeypox. States with the highest case numbers include California (5,010), New York (3,964), Florida (2,558), Texas (2,389), and Georgia (1,821). [Globally](#), 69,244 cases have been confirmed, with 68,538 cases confirmed in locations that have not historically reported monkeypox. The countries with the highest case numbers include the US (26,194), Brazil (7,869), Spain (7,188), France (3,999), and the UK (3,635). A total of thirteen deaths have been reported in locations that have not historically reported monkeypox.

CDC official Mark Lipsitch [echoed](#) a recent [CDC report](#) by stating that with monkeypox’s spread to “many geographic locations” across the country, “[t]here’s no clear path in our mind to complete elimination domestically.” However, the spread is slowing; the US outbreak appears to have peaked in early August, and the average number of daily reported cases, fewer than 150, is approximately a third of the caseload in the middle of the summer. Officials expect the decline will continue for another several weeks. If domestic transmissions were stopped, infections may still continue if people catch the virus while traveling internationally, noted Dr. Tom Inglesby, director of the Johns Hopkins Center for Health Security. With case numbers going down, this is a good time for local health departments to take a new stab at intensive contact tracing to try to stop chains of transmission, he said.

15. PANDEMIC NEWS

A new [analysis](#) suggests that if 80 percent of eligible people in the US get their booster by the end of the year, 90,000 COVID-19 deaths could be [prevented](#) this coming fall and winter. But if boosters continue at their current pace, the US could see a peak of over 1,000 COVID-19 deaths daily this winter. Currently, there are over 400 COVID-19 deaths per day in the US. The analysis by researchers at The Commonwealth Fund in New York and the Yale School of Public Health examined three scenarios: a baseline where daily vaccination rates remain unchanged and two scenarios in which booster uptake increased by the end of the year, either at a rate similar to the uptake of flu shots or to reach 80 percent of eligible people receiving booster doses. The third scenario would prevent 90,000 COVID-19 deaths and over 936,000 hospitalizations and save \$56 billion in medical costs.

Overall, approximately 68 percent of the world's population has [received](#) at least one dose of the COVID-19 vaccine, and approximately 62 percent has finished a primary series of two doses. However, only 22 percent of those in [low-income countries](#) have received a single dose. Africa has struggled with the lowest vaccination rates in the world, partly due to lack of access to vaccines but also due to a lack of infrastructure needed to get shots in arms. Of the 980.1 million vaccine doses received in Africa, only 68.6 percent of those doses have been [utilized](#). Although inequality persists, progress has been made recently. Vaccination [increased](#) by 74 percent in June compared to the previous month due to mass COVID-19 vaccination campaigns in 16 countries, with an additional 19 campaigns in July. This has pushed six countries beyond the critical benchmark of having at least 10 percent of its population fully vaccinated, reducing the number of countries below the benchmark from fourteen to eight.

[Postacute sequelae of SARS-CoV-2 infection](#) (PASC), or "Long COVID," appears to be uncommon in children and presents with features different from long COVID in adults, according to a [study](#) published in *JAMA Pediatrics*. The study included a cohort of 659,286 children with an average age of 8.1 years, with 9.1 percent of the sample testing positive for the virus. Among those who tested positive, 41.9 percent of children versus 38.2 percent of children who tested negative experienced at least one systemic (condition), syndromic (symptom), or medication feature of PASC. The most common symptoms were loss of taste or smell, the most common condition was myocarditis, and the most common medication features were cough and cold preparations. Children with the highest risk of PASC were admitted to intensive care units during their illness and were under the age of five; many had complex chronic conditions. The neurological symptoms of headache, vertigo, and paresthesia most commonly reported in adults were not significant findings in the study.

16. ECONOMIC SPOTLIGHT: UNITED KINGDOM

Two weeks ago, UK Prime Minister Liz Truss and Chancellor of the Exchequer Kwasi Kwarteng launched a new fiscal plan. The plan's main [elements](#) were deregulation and tax cuts: a reduction in the basic rate of income tax, cancellation of a payroll tax increase and a planned corporate tax increase, and reducing the top bracket to 40 percent. The International Monetary Fund called the British government's plans [misguided](#) at a time of high inflation and rising interest rates, as billions of pounds of additional debt will need to be raised to finance tax cuts and quell the rising cost of energy, including [promised subsidies to households](#); "we do not recommend large and untargeted fiscal packages at this juncture, as it is important that fiscal policy does not work at cross purposes to monetary policy," the IMF wrote.

The bold plan aimed at kick-starting the British economy [spooked investors](#) and sparked the biggest one-day selloff of the pound since the beginning of the COVID-19 pandemic in March 2020. The pound, which has already fallen by a fifth this year against the US dollar, dropped another 3 percent on September 23 to \$1.09, hitting a 37-year low. UK borrowing costs rose quickly, detrimental to a plan that relies on borrowing as a funding mechanism, and yields on short-term and long-term government bonds shot up over a third of a percentage point. The UK's 30-year government bond yield [plummeted](#) to 3.93 percent, from over 5 percent before the announcement. S&P cut the UK's rating outlook after the release of the tax plan; S&P estimates that UK [government deficit will widen](#) by an average of 2.6 percent of GDP annually through 2025, and that "net general government debt will continue on an upward trajectory." S&P had previously expected government debt to decline beginning in 2023.

To restore order in Britain's bond market, the Bank of England (BOE) [launched](#) an emergency intervention last week, saying it would purchase long-dated UK government bonds "on whatever scale necessary," to calm markets and prevent wider economic damage. The move received an immediate positive reaction from financial markets, but investors and economists remain skeptical; it is too soon to tell how deep and widespread the damage to investor sentiment will be. The BOE said it offered to buy £5 billion of bonds on Wednesday (equivalent to \$5.4 billion) but only took in £1 billion, a positive result indicating a smaller amount of funding than expected moved the market.

The BOE's deputy governor for financial stability later [wrote](#) to Parliament that had the Bank not [intervened](#) with a guarantee to purchase bonds [up to £65 billion](#), a "large number" of UK pension funds, many which had invested in complex derivatives, "would have been left with negative net asset value" and "likely . . . these funds would [have begun] the process of winding up the following morning." In turn, this would have posed a risk of "excessive and sudden tightening of financing conditions for the real economy."

On Monday, the government [reversed](#) its plan to scrap the highest rate of income tax following opposition among its own Conservative lawmakers and a week of financial turmoil. The following day, UK financial markets stabilized further and the pound strengthened again to \$1.14. Government borrowing costs also fell, with the yield on the benchmark 10-year government bond, or gilt, down 0.13 percentage points to 3.835 percent.

On Wednesday, the final day of the Conservative party conference, the Prime Minister delivered a [keynote speech](#) stating that she had three priorities for Britain: growth, growth, and growth. Truss argued that the party faced an "anti-growth coalition" that did not understand "aspiration." She [made the case](#) for cutting taxes as "the right thing to do morally and economically" and said she would exert an "iron discipline" over public spending. "I believe in sound money and a lean state," she said. Truss acknowledged that her plans are disruptive but would benefit the UK in the long run. Following the speech, the pound fell against the US dollar.

The UK's Office of National Statistics (ONS) released its [2022 Q2 report](#) on September 30, which showed that UK GDP is estimated to have increased by 0.2 percent in Q2. The level of real GDP is now estimated to be 0.2 percent below where it stood pre-pandemic in Q4 of 2019. However, the UK stands as the only G7 country with a [smaller economy](#) than before COVID-19.