

***CED Public Policy Watch
Weekly News Round-up
October 21, 2022***

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1. DEVELOPMENTS ON UKRAINE

Russian attacks on energy and civilian infrastructure: Russia [continued](#) its attacks on Ukrainian cities, including with Iranian Shahed-136 “kamikaze” drones, and on energy infrastructure, with President Zelensky saying that 30 percent of Ukraine’s power stations had been “[destroyed](#)” and that the attacks meant there is “no space left for negotiations with Putin’s regime.” Ukraine [claims](#) that the drones are being launched from three Russian bases in Crimea and a position in Belarus and that Iran has sent military advisers to offer technical advice on the drones. EU Commission President Ursula von der Leyen [called](#) the attacks “war crimes” under international law.

Kyiv’s mayor made an [urgent appeal](#) for energy conservation and called on residents to stock up on water. The scale of attacks make it [difficult](#) to repair energy facilities before the approaching winter. Even as Ukraine [claims](#) to have shot down 166 drones in the last month, the costs of defending against the drones is much greater than Russia’s cost of launching them. NATO will [deliver](#) anti-drone systems to Ukraine. The EU [provisionally agreed](#) to impose sanctions on Iran in response to the drone attacks, targeting eight individuals and entities who would be added to [current EU sanctions](#) against Iran. Reports also [suggested](#) that Iran has also agreed to supply Russia with medium-range missiles.

Military developments: The UK Ministry of Defence [said](#) that with damage to the Kerch bridge linking Russia to Crimea, “logistical issues” for Russian forces in Crimea and southern Ukraine have “likely become more acute,” with a “large queue of waiting cargo trucks,” causing problems for Russia ahead of likely battles in the Kherson region. UK Minister of Defence Ben Wallace [visited](#) the Pentagon urgently to consult with US Defense Secretary Lloyd Austin and other US officials on “shared security concerns,

including Ukraine.” Wallace later told Parliament that a Russian armed Su-27 fighter “[released a missile in the vicinity](#)” of an unarmed British aircraft in international waters above the Black Sea. The EU will set up a [mission](#) to train 15,000 Ukrainian soldiers in Poland and Germany starting in November and will send an additional €500 million in aid to finance weapons purchases. Lockheed Martin will [increase](#) its production of HIMARS rocket systems that have been delivered to Ukraine. Moscow’s mayor [ended](#) the city’s mobilization drive there, including searches for men suspected of evading the mobilization.

Putin declares martial law in four regions: Russian President Putin [instituted martial law](#) in the four Ukrainian regions (Donetsk, Kherson, Luhansk, Zaporizhzhia) Russia illegally annexed and issued a decree restricting movement, permitting vehicle checks, and “[economic mobilization](#)” in eight regions bordering Ukraine, as well as Crimea.

Grain exports: Reuters [reported](#) that for the first 17 days of October, Ukraine’s grain exports were just 2.4 percent lower than in the same period last year, with 2.12 million tonnes exported so far this month. However, for the entire season beginning in July thus far, Ukraine has only exported 10.8 million tonnes of grain compared with 16.5 million last year.

Energy developments: President Recep Tayyip Erdoğan [announced](#) an agreement with Russia to set up a “gas hub” in Turkey for the export of Russian gas, which could then be sold to Europe. The hub may also be a way to evade EU proposals for a gas and oil price cap that would reduce the price Russia is able to obtain for its sales. Separately, the US [reaffirmed](#) to OPEC members that the proposed price cap on Russian oil was aimed only at Russia, not other oil producers, including Saudi Arabia. President Biden [announced](#) a release of an additional 15 million barrels of oil from the US Strategic Petroleum Reserve, which still leaves about 400 million barrels in the Reserve.

Exxon exits Russian project: Reuters [reported](#) that ExxonMobil has “safely exited” its Russian operations following Russia’s decision to “unilaterally terminate” Exxon’s interests and [seize](#) properties worth about \$4 billion, after months of discussions about transfer of its 30 percent stake in the Sakhalin-1 oil and gas project. However, the company did not disclose whether it had received any compensation for the assets but said it “made every effort to engage with the Russian government and other stakeholders.” Exxon had partnered with Russian oil company Rosneft, India’s Oil and Natural Gas Corporation Videsh, and Japanese company SODECO in the project, but Russia refused to permit Exxon to sell shares to its non-Russian partners directly. The Russian seizure is potentially subject to international commercial arbitration.

Sanctions: Support for sanctions [remains](#) high in most Western countries, despite the impact on their economies, with a high of 73 percent in the UK, 72 percent in Denmark, and 71 percent in Sweden. The US registered 65 percent support; with 57 percent in France and 58 percent in Germany.

Norway drone arrests: Norway [arrested](#) at least seven Russians, including the son of a sanctioned Russian, for flying drones or taking pictures near sensitive areas, including airports and offshore oil and gas fields. On Wednesday, Prime Minister Jonas Gahr Støre said that “[it] is not acceptable that foreign intelligence is flying drones over Norwegian airports. Russians are not allowed to fly drones in Norway.”

2. THE CONFERENCE BOARD LEADING ECONOMIC INDEX CONTINUES DECLINE

The Conference Board [Leading Economic Index](#)® (LEI) decreased by 0.4 percent in September 2022 to 115.9 (2016=100), after remaining unchanged in August. The LEI is down 2.8 percent between March and September 2022, a reversal from its 1.4 percent growth over the previous six months. The LEI is a composite of ten economic figures that are predictive of the future direction of the economy. “The US LEI fell again in September and its persistent downward trajectory in recent months suggests a recession is increasingly likely before yearend,” said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. “The six-month growth rate of the LEI fell deeper into negative territory in September, and weaknesses among the leading indicators were widespread. Amid high inflation, slowing labor markets, rising interest rates, and tighter credit conditions, The Conference Board forecasts real GDP growth will be 1.5 percent year-over-year in 2022, before slowing further in the first half of next year.”

Separately, The Conference Board [Measure of CEO Confidence](#)™ in collaboration with The Business Council stands at 32 to start Q4 2022, down from 34 in Q3. The Measure fell deeper into negative territory, to lows not seen since the depths of the Great Recession. (A reading below 50 points reflects more negative than positive responses.) A total of 136 CEOs participated in the Q4 survey between September 19 and October 3. The recent survey asked CEOs to describe the economic conditions they are preparing to face over the next 12-18 months. An overwhelming majority—98 percent—said they were preparing for a US recession; 99 percent of CEOs said they were preparing for an EU recession.

3. FED’S BEIGE BOOK SHOWS MODEST EXPANSION BUT OUTLOOK MORE PESSIMISTIC

A [qualitative Fed survey](#) commonly known as the Beige Book, which gathers information on current economic conditions through interviews with key business contacts in each Fed district, showed that economic activity “expanded modestly” overall, with four of twelve districts citing flat activity and two citing declines. Manufacturing activity held steady or expanded in most districts, which the Fed attributed to easing supply chain disruptions. Some areas of consumer spending, including travel and tourism, rose strongly. However, overall retail spending was flat. Real estate, both commercial and residential, struggled under high interest rates. Auto dealers, whose consumers are generally sensitive to interest rates, noted “sustained sluggishness in sales.” Though most districts reported continued hiring, several reported slowing labor demand, with businesses hesitant to add more payrolls under an uncertain economic outlook. Most contacts expected wage growth to continue, because higher pay remains necessary to retain workers. Overall, “outlooks grew more pessimistic amidst growing concerns about weakening demand.”

4. INFLATION AND INTEREST RATES WEIGH ON SEPTEMBER RETAIL SALES

Seasonally adjusted [retail sales data](#) for September released by the Census Bureau last Friday showed customers struggling with high inflation and interest rates. In nominal terms, retail spending was flat from August to September. However, adjusted for CPI inflation, retail spending fell by 0.4 percent. Spending on goods fell in September by 0.1 percent in nominal terms, largely attributable to lower gas prices which continued to fall from their June highs. Overall, there was deflation in goods, and in real terms, goods spending actually rose by 0.2 percent. Spending on motor vehicles and parts, which is

often debt-financed and sensitive to interest rates, fell 0.4 percent, continuing a steady decline seen throughout the year. By contrast, spending at food and drinking establishments rose by 0.5 percent in nominal terms, but declined 0.2 percent after accounting for inflation, reflecting consumers' struggles with high inflation in services. Analysis of the retail sales data by The Conference Board's Economy, Strategy, and Finance Center can be found [here](#).

5. HOUSING STARTS FALL SHARPLY

The Census Bureau Wednesday [released](#) figures on new residential construction. New housing starts for September, seasonally adjusted and annualized, were 1,439,000, 8.1 percent below August's figure and one of the three lowest months in the last two years. Single family starts fell to 892,000, 4.7 percent below August's figure and the lowest since May 2020. People have shown a high willingness to pay for housing in the last year; Consumer Price Index [inflation](#) for shelter has reached 6.6 percent. However, the average 30-year fixed rate mortgage in Freddie Mac's [Primary Mortgage Market Survey](#) has reached 6.92 percent, the highest figure in decades. The National Association of Home Builders, a private industry group, [reported](#) Tuesday that homebuilder confidence fell for the tenth straight month. The Conference Board's Economy, Strategy, and Finance Center [projects](#) declines in residential investment into the third quarter of 2023, stating that "residential investment will continue to contract as the housing market works to find a new lower equilibrium."

6. INITIAL UNEMPLOYMENT CLAIMS DECLINE TO 214,000

The Department of Labor [reported](#) Thursday that initial claims for unemployment insurance, a weekly indicator of labor market health, were 214,000 for the week ending October 15. This was a decrease of 12,000 from the previous week's revised level. Claims remain elevated above September's lowest reading, 190,000, or the immediate pre-pandemic figure of 186,000 for March 7, 2020. They also remain well above the spring lows of 166,000. However, they are moderate by historical standards, and below the July highs of 261,000. The Conference Board's latest economic forecast [shows](#) the unemployment rate rising to 4.3 percent, well above its current level of 3.5 percent, by the second quarter of next year.

7. SEVERE AVIAN FLU OUTBREAK

An outbreak of avian flu has [led](#) to over 47 million deaths of chickens and turkeys in 42 states, a near-record number, just short of 2015's 50.5 million deaths in a smaller number of states. A subvariant of the H5N1 strain of avian flu (the goose/Guangdong lineage) survived the summer and has led to a worse outbreak this fall both in the US and in Europe, which has seen nearly 50 million poultry cullings. The subvariant seems to live for longer in wild birds, according to Rosemary Sifford, chief veterinary officer for the US Department of Agriculture. She noted that the virus "could be present in wild birds for the foreseeable future." USDA believes there may be an elevated threat from avian flu until the summer of 2023. Infections have led to export restrictions, including China's suspension of all poultry imports from Arkansas (the third-biggest producer of chickens). As Thanksgiving approaches, prices for turkey have risen significantly, with retail prices for fresh boneless, skinless turkey reaching a record \$6.70 per pound, up 112 percent from a year ago, while production is expected to decline 6 percent this year to 5.2 billion pounds; antibiotic-free turkey products are selling at wholesale for \$7-\$9 per pound instead of about \$3 before the COVID-19 pandemic.

8. OCEAN SHIPPING REFORM ACT RULE HELPS SHIPPERS

Fulfilling a requirement of the [Ocean Shipping Reform Act](#) enacted earlier this year, the Federal Maritime Commission (FMC) proposed a [rule](#) to require common carriers and marine terminal operators to include specific information on invoices for [demurrage](#) (technical failure to abide by a ship charter agreement, especially the failure to load or discharge the ship within an agreed time) and [detention](#) (not returning an empty container to a port by an agreed time) and related billing practices to shippers. Pressures on shippers from rising cargo volumes at congested ports, which delays loading and unloading of ships in the wake of the pandemic has brought greater focus on demurrage and detention charges, leading to passage of the Act. According to the FMC, “between 2020 and 2022, nine of the largest carriers serving the U.S. liner trades individually charged a total of approximately \$8.9 billion in demurrage and detention charges and collected roughly \$6.9 billion.” The rule should help shippers which continue to face congested ports. Comments on the proposal are due by December 13.

9. DEPARTMENT OF ENERGY AWARDS \$2.8 BILLION IN BATTERY MATERIALS GRANTS

The Department of Energy [awarded](#) \$2.8 billion for high-tech battery manufacturing facilities to bolster the supply chain for batteries and battery electric vehicles, with 20 companies building facilities in 12 states. The grants are matched by \$9 billion in private funds, with no project exceeding a 50 percent federal cost share. The facilities typically process battery-grade lithium, graphite, and nickel or use those materials in separators, anodes, and cathodes. The Department released [fact sheets](#) on each of the individual projects. In making the awards, the Department considered not only technical merits and contributions to production of battery components but also benefits for communities and workers, including building facilities in or near disadvantaged communities. A main purpose of the initiative is to reshore the supply chain for electric vehicles, much of which is currently located in China. The Bipartisan Infrastructure Law will eventually provide up to \$7 billion for the battery supply chain.

10. CYBERSECURITY REGULATION IN FOUR CRITICAL INFRASTRUCTURE SECTORS

Deputy National Security Adviser Anne Neuberger [said](#) the Administration will release cybersecurity requirements for four critical infrastructure sectors: transportation, communications, water, and healthcare. In communication, the FCC is addressing the security of the National Alert and Warning Systems in its [October 27th meeting](#) and is circulating a [notice of proposed rulemaking](#) on the subject. Neuberger further previewed rulemaking by the Environmental Protection Agency in cybersecurity for water systems, and the Department of Health and Human Services for hospitals, with additional work in healthcare to come. Neuberger’s comments suggest that firms in critical infrastructure are likely to be required to separate regular corporate IT networks from networks actually operating the infrastructure.

11. IRS ADJUSTS TAX BRACKETS FOR INFLATION

On Tuesday, the IRS [announced](#) tax brackets for 2023 that reflect 7 percent inflation in the Consumer Price Index (CPI), following an automatic adjustment in place since 1985 to end the former “bracket creep” in periods of higher inflation. The 37 percent top tax rate will now apply to individuals with income over \$578,125 and to married couples filing jointly with income above \$693,750. Social Security, which follows a different measure of CPI, announced last week that benefits will rise 8.7 percent.

12. HIGH EARLY VOTING TURNOUT IN GEORGIA

Early voting in Georgia began on Monday. On the [first day alone](#), the number of ballots cast in person or by absentee ballot (143,007, with 131,318 in-person votes and 11,759 absentee) far exceeded the 70,848 first-day ballots in 2018 and the first-day in-person ballots cast in 2020. CED's Solutions Brief [Secure, Credible, Accessible Elections in 2022](#) addressed early voting procedures.

13. XI JINPING ADDRESS TO CHINESE COMMUNIST PARTY CONGRESS

On Sunday, Chinese President and General Secretary of the Communist Party Xi Jinping gave his long-awaited [address](#) to the Twentieth Party Congress, at which he is expected to be reelected. In a bold, defiant speech lasting almost two hours, Xi spoke of “dangerous storms” for China, even as “rejuvenation of the Chinese nation is now on an irreversible historical course.” Reviewing the past five years, Xi pronounced that “China’s international influence, appeal and power to shape the world has significantly increased.” Security was a major focus of the speech, as Xi said China’s [goal](#) is to “balance development with security.”

On the economy, In complicated language seeking to find a balance between the roles of the public and private sectors, Xi stated that China’s goals are to “build a high-level socialist market economic system, adhere to and improve the basic socialist economic system, unswervingly consolidate and develop the public ownership system, unswervingly encourage and support the development of the privately owned economy, give full play to the decisive role of the market in the allocation of resources, and give better play to the role of the government.” He added a warning to rich Chinese that China would “standardize wealth accumulation mechanisms” and continue to combat corruption. Xi also [pledged](#) to “resolutely win the battle in key core technologies” and [focus](#) on food security to “ensure that the rice bowl of Chinese is firmly in their own hands.” In a reversal of China’s policies in recent decades and a recognition of difficult demographic trends, Xi [said](#) China “will establish a “system to boost birth rates and pursue a proactive national strategy in response to population ageing.”

On Taiwan, Xi [said](#) that the “wheels of history are rolling on towards China’s reunification” and that China [persists](#) “in striving for the prospect of peaceful reunification with the greatest sincerity. However, there is no commitment to renounce the use of force and the option to take all necessary measures is retained.” In an implicit rebuke to the West, Xi declared that “[w]e have promoted the construction of a new type of international relations [and] actively participated in the reform and construction of the global governance system.” To this picture, though, Xi [added](#) words of warning: “We must strengthen our sense of hardship . . . be prepared for danger in times of peace, prepare for a rainy day, and be ready to withstand major tests of high winds and high waves.” The Congress will continue through October 22 and will feature Xi’s reelection as well as new appointments to major Party committees.

14. TRUSS RESIGNS AS UK PRIME MINISTER

UK Prime Minister Liz Truss [resigned](#) on Thursday after six weeks in office full of controversy over economic plans. The “[mini-budget](#)” her government proposed in late September led to falls in the pound and financial markets, higher mortgage payments, and a pension funding crisis averted only when the Bank of England [intervened](#) to purchase up to £65bn of government bonds, and the

International Monetary Fund [encouraging](#) the UK to rethink some of the economic plans. New Chancellor of the Exchequer Jeremy Hunt, appointed after Kwasi Kwarteng resigned, reversed some policies of the mini-budget, but questions remained, including a cap on consumer energy prices and levels of benefits payments. (For more details on this story, please see the October 7 [Public Policy Watch](#), “Economic Spotlight: United Kingdom.”)

On Wednesday, Home Secretary Suella Braverman [resigned](#) after a technical violation of the ministerial code in a move widely seen as directed against Truss. Later in the day, there was [confusion](#) over whether a vote to ban fracking was a “confidence vote” requiring Tory MPs to support the government, with the government changing its mind after the Climate Minister had said it was not a confidence vote. In the end, the fracking ban was defeated, but 40 Tories did not vote to support the government, and the chaos caused many MPs to conclude that Truss should resign.

By Monday, leadership [candidates](#) must have nominations from at least 100 Tory MPs. Depending on the number of candidates, there would either be an elimination vote to select two candidates, or, if there are only two candidates, there would be an “indicative vote of MPs” before online voting among Conservative Party members closing on October 28. If only one candidate receives 100 nominations, that candidate would automatically become leader and thus Prime Minister. Possible candidates include former Chancellor of the Exchequer Rishi Sunak (who lost to Truss in the last leadership election and who had campaigned against Truss’ proposals on the economy in the mini-budget), current Leader of the House of Commons Penny Mordaunt, and possibly former Prime Minister [Boris Johnson](#).

15. MONKEYPOX UPDATES

As of October 18, the [US has confirmed](#) a total of 27,558 cases of monkeypox. States with the highest case numbers include California (5,278), New York (4,051), Florida (2,658), Texas (2,594), and Georgia (1,878). [Globally](#), 73,782 cases have been confirmed, with 72,922 cases confirmed in locations that have not historically reported monkeypox. The countries with the highest case numbers include the US (27,558), Brazil (8,652), Spain (7,239), France (4,064), and the UK (3,673). A total of eighteen deaths have been reported in locations that have not historically reported monkeypox.

As cases climbed to a peak in early August, experts worried that it was only a matter of time before monkeypox would circulate widely in close-knit settings such as daycares and college dorms. Now, it is clear that those [threats did not materialize](#), as daily new cases are hovering around 60, the lowest since June. As of October 12, only [0.2 percent](#) of US cases have been in children under 16. Fear stemmed from the understanding that monkeypox could be spread through saliva, but several studies have shown that it is quite rare to catch the virus this way. A [study](#) at Israel Institute of Biological Research measured the levels of virus in 44 monkeypox patients, taking samples from the throat and lesions on the skin. It found that the skin lesions contained, on average, 17 times the infectious particles than the swabs from the throat. This study, among others, explains why monkeypox is spreading almost exclusively through contact during sex, rather than through aerosol exposure. Some experts are now saying that it may be possible to combat monkeypox “transmission chains” in the US and bring down new daily cases to nearly zero. “I think we can expect to see regional elimination, potentially national elimination, where we would not see a sustained number of cases,” says Dr. Jeffrey Klausner, professor of medicine and public health at the University of Southern California.

16. PANDEMIC NEWS

Omicron subvariant raises case numbers in New York: The BQ.1 and BQ.1.1 subvariants now [account](#) for 19.6 percent of cases in CDC's New York region and up to 36.6 percent of cases in the immediate New York area, as the transmission rate in Manhattan has risen 7 percent in a week.

NHS Preparing for Possible “Toughest Winter on Record”: The UK's National Health Service is setting up data-driven “war rooms” to [prepare](#) for what could be England's “toughest winter on record.” These 24/7 “care traffic control centres” are expected to be set up in every local area and will be led by teams of clinicians and experts who will manage demand and capacity of hospital beds across the country. “[w]ith the combined impact of flu, COVID and record NHS staff vacancies - in many ways, we are facing more than the threat of a 'twindemic' this year,” noted NHS Chief Executive Amanda Pritchard.

Ontario May Restore Mask Mandate: Ontario opened appointments for everyone aged 12 and over to receive the bivalent Omicron-targeted COVID-19 booster. As the weather turns colder and case numbers rise, Ontario's Chief Medical Officer of Health Dr. Kieran Moore says he will recommend the return of [mask mandates](#) if the health care system struggles to keep up with hospital admissions. Data released last week from the province's Ministry of Health shows that 17.1 percent of tests are coming back positive, up from 13.3 percent the previous week. Approximately 750,000 Ontarians have been boosted to date, but only 16 percent of those individuals are aged 70 and older, a rate he calls “unacceptable.”

New Omicron Subvariant XBB in Asia: Singapore Health Minister Ong Ye Kung said Saturday that the country “cannot rule out” the return of [safe management measures](#) such as wearing of face masks indoors, depending on how the current [XBB wave](#) proceeds. Omicron subvariant XBB, first detected in India in August, is currently the predominant COVID-19 strain [circulating in Singapore](#), accounting for 54 percent of local cases during the week of October 3 through 9, up from 22 percent the previous week, and has also appeared in [Hong Kong](#). It has been described as the “[best yet](#)” at evading human immune defenses. He added that Singapore may also need to “step up” vaccination-differentiated safe management as Ong noted that the city's daily cases are likely to reach 15,000 by mid-November. Observations from countries with the XBB subvariant have suggested that it is at least as contagious as previous Omicron variants but does not cause more severe illness.

17. COUNTRY SPOTLIGHT: CHINA

Speaking on Sunday at the 20th National Party Congress, Chinese leader Xi Jinping [argued](#) that China had waged an “all out people's war to stop the spread of the virus.” China's leadership has done all in its power to put “the people and their lives above all else,” noted Xi. China's “zero COVID” had saved lives, and to abandon it, would be to disregard human life, according to Xi. Xi claimed that China has won international acclaim for its stringent measures, bolstering its image globally. The claim was true early in the pandemic, but not more recently, as the highly transmissible Omicron variant resulted in increasingly stringent lockdown measures, isolating China from the world and taking a toll on its economy, according to Yanzhong Huang, a global health expert at the Council on Foreign Relations. “International reverence for Beijing's COVID response approach has rapidly and significantly decreased, which has undermined China's soft power, especially in the Western world,” said Mr. Huang.

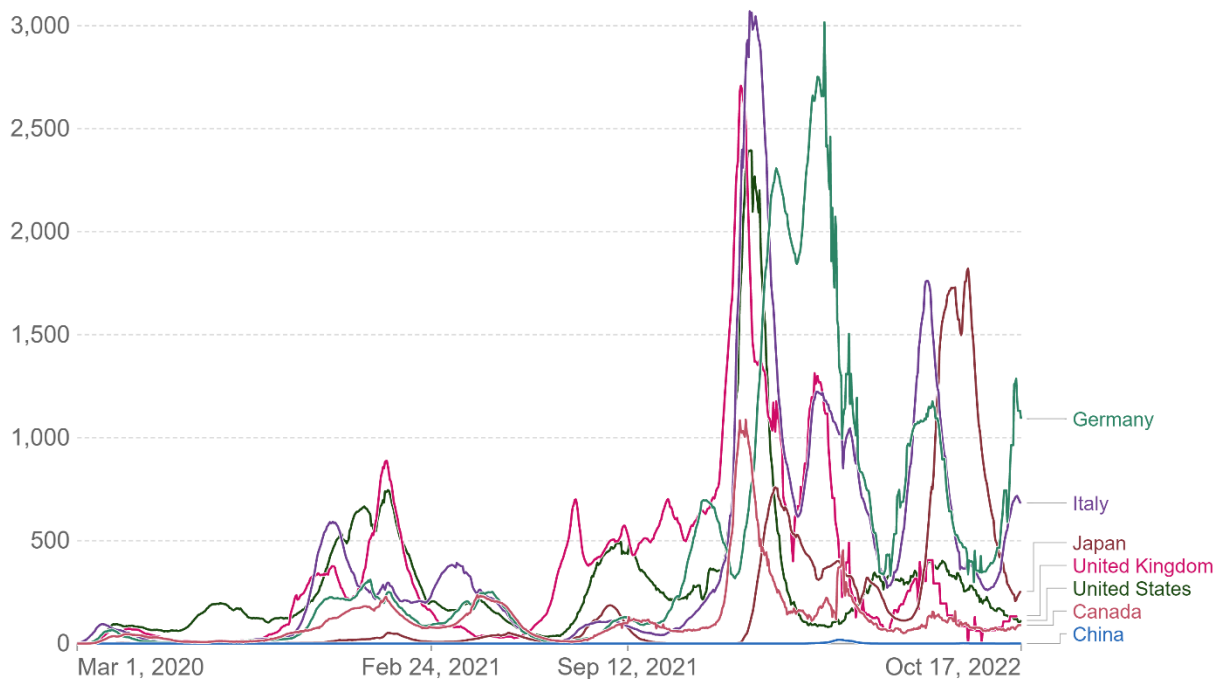
On Monday, approximately one million residents of the Zhongyuan district of Zhengzhou, Henan Province, an [iPhone manufacturing hub](#), were [placed in lockdown](#) to tame a virus flareup. Residents must remain home, except for undergoing COVID-19 testing, and non-essential businesses have been closed. Zhengzhou reported 6 new local cases on Sunday, down from a recent peak of 40 the week prior. Nationwide, cases tallied at 697, the lowest number in two weeks, as outbreaks in Inner Mongolia and Xinjiang came under control.

[Censorship](#) went into overdrive last week following a rare protest in Beijing when two banners criticizing Xi and his dynamic COVID zero policies were displayed on a bridge, one reading “We want food, not PCR tests. We want freedom, not lockdowns and controls.” Censors went so far as to restrict the search term “Beijing” on social media site platforms, including the popular site Weibo. More than 300 million people in over 70 cities across China have been [affected](#) by full or partial lockdowns at one point last month, according to calculations by CNN.

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.

Our World
in Data



Source: Johns Hopkins University CSSE COVID-19 Data

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