In recent weeks CEOs and financial markets received mixed news about the US economy.

December CPI readings showed continued relief in inflation and are consistent with our forecast that topline year-over-year CPI peaked in Q2 2022. Still, the readings remain far too high. The improvement in the headline figure was largely driven by lower energy prices, although prices for many core goods also declined. However, core inflation ticked up slightly due to rising prices in core services, like shelter. As the housing market cools further over the coming months, shelter prices should gradually follow suit.

The December 2022 jobs report showed the US labor market is still strong, with 223,000 jobs added for the month, after an increase of 256,000 jobs (a downward revision) in
November. Labor shortages persist due to structural factors—including, but not limited to, early retirements and reduced immigration. Demand for workers remains robust in in-person services such as health and social assistance and leisure and hospitality, putting continued pressure on wages as workers quit their jobs for better opportunities. Likewise, layoff rates are still below pre-pandemic levels. Year-over-year growth in average hourly earnings slowed to 4.6 percent in December—down from 4.8 percent in November, and its 2022 peak of 5.6 percent, reached last March.

Following Kevin McCarthy’s election as Speaker, the House of Representatives turned to adopting a rules package for the new Congress. The rules contain some significant changes both in House procedure and for the substance of important policy issues. The rules package could have a direct impact on negotiations to raise the debt ceiling which will have to be addressed this year.

For more information on these and other events, please see below:

1. INFLATION EASES IN DECEMBER
2. POWELL REMARKS ON CENTRAL BANK INDEPENDENCE AND CLIMATE CHANGE
3. UNEMPLOYMENT FALLS SLIGHTLY TO 3.5 PERCENT
4. INITIAL UNEMPLOYMENT CLAIMS DECLINE
5. NEW RULES FOR US HOUSE OF REPRESENTATIVES; NEW CHAIR OF WAYS AND MEANS
6. SUPREME COURT SEEKS ADMINISTRATION POSITION ON WORKPLACE DISCRIMINATION CASES
7. US EMISSIONS AND MAJOR CLIMATE EVENTS IN 2022
8. BLUEPRINT TO DECARBONIZE TRANSPORTATION SECTOR
9. GUIDANCE FOR FEDERAL AGENCIES ANALYZING CLIMATE CHANGE
10. SOOT (PARTICULATE MATTER) POLLUTION LEVELS
11. PROPOSED RULE ON INCOME-DRIVEN STUDENT LOAN REPAYMENT
12. PRESIDENT’S OPINION PIECE ON TECHNOLOGY COMPANIES
13. THE PRESIDENT VISITS MEXICO; “THREE AMIGOS” SUMMIT
14. MONKEYPOX UPDATES
1. INFLATION EASES IN DECEMBER

The Consumer Price Index slowed to 6.5 percent year-over-year in December, down from a 7.1 percent increase in November. Month-over-month, headline CPI decreased 0.1 percent. Core CPI, which excludes volatile food and energy prices, increased 0.3 percent, for a 5.7 percent year-over-year increase. Similar to November, a low headline figure was attributable primarily to a 4.5 percent decline in energy prices, including a 9.4 percent fall in retail gasoline prices. Also declining substantially (2.5 percent) were used cars and trucks, which had seen high inflation in 2021 and early 2022. However, some sectors saw increases: food rose 0.3 percent and shelter 0.8 percent. The 0.3 percent month-over-month increase in core CPI inflation is slightly above the Federal Reserve's inflation target, which is 2.0 percent annual inflation in the core Personal Consumption Expenditures index. The Conference Board’s most recent forecast, published Tuesday, projects inflation peaked in Q2 2022 and is moderating back towards the Fed’s target, which will be reached in year-over-year terms by the fourth quarter of 2024. For more insights on the CPI data please further analysis from the ESF Center.

2. POWELL REMARKS ON CENTRAL BANK INDEPENDENCE AND CLIMATE CHANGE

Federal Reserve Chair Jerome Powell spoke Tuesday at the Symposium on Central Bank Independence at the Sverige’s Riksbank in Stockholm. Powell stated that public policy decisions should generally be made by elected officials, but the benefits of “insulating monetary policy from short-term political considerations” are “well understood and broadly accepted,” noting also the Fed has “the responsibility to provide the transparency that enables effective oversight by Congress, which, in turn, supports the Fed’s democratic legitimacy. At the Fed, we treat this as an active, not passive, responsibility, and over the past several decades we have steadily broadened our efforts to provide meaningful transparency about the basis for, and consequences of, the decisions we make in service to the American public.”

Powell also addressed calls for the Fed to become more involved in climate change. He took a nuanced view, stating that the Federal Reserve should “stick to [its] knitting” but reaffirming that “in my view, the Fed does have narrow, but important, responsibilities regarding climate-related financial risks . . . tightly linked to our responsibilities for bank supervision. Powell argued that “the public reasonably expects supervisors to require that banks understand, and appropriately manage, their material risks, including the financial risks of climate change.” However, Powell concluded that “without explicit congressional legislation, it would be inappropriate for us to use our monetary policy or supervisory tools to promote a greener economy or to achieve other climate-based goals.”

3. UNEMPLOYMENT FALLS SLIGHTLY TO 3.5 PERCENT

The Bureau of Labor Statistics’ Employment Situation report for December saw nonfarm payroll increase by 223,000 jobs, the lowest number since December 2020, even as the
unemployment rate fell slightly to 3.5 percent, its lowest mark since 2019, with the number of unemployed workers falling to 5.7 million. December was the best month of labor force re-entry since August with 439,000 workers added. Job gains were heavily tilted towards healthcare and social assistance (+74,000) and leisure and hospitality (+67,000), as well as construction (+28,000). But signals of softening are emerging, with temporary-help employment falling for the fifth consecutive month (-35,000), which is typically an early downturn indicator as temporary workers are often the first to be fired. Wage growth also appeared to moderate in December, to 3.4 percent at an annual rate; however, consecutive large revisions both upward and downward to wage data in October and November add to the mixed economic signals. The next report on wages comes on January 31 with the Employment Cost Index. BLS also reported that the labor force participation rate was “little changed” at 62.3 percent, 1.0 percent below the February 2022 measure just prior to the pandemic-related shutdowns. For more insights on the CPI data please further analysis from the ESF Center.

4. INITIAL UNEMPLOYMENT CLAIMS DECLINE

The Department of Labor reported Thursday that initial claims for unemployment insurance, a weekly indicator of labor market health, were 205,000 for the week ending January 7, a decrease of 1,000 from the previous week’s revised level of 206,000, following upward revisions of 2,000. The 4-week moving average was 212,500. This level of claims is low or moderate by historical standards, below the July highs of 261,000, and reflects continued labor market strength even as some leading economic indicators tip into negative territory. The latest economic forecast from The Conference Board shows the unemployment rate rising to 4.5 percent by the fourth quarter of 2023.

5. NEW RULES FOR US HOUSE OF REPRESENTATIVES; NEW CHAIR OF WAYS AND MEANS

Following Kevin McCarthy’s election as Speaker on the 15th ballot, the House of Representatives turned to adopting a rules package for the new Congress. The rules contain some significant changes both in House procedure and for the substance of important policy issues. It will now take only one member, rather than a decision by party leaders, to propose a motion to “vacate the chair,” putting McCarthy’s position as Speaker at potential risk at any time. Additional changes, some not in the package itself but in a reported unpublished “three-page addendum,” include adding members of the Freedom Caucus to the Rules and Appropriations Committees and a vote on congressional term limits.

The rules package could have a direct impact on negotiations to raise the debt ceiling which will have to be addressed this year. The old “Gephardt rule” prohibiting a direct vote on raising the debt ceiling was abolished, making a vote to raise it more politically challenging. The package also includes a “cut-as-you-go” (cutgo) rule, requiring that new spending be paid for only with tax cuts, unlike the “paygo” rule which permitted new revenues to pay for new spending. However, cutgo will not apply to spending designated
as “emergency” spending (for instance, disaster relief after major weather events). Additionally, a rule would permit “amendments to appropriations legislation that would reduce the salary of or fire specific federal employees, or cut a specific program.”

Jason Smith (R-MO) was elected Chairman of the House Committee on Ways and Means, with authority over taxes and health care, beating out two veteran members of the Committee. Smith, who called himself a “firebrand” but “reflective of our party,” described Republicans as “the working-class party” and noted his priorities included a 20 percent deduction for owners of “pass-through” businesses to help small businesses and also a larger child tax credit (a potential point of agreement with Democrats) as part of an effort on “financial and health care security for families.” On spending, he said “the American people expect Congress to use every tool in the toolbox to drive down this crazy spending that has led to the highest inflation in 40 years”; he also promised oversight of tax provisions benefiting “woke corporations” and a focus on medical supply chains.

**6. SUPREME COURT SEEKS ADMINISTRATION POSITION ON WORKPLACE DISCRIMINATION CASES**

The Supreme Court asked for Administration briefs on two cases on whether job actions less serious than a firing or demotion, such as a paid suspension or a lateral transfer, can form the basis of a discrimination suit. Federal appeals courts earlier found that the actions did not meet the definition of an “adverse employment action” under Title VII the Civil Rights Act of 1964, which requires a worker to show material harm or significant damage to employment status. The Justice Department is expected to support the workers’ claims, as in a 2020 brief that urged the Eighth Circuit to hold that Title VII outlaws any discriminatory conduct. In 2021, the Eleventh Circuit ruled stating that Title VII did not apply to paid suspensions, joining similar rulings by other circuit courts. The Supreme Court is expected to decide the cases before its Term concludes in June.

**7. US EMISSIONS AND MAJOR CLIMATE EVENTS IN 2022**

The Rhodium Group released estimates showing US emissions grew by 1.3 percent in 2022 over 2021 as economic activity rebounded. However, emissions rose more slowly than economic growth, an encouraging sign, led by substitution of coal with natural gas -- a less carbon-intensive fuel -- and a rise in renewable energy production,” both reducing carbon intensity. Pointing to the incentives in last year’s Inflation Reduction Act, Kate Larsen of the Rhodium Group commented that “It feels like 2023 is set up for a year of much more significant emissions reductions that will only accelerate as the incentives kick in [.]”; she added that the “uncertainty is how quickly and efficiently the US government can move those credits and how quickly the clean energy industry can get shovels in the ground. Rather than just shutting down coal plants we need to build new things, which is a challenge.”

The National Oceanic and Atmospheric Administration (NOAA)’s annual report on weather and climate events with effects over $1 billion found 18 separate events, including eleven severe storms (including tornadoes and a derecho), three hurricanes,
flooding, the severe winter storm and cold in December, and drought in the West (including wildfires). These events cost over $165 billion, the third highest figure since records began in 1980, and directly caused 474 deaths. Much of the figure resulted from Hurricane Ian, which cost $112.9 billion. Alarmingly, the report found that over the past six years, there were only 18 days on average between billion-dollar disasters.

8. BLUEPRINT TO DECARBONIZE TRANSPORTATION SECTOR

The Departments of Energy, Transportation, and Housing and Urban Development and the Environmental Protection Agency jointly released a blueprint for decarbonization of the transportation sector, laying out three key strategies. The first is convenience, putting people closer to the places they need to go, so they don’t need to travel as far, and facilitating online, walking, or biking options for daily activities, often related to practices in land use and community design. The second strategy is efficiency, using larger vehicles with more capacity, such as carpools, buses, or rail. The third is cleaner fuels, including battery electric vehicles, hydrogen fuel cell vehicles, and low-carbon sustainable liquid fuels. The blueprint notes that certain fuels will be better for some tasks and weaker for others (for instance batteries, which are heavy and limited in range, are better suited for light duty vehicles). A press release noted that the sector accounts for a third of all domestic greenhouse gas emissions.

9. GUIDANCE FOR FEDERAL AGENCIES ON ANALYZING CLIMATE CHANGE

The Council on Environmental Quality (CEQ) issued interim guidance to Federal agencies on how to analyze greenhouse gas (GHG) and climate change effects of proposed Federal decisions under the National Environmental Policy Act (NEPA) (including environmental impact assessments). At the same time, CEQ opened the guidance for public comment. The guidance, updated from 2016, would apply to all Federal decisions subject to NEPA and notes that EPA seeks “to mitigate GHG emissions associated with their proposed actions to the greatest extent possible, consistent with national, science-based GHG reduction policies established to avoid the worst impacts of climate change.”

The guidance requires agencies to consider both “the potential effects of a proposed action on climate change” and “the effects of climate change on a proposed action and its environmental impacts.” Agencies will have to address climate change issues early in the planning process, “quantify a proposed action’s projected GHG emissions or reductions for the expected lifetime of the action,” and explicitly address proposals for mitigation and “reasonable alternatives.” Agencies will also have to rely on the “best available information and science” and “best available social cost of GHG (SC-GHG) estimates” in preparing their analyses. Environmental justice will be a focus of the new guidance as well, “consistent with Executive Orders 12898 and 14008.” Comments on the proposal are due March 10.

10. SOOT (PARTICULATE MATTER) POLLUTION LEVELS
EPA has reportedly decided not to strengthen its daily exposure limit to soot, currently 35 micrograms per cubic meter. Earlier, EPA’s Clean Air Scientific Advisory Committee had recommended a lower limit; an EPA report in 2019 had recommended drastically lowering the limit to 8-10 micrograms per cubic meter. EPA defines soot for this purpose as particles less than 2.5 micrometers in diameter; some pollution in this category comes from power plants and diesel engines.

11. PROPOSED RULE ON INCOME-DRIVEN STUDENT LOAN REPAYMENT

The Department of Education proposed regulations to provide student debt relief for approximately 40 million borrowers. Under the plan, individual borrowers making less than $30,600 annually and borrowers in a family of four making less than $63,400 would be offered zero monthly payments. For other borrowers, monthly payments for undergraduate loans would be cut in half. The proposed regulations would also address the impact of accumulated interest on student loan balances. According to the National Center for Education Statistics, a million borrowers defaulted on their loans annually prior to the pandemic, and the regulations seek to reduce the monthly and lifetime student debt burden, especially for low and middle-income borrowers, community college students, and borrowers who work in public service. Under the plan, the Department estimates that future borrowers would see their total payments per dollar borrowed decrease by 40 percent, and 85 percent of community college borrowers would be debt-free within 10 years. The Department states that the changes “are estimated to have a net budget impact [cost] of $137.9 billion across all loan cohorts through 2032.” Comments on the rule are due by February 10, 2023.

12. PRESIDENT’S OPINION PIECE ON TECHNOLOGY COMPANIES

Stating that “[t]he risks Big Tech poses for ordinary Americans are clear,” the President published an opinion piece in the Wall Street Journal urging “Democrats and Republicans to come together to pass strong bipartisan legislation to hold Big Tech accountable.” The President wrote that he is “concerned about how some in the industry collect, share and exploit our most personal data, deepen extremism and polarization in our country, tilt our economy’s playing field, violate the civil rights of women and minorities, and even put our children at risk.” He outlined “three broad principles for reform”: first, “serious federal protections for Americans’ privacy,” including “clear limits on how companies can collect, use, and share highly personal data” as well as writing that “[m]uch of that data shouldn’t be collected in the first place,” proposing to “limit targeted advertising and ban it altogether for children.” Second, he proposed reform of Section 230 of the Communications Decency Act, to require “Big Tech companies to take responsibility for the content they spread and the algorithms they use” and called for greater transparency on algorithms, particularly in the areas of job searches and content to children. Third, the President stated that “we need to bring more competition back to the tech sector” to prevent companies from finding “ways to promote their own products while excluding or disadvantaging competitors [.]” Given strong interest among both Republicans and Democrats in some of these proposals in the last Congress, the President is highlighting...
this as a possible area for bipartisan cooperation in the newly divided Congress.

13. THE PRESIDENT VISITS MEXICO; “THREE AMIGOS” SUMMIT

The President visited Mexico, the first visit by a US President in nine years. Mexican President Andrés Manuel López Obrador told the President that “[t]his is the moment for us to determine to do away with this abandonment, this disdain, and this forgetfulness for Latin America and the Caribbean [.]” López Obrador also focused on nearshoring supply chains now concentrated in Asia, saying “[w]e ask ourselves, couldn’t we produce in America what we consume? Of course.” The President noted that “unfortunately our responsibility just doesn’t end in the Western Hemisphere.” Another dispute concerned Mexico banning imports of genetically modified corn.

Following the bilateral meeting, the Presidents were joined by Canadian Prime Minister Justin Trudeau for the “Three Amigos” summit. The leaders adopted a Declaration of North America “to fortify our region’s security, prosperity, sustainability and inclusiveness through commitments across six pillars” -- diversity, equity, and inclusion; climate change and the environment; competitiveness; migration and development; health; and regional security. The leaders also “seek to forge stronger regional supply chains, as well as promote targeted investment, in key industries of the future such as semiconductors and electric vehicle batteries . . . . We will convene public-private dialogues and map out supply chains to address common challenges and opportunities,” with a focus on critical minerals and trilateral health cooperation. Strengthening supply chains was also a focus of the President’s meeting with Prime Minister Trudeau “so that no one can arbitrarily hold us up or a pandemic in Asia cause us to not have access to critical elements that we need to do everything from build automobiles to so many other things,” in the President’s words.

In its Solutions Brief A Road Map to Achieving Free but Secure Trade with Resilient Supply Chains, CED called for a “special Three Amigos postpandemic summit on supply chains, seeing ways to strengthen links and reduce barriers to trade” and proposed a “tri-national business council to advise the three governments on nearshoring opportunities and further steps for North American economic integration, focusing on regulatory and infrastructure solutions in all three countries, building new supply chain linkages where they do not exist and reinforcing and deepening them where they do.”

14. MONKEYPOX UPDATES

As of January 11, the US has confirmed a total of 29,980 cases of monkeypox. States with the highest case numbers include California (5,697), New York (4,209), Texas (2,886), Florida (2,859) and Georgia (1,985). Globally, as of January 10, 84,471 cases have been confirmed, with 83,271 cases confirmed in locations that have not historically reported monkeypox. The countries with the highest case numbers include the US (29,913), Brazil (10,593), Spain (7,505), France (4,114), and Colombia (4,049). A total of 61 deaths have been reported in locations that have not historically reported monkeypox.
The FDA is issuing an Emergency Use Authorization (EUA) for an in vitro diagnostic device from Life Technologies Corporation of Thermo Fisher Scientific. The test, TaqPath Monkeypox (mpox)/Orthopox Virus DNA Kit, is used for the qualitative detection of DNA from monkeypox (mpox) virus and non-variola orthopox virus in human lesion swab specimens from individuals suspected of mpox by their health care provider. The emergency use of this test applies only to authorized laboratories.

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