



The Weekly Round-Up. Developments on the Economy (August 5, 2022)

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CED POLICY BRIEF

The Weekly Round-Up:

Developments on the Economy

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1. PERSONAL INCOME AND OUTLAYS DATA HIGHLIGHT INTEREST RATE IMPACT

The Bureau of Economic Analysis released June [Personal Income & Outlays](#) showing US income growth fell in real terms in June (-0.3 percent), though real consumer spending expanded slightly (0.1 percent.) Headline Personal Consumption and Expenditures (PCE) rose 6.8 percent and Core PCE rose 4.8 percent over the last twelve months. The Conference Board's Economy, Strategy and Finance Center [states](#) that “these readings will likely push the Fed to continue raising interest rates in large increments over the coming months and increase the probability and potential severity of a recession this year.”

2. CONSTRUCTION SPENDING FALLS FOR FIRST TIME IN 2022

Construction spending in the US [fell](#) to an annualized seasonally-adjusted rate of \$1.762 trillion in June, 1.1 percent below the revised May estimate of \$1.782 trillion. This is the first time that construction spending has fallen in 2022. Construction spending is often debt-financed and sensitive to interest rates, which have been rising rapidly as the Fed increases the Federal Funds Rate. Private construction, the majority of US construction spending, fell 1.3 percent, and public construction fell 0.5 percent.

3. 528,000 JOBS ADDED IN JULY BUT SOFTENING LIES AHEAD

Friday's [Employment Situation Report](#) from the Bureau of Labor Statistics (BLS) showed that the economy added 528,000 jobs in July and revised upwards June's estimate to 398,000, while the unemployment rate fell to 3.5 percent, showing that employment has returned to its pre-pandemic level. The Conference Board's Economy, Strategy & Finance Center [noted](#) that these figures show that the labor market remains robust but that because job openings have fallen for three consecutive months, “softening in labor demand lies ahead,” adding that “the Fed will likely continue to rapidly raise interest rates over the coming months.”

Job openings [fell rapidly](#) in June according to a separate BLS survey. The number decreased to 10.7 million, 5.4 percent below the May figure of 11.3 million, and 9.8 percent below the all-time high of 11.9 million set in March 2022. The largest portion of the drop in job openings in June came from retail trade (343,000). Hires in June dipped only slightly, to 6.4 million from 6.5 million in May. Total separations also remained relatively unchanged, dropping to 5.9 million from 6.0 million in May. Weekly [initial claims](#) for unemployment insurance were 260,000, an increase of 6,000 from last week's revised level and just 1,000 below the year-to-date high set two weeks ago. Lower job openings and steadily increasing unemployment claims both indicate falling demand for labor.

4. TRADE DEFICIT FALLS SUBSTANTIALY FROM MARCH HIGHS

The US goods and services trade deficit fell \$5.3 billion in June to \$79.6 billion, down from \$84.9 billion in May, and down over 26 percent from the all-time high of \$107.6 billion set in March 2022. Lower trade deficits are directly linked to higher national saving of financial assets; the fewer financial assets are used to pay for foreign goods and services, the more savings are retained domestically. Lower trade deficits are also likely consistent with slower growth of domestic demand.

5. DOT ANNOUNCES WEATHER RESILIENCE PROGRAM USING BIL FUNDS

The Department of Transportation (DOT) Friday announced \$7.3 billion in formula funding “to help states and communities better prepare for and respond to extreme weather events like wildfires, flooding, and extreme heat.” DOT expects that the funding will be used on the durability of surface transportation assets in extreme weather, resilient transportation in disasters, accessibility of evacuation or hospital routes, critical manufacturing centers, ports and intermodal facilities, and coastal or river infrastructure to protect against floods. DOT states these improvements will reduce the lifetime costs of infrastructure, even if near-term costs may rise.

6. REQUEST FOR INFORMATION ON MEDICARE ADVANTAGE PROGRAM

The Centers for Medicare and Medicaid Services (CMS) of the Department of Health and Human Services issued a Request for Information (RFI), which is often used to gather information as a precursor to rulemaking, on the Medicare Advantage program, seeking information on how “to strengthen Medicare Advantage (MA) in ways that align with the Vision for Medicare and the CMS Strategic Pillars.” The Vision for Medicare is specifically focused on “more equitable, high quality, and whole-person care that is affordable and sustainable” and implies changes, over time, to the way care is currently delivered. CMS encouraged “input from a wide variety of voices on the questions below, including beneficiary advocates, plans, providers, community-based organizations, researchers, employers and unions, and all other stakeholders” -- a list that does not explicitly mention MA plans themselves. Health equity has been an increasing focus of the Administration, through “eliminating avoidable differences in health outcomes experienced by people who are disadvantaged or underserved,” and CMS is explicitly seeking guidance on how to “enhance health equity for all enrollees through MA [.]” The RFI specifically asks respondents to comment on access to care in MA plans, particularly for underserved communities, tools necessary for beneficiaries to choose between traditional Medicare and MA and make a wise choice among MA plans, marketing elements of MA plans, and other questions.

MA, first introduced under the Medicare + Choice Act enacted in 1997, now covers nearly 40 percent of Medicare beneficiaries, and includes Health Maintenance Organization (HMO) plans, Preferred Provider Organization (PPO) plans, Private Fee-for Service plans, and Special Needs Plans. These plans generally offer bundled services under rules set by Medicare, which pays a fixed monthly amount to the plan, which is also allowed to charge out-of-pocket costs. MA plans also include those offered through employers and unions

as, in effect, a continuation of previous coverage. But critics have charged that the program skews benefits in favor of [healthier](#) and higher-income beneficiaries who can afford to pay higher out-of-pocket costs and that it can [increase Medicare's costs](#); for instance, a recent [study](#) suggests that dialysis providers charge the government 27 percent more under MA plans than under traditional Medicare. CMS has offered a very short comment period, with comments due by August 31.

7. JUSTICE SUES TO BLOCK PUBLISHING AND HEALTH CARE MERGERS

The Justice Department [filed suit](#) to block the proposed \$2.2 billion acquisition of Simon & Schuster by Penguin Random House, claiming that “this acquisition would enable Penguin Random House, which is already the largest book publisher in the world, to exert outsized influence over which books are published in the United States and how much authors are paid for their work” and noting that the lawsuit would “prevent further consolidation in an industry that has a history of collusion” and is already highly concentrated. The two companies are part of the “Big Five” group of book publishers. The Department argues that the merger would reduce competition in how much authors are paid for their work and that the transaction is “presumptively anticompetitive” under its Horizontal Merger Guidelines. This harm would extend to book consumers because “[a]uthors who are paid less, write less, which, in turn, means that the quantity and variety of books diminishes too.” Best-selling author Stephen King is [expected to testify](#) at trial supporting the government’s case. The Justice Department is also [suing](#) to prevent UnitedHealth Group’s \$8 billion proposed takeover of Change Healthcare.

8. TEXAS POWER GRID

The Texas power grid [faced](#) unprecedented demands again [this week](#) as temperatures stayed consistently above 100 degrees. Demand was expected to reach 81.4 gigawatts on Thursday afternoon, the first time demand has exceeded 80 gigawatts. However, winds in parts of the state pushed up use of renewable energy from wind power and other sources to 22 percent of electricity generation, according to figures from the Electric Reliability Council of Texas, the state’s power grid, but prices on the “day ahead” spot market rose 145 percent to \$400 per megawatt-hour in the Dallas area. Texas’ grid is not connected to that of other states, making it essential for the state to generate what it needs to cover demand, including through increased use of renewables.

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