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8:30 Numbers

Headline June Empire State index drops 19.7 points, to -7.8, with clear corroboration in a 20.8-point drop in the new orders index, to -3.6, and a 14.5 point drop in the employment index, to +10.2.

All of those moves are paralleled by big drops in the corresponding six-month-ahead numbers--suggesting that the sentiment change was quite deep seated. Obviously, there is only one interpretation of these moves, with the only real issue being whether they reflect national or purely regional developments--severity of the moves hints that the issue is national.

CPI core exceeds expectations, rising 0.3%, as against a late consensus drift towards 0.1%. Within the core, goods prices were most dramatic, rising 0.5%, with new vehicles (+1.1%) and apparel (+1.2%) big contributors, while services prices rose 0.2% in a fairly broad pattern of firmness.

While these price increases are probably only barely sustainable in the current demand environment, and are not being validated by any clear pickup in inflationary expectations, Fed officials are clearly put on the alert.

Hawks will fear that inflationary expectations will rise from here--though momentum cannot be too strong, unless monetary forces become moe clearly expansive--while doves will be more likely to focus on "tax" effects of the increases in curbing real demand. Doves are still in charge.

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