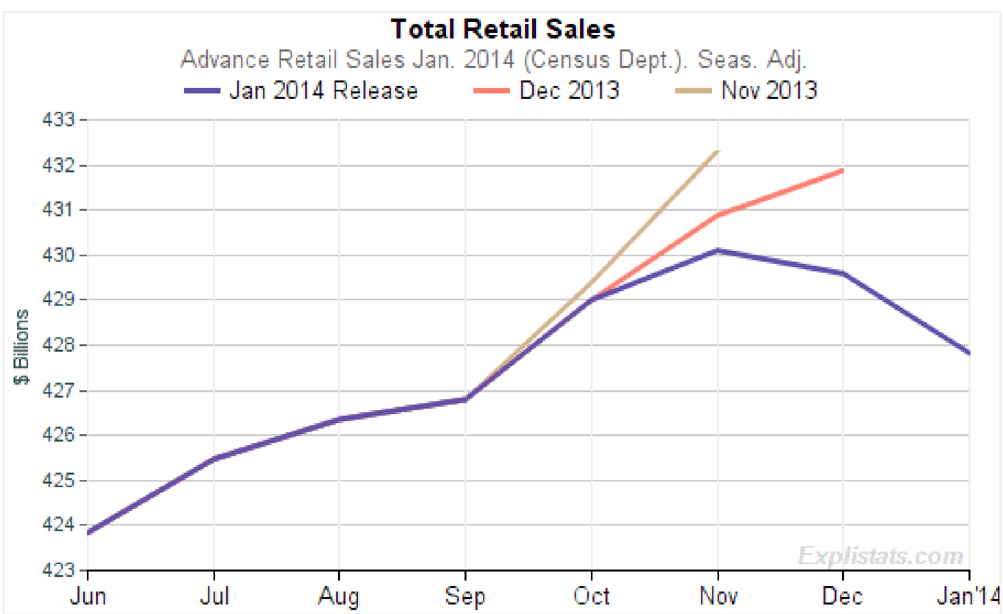
headline growth and, ultimately, along with a likely headline contraction in first-quarter 2014 GDP, when that series first is estimated at the end of April.

Hyperinflation Outlook, Debt, Deficit and Fed Policy. The broad outlook for the U.S. dollar, the U.S. economy and a U.S. hyperinflation have not changed (see *Hyperinflation 2014—The End Game Begins*), but circumstances continue to evolve. Suggestions that the federal deficit no longer is a problem are nonsense, particularly in the context of generally accepted accounting principles (GAAP accounting). The Congress has allowed the President to waive the federal debt ceiling until March 15, 2015. Separately, Federal Reserve Chair Janet Yellen largely has confirmed that she shares former Fed Chairman Ben Bernanke's views on the economy and monetary policy. These issues all will be discussed in the general outlook to be reviewed in the pending *Second Installment* to the hyperinflation report. That installment will follow and incorporate the February 26th release of the long-delayed 2013 GAAP-based financial statements of the United State government (see the *Hyperinflation Watch*).

***Special Supplement to* Commentary No. 598.** The *Special Supplement* to *Commentary No. 598*, covering the modeling detail from the benchmark revision to the payroll employment series, follows the regular *Reporting Detail* section.

Collapsing Pattern of Retail Sales Activity. As shown in the accompanying graph (courtesy of ShadowStats-affiliate www.ExpliStats.com), what had appeared to be an uptrend in nominal retail sales in November reporting, has taken a dramatic downturn in subsequent revisions and current reporting, with the timing of the slowdown predating unseasonably-bad weather.



The earlier, bloated numbers, at least partially, likely reflected data gathering and reporting disruptions surrounding the government shutdown of October. The downturn and revisions more generally reflect some reporting catch-up, as well as consumer activity increasingly constrained by severe, structural liquidity problems. Without real growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply cannot sustain real growth in retail sales, as discussed later in these *Opening Comments*.

Earlier Retail Sales Activity Revised Lower, Again. Headline retail sales plunged by 0.41% in January, and that was in the context of continued sharp downside revisions to prior reporting. The nominal (not adjusted for inflation) level of sales in January 2014 was the weakest since September 2013, and in real terms (adjusted for inflation) likely was the weakest level since July 2013. The real retail sales series is on track for a quarter-to-quarter contraction in first-quarter 2014, and year-to-year growth clearly is signaling a recession or renewed downturn in the broad economy.

The headline nominal level of December 2013 sales revised downward by 0.53%, following a 0.30% downside revision to the last headline estimate of the November 2013 sales level. These changes continued the patterns of sharp downside revisions also seen in last month's reporting (before inflation adjustment). As the situation now stands, headline January 2014 retails sales dropped month-to-month by 0.41%, before inflation-adjustment (likely about the same in real terms). December nominal retail sales now are down a revised 0.12% (previously up by 0.23%), while November sales are up a revised 0.26% (previously a gain of 0.44%).

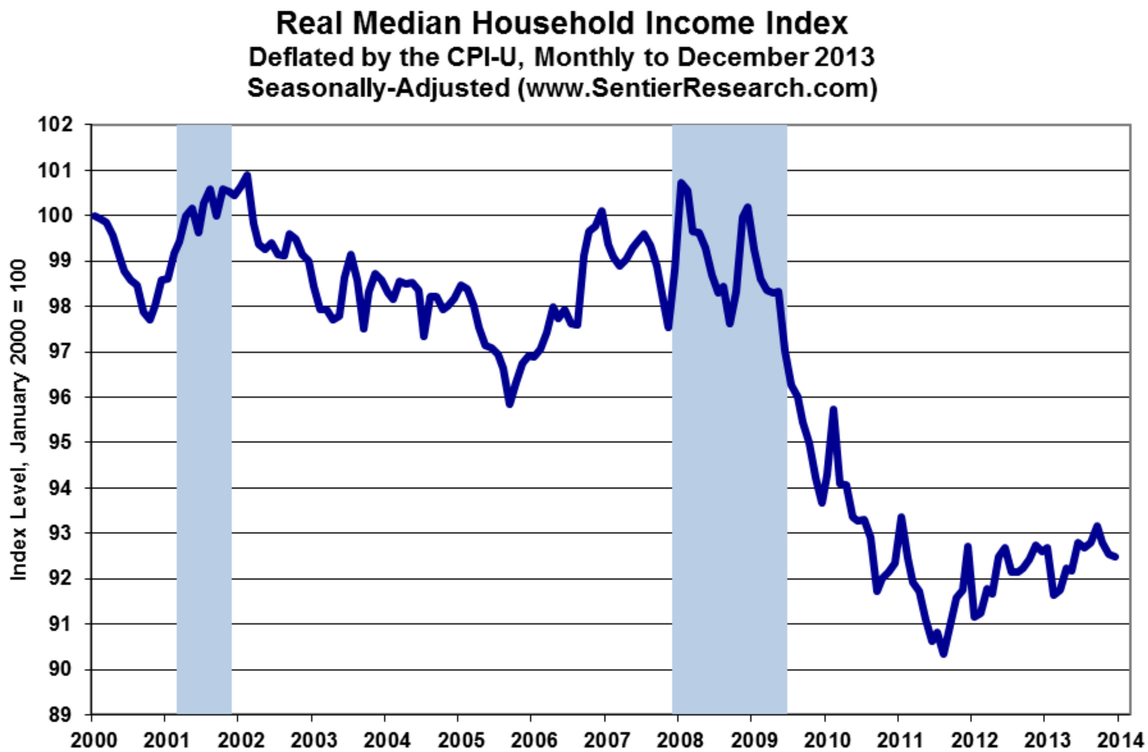
In real terms, rising inflation has taken its toll, with monthly sales in December down by 0.42% (previously down by 0.07%), and with November sales up by 0.22% (previously up by 0.44%). This was not good news for an industry dominated by the holiday-season activity of December and November.

Additionally, year-to-year growth in January 2014 sales plunged, both before and after inflation adjustment, with real growth holding deep in recession-signal territory.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—January 2014. Again, in the context of large downside revisions to prior reporting, and not adjusted for consumer inflation, headline January 2014 retail sale showed a statistically-insignificant, seasonally-adjusted monthly decline of 0.41%, which was a drop of 0.94% before prior-period revisions. The January decline followed a revised, statistically-insignificant month-to-month decline of 0.12% (previously a gain) in December. November's monthly gain revised lower to 0.26%.

Year-to-year, January 2014 retail sales rose by a statistically-significant 2.57%, versus a downwardly revised 3.63% gain in December, and a downwardly revised 4.03% gain in November.

Real (Inflation-Adjusted) Retail Sales—January 2014. The headline 0.41% nominal contraction in monthly January retail sales was before accounting for inflation. Real retail sales for January (adjusted for inflation), will be reported along with the headline estimate of consumer inflation, the January CPI-U, in the February 20th *Commentary No. 602*. Subject to seasonal-adjustment revisions in the CPI-U, the January headline inflation should be close to nil, leaving headline January real retail sales at close to its nominal 0.4% month-to-month contraction.


Real Median Household Income Index
Deflated by the CPI-U, Monthly to December 2013
Seasonally-Adjusted (www.SentierResearch.com)
Index Level, January 2000 = 100
102
101
100
99
98
97
96
95
94
93
92
91
90
89
2000
2001
2002
2003
2004
2005
2006
2007
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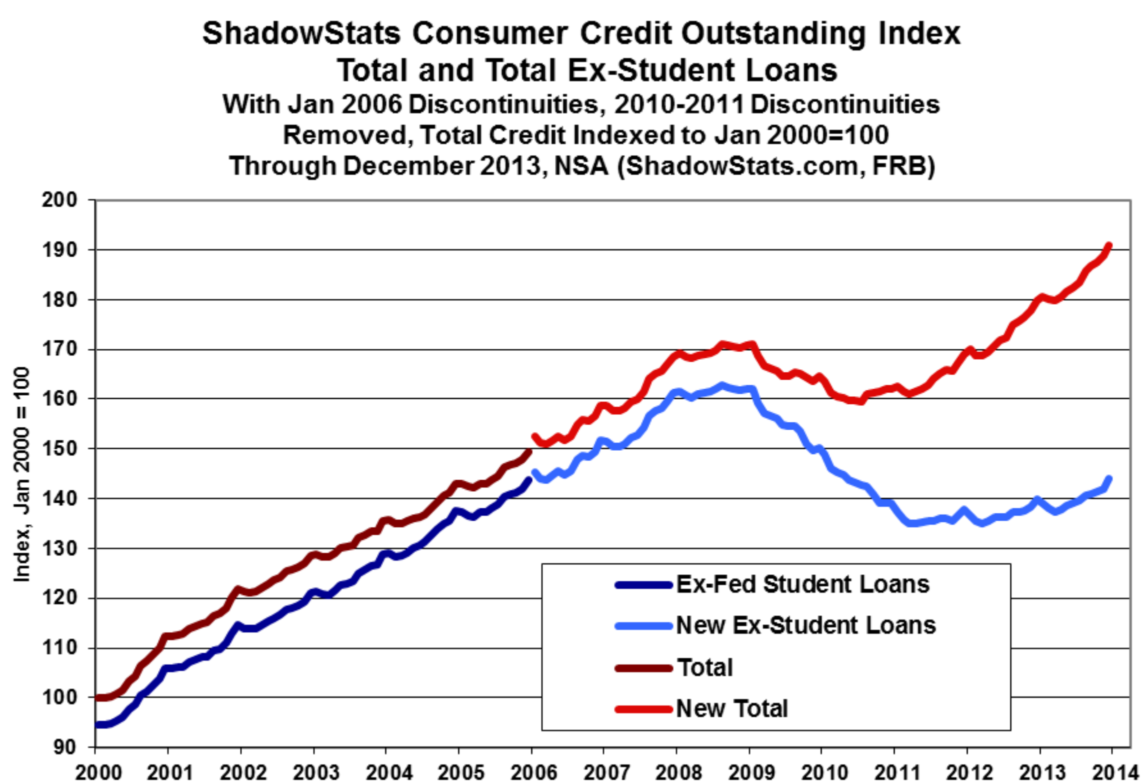
2010
2011
2012
2013
2014


ShadowStats Consumer Credit Outstanding Index
Total and Total Ex-Student Loans
With Jan 2006 Discontinuities, 2010-2011 Discontinuities
Removed, Total Credit Indexed to Jan 2000=100
Through December 2013, NSA (ShadowStats.com, FRB)
Index, Jan 2000 = 100
200
190
180
170
160
150
140
130
120
110
100
90
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Ex-Fed Student Loans
New Ex-Student Loans
Total
New Total

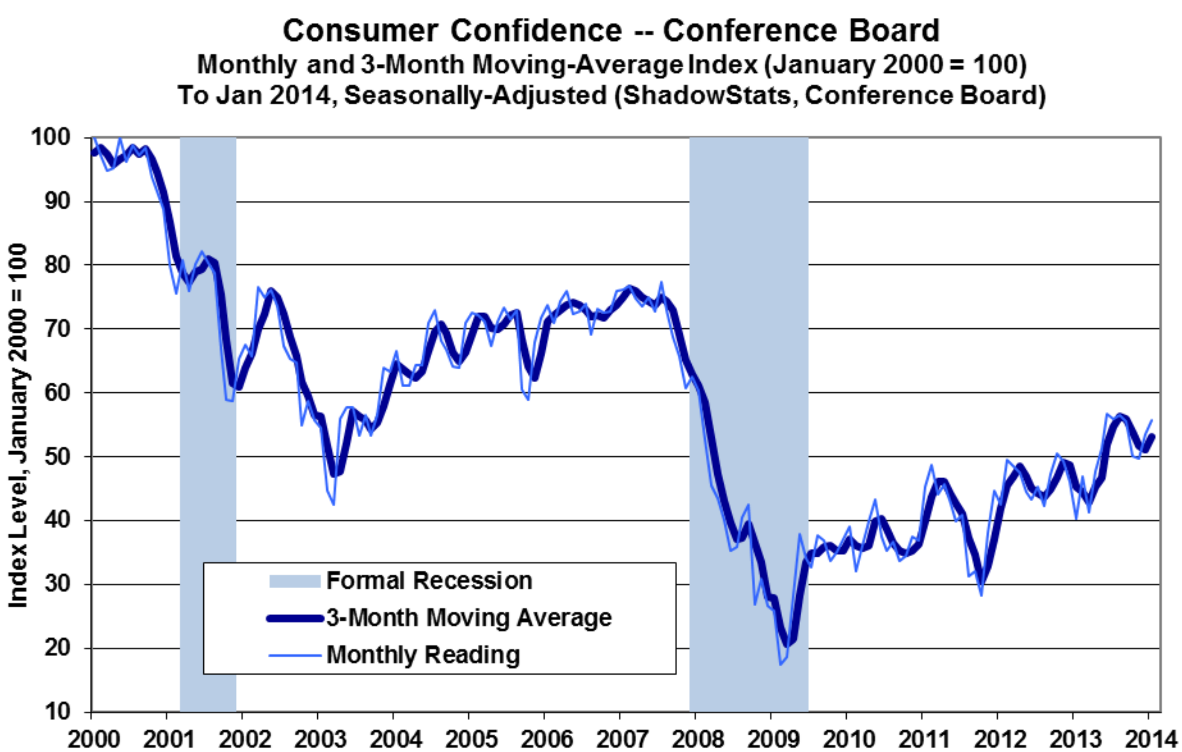
Structural Consumer Liquidity Problems Continue to Impair Consumption. Serious, structural liquidity problems continue to constrain consumer activity, meaningfully, as discussed frequently in these *Commentaries* and as indicated in the preceding graphs and those that follow (consumer credit outstanding and consumer sentiment are updated from previous postings).

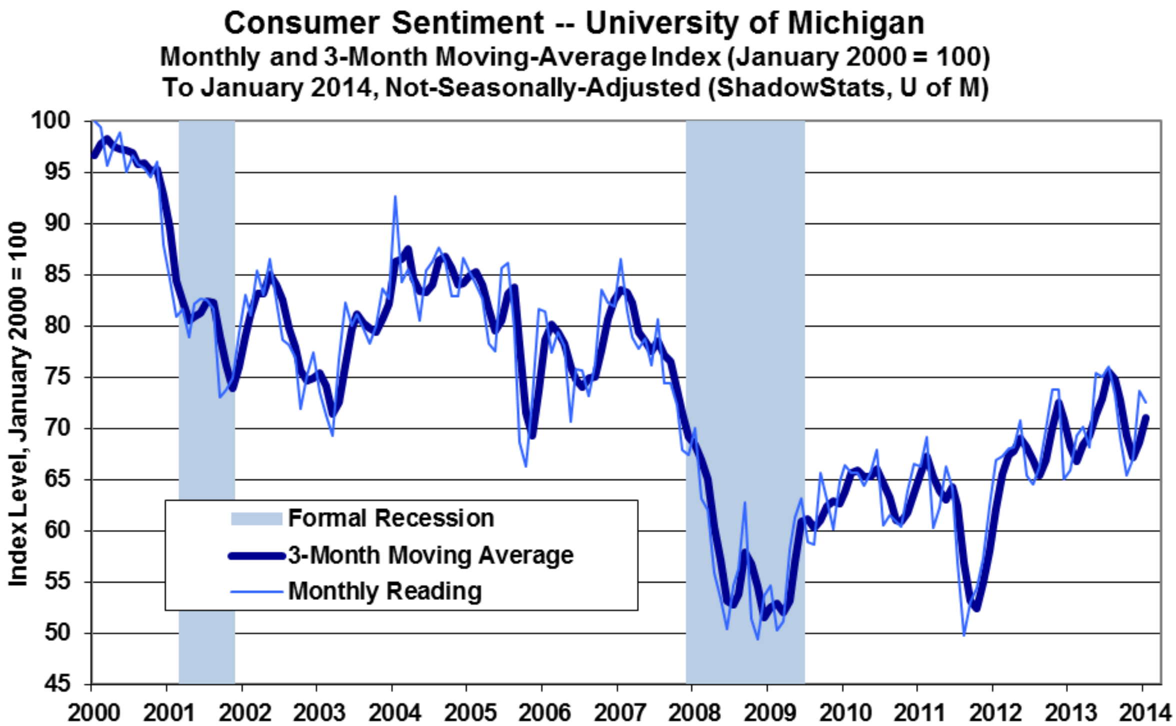
Shown in the first graph preceding, real median household income by month, as published by www.SentierResearch.com, showed continued income stagnation in December 2013, near the cycle-low for the series (see first graph).

As the GDP purportedly was starting a solid recovery in mid-2009, household income plunged to new lows. Deflated by headline CPI-U, the annual series published by the Census Bureau showed annual real median household income in 2012 to be at levels seen in the late-1960s and early-1970s (see *Commentary No. 558*).

The second graph above shows consumer credit outstanding (Federal Reserve Board), updated through December 2013. Practically all the post-2008-Panic growth in consumer credit has been in federally-backed student loans, instead of in bank lending to the consumer that would tend to fuel consumption of washing machines, etc., potentially helping to offset lack of income growth.

The last two graphs reflect the volatile consumer confidence (Conference Board) and consumer sentiment (University of Michigan) series for full-January 2014 reporting. Current levels in both series remain deep in traditional recession territory. The pattern here, as with household income, has been one of collapse and stagnation, as opposed to economic collapse and recovery indicated in the faulty GDP series.





Without growth in real income; without the ability or the will to expand debt meaningfully; and without the confidence to take on new debt, where possible; the consumer simply cannot sustain real growth in retail sales, housing or in the dominant personal-consumption measure of the GDP. There is no broad recovery that is pending or underway.

In like manner, the consumer lacked the ability to drive the purported post-June 2009 full-fledged economic recovery and renewed expansion shown in GDP reporting. That recovery was a statistical illusion; it never happened. Even so, as discussed in *Commentary No. 596,* the GDP increasingly is at risk for an outright headline quarterly contraction in first-quarter 2014 (January to March 2014).

[For greater detail on January 2014 retail sales, see the **Reporting Detail** *section.]*

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