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THE ECONOMIC CRISIS INDEX™ QUARTERLY NEWSLETTER

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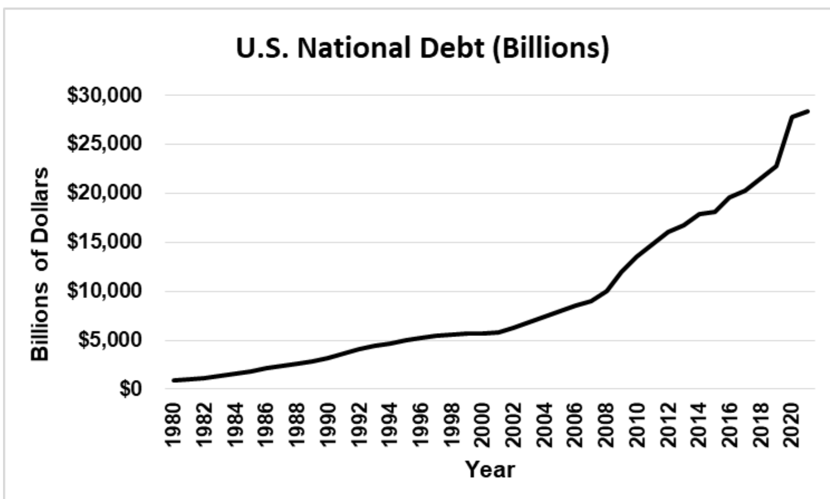
This is the first issue of a quarterly newsletter publication that will update the Economic Crisis Index ™. This issue explains in detail the methodology of the Economic Crisis Index (ECI) and its comparison to other similar indices. Future newsletters will center on the ECI number and its implication to the American economy. These newsletters will be posted on the Pepperdine University Digital Commons.

EXISTING KNOWLEDGE AND RISK SIGNALS

Many professionals view increased national debt as the "poster child" of the pending crisis. In 1980 the U.S. government debt was $908 billion, as shown in the U.S. National Debt (Billions) Chart. On Monday October 3, 2022, the U.S. Treasury Department announced that the U.S. national debt passed $31 trillion (or $31,000 billion) dollars.



Source: U.S. Department of the Treasury Fiscal Data, "The Debt to the Penny," Accessed December 12, 2021.

The ratio of U.S. government debt to gross domestic product (GDP) is currently 120.75%. Similar ratios in other nations have historically preceded significant economic system downturns.

Nomura Bank's Cassandra Model of Financial Crises ranked the United States as the Number One Country in the world with the highest financial risk score for a future financial crisis. The Cassandra Model of Financial Crises is based on five early warning signs: the ratio of private credit to GDP, the debt-service ratio, real equity prices, real property prices, and the real effective exchange rate. Nomura claims that Cassandra has correctly signaled two-thirds of the past fifty-three crises in forty countries since the early 1990s. Other top-risk economies include Japan, Germany, Taiwan, Sweden, and the Netherlands. All the top-risk economies face similar risks, but at varying levels, in this time period.

This commentary goes beyond the reasons cited to unveil a specific tipping point when multiple risk factors will converge. It also stresses a call to action between now and the tipping point to track and monitor a comprehensive series of national policy points, gather information, and prepare appropriate financial plans to change rising risk patterns.

Unless the risk patterns change we believe the tipping point will begin in the fourth quarter of 2022 after the November 2022 midterm elections, regardless of international events. The size and scope of the financial crisis will reach be known by mid-2023.

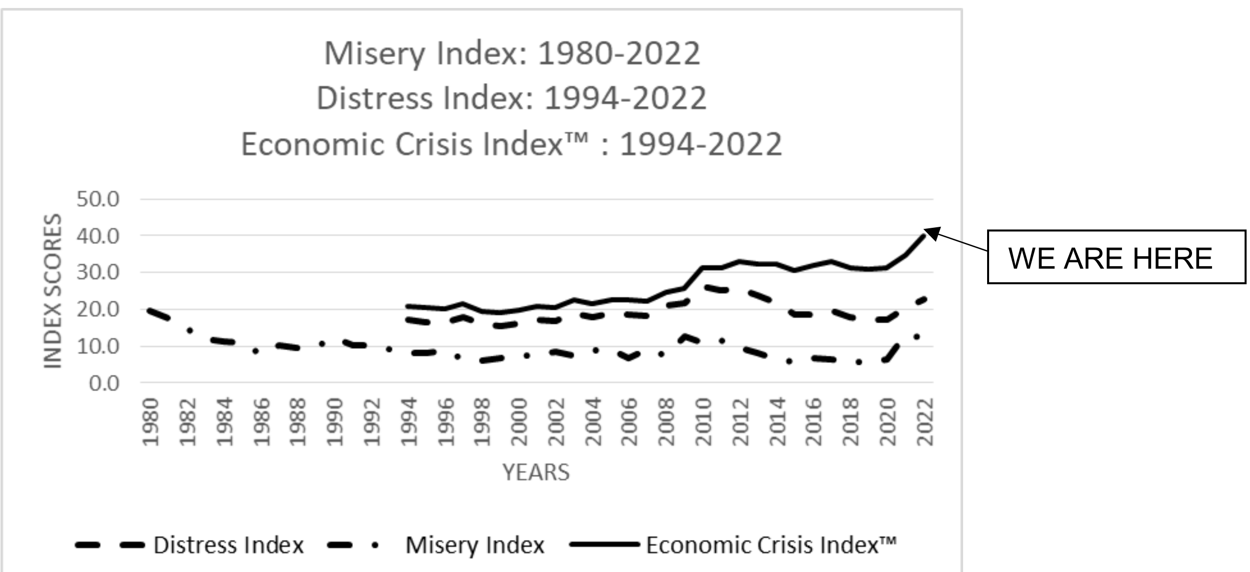
A NEW RISK INDEX: THE ECONOMIC CRISIS INDEX™

In the 1960s Arthur Okun created an economic indicator for President Lyndon Johnson. The Misery Index indicated how the average American was doing economically. Unfortunately, it is no longer possible to accurately compare today's Misery Index calculation with the index measures prior to the 1980s. In this section we explain why the incompatibilities occurred and recommend a new index be officially used to track how average Americans are doing economically. The new index, which we call the Economic Crisis Index, provides a metric to track the consequences of national policies.

The Misery Index is the sum of the U.S. unemployment rate and inflation rate. The U-3 series is the "official" unemployment rate series, and the CPI-U series is the "official" inflation rate. Unfortunately, the Misery Index masks the true value of the suffering that currently exists in the U.S. economy. A stronger measure is the Distress Index, which includes disoouraged workers using the U-6 unemployment rate, which the BLS began reporting in 1994, and a 1980 consumer-based inflation rate. An even more accurate measure of suffering is the Economic Crisis Index, which is calculated by adding displaced workers (i.e. those who are discouraged for more than a year and are not counted by the BLS) to the Distress Index. In 2022 the *Distress Index is shown to be 10.6 index points higher than the Misery Index*. The 2022 Economic Crisis Index is a staggering (29.9) index points higher than the Misery Index. The statistical consistency of the Economic Crisis Index increases the accuracy of comparisons of risk done over time.

Sources: [CPI-U, U-3, U-6 (FRED)], [CPI-ALT and Displaced Workers (ShadowStats.com)].

This historically high 40.1 Economic Crisis Index for the U.S. in 2022 and the 195 risk score from the Cassandra Model substantiate that the risk of a financial crisis in the U.S. National Economy has risen to critically high levels. This pattern becomes far more serious as the nation, highly polarized, proceeds with midterm elections in 2022 and newly elected legislators take office in early 2023 at a time of global turmoil.



Sources: [CPI-U, U-6 (FRED)], [CPI-ALT and Displaced Workers (ShadowStats.com)].