Personal Financial Satisfaction Index (*PFSi*) Defined

The Personal Financial Satisfaction Index (*PFSi*) is the result of two component sub-indexes. It is calculated as the difference between the Personal Financial Pleasure Index and the Personal Financial Pain Index. These are in turn composed of four equally weighted factors, each of which measure the growth of assets and opportunities, in the case of the Pleasure Index, and the erosion of assets and opportunities, in the case of the Pain Index.

Methodology

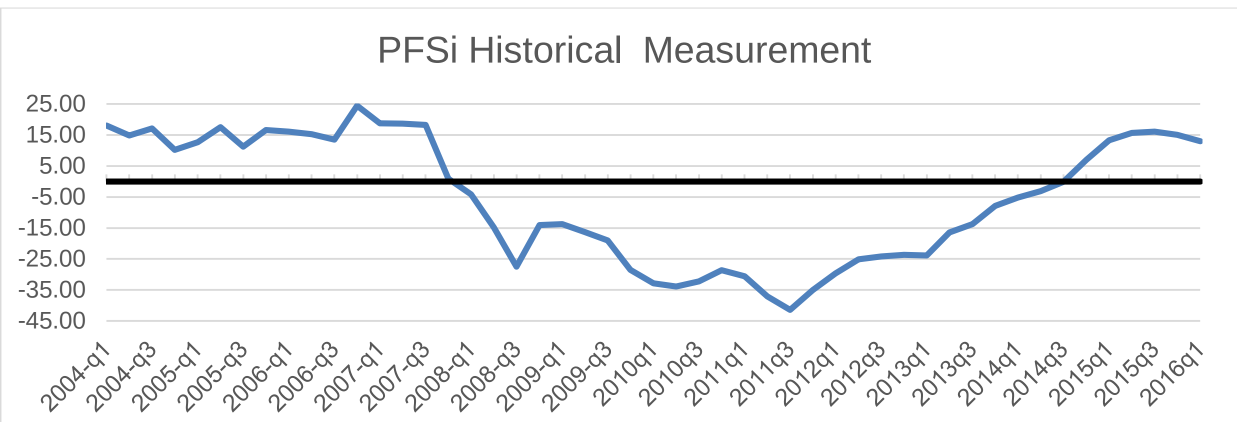
To construct the indices each component was first normalized by its own standard deviation prior to July 2013. The factors were then individually modified to an average value of 50 over the period up to July 2013. The financial pleasure index and the financial pain index each equally weight the individual component factors.

First Quarter 2016 PFSi Summary

The *PFSi* measured 13.0 in the first quarter of 2016. This reflects a 2.1 point decrease from the prior quarter, and a 0.3 point decrease from one year ago.

The decline from the prior quarter was based on both a decrease in the **Personal Financial Pleasure** index of 0.4 points, and a 1.7 point increase in the **Personal Financial Pain** index.

The reduction from the first quarter of 2015 was due to a 1.5 point retreat in the Pleasure index which was not completely offset by a 1.2 point decrease in the Pain index.



First Quarter 2016 Personal Financial Pleasure Index Top-Line Summary

The **Personal Financial Pleasure Index,** at 59.1, is 0.4 points (1.7%) weaker than the prior quarter and 1.5 points (2.5%) down from the prior year.

The decline from the previous quarter's level was due to a 5 point decrease in the AICPA Economic Outlook which was not offset by small gains in 2 of the other factors.

The reduction from the prior year was driven by a 10 point decline in the AICPA economic outlook and a 7 point drop in the PFS750 Market index, somewhat offset by a 6 point advance in job openings, with home equity adding a 4 point gain.

First Quarter 2016 Personal Financial Pleasure Index Detailed Summary

PFS 750 Market Index: This reached an all-time high in Q4 2014 and maintained it in Q1 2015 (a year ago). Its current value is 7 points (8.3%) below that high.

> *There was widespread gloom as stock prices fell considerably from the end of 2015 until February 11, but then many of the losses reversed and the overall market showed gains for the quarter, based on gains by about 61% of stocks. Telecommunications and utilities turned in the strongest gains, while health care and financials lost ground.*

Real Home Equity per Capita: This factor's current value is 7.6% above the prior year level, and approximately flat with the previous quarter level. The changes in value have been due to increases in the market value of real estate and exceeding those in mortgages outstanding.

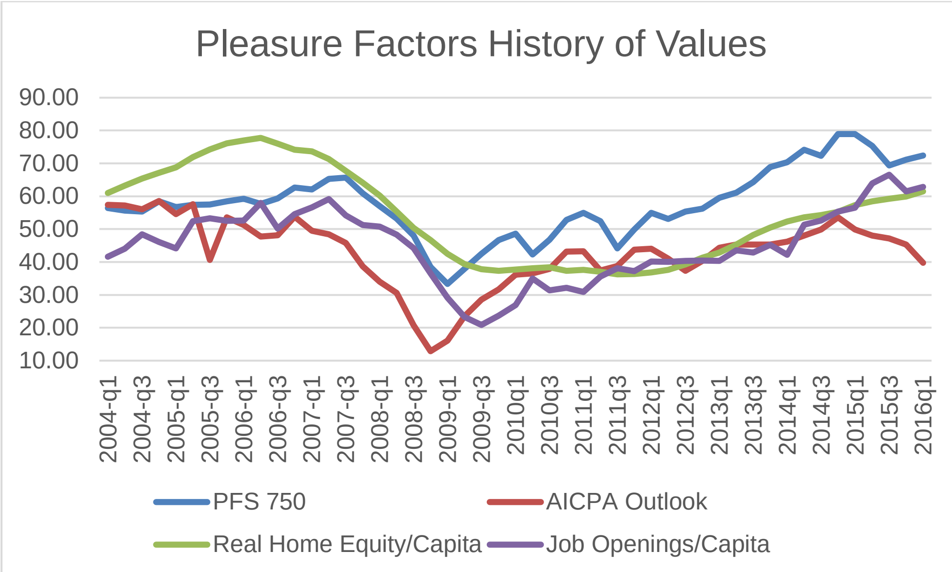
> *Record breaking home values have recently been marked in 26 percent of the country's housing markets. San Francisco and San Jose shattered their median home-value records months ago. But more recently, markets in the South and even the Midwest and Northeast have also surpassed bubble peaks and clocked some of the highest median home values on record for their markets. There are particularly hot markets in Seattle, Los Angeles and in Texas and Tennessee.*
>
> *So far, rising home values have freed about 10 million homeowners from negative equity in the past four years. However, this still leaves six million homeowners — about 13 percent of everyone with a mortgage — underwater by some amount at the end of 2015.*

Job Openings per Capita: The current reading is 10.3% higher than the prior year reading, and 3.0% ahead of the previous quarter.

> *Although it has declined somewhat from its 2015 Q2 and Q3 levels, job openings remain at historically high levels, with the improvement almost exclusively in the private rather than the government sector. Job openings increased in wholesale trade and construction but decreased in educational services and state and local government education. In the regions, job openings increased in the Midwest over the month.*

AICPA CPA Outlook Index: The current reading is 20.4% lower than the prior year level and 12.2% below the previous quarter.

1. *The US economy optimism index component of this series dropped sharply in the Q1 survey, and it drove the largest part of both the quarterly and year-over-year declines.*
2. *That said, every component of the survey declined both quarterly and annually. On a quarterly basis, the next largest decline was in the employment component, followed closely by the organization optimism and profit components. In the annual comparison the next largest decreases were in organization optimism, followed by profits, followed closely by expansion plans and revenue.*



Personal Financial Pleasure Index Components Defined

Measuring the positive factors impacting the economy, the *Personal Financial Pleasure* Index combines the following four economic factors.

- PFS 750 Market Index – This AICPA proprietary stock index is comprised of the 750 largest companies trading on the US Market excluding ADRs, mutual funds and ETFs, adjusted for inflation and per capita.
- AICPA Outlook Index – This broad-based composite index captures the expectations of CEOs, CFOs, Controllers, and other CPA executives and their plans for a breadth of indicators of economic activity within their own organizations. The composite measures the following factors equally: US economy optimism, organization optimism, business expansion, revenues, profits, employment, IT spending, other capital spending, training and development and Plans for spending on employee training and development over the next 12 months.
- Real Home Equity per Capita – This factor is a calculation of the Market Value of Real Estate, Households and Nonprofit Organizations, less the Home Mortgage Liability. Both are published by the Board of Governors of the Federal Reserve System, deflated by the PCE Price Index and divided by the Civilian Non-institutional Population.
- Job Openings per Capita – Factor is a calculation of total non-farm job openings, published by the Bureau of Labor Statistics, divided by the Civilian Non-institutional Population.

First Quarter 2016 Personal Financial Pain Index Top-Line Summary

Pain index at 46.1 is 1.7 points (3.9%) higher than the previous quarter but still 1.2 points (2.6%) lower than the prior year's level. This is the first increase in the pain index since Q1 of 2013. (Note: at that time the "culprits" were increases in loan delinquencies and in taxes.)"

Comparing the current index to the previous quarter, the increase in overall value was due to an 11 point increase in inflation combined with only minor reductions in the other components of the index. Inflation is the most volatile component of the index. Loan delinquencies and to a lesser extent underemployment have been steadily declining since early 2013, but their rate of decline in Q1 2016 was slower than in recent quarters.

The decline from the prior year's level occurred because a 17 point increase in inflation was offset by a 17 point decline in loan delinquencies, and the 7 point decline in underemployment more than offset an increase in taxes..

<u>First Quarter 2016 Personal Financial Pain Index Detailed Summary</u>

Delinquencies on Loans: This factor's current level is 5.6% lower than in the previous quarter and 22.7% below the prior year's level. Improvements are due to both delinquencies on mortgages and delinquencies on all loans.

The current mortgage loan delinquency rate is 5.17%; the overall delinquency rate is 2.23%. Improvements in both the year over year level of the index and in the quarter to quarter comparison are due to improvements in both measures. The improvement in the mortgage rate is about 1% stronger than the improvements in overall delinquencies.

In comparison, the peak delinquency rate for mortgages was 11.26% in the spring of 2010, and the overall peak was 7.5% at the end of 2009.

Underemployment: This factor is currently 2.3% lower than in the previous quarter and 13.3% below the prior year.

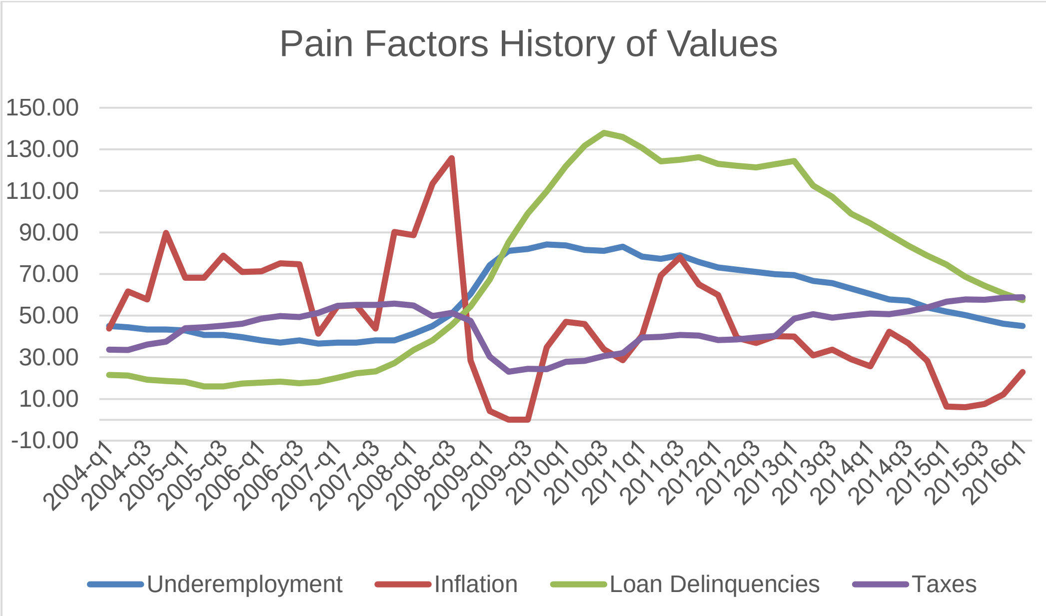
1. *The underemployment rate is at a 9 year low.*
2. *The labor participation rate is at a 38 year low. This effectively reduces the denominator in the unemployment rate calculation. Factors influencing this: discouraged workers with skill gaps, coming out of the great recession; who stop looking for work. Also, the number of people retiring is influenced by the age profile of the workforce and the relative lack of opportunity for some people.*
3. *Economists are beginning to think that the level of short term unemployment is more pertinent than the broader measure that we use in our index in forecasting wage growth. The 6.6% unemployment measure (technically u3 rather than u6, which we use) indicates that labor market tightness isn't far off.*

Inflation: This factor's current value is 88.3% higher than the prior quarter's level and 268.2% higher than the year-ago level.

Inflation is the most volatile factor contributing to the PFSi. Although it currently accounts for the largest increase in the Pain index for both the annual and quarterly comparisons, inflation is increasing from a really low level. The Q1 pain index relies on the February level, which is 1% by our measure. In comparison, the Federal Reserve's target for inflation is 2%. There is always speculation about whether trends will continue or moderate. The CPI increased to 1.3% in March, but some commentators interpret Fed remarks as meaning that they are not confident that their 2% inflation target will be reached any time soon.

Personal Taxes: Personal taxes are approximately equal to the previous quarter's value. They are 3.8% higher than they measured in the prior year.

Personal tax rates plunged more than 200 basis points to under 9.5% in mid 2009, and they have been increasing unevenly since then. The current level is 12.8%. Going back as far as 1994, the highest levels for personal taxes were 14% to 14.5% from late 1999 to mid 2000.



<u>Personal Financial Pain Index Components Defined</u>

The *Personal Financial Pain* index is a measurement of the following negative economic factors:

- <u>Inflation</u> – This factor is comprised of 95 percent annual change in the PCE Price Index and 5 percent annual change in the Consumer Price Index for Fuel Oil and Other Fuels, as published by the BLS.

- <u>Personal Taxes</u> – This factor uses BLS statistics on income including realized net capital gains, taxes on personal property, payments for motor vehicle licenses, and several miscellaneous taxes, licenses, and fees. Social security and Medicare taxes are excluded, as are taxes on real property, sales taxes, and certain penalty taxes. Personal current taxes are measured on a payments basis (i.e., when paid) except for withheld taxes (largely on wages and salaries) which are measured on an accrual basis.

- <u>Delinquencies on Loans</u> – Taken from data published by the Board of Governors of the Federal Reserve System, this factor is calculated as 75 percent delinquency rate on single family residential mortgages and 25 percent the delinquency rate on all loans and all commercial banks, both

- <u>Underemployment</u> – This BLS-calculated factor is a combination of full title total unemployed numbers, all marginally attached workers, and total number of workers employed part-time for economic reasons.

Chart View of Above Information

Component	1Q15		4Q15		1Q16		Change vs.	
	Data	Index	Data	Index	Data	Index	the prior year,	the prev quarter
Net Index		***13.3***		**15.1**		**13.0**	**(0.3)**	**(2.1)**
Pleasure		*60.6*		*59.5*		*59.1*	**(1.5)**	**(0.4)**
PFS 750 Market Index ($ trillion, index)	24.4	79	22.4	71	22.8	72	**(7)**	**1**
CPA Outlook (index)	74	50	69	45	63	40	**(10)**	**(5)**
Home Equity ($ trillion, index)	14.3	57	15.5	61	15.8	61	**4**	**0**
Job Openings (millions, index)	5.0	57	5.4	61	5.5	63	**6**	**2**
Pain (subtracted)		47.4		44.4		46.1	**(1.2)**	**1.7**
Underemployment (%, index)	11.0	52	9.9	46	9.7	45	**(7)**	**(1)**
Inflation (%, index)	0.3	6	0.5	12	1.0	23	**17**	**11**
Taxes (%, index)	12.6	57	12.7	59	12.8	59	**2**	**0**
Loan Delinquencies (%, index)	5.4	75	4.4	61	4.1	58	**(17)**	**(3)**

Data Revisions

Two of the factors in the Pleasure Index, the PFS 750 market index and the AICPA CPA Outlook Index, are based on original AICPA research. The other factors are based on data created by several federal government economics bureaus. When these data series are revised we incorporate the revisions in order to preserve period to period comparability of the PFSi. This can lead to changes in the historic values of the series. We will comment in footnotes what impact data revisions have had on the comparisons of the current period to historic period.

Over the past 2 years the Net Index has been impacted by data revisions by as much as 0.8 points in a period (both positive and negative adjustments). Both the Pleasure and Pain components have been increased by data revisions.

The Pleasure Index increased 0.5 to 1.6 points. The major factor increasing it is a revision in the Home Equity component which resulted in a 2 to 4 point increase across the series.

The Pain Index increased 0.5 to 1.0 points. Both inflation and taxes have been revised upward. The revised inflation values are 0 to 3 points higher, and taxes 0 to 2 points higher.

Year ago comparisons: The revised Net Index is 13.3, versus 13.1 originally posted. The Pleasure Index increased 0.9 points due to a 4 point increases in home equity, but the Pain Index increased 0.8 point due to a 2 point increase in inflation and a 5 point increase in taxes. (And there are rounding effects.)

Comparisons to the most recent quarter: The revised Net Index is 15.1, versus 15.9 originally posted. The Pleasure Index was not revised, but the Pain Index increased 0.9 points due to a 3 point increase in inflation and a 1 point increase in taxes.