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

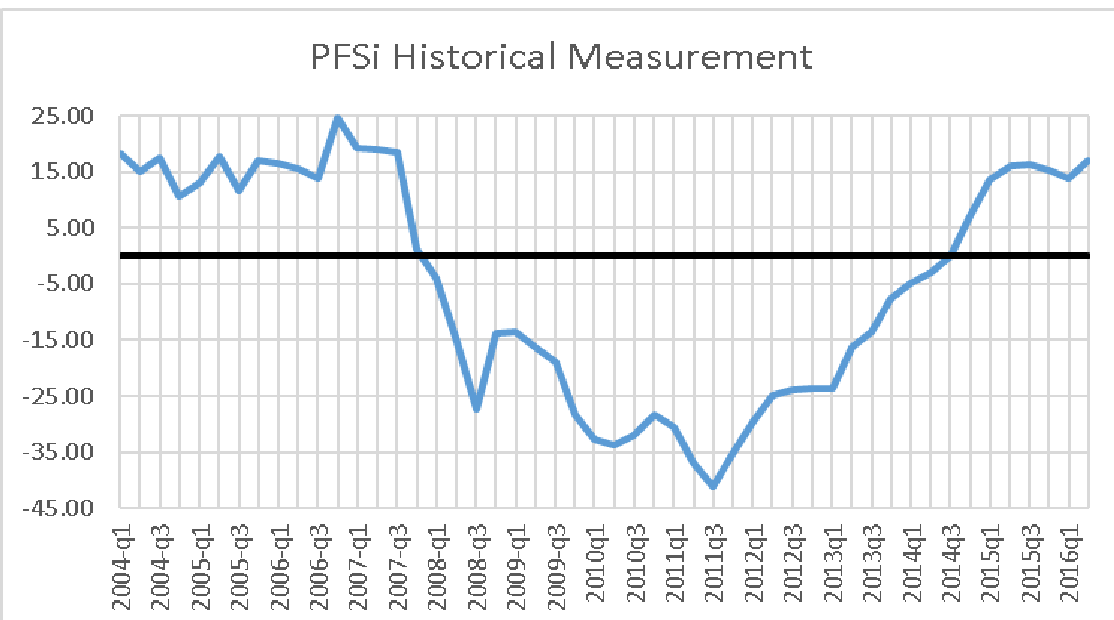
To construct the indices each component was first normalized by its own standard deviation prior to July 2013. The factors were then individually modified to an average value of 50 over the period up to July 2013. The financial pleasure index and the financial pain index each equally weight the individual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

Second Quarter 2016 PFSi Summary

The *PFSi* measured 17.1 in the second quarter of 2016. This reflects a 3.4 point increase from the prior quarter, and a 1.2 point increase from one year ago. It is the highest value of the index since the third quarter of 2007.

The increase from the prior quarter was based on both an increase in the **Personal Financial Pleasure** index of 2.1 points, and a 1.3 point decrease in the **Personal Financial Pain** index.

The improvement from the second quarter of 2015 was due to a 1.2 point retreat in the Pain index which overwhelmed a 0.1 point decrease in the Pleasure index.



Second Quarter 2016 Personal Financial Pleasure Index Top-Line Summary

The **Personal Financial Pleasure Index,** at 61.6, is 2.1 points (3.5%) higher than the prior quarter and 0.1 points (0.1%) down from the prior year.

The gain over the previous quarter's level was due to a 5 point increase in the AICPA Economic Outlook and 2 point improvements in both home equity and job openings. The PFS 750 Market Index was flat with the prior quarter.

The reduction from the prior year was due to a "battle of the factors:" the AICPA economic outlook and the PFS 750 Market Index were down 4 points and 3 points, respectively, while home equity added 5 points and job openings 2 points.

Second 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. Its current value is 6.7 points (8.5%) below that high.

> *There was widespread gloom after the Brexit vote, and markets plunged. However, then they rebounded. As of our measurement date, the close of trading on July 1, the index was flat with the prior quarter's reading, and not that far below the recent (all-time) record. There is still a good deal of uncertainty as to the outlook.*

Real Home Equity per Capita: This factor's current value is 28.3% above the prior year level, and 4.2% above the previous quarter level. It is still 19% below its early 2006 all-time high. The changes in value have been due to increases in the market value of real estate, which have recently come in above 6% per annum, helped by tight supply in many markets and low mortgage interest rates. They have exceeded increases in mortgages outstanding, which have been advancing at about 1% per annum..

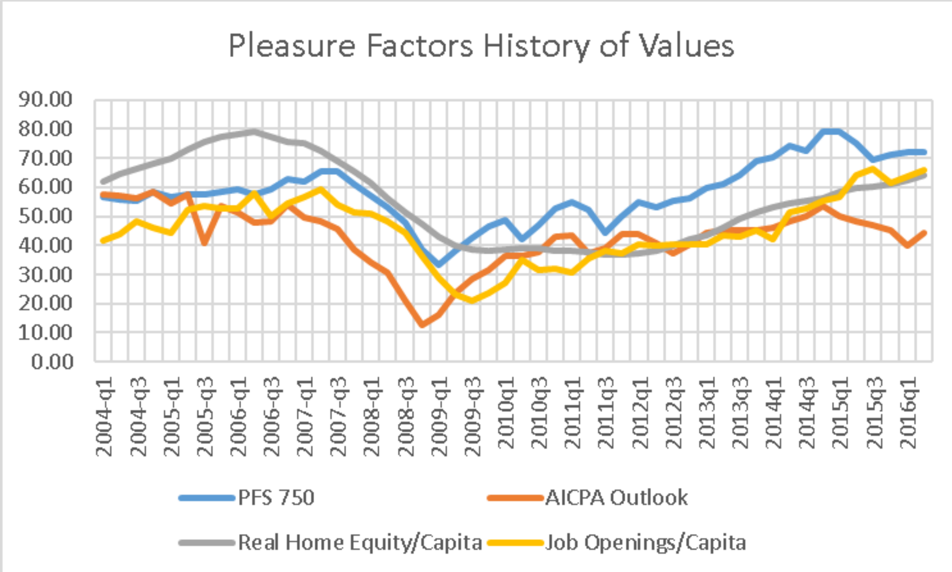
> *Nationally, home prices remain about 8% below their all-time high. Real estate markets are local. The states registering the highest year-over-year home price increases, ranging from about 7.8% to more than 10%, are Colorado, Oregon, Nevada, Utah and Washington. The states with prices furthest from peak values, ranging from 23% to 33% away, are Arizona, Florida, Maryland, Nevada and Rhode Island.*

Job Openings per Capita: The current reading is 4.9% higher than the prior year reading, and 3% ahead of the previous quarter.

> *32 states and the District of Columbia had statistically significant increases in employment over the year-ago level. The strongest employment gains, ranging from 3.2% to 3.4%, were in Florida, Idaho, Oregon, Utah and Washington. Only 2 states, North Dakota and Wyoming, lost jobs compared with a year ago instead,*

AICPA CPA Outlook Index: The current reading is 7.7% lower than the prior year level but 11.6% higher than the previous quarter.

1. *The US economy optimism index component of this series partially rebounded in Q2 from a sharp Q1 drop.*
2. *Every other component improved, although less dramatically, except the outlook for training, which was flat.*
3. *The next strongest improvements were for revenue growth, expansion plans and organizational optimism.*
4. *On an annual basis, the largest decline was in US economy optimism, followed by profits and organization optimism.*



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.

Second Quarter 2016 Personal Financial Pain Index Top-Line Summary

Pain index at 44.5 is 1.3 points (2.8%) lower than the previous quarter and 1.2 points (2.7%) lower than the prior year's level. This reverses most of last quarter's increase, which was the first increase in the pain index since Q1 of 2013. The index is, however, a little bit higher than the readings in the third and fourth quarters of 2015 (0.1 point higher than each)."

Comparing the current index to the previous quarter, the decrease in overall value was due to a 4 point decrease in loan delinquencies plus a one point decline in inflation, with taxes and underemployment flat.

The decline from the prior year's level occurred because a 16 point increase in inflation was more than offset by a 15 point decline in loan delinquencies along with a 5 point decline in underemployment and a 1 point decline in taxes.

Second Quarter 2016 Personal Financial Pain Index Detailed Summary

Delinquencies on Loans: This factor's current level is 21.5% lower than in the previous quarter and 6.2% 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 4.85%; the overall delinquency rate is 2.19%. 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 flat with the previous quarter level and 10.5% below the prior year.

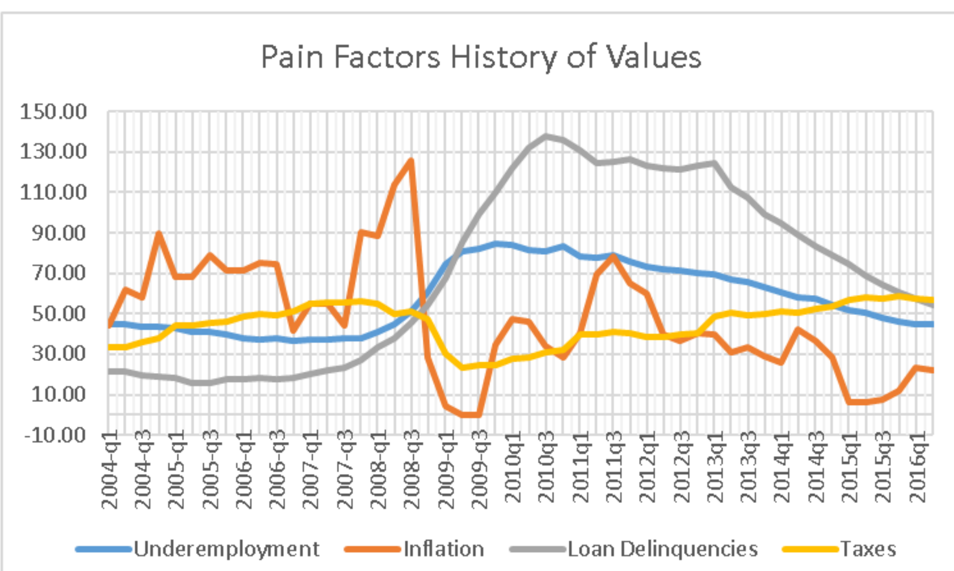
Economists are beginning to think that the level of short term unemployment is more pertinent than the broader measure that we use in our index in forecasting wage growth. The 4.7% unemployment measure (technically u3 rather than u6, which we use) indicates that labor market tightness isn't far off.

Inflation: This factor's current value is 5.3% lower than the prior quarter's level and a stunning 270.1% higher than the year-ago level. Please note that the PFSi inflation measure throughout 2015 registered levels 83% lower than the average since 2004. These levels provide a really low base for percent comparisons; hence the really high percent increase.

Inflation is the most volatile factor contributing to the PFSi. The Q2 pain index relies on the May level, which is 0.9% by our measure. In comparison, the Federal Reserve's target for inflation is 2%.

Personal Taxes: Personal taxes are 0.6% lower than the previous quarter's value. They are 1.5% lower 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 12.6%. Going back as far as 1994, the highest levels for personal taxes were 14% to 14.5% from late 1999 to mid 2000.



Personal Financial Pain Index Components Defined

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

- Inflation – 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.

- Personal Taxes – 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.

- Delinquencies on Loans – 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

- Underemployment – 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	2Q15		1Q16		2Q16		Change vs.	
	Data	Index	Data	Index	Data	Index	the prior year,	the prev quarter
Net Index		***16.0***		13.7		17.1	1.2	3.4
Pleasure		*61.7*		*59.5*		*61.6*	(0.1)	2.1
PFS 750 Market Index ($ trillion, index)	23.5	75	22.8	72	23.0	72	**(3)**	**(0)**
CPA Outlook (index)	72	48	63	40	68	44	**(4)**	**5**
Home Equity ($ trillion, index)	14.8	60	15.8	63	16.3	64	**5**	**2**
Job Openings (millions, index)	5.6	64	5.5	64	5.8	66	**2**	**2**
Pain (subtracted)		45.8		45.8		44.5	(1.2)	(1.3)
Underemployment (%, index)	10.7	50	9.7	45	9.7	45	**(5)**	**0**
Inflation (%, index)	0.3	6	1.0	23	0.9	22	**16**	**(1)**
Taxes (%, index)	12.7	58	12.8	57	12.6	57	**(1)**	**(0)**
Loan Delinquencies (%, index)	4.9	69	4.1	58	3.9	54	**(15)**	**(4)**

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. (Actually, the PFS 750 market index is deflated, and can be affected by updates in the deflator; such revisions have been very small.) 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 and decreased once. 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 for Q2 2015 is 16.0, versus 15.0 originally posted. The Pleasure Index increased 1.7 points due to a 3 point increases in home equity, but the Pain Index increased 0.8 point due to a 1 point increase in inflation and a 2 point increase in taxes. (And there are rounding effects.)

Comparisons to the most recent quarter: The revised Net Index for Q1 2016 is 13.7, versus 13.0 originally posted. The Pleasure Index increased 0.5 points due to a 2 point increase in home equity and a 1 point increase in job openings, and the Pain Index declined 0.3 points due to a 2 point decrease in taxes.

Note: see the accompanying table detailing the history of revisions.