AICPA

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

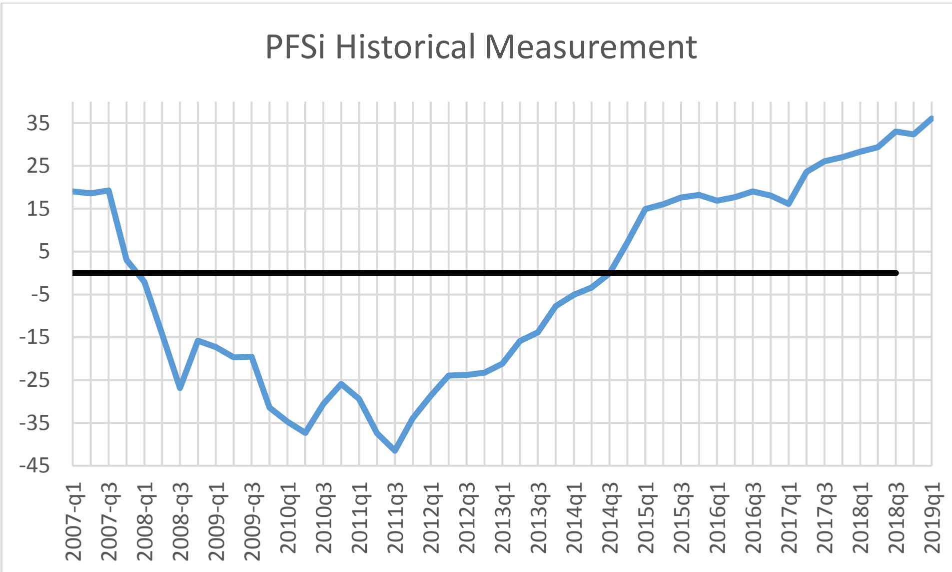
To construct the indices each component was first normalized by its own standard deviation prior to July 2013. The factors were then individually modified to an average value of 50 over the period up to July 2013. The financial pleasure index and the financial pain index each equally weight the individual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

First Quarter 2019 PFSi Summary

The *PFSi* measured 36.1 in the First Quarter of 2019. This is a record level. It reflects a 7.7 point (27.2%) increase from one year ago, and a 3.7 point (11.3%) increase from the prior quarter.

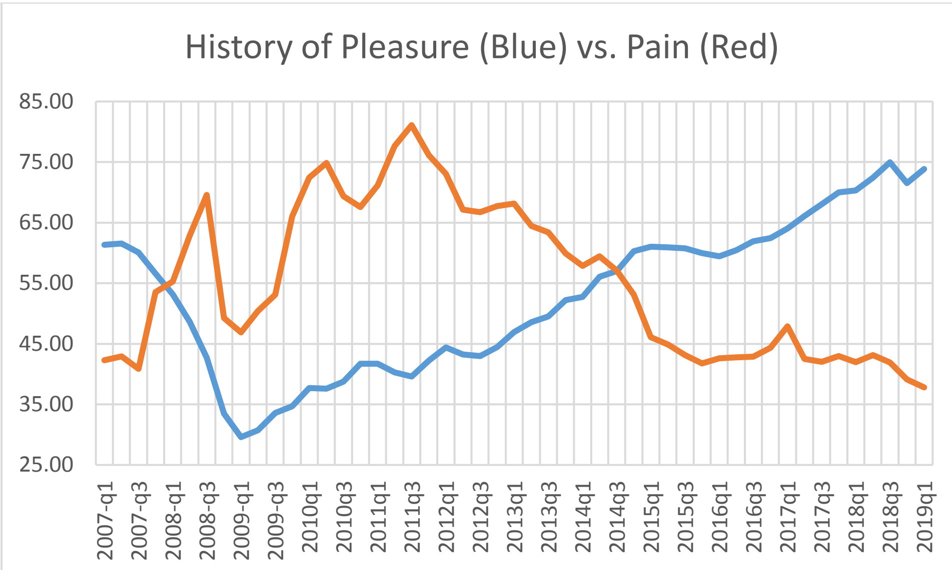
To recap PFSi history, its low point was 2011 Q3; from there it gained about 4 points per quarter until the first quarter of 2015. In that period the biggest contribution to its gain was a reduction in inflation, followed by a reduction in loan delinquencies. The next two factors were gains in the PFSi Market 750 index and a reduction in underemployment.

The index made little progress between 2015 Q1 and 2017 Q1. Since then it has gained close to 2.5 points per quarter. The most important driver of these gains has been job openings, followed by reductions in loan delinquencies. After that reductions in underemployment and inflation contributed slightly more than stock market gains.



The current year over year advance of the index was driven by the 12 point (16.3%) increase in job openings per capita, followed by the 8.4 point (21.6%) decline in loan delinquencies. Next, the Market Index gained 5.1 points (6.1%) and underemployment dropped 4.8 points (12.9%). Inflation fell 2.4 points (5.5%), home equity gained 1.8 points (2.7%) and taxes fell 1 point (2.1%). The only factor detracting from the overall gain was a 4.6 point (8.2%) decline in the CPA outlook.

Compared with the last quarter the 9.1 point (11.3%) gain in the PFS Market 750 index, taking it to just 1.5% below its high point, had the largest impact. Also, three of the four pain factors had modest declines (inflation 2.2 points or 5.1%, loan delinquencies 1.8 point or 5.5%, and underemployment 1.6 points or 4.7%). Taxes ticked up 0.3 points (0.6%). Home equity bumped up 0.4 points (0.6%), while the CPA Outlook and job openings were flat. (Actually, job openings fell 0.1% which is lost in rounding)..



__First Quarter 2019 Personal Financial Pleasure Index Top-Line Summary__

The **Personal Financial Pleasure Index,** at 36.0, is 7.7 points (27%) higher than the prior year and 3.6 points (11.1%) increased from the prior quarter.

The increase from the prior year was led by a 12 point (16.3%) gain in in job openings. Next, the PFS 750 Market Index increased 4.9 points (5.8%), to approach but not quite achieve its earlier record level. Home equity added 1.8 points (2.7%). But the CPA Outlook index eased by 4.6 points (8.2%).

The gain from the previous quarter's level consisted almost entirely of an 8.8 point (11%) rise in the PFS 750 Market Index, aided by a 0.4 point (0.6%) increase in home equity. The CPA outlook was unchanged. Job openings edged down 0.1%, which disappeared in rounding the point value.

__First Quarter 2019 Personal Financial Pleasure Index Detailed Summary__

__PFSi Market 750 Market Index:__ This factor made the largest contribution to the Pleasure Index from 2009 q3 to the present, with the exception of only 2 quarters, one of which was Q4 2018. It rose 5.1 points (6.1%) versus 2018 Q1 and an impressive 9.1 points (11.3%) from the last quarter.

After a disastrous Q4, the stock market staged a tremendous first quarter comeback. Different indices had the strongest Q1 performance since 1998 (S&P 500) or since 2009 (broader indices). The rebound is being largely attributed to an oversold bounce, improving expectations for a trade deal with China, and maybe most importantly a "dovish pivot" by the Fed.

For the quarter the Nasdaq 100 and Composite indices continued their leadership role (gaining 14%) followed by the small and midcap Russell 2000 and S&P 400 indices (gaining 13.1% and 11.2%). The large cap S&P 500 and Dow

Jones Industrials gains were of 13.1% and 11.2%. The Russell Microcap gained 12.8%. As for sectors, technology was the strongest performer, performing at its best since 2012. Industrials, energy and consumer discretionary were also particularly strong. No sector turned in a loss.

Compared with a year ago, technology was the big gainer, while most other sectors lost ground. The greatest losses (double digits) were in materials, consumer staples and energy.

Real Home Equity per Capita: This factor's current value, which is based on data issued for October, is 2.7% above the prior year and value and 0.6% ahead of the previous quarter level. It is still 11.5% below its 2006 all-time high.

The changes in value have been due to increases in the market value of real estate, which for the most recent reading came in almost 5% per annum. They have exceeded increases in mortgages outstanding, which have been advancing at about 2.6% per annum.

According to the Case-Shiller 20 city composite

- As of October national home prices were 5.2% higher than the year-ago level.
- Since then the index (which runs until December) has flattened out and the annual gains fell to 4.7%.
- Las Vegas, Phoenix and Atlanta, among the large cities, had the strongest price gains, amounting

Job Openings per Capita: The current reading is 16.3% higher than the prior year reading, but virtually flat with the previous quarter level. The First Quarter index is based on the January data.

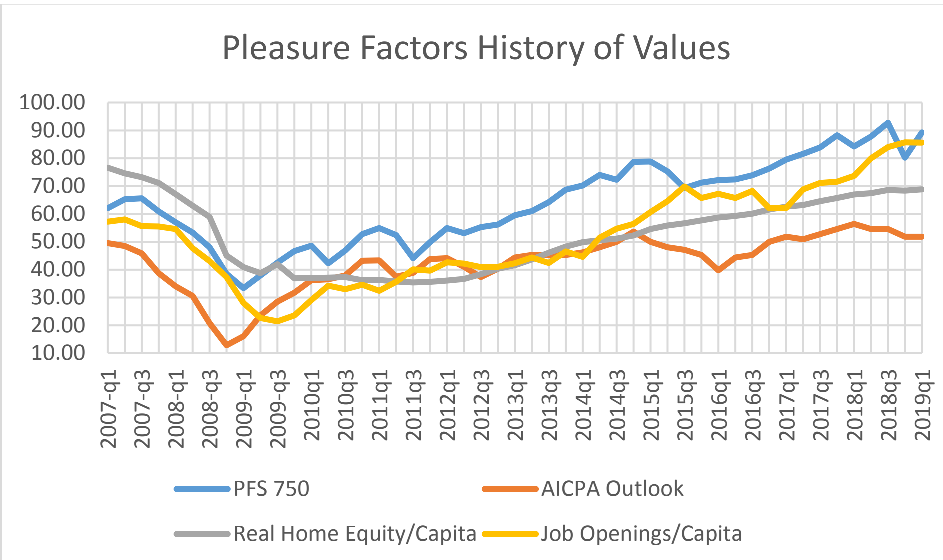
The Bureau of Labor Statistics' Current Employment Statistics are revised annually, and the data used here reflect updates in data and in methods of imputation. Therefor comparisons to our last report will fail. Total nonfarm employment was more than 150 million in January, and about 2.8 million new jobs were added in 12 months. There were almost 7.6 million job openings, but only 6.5 million unemployed in January; openings thus exceed job seekers.

In comparison to year ago levels, the job openings level increased for both total private (+877,000 or 14.6%) and government (112,000 or 19.8%). The job openings in health care and social assistance (221,000, 20%), professional and business services (219,000, 19.5%), accommodation and food services (159,000, 19.1%) and trade, transportation and utilities (104,000, 7.6%) accounted for 71% of the increase in private sector openings. The 14.8% overall increase in openings included gains in almost every sector. The exceptions, posting small declines, were nondurable goods manufacturing, other services, and educational services. The increase in job openings was strongest (489,000, 20.7%) in the South, and weakest (133,000, 8.6%) in the West.

AICPA CPA Outlook Index: The current reading is 8.2% lower than the prior year and unchanged from the previous quarter. The survey was conducted from February 5 to 27.

1. *The recent low point for this index occurred in Q1 2016. The all time high of the series was in early 2000. The index is 28% lower than its early 2000 peak.*
2. *Compared with the year ago index, all components show declines, strongly led by US Economic Optimism. (Its decline was almost 3 times that of any other factor.)*

3. *Compared with the prior quarter, only 3 factors registered single point advances. They were US economic outlook, other capital spending and training and development.*
4. *The strongest factors in the level of the Q1 2098 index (as opposed to changes) are Revenue, IT Spending and Organization Optimism. These have been the strongest factors since Q3 2018.*



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 for the economy, 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 Personal Consumption Expenditures 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 2019 Personal Financial Pain Index Top-Line Summary

Pain index at 37.8 is 4.1 points (9.9%) lower than the prior year and 1.3 points (3.4%) below the preceding quarter.

For the year ago comparison, all factors declined, led by loan delinquencies (8.4 points, 21.6%), followed by underemployment (4.8 point, 12.9%). Inflation registered a 2.4 point (5.5%) decline, and taxes dropped by 1.0 point (2.1%).

The quarterly decline was led by inflation, down 2.2 points (5.1%) followed by loan delinquencies, 1.8 points (5.5%). Underemployment fell 1.6 points (4.7%) but taxes ticked up 0.3 point (0.6%).

First Quarter 2019 Personal Financial Pain Index Detailed Summary

Delinquencies on Loans: This factor's current level is 21.5% lower than in the prior year, and 5.5% below the previous quarter's level. The improvements are somewhat more heavily weighted towards all loans on the annual comparison, but mostly related to mortgages for the quarterly comparison.

The peak delinquency rate for mortgages was 11.26% in the spring of 2010, and the peak for all loans was 7.5% at the end of 2009. The current reading of 2.83% delinquencies on mortgages is still above the 2.1% that was typical between 1994 through 2003.

Underemployment: This factor, registering 32, is 12.9% lower than the prior year level and 4.7% down from the last quarter level. In comparison, its peak value was 84.3 corresponding to 17.1% in the fourth quarter of 2009 (versus the current 7.3%). It is now almost 14% below its average value in the two years before the great recession.

Like most economic measures, unemployment is worse in some regions than in others. In February:

- *The states with the lowest unemployment rates were Iowa, New Hampshire, North Dakota and Vermont.*
- *8 states, including Iowa and Vermont, but also Alabama, Kentucky, Pennsylvania, South Carolina, Tennessee and Wisconsin were setting all-time records for low unemployment.*
- *25 states had unemployment rates below the national average; 5 were at the average and 22 (including the District of Columbia) were above it.*
- *Unemployment was highest in Alaska, the District of Columbia, West Virginia, New Mexico and Arizona.*
- *The national unemployment rate fell 0.3 percentage points in February versus Feb. 2018. 14 states, led by Connecticut, had bigger declines. 11 states performed at the average on this measure. In 8 states unemployment increased, including, most notably, Colorado, which moved from considerably below the national average to just meeting it.*
- *Unemployment was most severe in agriculture and lowest in finance and most aspects of health care.*

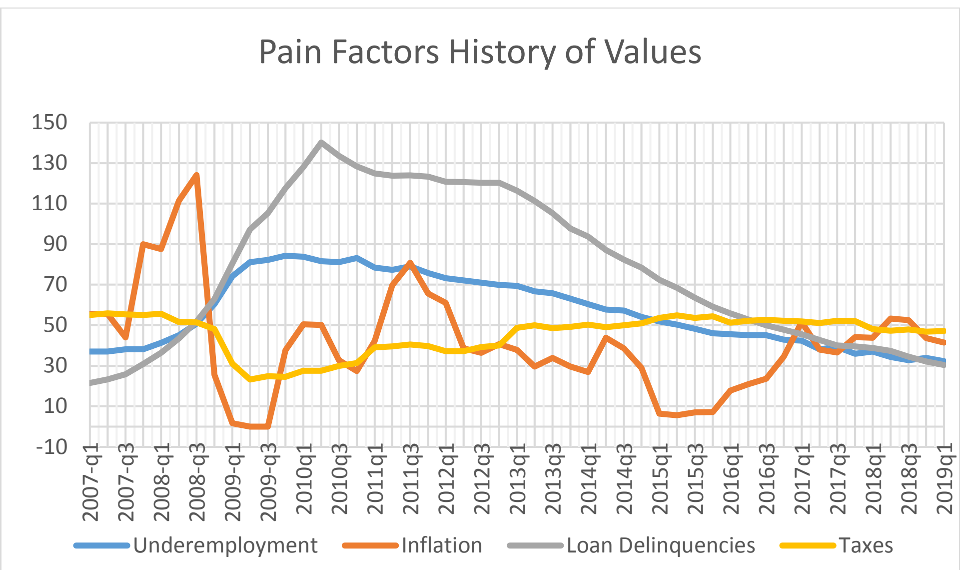
- Employment increased in professional and business services, health care, and wholesale trade, but decreased in construction
- Compared to a year ago, 40 states grew nonfarm payrolls, with the largest percentage gains occurring in Nevada (3.9 percent), Arizona (3.4 percent) and Texas (3.2 percent).

Inflation: Our blended inflation measure is 1.75% for the First Quarter, versus 1.85% a year ago and 1.84% last quarter. Please note that the Federal Reserve's target for inflation is about 2%. In terms of the index, the current index value is 41, down 5.5% from the year ago level and down 5.1% from the Q4 level.

> *Inflation is the most volatile factor contributing to the PFSi, and with absolute levels so low, small changes result in large percent gains. The Q1 pain index relies on the February level.*

Personal Taxes: The personal taxes index decreased one point (2.1%) from the year-ago and its 0.3 points (0.6%) rise from the prior quarter level disappears in rounding.

> *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 11.6%. Going back as far as 1994, the highest levels for personal taxes were 14% to 14.5% from late 1999 to mid-2001.*



<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 Personal Consumption Expenditures 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 Bureau of Labor Statistics statistics on income tax, tax on 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.

<u>Chart View of Above Information</u>

Component	1Q18		4Q18		1Q19		Change vs.	
	Data	Index	Data	Index	Data	Index	Year	Quarter
Net Index		***28.4***		***32.4***		***36.1***	7.7	3.7
Pleasure		*70.3*		*71.5*		*73.9*	*3.6*	*2.4*
PFS 750 Market Index ($ trillion, index)	28.1	84	27.1	80	30.5	89	**5.1**	**9.1**
CPA Outlook (index)	81	56	76	52	76	52	**(4.6)**	**0.0**
Home Equity ($ trillion, index)	17.8	67	18.8	68	18.9	69	**1.8**	**0.4**
Job Openings (millions, index)	6.6	74	7.6	86	7.6	86	**12.0**	**(0.0)**
Pain (subtracted)		*42.0*		39.1		*37.8*	*(4.1)*	*(1.3)*
Underemployment (%, index)	8.2	37	7.6	34	7.3	32	**(4.8)**	**(1.6)**
Inflation (%, index)	1.85	44	1.84	44	1.75	41	**(2.4)**	**(2.2)**
Taxes (%, index)	11.7	48	11.6	47	11.6	47	**(1.0)**	**0.3**
Loan Delinquencies (%, index)	2.8	39	2.3	32	2.2	30	**(8.4)**	**(1.8)**