**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.

**Third Quarter 2019 PFSi Summary**

The PFSi measured 37.3 in the Third Quarter of 2019. It reflects a 4.5 point (13.8%) increase from one year ago, and a 1.4 point (3.6%) decrease from the prior quarter.

To recap PFSi history, its low point was 2011 Q3; from there it gained about 3 points per quarter until the Fourth Quarter of 2015. In that period the biggest contribution to its gain was a reduction in loan delinquencies, followed by a reduction in inflation. The next two factors were a reduction in underemployment and an increase in job openings per capita. Next were gains in the PFSi Market 750 index.

Between 2015 Q4 and 2017 Q2 the index bounced down and up. Since then it has gained about 2.4 points per quarter. Three factors are in close contention for leading these gains: increases in job openings, reductions in loan delinquencies and reduction in inflation. In the most recent 2 quarters the index has again stalled and dipped slightly. The biggest reason is job openings dropping somewhat off their recent peak.
The current year over year advance of the index was driven by the 19.4 point (36.3%) decrease in inflation, followed by the 7 point (20.2%) decline in loan delinquencies. After that, the only other factors supporting the gain were a 3.2 point (4.7%) increase in home equity and a 1.1 point (3.2%) decline in underemployment. Offsetting the gains were a 6.5 point (11.9%) decline in the CPA outlook, a 3.3 point (4%) drop in job openings, a 2.6 point (2.8%) retreat in the PFS 750 Market Index and a 0.2 point (0.5%) gain in taxes.

Compared with the last quarter, pleasure factors decreased 1.7 points (3.6%) while pain decreased only 0.3 point (0.8%), leading to the 1.4 point (3.6%) decline in the PFSi. All the quarterly changes were small. The largest was the 2.8 point (5.5%) decline in the CPA outlook, followed by the 2.1 point (2.6%) drop in job openings. The PFS 750 Market Index slumped by1.8 points (1.9%). Rounding out the pleasure factors, home equity was flat. Pain factors were bolstered by declines of 1.6 points (3.3%) in taxes and 1.4 points (4.7%) in loan delinquencies, offset by a gain of 1.3 points (4.1%) in inflation and 0.5 points (1.7%) in underemployment.
Third Quarter 2019 Personal Financial Pleasure Index Top-Line Summary

The Personal Financial Pleasure Index, at 72.6, is 2.3 points (3.1%) below the prior year and 1.7 points (2.2%) down from the prior quarter.

The decrease from the prior year was led by a 6.5 point (11.9%) drop in the CPA Outlook index. Next, job openings decreased 3.3 points (4.0%). Home equity bucked the trend by adding 3.2 points (4.7%). But the PFS 750 Market Index fell by 2.6 points (2.8%).

Similarly, the decline from Q2 was led by the CPA Outlook index, which fell 2.8 points (5.5%), followed by a 2.1 point (2.6%) drop in job openings. The PFS 750 Market index dropped 1.8 points (1.9%). Home equity once again bucked the trend, but only to the extent of remaining flat.

Third Quarter 2019 Personal Financial Pleasure Index Detailed Summary

PFSi Market 750 Market Index: This factor has made the largest contribution to the Pleasure Index from 2009 q3 to the present, with the exception of only 2 quarters (Q4 2018 and Q3 2015). It stands at 90, down 2.6 points (2.8%) from the year ago figure, which was an all time high. It is also down 1.8 points (1.9%) from the Q3 level.

When we look at the stock market on a weekly or even daily basis, rather than just at the end points, it has been a roller coaster for the last couple of quarters. Overall, the strongest gains, both versus the year ago levels and compared with Q3, have been in utilities and real estate. These are both considered “defensive” investments. Energy and health care have been the sectors losing the most value. The energy stocks were surely influenced by a sharp drop in oil prices in Q3, despite the attack on Saudi oil fields that destroyed a significant amount of capacity. Health care was a top performer in 2018, and so was set up for slow gains or even the losses it’s had. There has been plenty of uncertainty this year about future regulatory changes.

As always, the outlook for the market is uncertain. Trading analysts discuss the failure of most measures to register higher highs, but also that support levels have been holding. Earnings are broadly expected to weaken in the upcoming reporting period, but consumer spending has made some gains. Tight job markets are beginning to lead to earnings increases. These factors support the stagnation we’ve seen in the last couple of periods.

Real Home Equity per Capita: This factor’s current value, which is based on data issued for April, is 4.7% above the prior year value and flat with the previous quarter level. It is only 3.4% 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 about 5.5% per annum. This has been sufficient to exceed increases in mortgages outstanding, which have been advancing at about 2.5% per annum.

According to the Case-Shiller 20 city composite
- As of April national home prices were 3.5% higher than the year-ago level.
- Since then the index (which has been released through July) has flattened out and the annual gains fell to 2.0%.
- In the April report Las Vegas, Phoenix and Tampa reported the highest year-over-year gains among the 20 cities. Las Vegas led the way with a 7.1% year-over-year price increase, followed by Phoenix with a 6.0% increase, and Tampa with a 5.6% increase.
- In the July report the leaders were Phoenix, Las Vegas and Charlotte.
Job Openings per Capita: The current reading is 4.0% below the prior year reading, and 2.6% below the previous quarter level. The Third Quarter index is based on the July data.

Total nonfarm employment was more than 151 million in July, and just under 2.1 million new jobs were added in 12 months. There were just over 7.2 million job openings, but only 6 million unemployed in July; openings thus exceed job seekers.

In comparison to year ago levels, the job openings level decreased for both total private (-209,000 or 3.1%) and government (-16,000 or 2.4%). The most substantial declines in job openings were in retail trade (155,000 or 15.2%), wholesale trade (63,000 or 28.5%) and finance and insurance (77,000 or 23.5%). The largest gains in job openings were in construction (59,000 or 18.8%) and durable manufacturing (46,000 or 16.1%). Regionally, job openings fell most drastically in the South (178,000 or 6.4%), followed by a drop of 91,000 or 6.4% in the Northeast. The West gained 38,000 or 2.3%, while the Midwest was practically flat.

AICPA CPA Outlook Index: The current reading is 11.9% lower than the prior year and down 5.5% from the previous quarter. The survey was conducted from July 30 to August 21.

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 33.1% 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 twice that of any other factor.
3. Compared with the prior quarter, all but 2 factors declined. They were IT spending and other capital spending, and they were both flat.
4. The strongest factors in the level of the Q3 2019 index (as opposed to changes) are by IT Spending followed by Revenue. 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.

### Third Quarter 2019 Personal Financial Pain Index Top-Line Summary

**Pain index** at 35.4 is 6.8 points (16.1%) lower than the prior year and 0.3 point (0.8%) below the preceding quarter.

> For the year ago comparison, all factors except taxes declined, led by inflation (10.4 points, 36.3%), followed by loan delinquencies (7.0 point, 20.2%). Underemployment registered a 1.1 point (3.2%) decline. Taxes bumped up 0.2 point (0.5%).

> The quarterly marginal decline resulted from small declines in taxes (1.6 points, 3.3%) and loan delinquencies (1.4 points, 4.7%) coming in somewhat larger than increases in inflation (1.3 points, 4.1%) and underemployment (0.5 points, 1.7%)

### Third Quarter 2019 Personal Financial Pain Index Detailed Summary

**Delinquencies on Loans**: This factor’s current level is 20.2% lower than in the prior year, and 4.7% lower than the previous quarter’s level. The improvements are heavily weighted towards mortgages on the annual comparison, but equally related to mortgages and all loans 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 2.59% delinquencies on mortgages is still above the 2.1% that was typical between 1994 through 2003.

**Underemployment**: This factor, registering 32, is 1.1% lower than the prior year level but 0.5% higher than 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 7.2%). It is now just over 15% 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 August:

> • The states with the lowest unemployment rates were Vermont, North Dakota, Iowa, and New Hampshire. These have been the “usual suspects” for this designation.
• The rates in Alabama (3.1%), Alaska (6.2%), Illinois (4%), Maine (2.9%) and New Jersey (3.2%) set new series lows. Vermont, South Carolina, Arkansas, and Texas matched all-time lows.

• 31 states had unemployment rates below the national average; Wisconsin was at the average and 19 (including the District of Columbia) were above it. Five states (Alabama, Colorado, Maine, New Jersey and Vermont) had unemployment rate decreases from a year ago, 2 (Minnesota and Nebraska) had increases, and the rest were substantially unchanged.

• Unemployment was highest in Alaska, followed by the District of Columbia, Mississippi and Arizona.

• The national unemployment rate was little changed from August 2018. 5 states, led by Alabama and New Jersey, had bigger declines. 2 states, Minnesota and Nebraska, showed increases.

• Unemployment was most severe in leisure and hospitality, followed by information and lowest in mining.

• Twenty-six states had over-the-year increases in nonfarm payroll employment in August. The largest job gains occurred in California (314,200), Texas (303,500), and Florida (221,200). The largest percentage gains occurred in Nevada (+3.0 %), Utah (+2.8%), and Washington (+2.6%).

**Inflation:** Our blended inflation measure is 1.4% for the Third Quarter, versus 2.3% a year ago and 1.4% last quarter. Please note that the Federal Reserve’s target for core inflation (which eliminates the contributions of food and oil) is 2%; core inflation is currently at 2.4%. In terms of the PFSi inflation index, the current index value is 34, down 36.3% from the year ago level and buy up 4.1% from the Q2 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 Q3 pain index relies on the August level.*

**Personal Taxes:** The personal taxes index increased 0.2 points (0.5%) from the year-ago level but fell 1.6 points (3.3%) from the prior quarter.

*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 11.7 %. Going back as far as 1994, the highest levels for personal taxes were 14% to 14.5% from late 1999 to mid-2001.*
**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 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.

### Chart View of Above Information

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<th>Component</th>
<th>3Q18</th>
<th>2Q19</th>
<th>3Q19</th>
<th>Change vs. Year Quarter</th>
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<td><strong>Pleasure</strong></td>
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<td>PFS 750 Market Index ($ trillion, index)</td>
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<td><strong>Job Openings</strong> (millions, index)</td>
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<td><strong>Pain (subtracted)</strong></td>
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<td><strong>Underemployment</strong> (%) (index)</td>
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<td><strong>Inflation</strong> (%) (index)</td>
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<td><strong>Taxes</strong> (%) (index)</td>
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<td><strong>Loan Delinquencies</strong> (%) (index)</td>
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