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 2020 PFSi Summary

The PFSi measured 32.9 in the First Quarter of 2020. It reflects an 8.2 point (20.0%) decline from the prior quarter, and a 5.4 point (14.2%) drop from the year ago level. Almost all the gains of 2019 (PFSi of 2018Q4 was 31.1) have been erased.

The dramatic 8.2 point (20%) decline of the PFSi from the record breaking Q4 2019 level was driven by the 20 point (21%) decline in the PFS 750 Market Index. The second most important driver was a 10.7 point (33.8%) increase in inflation. Compared with the year ago level, the 5.4 point (14.2%) decline was due to an 11.2 point (12.5%) drop in the PFS 750 Market Index, an 11.3 point (36.2%) increase in inflation and a 7.4 point (8.8%) drop in job openings, offset by a 5.2 point (17.3%) decline in loan delinquencies.
First Quarter 2020 Personal Financial Pleasure Index Top-Line Summary

The Personal Financial Pleasure Index, at 69.5, is below every reading since the 67.95 level as of 2017 Q3. Compared with that level, the big decline was the PFS 750 Market Index. It dropped 5.6 points (6.7%). Offsetting that drop, both home equity and job openings are still more than 6 points ahead of the 2017 Q3 levels, retaining gains of 8.8% and 10%.

Compared with the record Q4 2019 results, the Pleasure Index dropped 5.4 points (7.2%). This was primarily driven by the 20.9 point (21.0%) decline in the PFS 750 Market Index, followed by the 4.22 point (5.2%) drop in job openings, offset by the 3.7 point (7.7%) gain in the CPA Outlook Index.

Compared with the year ago levels, the index dropped 4.3 points (5.8%). The big factors were an 11.2 point (12.5%) decline in the PFA 750 Market Index and a 7.4 point (8.8%) drop in job openings.

First Quarter 2020 Personal Financial Pleasure Index Detailed Summary

PFSi Market 750 Market Index: This factor has made the largest contribution to the Pleasure Index from 2009 q4 to the present, with the exception of only 2 quarters (Q4 2018 and Q3 2015). This is still true with the latest level of 78, down 11.2 points (12.5%) from the year ago figure. It also fell 20.9 points (21%) from the record Q4 level. The Market 750 Index’s standing as the largest contributor to the Pleasure Index is now less dominant; job openings stand at 77 versus its 78 reading.

By far the strongest industry, both over the last 3 months and the last 12 months, has been information technology, although it has declined about 15% in the quarter, while eking out a 3% gain versus a year ago. Some of the strongest performances have been by Nvidia, Citrix Systems, Akami, Microsoft and Apple. Far and away the weakest sector has been energy
**Real Home Equity per Capita:** This factor’s current value, which is based on data issued for December, is 2.4% above the prior year value and virtually flat (down 0.5%) with the previous quarter level. It is only 5.6% below its early 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 3.8% per annum. This has been sufficient to exceed increases in mortgages outstanding, which have been advancing at about 2.8% per annum.

According to the Case-Shiller 20 city composite
- As of December, national home prices were 2.9% higher than the year-ago level.
- The strongest gains were in Phoenix, Charlotte and Tampa.
- According to Case-Shiller, national home prices are 59% above the trough reached in February 2012, and 15% above their pre-financial crisis peak. Results for 2019 were broad-based, with gains in every city in the 20-City Composite.

**Job Openings per Capita:** The current reading is 8.8% below the prior year reading, and 5.2% down from the previous quarter level. The First Quarter index is based on January data.

*Total nonfarm employment was over 152 million in January, and 2.1 million new jobs were added in 12 months. There were almost 7 million job openings, but only 5.9 million unemployed in January; openings thus exceed job seekers. Of course, the number of unemployed dramatically increased in the second half of March. The most recent 2 weekly reports of new claims for unemployment came to just over 9.9 million.*

*In comparison to year ago levels, the job openings level decreased for total private (-557,000 or 7.4%) but increased 43,000 (6.0%) for government. The most substantial declines in job openings were in accommodation and food service (271,000 or 26.6%), professional and business services (134,000 or 9.7% and wholesale trade (94,000 or 33.7%). There were more modest employment gains in arts, entertainment and recreation (38,000 or 35.9%) and other services (94,000 or 54%).*

*Regionally, job openings fell in all areas, most drastically in the Midwest (273,000 or 15.4%). Only the Northeast had a minor loss of 6,000 openings (0.5%).*

**AICPA CPA Outlook Index:** The current reading is flat with the prior year and 7.7% above the previous quarter. The survey was conducted from February 4 to 26.

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 prior quarter index, all components show advances, strongly led by US Economic Optimism, followed by Organization Optimism, and Revenue, and then Expansion Plans.**
3. **Compared with the year ago index, all the changes were small. The US Economic Outlook was the strongest gainer. Profits and Training & Development were the strongest downticks.**
4. **The strongest factors in the level of the Q2 2020 index (as opposed to changes) are by IT Spending and 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.
**First Quarter 2020 Personal Financial Pain Index Top-Line Summary**

**Pain index** at 36.6 is 1.2 points (3.3%) above the prior year and 2.9 points (7.8%) over the preceding quarter.

The year ago comparison is due to an 11.3 point (36.2%) increase in inflation, offset by decreases in all other factors, led by loan delinquencies (down 5.2 points, 17.3%), followed by underemployment (1.1 point, 3.3% decrease) and then taxes (0.2 point or 0.5% decline).

The larger increase compared with the Q4 2019 reading was driven by increases in 3 of the 4 pain factors. However, a 10.7 points (33.8%) increase in inflation accounts for most of the increase. Instead of declining, underemployment registered a 1.1 point (3.6%) gain, and taxes climbed 0.7 points (1.5%). Delinquencies on loans continued its down trend, but only losing 1.1 points (4.2%), continuing a trend of smaller decreases each period.

**First Quarter 2020 Personal Financial Pain Index Detailed Summary**

**Delinquencies on Loans**: This factor’s current level is 17.3% lower than in the prior year, and 4.2% below the previous quarter’s level. Most of the annual decline was due to improvements in mortgage delinquencies. Mortgage delinquencies continued to decline at about the same pace as they have for the last year. However, overall bank loan delinquencies increased slightly, reducing the decrease versus the prior quarter level.

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 2.35% delinquencies on mortgages is still above the 2.1% that was typical between 1994 through 2003.

**Underemployment**: This factor, registering 30.7, is 3.3% lower than the prior year level but 3.6% above the last quarter level. In comparison, its peak value was 84.3 corresponding to 17.1% in the first quarter of 2009 (versus the current 7%). It is now 15.4% 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. These points rely on the general unemployment rate, which is available by states, rather than the broader underemployment measurement used in the PFSi.

- The states with the lowest unemployment rates were North Dakota, Vermont, Colorado, South Carolina, and Utah.
- The rates in 15 states Alabama (2.7%), Alaska (5.8%), Arkansas (3.5%), California (3.9%), Colorado (2.5%), Florida (2.8%), Georgia (3.1%), Idaho (2.7%), Illinois (3.4%), Maryland (3.3%), Nevada (3.6%), New York (3.7%), North Dakota (2.2%), Oregon (3.3%) and Washington (3.8%) were at all-time lows.
- The national average unemployment rate was 3.5%. Twenty-six states, led by North Dakota at 2.2% and Vermont at 2.4%, registered unemployment rates lower than that. Another 5 states came in at the average and 20 (including the District of Columbia) were above it.
- Nationally, the unemployment rate fell by 0.3 percentage points from the year ago level. Seventeen states, led by Illinois, Oregon and South Carolina (each down 0.9 percentage points) had larger reductions. Five states were at the average. Twenty-nine states did less well, including 5 states with no change in rate and 13 states, capped off by Louisana and Pennsylvania which increased 0.6 percentage points.
- Unemployment was highest in Alaska, followed by Mississippi. It was lowest in North Dakota, followed by Vermont.
Unemployment was most severe in farming, fishing and forestry and lowest in community and social service.

**Inflation:** Our blended inflation measure is 1.8% for the First Quarter, versus 1.3% both a year ago and 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 42, up 36.4% from the year ago level and 33.8% from the Q4 2019 level (different percent changes due to differences in the year ago and quarter ago levels that disappear in rounding).

*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 0.2 points (0.5%) from the year-ago level but increased 0.7 points (1.5%) 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.*

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**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.

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**Chart View of Above Information**

<table>
<thead>
<tr>
<th>Component</th>
<th>1Q19</th>
<th>4Q19</th>
<th>1Q20</th>
<th>Change vs.</th>
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<tbody>
<tr>
<td>Net Index</td>
<td>38.3</td>
<td>41.1</td>
<td>32.9</td>
<td>(5.4) (8.2)</td>
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<td>Pleasure</td>
<td>73.7</td>
<td>74.9</td>
<td>69.5</td>
<td>(4.3) (5.4)</td>
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<td>PFS 750 Market Index ($ trillion, index)</td>
<td>30 90</td>
<td>34 99</td>
<td>27 78</td>
<td>(11.2) (20.9)</td>
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<td>CPA Outlook (index)</td>
<td>76 52</td>
<td>72 48</td>
<td>76 52</td>
<td>0.0 3.7</td>
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<tr>
<td>Home Equity ($ trillion, index)</td>
<td>21.4</td>
<td>22.3</td>
<td>22.3</td>
<td>1.6 (0.3)</td>
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<tr>
<td>Job Openings (millions, index)</td>
<td>7.5 85</td>
<td>7.3 82</td>
<td>7.0 77</td>
<td>(7.4) (4.2)</td>
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<tr>
<td>Pain (subtracted)</td>
<td>35.4</td>
<td>33.8</td>
<td>36.6</td>
<td>1.2 2.9</td>
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<tr>
<td>Underemployment (% index)</td>
<td>7.2 32</td>
<td>6.8 30</td>
<td>7.0 31</td>
<td>(1.1) 1.1</td>
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<td>Inflation (% index)</td>
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<td>1.8</td>
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<td>11.3 10.7</td>
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<td>Taxes (% index)</td>
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<td>11.7</td>
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<td>Loan Delinquencies (% index)</td>
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<td>1.9</td>
<td>1.8</td>
<td>25 (5.2) (1.1)</td>
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