**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 2020 PFSi Summary**

The PFSi measured 15.2 in the Second Quarter of 2020. It reflects a 22.9 point (60.1%) decline from the year ago level, and an 18.5 point (54.9%) drop from the earlier quarter. The PFSi is back to approximately its level of 2016 Q2.

By far the largest contributor to both the year-over year and the quarterly declines was the massive increase in underemployment, which more than doubled in both periods. The second factor was the decline in the CPA Outlook index, contributing almost half as much to the decline, followed closely by the drop in job openings.

All the other factors, on the Pleasure front both home equity and, notably, the PFSi 750 market index, and on the Pain front inflation, taxes and loan delinquencies, worked to decrease the current decline in the PFSi. Closest to neutral in effect were home equity, which rose modestly on the year and the quarter, close to its historic trend, and loan delinquencies, which continued their historic decreases. Notably, both of these factors were valued as of January due to when data are reported.
Inflation and taxes both increased considerably, respectively 60% annually and almost 70% quarterly for inflation and approximately 30% each for taxes. The PFSi 750 market index increased on the year, but only 3.9 points (4.3%) and also on the quarter. The quarterly rise was 16.8 points or 21.3%. Note that its value in 2020 Q1 registered a 20.3% decline from 2019 Q4.

**Second Quarter 2020 Personal Financial Pleasure Index Top-Line Summary**

The Personal Financial Pleasure Index, at 59.7, is now close to the levels it maintained in 2014 and 2015. Its composition this time around is different: The AICPA Outlook is 65.7% below its level for the average of those 2 years. Job openings are 8.7% below their level then. On the other hand, real home equity per capita is now 40.9% above its 2014-2015 average, having continued its gradual improvement. The PFSi 750 market index was the largest contributor to the personal finance pleasure index in the 2014-2015 period. Having declined in Q1 and largely bounced back, it is now 30.0% above its level during ’14-’15, 3.4% above its 2019 average, and still the largest contributor to the Pleasure index.

**Second 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). On a year-over-year basis it increased only 3.8 points (4.3%), but it gained 16.8 points (21.3%) from the depressed Q1 reading.

The annual comparisons are more straightforward than the quarterly: The strongest gains were in Information technology (with hardware, storage and peripheries by far leading the performance), followed by consumer discretionary (led by internet and direct marketing) and then real estate. Three sectors were weaker performers than the S&P 500: energy, consumer staples and financials. Energy was the dramatically weaker performer.
Real Home Equity per Capita: This factor’s current value, which is based on data issued for January, is 3.2% above the prior year value and 1.2% up from the previous quarter level. It is only 1.9% 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 4.8% per annum. This has been sufficient to exceed increases in mortgages outstanding, which have been advancing at about 3.0% per annum.

According to the Case-Shiller 20 city composite
- As of January, national home prices were 3.9% higher than the year-ago level.
- The strongest gains were in Phoenix, Seattle and Tampa.
- As of March the Case-Shiller national home price index registered a 4.4% annual gain.
- March represented the first month in which data were impacted by the Covid-19 pandemic, and the basic conclusion was that the trend of gently accelerating broad-based home price increases continued.

Job Openings per Capita: The current reading is 34.8% below the prior year reading, and 31.7% down from the previous quarter level. The Second Quarter index is based on April data.

Total nonfarm employment was 130.4 million in April (and almost 133 million in May). 20 million jobs were lost in the 12 months ending in April. There were just over 5 million job openings and 20.5 million unemployed.

In comparison to year ago levels, the job openings level decreased 30.7% (2.2 million) in total. The largest decline in job openings on a percentage basis was the 76.3% (87,000) in arts, entertainment and recreation openings. Mining and logging also lost 67.7%. Accommodation and food service lost 52.7%, which amounted to 476,000 openings. There was only one category of job openings which increased in the year, Information, and it only increased 1.7%.

Regionally, job openings fell in all areas, but only about 15% in the Northeast, compared with 29% to 38% in the rest of the country.

AICPA CPA Outlook Index: The current reading is 67.3% below the prior year and 67.9% below the previous quarter. The survey was conducted from May 5 to 27. Compared with the prior quarter levels
1. All components fell
2. The US Economy component of the index fell 60.8%
3. Expansion plans, revenue and profit expectations were all down significantly: 56%, 66.7% and 64.4%, respectively.
4. Optimism about the US Economy fell from 61% in Q1 to 20% optimistic in Q2
5. Global economy outlook was bleaker, with only 11% optimistic.
6. Organization optimism fell from 66% to 30%. Only 24% of companies plan to expand in the coming year, while 58% say they will contract.
7. The top challenges cited as facing organizations were, in descending order, domestic economic conditions, stagnant/declining markets, liquidity, and global economic conditions.
8. Expected employment changes were negative for most industries. The largest projected decline (-5.9%) was hospitality and food service, followed by retail trade (-4.1%). On the other hand, finance and insurance and banking are only expected to fall 0.5% and 0.4%. “Other healthcare” (pharma, devices) are projected to increase 1.8%, the only segment expected to gain. BTW, mainline healthcare (hospitals, offices) is projected to decline 1.8%.
**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.

**Second Quarter 2020 Personal Financial Pain Index Top-Line Summary**

*Pain index* at 44.5 is 8.8 points (24.7%) below the prior year and 8.0 points (21.9%) down from the preceding quarter. For context, its average in 2018 was 41.7. In 2017 it was 43.9.
Both the prior year and the prior quarter comparisons were driven by the massive and record breaking (more than doubling) increase in underemployment. All other pain measures decreased, with taxes declining by about 30% and inflation by more than 60%, while loan delinquencies delivered a typical decline.

Second Quarter 2020 Personal Financial Pain Index Detailed Summary

Delinquencies on Loans: This factor’s current level is 12.9% lower than in the prior year, and 0.1% 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 105.9 in May (corresponding to a level of 21.2%), is 234.0 higher than the prior year level and 243.6% above the last quarter level. In comparison, its former peak value was 84.3 corresponding to 17.1% in the Second Quarter of 2009. As of reporting on June 22, the number of people returning to work was approximately equal to those losing their jobs, resulting in no change in the number of unemployed. The June U6 (underemployment) figure was reported July 2, and it’s 18.0%; the data behind that report were measured in the middle of June.

Like most economic measures, unemployment is worse in some regions than in others. 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 Nebraska (5.2%), Utah (8.5%), Wyoming (8.8%) and tied for 4th place (8.9%) Arizona, Idaho and the District of Columbia.
- Unemployment was highest in Nevada (25.3%), followed by Hawaii (22.6%) and Michigan (21.2%).
- Unemployment was most severe in accommodation (44.7%), arts, entertainment and recreation (43.9%), personal and laundry services (34.4%) and food services (32.3%).
- The least impacted industries were finance (3.1% unemployment), broadcasting (3.3%), both insurance and hospitals (3.6%).

Inflation: Our blended inflation measure is 0.5% for the Second Quarter, versus 1.4% a year ago and 1.8% 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 in May was 1.2%. In terms of the PFSi inflation index, the current index value is 13, down 60.3% from the year ago level and 69.4% from the Q1 2020 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 Q2 pain index relies on the May level.
Personal Taxes: The personal taxes index decreased 15.5 points (31.3%) from the year-ago level and 14.2 points (29.5%) from the prior quarter.

Personal tax rates plunged more than 200 basis points to under 9.5% in mid-2009, and they increased unevenly through early 2018. It fell very gradually through the balance of 2018 before beginning to rise again through mid 2019. Then it began to fall again gradually, with a sharp decline in April and May. Going back as far as 1994, the highest levels for personal taxes were 14% to 14.5% from late 1999 to mid-2001. Its level in May, which impacts the Q2 index, was 10.3%

The personal taxes index is calculated as personal taxes divided by personal income, both from the US national economic accounts. Both the personal taxes and the personal income decreased for the current period, but personal taxes dropped 8.1% (compared with Q1) and personal income by only 3.8%. Some of personal taxes are generated by spending, which decreased as many, most particularly the wealthy who are responsible for a greater share of spending, were less likely to spend due to the uncertainty. And personal income was boosted by the vigorous income supports injected by the government.

![Pain Factors History of Values](image)

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.
<table>
<thead>
<tr>
<th>Component</th>
<th>2Q19</th>
<th>1Q20</th>
<th>2Q20</th>
<th>Change vs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Data</td>
<td>Index</td>
<td>Data</td>
<td>Index</td>
</tr>
<tr>
<td>Net Index</td>
<td>38.2</td>
<td>33.8</td>
<td>15.2</td>
<td>(22.9)</td>
</tr>
<tr>
<td>Pleasure</td>
<td>73.8</td>
<td>70.3</td>
<td>59.7</td>
<td>(14.1)</td>
</tr>
<tr>
<td>PFS 750 Market Index ($ trillion, index)</td>
<td>30.9</td>
<td>92</td>
<td>27.2</td>
<td>79</td>
</tr>
<tr>
<td>CPA Outlook (index)</td>
<td>75</td>
<td>51</td>
<td>76</td>
<td>52</td>
</tr>
<tr>
<td>Home Equity ($ trillion, index)</td>
<td>22.0</td>
<td>71</td>
<td>22.9</td>
<td>72</td>
</tr>
<tr>
<td>Job Openings (millions, index)</td>
<td>7.5</td>
<td>82</td>
<td>7.0</td>
<td>78</td>
</tr>
<tr>
<td>Pain (subtracted)</td>
<td>35.7</td>
<td>36.5</td>
<td>44.5</td>
<td>8.8</td>
</tr>
<tr>
<td>Underemployment (% index)</td>
<td>7.2</td>
<td>32</td>
<td>7.0</td>
<td>31</td>
</tr>
<tr>
<td>Inflation (% index)</td>
<td>1.4</td>
<td>33</td>
<td>1.8</td>
<td>42</td>
</tr>
<tr>
<td>Taxes (% index)</td>
<td>11.9</td>
<td>50</td>
<td>11.7</td>
<td>48</td>
</tr>
<tr>
<td>Loan Delinquencies (% index)</td>
<td>2.1</td>
<td>29</td>
<td>1.8</td>
<td>25</td>
</tr>
</tbody>
</table>