**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 2020 PFSi Summary**

The PFSi measured 33.1 in the Third Quarter of 2020. It reflects a 3.8 point (10.2%) decline from the year ago level, and a 17.8 point (117%) increase from the earlier quarter. The PFSi is back to approximately just 0.3% below its level of 2020 Q1, and 4.9% above its average level in the second half of 2018.

The largest contributor to both the year-over year and the quarterly changes was the massive increase and then decrease in underemployment, which more than doubled versus the year-ago period and then completely reversed the increase for the current period.

Regarding the comparison with the 2019 Q3 period, the second most important factor was a 63.9% (23 point) decline in inflation, which offset much of the impact of the increase in underemployment. Additionally, there were less important declines in both taxes (5.8 points, 11.8%) and loan delinquencies (0.5 point, 1.9%). More significantly, the CPA Outlook declined 34.6% (16.6 points), more than offsetting the 15.9% increase (14.4 points) in the PFS 750 Market Index. Job Openings declined 10% (8.1 points), but Home Equity rose 4.3% (3.1 points).
For the quarterly comparison, after the massive (37.1 point) reversal of the underemployment number, the next most important change was a 19.5 point (36.6%) improvement in Job Openings. Next, the CPA Outlook increased 14.8 points (88.9%), which was mostly offset by a 14.5 point (50.5%) increase in Taxes. After that, the PFS 750 Market Index reached a new record by increasing 8.7 points (9.1%). Home Equity reached a new record by increasing 1.6 points (2.2%), but was offset by a 1.6 point (6.4%) increase in loan delinquencies. Inflation didn’t change at all for the quarter.

### Third Quarter 2020 Personal Financial Pleasure Index Top-Line Summary

The **Personal Financial Pleasure Index**, at 71.0, is now only 1.8 points (10.2%) below the year-ago level. It is 11.2 points (18.8%) above last quarter’s level. The PFS 750 Market Index hit a new record with a 9.1% increase in the quarter. So did Real Home Equity per Capita, with a 2.2% gain in the quarter. On the other hand, the CPA Outlook is still 36.4% below its year-ago level, down 16.6 points. It rose 14.8 points (88.9%) on the quarter. Job Openings are 10% lower than the year-ago level (down 8.1 points), although it rose 19.5 points (36.6%) on the quarter.

### Third Quarter 2020 Personal Financial Pleasure Index Detailed Summary

**PFS 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 14.4 points (15.9%). It gained 8.7 points (9.1%) in the quarter.

The strongest sectors, both in annual and quarterly comparisons, are two:

1. Information technology, powered especially by hardware, storage and peripherals; software, IT services
2. Consumer discretionary, powered by automobiles; internet marketing; leisure products; specialty retail.

Further, in the annual comparison other strong sectors were health care, especially technology and providers, and real estate. For the quarterly comparison communication services were strong, especially media.
**Real Home Equity per Capita:** This factor’s current value, which is based on data issued for April is 4.3% above the prior year value and 2.6% up from the previous quarter level. It reached an all-time high, 0.7% above its early 2006 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 4.5% per annum. This has been sufficient to exceed increases in mortgages outstanding, which have been advancing just under 3.0% per annum.

According to the Case-Shiller 20 city composite
- As of April, national home prices were 4.6% higher than the year-ago level.
- This estimate excludes Detroit, where data were unavailable because of Covid-19 problems.
- The strongest gains were in Phoenix (up 8.8%), Seattle (up 7.3%) and Minneapolis (up 6.4%).
- Twelve of the 19 cities reported gains.
- As of May the Case-Shiller national home price index registered a 4.5% annual gain, with Tampa replacing Minneapolis as the third strongest market.

**Job Openings per Capita:** The current reading is 10.0% below the prior year reading, but 36.6% up from the previous quarter level. The Third Quarter index is based on July data.

> Total nonfarm employment was 140.9 million in August, down 10.2 million from the year ago figure. There were 6.6 million job openings and 16.3 million unemployed.

In comparison to year ago levels, the job openings level decreased 8.57% (618,000) in total. The most significant decline in job openings on a percentage basis, in declining order, were in mining and logging (down 60%), real estate and rental and leasing (-45%), information (-44%), followed by durable goods manufacturing (-24%), accommodation and food services (-22%) and educational services (-19%). There was one category of job openings which increased notably in the year, retail trade, up 7.1%.

Regionally, job openings fell most in the West, down 15.5%, while the South and Midwest were down about 8% and the Northeast rose 1.4%.

**AICPA CPA Outlook Index:** The current reading is 34.6% below the prior year but 88.9% above the previous quarter. The survey was conducted from July 28 to August 18. All components improved versus the prior quarter, but none reached the year ago strength.

1. The overall CPA outlook index recovered to about 75% of its year-ago level.
2. This performance was led by IT spending, which recovered 89%, followed by organizational optimism at 81%, employment at 79% followed by training at 78%.
3. The weakest recovery, to only 62% of last year’s level, is optimism about the US economy.
4. Revenues and profits recovered to 67% of last year’s level.
5. On the CPA outlook, any level above 50 is positive. Only two of the components of the CPA outlook index remain below 50 for Q3: US economic optimism at 37 and profits at 47. In comparison, in the Q2 survey the only component registering above 50 was IT spending.
6. Anticipated rate of headcount change improved from -1.1% in Q2 to 0.0% in Q3.
7. Two specific industries declined further in Q3: real estate and property, where both optimism and hiring plans declined, and other healthcare (non providers) where again both optimism and hiring plans declined.
8. Seven industries expect further employment declines in Q3. They are (in declining order of declines): professional, scientific and technical services, real estate & property, wholesale trade, banking, not for
profit, transportation, distribution and warehousing, mining, natural resources and oil & gas, and hospitality and food services (incl. travel and leisure). They range from -0.1 to -3.6%.

9. The region with the strongest outlook was the south, which stood at 46%.

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 2020 Personal Financial Pain Index Top-Line Summary

Pain index at 37.9 is 1.9 points (5.4%) above the prior year but 5.3 points (12.2%) below the preceding quarter. For context, its average in 2018 was 41.7. In 2017 it was 43.9.

Third Quarter 2020 Personal Financial Pain Index Detailed Summary

Delinquencies on Loans: This factor’s current level is 1.9% lower than in the prior year, but 6.4% above the previous quarter’s level. This factor is based on April data. As of April delinquencies in all loans at commercial banks were 1.51%, up from 1.45% in April 2019, and down slightly from 1.52% reported in January. As of April, delinquencies on single family mortgages booked at commercial banks registered 2.49%, compared with 2.56% in April 2019 and 2.37% in January. Press reports not captured in the data we use indicates deterioration since then.

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 2.49% delinquencies on mortgages is still above the 2.1% that was typical between 1994 through 2003.

Underemployment: This factor has experienced the largest changes of any of the pain factors. It is registering 69 in August, down from a stunning 105.9 in May. This is a 35% decline, and it corresponds to an unemployment rate of 14.2%. However, it’s still 117% above the year ago level. This is the second quarter in a row for which underemployment is the dominant factor in the pain index.

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 (4.0%), Utah (4.1%), and Idaho (4.2%). South Dakota and Idaho had rates of 4.8%. North Dakota had 5%.
- Unemployment was highest in Nevada (13.2%), Rhode Island (12.8%), New York and Hawaii (both 12.5%).
- Unemployment was most severe in leisure and hospitality (21.3%), followed by mining and extraction (12.4%) and transportation and utilities (11.3%).
- The least impacted industries were finance (4.2% unemployment).

Inflation: Our blended inflation measure is 0.5% for the Third Quarter, versus 1.5% a year ago and 0.5% 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 August was 1.7%. In terms of the PFSi inflation index, the current index value is 13, down 63.9% from the year ago level and flat with the Q2 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 Q3 pain index relies on the August level.

Personal Taxes: The personal taxes index decreased 5.8 points (11.8%) from the year-ago level, but increased 9.1 points (26.7%) 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. They fell very gradually through the balance of 2018 before beginning to rise again in 2019. They dropped sharply in Q2, but partially rebounded in Q3. 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 August, which impacts the Q3 index, was 10.8% (up from Q2’s 10.3%).

The personal taxes index is calculated as personal taxes divided by personal income, both from the US national economic accounts. These 2 factors have moved in opposite directions in both quarterly and annual comparisons for the third quarter.

**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

<table>
<thead>
<tr>
<th>Component</th>
<th>3Q19</th>
<th>2Q20</th>
<th>3Q20</th>
<th>Change vs.</th>
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<tr>
<td></td>
<td>Data</td>
<td>Index</td>
<td>Data</td>
<td>Index</td>
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<tr>
<td><strong>Net Index</strong></td>
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<td><strong>Pleasure</strong></td>
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<td>59.7</td>
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<td>PFS 750 Market Index ($ trillion, index)</td>
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<td>CPA Outlook (index)</td>
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<td>Home Equity ($ trillion, index)</td>
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<td><strong>Pain (subtracted)</strong></td>
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<tr>
<td>Underemployment (% index)</td>
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<td>Taxes (% index)</td>
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<td>Loan Delinquencies (% index)</td>
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