

Financial Reality Index

July 2007

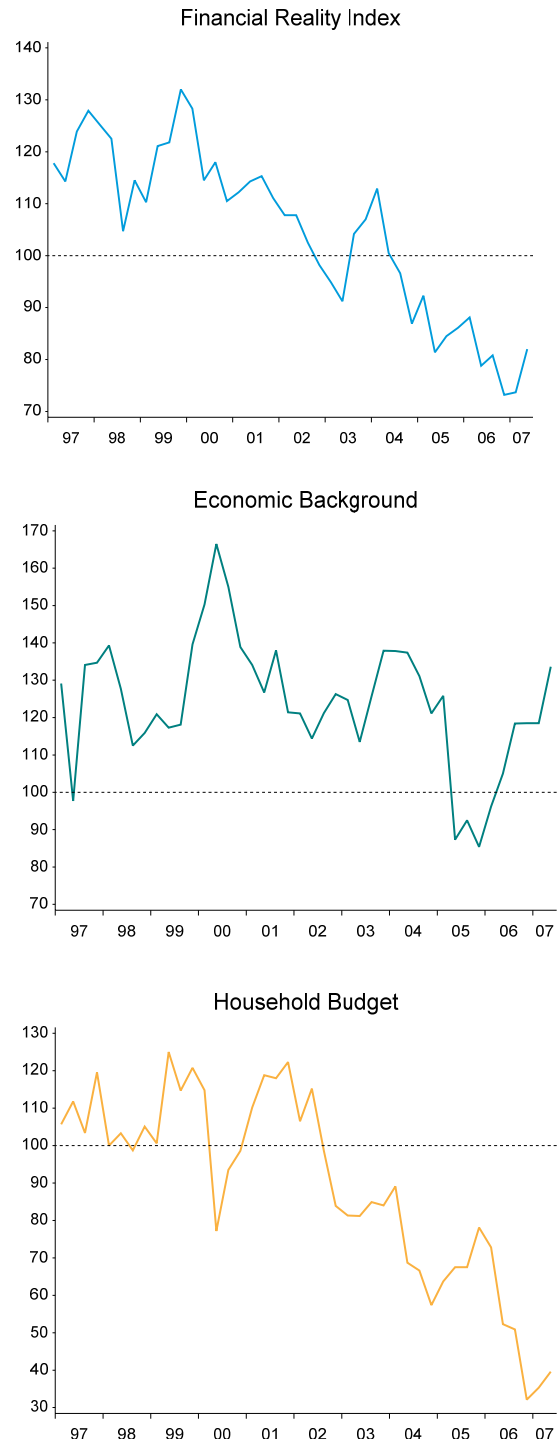
The Alliance Trust Research Centre's ongoing Financial Reality study shows that household budget pressures continue to weigh upon the consumer, despite favourable economic conditions and increasing wealth effects. The 10 year study looks closely at the 'reality' households actually face. The latest Q2 report measures an improvement within the subcomponents, with the Reality Index increasing from 73.7 to 82.0. This is the highest since Q1 2006. However, the index remains below the critical level of 100 and has been in negative territory for three years. Increases were recorded in all three components over the quarter, but the Household Budget component continues to weigh heavily on the index.

Economic Background

The underlying strength in the economy has boosted the background index. The economy is growing at a strong pace and this is currently sustaining jobs. The Economic Background remains the strongest component within the Financial Reality Index, at the highest level in 3 years, as it increased from 118.5 to 133.6 in Q2.

Household Budget

Despite an increase in the underlying economic background conditions the reality of day-to-day living and financial pressures is very different. Households are still being squeezed in terms of lower real earnings growth, but face higher mortgage payments and council taxes. Pressures have eased slightly in terms of the cost of basic goods and there has been a slight improvement in real disposable incomes, as inflation has fallen back from recent record highs. The biggest household budget pressure is currently coming from the increase in mortgage payments. The Household Budget Index improved only



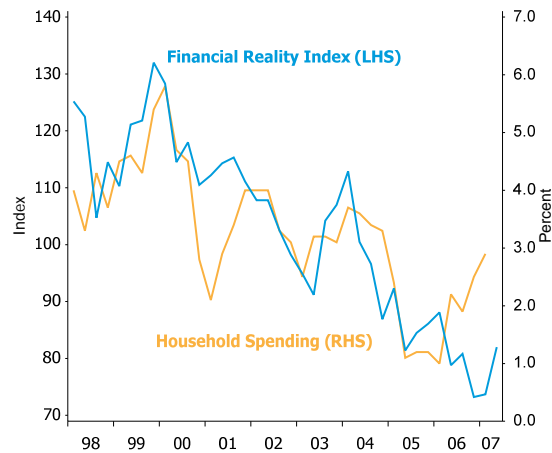
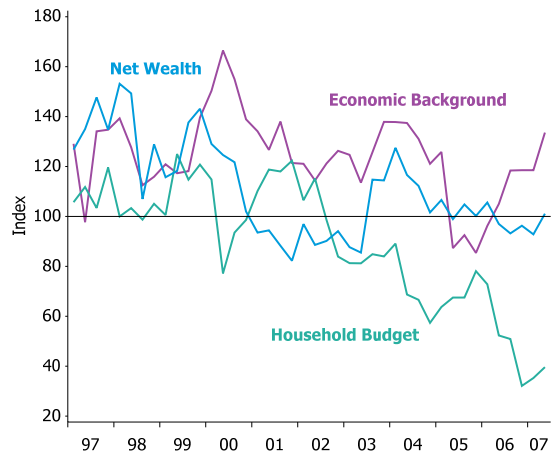
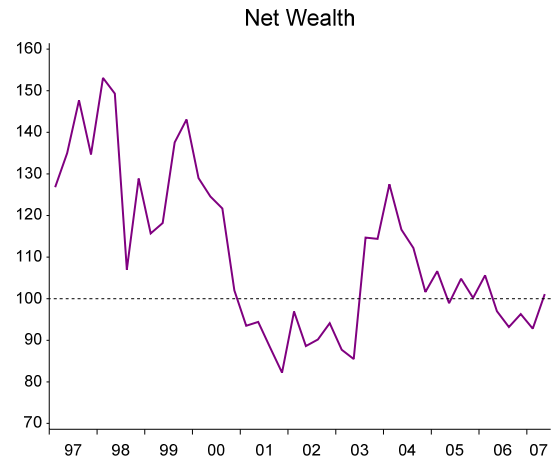
marginally over the quarter, rising from 35.3 to 39.6, but this is still the 3rd lowest on record.

Net Wealth

Households continue to experience contrasting pressures in terms of their wealth. Rising house prices and ongoing strength in the equity market are adding to personal wealth in Q2. House prices continue to increase, although the pace of growth is likely to slow as past interest rate increases take effect. The flipside of the argument is the increase in debt, which continues to weigh heavily upon households. However, Net Wealth strengthened over the quarter as the increase in debt was outweighed by rising house prices and equities. The Net Wealth Index increased from 92.8 to 101.1. This is the first move into positive territory since Q1 2006.

Financial Reality Index vs Household Expenditure

Consumers have increased spending over the past 12 months, despite a fall in the Financial Reality Index. Spending still remains out of synch with household balance sheets.



Contact

Shona Dobbie
Head of Research Centre

Alliance Trust PLC, Meadow House,
64 Reform Street, Dundee DD1 1TJ

Tel +44 (0)1382 201700
Fax +44 (0)1382 225133
Email contact@alliancetrust.co.uk
Web www.alliancetrust.co.uk

Alliance Trust PLC is the largest generalist investment trust company listed on the London Stock Exchange. The Research Centre is part of Alliance Trust and was formed to carry out economic and social analysis to deepen our understanding of economies, markets and socio-economic issues. The views, information and data in this publication are those of the Research Centre and this publication is not a financial promotion or recommendation to make any particular investment. Alliance Trust is not authorized to give financial advice.