

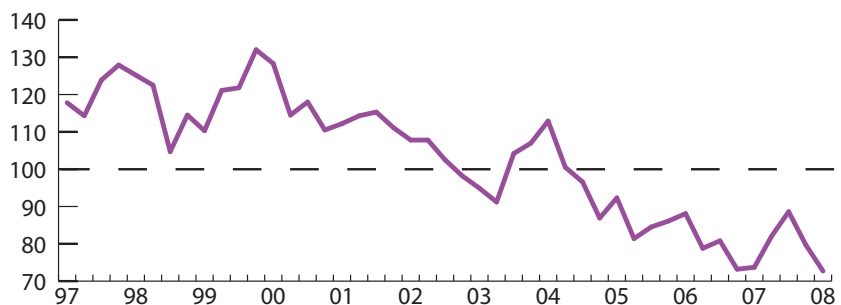
# Financial Reality Index – Q1 2008

April 2008



The latest research from the Alliance Trust Research Centre shows that households are facing increased headwinds in terms of their finances, as food and energy prices move higher, house price growth slows and equity markets decline. Our Financial Reality Index has fallen to a record low level, suggesting that the outlook for household spending is severely strained. Growth in consumer spending began to slow in the final quarter of 2007, and we expect this trend to continue over the rest of this year. The three sub-components of our index, which reflect the current economic background, household budget conditions and household net wealth all decreased over the quarter.

## Financial Reality Index



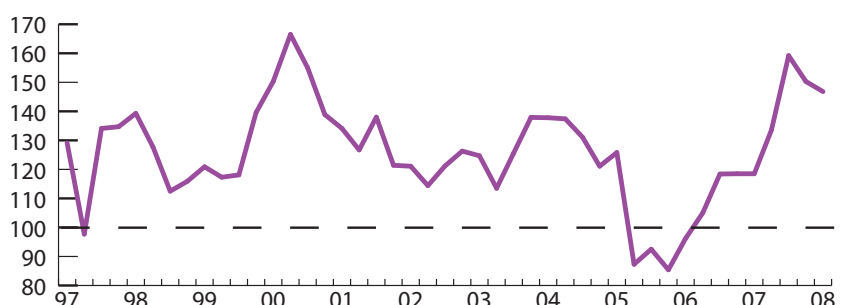
The Alliance Trust Financial Reality Index registered its biggest decline in almost two years, falling from 79.7 in Q4 (07) to just 72.7 in Q1 (08). This is the lowest reading recorded during the course of our 11 year study.

## Economic Background – Dropped from 150.3 to 146.8

The economic background is currently the strongest component of the Alliance Trust Financial Reality Index. This

recorded only a small decline during Q1 and remains well above the long term average level of 100. The rate of GDP growth began to soften and is currently running below 3% but the labour market is strong, and actually tightened further during Q1. This helped to contain the decline in the economic background index to just 3.5 points.

## Economic Background



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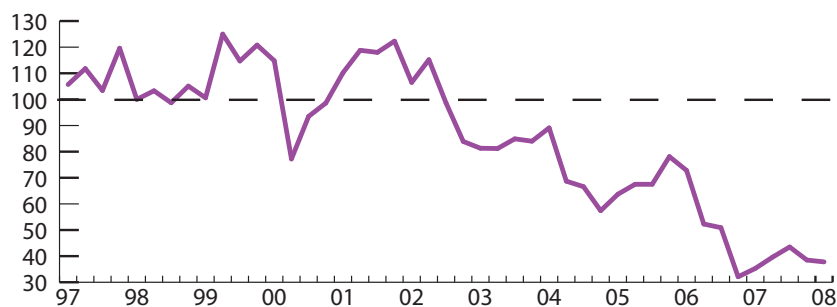
Alliance Trust PLC is the largest generalist investment trust company listed on the London Stock Exchange. The Research Centre is part of Alliance Trust and was formed to carry out economic and social analysis to deepen our understanding of economies, markets and socio-economic issues.

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 authorised to give financial advice.

### Household Budget – Slipped from 38.5 to 37.8

Households are now under extreme pressure in terms of day-to-day running costs, and the household budget is the weakest component of the Alliance Trust Financial Reality Index. This measure has been consistently below the critical level of 100 since Q3 2002, highlighting the steady increase in the financial burden which households have had to face. In addition to the ongoing burden of low real disposable income growth, council taxes and mortgage payments, this quarter's reading has been hit hardest by the recent rise in basic costs. Our research suggests that higher food and fuels prices are weighing heavily on household budget conditions.

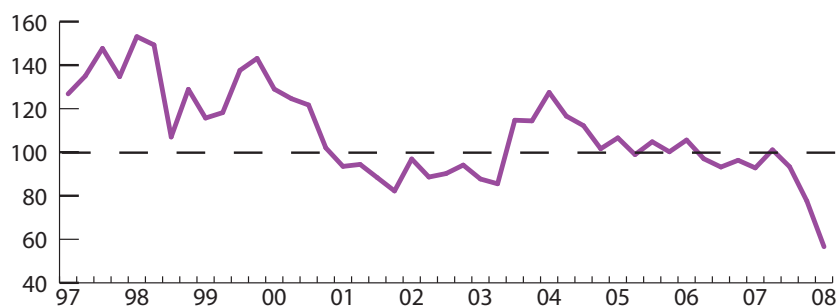
Household Budget



### Net Wealth – Dropped to a new record low in Q1, falling from 77.6 to 56.6

The wealth component dropped heavily in Q4 (07) and this trend continued during Q1 (08), pulling the net wealth index down to a record low. This downward move is due largely to the fact that the stock market had its poorest quarter in over four years, but it also reflects the fact that house price growth continues to cool and many households remain burdened by high levels of debt.

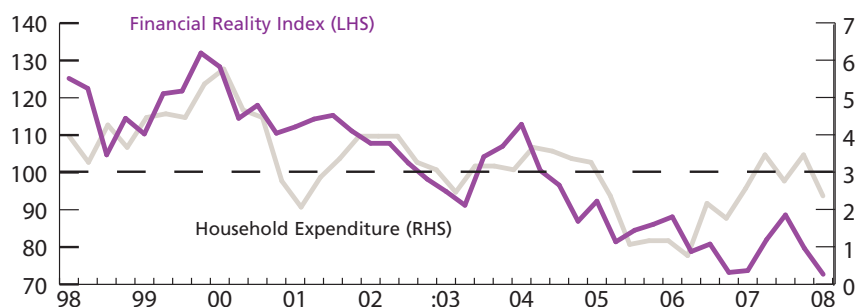
Net Wealth



### Summary and conclusions

The fall in our Financial Reality Index, to a record low level, gives us a considerable degree of concern about the outlook for consumer spending in the UK. Over the first 8 years of our study there was a very close relationship between our measure of financial conditions and actual consumer spending growth. This relationship broke down over the past two years as consumers continued spending, despite a worsening financial reality, and this resulted in ever higher levels of debt. We are now seeing some early signs that consumer spending growth is cooling, and we expect this trend to continue over the rest of this year, bringing it back in line with the financial reality.

Financial Reality Index vs Household Expenditure



Sources: ONS, DCLG, CML, ECOWIN and Inhouse Analysis.