

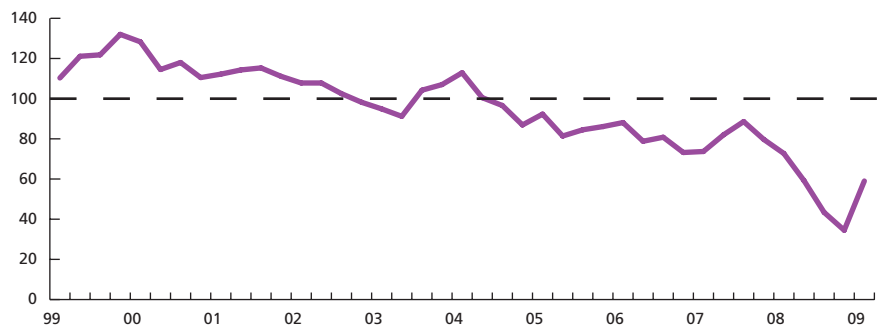
Financial Reality Index – Q1 2009

April 2009



The latest research from the Alliance Trust Research Centre shows that the financial situation facing UK households improved during Q1 2009, but remains weak. Economic activity has weakened, unemployment has increased, house prices have declined rapidly and equity markets have fallen sharply over the last year. But there is an improvement in household budgets, as headline inflation has fallen, boosting real income growth. Basic costs are weaker, and the drop in mortgage rates makes real estate related debt more affordable. As a result, our Financial Reality Index has improved from its record low of 34.5 to 59.0, the highest level since Q2 2008. But this remains well below the critical level of 100, suggesting that consumers will continue to reign in spending. Household expenditure contracted during Q4 2008, by 0.8%, confirming that consumers are reacting to the financial reality which they face. If unemployment continues to rise, and if income growth remains low, we are unlikely to see much improvement in the index over the rest of the year.

Financial Reality Index



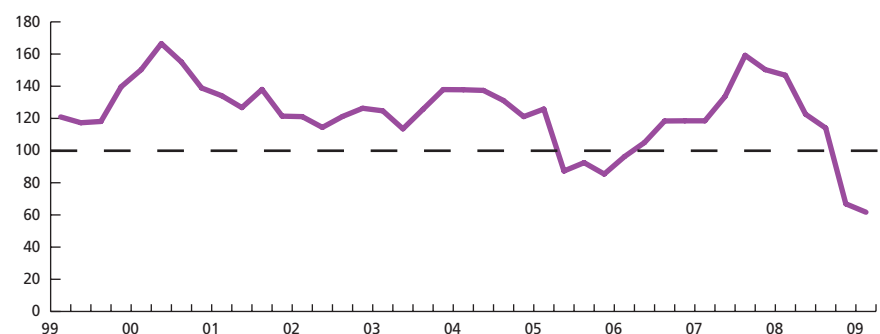
Financial Reality Index

The Alliance Trust Financial Reality Index improved from 34.5 in Q4 (08) to 59.0 in Q1 (09). Despite this improvement the index remains well below the critical level of 100.

Economic Background – Slipped from 66.9 to 61.7

The economic background component of the Alliance Trust Financial Reality Index has slipped further below the critical level of 100, reaching a record low of 61.7. GDP fell by 2.0% over the year to Q4 2008, and is expected to have been

Economic Background



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 authorised to give financial advice.

Financial Reality Index

equally weak during the first quarter of 2009. As a consequence, unemployment has continued to rise. The ILO unemployment rate has increased to 6.7%, as more than 2 million are currently unemployed, and this is expected to increase even further. These factors contributed to the index falling to its record low.

Household Budget – Improved sharply from 34.2 to 90.4

The household budget index improved significantly during Q1, moving upwards from its previous record low. The improvement is primarily due to lower levels of inflation which are helping to boost real income levels and to lower basic costs. Lower mortgage rates are also helping to ease some household budget pressures, although there has been little improvement as yet in terms of mortgage availability. This sharp improvement in the household budget index is clearly welcome, but the index is not yet giving us a truly positive signal. Unfortunately, the household budget index still remains below the critical level of 100, and has remained in negative territory since Q3 2002.

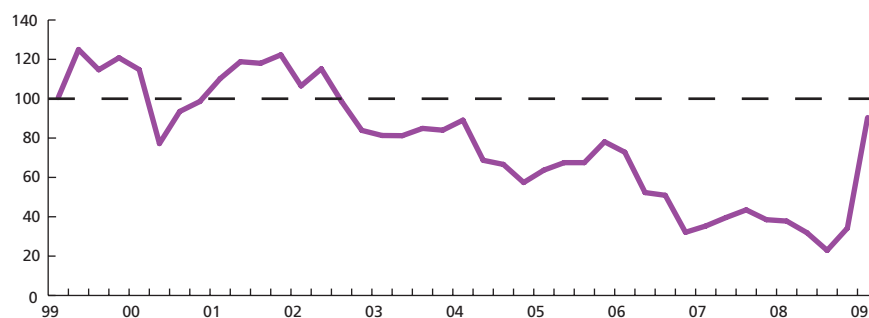
Net Wealth – Showed only minimal improvement, rising from 2.5 to 4.1

The net wealth index remains the weakest component of the Alliance Trust Financial Reality index for the third successive quarter, having improved only very slightly from its previous record low level of just 2.5. Further falls in house prices and ongoing weakness in equity markets continue to take their toll on the net wealth of households. House prices have fallen by more than 15% over the last year, according to both Nationwide and HBOS and the FTSE All-Share Index has fallen by more than 30% over the last 12 months. In addition, despite the rapid decline in official interest rates, high levels of debt still remain a serious issue for many households.

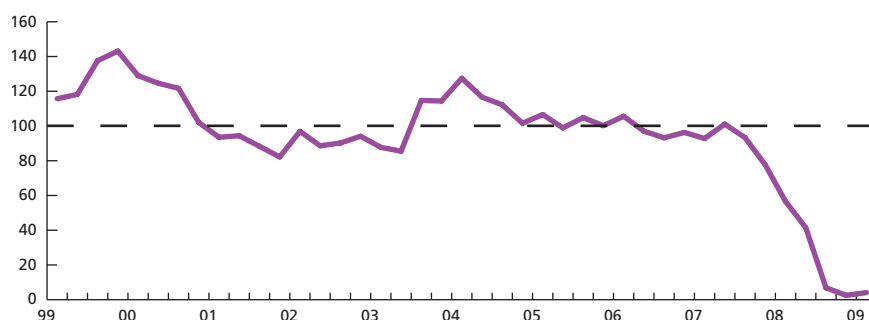
Summary and conclusions

Our Financial Reality Index has improved from its record low level which was recorded in Q4 2008, indicating that the financial pressures facing households are beginning to ease. However, the index remains well below the critical level of 100, indicating that conditions are still far from favourable and that consumer spending will remain muted over most

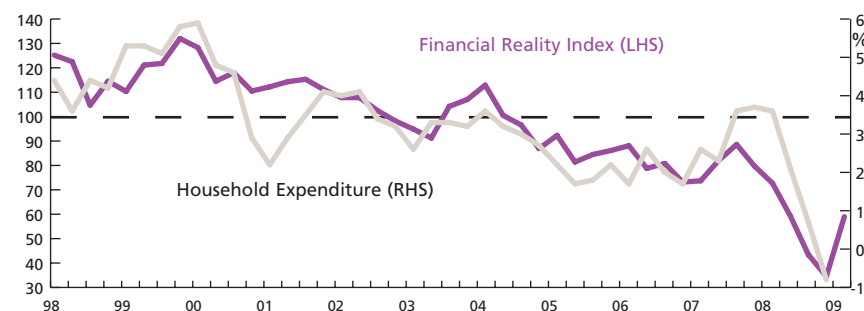
Household Budget



Net Wealth



Financial Reality Index vs Household Expenditure



Sources: ONS, DCLG, BoE, EcoWin and Inhouse Analysis.

of this year. For the second successive quarter, all three subcomponents remain below the critical level of 100.

Over the entire course of our 12 year study there has been a very close relationship between our Financial Reality Index and actual consumer spending growth as can be seen in the chart above. During 2007, the consumer continued to

spend, despite the worsening financial reality, resulting in ever higher levels of debt. But over the last year we have seen clear evidence that consumer spending has slowed sharply as consumers come to terms with the situation. Despite the slight improvement in our index, we still expect consumer spending to remain weak over the rest of this year.