

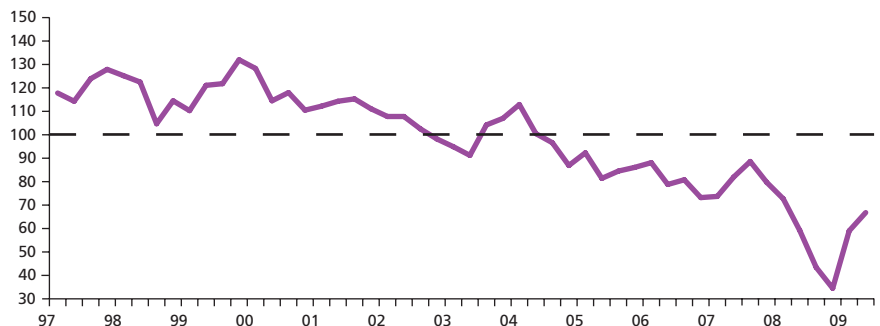
UK Financial Reality Index – Q2 2009

July 2009



The latest research from the Alliance Trust Research Centre shows that the overall financial situation facing UK households continued to improve during Q2 2009, but still remains generally subdued. Economic activity remains very weak and unemployment is increasing, house prices continue to decline and equity markets remain well below the levels recorded at this time last year. But, once again, there has been an improvement in household budget conditions, as headline inflation has fallen further, boosting real income growth, basic cost pricing pressures have also eased, and a further decline in mortgage rates means that real estate related debt is a bit more affordable. As a result, our Financial Reality Index has improved from 59.0 to 66.8, the highest level recorded since Q1 2008. However this reading remains well below the critical level of 100, suggesting that consumers will continue to reign in their spending. Household expenditure fell by 3.1% over the year to the end of March 2009, confirming that consumers had already reacted to the poor financial reality which they face. Our results suggest that we are unlikely to see any significant improvement in spending over the rest of the year.

UK Financial Reality Index



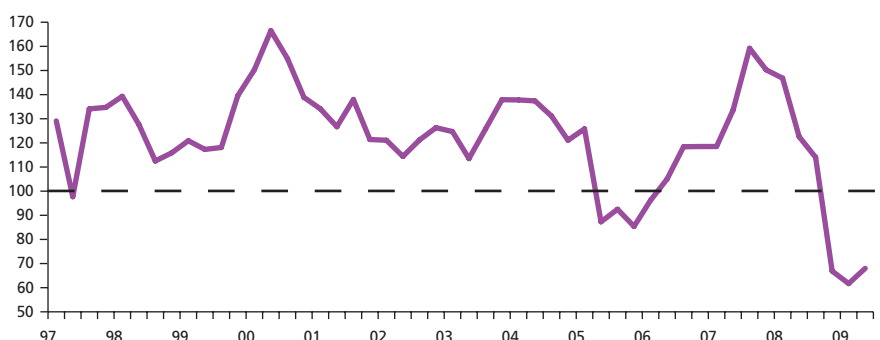
Financial Reality Index

The Alliance Trust Financial Reality Index improved from 59.0 in Q1 (09) to 66.8 in Q2 (09). Despite this improvement the index remains well below the critical level of 100.

Economic Background – Slight improvement from 61.7 to 68.0

The economic background component of the Alliance Trust Financial Reality Index showed a very small improvement to reach its current level of 68.0, but remains well below the critical level of 100 and has now been in negative territory for three successive

Economic Background



Contact

Shona Dobbie

Head of Research Centre

Alliance Trust PLC

8 West Marketgait, Dundee DD1 1QN

Tel +44 (0)1382 321000

Fax +44 (0)1382 321185

Email contact@alliancetrust.co.uk

Web www.alliancetrust.co.uk

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UK Financial Reality Index

quarters. GDP growth remains negative and, as a consequence, unemployment continues to rise. The ILO unemployment rate moved above 7.0% in recent months, and this is expected to increase even further. However, lower interest rates and inflation are helping some households to avoid insolvency, and this has helped drive the small improvement in the economic background component of the index.

Household Budget – Improved from 90.4 to 103.2

The household budget index improved once again during Q1 moving above 100 for the first time since Q2 2002. The improvement is primarily due to two factors. Firstly the decline in headline inflation helped to boost real income levels and to lower basic costs. Secondly, lower mortgage rates have helped to ease some household budget pressures although, unfortunately, mortgage availability remains constrained. This further improvement in the household budget index is clearly welcome, particularly as this component is now giving us a positive signal. This should remain the case as long as inflation remains subdued and interest rates remain low, but could quickly reverse as we move into the economic recovery and interest rates start to rise once more.

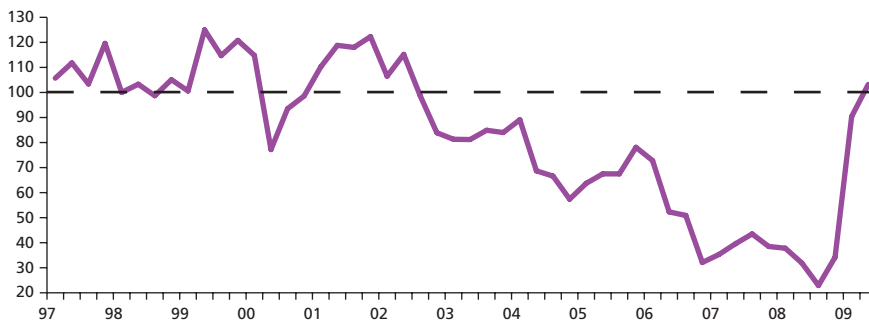
Net Wealth – Showed only minimal improvement, rising from 4.1 to 4.9

Net wealth remains by far the weakest component of the Alliance Trust Financial Reality index for the fourth successive quarter having improved only very slightly to a level of just 4.9. Ongoing weakness in house prices and poor annual performance in equity markets, continue to take their toll on the net wealth of households. House prices have fallen by almost 13% over the last year and the FTSE All-Share Index has fallen by more than 20% over the last 12 months. Finally, although interest rates have declined, and households have paid off a small amount of debt, the debt burden remains a serious issue for many households.

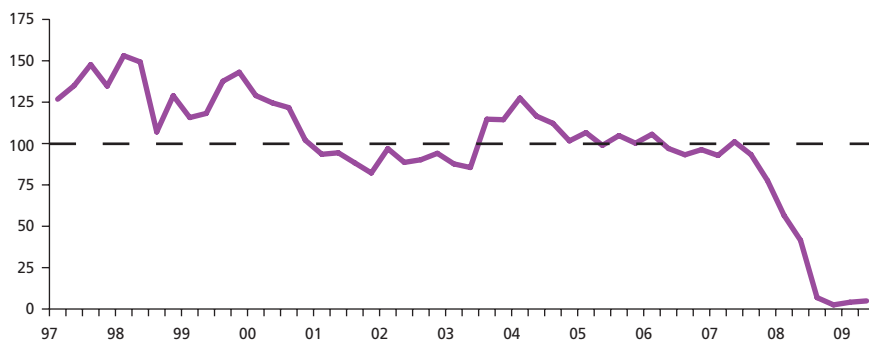
Summary and conclusions

Our Financial Reality Index has improved for the second successive quarter, indicating that the financial pressures facing households are continuing to ease. However, despite this improvement, the index remains well below the critical level of 100, indicating that conditions are still far from favourable. All three components showed some improvement over the quarter, but only the household budget component moved above 100, suggesting that conditions have turned positive. Over the entire course of our 12 year study there has been a very

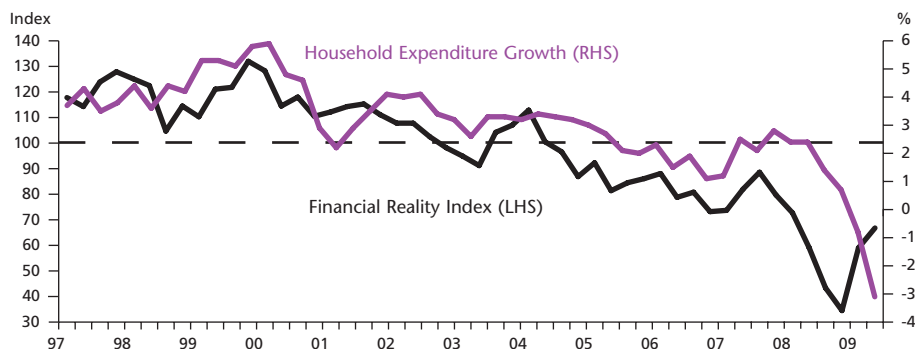
Household Budget



Net Wealth



Financial Reality Index v Household Expenditure



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 have come to terms with the weak situation. Despite the further improvement in our index during this quarter, we still expect consumer spending to remain weak over the rest of this year.

Sources: ONS, DCLG, BoE, ECOWIN and Inhouse Analysis