

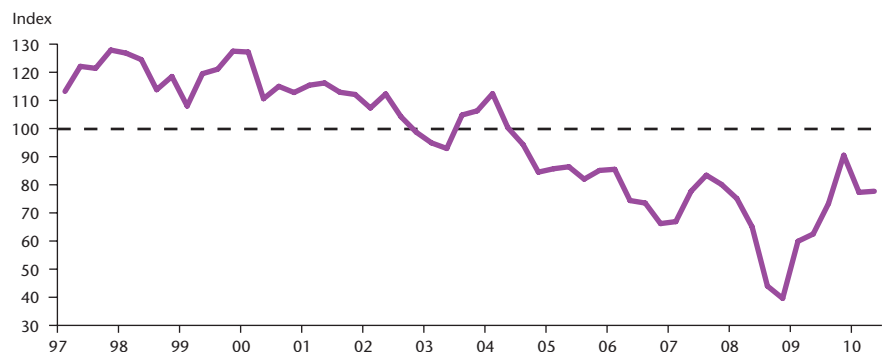
UK Financial Reality Index – Q2 2010

July 2010



The latest research from the Alliance Trust Research Centre shows that the overall financial situation facing UK households recorded only a very small improvement during Q2 2010. Although there has been some recovery in house prices and a gain in real earnings, basic costs have also increased, stock market performance has waned and the debt burden has risen. As a result of these moves our UK Financial Reality Index has risen from 77.3 to 77.7, remaining below the critical level of 100. This suggests that consumer spending will remain muted over the next few months. In addition, the recent Budget, and some of the relatively austere cuts proposed in public spending, increase the risk that spending proves to be even weaker, as households choose to rebuild savings.

UK Financial Reality Index



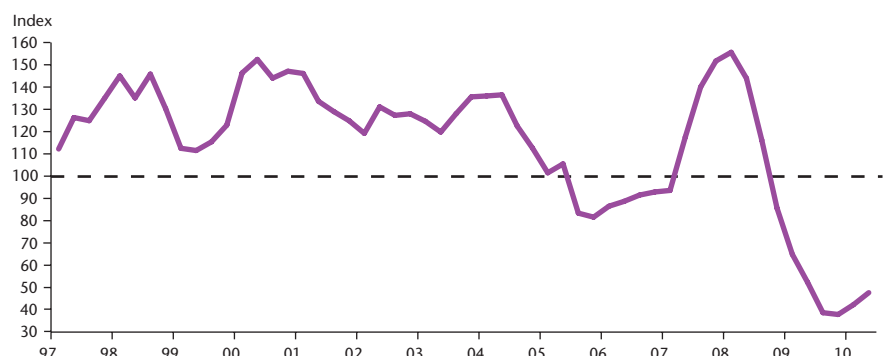
Financial Reality Index

The Alliance Trust Financial Reality Index increased from 77.3 in Q1 (10) to 77.7 in Q2 (10). Although the index has improved, it remains below the critical level of 100.

Economic Background – increased from 42.3 to 47.7

The economic background component of the Alliance Trust Financial Reality Index has increased to a level of 47.7 in Q2 (10), from a level of 42.3 in Q1 (10). Although the economic background index has improved once again, it has

Economic Background



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now been in negative territory for seven consecutive quarters. Economic activity, as measured by GDP, remains weak, the labour market has deteriorated slightly and there has been some improvement regarding insolvencies, but these still remain well above the long term average.

Household Budget – Fell from 72.2 to 75.3

The household budget index has improved, rising from 72.2 to 75.3. However, despite this increase, the index remains well below the critical level of 100, for the second successive quarter, indicating that conditions remain well below their long run average. The improvement during Q2 was driven largely by an increase in real earnings, and lower mortgage costs, but there has also been a worrying increase in basic costs, due largely to high petrol price inflation.

Net Wealth – Fell from 120.8 to 111.8

The net wealth index has declined for the first time since Q4 (08), falling from 120.8 to a level of 111.8. However, despite this fall, net wealth remains the strongest component in our Financial Reality Index, and is the only component recording a reading above the critical level of 100, suggesting that conditions remain better than the long run average. The deterioration in this index during Q2 was largely driven by a lower level of growth in the stock market, and a further increase in the burden of debt. House prices, helped by the lack of available supply, have continued to make gains, although there are concerns that this positive trend may be already coming to an end as supply starts to increase.

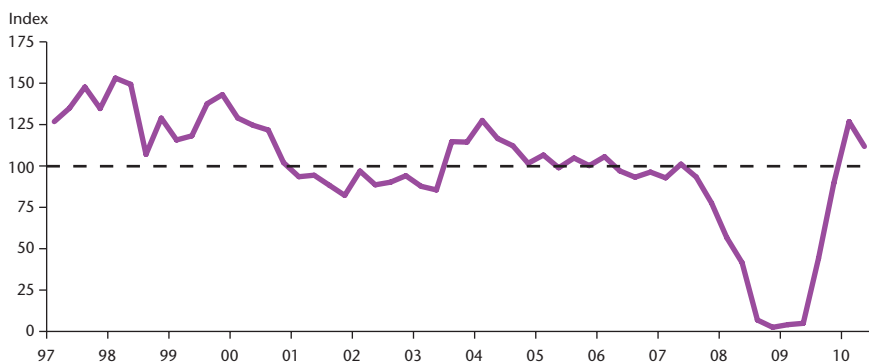
Summary and conclusions

Our Financial Reality Index has improved very slightly during Q2, having decreased quite sharply in the previous quarter. Although this indicates an improvement in the overall financial conditions facing households, the fact that the index is still below the critical level of 100 highlights the fact that conditions remain well below the long term average. Much of the improvement recorded in this particular

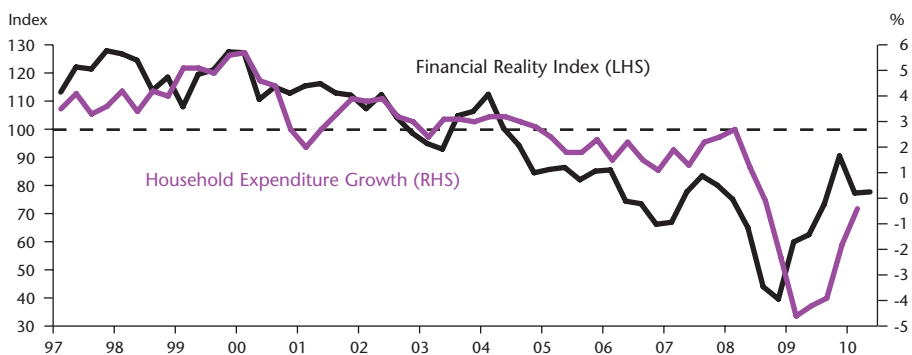
Household Budget



Net Wealth



Financial Reality Index v Household Expenditure



quarter has been due to an improvement in house prices and an increase in real earnings. But the gains were tempered by a lower level of stock market growth and a rise in basic costs.

Over the course of our 13 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. The current level of our index suggests that consumer spending will remain relatively weak over the next few months.

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