

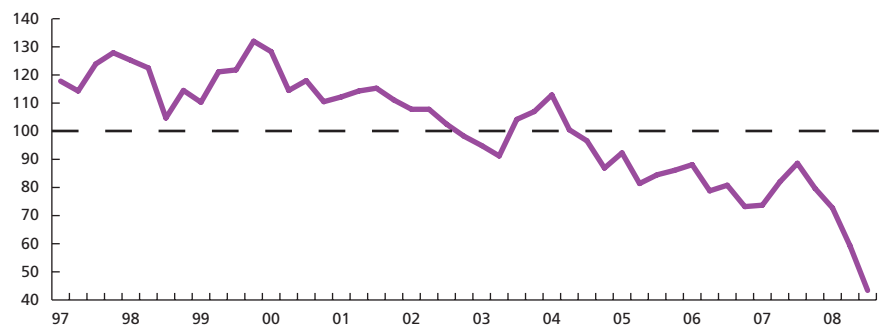
Financial Reality Index – Q3 2008

October 2008



The latest research from the Alliance Trust Research Centre shows that the financial situation facing UK households has deteriorated further. House prices are falling rapidly, equity markets continue to slide and higher gas and electricity bills are putting a strain on household budgets. Our Financial Reality Index has fallen to a record low level, indicating that the outlook for household spending is under significant stress. Growth in household expenditure slowed sharply in Q2 2008, reflecting the financial reality that consumers are now facing. As unemployment rises we could see the situation deteriorate even further in the coming quarters. 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



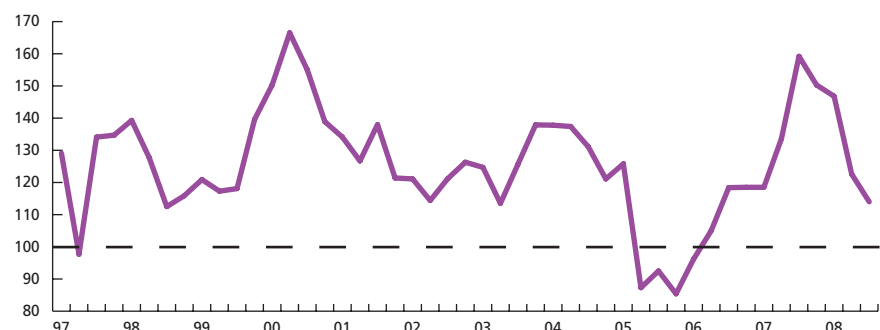
The Alliance Trust Financial Reality Index fell from 59.2 in Q2 (08) to just 43.4 in Q3 (08). This is the lowest reading recorded during the course of our 11 year study.

Economic Background – Slipped from 122.6 to 114.0

The economic background is the only component of the Alliance Trust Financial Reality Index to remain above the long term average of 100, despite the fact that

it posted its fourth consecutive quarterly decline in Q3 2008. Latest estimates show that GDP growth has slowed to the weakest pace in the history of our survey and unemployment is rising. So far the unemployment rate has increased from 5.2% at the start of the year to 5.7%. These factors contributed strongly to the index falling by 8.6 points over the quarter, taking it to the lowest since Q2 2006.

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.

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Household Budget – Dropped from 31.9 to a record low 22.9

The household budget index fell further in Q3, taking it to a new record low. This index has been consistently below the critical level of 100 since Q3 2002, as consumers have had to cope with rising prices for basic goods and falling real earnings. In particular the recent gas and electricity price hikes have pushed up basic costs and this is reflected in the fact that inflation for basic goods has jumped to 15%, almost three times higher than the official rate of inflation. These headwinds pushed components measuring basic costs and real earnings to record lows in Q3 2008.

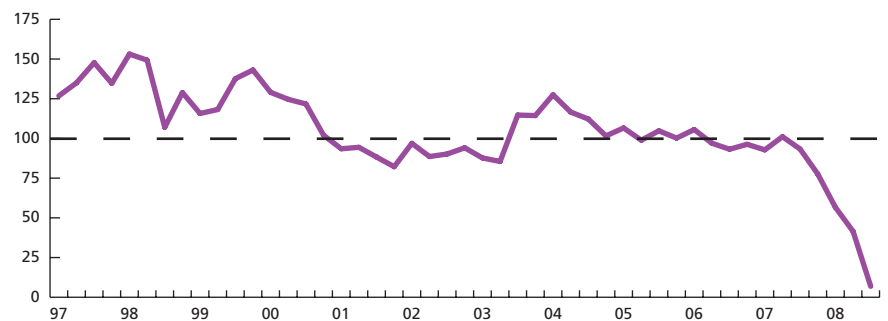
Household Budget



Net Wealth – Dropped to a new record low in Q1, falling from 41.5 to 6.9

The net wealth index is now the weakest component of the Alliance Trust Financial Reality index after dropping by 34.6 points over the last quarter. The largest drags on the index came from falling house and equity prices which are drastically reducing the net wealth of households. Our index shows that house prices are falling at the fastest pace in the history of our survey and equity prices are at their lowest since Q2 2003. Levels of debt also remain an issue for households.

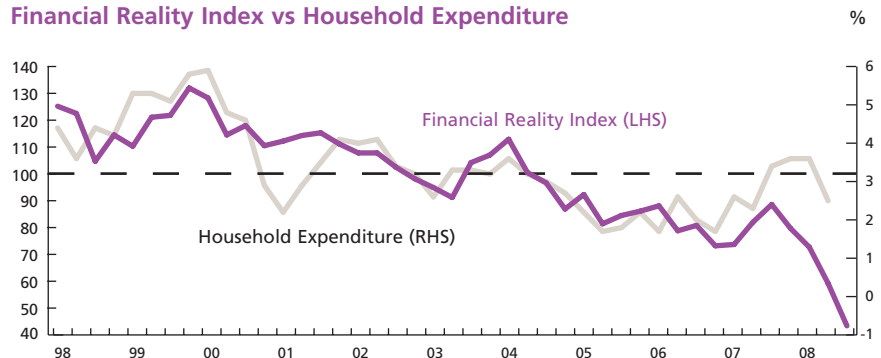
Net Wealth



Summary and conclusions

Our Financial Reality Index fell to a new record low level in Q3, increasing further our concerns 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 few years as consumers continued spending, despite a worsening financial reality, resulting in ever higher levels of debt. However, we are beginning to see signs that consumer spending is slowing as consumers come to terms with their financial reality. We expect to see household consumption growth continuing to slow over the coming quarters, moving more in line with our financial reality index.

Financial Reality Index vs Household Expenditure



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