

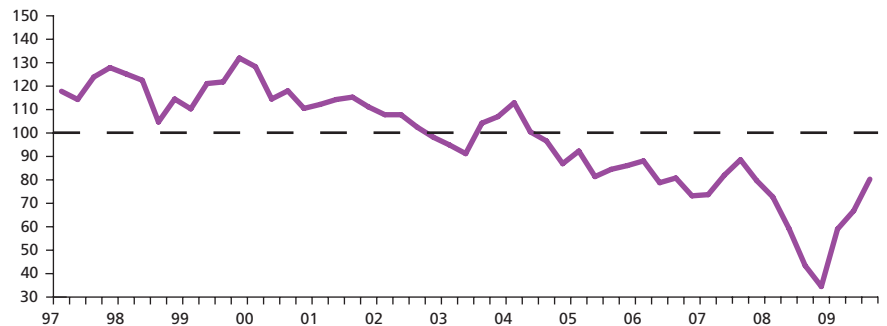
UK Financial Reality Index – Q3 2009

October 2009



The latest research from the Alliance Trust Research Centre shows that the financial situation facing UK households continued to improve during Q3 2009, rising for the third consecutive quarter, but the overall assessment remains weak. Economic activity is still subdued and unemployment continues to rise, albeit at a slower pace, but the lower level of inflation means there are fewer upward pressures on basic costs, and the equity market has improved sharply over the past few months, improving the level of household wealth. As a result of these moves our Financial Reality Index has risen from 66.8 to 80.3, the highest level recorded since Q3 2007. However this reading remains well below the critical level of 100, suggesting that consumers will continue to reign in their spending in the coming months. Household expenditure fell by 3.6% over the year to the end of June 2009, illustrating the extent to which consumers have already reacted to the relatively poor financial reality. Our results continue to suggest that we are unlikely to see any significant improvement in consumer spending over the next few months.

UK Financial Reality Index



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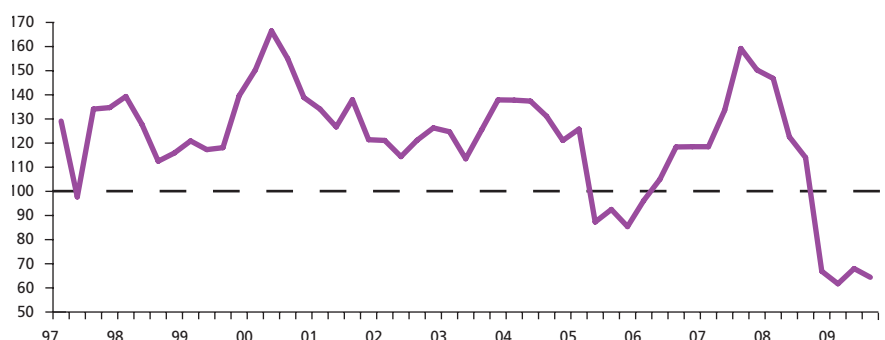
Financial Reality Index

The Alliance Trust Financial Reality Index improved from 66.8 in Q2 (09) to 80.3 in Q3 (09). Despite this further improvement the index remains well below the critical level of 100.

Economic Background – Further deterioration from 68.0 to 64.4

The economic background component of the Alliance Trust Financial Reality Index reversed last quarter's improvement and fell during Q3, from 68.0 to a

Economic Background



UK Financial Reality Index

level of 64.4. This index has now been in negative territory for 4 successive quarters. GDP growth remains poor and, as a consequence, unemployment continues to rise, although at a slower rate. The ILO unemployment rate is currently 7.9% and is expected to move even higher over the next few months. Although the low level of interest rates continues to help some households avoid insolvency, the positive impact of this has been outweighed by the weak level of economic activity and the poor labour market, causing the economic background component to deteriorate once more.

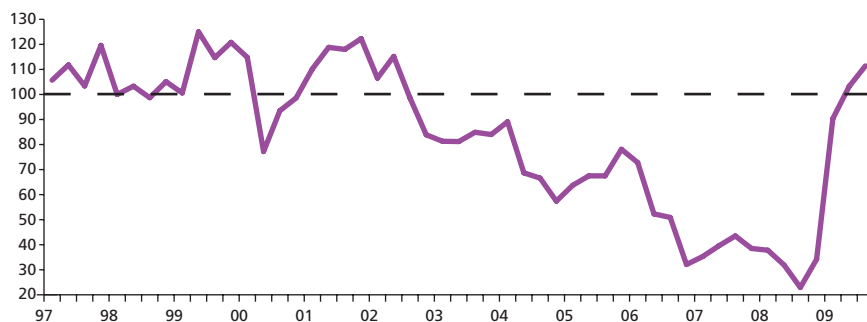
Household Budget – Improved from 103.2 to 111.4

The household budget index improved once again during Q3 remaining above the critical level of 100 for the second successive quarter. The decline in the rate of inflation has caused an improvement in real earnings and the cost of basic goods and services has declined, leaving consumers with an increased level of income available for spending on more discretionary items. For the second successive quarter, the household budget index is the only component of our index which is giving a positive signal. This is clearly welcome and should remain the case as long as inflation remains subdued and interest rates stay low.

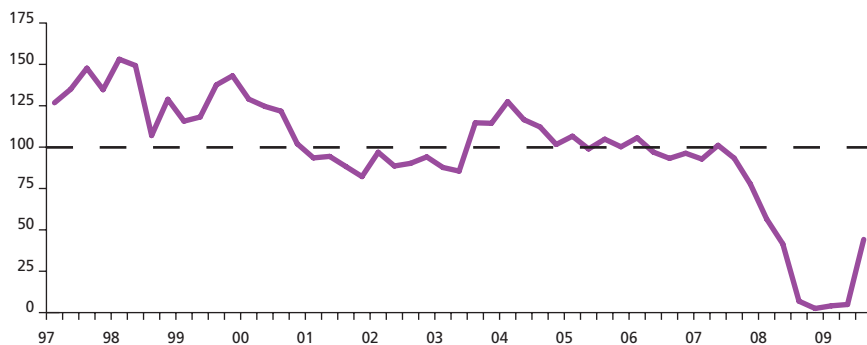
Net Wealth – Sharp improvement from 4.9 to 44.2

The net wealth index has recorded a sharp improvement during Q3, rising from 4.9 to 44.2 but, despite this welcome move, this remains the weakest component in our Financial Reality Index. There was a modest improvement in house prices during the quarter, due predominantly to a lack of available supply, but the outlook for house prices remains unclear, particularly once supply starts to increase. Households have made some more progress in reducing debt during the quarter, helped by the relatively low level of interest rates, but the overall burden remains high and further progress is probably required. The biggest driver of the improvement in this component during Q3 is the stock market, reflecting the fact that the FTSE All-Share has moved back into positive territory, rising 6% over the last 12 months.

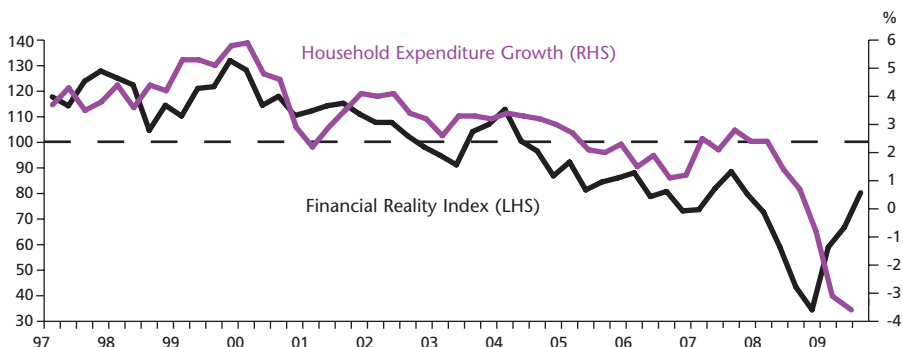
Household Budget



Net Wealth



Financial Reality Index v Household Expenditure



Summary and conclusions

Our Financial Reality Index has improved for the third successive quarter as the financial pressures facing households continue to ease. However, despite this ongoing improvement, the headline index remains well below the critical level of 100, indicating that the financial conditions facing households are still far from favourable. Although the household budget component remained above 100 for the second successive quarter, the net wealth component remains relatively weak and there was renewed deterioration in the component reflecting the economic background.

Over the 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. Over the last year we have seen clear evidence that consumer spending has dropped sharply as consumers have come to terms with their weak financial situation. Despite the further improvement in our index during this quarter, it still remains below the critical level of 100 and we therefore expect consumer spending to remain generally weak over the next few months.

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