

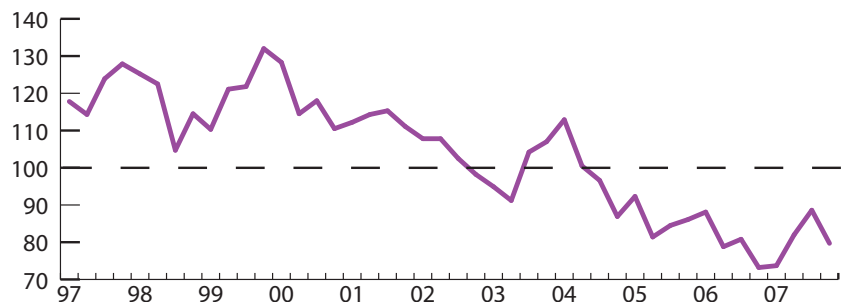
# Financial Reality Index – Q4 2007

January 2008



The latest research from the Alliance Trust Research Centre shows that households faced increased headwinds in terms of their finances, as food and energy prices moved higher and mortgage payments increased. This was despite strong background conditions such as economic growth and low unemployment. The decline in our Financial Reality Index highlights the build up in financial pressures and suggests that the outlook for household spending is increasingly strained. We therefore expect consumer spending growth to slow further over the next 12 months. The three sub-components of our index, which reflect the economic background, household budget conditions and household net wealth all decreased over the quarter. This is the first combined fall in all three categories since Q4 2004.

## Financial Reality Index



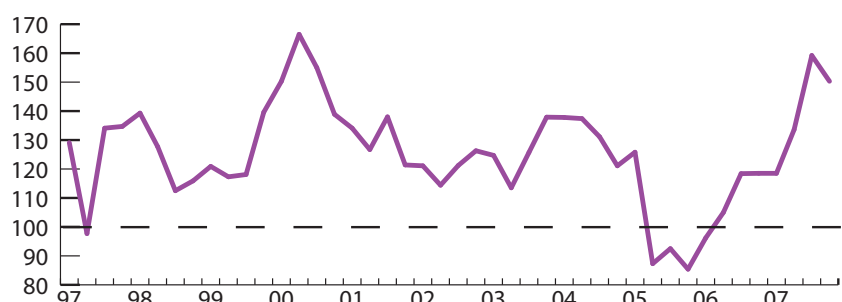
The Alliance Trust Financial Reality Index registered its biggest decline in almost two years, falling from 88.6 in Q3 to just 79.7 in Q4. This is the fourth lowest reading on record during our 11 year study.

2007. The data available showed that we still had strong economic growth and a low level of unemployment. However, despite the ongoing strength in these fundamental factors, there are some weaknesses, such as a persistently high level of insolvencies. Insolvencies are expected to push even higher over the next 12 months as the economy begins to slow significantly.

## Economic Background – Dropped from 159.2 to 150.3.

The UK economy remained relatively healthy as we entered the last quarter of

## 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](mailto:contact@alliancetrust.co.uk)

**Web** [www.alliancetrust.co.uk](http://www.alliancetrust.co.uk)

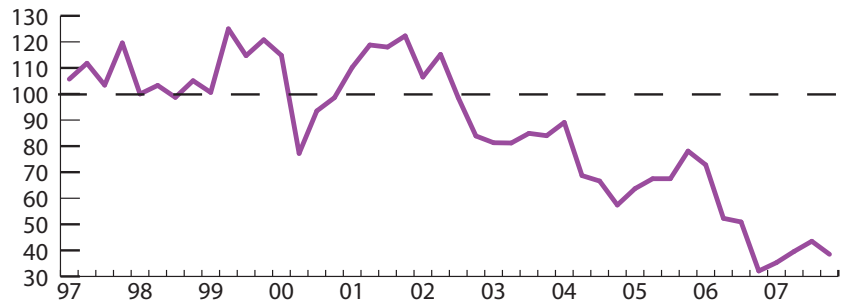
Alliance Trust PLC is the largest generalist investment trust company listed on the London Stock Exchange. The Research Centre is part of Alliance Trust and was formed to carry out economic and social analysis to deepen our understanding of economies, markets and socio-economic issues.

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### Household Budget – Slipped from 43.5 to 38.5.

Households remain under extreme pressure in terms of day-to-day running costs, making the household budget the weakest component of the Alliance Trust Financial Reality Index. This measure has been consistently below the critical level of 100, since Q3 2002, highlighting the scale of the burden facing households. Despite small improvements in earnings, higher food and fuels prices and increased monthly mortgage payments weighed heavily on household budget conditions.

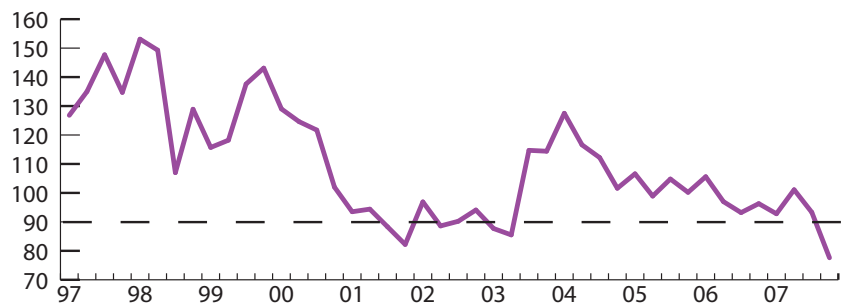
Household Budget



### Net Wealth – Dropped to a record low in Q4, falling from 93.3 to 77.6.

The wealth component has dropped heavily for the first time since Q4 2000 and has reached a record low during the course of our 11 year study. This was due to a combination of worsening factors. The stock market had its poorest quarter in over four years, debt levels continue to increase and house price growth looks to be cooling, possibly quite sharply.

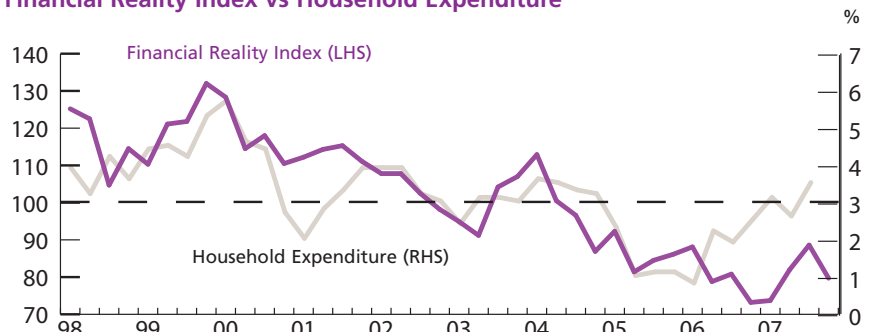
Net Wealth



### Summary and conclusions

This further deterioration in our Financial Reality Index gives us some concern about the outlook for consumer spending in the UK. Over the course of our study there has been a very close relationship between our measure of financial conditions and actual consumer spending growth. However, this relationship has broken down over the past two years as consumers have apparently spent beyond their means, resulting in ever higher levels of debt. We expect consumer spending growth to slow over the next year, bringing it back in line with the financial reality.

Financial Reality Index vs Household Expenditure



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