

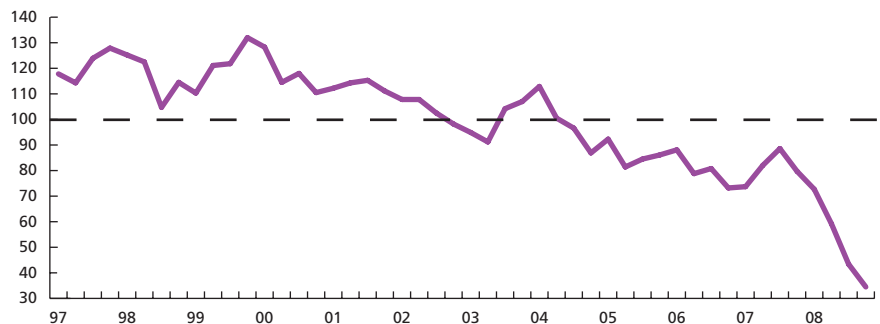
Financial Reality Index – Q4 2008

January 2009



The latest research from the Alliance Trust Research Centre shows that the overall financial situation facing UK households has deteriorated even further. UK house prices are falling rapidly, equity markets continue to slide and the economic background has turned negative. Our Financial Reality Index has fallen to a new record low level, indicating that the outlook for household spending remains under considerable stress. Growth in household expenditure continued to slow sharply in Q3 2008, to a level of less than 1%, indicating that consumers are reacting to the financial reality which they face. If unemployment continues to rise, as we expect it to do, we could see the situation deteriorate even further during 2009. The household budget component of our index improved very slightly during Q4, reflecting lower inflation and large cuts in interest rates, but this was not enough to compensate for the marked deterioration in both the current economic background and household net wealth.

Financial Reality Index



Financial Reality Index

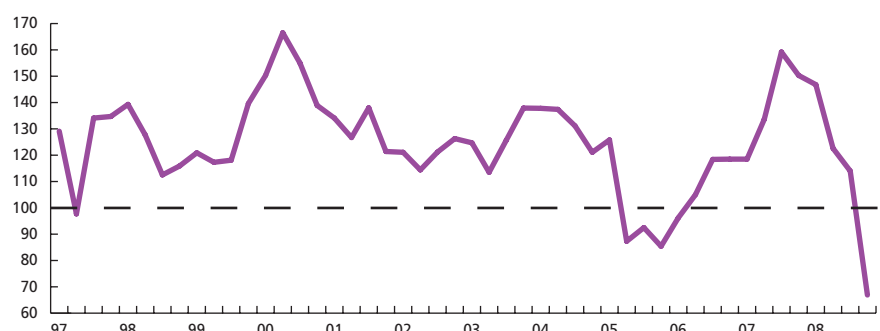
The Alliance Trust Financial Reality Index fell from 43.4 in Q3 (08) to just 34.5 in Q4 (08). This is the lowest reading recorded during the course of our 12 year study.

Index has slipped significantly to a level well below the critical level of 100, illustrating the extent to which the economic situation deteriorated during Q4 (08). Latest estimates show that GDP growth has slowed to the weakest pace in the 12 year history of our survey and unemployment has begun to rise. The ILO unemployment rate has increased from 5.2% at the start of the year to 6.0% at the start of Q4 and is expected to rise much further. These factors contributed

Economic Background – Slipped from 114.0 to 66.9

The economic background component of the Alliance Trust Financial Reality

Economic Background



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Financial Reality Index

to the index falling by more than 47 points over the quarter, taking it to its record low.

Household Budget – Improved from a record low 22.9 to 34.2

The household budget index improved slightly during Q4 moving upwards from its previous record low. The improvement is due to lower inflation which is beginning to boost real income levels. Falling mortgage rates are also beginning to ease some household budget pressures, and the decline in petrol prices has helped to lower the cost of basic goods and services. The improvement in the household budget index is clearly welcome, but more is still needed as this index remains below the critical level of 100, and has been in negative territory since Q3 2002.

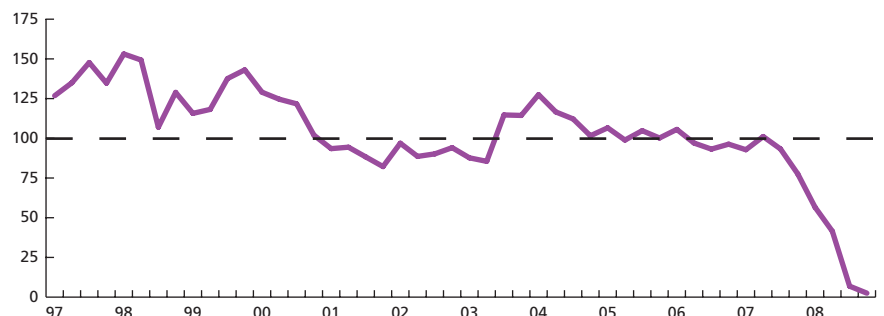
Household Budget



Net Wealth – Dropped to a new record low in Q4, falling from 6.9 to 2.5

The net wealth index remains the weakest component of the Alliance Trust Financial Reality index for the second successive quarter and has now dropped to a new record low level of just 2.5. This reflects the fact that further falls in house and equity prices continue to reduce the net wealth of households. House prices are currently falling at the fastest pace in the history of our survey and equity prices fell over 30% during 2008. Despite the rapid decline in official interest rates, high levels of debt remain a serious issue for many households.

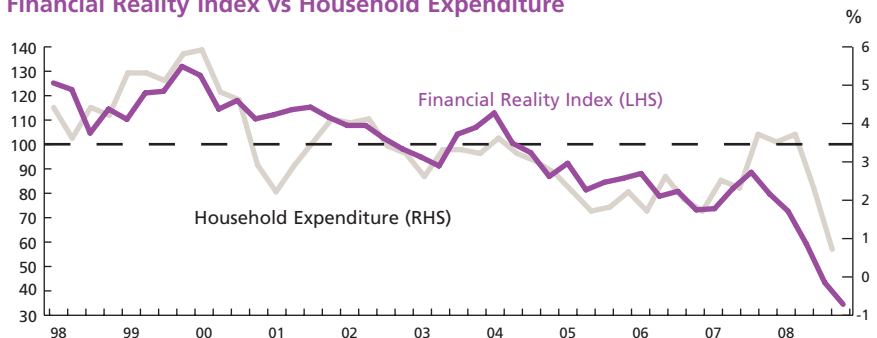
Net Wealth



Summary and conclusions

Our Financial Reality Index fell to a new record low level in Q4, suggesting even more deterioration in UK consumer spending over the next few months. In fact, this is the first time since Q2(05) in which all three subcomponents have been below the critical level of 100. Over the course of our 12 year study there has been a very close relationship between our measure of financial conditions and actual consumer spending growth as can be seen in the chart to the right. During 2007, the consumer continued to spend, despite the worsening financial reality, resulting in ever higher levels of debt. But we are now seeing clear evidence that consumer spending is slowing sharply as consumers come to terms with the situation. We expect this trend to continue over the coming quarters, and might even see consumer spending growth turn negative for the first time since 1992.

Financial Reality Index vs Household Expenditure



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