

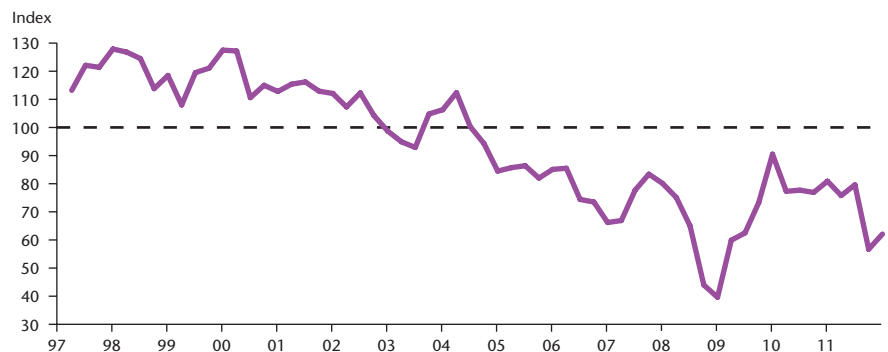
UK Financial Reality Index – Q4 2011

January 2012



The overall financial situation facing UK households improved slightly in Q4, following the largest decline on record in Q3, according to the latest research from the Alliance Trust Economic Research Centre. Our UK Financial Reality Index increased from 56.7 to 62.1, but has remained below the critical level of 100 since Q3 2004. The improvement in Q4 was driven by an increase in the household budget index and the net wealth index but, despite this, all three sub-indices remained below 100 for the second consecutive quarter. The economic background index has fallen for two successive quarters due to a continued slowdown in GDP growth and increases in the unemployment rate. The household budget index reported its first increase since the start of 2011, however high levels of inflation, and muted wage growth, continue to place pressure on household budgets. The net wealth index is the weakest component for the second consecutive quarter despite a slight increase in Q4. The improvement mainly reflects small increases in both house prices and equity markets.

UK Financial Reality Index



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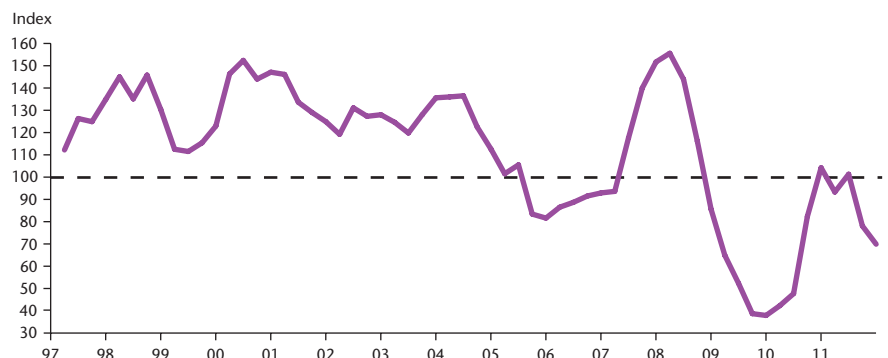
Financial Reality Index

The Alliance Trust Financial Reality Index rose from 56.7 in Q3 2011 to 62.1 in Q4 2011. The index has remained below the critical level of 100 since Q3 2004.

Economic Background – fell from 78.1 to 69.9

The economic background component of the Alliance Trust Financial Reality Index has fallen from 78.1 in Q3 to a level of

Economic Background



69.9 in Q4. The index has fallen for two quarters now, and is at its lowest level since Q2 2010. This is due to a deterioration in GDP growth and a continued rise in the unemployment rate. This further fall in the economic background index highlights the continued tough conditions facing households.

Household Budget – rose from 48.8 to 61.7

The household budget index has increased from 48.8 to 61.7, the first increase since the start of 2011. The index is, however, still below the critical level of 100 and has been in negative territory since Q1 2010. In Q4, the index increased due to the combination of an increase in the growth rate of nominal disposable income, but also a fairly significant statistical revision. However, higher inflation and muted wage growth continue to weigh heavily on household budgets. The good news is that as headline inflation eases in 2012, we expect this to provide a positive boost to household budgets.

Net Wealth – increased from 48.6 to 54.9

The net wealth index has increased slightly in Q4, rising from 48.6 to 54.9. Despite this, this sub-index is the weakest component of our Financial Reality Index for the second consecutive quarter. The improvement in Q4 was due to a small increase in house prices and a small gain in the equity market index. All three components of the net wealth index are still well below the critical level of 100, and therefore lower than their long run averages.

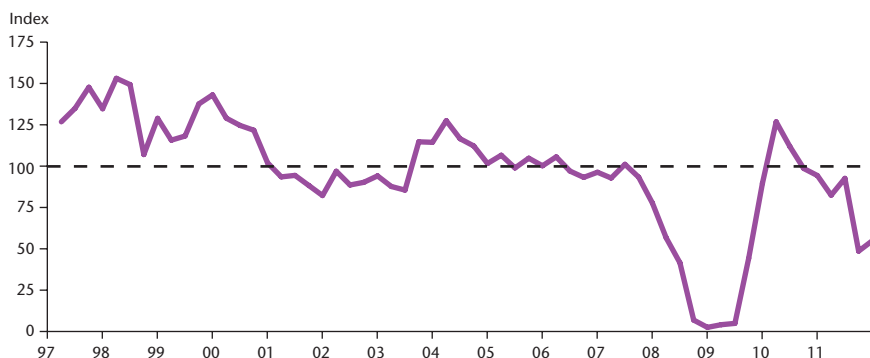
Summary and conclusions

Our Financial Reality Index posted a small improvement in Q4, after a sharp decline in the previous quarter. But the index remains well below the critical level of 100, indicating that conditions are still weaker than the long run average. All three sub-indices are also below 100 for the second consecutive quarter. The net wealth index is still the weakest component, despite small gains in house prices and equity markets. Household budgets experienced a bit of relief in Q4,

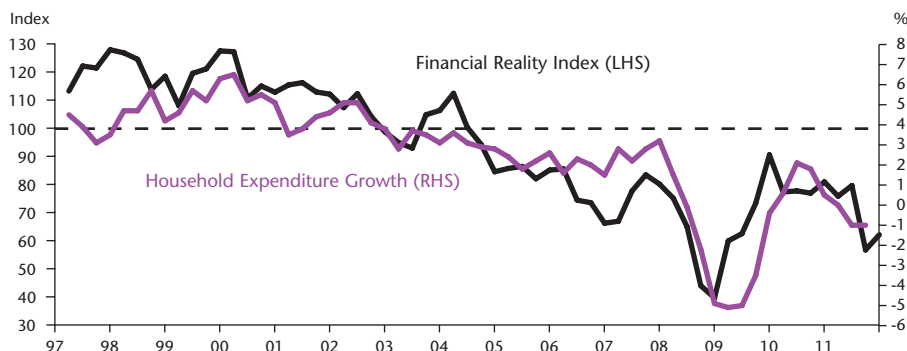
Household Budget



Net Wealth



Financial Reality Index v Household Expenditure



but high levels of inflation, and muted wage growth, mean that households continue to suffer a loss of purchasing power. The economic background index fell further over the quarter, dampened by a slowdown in GDP growth and a further deterioration in the labour market.

consumer spending growth as we move into 2012. This in turn is negative for overall UK GDP growth.

Sources: ONS, DCLG, BoE, Reuters EcoWin and Inhouse Analysis

Over the course of our 15 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. Consumer spending declined 1% in Q3 from a year earlier, with growth having been negative for two quarters now. Our Financial Reality Index points to a further deterioration in