

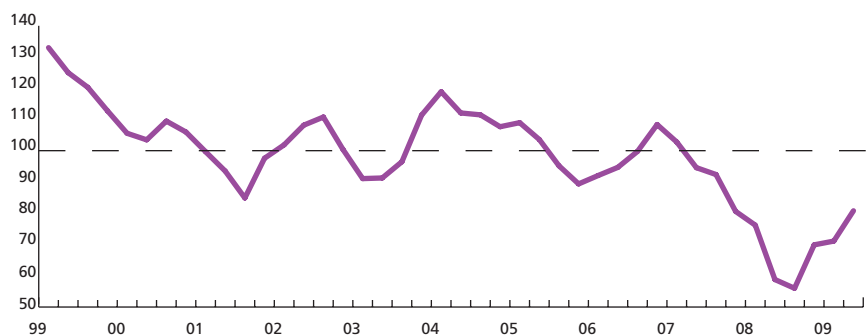
US Financial Reality Index - Q2 2009

July 2009



The latest research from the Alliance Trust Research Centre shows that the overall financial situation facing US households showed another improvement during Q2, but remains generally weak. Economic activity has fallen further, unemployment has increased sharply, and mortgage delinquencies have continued to rise, all adding to the pressures currently facing households in the US. But the drop in inflation has boosted real earnings, lower house prices and mortgage rates are making homes more affordable and the cost of basic goods and services has fallen sharply. As a result, our Financial Reality Index has improved from 71.1 to 80.8 but remains below the critical level of 100, suggesting that consumers will remain cautious in their spending over the rest of this year.

US Financial Reality Index



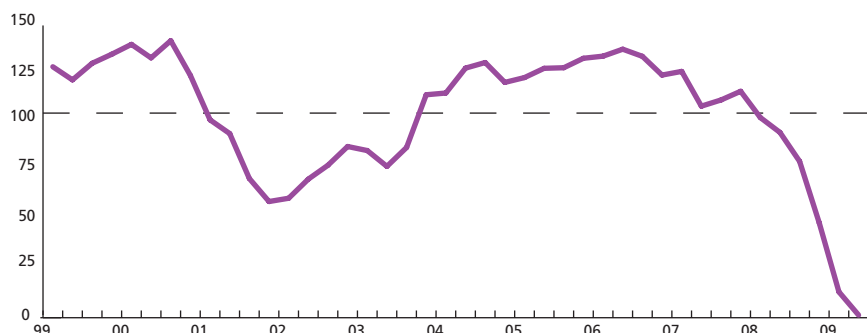
The Alliance Trust US Financial Reality Index improved from 71.1 in Q1 (09) to 80.8 in Q2 (09). Despite this improvement the index remains well below the critical level of 100.

from 12.0 to a record low of 0.0 in Q2. Economic activity is still contracting and, as a consequence, unemployment has continued to rise. In addition, the US rate of unemployment jumped from 8.5% to 9.5% during Q2 and is expected to move even higher. This increase in unemployment was also one of the main factors driving a further rise in mortgage delinquencies, a good signal of the stress which US households are currently facing.

Economic Background – Fell from 12.0 to a record low of 0.0

The economic background is currently the weakest component of the Alliance Trust US Financial Reality Index, having slipped

Economic Background



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Household Budget – Improved from 147.1 to a record high of 172.8

The household budget index registered its fourth successive gain during Q2 and has reached a record high of 172.8. Although this might seem odd, given the economic stress facing the consumer at the moment, there are a number of budget factors which are improving sharply. The ongoing decline in inflation means that real earnings are rising, and fiscal handouts are helping to boost disposable income. In addition, the fall in house prices and decline in mortgage rates means that the average monthly mortgage payment has dropped. Lower inflation is also helping to reduce the cost pressures on basic goods and services, a key component in all household budgets.

Net Wealth – Showed only minimal improvement, rising from 3.7 to 8.2

The net wealth index improved only slightly during Q2, rising from 3.7 to just 8.2. House prices remain weak, and the cumulative decline over the last three years is now more than 30%. Debt levels also remain high and are a major burden on household wealth. We expect to see households attempt to reduce this debt burden over the rest of this year. The stock market improved during April and May but equity prices at the end of the quarter were still 28% lower than at the same time last year.

Summary and conclusions

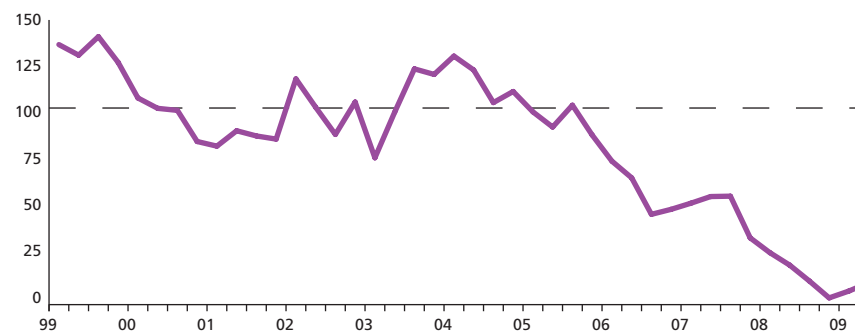
Our US Financial Reality Index has improved for the third successive quarter, gaining 9.7 points to reach a level of 80.8. This indicates that the financial conditions facing households are improving, but still negative overall as the index remains below the critical long run average level of 100. The economic background has deteriorated further and is currently the weakest of our three components, and there has been little improvement in net wealth. The improvement which we are seeing is coming almost predominantly from the easing of inflationary pressures, and lower interest rates, both of which have helped to push our household budget conditions indicator to a record high.

Over the course of our 10 year study there has been a very close relationship between our US Financial Reality Index and actual consumer spending growth, as can be seen in the chart above. The latest reading for consumer spending suggests some improvement in spending from its recent

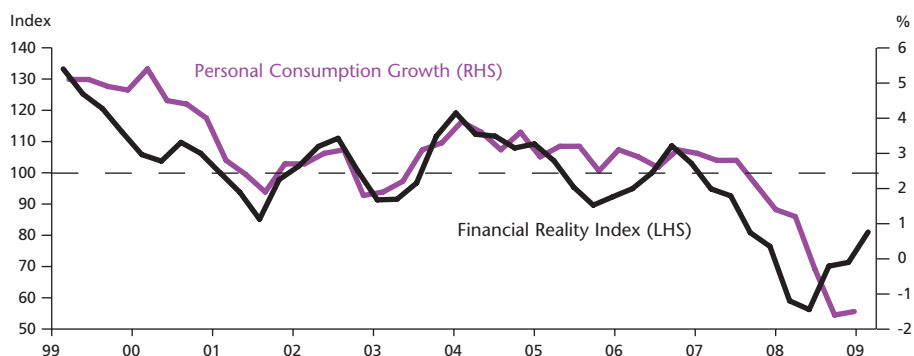
Household Budget



Net Wealth



Financial Reality Index v Household Expenditure



lows, but the fact that our index remains in negative territory suggests that consumer spending will remain relatively muted over the rest of this year. Although we have seen an improvement in household budgets and disposable income, we believe that consumers may choose to save rather than spend, and allocate some of their disposable income towards reducing their debt burdens to more sustainable levels.

Sources: EcoWin, In-house Analysis