

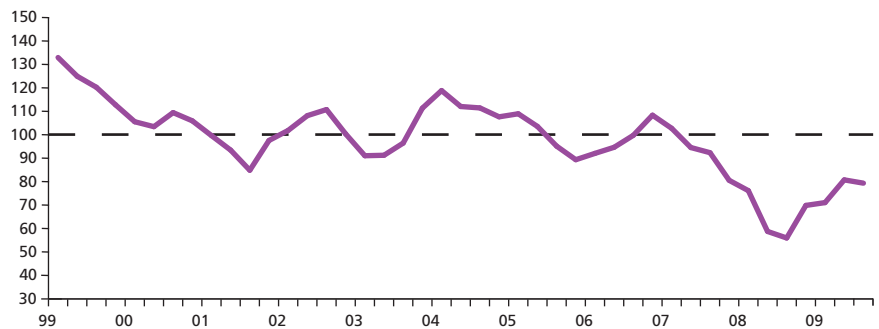
# US Financial Reality Index – Q3 2009

October 2009



The latest research from the Alliance Trust Research Centre shows that the overall financial situation facing US households is still weak, and even recorded a renewed deterioration during Q3. Economic activity remains very subdued, unemployment has increased further, and loan delinquencies continue to rise, all adding to the pressures currently facing households in the US. In addition, real disposable income levels have fallen, debt remains a burden and house price growth remains negative. As a result, our Financial Reality Index has fallen from 80.8 to 79.4, moving even further away from the critical level of 100, and giving a clear signal that consumers are unlikely to boost their spending significantly over the next few months.

## US Financial Reality Index



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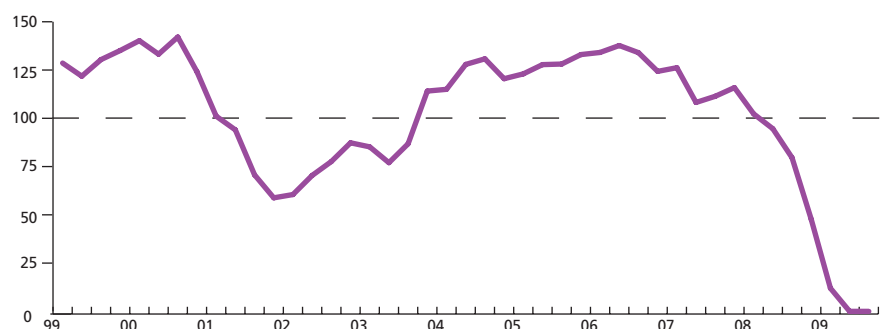
The Alliance Trust US Financial Reality Index fell from 80.8 in Q2 (09) to 79.4 in Q3(09). This renewed deterioration leaves the index even further below the critical level of 100.

## Economic Background – Remained at a record low of 0.0

The economic background remains the weakest component of the Alliance Trust US Financial Reality

Index, recording the lowest possible score of 0.0 in Q3. Economic activity remains exceptionally weak and, as a consequence, unemployment continues to rise. The US rate of unemployment jumped from 9.2% to 9.8% during Q3 and is generally expected to move above 10% within the next couple of months. This increase in unemployment is one of the key factors behind the further rise in loan delinquencies, clearly illustrating the ongoing financial stress facing US households.

## Economic Background



## Contact

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### Household Budget – Deteriorated from a record high of 172.8 to 159.4

The household budget index deteriorated in Q3, following four successive gains which had taken it to a record high in Q2. However, this index remains well above the critical level of 100, indicating that overall budget conditions are still relatively good. The deterioration during Q3 was largely due to a decline in real disposable income levels, but there was also some impact from slight increases in both mortgage rates and the gasoline price. However, there was also some good news in so far as the cost of basic goods and services continues to decline, leaving households with an increased level of income available to spend on more discretionary items.

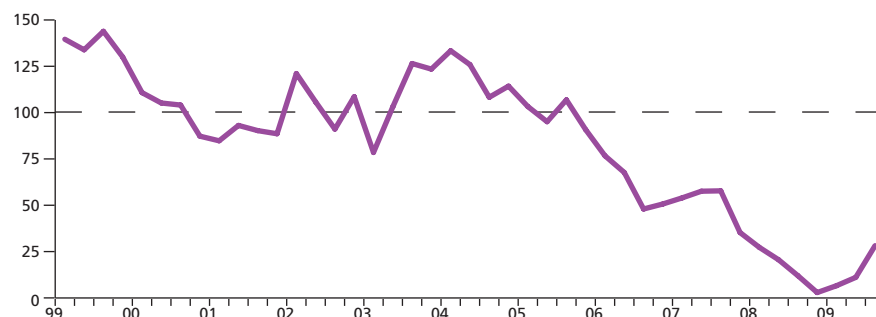
### Net Wealth – Improved for the second successive quarter, rising from 8.2 to 25.3

The net wealth index continued to improve during Q3 rising from 8.2 to 25.3. This is the second successive gain in this component and takes the net wealth index to its highest level since Q4 (07). However, despite this improvement, this particular index remains well below the critical level of 100, indicating that wealth levels, and trends in these, are still well below the long run average and continue to weigh negatively on household finances. House prices have been falling in the US for more than 3 years and there are no signs of any significant reversal of this in the near future. In addition, debt levels remain high and continue to represent a major burden for households, particularly now that unemployment is so high and real disposable income levels are declining. The key driver of the improvement recorded during Q3 was the equity market, reflecting the fact that the decline recorded over the last year continues to lessen in magnitude. Equity prices at the end of Q2 were 28% lower than at the same time last year but, by the end of Q3, this decline had lessened to just 9%.

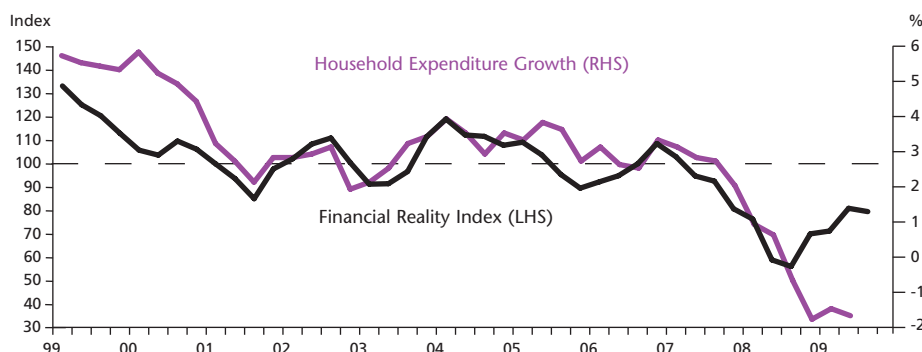
### Household Budget



### Net Wealth



### Financial Reality Index v Household Expenditure



### Summary and conclusions

Following two successive increases in our US Financial Reality Index, it is disappointing to see that the index has deteriorated once more, losing 1.4 points to reach a level of 79.4. This move confirms that the financial conditions facing households are still very negative, given that the index has now moved even further below the critical long run average level of 100. For the second successive quarter the economic background is the weakest of our three components, and the household budget component is the strongest, even though this index has retreated from its recent record high. The biggest move in Q3 was the gain in the net wealth index, due predominantly to the fact that stock market performance has turned less negative.

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 showed that this weakened once more during Q2 and our index suggests that this weakness is likely to prevail over the next few months. The burden of debt remains high, and US consumers are still expected to increase savings over the next few months, particularly while the labour market remains so weak.

Sources: EcoWin, In-house Analysis