

---

29 April 2010

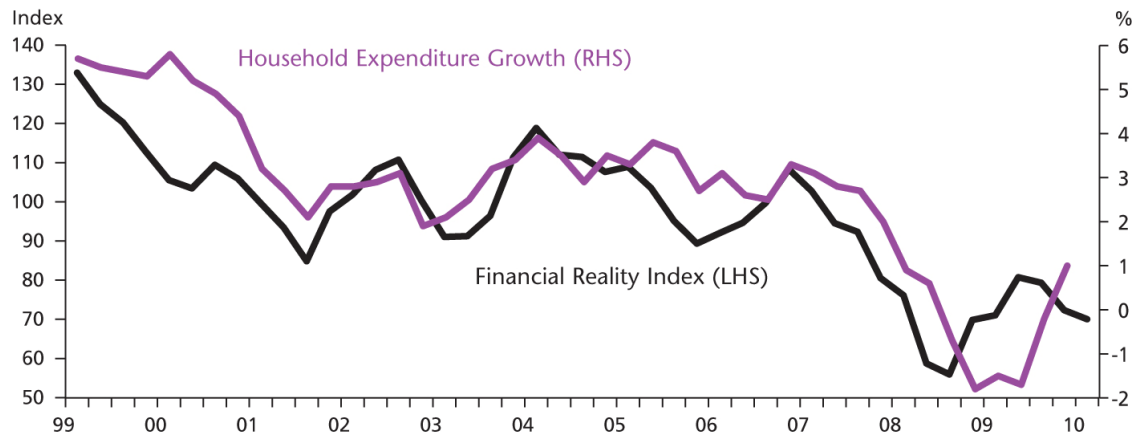
## US CONSUMER FINANCIAL WELLBEING FALLS FOR THIRD CONSECUTIVE QUARTER

The financial situation facing US consumers deteriorated for the third consecutive quarter at the start of 2010, according to Alliance Trust's US Financial Reality Index. The index, which tracks US consumers' financial wellbeing, fell from 72.4 to 70.1, the lowest level since the fourth quarter of 2008. The index has moved even further below the critical level of 100; the level which would indicate more normal financial conditions. The economic climate was once again the weakest component of the index, with activity being generally subdued and the unemployment rate remaining close to 10%, both of which have contributed to the increasing number of people struggling to meet loan payments.

Shona Dobbie, Head of Alliance Trust Research Centre, said, *"Our index has fallen back to a level not seen since the end of 2008, showing a further deterioration in US consumers' financial health. While we did see a continued improvement in households' net wealth last quarter, driven mainly by further stock market gains, at the same time we saw household budgets come under increased pressure due to higher inflation. Economic conditions remain weak with few signs of a strong sustainable recovery. It is clear that the combination of factors which determine the true financial situation facing households are not yet strong enough to support a steady recovery in consumer spending."*

*"The financial conditions facing US consumers have deteriorated for the third consecutive quarter, with the unemployment rate remaining close to 10%, household debt levels still elevated and the housing market yet to show signs of a sustainable stabilisation. These factors, alongside the rise in inflation which is eroding real earnings and real disposable incomes, lead us to expect consumer spending to remain weak for most of 2010."*

## Financial Reality Index vs. Household Expenditure



Of the three principal components that make up the index – economic background, household budget and net wealth – only net wealth improved. The economic background index remained at a record low, and the household budget index deteriorated further. The key findings of the first quarter Financial Reality Index study are as follows:

- The economic background remained the weakest component of the index, recording the lowest possible score of 0.0 for the fourth successive quarter. Economic activity remains generally weak and the rate of unemployment remains close to 10%.
- The household budget index moved from 123.6 to 111.6, falling for the third successive quarter. The decline in Q1 was primarily driven by a sharp decline in real disposable income, caused largely by a rise in inflation. On top of this, there has been a small increase in the costs of basic goods and services, leaving households with less income to spend on more discretionary items.
- Net wealth improved for the fifth successive quarter, from 59.6 to 71.0, taking the index to its highest level since the start of 2006. The increase in this index was largely due to the improvement recorded in the stock market over the year. However, it remains below 100, indicating that conditions are still considerably below the long-term average. For a more sustainable improvement we need to see stabilisation and then a recovery in house price growth, together with lower levels of household debt.

The full US Financial Reality Index factsheet is available at [www.alliancetrust.co.uk/research](http://www.alliancetrust.co.uk/research)

## **Contacts**

### **Clare Dundas/Anjali Unnikrishnan**

Finsbury Group

**Tel:** +44 (0)20 7251 3801

**Email:** [alliancetrust@finsbury.com](mailto:alliancetrust@finsbury.com)

## **Notes to editors**

1. Alliance Trust PLC is a self-managed investment company with investment trust status. A FTSE-100 company, it is the largest UK investment trust by market value listed on the London Stock Exchange.
2. Founded in 1888, the company is based in Dundee and has offices in Edinburgh and London.
3. 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.
4. Alliance Trust also publishes a quarterly Financial Reality Index that measures the financial health of consumers in the UK, which is available at [www.alliancetrust.co.uk/research](http://www.alliancetrust.co.uk/research)
5. Photographs of Shona Dobbie are available.