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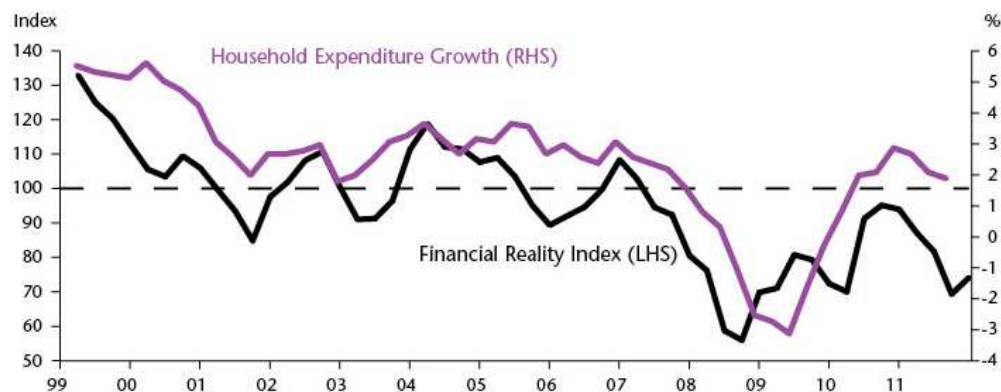
SMALL IMPROVEMENT IN FINANCIAL CONDITIONS FACING US HOUSEHOLDS IN Q4

The financial situation facing US consumers improved slightly in Q4 2011, according to Alliance Trust's US Financial Reality Index. The index, which tracks US consumers' financial wellbeing, rose from 69.4 to 74.2, with all three sub-components of our index increasing for the first time in over a year. The economic background index improved, mainly due to a fall in the unemployment rate, while the household budget index received a small boost from the lower gasoline price. The net wealth index remains the weakest component, but increased slightly in Q4, due to a small rise in house prices. Despite this, the index has remained below the critical level of 100 since Q2 2007, pointing to further downward pressure on consumer spending

Linsey Thomson, Senior Economic Analyst at the Alliance Trust Economic Research Centre, said, *"Our US Financial Reality Index has recorded a marginal improvement in Q4, with all sub-indices rising. Despite this, financial conditions facing households remain very difficult, highlighted by the fact that all sub-indices remain below the critical level of 100. Weaker GDP growth and persistently high unemployment levels continue to weigh on the economic background index. High inflation and muted wage growth are causing a strain on household budgets, and high levels of debt and a weak housing market mean that the net wealth position is still very lacklustre.*

The improvement in Q4 was very small and came from a low base. Our index has proved to be a good indicator of future growth in consumer spending and it continues to point to a further deterioration in the growth rate. Given that consumer spending accounts for a large proportion of the US economy, we expect muted economic growth over the coming months".

Financial Reality Index vs. Household Expenditure



In Q4, all three sub-indices of our Financial Reality Index posted small increases. The largest increase came from the economic background index due to a fall in the unemployment rate. However, all indices remain below the critical level of 100, indicating that conditions are worse than the long term average.

- The **economic background** component increased from 54.4 to 61.9 but has now remained below the critical level of 100 since early 2008. A fall in the unemployment rate over the quarter boosted the index but, at 8.5%, unemployment is still high. On top of this, GDP growth slowed further and, overall, economic conditions facing households remain tough.
- The **household budget** component rose from 92.9 to 96.3, the first increase since Q3 2010. In Q4, the lower gasoline price helped to alleviate pressure on household budgets and mortgage service costs remain low. Despite this, high basic goods price inflation continues to impact household budget conditions and this, alongside on-going muted wage growth, is resulting in households suffering negative real wage growth.
- **The net wealth** index increased from 45.0 to 49.5. Despite this small improvement, the index has remained below 100 since the end of 2005 and is the weakest component of the Financial Reality Index for the second consecutive quarter. The slight increase in Q4 was helped by a stabilisation in equity markets and a small improvement in house prices, albeit from a very low level.

The full US Financial Reality Index factsheet is available at www.alliancetrust.co.uk/researchcentre

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Notes to editors

1. Alliance Trust PLC is a self-managed investment company with investment trust status. It is one of the largest generalist UK investment trusts by market value on the London Stock Exchange.
2. The Economic 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.