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SPEND-HAPPY FAMILIES ‘URGENTLY NEED A FINANCIAL REALITY CHECK’, CONCLUDES TEN YEAR STUDY

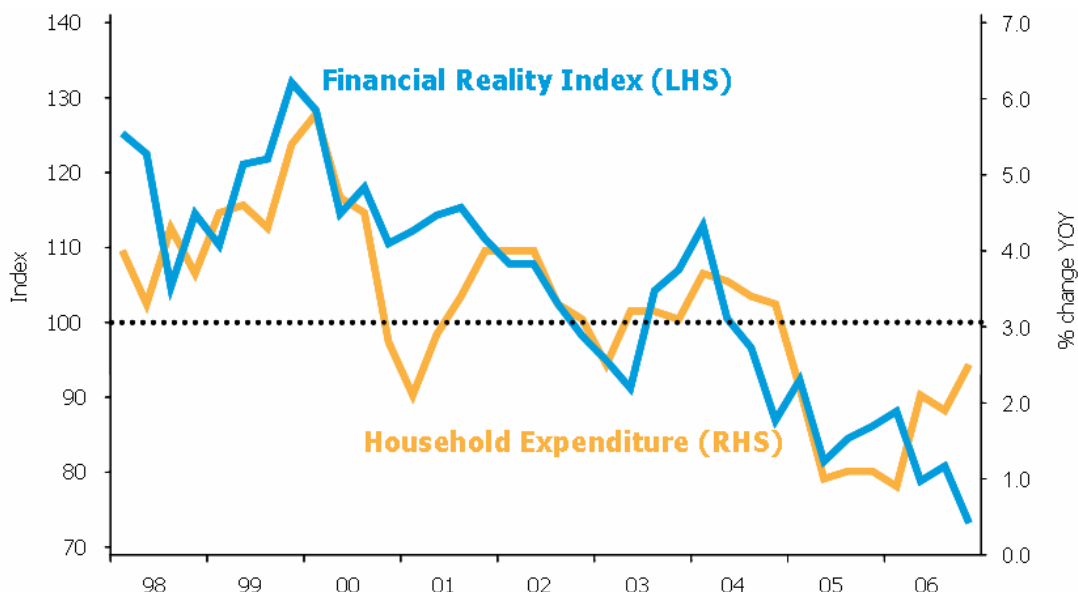
Alliance Trust’s new Financial Reality Index highlights alarming split between rising consumer spending and worsening financial conditions

Consumer spending is set to weaken sharply over coming months as the reality of deteriorating financial conditions finally hits home for households across the UK, according to a new index launched by the Alliance Trust Research Centre (ATRC) today.

ATRC’s Financial Reality Index is based on a ten year quarterly analysis of 11 underlying national and domestic financial indicators, which together have proved a reliable ongoing predictor of consumer financial confidence and willingness to spend. However, the study reveals that while this range of financial conditions has worsened significantly over the past 12 months, consumer spending growth accelerated back to 2.5%.

Financial Reality Index - key findings:

- Throughout the whole of 2006 the Financial Reality Index remained below the critical level of 100 and weakened steadily towards a record low at the end of the year
- Despite this, consumer spending remained relatively robust, growing at a rate of 2.5% in Q4.
- Consumers are becoming increasingly stretched in an effort to maintain their existing lifestyle. Debt, in particular, is becoming an ever bigger burden for many households, particularly during a period in which interest rates, and the cost of servicing debt, is increasing.
- Consumer spending will soften as consumers take a ‘reality check’ regarding their financial situation.

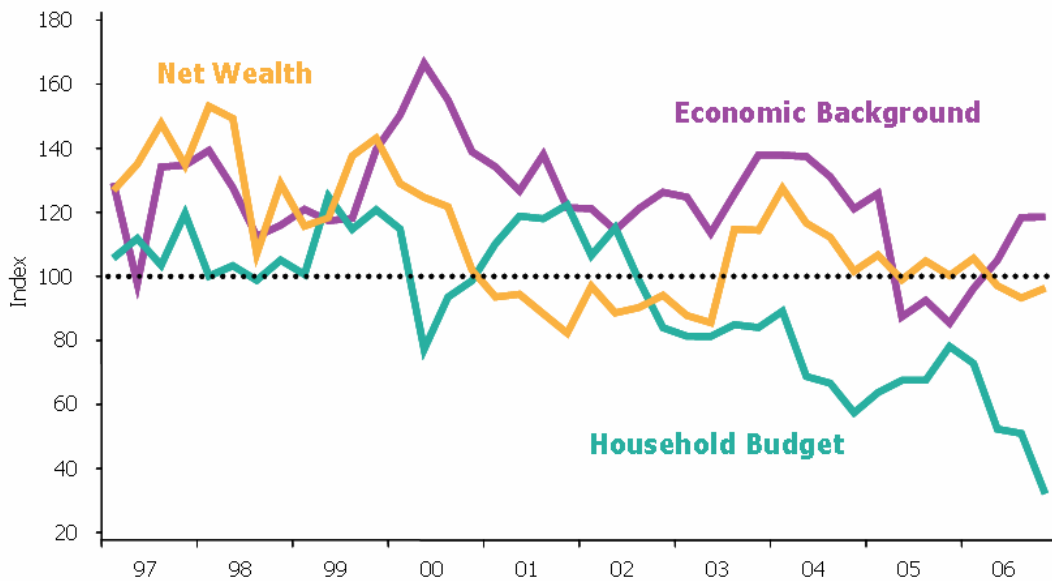


The Financial Reality Index is based on three sub-groups, whose components collectively impact on consumer confidence and therefore willingness to spend (see graph below).

While the **Economic Background** Index peaked early in 2000 reflecting relatively high levels of GDP and employment it then declined during the global economic slowdown which followed. Declining rates of GDP growth and rising concerns about debt and insolvencies caused the index to dip into negative territory in 2005, but the index has since recovered, reflecting higher GDP growth and labour market strength.

The **Household Budget** Index reflects a combination of trends regarding both income and expenditure. This index has been in negative territory since the second half of 2002, and dropped to a record low at the end of 2006. This reflected the severe strain on household budgets due, in particular, to high levels of council tax, rising interest rates and significant increases in costs for necessities such as food, petrol and heating

The **Net Wealth** Index peaked at the beginning of 1998, due to strong stock market performance and favourable increases in property prices. However, events over the next few years took their toll and the index slipped to a record low in the final quarter of 2001 reflecting weakness in equities in particular. Although equities and property both performed well in 2006, rising debt levels detracted from net wealth and the index dipped into negative territory in the second quarter of the year.



Q1 2007 results

In Q1 2007 the Financial Reality Index improved only very slightly from the previous quarter, from 73.2 to 73.7. The latest reading remains well below the critical level of 100, indicating that consumers are heading for an increasingly tougher time to maintain their lifestyles financially. The Economic Background Index remains largely unchanged in Q1 2007 at 118.5, highlighting that GDP growth is still holding up well and the labour market remains relatively strong.

The Household Budget Index showed only slight improvement in the same period, from 32.1 to 35.3, but remains deep in negative territory. Although petrol prices have fallen from recent highs, and recent pay deals

have helped to improve real earnings, mortgage payments have risen once more, reflecting the latest rise in interest rates. This has limited the improvement in the household budget index and leaves the reading close to the record low recorded in Q4.

The Net Wealth component declined from 96.3 to 92.8 in Q1 2007. Although property prices continue to rise across the UK, equity market performance has deteriorated recently and debt levels remain high, detracting from growth in net wealth.

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**Alliance Trust's full report on the Financial Reality Index is available on www.alliancetrust.co.uk
You can obtain a copy of the report by emailing contact@alliancetrust.co.uk or phoning 08000 326323.**

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Notes to editors

1. Alliance Trust PLC is the largest generalist investment trust company listed on the London Stock Exchange. Through its subsidiaries, Alliance Trust offers investment dealing, self-invested personal pensions and a choice of investment wrappers.
2. 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.
3. Photographs of Shona Dobbie are available.