

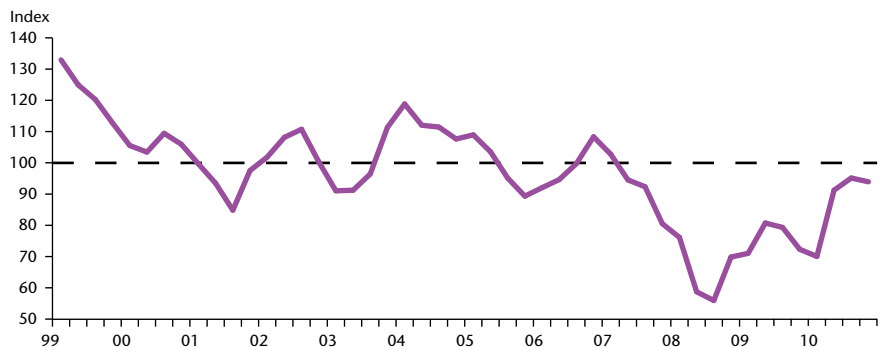
US Financial Reality Index – Q4 2010

January 2011



The latest research from the Alliance Trust Research Centre shows that the overall financial situation facing US households deteriorated during Q4 (10). Our US Financial Reality Index fell from 95.2 to 94.0, moving further below the critical level of 100 and therefore suggesting that consumer spending growth will remain relatively muted over the next few months. The latest reading reflects an improvement in economic activity, a slight rise in real disposable income, and relatively strong stock market performance, but this was more than outweighed by renewed deterioration in the housing market, a significant rise in the gasoline price and the ongoing burden of a high level of household debt.

US Financial Reality Index



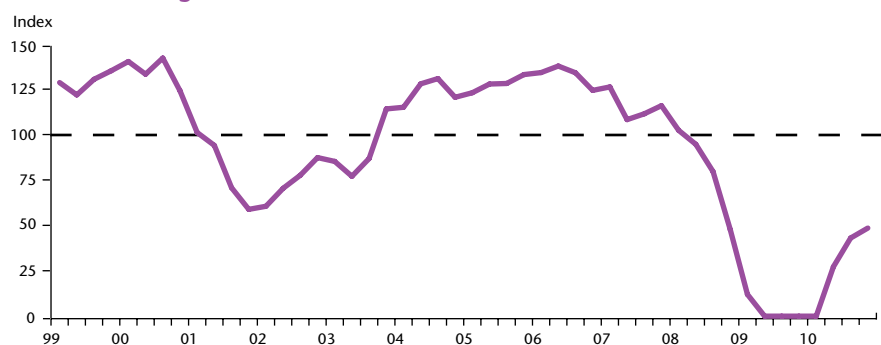
The Alliance Trust US Financial Reality Index fell from 95.2 in Q3 (10) to 94.0 in Q4 (10). The index has been below the critical level of 100 since Q1 (07).

this is the highest reading recorded since Q3 (08), this is still significantly below the critical level of 100 and the economic background remains the weakest component of the Alliance Trust US Financial Reality Index. Economic activity has improved, but the labour market is still weak, with the unemployment rate still above 9%, and the number of delinquencies remains high.

Economic Background – Increased from 43.0 to 48.5

The economic background component has recorded its third successive gain, increasing from 43.0 to 48.5. Although

Economic Background



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Household Budget – Fell from 138.5 to 136.4

The household budget index fell during Q4, from 138.5 to 136.4. However, despite this downward move, this component is still the strongest in our index and remains well above the critical level of 100, indicating that overall budget conditions are relatively good. The deterioration recorded during Q4 (10) was largely due to a fairly sharp increase in the gasoline price, combined with the fact that real disposable income, although it improved, remains relatively weak in comparison with the long term average. On the positive side, basic cost inflation remains muted and mortgage service costs are still extremely low.

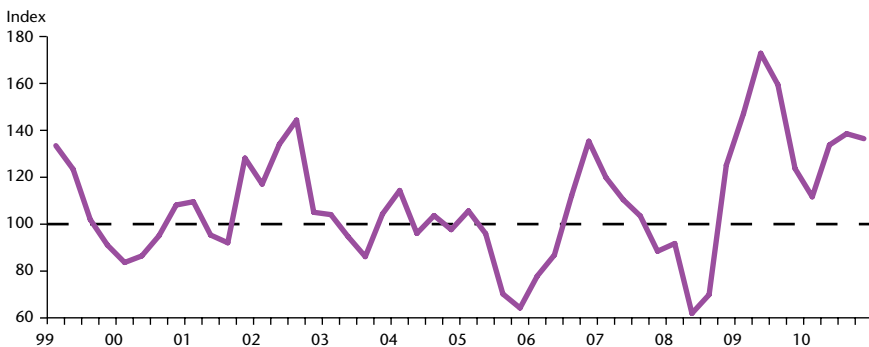
Net Wealth – Declined from 75.3 to 68.7

The net wealth index declined for the second successive quarter, falling from 75.3 to 68.7. This move is disappointing as it takes the index even further below the critical level of 100, to its lowest level since Q4 (09) indicating that conditions remain well below the long term average. Stock market performance was relatively good during Q4 (10) but house price growth is still under pressure and the high level of household debt continues to represent a major burden on households, particularly while the labour market remains weak.

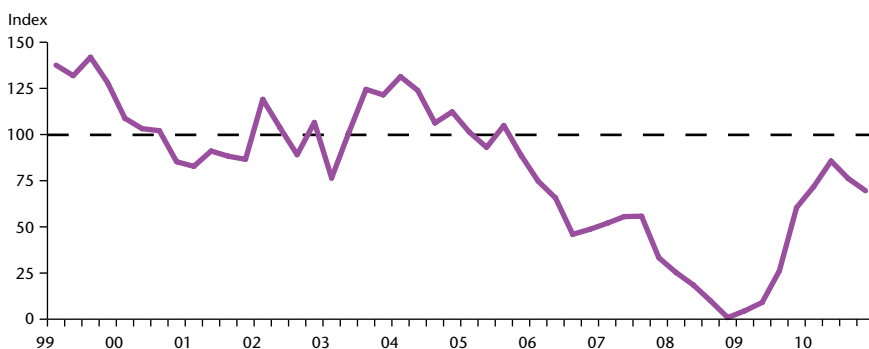
Summary and conclusions

It is disappointing to see our US Financial Reality Index decline during Q4 (10) having improved in the two previous quarters. This downward move, which takes the index further below the long run average level of 100, indicates that the financial conditions facing households are still negative when compared with the long term average. For the seventh successive quarter, it is the economic background which is the weakest of our three components, reflecting ongoing softness in the labour market and a high level of delinquencies. The household budget component is the strongest, reflecting the fact that mortgage costs are low and inflation in basic goods and services remains relatively muted.

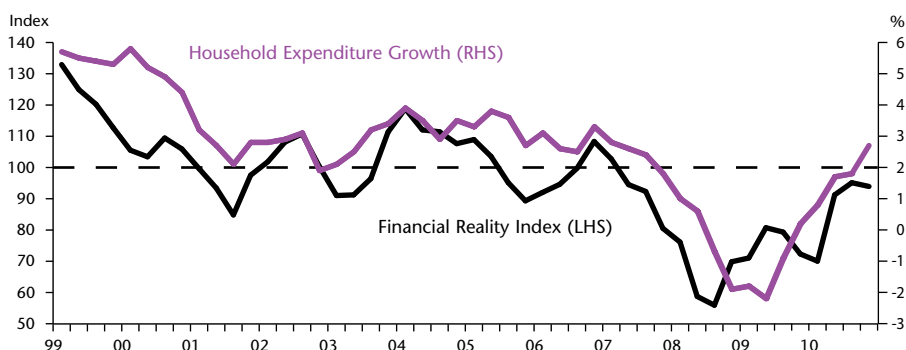
Household Budget



Net Wealth



Financial Reality Index v Household Expenditure



Over the course of our 11 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 recorded positive growth of 2.7%, but the recent trend in our index suggests that this household spending growth is likely to moderate over the next few months.

Sources: Reuters EcoWin, In-house Analysis