BULLETIN

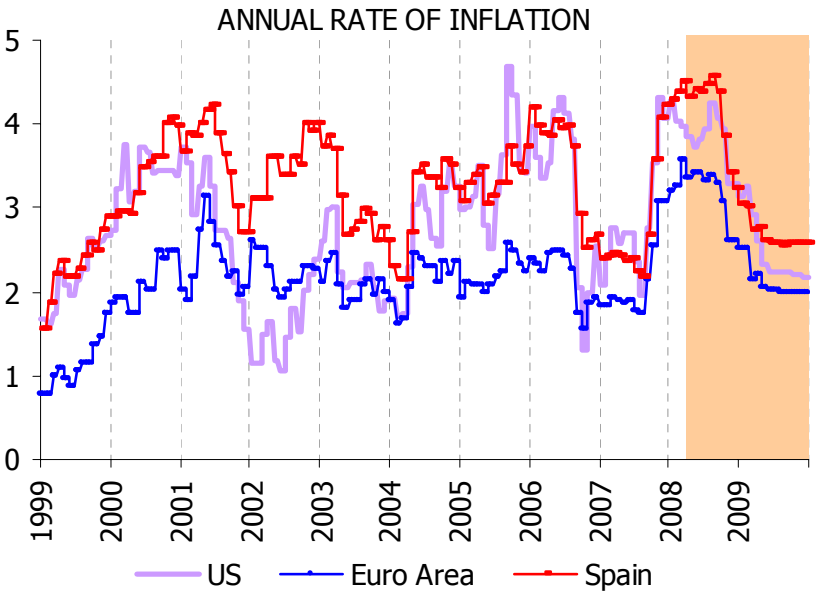
OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS

Universidad Carlos III de Madrid

Instituto Flores de Lemus

Second Phase

INFLATION CONTINUES TO BE A GLOBAL PHENOMENON PUSHED UPWARDS BY ENERGY AND PROCESSED FOOD.



Source: BLS, EUROSTAT, INE & IFL(UC3M)
Date: April 25, 2008

ANALYSIS OF COMPETITIVENESS IN SPANISH REGIONS: THE CASE OF THE ASTURIAS REGION IN SPAIN

PERCENTAGE WEIGHT OF THE FIELDS ON LEVEL (B) OF COMPETITIVENESS

(Ordered according to share of employment: L)

Ordinal		GVA	L
1	Murcia	69.8	64.7
2	Basque Country	61	58.3
3	Canaries	64.7	57.0
4	Catalonia	56.7	55.4
5	Madrid	53.3	52.9
6	Asturias	66.8	52.8
7	Navarre	56.9	52.2
8	Balearics	63.5	51.9
9	Andalusia	57.4	49.4
10	Valencia	49.0	44.4
11	Rioja	51.1	39.9
12	Cast-León	52.0	37.9
13	Galicia	43.1	36.4
14	Cantabria	46.4	33.3
15	Extremadura	36.1	30.3
16	Aragón	37.3	29.7
17	Cast-Mancha	30.2	23.3

N. 163
April, 2008

"In the last few months, the Spanish construction sector has been undergoing considerable adjustment, after a long expansionary phase in which it was a leading driving force in the country's economy. For months now, the sector's different indicators have been worse than expected, with continuous downwards revisions of its GVA or GFCF forecasts. The adjustment process, then, is faster and more intense than initially expected. This deceleration in construction has been one of the leading factors causing a change of cycle in our economy".

The success of a regional economy depends on that of its companies and sectors on the market or, alternatively, on the degree of efficiency achieved in the development of its activities not subject to the rules of competition. A microeconomic approach can therefore be taken to an economy's competitiveness based on an evaluation of the competitiveness of the firms and sectors integrated in its productive system.

N. 163

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BULLETIN

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Universidad Carlos III de Madrid

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TERMINOLOGY USED:

In inflation analysis it is advisable to break down a consumer price index for a country or an economic area in price indexes corresponding to homogenous markets. An initial basic breakdown used in this publication is 1) Non-processed Food price index (ANE) 2) Energy price index (ENE), 3) Processed Food (AE), 4) Other commodities (MAN), 5) Other services (SERV). The first two are more volatile than the others, and in Espasa et al. (1987) a **core inflation** measure exclusively based on the latter ones was proposed; the Spanish Statistical Institute and Eurostat proceed in the same way. Later, in the BULLETIN EU & US INFLATION AND MACROECONOMIC ANALYSIS was proposed to eliminate from components of core inflation those indexes which are excessively volatile.

Thus, the previous basic breakdown has been amplified for Spain in the following manner: a) ANE, b) ENE, c) Tobacco, Oils and Fats, and Tourist Packages, d) Processed Foods excluding Tobacco, Oils and Fats, (AEX).ge) Other Goods (MAN), and f) Other services, excluding Tourist Packages (SERT). The measure of inflation obtained with the AEX, MAN, and SERVT indexes we term **trend inflation**, as an alternative indicator similar to core inflation, but termed trend inflation to indicate a slightly different construction. The measure of inflation established with the price indexes excluded from the CPI to calculate trend inflation or core inflation, depending on the case, is termed **residual inflation**.

For the United States the breakdown by markets is principally based on four components: Food, Energy, Services, and Commodities. **Trend inflation** or **core inflation** is based in this case as the aggregation of services and non-energy commodities.

*CONTENTS**

*The cut-off date for the statistics included in this Bulletin was April 28, 2008.

I. EDITORIAL

In January, 2007, our analysis of the economies of the autonomous regions of Spain was separated from this Bulletin and it is now presented in Spanish in a new publication: *BIAM Comunidades Autónomas*. It includes inflation forecasts and analyses for all the autonomous regions and specific studies for specific regions, sponsored by different institutions. Depending on the type of project chosen by the sponsor, these studies usually focus on analysing and forecasting consumer prices relative to Spain in around 57 sectors, the analysis and forecasting of production prices in 24 industrial sectors, also relative to Spain, the analysis and forecasting of the GDP and GVA in the productive sectors identified in the Quarterly National Accounts, analysis and forecasting of leading labour market variables, etc. In some cases, the comparison for a breakdown of some 12 sectors is made with the euro area. After Professor Joaquín Lorences, from the University of Oviedo, has joined our team, we will now be analysing sectoral competitiveness in the different autonomous regions. These studies will be conducted in depth once a year after the publication of the regional accounts broken down by sector and they will be updated with indicators on a quarterly basis. These reports will be based on the methodology developed by Joaquín Lorences himself. In the near future, we hope also to analyse sectoral competitiveness by autonomous region.

This Bulletin contains the first paper on sectoral competitiveness in Asturias in which the author, Joaquín Lorences, summarises the most interesting results and conclusions obtained from a study entitled "*Competitividad de la economía asturiana*", which was recently published by KRK and the Principality of Asturias. The principal contribution of this paper from a methodological perspective is the construction of regional competitiveness indices of different sectors instead of constructing regional competitiveness indicators from aggregate variables measuring global aspects of the productive system (per capita income, employment and activity rates) or representing the background in each area (population's level of education, people involved in R&D activities, public and private capitalisation), as do the aggregate studies which predominate the field. One limitation of this second type of study is that they implicitly assume that all the sectors in a region have the same level of competitiveness or, similarly, that all the regional sectors in the top positions in the ranking are more competitive that the same sectors in regions lower down. Obviously, this is not a realistic assumption.

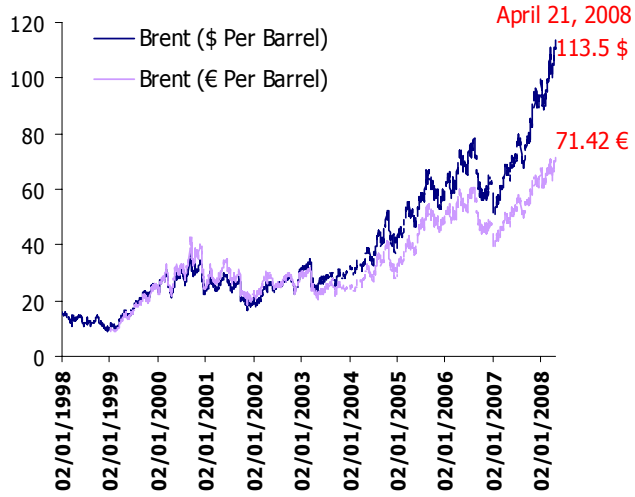
In the paper by Professor Joaquín Lorences, however, the basic idea is precisely that the competitiveness of activities in a region is heterogeneous and cannot be ignored when evaluating the competitiveness of its entire production system.

To develop this idea, he constructs four indicators or levels of competitiveness of a local sector with reference to the status of that sector nationwide. These indicators are based on the differences between an activity's Unit Labour Cost (ULC) in a region and the national average, and their breakdown into differences in Mean Labour Productivity (MLP) and Mean Labour Cost (MLD). The classification of a region's activities into the different levels of competitiveness and their weight in the GVA and regional employment provide an evaluation of the competitiveness of the entire regional productive system. The result is that, indeed, regional economies are very heterogeneous from the productive efficiency and competitiveness perspectives. This type of analysis could help to identify the strengths of an economy, its most competitive sectors, and its weakness, sectors with limited or now competitiveness. From the viewpoint of regional economic policy, it is very important to identify the latter, as this could help reaching irreversible situations compromising the activity's future in the region in question.

II. ECONOMIC OUTLOOK

For the last 15 years, we have been witnessing constant global moderation in inflation, at the same time as globalisation and the development of international trade have enabled countries like China, with low production costs, to bring their products to the euro area and the U.S. A lot has been said about how this globalisation phenomenon could be one of the principal factors behind moderate inflation rates, as it fosters competition and innovation as a means of survival in an increasingly global marketplace.

Graph II.1



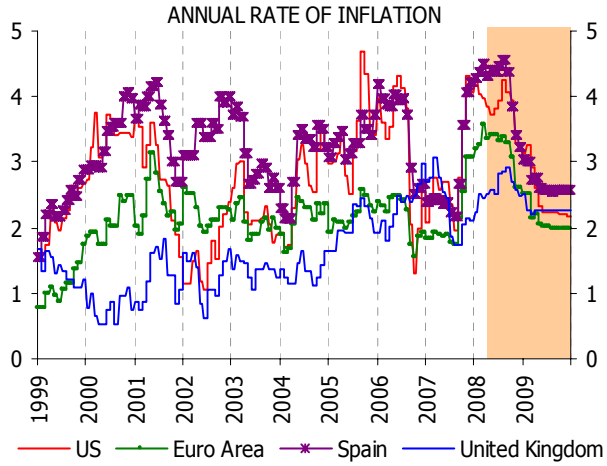
Source: EIA
Date: April 21, 2008

Since September 2007, however, we have been seeing how the same force which helped to moderate inflation expectations is now causing heavy increases in the prices of food and energy products, partly as a result of a greater global demand, creating a challenge for our monetary authorities.

After seeing in 2005 and 2006 how the heavy growth in crude oil prices was incapable of anchoring inflation expectations in countries such as the United Kingdom and the euro area, where the Central Banks are only established to stabilise inflation, monetary policy and inflation monitoring could have been expected to be easy, thanks to more efficient and competitive markets. What changed?

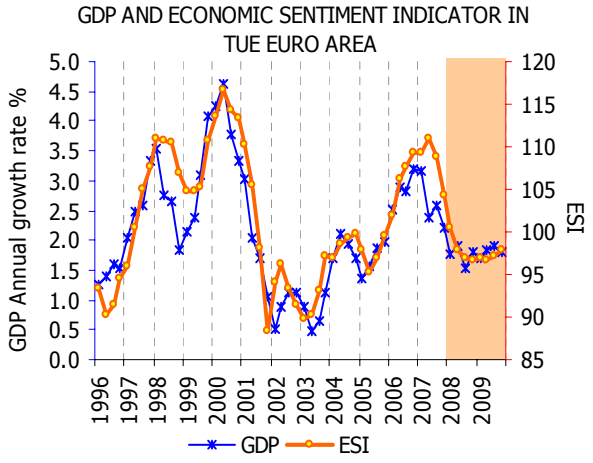
Before the current rise in inflation, firms with rising costs (due, for example, to oil prices) were forced to resist as much as they could without increasing their prices, increasing productivity, reducing margins or compensating those costs with salary cuts, so as not to forfeit their position on the market. This mechanism was fostered by the central banks "anchoring" expectations and this, together with other factors, partly compensated the rise in inflation due to growing oil prices. There is now inflationist pressure from other raw materials which, together with speculative factors, largely results in an imbalance between supply and demand which will last for some time. When forecasting inflation, it is now important to forecast the magnitude of this imbalance.

Graph II.2



Source: BLS, EUROSTAT, INE & IFL(UC3M)
Date: April 25, 2008

Graph II.3

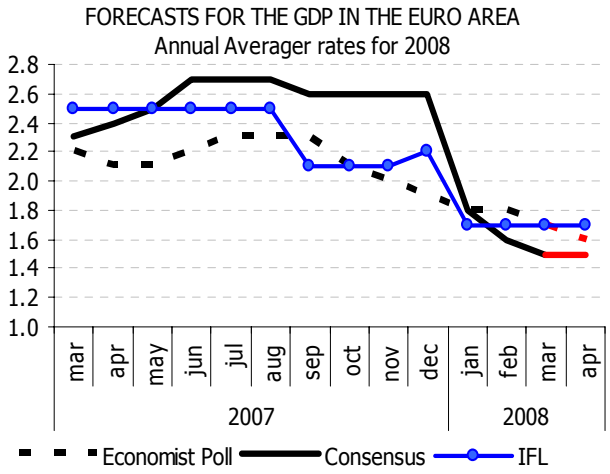


Note: for the GDP, the latest available figure corresponds to the fourth quarter of 2007. Information up to March is available for the ESI.
Source: European Commission, EUROSTAT & IFL (UC3M)
Date: March 31, 2008

The euro area is undergoing a change in economic cycle. Worse growth expectations and poor qualitative indicators increase the risk of a rapid decline in euro area growth. This month, the qualitative indicators related to confidence in economic activity in Europe have shown deceleration, added to the revisions made to growth expectations in the last few months (see graphs II.3 and II.4). If inflationist risk is maintained, the reference interest rate can be expected to remain unchanged for a long time.

In the above scenario, and in relation to Spain (within the euro area), where we are expecting 4.3% inflation for April and an average of 4.2% for 2008 (versus the 2.8% of 2007), our updated GDP forecasts for 2008 have fallen by two tenths of a percentage point to 2.2%. This will be discussed briefly in this section and in more detail in the Spanish section of Bulletin 163.

Graph II.4



Source: The Economist, The Consensus Forecast & IFL(UC3M)
Date: April 14, 2008

Finally, there is another factor conditioning monetary policy: this deceleration process is accompanied by a factor which was not present in the last recession: the confidence crisis affecting the financial market. If monetary policy, besides stabilising inflation, is intended to stabilise the financial system to minimise the effect of less credit on the real economy, the problem is so complex that it is difficult to transmit to economic agents. The results of this confusion could be increased uncertainty regarding future inflation; inflation expectations would cease to be anchored. In view of this, the European Central Bank has clearly specified that monetary policy and the provision of liquidity are completely separate in the current context of tension on the interbank market. Indeed, the provision of liquidity is subsidiary to monetary policy decisions, so, in the short term, rates will not vary greatly from the reference interest rates established by the Executive Committee. Graph II.5 summarises the principal extraordinary injections of liquidity from the ECB, which appear to be containing the deviation of the 3-month euribor rate from the reference rate with some difficulty. Specifically, the percentage of refinancing granted with long-term operations is more than double the percentage before the onset of the confidence crisis. Furthermore, since the end of 2007, the ECB (with the cooperation of the U.S. Federal Reserve) has been guaranteeing loans in dollars to European banks[1].

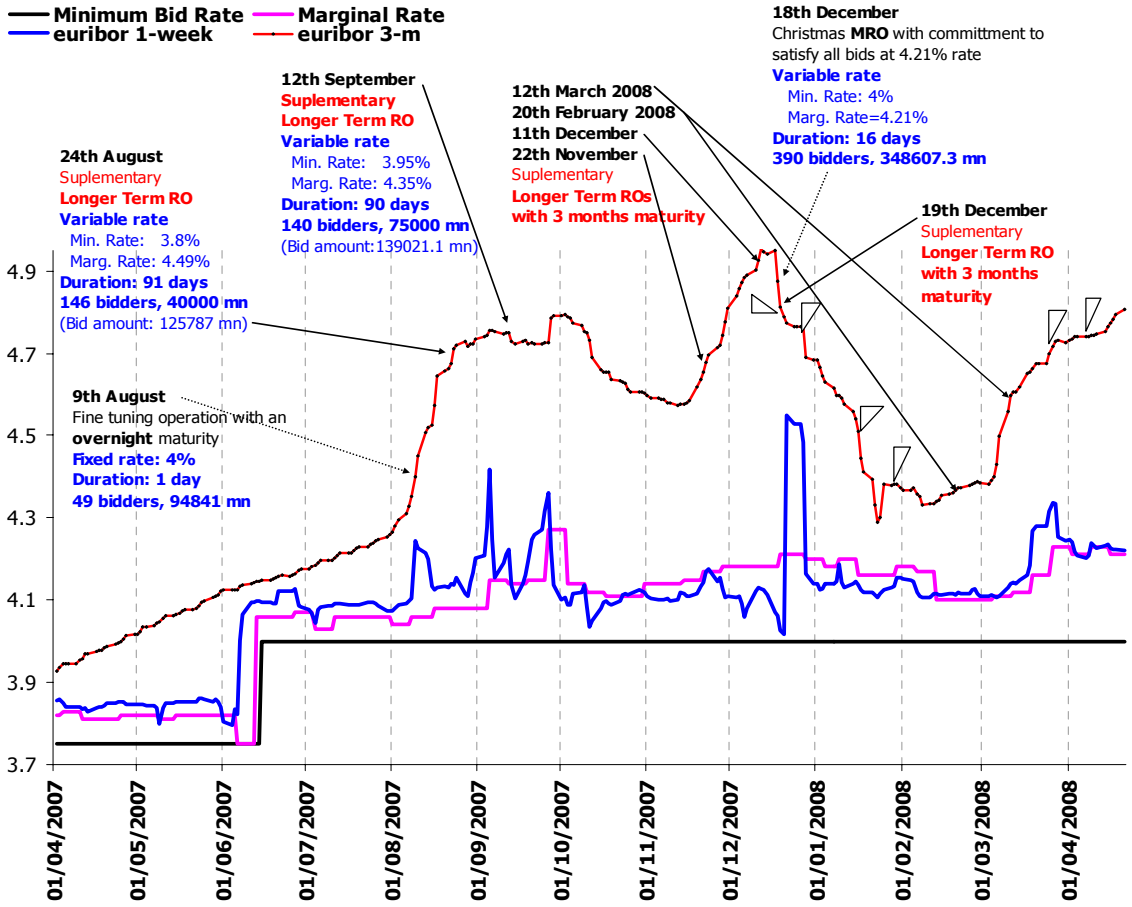
Unlike the FED and the Bank of England, however, the European Central Banks has decided not to move its principal monetary policy tool. A cut in interest rates could increase the degree of uncertainty, leading to interbank rates deviating even more from the reference rate. Only clear moderation in euro area inflation, then, could lead to a rate cut. However, our forecasts show that inflation will not fall to around 2% until mid-2009.

It would appear that access to credit will continue to be costly for some time (this time will be longer the later the losses incurred in the financial sector are known), which seems to have already been assumed by part of the private sector, so economic agents will not be postponing their investment decisions until financing conditions are more favourable and will probably continue to create value and growth in the euro area.

Following is a summary of our interpretation (based on econometric models) of the latest data published for the U.S., the euro area and Spain. Within Spain, Joaquín Lorences explains his perspective of the competitiveness of the different autonomous regions, with emphasis on Asturias (see Bulletin 163), although the methodology is applicable to the other regions.

[1] All the details can be found on the ECB website (www.ECB.int). José Manuel González-Páramo's speech in Tokyo entitled "Whither liquidity? Developments, policies and challenges", describes what the ECB has done to face the current liquidity problems.

Graph II.5

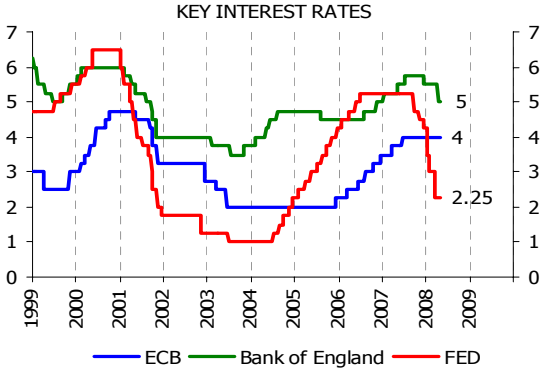


Note: the $ symbol represents the dates when the ECB made loans in dollars through the "Term Auction Facility".
Source: ECB & IFL(UC3M).
Date: April 23, 2008

EURO AREA

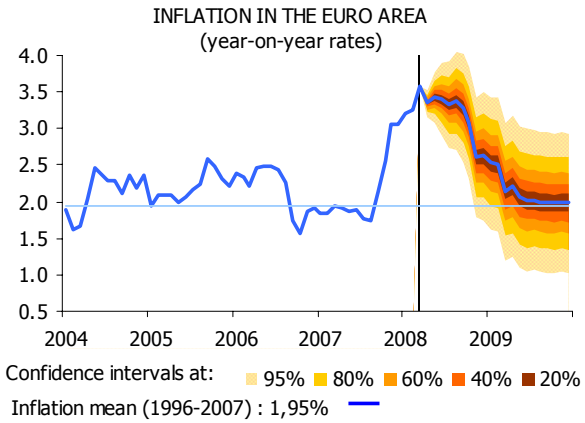
The latest information about fuel has given us energy prices up to April 21, so the inflation rate expected for that month is 3.3% (versus 3.6% in March), and average rates for 2008 and 2009 of 3.2% and 2.1%, respectively. Our core inflation forecasts (2.5% average for 2008) remain practically the same as those published in Bulletin 162, partly thanks to the better than expected performance of processed food.

Graph II.6



Source: BCE, BoE, FED Date: April, 2008

Graph II.7

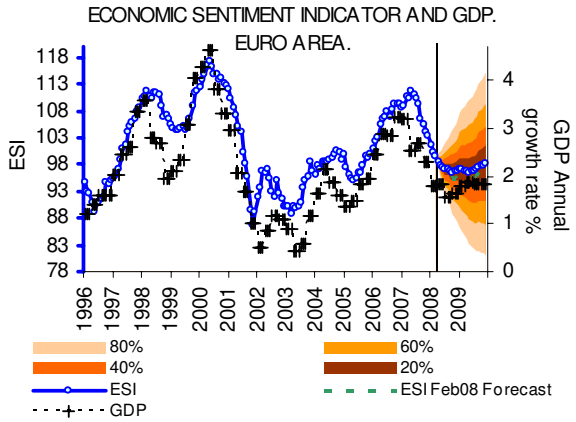


Source: EUROSTAT & IFL(UC3M)
Date: April 25, 2008

As our average annual inflation forecast for 2008 is in the 3.0-3.4% range, and our central forecast will not converge to around 2% until June, 2009, we believe that monetary policy is not too tight. The ECB reference interest rate, then, could remain unaltered until there are clear symptoms of moderation in inflation.

The updated forecasts of the Economic Sentiment Indicator show a slightly upwards revision and show that the confidence of economic agents in the evolution of the euro area economy, in spite of this small improvement, will continue to gradually decline as in the past few months. However, this decline is expected to stop in the last four months of 2008. Subsequently, the ESI is expected to recover somewhat in 2009, stabilising at slightly lower levels than those registered in the last quarter of 2005, when the economy grew by 2%.

Graph II.8



Source: EUROSTAT & IFL(UC3M)
Date: March 31, 2008

As for the labour market in the euro area overall, in February, the unemployment rate remained at 7.1%, half a point less than a year earlier and the lowest in the last fifteen years. On the other hand, the employment expectations derived from the Commission's opinion polls and other surveys show that creation of employment in the euro area could be performing favourably, and that it has still not been fully affected by the increasing uncertainty concerning economic activity.

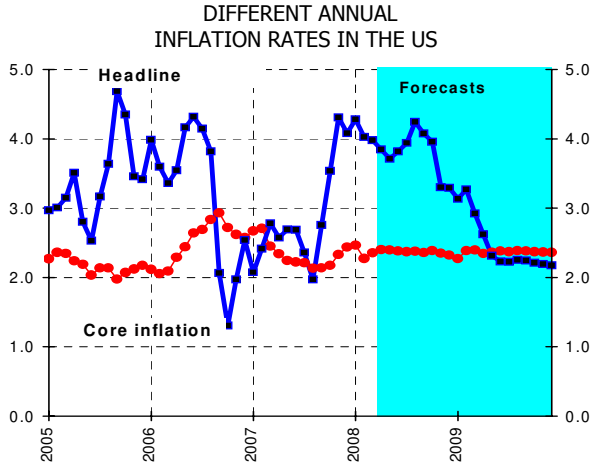
The Industrial Production Index (IPI) for the euro area in February showed a year-on-year growth rate of 3.1%, four tenths of a percentage point less than in the previous quarter and better than the forecast estimated in the Bulletin (2.6%). The euro area industrial confidence indicator for March was also better than expected, suggesting that, in spite of the continued decline in GDP growth in our forecasts for 2008, expectations are not clearly worse than before.

U.S.

This month, the CPI was slightly worse than expected, due to the more volatile components of the services index, transport, telecommunications, personal care and other tourist services, with a reduced effect on core inflation expectations.

New increases in crude oil prices, however, have a negative effect on general inflation forecasts. This month, the price of crude oil on the international markets exceeded 116 $/barrel. Future prices have risen in the same proportion, so the profile expected for the next few months sets the cut in the annual rate back to November, when the annual rate will fall to 3.3%. In the medium term, the annual rate will stabilise at close to 2.2% after mid-2009 (see Graph II.9).

Graph II.9



Source: BLS & IFL Date: April 16, 2008

On the other hand, in the real sector, the industrial figures were somewhat better than expected. Industrial production and degree of used capacity were also slightly better than forecast. On the other hand, the housing sector figures, both housing starts and permits, were much worse than expected, especially in the case of housing starts. In all, the number of housing starts is now 1/3 that registered two years ago, and at a historic low. Expectations evidently worsen.

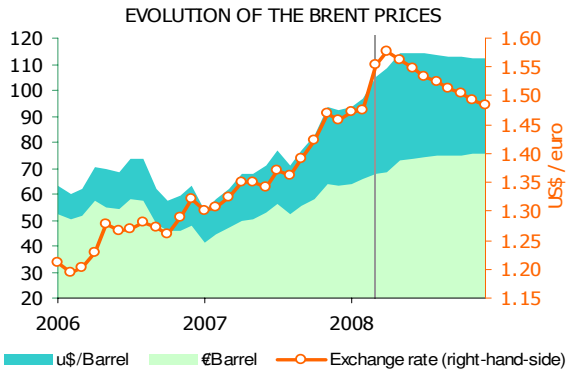
SPAIN

In Spain, inflationist risk is particularly severe. The Spanish inflation rate accumulates a differential of over one percentage point relative to the euro area. This means that growing international food and energy prices could lead to inflation rates of more than 4%. The evolution of international Brent prices, partly compensated by a favourable euro/dollar exchange rate, is conditioning the evolution of headline inflation. The heavy increases in spot and future Brent prices are pushing the total inflation rate in April up to over 4%, with the average for 2008 estimated at 4.2% (see Graphs II.10 and II.11).

In the least volatile part of inflation, the core component, we expect rates of over 3.0% until

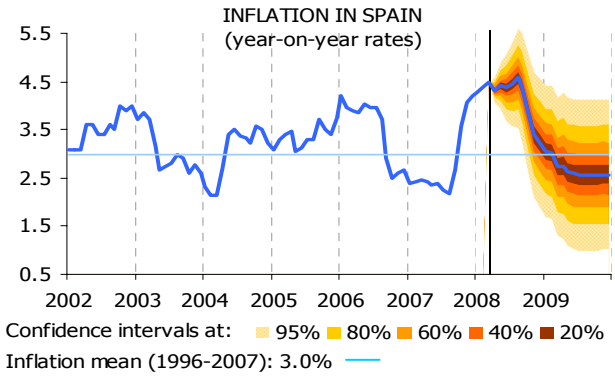
September, 2008, falling by one half of a percentage point thanks to an improvement in food inflation.

Graph II.10



Source: EIA, Consensus Forecasts, ECOWIN
Date: April 22, 2008

Graph II.11

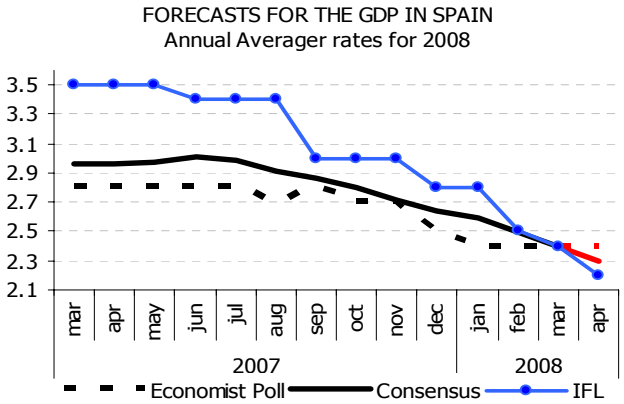


Source: INE & IFL (UC3M) Date: April 22, 2008

A second risk is to be found in the Spanish construction sector, which in the last few months has been undergoing an intense adjustment process after a long expansionary phase in which it was one of the main driving forces in the Spanish economy. For months now, the different sector indicators have been worse than expected, with constant downwards revisions in the forecasts for the sector's GVA or GFCF. This adjustment process is therefore more intense and faster than was initially expected. This deceleration in construction has been one of the principal factors causing the cycle change in our economy and it will continue to support deceleration throughout the next two years. Adjustment, however, is largely in the housing segment, as other constructions continue to be strong. We forecast a decline in the sector's GVA of 0.9% in 2008 and 1% in 2009. New housing prices, in spite of the fall in the sector's activity, continue to show a year-on-year growth rate of more than 5%, although they are significantly lower than in the previous quarters.

Globally considered, the Spanish economy is cooling down in general. The results of the indicators published in the last month concerning the Spanish economy in general show a continued decline in economic activity, which started to be visible in the middle of last year, but more intense than in the previous three months. Therefore, the revisions of our GDP growth forecasts for 2008-2009 have been systematically downwards in the last few months. These forecasts estimate GDP growth of 2.2% for 2008 and 1.7% for 2009, two tenths and half a percentage point, respectively, lower than the estimates calculated in March. A breakdown of the GDP shows that internal demand is solely responsible for the expected decline. On the supply side, all sectors are registering cuts, especially in the construction sector, on which a monograph is published in this Bulletin.

Graph II.12



Source: The Economist, The Consensus Forecast & IFL(UC3M)
Date: April 18, 2008

The reduction in growth of household consumption is largely due to less growth of employment but also helped by higher interest rates and more expensive products. On the other hand, salaries are rising because of safeguard clauses, which in 2008 are having a significant effect because of the considerable deviation between the finally observed inflation rate and the forecast rate and recently approved tax measures. Public consumption, however, is expected to remain strong in 2008 and 2009.

In the forecasts for employment, activity and employment in relation to the Active Population Survey for 2008-2009, we find that average annual growth of employment will continue to fall in 2008-2009 according to our previous forecasts, but more intensely, to go by the latest results for some relevant activity indicators. For 2008, the unemployment rate will be 9.9%, 1.6 points higher than in 2007, and it is expected to reach 11.4% in 2009. In both years, these rates represent an increase relative to the previous forecast, of 1.2 and 2.4 pp, respectively.

Closure date. April 28, 2008

III. THE ECONOMY IN THE EURO AREA.

III.1 MACROECONOMIC FORECASTS.

III.1.1 MACROECONOMIC TABLE AND INDICATORS IN THE ECONOMY OF THE EURO-AREA: ANNUAL RATES.

	Annual Rates				
	2005	2006	2007	Forecasts	
				2008	2009
GDP mp (1)	**1.7**	**2.9**	**2.6**	**1.7**	**1.8**
Demand					
Private Final Consumption	1.6	1.8	1.4	1.3	1.2
Public Final Consumption	1.5	2.1	2.1	1.6	1.7
Gross Capital Formation	3.1	5.7	4.6	2.5	2.8
Contribution Domestic Demand	1.9	2.7	2.2	1.6	1.6
Exports of Goods and Services	4.9	8.0	5.9	3.5	4.6
Imports of Goods and Services	5.7	7.9	5.2	3.2	4.3
Contribution Foreign Demand	-0.2	0.2	0.4	0.1	0.2
Suply					
Gross Value Added Total (market prices)	1.7	2.9	2.6	1.7	1.8
Gross Value Added Total (basic prices)	1.7	2.8	2.7	1.8	1.8
Gross Value Added Agriculture	-6.1	-1.0	2.0	-0.2	-0.1
Gross Value Added Industry	1.2	3.8	3.7	2.7	1.9
Gross Value Added Construction	1.7	4.7	3.1	-0.1	0.7
Gross Value Added Trade Services	1.8	3.0	2.7	1.5	1.6
Gross Value Added Financial Services	2.8	3.1	3.1	2.4	2.4
Gross Value Added Public Services	1.5	1.3	1.3	1.0	1.6
Prices (2)					
HICP, annual average rate	2.2	2.2	2.1	3.2	2.1
HICP, dec. / dec.	2.2	1.9	3.1	2.6	2.0
Labour market (3)					
Unemployment rate	8.9	8.3	7.4	7.2	7.1
Other Economic Indicators (4)					
Industrial Production Index (excluding construction)	1.3	4.0	3.4	2.9	2.2

The figures in the shaded area are forecasts.
(1) Data adjusted for seasonality and working days effect.
Source: EUROSTAT & IFL (UC3M)
Date: (1) March 12, 2008.
(2) April 25, 2008.
(3) April 1, 2008.
(4) April 14, 2008.

III.1.2 QUARTERLY FORECASTS OF GDP AND COMPONENTS OF DOMESTIC AND FOREIGN DEMAND.

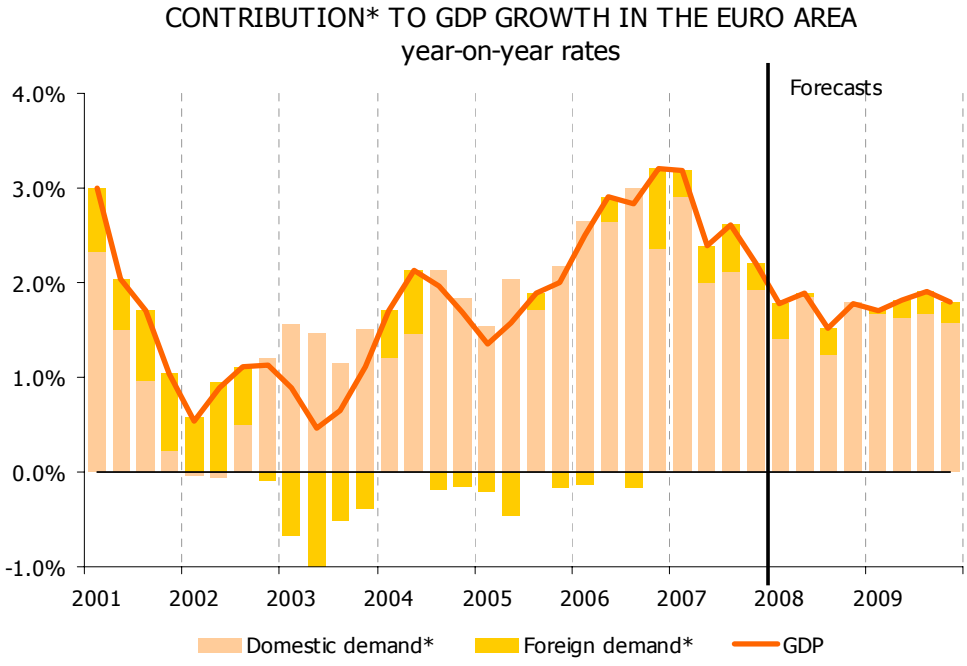
Table III.1.2.1

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA

			Final Consumption Expenditure		Gross Capital Formation	Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP
			Private	Public						
ANNUAL AVERAGE		2004	1.5	1.4	2.5	**1.7**	6.7	6.5	**0.2**	**1.9**
		2005	1.6	1.5	3.1	**1.9**	4.9	5.7	**-0.2**	**1.7**
		2006	1.8	2.1	5.7	**2.7**	8.0	7.9	**0.2**	**2.9**
		2007	1.4	2.1	4.6	**2.2**	5.9	5.2	**0.4**	**2.6**
		2008	1.3	1.6	2.5	**1.6**	3.5	3.2	**0.1**	**1.7**
		2009	1.2	1.7	2.8	**1.6**	4.6	4.3	**0.2**	**1.8**
ANNUAL RATES*	2007	QI	1.5	2.2	7.5	**2.9**	6.6	6.0	**0.3**	**3.2**
		QII	1.6	2.1	3.2	**2.0**	5.8	5.0	**0.4**	**2.4**
		QIII	1.6	2.2	3.3	**2.1**	7.0	6.0	**0.5**	**2.6**
		QIV	1.1	1.9	4.3	**1.9**	4.4	3.8	**0.3**	**2.2**
	2008	QI	1.5	1.4	1.4	**1.4**	3.9	3.1	**0.4**	**1.8**
		QII	1.2	1.6	3.8	**1.9**	3.9	4.0	**0.0**	**1.9**
		QIII	0.9	1.4	2.1	**1.2**	2.4	1.8	**0.3**	**1.5**
		QIV	1.5	1.9	2.7	**1.8**	3.7	3.8	**0.0**	**1.8**
	2009	QI	1.2	1.8	3.0	**1.7**	4.1	4.2	**0.0**	**1.7**
		QII	1.2	1.7	2.7	**1.6**	4.3	4.0	**0.2**	**1.8**
		QIII	1.3	1.6	2.7	**1.7**	5.1	4.7	**0.2**	**1.9**
		QIV	1.1	1.8	2.8	**1.6**	4.7	4.3	**0.2**	**1.8**

Data adjusted for seasonality and working days effect.
The figures in the shaded area are forecasts.
(1) Contribution to GDP growth.
* Year-on-year rates.
Source: EUROSTAT & IFL (UC3M).
Date: March 12, 2008.

Graph III.1.2.1



Data adjusted for seasonality and working days effect.
Source: EUROSTAT & IFL (UC3M).
Date: March 12, 2008.

Table III.1.2.2

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN THE EURO AREA

			GVA							
			Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services	TOTAL	Real GDP
ANNUAL AVERAGE		**2004**	10.4	2.1	0.8	2.3	1.6	1.5	**2.0**	**1.9**
		2005	-6.1	1.2	1.7	1.8	2.8	1.5	**1.7**	**1.7**
		2006	-1.0	3.8	4.7	3.0	3.1	1.3	**2.8**	**2.9**
		2007	2.0	3.7	3.1	2.7	3.1	1.3	**2.7**	**2.6**
		2008	-0.2	2.7	-0.1	1.5	2.4	1.0	**1.8**	**1.7**
		2009	-0.1	1.9	0.7	1.6	2.4	1.6	**1.8**	**1.8**
ANNUAL RATES*	2007	**QI**	2.9	3.7	7.1	3.3	3.4	1.3	**3.2**	**3.2**
		QII	1.7	3.4	2.6	2.7	2.9	1.4	**2.6**	**2.4**
		QIII	1.6	4.1	1.9	2.7	3.1	1.2	**2.7**	**2.6**
		QIV	2.0	3.6	1.0	2.1	3.0	1.3	**2.4**	**2.2**
	2008	**QI**	-1.0	3.2	-1.6	1.9	2.4	0.8	**1.8**	**1.8**
		QII	0.3	3.2	0.3	1.6	2.6	0.8	**1.9**	**1.9**
		QIII	0.8	1.8	0.3	1.2	2.4	1.1	**1.6**	**1.5**
		QIV	-0.9	2.8	0.5	1.2	2.4	1.3	**1.8**	**1.8**
	2009	**QI**	0.1	1.7	1.6	1.3	2.4	1.5	**1.7**	**1.7**
		QII	-0.3	2.1	0.5	1.5	2.3	1.6	**1.8**	**1.8**
		QIII	-0.4	2.2	0.6	1.8	2.5	1.7	**1.9**	**1.9**
		QIV	0.2	1.8	0.3	1.8	2.4	1.5	**1.7**	**1.8**

Data adjusted for seasonality and working days effect.
The figures in the shaded area are forecasts.
*Year-on-year rates.
Source: EUROSTAT & IFL (UC3M).
Date: March 12, 2008.

III.1.3 INDUSTRIAL PRODUCTION INDEX: MONTHLY AND QUARTERLY FORECASTS.

Table III.1.3.1

ANNUAL RATES OF GROWTH IN IPI AND SECTORS IN THE EURO AREA*

			Consumer Goods		Capital Goods	Intermediate Goods	Energy	TOTAL
			Durable	Non durable				
ANNUAL AVERAGE RATE		2004	0.1	0.6	3.4	2.4	2.2	2.1
		2005	-0.9	0.7	2.8	0.8	1.4	1.3
		2006	4.2	2.2	5.9	4.9	0.8	4.0
		2007	1.3	2.6	5.8	3.8	-0.4	3.4
		2008	-0.6	0.9	6.1	2.5	0.9	2.9
		2009	0.3	1.0	3.7	2.1	1.6	2.2
ANNUAL RATES**	2007	QI	4.5	3.6	7.0	6.7	-7.6	3.9
		QII	1.6	2.2	4.8	3.2	-0.2	2.8
		QIII	2.2	3.1	6.6	3.5	1.3	3.9
		QIV	-2.6	1.5	5.0	2.0	5.8	3.1
	2008	QI	-0.6	0.9	6.5	2.0	4.1	3.0
		QII	-0.9	0.6	7.2	3.0	1.6	3.4
		QIII	-3.0	0.4	4.4	1.9	-0.5	1.9
		QIV	1.7	1.5	6.3	3.2	-1.6	3.1
	2009	QI	0.0	0.9	3.5	2.0	1.9	2.1
		QII	0.3	1.0	3.7	2.2	1.4	2.3
		QIII	0.7	1.2	3.7	2.2	1.7	2.3
		QIV	0.2	1.0	3.7	2.2	1.3	2.2

The figures in the shaded area are forecasts.
* Adjusted by working days.
** Year-on-year rates.
Source: EUROSTAT & IFL (UC3M)
Date: April 14, 2008

Table III.1.3.2

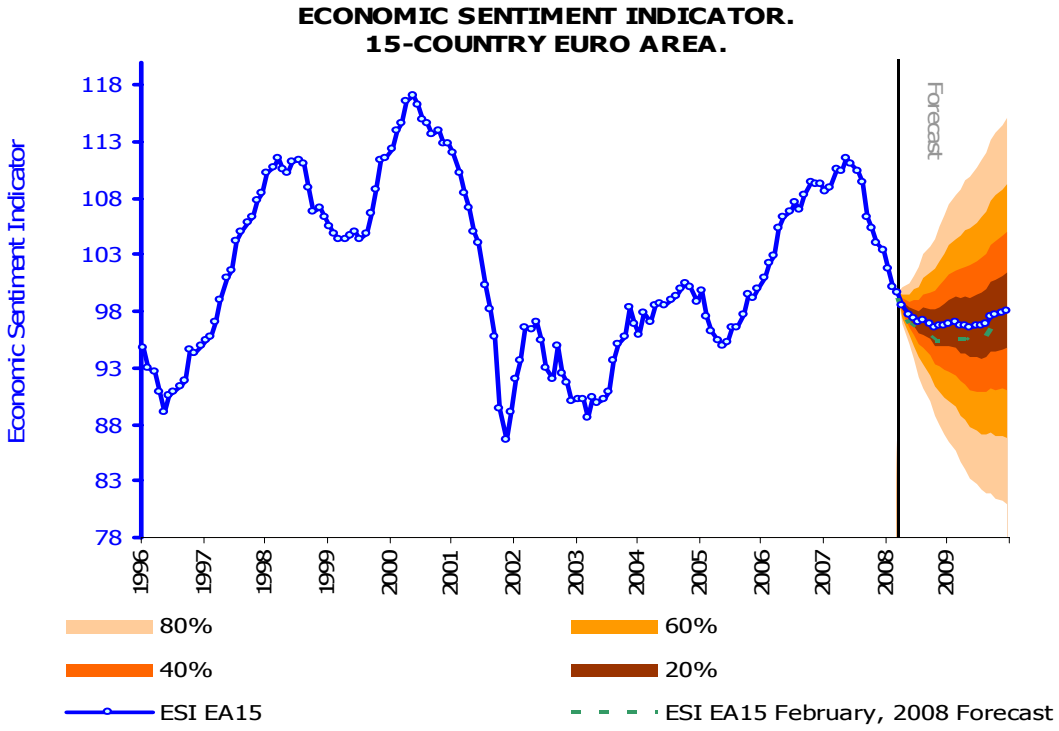
OBSERVED VALUES AND FORECASTS IN THE IPI* ANNUAL RATES IN THE EURO AREA

	2003	2004	2005	2006	2007	2008	2009
January	1.45	0.58	1.72	3.15	3.29	3.28	2.14
February	1.70	1.21	0.33	3.16	4.22	3.15	2.02
March	0.28	1.91	-0.13	4.46	4.16	2.74	2.25
April	0.52	1.81	1.47	1.89	3.08	4.45	2.23
May	-1.41	3.83	0.07	6.00	2.76	2.66	2.30
June	-1.81	4.00	0.78	4.91	2.71	3.16	2.27
July	0.84	2.78	0.71	3.53	3.96	2.35	2.22
August	-0.55	2.01	2.61	5.59	4.64	1.20	0.71
September	-1.20	3.86	1.43	3.60	3.28	1.92	3.64
October	1.28	1.59	0.49	4.19	4.38	2.46	2.39
November	0.70	1.09	3.28	2.93	3.08	3.54	2.01
December	2.19	0.95	3.21	4.99	1.74	3.32	2.24

* Adjusted by working days.
The figures in the shaded area are forecasts.
Source: EUROSTAT & IFL (UC3M)
Date: April 14, 2008

III.1.4 ECONOMIC SENTIMENT INDICATOR.

Graph III.1.4.1



Source: EUROPEAN COMISSION & IFL (UC3M)
Source: March 31, 2008

III.1.5 INFLATION.

Table III.1.5.1

FORECASTS IN THE ANNUAL AVERAGE RATE IN INFLATION IN THE EURO AREA

Harmonized Index of Consumer Price (HICP)	2005	2006	2007	Forecast	
				2008	2009
TOTAL (100%)	2.2	2.2	2.1	**3.2**	**2.1**
CORE (82.8%)	1.5	1.5	2.0	**2.5**	**2.1**
Processed food without tobacco (9.4%)	0.5	1.6	2.3	**7.2**	**2.9**
Processed food with tobacco (11.9%)	2.0	2.1	2.8	**6.5**	**3.5**
Non-energy industrial goods (30.0%)	0.3	0.6	1.0	**0.9**	**1.0**
Services (40.8%)	2.3	2.0	2.5	**2.6**	**2.5**
RESIDUAL (17.2%)	5.7	5.5	2.8	**6.5**	**2.3**
Non-Processed food (7.6%)	0.8	2.8	3.0	**2.7**	**2.0**
Energy (9.6%)	10.1	7.7	2.6	**9.4**	**2.4**

Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

Table III.1.5.2

HICP ANNUAL GROWTH BY COMPONENTS IN THE EURO AREA

		Harmonized Index of Consumer Prices										
		Core						Residual				
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL	80 % Confidence Intervals*	Non processed food	Energy	TOTAL	TOTAL	80 % Confidence Intervals*
	Weights 2008	9.6%	2.3%	29.8%	40.9%	82.6%		7.6%	9.8%	17.4%	100%	
ANNUAL AVERAGE RATE	1999	0.5	3.1	0.7	1.5	1.1		0.0	2.4	1.2	1.1	
	2000	0.7	3.4	0.5	1.5	1.0		1.8	13.0	7.4	2.1	
	2001	2.7	3.8	0.9	2.5	1.9		7.0	2.2	4.4	2.3	
	2002	2.4	5.9	1.5	3.1	2.5		3.1	-0.6	1.2	2.2	
	2003	2.1	8.4	0.8	2.5	2.0		2.1	3.0	2.6	2.1	
	2004	1.3	12.2	0.8	2.6	2.1		0.6	4.5	2.6	2.1	
	2005	0.5	7.8	0.3	2.3	1.5		0.8	10.1	5.7	2.2	
	2006	1.6	3.9	0.6	2.0	1.5		2.8	7.7	5.5	2.2	
	2007	2.3	4.5	1.0	2.5	2.0		3.0	2.6	2.8	2.1	
	2008	7.2	3.6	0.9	2.6	2.5	± 0.18	2.7	9.4	6.5	3.2	± 0.23
	2009	2.9	6.2	1.0	2.5	2.1	± 0.44	2.0	2.4	2.3	2.1	± 0.51
ANNUAL RATES (year-on-year rates)	2007 January	1.4	5.1	0.9	2.3	1.8		3.7	0.9	2.1	1.8	
	2007 February	1.2	5.6	1.1	2.4	1.9		2.8	0.8	1.6	1.8	
	2007 March	1.1	4.9	1.2	2.4	1.9		2.9	1.8	2.3	1.9	
	2007 April	1.1	5.0	1.1	2.5	1.9		3.9	0.4	1.9	1.9	
	2007 May	1.1	4.9	1.0	2.6	1.9		3.1	0.3	1.5	1.9	
	2007 June	1.3	4.8	1.0	2.6	1.9		3.0	0.9	1.8	1.9	
	2007 July	1.3	4.3	0.9	2.6	1.9		2.8	0.0	1.2	1.8	
	2007 August	1.8	5.2	1.0	2.6	2.0		2.4	-0.9	0.5	1.7	
	2007 September	2.6	5.2	1.0	2.5	2.0		2.1	3.0	2.6	2.1	
	2007 October	4.0	3.1	1.1	2.5	2.1		3.1	5.5	4.5	2.6	
	2007 November	4.9	3.3	1.1	2.5	2.3		3.0	9.7	6.8	3.1	
	2007 December	5.6	3.1	1.0	2.5	2.3		3.1	9.2	6.5	3.1	
	2008 January	6.6	3.0	0.7	2.5	2.3		3.3	10.6	7.4	3.2	
	2008 February	7.4	3.2	0.8	2.4	2.4		3.2	10.4	7.2	3.3	
	2008 March	7.7	3.3	0.9	2.8	2.7		3.8	11.2	8.0	3.6	
	2008 April	7.9	3.5	0.9	2.4	2.5	± 0.13	3.0	10.5	7.2	3.3	± 0.12
	2008 May	8.2	3.6	1.0	2.5	2.6	± 0.19	3.5	10.1	7.2	3.4	± 0.23
	2008 June	8.3	3.7	1.0	2.6	2.7	± 0.24	3.2	9.8	6.9	3.4	± 0.32
	2008 July	8.4	3.9	0.9	2.5	2.7	± 0.27	2.9	9.4	6.5	3.3	± 0.38
	2008 August	8.1	3.2	0.9	2.6	2.6	± 0.30	2.4	10.5	6.9	3.4	± 0.44
	2008 September	7.6	3.4	1.0	2.6	2.6	± 0.33	2.4	9.8	6.5	3.3	± 0.48
	2008 October	6.3	3.9	1.0	2.6	2.5	± 0.36	1.9	9.3	6.0	3.1	± 0.51
	2008 November	5.5	4.1	1.0	2.6	2.4	± 0.39	1.5	5.5	3.7	2.6	± 0.54
	2008 December	5.0	4.8	1.0	2.6	2.3	± 0.42	1.4	6.0	4.0	2.6	± 0.57
	2009 January	4.3	5.6	1.0	2.5	2.3	± 0.44	1.5	5.4	3.7	2.5	± 0.60
	2009 February	3.7	5.5	1.0	2.5	2.2	± 0.46	2.1	5.5	4.0	2.5	± 0.60
	2009 March	3.4	6.2	1.0	2.3	2.1	± 0.47	2.0	3.0	2.6	2.1	± 0.62
	2009 April	3.2	6.3	1.0	2.7	2.2	± 0.48	2.0	2.3	2.2	2.2	± 0.63
	2009 May	3.0	6.3	1.0	2.5	2.1	± 0.47	2.0	1.8	1.9	2.1	± 0.63
	2009 June	2.8	6.3	1.0	2.5	2.1	± 0.49	2.0	1.6	1.8	2.0	± 0.64
	2009 July	2.7	6.3	1.0	2.5	2.1	± 0.48	2.0	1.6	1.8	2.0	± 0.63
	2009 August	2.6	6.3	1.0	2.5	2.0	± 0.47	2.0	1.6	1.8	2.0	± 0.63
	2009 September	2.5	6.3	1.0	2.5	2.0	± 0.49	2.0	1.6	1.8	2.0	± 0.63
	2009 October	2.4	6.4	1.0	2.5	2.0	± 0.50	2.0	1.6	1.8	2.0	± 0.63
	2009 November	2.3	6.4	1.0	2.5	2.0	± 0.51	2.0	1.8	1.9	2.0	± 0.63
	2009 December	2.2	6.5	1.0	2.5	2.0	± 0.51	2.0	1.7	1.9	2.0	± 0.63

* Confidence intervals calculated with historical errors.
The figures in the shaded area are forecasts
Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

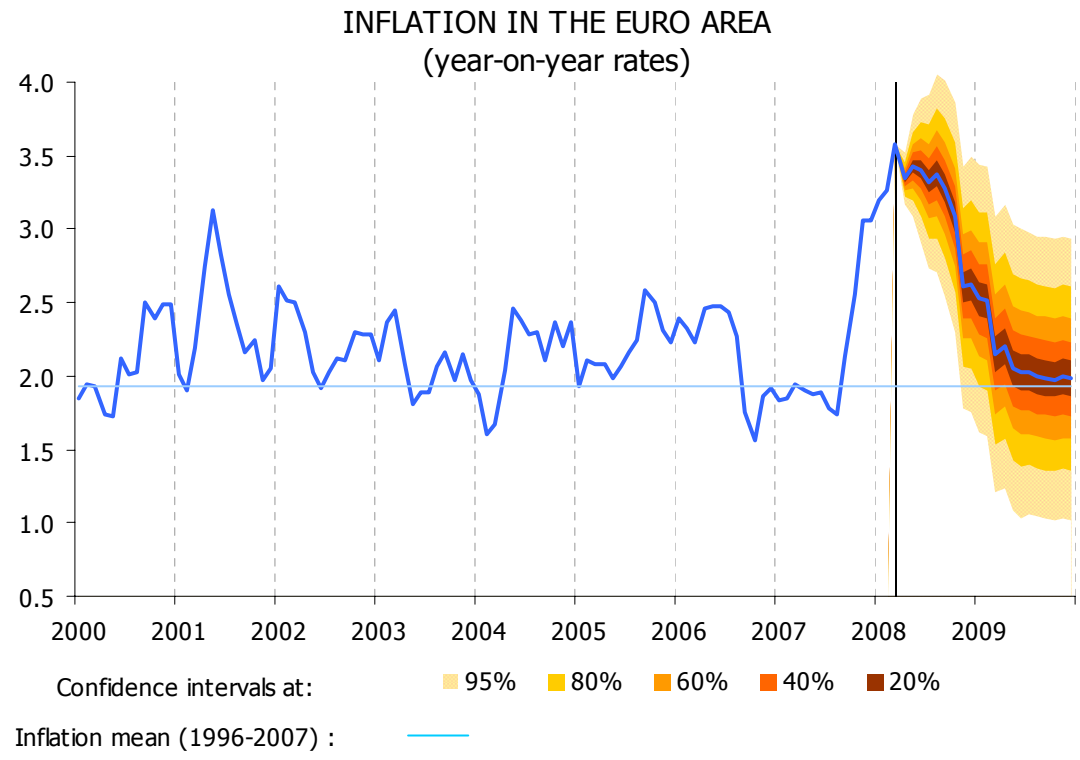
Table III.1.5.3

HICP MONTHLY GROWTH BY COMPONENTS IN THE EURO AREA

			Harmonized Index of Consumer Prices								
			Core					Residual			
			Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL	Non processed food	Energy	TOTAL	TOTAL
		Weights 2008	9.6%	2.3%	29.8%	40.9%	82.6%	7.6%	9.8%	17.4%	100%
MONTHLY RATES (Growth of the month over the previous month)	January	2006	0.3	0.0	-2.0	-0.4	-0.9	0.9	2.4	1.8	-0.4
		2007	0.2	0.7	-2.0	-0.1	-0.7	0.9	0.4	0.6	-0.5
		2008	1.0	0.6	-2.3	-0.2	-0.8	1.2	1.6	1.4	-0.4
		2009	**0.4**	**1.5**	**-2.2**	**-0.2**	**-0.8**	**1.3**	**1.0**	**1.2**	**-0.5**
	February	2006	0.3	0.0	0.0	0.4	0.2	0.4	0.4	0.4	0.3
		2007	0.1	0.4	0.2	0.5	0.4	-0.5	0.3	0.0	0.3
		2008	0.9	0.6	0.3	0.5	0.5	-0.6	0.1	-0.2	0.3
		2009	**0.3**	**0.4**	**0.3**	**0.5**	**0.4**	**-0.1**	**0.2**	**0.1**	**0.3**
	March	2006	0.2	0.8	1.6	0.1	0.7	-0.2	0.5	0.2	0.6
		2007	0.2	0.1	1.6	0.0	0.6	-0.1	1.5	0.8	0.7
		2008	0.4	0.2	1.7	0.4	0.9	0.5	2.3	1.5	1.0
		2009	**0.2**	**0.9**	**1.7**	**0.2**	**0.7**	**0.5**	**-0.1**	**0.2**	**0.6**
	April	2006	0.1	0.1	0.8	0.2	0.4	0.4	2.8	1.7	0.7
		2007	0.1	0.3	0.7	0.4	0.5	1.4	1.4	1.4	0.6
		2008	**0.4**	**0.5**	**0.8**	**0.0**	**0.3**	**0.7**	**0.7**	**0.7**	**0.4**
		2009	**0.2**	**0.6**	**0.8**	**0.3**	**0.5**	**0.7**	**0.1**	**0.3**	**0.4**
	May	2006	0.1	0.2	0.2	0.1	0.1	0.9	1.0	1.0	0.3
		2007	0.1	0.1	0.1	0.2	0.2	0.1	0.9	0.6	0.2
		2008	**0.3**	**0.2**	**0.2**	**0.4**	**0.3**	**0.5**	**0.5**	**0.5**	**0.3**
		2009	**0.2**	**0.2**	**0.1**	**0.2**	**0.2**	**0.5**	**0.1**	**0.3**	**0.2**
	June	2006	0.0	0.3	-0.2	0.3	0.1	0.2	-0.1	0.1	0.1
		2007	0.1	0.1	-0.2	0.2	0.0	0.1	0.5	0.3	0.1
		2008	**0.3**	**0.2**	**-0.2**	**0.2**	**0.1**	**-0.1**	**0.3**	**0.1**	**0.1**
		2009	**0.1**	**0.2**	**-0.2**	**0.2**	**0.1**	**-0.1**	**0.1**	**0.0**	**0.0**
	July	2006	0.1	0.5	-2.0	0.8	-0.3	-0.2	1.4	0.7	-0.1
		2007	0.2	0.0	-2.1	0.8	-0.3	-0.4	0.5	0.1	-0.2
		2008	**0.2**	**0.2**	**-2.1**	**0.8**	**-0.3**	**-0.7**	**0.1**	**-0.3**	**-0.3**
		2009	**0.1**	**0.2**	**-2.1**	**0.8**	**-0.3**	**-0.7**	**0.1**	**-0.3**	**-0.3**
	August	2006	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.0	0.1
		2007	0.5	0.8	0.2	0.2	0.2	-0.3	-0.9	-0.7	0.1
		2008	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**	**-0.8**	**0.1**	**-0.3**	**0.1**
		2009	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**-0.8**	**0.1**	**-0.3**	**0.1**
	September	2006	0.1	0.2	1.5	-0.4	0.3	0.6	-3.2	-1.6	0.0
		2007	0.8	0.2	1.5	-0.5	0.4	0.2	0.6	0.5	0.4
		2008	**0.3**	**0.4**	**1.5**	**-0.5**	**0.3**	**0.2**	**0.0**	**0.1**	**0.3**
		2009	**0.2**	**0.4**	**1.5**	**-0.5**	**0.3**	**0.2**	**0.1**	**0.1**	**0.3**
	October	2006	0.1	2.0	0.7	0.0	0.4	-0.4	-1.8	-1.2	0.1
		2007	**1.5**	**0.0**	**0.8**	**0.0**	**0.5**	**0.6**	**0.6**	**0.6**	**0.5**
		2008	**0.3**	**0.5**	**0.8**	**0.0**	**0.3**	**0.2**	**0.1**	**0.1**	**0.3**
		2009	**0.2**	**0.5**	**0.8**	**0.0**	**0.3**	**0.2**	**0.1**	**0.1**	**0.3**
	November	2006	0.1	0.1	0.3	-0.1	0.0	0.6	-0.5	0.0	0.0
		2007	1.0	0.2	0.3	-0.1	0.2	0.5	3.4	2.2	0.5
		2008	**0.2**	**0.4**	**0.3**	**-0.1**	**0.1**	**0.1**	**-0.2**	**0.0**	**0.1**
		2009	**0.2**	**0.4**	**0.3**	**-0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
	December	2006	0.0	0.3	0.0	0.9	0.4	0.4	0.1	0.2	0.4
		2007	0.7	0.1	-0.1	0.9	0.5	0.5	-0.3	0.0	0.4
		2008	**0.2**	**0.7**	**-0.1**	**0.9**	**0.5**	**0.4**	**0.1**	**0.2**	**0.4**
		2009	**0.2**	**0.8**	**-0.1**	**0.9**	**0.4**	**0.4**	**0.1**	**0.2**	**0.4**

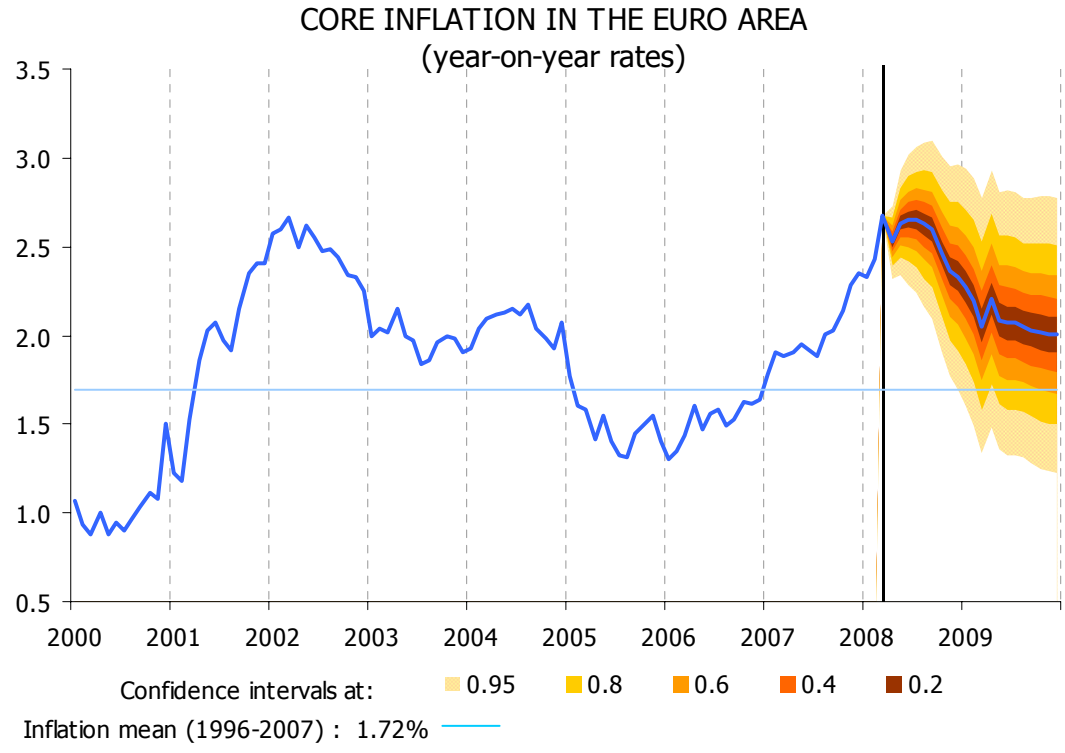
The figures in the shaded area are forecasts.
Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

Graph III.1.5.1



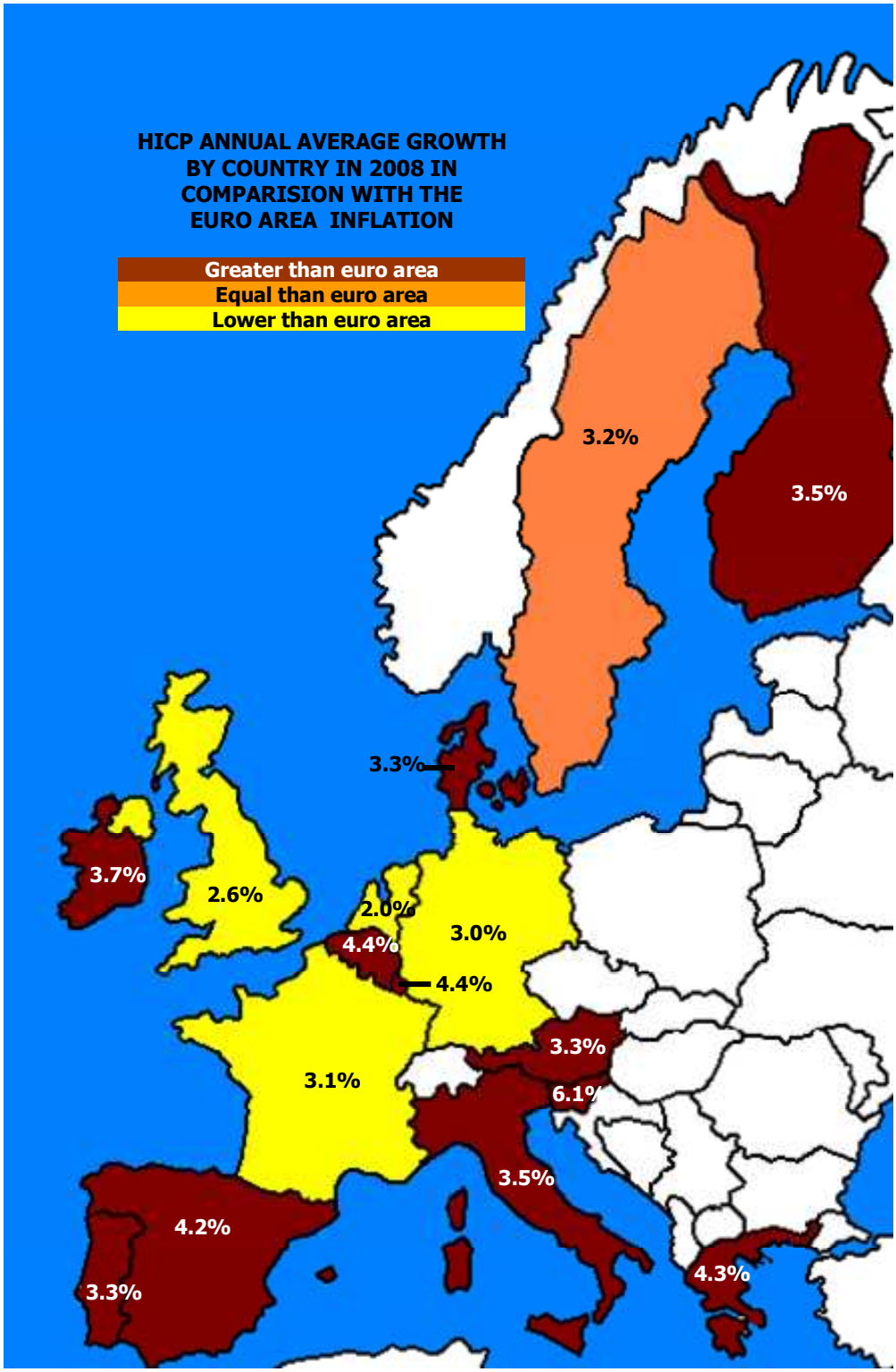
Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

Graph III.1.5.2



Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

Graph III.1.5.3



Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

Table III.1.5.4

HICP ANNUAL GROWTH BY COUNTRY IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK

		Euro Area															United Kingdom	Sweden	Denmark
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovenia	Luxembourg	Cyprus	Malta			
	Weights 2008 %	27.0	20.5	18.6	12.7	5.0	3.4	3.1	3.4	2.2	1.6	1.5	0.3	0.3	0.2	0.1			
ANNUAL AVERAGE RATE	2000	1.4	1.8	2.6	3.5	2.3	2.7	2.0	2.9	2.8	2.9	5.3	8.9	3.8	4.9	3.0	0.8	1.3	2.7
	2001	1.9	1.8	2.3	2.8	5.1	2.4	2.3	3.7	4.4	2.7	4.0	8.6	2.4	2.0	2.5	1.2	2.7	2.3
	2002	1.4	1.9	2.6	3.6	3.9	1.6	1.7	3.9	3.7	2.0	4.7	7.5	2.1	2.8	2.6	1.3	1.9	2.4
	2003	1.0	2.2	2.8	3.1	2.2	1.5	1.3	3.4	3.3	1.3	4.0	5.7	2.5	4.0	1.9	1.4	2.3	2.0
	2004	1.8	2.3	2.3	3.1	1.4	1.9	2.0	3.0	2.5	0.1	2.3	3.7	3.2	1.9	2.7	1.3	1.0	0.9
	2005	1.9	1.9	2.2	3.4	1.5	2.5	2.1	3.5	2.1	0.8	2.2	2.5	3.8	2.0	2.5	2.0	0.8	1.7
	2006	1.8	1.9	2.2	3.6	1.7	2.3	1.7	3.3	3.0	1.3	2.7	2.5	3.0	2.2	2.6	2.3	1.5	1.9
	2007	2.3	1.6	2.0	2.8	1.6	1.8	2.2	3.0	2.4	1.6	2.9	3.8	2.7	2.2	0.7	2.3	1.7	1.7
	2008	**3.0**	**3.1**	**3.5**	**4.2**	**2.0**	**4.4**	**3.3**	**4.3**	**3.3**	**3.5**	**3.7**	**6.1**	**4.4**	**4.3**	**4.2**	**2.6**	**3.2**	**3.3**
	2009	**2.2**	**1.8**	**2.8**	**2.7**	**2.0**	**3.2**	**2.9**	**3.9**	**3.0**	**2.2**	**3.4**	**4.9**	**4.1**	**3.4**	**2.9**	**2.3**	**2.5**	**2.1**
ANNUAL RATES (year-on-year rates)	2007 January	1.8	1.4	1.9	2.4	1.2	1.7	1.7	3.0	2.6	1.3	2.9	2.8	2.3	1.4	1.2	2.7	1.6	1.8
	February	1.9	1.2	2.1	2.5	1.4	1.8	1.7	3.0	2.3	1.2	2.6	2.3	1.8	1.2	0.8	2.8	1.7	1.9
	March	2.0	1.2	2.1	2.5	1.9	1.8	1.9	2.8	2.4	1.6	2.9	2.6	2.4	1.4	0.5	3.1	1.6	1.9
	April	2.0	1.3	1.8	2.5	1.9	1.8	1.8	2.6	2.8	1.5	2.9	2.9	2.5	1.6	-1.1	2.8	1.6	1.7
	May	2.0	1.2	1.9	2.4	2.0	1.3	1.9	2.6	2.4	1.3	2.7	3.1	2.3	1.9	-1.0	2.5	1.2	1.7
	June	2.0	1.3	1.9	2.5	1.8	1.3	1.9	2.6	2.4	1.4	2.8	3.8	2.3	1.7	-0.6	2.4	1.3	1.3
	July	2.0	1.2	1.7	2.3	1.4	1.3	2.0	2.7	2.3	1.6	2.7	4.0	2.0	2.3	-0.2	1.9	1.4	1.1
	August	2.0	1.3	1.7	2.2	1.1	1.2	1.7	2.7	1.9	1.3	2.3	3.4	1.9	2.2	0.6	1.7	1.2	0.9
	September	2.7	1.6	1.7	2.7	1.3	1.4	2.1	2.9	2.0	1.7	2.9	3.6	2.5	2.3	0.9	1.7	1.6	1.2
	October	2.7	2.1	2.3	3.6	1.6	2.2	2.9	3.0	2.5	1.8	3.0	5.1	3.6	2.7	1.6	2.0	1.9	1.8
	November	3.3	2.6	2.6	4.1	1.8	2.9	3.2	3.9	2.8	2.2	3.5	5.7	4.0	3.2	2.9	2.1	2.4	2.5
	December	3.1	2.8	2.8	4.3	1.6	3.1	3.5	3.9	2.7	1.9	3.2	5.7	4.3	3.7	3.1	2.1	2.5	2.4
	2008 January	2.9	3.2	3.1	4.4	1.8	3.5	3.1	3.9	2.9	3.5	3.1	6.4	4.2	4.1	3.8	2.2	3.0	3.0
	February	2.9	3.2	3.1	4.4	2.0	3.6	3.1	4.5	2.9	3.3	3.5	6.4	4.2	4.7	4.0	2.5	2.9	3.3
	March	3.3	3.5	3.6	4.6	1.9	4.4	3.5	4.4	3.1	3.6	3.7	6.6	4.4	4.4	4.3	2.5	3.2	3.3
	April	**3.1**	**3.3**	**3.6**	**4.4**	**1.8**	**4.4**	**3.5**	**4.5**	**3.0**	**3.5**	**3.8**	**6.7**	**4.2**	**4.4**	**5.1**	**2.5**	**3.3**	**3.3**
	May	**3.2**	**3.3**	**3.7**	**4.5**	**1.8**	**4.5**	**3.5**	**4.4**	**3.1**	**3.6**	**3.9**	**6.3**	**4.2**	**4.4**	**5.0**	**2.6**	**3.4**	**3.3**
	June	**3.2**	**3.3**	**3.6**	**4.4**	**1.8**	**4.7**	**3.5**	**4.4**	**3.3**	**3.6**	**3.9**	**6.1**	**4.2**	**4.6**	**4.8**	**2.5**	**3.4**	**3.6**
	July	**3.1**	**3.3**	**3.6**	**4.5**	**2.1**	**4.8**	**3.5**	**4.4**	**3.4**	**3.5**	**3.9**	**6.4**	**4.5**	**4.3**	**4.6**	**2.8**	**3.4**	**3.7**
	August	**3.2**	**3.2**	**3.6**	**4.6**	**2.2**	**5.0**	**3.6**	**4.4**	**3.7**	**3.7**	**4.1**	**6.4**	**4.6**	**4.5**	**4.3**	**2.8**	**3.4**	**3.8**
	September	**3.0**	**3.2**	**3.6**	**4.4**	**2.2**	**5.3**	**3.4**	**4.4**	**3.8**	**3.6**	**3.9**	**6.3**	**4.9**	**4.4**	**4.0**	**2.9**	**3.3**	**3.8**
	October	**3.0**	**3.0**	**3.4**	**3.9**	**2.1**	**4.9**	**3.1**	**4.3**	**3.7**	**3.5**	**3.8**	**5.7**	**4.7**	**4.2**	**4.0**	**2.7**	**3.1**	**3.4**
	November	**2.6**	**2.6**	**3.3**	**3.4**	**1.9**	**3.8**	**3.0**	**4.1**	**3.5**	**3.2**	**3.5**	**5.4**	**4.6**	**4.0**	**3.3**	**2.6**	**2.9**	**2.7**
	December	**2.9**	**2.4**	**3.2**	**3.3**	**2.0**	**3.7**	**2.8**	**4.1**	**3.5**	**3.3**	**3.6**	**5.2**	**4.5**	**3.8**	**3.4**	**2.5**	**2.8**	**2.7**
	2009 **January**	**2.7**	**2.1**	**3.0**	**3.1**	**2.1**	**3.6**	**3.0**	**4.1**	**3.4**	**2.4**	**3.7**	**5.0**	**4.4**	**3.6**	**3.1**	**2.5**	**2.6**	**2.4**
	February	**2.6**	**2.2**	**3.0**	**3.1**	**2.0**	**3.6**	**3.0**	**3.9**	**3.3**	**2.5**	**3.5**	**5.2**	**4.4**	**3.3**	**3.1**	**2.3**	**2.6**	**2.0**
	March	**2.3**	**1.9**	**2.8**	**2.8**	**1.9**	**3.3**	**2.8**	**3.9**	**3.0**	**2.2**	**3.4**	**5.0**	**4.0**	**3.5**	**2.8**	**2.2**	**2.5**	**2.1**
	April	**2.2**	**1.8**	**2.8**	**2.8**	**1.9**	**3.2**	**2.8**	**3.9**	**3.0**	**2.2**	**3.3**	**4.8**	**4.0**	**3.4**	**2.8**	**2.3**	**2.5**	**2.1**
	May	**2.1**	**1.8**	**2.8**	**2.6**	**1.9**	**3.3**	**2.9**	**3.9**	**3.0**	**2.2**	**3.3**	**4.8**	**4.0**	**3.4**	**2.8**	**2.3**	**2.4**	**2.1**
	June	**2.0**	**1.7**	**2.8**	**2.6**	**1.9**	**3.2**	**2.8**	**3.9**	**3.0**	**2.2**	**3.3**	**4.8**	**4.0**	**3.2**	**2.8**	**2.3**	**2.4**	**2.1**
	July	**2.0**	**1.7**	**2.8**	**2.6**	**1.9**	**3.2**	**2.8**	**3.9**	**3.0**	**2.2**	**3.3**	**4.8**	**4.0**	**3.4**	**2.8**	**2.3**	**2.4**	**2.1**
	August	**2.0**	**1.7**	**2.8**	**2.6**	**1.9**	**3.1**	**2.8**	**3.9**	**3.0**	**2.2**	**3.2**	**4.8**	**3.9**	**3.2**	**2.8**	**2.3**	**2.4**	**2.1**
	September	**2.0**	**1.7**	**2.8**	**2.6**	**1.9**	**3.0**	**2.9**	**3.9**	**3.0**	**2.2**	**3.2**	**4.8**	**4.0**	**3.3**	**2.8**	**2.3**	**2.5**	**2.1**
	October	**2.0**	**1.7**	**2.8**	**2.6**	**1.9**	**3.0**	**3.0**	**3.9**	**3.0**	**2.2**	**3.3**	**4.8**	**4.1**	**3.4**	**2.8**	**2.3**	**2.5**	**2.1**
	November	**2.0**	**1.7**	**2.8**	**2.6**	**1.9**	**3.0**	**3.1**	**4.0**	**3.0**	**2.2**	**3.4**	**4.8**	**4.2**	**3.5**	**2.8**	**2.3**	**2.7**	**2.1**
	December	**2.0**	**1.7**	**2.8**	**2.6**	**1.9**	**3.0**	**3.1**	**4.0**	**3.0**	**2.2**	**3.4**	**4.8**	**4.2**	**3.5**	**2.8**	**2.3**	**2.7**	**2.1**

The figures in the shaded area are forecasts.
Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

Table III.1.5.5

HICP MONTHLY GROWTH BY COUNTRY IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK

			Euro Area																	
			Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovenia	Luxembourg	Cyprus	Malta	United Kingdom	Sweden	Denmark
		Weights 2008 ‰	27.0	20.5	18.6	12.7	5.0	3.4	3.1	3.4	2.2	1.6	1.5	0.3	0.3	0.2	0.1			
MONTHLY RATES (Growth of the month over the previous month)	January	2006	-0.6	-0.1	-0.9	-0.5	0.2	-1.3	-0.1	-0.2	-0.4	-0.4	-0.5	-0.3	-0.4	-1.7	-1.5	-0.5	-0.7	-0.4
		2007	-0.2	-0.4	-1.1	-0.7	-0.2	-1.7	0.1	-0.4	-0.3	-0.3	-0.6	-0.5	-0.3	-1.7	-1.1	-0.8	-0.5	-0.3
		2008	-0.4	0.0	-0.8	-0.6	0.0	-1.3	-0.3	-0.3	-0.1	1.2	-0.7	0.1	-0.4	-1.4	-0.4	-0.7	0.0	0.3
		2009	**-0.6**	**-0.3**	**-1.0**	**-0.8**	**0.1**	**-1.4**	**-0.1**	**-0.4**	**-0.2**	**0.2**	**-0.6**	**-0.1**	**-0.5**	**-1.6**	**-0.7**	**-0.6**	**-0.2**	**0.0**
	February	2006	0.4	0.4	-0.1	0.1	0.5	2.3	0.3	-1.6	0.2	0.8	1.2	0.4	1.5	-0.1	0.6	0.4	0.4	0.7
		2007	0.5	0.2	0.1	0.1	0.7	2.4	0.3	-1.6	0.0	0.6	0.9	-0.1	1.0	-0.3	0.2	0.5	0.5	0.8
		2008	0.5	0.2	0.1	0.1	0.9	2.5	0.3	-1.0	0.0	0.5	1.2	-0.1	1.0	0.3	0.4	0.8	0.4	1.0
		2009	**0.4**	**0.3**	**0.1**	**0.1**	**0.7**	**2.4**	**0.3**	**-1.1**	**-0.1**	**0.6**	**1.1**	**0.1**	**1.0**	**0.1**	**0.4**	**0.5**	**0.4**	**0.7**
	March	2006	0.1	0.4	1.2	0.7	0.8	-0.1	0.3	2.7	1.2	0.3	0.3	0.7	0.2	1.2	1.1	0.2	0.7	0.5
		2007	0.2	0.5	1.2	0.8	1.3	0.0	0.5	2.5	1.3	0.7	0.7	1.1	0.7	1.3	0.8	0.5	0.6	0.5
		2008	0.5	0.8	1.6	0.9	1.2	0.7	0.9	2.3	1.5	1.0	0.9	1.3	0.9	1.1	1.1	0.4	0.9	0.5
		2009	**0.2**	**0.5**	**1.4**	**0.6**	**1.1**	**0.5**	**0.7**	**2.4**	**1.1**	**0.7**	**0.8**	**1.1**	**0.5**	**1.2**	**0.9**	**0.4**	**0.7**	**0.6**
	April	2006	0.4	0.4	0.9	1.4	0.5	0.6	0.6	1.0	0.6	0.5	0.5	0.9	0.5	1.0	4.2	0.6	0.5	0.5
		2007	0.4	0.5	0.6	1.4	0.6	0.5	0.4	0.8	0.9	0.5	0.5	1.1	0.6	1.3	2.5	0.3	0.5	0.3
		2008	**0.2**	**0.3**	**0.6**	**1.2**	**0.5**	**0.5**	**0.4**	**0.9**	**0.8**	**0.4**	**0.5**	**1.2**	**0.4**	**1.2**	**3.3**	**0.4**	**0.5**	**0.3**
		2009	**0.2**	**0.3**	**0.6**	**1.2**	**0.5**	**0.5**	**0.4**	**0.9**	**0.8**	**0.4**	**0.5**	**1.0**	**0.4**	**1.2**	**3.3**	**0.4**	**0.5**	**0.3**
	May	2006	0.2	0.4	0.3	0.4	0.0	0.4	0.0	0.1	0.5	-0.1	0.5	0.9	0.6	0.2	0.6	0.5	0.2	0.2
		2007	0.2	0.3	0.4	0.3	0.0	-0.1	0.2	0.2	0.2	-0.3	0.3	1.1	0.4	0.5	0.7	0.3	-0.1	0.2
		2008	**0.2**	**0.2**	**0.4**	**0.4**	**0.0**	**-0.1**	**0.1**	**0.2**	**0.3**	**-0.2**	**0.4**	**0.8**	**0.4**	**0.4**	**0.6**	**0.3**	**0.0**	**0.2**
		2009	**0.1**	**0.2**	**0.4**	**0.2**	**0.0**	**0.0**	**0.1**	**0.2**	**0.3**	**-0.2**	**0.3**	**0.8**	**0.4**	**0.4**	**0.6**	**0.3**	**-0.1**	**0.2**
	June	2006	0.1	0.0	0.1	0.2	-0.3	0.1	0.0	-0.1	0.0	0.0	0.2	-0.3	0.3	0.2	-0.2	0.3	0.0	0.2
		2007	0.1	0.1	0.2	0.2	-0.5	0.1	0.0	0.0	0.0	0.1	0.3	0.3	0.2	0.0	0.2	0.2	0.1	-0.2
		2008	**0.1**	**0.1**	**0.1**	**0.1**	**-0.5**	**0.3**	**0.1**	**-0.1**	**0.1**	**0.1**	**0.3**	**0.2**	**0.3**	**0.2**	**0.1**	**0.1**	**0.1**	**0.0**
		2009	**0.1**	**0.1**	**0.1**	**0.1**	**-0.5**	**0.2**	**0.0**	**0.0**	**0.1**	**0.1**	**0.3**	**0.2**	**0.3**	**0.0**	**0.1**	**0.1**	**0.1**	**0.0**
	July	2006	0.5	-0.2	-0.3	-0.5	-0.4	-1.1	-0.2	-0.8	-0.1	-0.5	-0.1	-0.3	-0.6	-1.3	0.4	0.0	-0.3	-0.3
		2007	0.5	-0.3	-0.6	-0.7	-0.8	-1.1	-0.1	-0.8	-0.2	-0.3	-0.2	-0.1	-0.8	-0.7	0.7	-0.6	-0.3	-0.5
		2008	**0.3**	**-0.3**	**-0.6**	**-0.6**	**-0.5**	**-1.0**	**-0.1**	**-0.8**	**-0.2**	**-0.4**	**-0.2**	**0.2**	**-0.5**	**-1.0**	**0.5**	**-0.3**	**-0.3**	**-0.4**
		2009	**0.3**	**-0.3**	**-0.6**	**-0.6**	**-0.5**	**-1.0**	**-0.1**	**-0.8**	**-0.2**	**-0.4**	**-0.2**	**0.2**	**-0.6**	**-0.8**	**0.5**	**-0.3**	**-0.3**	**-0.4**
	August	2006	-0.1	0.3	-0.2	0.2	0.5	1.7	0.3	-1.0	-0.1	0.3	0.8	0.7	1.1	0.6	-0.3	0.4	0.0	0.0
		2007	-0.1	0.4	-0.2	0.2	0.1	1.6	0.0	-1.0	-0.4	0.0	0.4	0.1	0.9	0.5	0.5	0.3	-0.1	-0.2
		2008	**0.0**	**0.3**	**-0.2**	**0.3**	**0.2**	**1.8**	**0.2**	**-1.0**	**-0.1**	**0.2**	**0.6**	**0.2**	**1.0**	**0.7**	**0.2**	**0.3**	**0.0**	**-0.1**
		2009	**0.0**	**0.3**	**-0.2**	**0.3**	**0.2**	**1.7**	**0.1**	**-1.0**	**-0.1**	**0.2**	**0.5**	**0.2**	**1.0**	**0.6**	**0.2**	**0.3**	**-0.1**	**-0.1**
	September	2006	-0.5	-0.2	0.7	-0.2	0.5	-0.5	-0.1	2.0	0.4	0.1	-0.3	0.3	-0.6	1.2	0.2	0.1	0.5	0.4
		2007	0.2	0.1	0.8	0.3	0.7	-0.2	0.2	2.3	0.4	0.4	0.3	0.4	0.1	1.3	0.5	0.1	0.8	0.7
		2008	**0.0**	**0.1**	**0.8**	**0.1**	**0.7**	**0.1**	**0.1**	**2.2**	**0.5**	**0.4**	**0.1**	**0.3**	**0.4**	**1.1**	**0.3**	**0.2**	**0.7**	**0.6**
		2009	**0.0**	**0.1**	**0.8**	**0.1**	**0.7**	**0.0**	**0.1**	**2.2**	**0.5**	**0.4**	**0.1**	**0.3**	**0.5**	**1.3**	**0.3**	**0.2**	**0.7**	**0.6**
	October	2006	0.1	-0.2	0.2	0.4	-0.2	-0.3	-0.1	0.7	0.0	0.1	0.0	-0.7	-0.5	0.5	-0.5	0.2	0.2	-0.1
		2007	0.2	0.3	0.8	1.3	0.2	0.5	0.7	0.7	0.5	0.3	0.1	0.7	0.5	0.9	0.1	0.5	0.5	0.5
		2008	**0.2**	**0.1**	**0.6**	**0.8**	**0.0**	**0.1**	**0.3**	**0.7**	**0.4**	**0.2**	**0.0**	**0.2**	**0.3**	**0.7**	**0.0**	**0.3**	**0.4**	**0.1**
		2009	**0.2**	**0.1**	**0.6**	**0.8**	**0.0**	**0.2**	**0.5**	**0.7**	**0.4**	**0.2**	**0.1**	**0.2**	**0.4**	**0.8**	**0.0**	**0.3**	**0.4**	**0.1**
	November	2006	-0.1	0.1	0.1	0.2	0.0	0.2	0.1	-0.2	0.0	0.0	0.0	0.3	0.1	-0.1	-3.4	0.2	0.0	0.0
		2007	0.5	0.6	0.4	0.7	0.2	0.9	0.5	0.8	0.3	0.3	0.5	0.9	0.5	0.4	-2.2	0.3	0.5	0.8
		2008	**0.0**	**0.2**	**0.2**	**0.3**	**0.0**	**-0.2**	**0.3**	**0.5**	**0.2**	**0.0**	**0.2**	**0.6**	**0.4**	**0.1**	**-2.8**	**0.2**	**0.3**	**0.1**
		2009	**0.0**	**0.2**	**0.2**	**0.3**	**0.0**	**-0.2**	**0.4**	**0.6**	**0.2**	**0.0**	**0.4**	**0.6**	**0.4**	**0.3**	**-2.8**	**0.2**	**0.4**	**0.1**
	December	2006	0.9	0.2	0.1	0.3	-0.3	0.1	0.4	0.6	0.2	0.0	0.4	0.4	0.1	-0.3	-0.1	0.6	0.0	0.0
		2007	0.7	0.4	0.3	0.4	-0.5	0.4	0.6	0.5	0.1	-0.2	0.1	0.4	0.4	0.3	0.1	0.6	0.1	-0.1
		2008	**1.0**	**0.3**	**0.2**	**0.3**	**-0.5**	**0.2**	**0.5**	**0.5**	**0.1**	**-0.1**	**0.2**	**0.2**	**0.3**	**0.1**	**0.2**	**0.5**	**0.0**	**-0.1**
		2009	**1.0**	**0.3**	**0.2**	**0.3**	**-0.5**	**0.2**	**0.6**	**0.5**	**0.1**	**-0.1**	**0.2**	**0.3**	**0.3**	**0.1**	**0.2**	**0.5**	**0.0**	**-0.1**

The figures in the shaded area are forecasts
Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

III.2. ECONOMIC GROWTH, INFLATION AND MONETARY POLICY

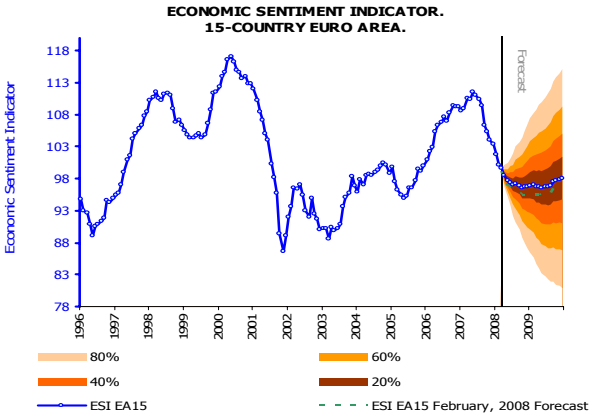
III.2.1 Economic growth

The most important macroeconomic information related to the euro area published in the last month, largely referring to the first three months of this year, confirms that the reduced GDP growth estimated by our forecasts continue for all the quarters of this year. The economic sentiment indicator for March continues to decline and has fallen more than the previous months in the first quarter of this year. The February industrial production index, an indicator or considerable importance when analysing the overall situation, moderated its year-on-year growth rate but was better than expected. The same applies to the March industrial confidence indicator. The latest household consumption indicators referring to the first few months of this year are not very favourable either. In turn, the latest forecasts published by different agencies concerning euro area growth are all undergoing downwards revisions.

Eurostat recently published the second GDP estimation for the fourth quarter of 2007, confirming the first estimate of a quarter-on-quarter growth rate of 0.4%, compared with the 0.7% of the third quarter, so the average annual GDP growth rate in the euro area in 2007 was 2.6%, three tenths of a percentage point lower than the previous year. The International Monetary Fund (IMF) has recently revised the euro area forecasts downwards, and no estimates an average annual GDP growth rate of 1.4% for 2008 and 1.2% for 2009, two and seven tenths of a percentage point, respectively, less than the previous estimate.

The March Economic Sentiment Indicator (ESI) shows that confidence in the evolution of the euro area economy fell for the tenth consecutive month to 99.6 points, six less than the previous month. Such a low confidence level in the euro area economy has not been seen since the last few months of 2005. This result was somewhat better than expected, according to the IFL forecast, although it falls within a 40% confidence interval. The decline undergone by the ESI in March was due to a worse perception by economic agents of the evolution of construction and services, whereas confidence remained unaltered in consumption, the retail trade and industry.

Graph III.2.1.1



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: March 31, 2008

The ESI forecasts updated with the latest information show a slightly upwards revision, showing that the confidence of economic agents in the evolution of the euro area economy, in spite of this slight improvement, will continue the progressive decline being registered for the last few months. However, this decline is expected to halt in the last quarter of 2008 and subsequently recover slightly during 2009, stabilising at levels just beneath those registered in the last quarter of 2005, when the economy grew at a rate of 2%.

The euro area Industrial Production Index (IPI) in February showed a year-on-year growth rate of 3.1%, four tenths of a percentage point less than in the previous quarter. This result improved the IFL forecast (2.6%). This discrepancy between the observed value and the forecast resulted from the upwards innovations registered in the capital, intermediate and durable consumer goods sectors, which were not compensated by opposite movements in the non-durable consumer goods and energy sectors.

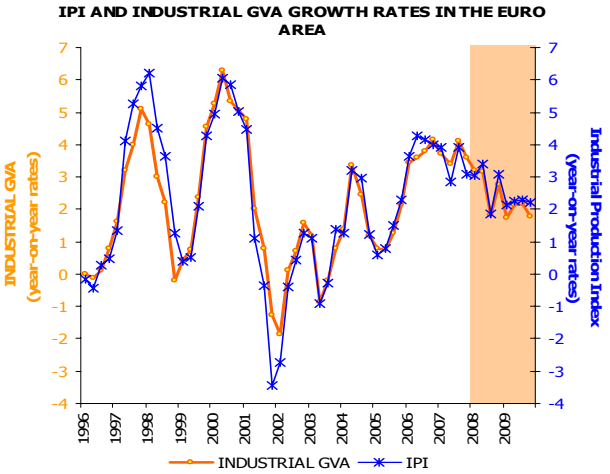
Also known is the euro area industrial confidence indicator for March, which is only slightly worse than the previous month, thus softening the progressive decline registered in the indicator since April. The IFL forecast also pointed to some decline, although somewhat more than actually occurred, so the new forecasts represent an upwards revision even though the expectation profile remains unaltered. We continue to expect a gradual fall in the confidence of economic agents in the industrial sector this year, when the indicator could reach a local low point in the fourth quarter, subsequently improving somewhat in 2009, especially in the second half.

Table III.2.1.1: Year-on- year Euro area IPI* Growth.

	2006	2007	**2008**	**2009**
Consumer goods				
Durable	4.2	1.3	**-0.6**	**0.3**
Non Durable	2.2	2.6	**0.9**	**1.0**
Capital	5.9	5.8	**6.1**	**3.7**
Intermediate	4.9	3.8	**2.5**	**2.1**
Energy	0.8	-0.4	**0.9**	**1.6**
Total	4.0	3.4	**2.9**	**2.2**
Annual Gross Value Added Growth (industrial sector)	3.8	3.7	**2.7**	**1.9**

* Working days adjusted data and construction sector excluded.
Source: EUROSTAT & IFL (UC3M) Data: April 14, 2008

Graph III.2.1.2



Note: The last available GVA data corresponds to the fourth quarter of 2007. For IPI, we have information until February 2008.
Source: EUROSTAT & IFL (UC3M)
Date: April 14, 2008

In view of all this hard and soft data, the forecast average annual growth rate for the euro area IPI is revised upwards by 0.4 pp for 2008, to 2.9%. For 2009, we continue to forecast an average annual growth rate of 2.2%. In turn, considering the IPI data up to February and the industrial confidence indicator up to March, our forecasts for the euro area's industrial GVA are revised. The new estimates point to a continuing decline in growth in 2008 and 2009, with average annual growth rates of 2.7% and 1.9%, respectively, compared with the 3.4% of 2007.

With regards to the available household consumption indicators, they show contradicting evolutions. The retail trade index fell in February in quarter-on-quarter terms (0.6%), in contrast with the previous month's positive evolution; however, car registrations recovered during the month with a month-on-month variation of 3.2%, after a fall of a similar amount in the previous month. In turn, the qualitative indicators of perception of household consumption, referring to March, which were mentioned earlier when discussing economic sentiment, remained stable, particularly consumer and retail trade confidence. These indicators' evolution in the first quarter together with those of the labour market, show that although consumption is not expected to be very high in the first quarter, it is certainly not expected to behave poorly.

As for the euro area labour market, the unemployment rate in February remained at 7.1%, half a point less than a year earlier and the lowest in the last fifteen years. Eurostat has still not published employment estimated for the first few months of this year, but the expectations derived from the Commission's and other opinion polls show that creation of employment in the euro area may be performing favourably, and has still not been fully affected by the increasing uncertainty affecting economic activity.

In view of the analysis and evaluation of the latest economic figures published recently for the euro area economy and the forecasts estimated for some indicators, the deceleration of the GDP shown in our growth forecasts for 2008 (see Bulletin 162) is probably more intense than the figures show.

III.2.2 Inflation

The latest information about fuel prices gives us data concerning energy product prices up to April 21, so the **inflation rate expected for this month is 3.3%**, and the **average rate for 2008 and 2009 is 3.2 and 2.1%, respectively**. The other components have not been revised.

Table III.2.2.1

ANNUAL RATES OF GROWTH IN THE EURO AREA *						
	Observed			**Forecasts**		
HICP	**Med 2006(2**	**Med 2007(2)**	**Med 2006(2**	**Med 2007(2)**	**Med 2006(2**	**Med 2009(2)**
CORE (82,6%)	1.5	2.0	2.7	**2.5 (±0.13)**	**2.5 (±0.18)**	**2.1 (±0.44)**
TOTAL (100%)	2.2	2.1	3.6	**3.3 (±0.12)**	**3.2 (±0.23)**	**2.1 (±0.51)**

* Intervals at 80% of confidence calculated with historical errors.
Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008
(1) Year-on-year rate
(2) Annual average rate

We have therefore revised the forecasts published in our advance note as of April 16, while correcting an error in the data processing applied to energy products, so the inflation rate expected for April is now 3.3%. We should also mention that our core inflation expectations remain

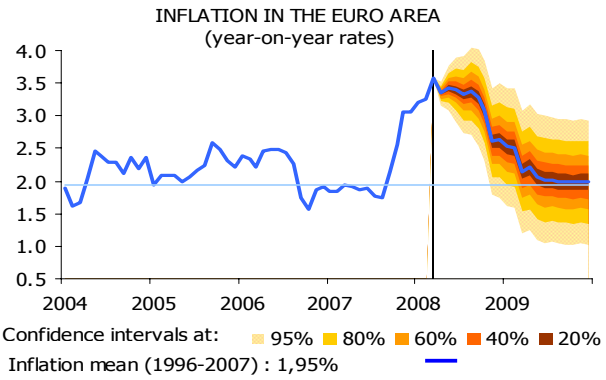
practically unaltered since they were published in Bulletin 162, and with no change since our advance note as of April 16, with an expected growth rate of 2.5% for this month. The moderation in processed food helps to slightly moderate the core inflation profile for 2008, although the average annual rate remains (rounded up to one decimal point) as published in our last report (2.5%).

This new information published by Eurostat, under the perspective of our models, leads to a reduction in the inflation path expected for processed food, which will register an average growth rate of 7.2% in 2008, instead of the 8.1% published in Bulletin 162. For 2009, average inflation will be 2.9%. On the other hand, in the service group, the expectations for 2008 are revised upwards by 0.2pp to an average annual rate of 2.6%.

The innovations in the residual component registered as of April 16 are not significant, but together with the new information available up to April 21, they very slightly change our forecasting path for that component. For unprocessed food, average annual inflation in 2008 rises by one tenth of a percentage point, whereas for next year it remains constant. With regards to energy, the average for 2008 increases by one percentage point and by only two tenths of percentage point for 2009.

On the other hand, the latest information about the evolution of Brent prices (although the euro continues to appreciate relative to the dollar) means that our energy imports are more costly. The average price per barrel of Brent registered for March is 105.1 dollars and the scenario we are contemplating is consistent with an increase of 9.0% in its cost in euros up to June, 2008.

Graph III.2.2.1



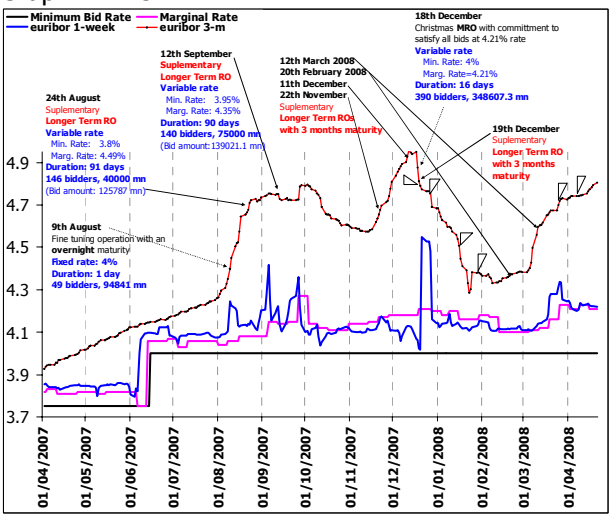
Source: EUROSTAT & IFL(UC3M)
Date: April 25, 2008

Should our forecasts be confirmed, core inflation could gradually fall to annual growth rates of close to 2.3% by the end of 2008. With regards to headline inflation, the 3.3% rate forecast for April would not fall to beneath 3% until the last quarter of 2008, and inflation would finally converge at around 2% in June, 2009.

II.2.3 Monetary Policy

As our average annual **inflation expectations** for 2008 are in the 3.0-3.4% range, and our central forecast will not converge to around 2% until June, 2009, we believe that monetary policy is not too strict. If symptoms of moderation are seen in inflation before June, 2009, the ECB could reduce interest rates in the last quarter of 2008 and thus stimulate short term growth for the euro area. However, in view of the confidence crisis affecting the interbank market, considerable caution and transparency can be expected so as not to increase the degree of uncertainty.

Graph III.2.3.1

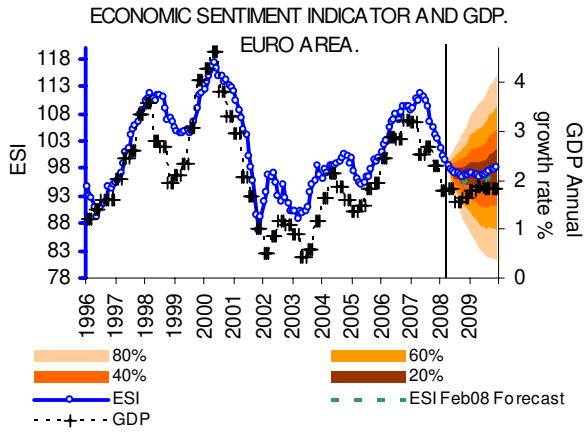


Note: the $ symbol represents the dates when the ECB made loans in dollars through the "Term Auction Facility".
Source: ECB & IFL(UC3M).
Date: April 23, 2008

Fortunately, the ECB has made clear that there is a difference between **monetary policy** and **provision of liquidity** in the present context of tension on the interbank market. Indeed, the latter is subsidiary to monetary policy decisions, so short term rates are not deviating far from the reference interest rates established by the Executive Committee. Graph III.2.3.1 summarises the principal extraordinary injections of liquidity made by the ECB which, for the time being, appear to be

containing the deviation of the three-month euribor rate relative to the reference rate established by the ECB. Specifically, the percentage of refinancing granted with long-term operations is over double the percentage prior to the confidence crisis. Furthermore, since the end of 2007 the ECB (with the cooperation of the U.S. Federal Reserve) has been guaranteeing loans in dollars to European banks[2].

Graph III.2.3.2



Source: EUROSTAT & IFL(UC3M)
Date: March 31, 2008

With regards to **monetary expansion,** according to the ECB monthly newsletter, the rate of growth in the euro area continued to be strong in February and continues to be based on the increase in loans to the non-financial private sector, confirming the risks of rising inflation.

Finally, as we published in our advance note on April 2, the **Economic Sentiment Indicator** published by the European Commission was better than expected, so the information available in relation to the first quarter of 2008 generates some optimism concerning the **growth** expected in the euro area. Our latest average growth forecast for 2008 and 2009 remains, therefore, at 1.7 and 1.8%, respectively. Considerations related to the area's growth do not appear to be encouraging the ECB to reduce interest rates at this time.

[2] All the details can be found on the ECB website (www.ECB.int). José Manuel González-Páramo's speech in Tokyo entitled "Whither liquidity? Developments, policies and challenges", describes what the ECB has done to face the current liquidity problems.

III.3. TABLES AND PLOTS.

Tables:

- Methodology: analysis of euro area inflation by component.
- Observed values and forecasts for the euro area HICP.
- Forecast errors in the monthly inflation rates by countries in the euro area, United Kingdom, Sweden and Denmark.

Plots:

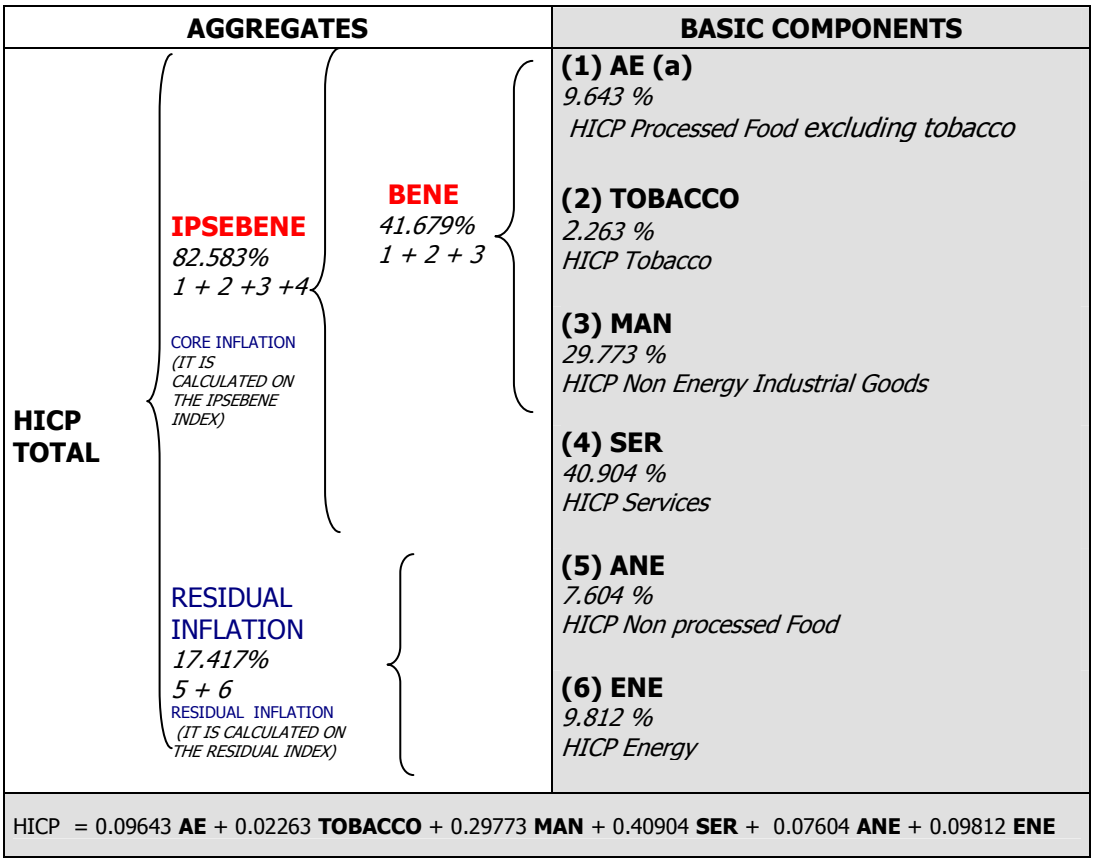
- One month ahead and twelve months ahead forecasts for the euro area HICP (year-on-year rates).
- One month ahead forecast errors in the euro area inflation.
- Inflation in the euro area (year-on-year rate).
- Year-on-year rate of euro area inflation and contributions of main components.
- Box diagram of the euro area countries inflation (HICP annual average rates).
- Euro area and United Kingdom inflation (year-on-year rate).
- Forecasts for 2008 annual average HICP growth rate in the euro area by component.

FORECAST ERRORS IN THE MONTHLY INFLATION RATE BY COUNTRIES IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK IN MARCH

	Weights 2008 euro area	Observed Monthly Rate	Forecast	Confidence Intervals at 80%
Germany	270.45	0.55	0.42	± 0.29
France	205.45	0.81	0.58	± 0.20
Italy	185.71	1.61	1.37	± 0.23
Spain	126.83	0.91	0.90	± 0.15
Netherlands	50.24	1.19	1.05	± 0.33
Belgium	33.60	0.74	0.00	± 0.32
Austria	30.97	0.91	0.42	± 0.37
Greece	33.73	2.31	2.46	± 0.78
Portugal	22.32	1.45	0.89	± 0.66
Finland	16.25	1.01	0.36	± 0.37
Ireland	15.07	0.93	0.56	± 0.30
Slovenia	3.43	1.31	0.69	± 0.24
Luxembourg	2.72	0.89	0.12	± 0.32
Cyprus	2.46	1.06	1.18	
Malta	0.77	1.13	0.76	
United Kingdom		0.43	0.37	± 0.33
Sweden		0.88	0.61	± 0.5
Denmark		0.47	0.57	± 0.27

Source: EUROSTAT & IFL(UC3M)
Date: April 16, 2008

METHODOLOGY: ANALYSIS OF EURO AREA INFLATION BY COMPONENT



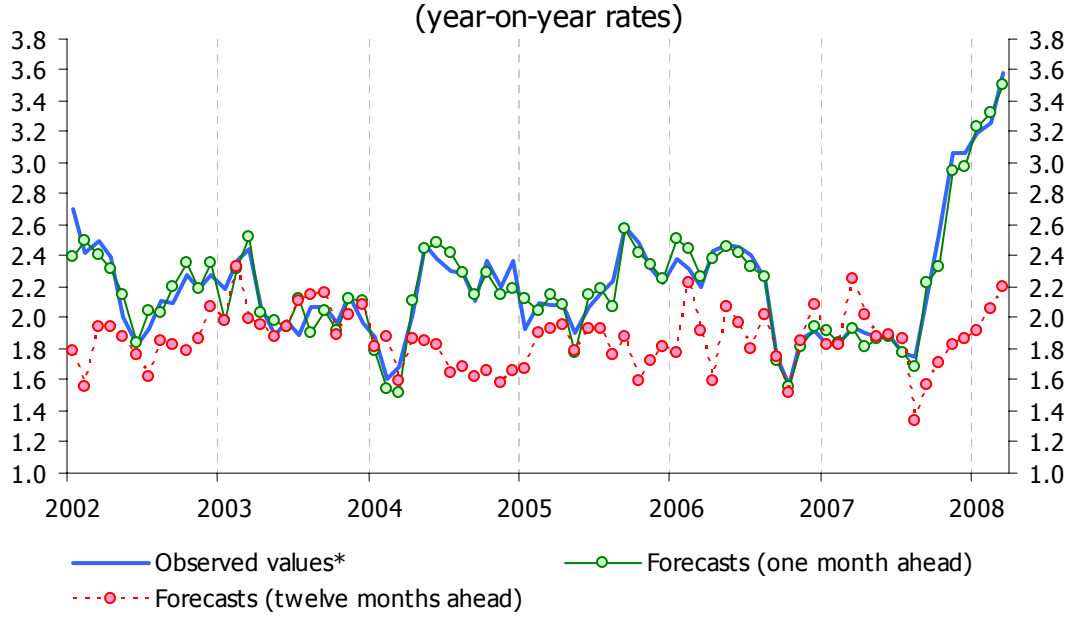
Source: EUROSTAT & IFL (UC3M)
2008 weights

OBSERVED VALUES AND FORECASTS FOR THE EURO AREA HICP
MONTHLY RATES

Harmonised Index of Consumer Price (HICP)	Weights 2008	Observed March, 2008	Forecast (**)	Confidence intervals (*)
(1) Processed Food	119.06	0.38	0.88	± 0.38
(2) Tobacco	22.63	0.19	1.80	
(3) Processed Food excluding tobacco [1-2]	96.43	0.43	0.67	
(4) Non Energy Industrial Goods	297.73	1.74	1.63	± 0.22
(5) Services	409.04	0.41	0.23	± 0.13
CORE INFLATION [1+4+5]	**825.83**	**0.87**	**0.82**	± **0.13**
(6) Unprocessed Food	76.04	0.50	0.37	± 0.76
(7) Energy	98.12	2.31	2.04	± 0.85
RESIDUAL INFLATION [6+7]	**174.17**	**1.52**	**1.32**	± **0.57**
HEADLINE INFLATION [1+4+5+6+7]	**1000.00**	**0.99**	**0.91**	± **0.12**

(*) 80% Confidence intervals
(**) Forecasts published in the previous bulletin
Source: EUROSTAT & IFL(UC3M)
Date: April 16, 2008

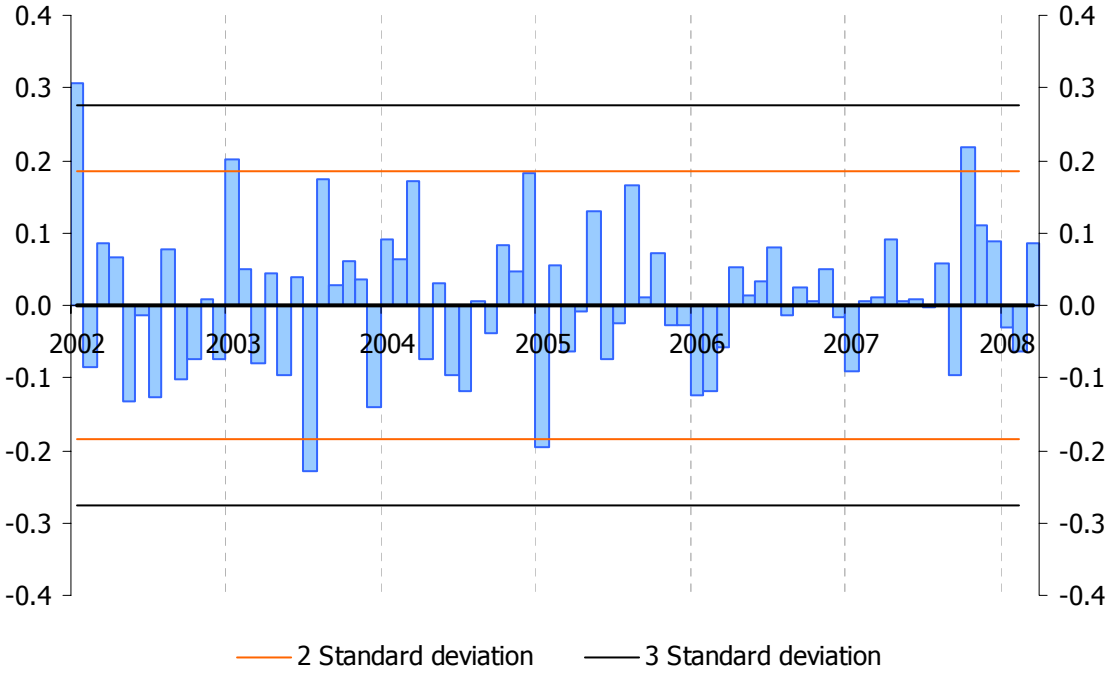
ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS
FOR THE EURO AREA HICP
(year-on-year rates)



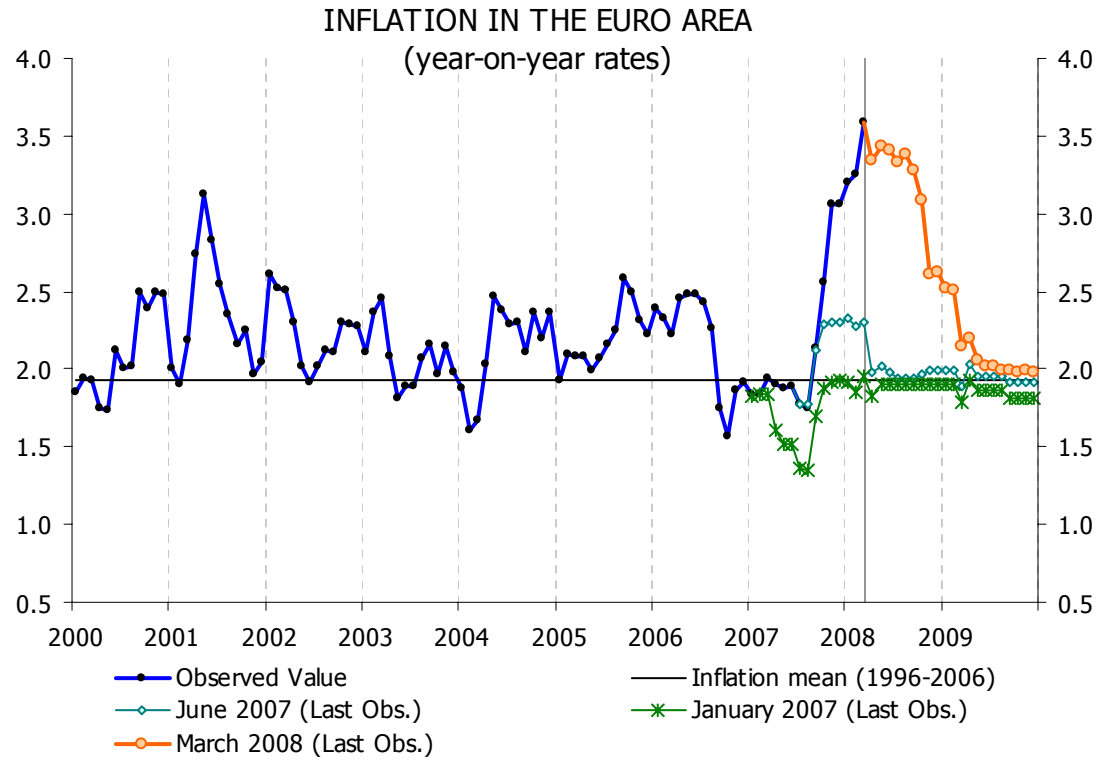
* Observed values without revisions in the HICP

Source : EUROSTAT & IFL(UC3M)
Date: April 16, 2008

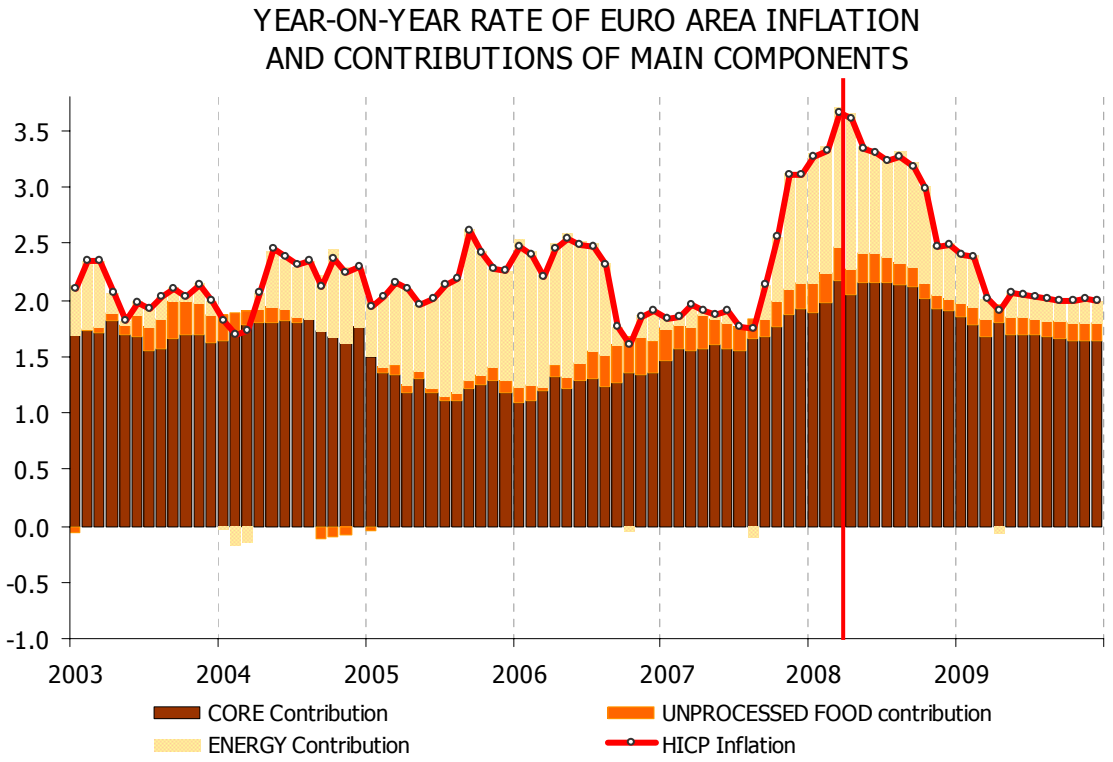
ONE MONTH AHEAD FORECAST ERRORS
IN THE EURO AREA INFLATION



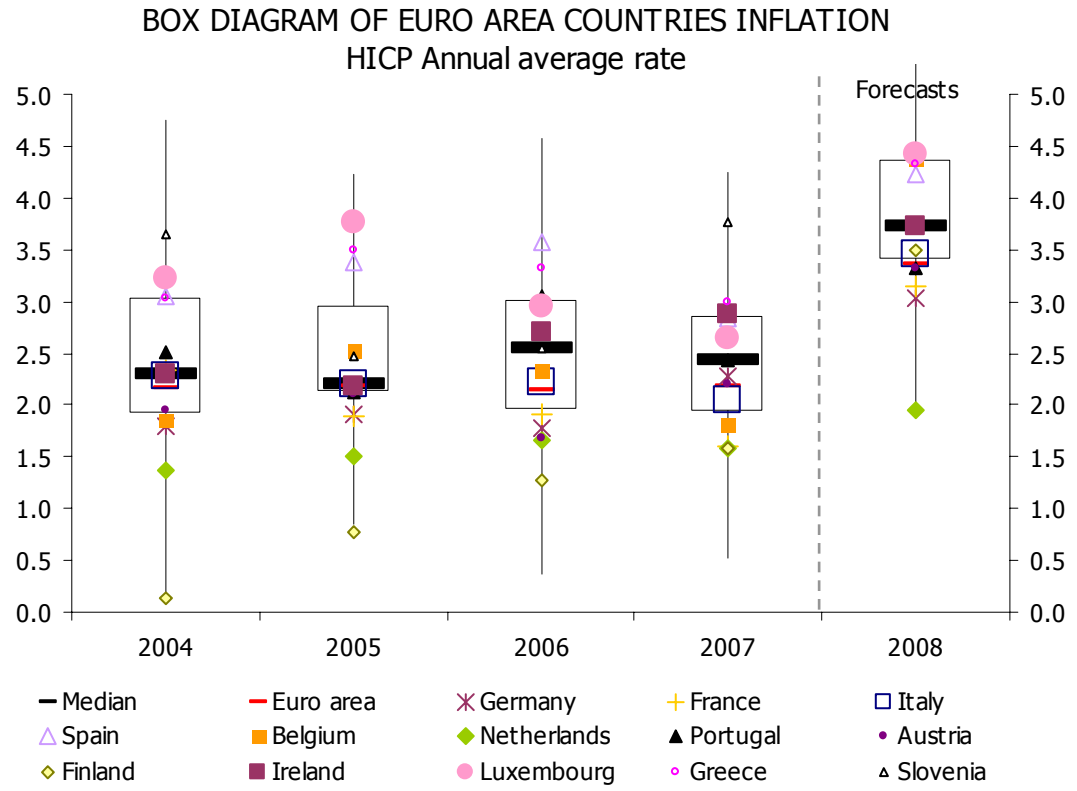
Source : EUROSTAT & IFL(UC3M)
Date: April 16, 2008



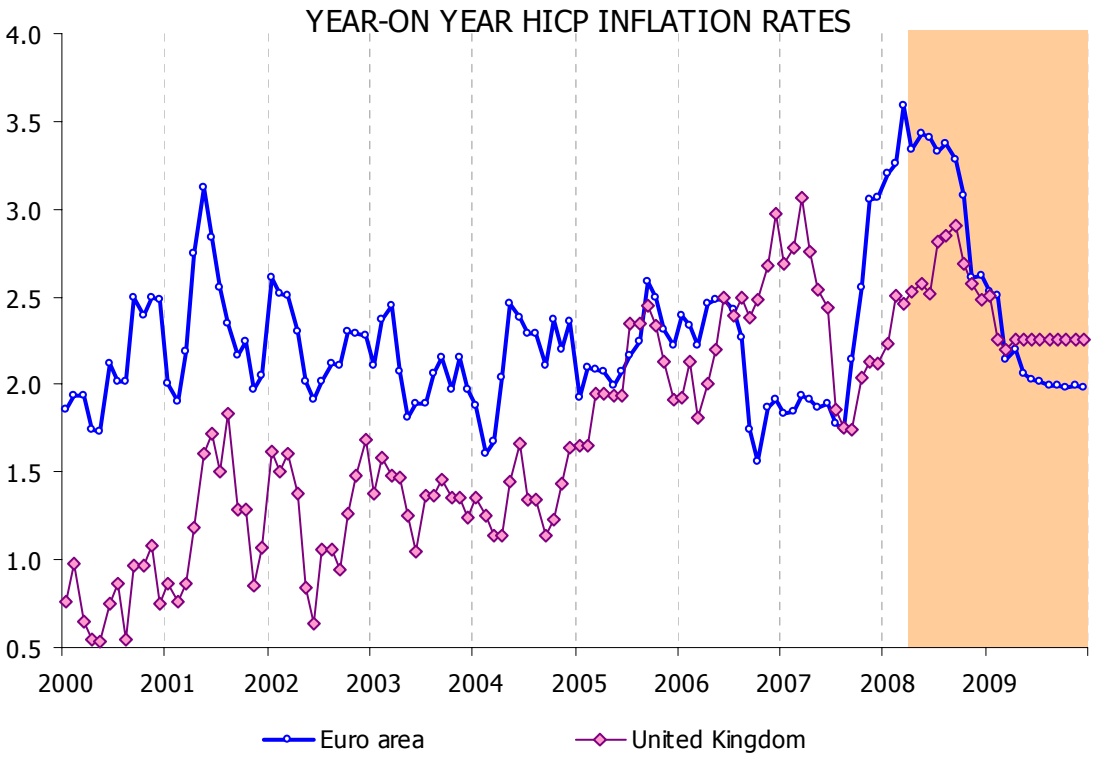
Source: EUROSTAT & IFL(UC3M)
Date: April 25, 2008



Source: EUROSTAT & IFL(UC3M)
Date: April 25, 2008

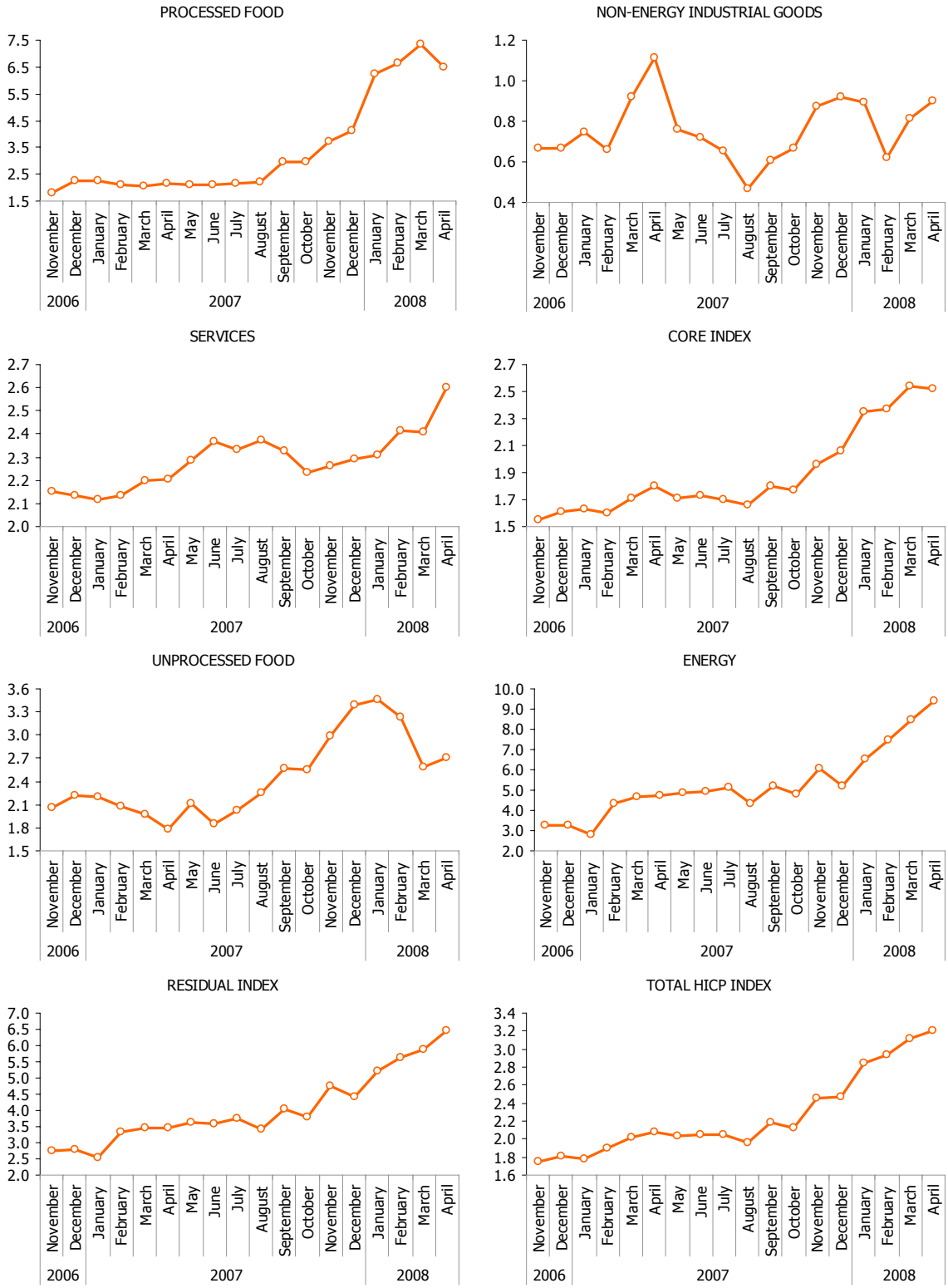


Source: EUROSTAT & IFL(UC3M)
Date: April 25, 2008



Source: EUROSTAT & IFL(UC3M)
Date: April 25, 2008

FORECASTS FOR 2008 ANNUAL AVERAGE HICP GROWTH RATE IN THE EURO AREA BY COMPONENT



Note: These graphs show the average annual HICP growth rates for 2008 forecast in the Bulletin published in the month on the abscissa
Source: EUROSTAT & IFL (UC3M)
Date: April 25, 2008

IV. UNITED STATES.

IV.1. MACROECONOMIC FORECASTS.

IV.1.1 INDUSTRIAL PRODUCTION INDEX: MONTHLY AND QUARTERLY FORECASTS.

Table IV.1.1.1

ANNUAL GROWTH RATE IN THE IPI SECTORS IN THE US

			Consumer Goods		Equipment & Supplies	Materials	TOTAL
			Durable	Non durable			
AVERAGE ANNUAL RATE		**2004**	1.1	1.4	2.7	3.0	2.5
		2005	0.5	3.6	4.6	2.3	3.3
		2006	-1.3	0.8	2.6	2.2	2.2
		2007	-0.3	2.3	1.9	1.9	1.7
		2008	**-3.9**	**0.8**	**0.4**	**1.3**	**0.2**
		2009	**2.8**	**1.4**	**2.5**	**2.7**	**2.0**
ANNUAL RATES*	2007	**QI**	-3.4	3.5	1.8	1.0	1.3
		QII	0.0	2.2	1.9	1.6	1.5
		QIII	2.4	2.0	2.1	1.8	1.7
		QIV	0.9	1.2	1.7	3.3	2.2
	2008	**QI**	-2.0	0.1	1.0	2.8	1.6
		QII	**-6.0**	**0.8**	**0.0**	**1.3**	**-0.4**
		QIII	**-5.7**	**0.9**	**-0.3**	**0.1**	**-0.8**
		QIV	**-1.8**	**1.3**	**1.0**	**1.0**	**0.4**
	2009	**QI**	**1.3**	**1.4**	**1.8**	**1.8**	**1.1**
		QII	**3.8**	**1.3**	**2.6**	**2.7**	**2.7**
		QIII	**3.2**	**1.5**	**2.8**	**3.1**	**2.2**
		QIV	**2.9**	**1.5**	**2.8**	**3.0**	**2.1**

The figures in the shaded area are forecasts.
* Year-on-year rates.
Source: FEDERAL RESERVE & IFL (UC3M)
Date: April 16, 2008.

Table IV.1.1.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN THE US

	2003	2004	2005	2006	2007	**2008**	**2009**
January	2.78	1.42	3.89	1.96	1.19	2.70	**0.14**
February	3.45	1.91	3.15	1.62	1.64	0.87	**1.67**
March	2.73	1.20	3.39	2.54	1.03	1.13	**1.37**
April	0.39	2.44	4.35	1.23	1.85	**-0.06**	**2.92**
May	0.44	3.31	3.09	2.40	1.30	**-0.71**	**3.17**
June	-0.51	2.45	4.31	2.33	1.23	**-0.43**	**1.97**
July	0.09	3.56	3.95	2.93	1.60	**-2.21**	**3.67**
August	0.26	2.67	3.82	2.55	1.51	**-0.27**	**1.33**
September	0.54	1.97	2.08	3.77	2.19	**-0.09**	**1.79**
October	0.97	3.02	1.97	2.46	1.83	**0.79**	**1.94**
November	1.76	2.49	2.83	1.31	2.55	**0.43**	**2.22**
December	2.18	3.47	3.06	1.32	2.11	**-0.04**	**2.11**

The figures in the shaded area are forecast.
Source: FEDERAL RESERVE & IFL (UC3M)
Date: April 16, 2008.

IV.1.2 INFLATION.

Table IV.1.2.1

AVERAGE ANNUAL RATE OF GROWTH IN US

CONSUMER PRICES INDEX (CPI)	2004	2005	2006	2007	2008 (forecasts)	2009 (forecasts)
Food (1)	3.4	2.4	2.3	4.0	**4.2**	**3.1**
Energy (2)	10.9	16.9	11.2	5.5	**15.6**	**2.5**
Residual Inflation (3=2+1)	**6.0**	**7.6**	**5.7**	**4.6**	**8.8**	**2.8**
Non-food and non-energy goods (4)	-0.9	0.5	0.3	-0.4	**0.4**	**0.5**
-Durable goods	-2.3	0.4	-0.7	-1.7	**-0.8**	**-0.9**
-Nondurable goods	0.5	0.6	1.3	1.0	**1.6**	**2.0**
Non-energy services (5)	2.9	2.8	3.4	3.4	**3.2**	**3.1**
-Services less owner's equivalent rent of primary residence (5-a)	3.3	3.1	3.4	3.5	**3.5**	**3.2**
-Owner's equivalent rent of primary residence (a)	2.3	2.3	3.5	3.4	**2.7**	**2.9**
Core Inflation (6=4+5) [Confidence intervals at 80% level]	**1.8**	**2.2**	**2.5**	**2.3**	**2.4** ± 0.22	**2.4** ± 0.41
Core inflation less owner's equivalent rent of primary residence (6-a)	1.6	2.1	2.1	1.9	**2.2**	**2.1**
Headline Inflation (7=6+3) [Confidence intervals at 80% level]	**2.7**	**3.4**	**3.2**	**2.9**	**3.9** ± 0.49	**2.5** ± 1.27
All items less owner's equivalent rent of primary residence (7-a)	2.8	3.7	3.1	2.7	**4.2**	**2.3**

Source: BLS & IFL (UC3M)
Date: April 16, 2008

Table IV.1.2.2

USA ANNUAL RATES OF GROWTH ON CPI AND ITS COMPONENTS

		CONSUMER PRICE INDEX												
		CORE INFLATION								RESIDUAL INFLATION				
		Non energy commodities less food			Non energy services			ALL	Confidence Intervals at 80% level				ALL	Confidence Intervals at 80% level
		durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL			Food	Energy	ALL		
RI December 2007		10.8%	10.8%	21.6%	23.9%	30.9%	54.9%	76.5%		13.8%	9.7%	23.5%	100.0%	
AVERAGE ANNUAL	2002	-2.6	0.4	-1.1	4.1	3.6	3.8	2.3		1.8	-5.9	-0.8	1.6	
	2003	-3.2	-0.7	-2.0	2.4	3.2	2.9	1.5		2.1	12.2	5.3	2.3	
	2004	-2.3	0.5	-0.9	2.3	3.3	2.9	1.8		3.4	10.9	6.0	2.7	
	2005	0.4	0.6	0.5	2.3	3.1	2.8	2.2		2.4	16.9	7.6	3.4	
	2006	-0.7	1.3	0.3	3.5	3.4	3.4	2.5		2.3	11.2	5.7	3.2	
	2007	-1.7	1.0	-0.4	3.4	3.5	3.4	2.3		4.0	5.5	4.6	2.9	
	2008	**-0.8**	**1.6**	**0.4**	**2.7**	**3.5**	**3.2**	**2.4**	**± 0.22**	**4.2**	**15.6**	**8.8**	**3.9**	**± 0.49**
	2009	**-0.9**	**2.0**	**0.5**	**2.9**	**3.2**	**3.1**	**2.4**	**± 0.41**	**3.1**	**2.5**	**2.8**	**2.5**	**± 1.27**
ANNUAL RATES (growth over the same month of the previous year)	2007 January	-1.8	1.5	-0.2	4.3	3.5	3.8	2.7		2.4	-3.1	0.2	2.1	
	2007 February	-1.8	1.9	0.0	4.2	3.4	3.8	2.7		3.1	-1.0	1.5	2.4	
	2007 March	-1.7	1.2	-0.3	4.1	3.1	3.6	2.5		3.3	4.4	3.7	2.8	
	2007 April	-1.8	0.9	-0.5	3.9	3.2	3.5	2.3		3.7	2.9	3.4	2.6	
	2007 May	-2.0	0.7	-0.7	3.5	3.4	3.4	2.2		3.9	4.7	4.2	2.7	
	2007 June	-1.9	0.4	-0.8	3.3	3.4	3.4	2.2		4.1	4.6	4.3	2.7	
	2007 July	-2.1	0.9	-0.6	3.1	3.5	3.3	2.2		4.2	1.0	2.8	2.4	
	2007 August	-2.0	0.5	-0.7	3.0	3.4	3.2	2.1		4.3	-2.5	1.4	2.0	
	2007 September	-1.8	0.4	-0.8	2.9	3.5	3.3	2.1		4.5	5.3	4.8	2.8	
	2007 October	-1.7	0.7	-0.5	2.8	3.5	3.2	2.2		4.4	14.5	8.2	3.5	
	2007 November	-1.2	1.2	0.0	2.8	3.6	3.3	2.3		4.8	21.4	11.1	4.3	
	2007 December	-1.1	1.3	0.1	2.8	3.8	3.3	2.4		4.9	17.4	9.8	4.1	
	2008 January	-0.9	1.2	0.2	2.8	3.8	3.4	2.5		4.9	19.6	10.5	4.3	
	2008 February	-1.0	1.1	0.0	2.6	3.6	3.2	2.3		4.6	18.9	10.0	4.0	
	2008 March	-1.0	1.0	0.0	2.6	3.8	3.3	2.4		4.5	17.0	9.5	4.0	
	2008 April	**-1.0**	**1.5**	**0.2**	**2.6**	**3.8**	**3.2**	**2.4**	**± 0.12**	**4.6**	**14.5**	**8.6**	**3.8**	**± 0.13**
	2008 May	**-0.8**	**1.7**	**0.4**	**2.7**	**3.6**	**3.2**	**2.4**	**± 0.19**	**4.4**	**12.9**	**8.0**	**3.7**	**± 0.41**
	2008 June	**-0.8**	**1.8**	**0.5**	**2.7**	**3.5**	**3.1**	**2.4**	**± 0.25**	**4.3**	**14.2**	**8.5**	**3.8**	**± 0.67**
	2008 July	**-0.7**	**1.8**	**0.5**	**2.7**	**3.4**	**3.1**	**2.4**	**± 0.30**	**4.2**	**15.9**	**9.1**	**3.9**	**± 0.83**
	2008 August	**-0.8**	**1.9**	**0.5**	**2.7**	**3.5**	**3.1**	**2.4**	**± 0.34**	**4.1**	**19.6**	**10.4**	**4.2**	**± 0.95**
	2008 September	**-0.8**	**1.9**	**0.6**	**2.6**	**3.4**	**3.1**	**2.4**	**± 0.38**	**3.8**	**18.4**	**9.7**	**4.1**	**± 1.06**
	2008 October	**-0.7**	**1.9**	**0.6**	**2.7**	**3.4**	**3.1**	**2.4**	**± 0.42**	**3.8**	**17.1**	**9.1**	**4.0**	**± 1.11**
	2008 November	**-0.8**	**1.8**	**0.5**	**2.7**	**3.4**	**3.1**	**2.3**	**± 0.45**	**3.6**	**10.3**	**6.4**	**3.3**	**± 1.15**
	2008 December	**-0.7**	**1.7**	**0.5**	**2.7**	**3.3**	**3.0**	**2.3**	**± 0.49**	**3.7**	**10.4**	**6.4**	**3.3**	**± 1.19**
	2009 January	**-0.9**	**1.8**	**0.4**	**2.7**	**3.2**	**3.0**	**2.3**	**± 0.52**	**3.3**	**9.6**	**5.9**	**3.1**	**± 1.28**
	2009 February	**-0.8**	**2.0**	**0.6**	**2.8**	**3.3**	**3.1**	**2.4**	**± 0.54**	**3.3**	**10.2**	**6.1**	**3.3**	**± 1.35**
	2009 March	**-0.9**	**2.3**	**0.7**	**2.8**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.3**	**6.4**	**4.6**	**2.9**	**± 1.43**
	2009 April	**-0.8**	**2.1**	**0.6**	**2.8**	**3.1**	**3.0**	**2.3**	**± 0.57**	**3.2**	**3.9**	**3.5**	**2.6**	**± 1.54**
	2009 May	**-0.9**	**2.1**	**0.6**	**2.9**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.1**	**0.9**	**2.2**	**2.3**	**± 1.56**
	2009 June	**-0.9**	**2.1**	**0.6**	**2.9**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.1**	**0.1**	**1.8**	**2.2**	**± 1.66**
	2009 July	**-0.9**	**2.0**	**0.5**	**3.0**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.1**	**0.1**	**1.8**	**2.2**	**± 1.74**
	2009 August	**-1.0**	**2.0**	**0.5**	**3.0**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.0**	**0.3**	**1.8**	**2.3**	**± 1.77**
	2009 September	**-1.0**	**1.9**	**0.5**	**3.0**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.0**	**0.3**	**1.8**	**2.2**	**± 1.80**
	2009 October	**-1.0**	**1.9**	**0.5**	**3.0**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.0**	**0.0**	**1.7**	**2.2**	**± 1.84**
	2009 November	**-1.0**	**1.9**	**0.4**	**3.0**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.0**	**-0.1**	**1.6**	**2.2**	**± 1.88**
	2009 December	**-1.0**	**1.8**	**0.4**	**3.0**	**3.2**	**3.1**	**2.4**	**± 0.57**	**3.0**	**-0.2**	**1.6**	**2.2**	**± 1.87**

Confidence intervals are calculated with historical errors.
The figures in the shaded area are forecasts.
Source: BLS & IFL (UC3M)
Date: April 16, 2008

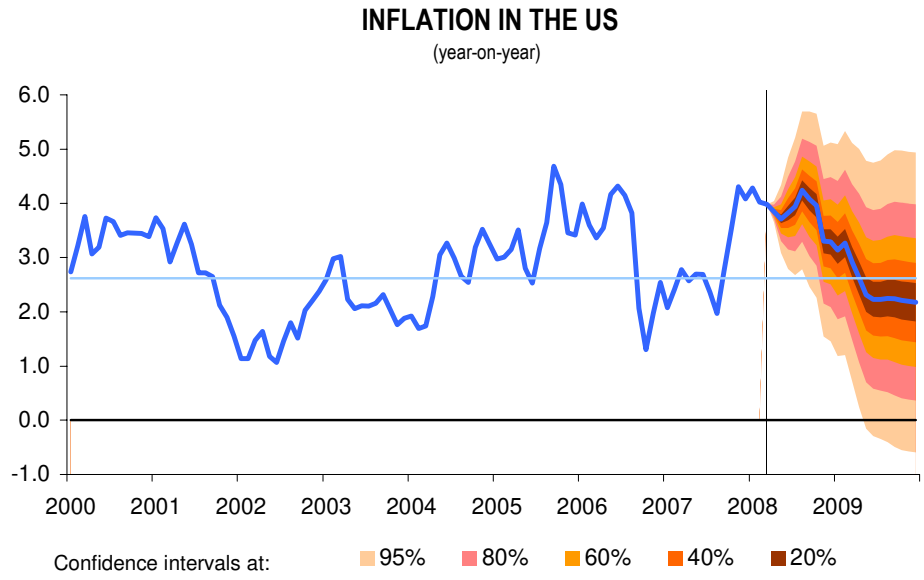
Table IV.1.2.3

USA MONTHLY RATES OF GROWTH ON CPI AND ITS COMPONENTS

			CONSUMER PRICE INDEX										
			CORE INFLATION							RESIDUAL INFLATION			
			Non energy commodities less food			Non energy services							
			durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL	ALL	Food	Energy	ALL	ALL
		RI December 2007	10.8%	10.8%	21.6%	23.9%	30.9%	54.9%	76.5%	13.8%	9.7%	23.5%	100.0%
MONTHLY RATES (growth over the previous month)	January	2006	0.3	-0.5	-0.1	0.3	0.5	0.4	0.2	0.6	5.3	2.4	0.8
		2007	0.0	-0.3	-0.2	0.2	0.8	0.5	0.3	0.9	-0.9	0.2	0.3
		2008	0.2	-0.4	-0.1	0.2	0.8	0.6	0.4	0.9	0.9	0.9	0.5
		2009	**0.0**	**-0.3**	**-0.2**	**0.2**	**0.7**	**0.5**	**0.3**	**0.6**	**0.2**	**0.4**	**0.3**
	February	2006	0.0	0.6	0.3	0.3	0.8	0.6	0.5	-0.1	-1.6	-0.7	0.2
		2007	0.0	1.0	0.5	0.3	0.7	0.5	0.5	0.6	0.5	0.6	0.5
		2008	-0.2	0.9	0.3	0.1	0.5	0.3	0.3	0.3	-0.1	0.1	0.3
		2009	**-0.1**	**1.0**	**0.5**	**0.2**	**0.6**	**0.4**	**0.5**	**0.2**	**0.5**	**0.3**	**0.4**
	March	2006	-0.2	1.8	0.9	0.3	0.7	0.5	0.6	0.0	1.2	0.5	0.6
		2007	0.0	1.1	0.5	0.2	0.4	0.3	0.4	0.2	6.8	2.7	0.9
		2008	0.0	1.1	0.5	0.2	0.6	0.4	0.5	0.1	5.1	2.2	0.9
		2009	**-0.1**	**1.4**	**0.6**	**0.2**	**0.6**	**0.4**	**0.5**	**0.1**	**1.4**	**0.7**	**0.5**
	April	2006	0.0	0.4	0.1	0.4	0.3	0.3	0.3	-0.2	6.8	2.6	0.9
		2007	-0.2	0.1	0.0	0.2	0.4	0.3	0.2	0.2	5.2	2.2	0.6
		2008	**-0.2**	**0.6**	**0.2**	**0.2**	**0.3**	**0.2**	**0.2**	**0.3**	**2.9**	**1.4**	**0.5**
		2009	**-0.1**	**0.4**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.6**	**0.4**	**0.2**
	May	2006	-0.2	-0.2	-0.1	0.5	0.0	0.2	0.1	0.3	3.9	1.8	0.5
		2007	-0.3	-0.4	-0.3	0.1	0.2	0.1	0.0	0.5	5.7	2.6	0.6
		2008	**-0.2**	**-0.2**	**-0.2**	**0.2**	**0.0**	**0.1**	**0.0**	**0.3**	**4.2**	**2.0**	**0.5**
		2009	**-0.2**	**-0.2**	**-0.2**	**0.2**	**0.0**	**0.1**	**0.0**	**0.3**	**1.2**	**0.7**	**0.2**
	June	2006	-0.3	-0.8	-0.6	0.4	0.4	0.4	0.1	0.2	1.0	0.5	0.2
		2007	-0.2	-1.1	-0.7	0.2	0.5	0.4	0.1	0.3	0.9	0.6	0.2
		2008	**-0.2**	**-1.0**	**-0.6**	**0.2**	**0.4**	**0.3**	**0.1**	**0.2**	**2.1**	**1.0**	**0.3**
		2009	**-0.2**	**-1.0**	**-0.6**	**0.2**	**0.4**	**0.3**	**0.1**	**0.2**	**1.3**	**0.6**	**0.2**
	July	2006	0.0	-1.5	-0.8	0.4	0.5	0.4	0.1	0.3	1.8	0.9	0.3
		2007	-0.2	-1.0	-0.6	0.2	0.6	0.4	0.1	0.3	-1.7	-0.5	0.0
		2008	**-0.1**	**-1.1**	**-0.6**	**0.2**	**0.5**	**0.4**	**0.1**	**0.2**	**-0.3**	**0.0**	**0.1**
		2009	**-0.2**	**-1.2**	**-0.7**	**0.3**	**0.5**	**0.4**	**0.1**	**0.2**	**-0.3**	**0.0**	**0.1**
	August	2006	-0.3	0.7	0.2	0.4	0.2	0.3	0.2	0.3	-0.2	0.1	0.2
		2007	-0.1	0.3	0.1	0.3	0.1	0.2	0.2	0.4	-3.7	-1.3	-0.2
		2008	**-0.1**	**0.4**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**-0.6**	**-0.1**	**0.1**
		2009	**-0.2**	**0.4**	**0.1**	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**	**-0.4**	**0.0**	**0.1**
	September	2006	-0.4	1.8	0.7	0.3	-0.1	0.0	0.2	0.4	-7.3	-2.9	-0.5
		2007	-0.3	1.6	0.7	0.3	-0.1	0.1	0.2	0.5	0.2	0.4	0.3
		2008	**-0.3**	**1.7**	**0.7**	**0.3**	**-0.1**	**0.1**	**0.2**	**0.3**	**-0.8**	**-0.2**	**0.1**
		2009	**-0.3**	**1.6**	**0.7**	**0.3**	**-0.1**	**0.1**	**0.2**	**0.3**	**-0.9**	**-0.2**	**0.1**
	October	2006	0.0	0.5	0.2	0.4	0.4	0.4	0.3	0.5	-8.9	-3.3	-0.5
		2007	0.1	0.8	0.5	0.2	0.3	0.3	0.3	0.4	-1.0	-0.1	0.2
		2008	**0.2**	**0.8**	**0.5**	**0.3**	**0.3**	**0.3**	**0.4**	**0.4**	**-2.1**	**-0.7**	**0.1**
		2009	**0.2**	**0.8**	**0.5**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**-2.3**	**-0.8**	**0.1**
	November	2006	-0.3	-0.7	-0.4	0.3	-0.2	0.0	-0.1	-0.2	-0.5	-0.3	-0.1
		2007	0.2	-0.1	0.0	0.3	-0.1	0.1	0.1	0.2	5.5	2.4	0.6
		2008	**0.2**	**-0.3**	**0.0**	**0.3**	**-0.2**	**0.0**	**0.0**	**0.1**	**-0.6**	**-0.2**	**0.0**
		2009	**0.2**	**-0.3**	**-0.1**	**0.3**	**-0.2**	**0.0**	**0.0**	**0.1**	**-0.8**	**-0.3**	**-0.1**
	December	2006	-0.2	-0.9	-0.5	0.3	-0.2	0.0	-0.1	0.1	2.7	1.1	0.1
		2007	0.0	-0.8	-0.4	0.3	0.0	0.1	0.0	0.2	-0.7	-0.2	-0.1
		2008	**0.1**	**-0.8**	**-0.4**	**0.3**	**-0.1**	**0.1**	**-0.1**	**0.2**	**-0.6**	**-0.1**	**-0.1**
		2009	**0.0**	**-0.8**	**-0.4**	**0.3**	**-0.1**	**0.1**	**-0.1**	**0.2**	**-0.7**	**-0.2**	**-0.1**

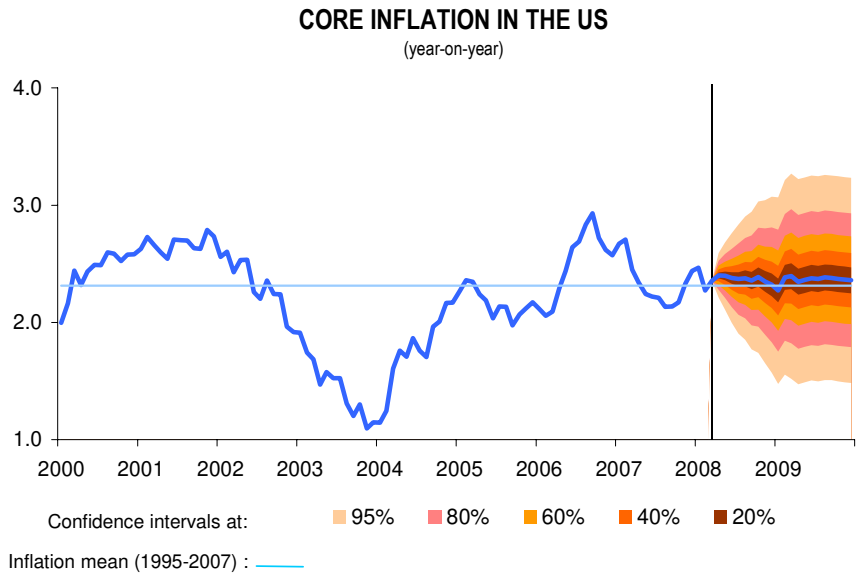
The figures in the shaded area are forecasts
Source: BLS & IFL (UC3M)
Date: April 16, 2008

Graph IV.1.2.1



Source :BLS & IFL (UC3M)
Date: April 16, 2008

Graph IV.1.2.2



Source :BLS & IFL (UC3M)
Date: April 16, 2008

IV.2. INFLATION: MAIN POINTS AND NEW RESULTS.

Today's CPI was somewhat worse than expected, due to the most volatile components of the service index, with little impact on core inflation expectations

New rises in crude oil prices, however, have a negative effect on headline inflation expectations

On the other hand, in the real sector, industry figures were a little better than expected and the housing sector is in free fall with no end in sight.

With regards to prices, the tension generated by the depreciation of the currency and the increase in raw material costs are slowly pushing the prices of goods and foodstuffs upwards, whereas inflation in services continues to be contained, with no second round effects observed.

In the real sector, the figures published regarding housing starts and building permits show that the construction sector remains in free fall, with no end in sight. On the other hand, the industrial sector's figures in March were positive.

In March in the U.S., consumer prices rose by a monthly 0.87%[3], instead of the forecast 0.73%. The annual rate fell from 4.03% to 3.98%.

On the other hand, core index prices rose 0.47% since the previous month, clearly above the expected 0.38%. The annual rate of this index went from 2.27% to 2.35%.

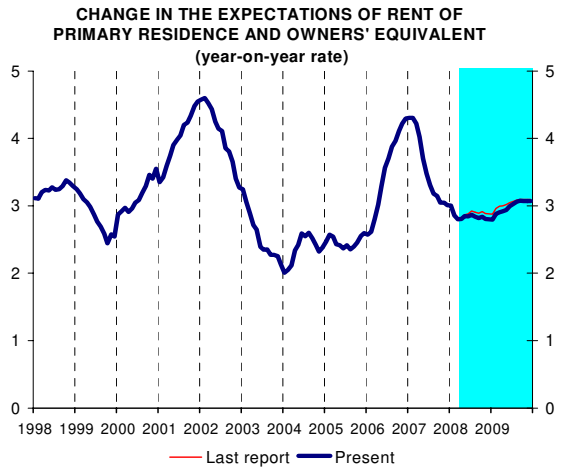
Within the **core index**, the performance of **non-energy industrial goods**, in spite of the poor production and import price figures this month, was slightly better than expected, with a monthly rate of 0.52% instead of the forecast 0.60%.

On the other hand, service prises registered a worse than expected performance, with a monthly increase of 0.45% versus the expected 0.29%. But, unlike what occurred last month, when there was a negative innovation in home rentals, all the housing indices this months evolved exactly as expected (see Graph IV.2.1). **On this occasion, the upwards innovation in the service index was due to the price of transport, telecommunications, personal care and other tourist services.**

With regards to **production and import prices** published since the last report, both in durable and non-durable goods, the observed figures were worse than expected.

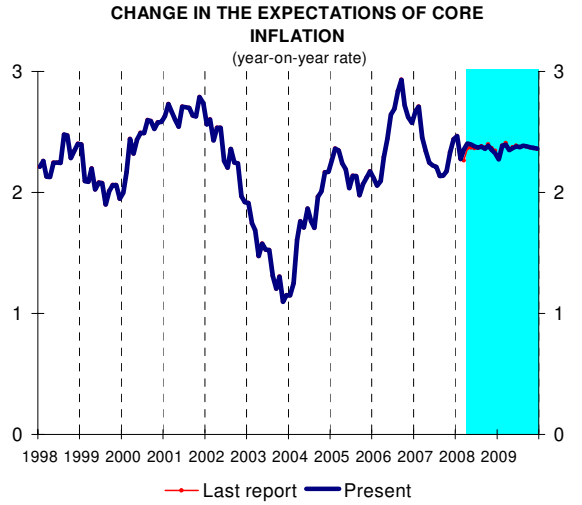
Ultimately, given the combination of upwards and downwards innovations registered in the CPI and production and import prices, the expectations for core inflation remain more or less unaltered. The pressure from import prices are limited by the weak demand.

Graph IV.2.1



Source: BLS & IFL (UC3M) Date: April 16, 2008

Graph IV.2.2



Source: BLS & IFL (UC3M) Date: April 16, 2008

[3] Unless otherwise specified, our US reports use non-seasonally adjusted data.

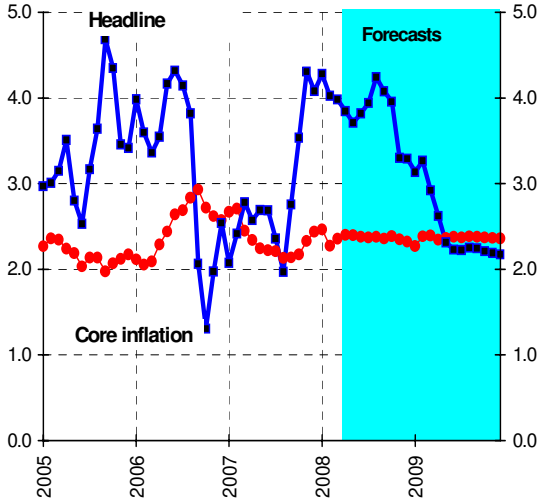
With regards to prices not included in the core index, **food** prices increased much as expected, although there continue to be upwards pressure on cereal prices, which were compensated this month by milk prices.

With regards to **energy prices**, they were somewhat worse than expected due to rising crude oil prices.

With a view to forecasting, the new crude oil price increases on the international markets, which are now at over 116 dollars/barrel, are seen in the same proportion on the futures markets. **In other words our scenario is assuming crude oil prices 5$ per barrel higher than last month.**

Graph IV.2.3.

DIFFERENT ANNUAL INFLATION RATES IN THE US



Source: BLS & IFL (UC3M)
Date: April 16, 2008

The profile foreseen for the next few months delays the cut in the annual rate to November, when it will fall to 3.3%. In the medium term, the annual rate will stabilise at values of close to 2.2% after the middle of the year.

For **April,** we are forecasting a monthly increase of 0.52% (± 0.13)[4] for the general CPI, so the annual rate would fall from 3.98% to 3.85%. For core inflation, we expect the monthly rate to rise by 0.23% (± 0.12), with the annual rate rising slightly from 2.35% to 2.40%. For April, in relation to March, we are expecting a heavy rise in the energy index, estimated at 2.92%; however, last year the monthly rise was greater, 5.25%, and this will bring the annual energy index and the general rate down.

Table IV.2.1.

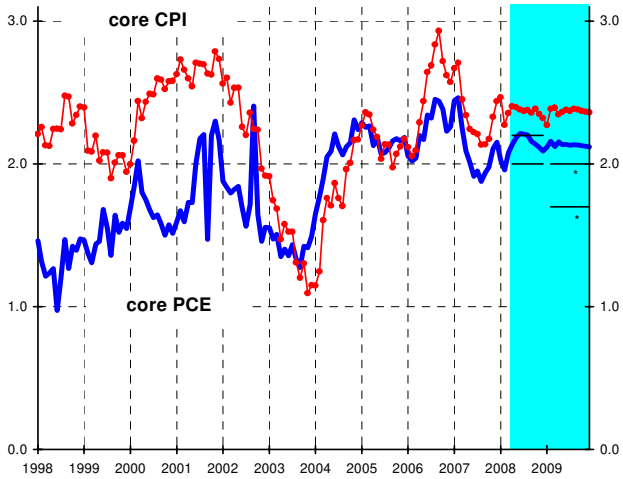
DIFFERENT ANNUAL INFLATION RATE MEASURES IN THE US

		CPI		PCE[1]	MB-PCE[2]
		Headline	Core	Core	Core
		% annual	% annual	% annual	% annual
2007	July	2.4	2.2	2.0	1.8
	August	2.0	2.1	1.9	1.6
	September	2.8	2.1	1.9	1.6
	October	3.5	2.2	2.0	1.7
	November	4.3	2.3	2.1	1.9
	December	4.1	2.4	2.2	2.0
2008	January	4.3	2.5	2.0	1.8
	February	4.0	2.3	2.0	1.7
	March	4.0	2.4	2.1	1.8
	April	3.8	2.4	2.1	1.8
	May	3.7	2.4	2.2	1.9
	June	3.8	2.4	2.2	1.9
		average annual			
2007		2.9	2.3	2.1	1.9
2008		3.9	2.4	2.1	1.8
2009		2.5	2.4	2.1	1.8

(1) PCE: chain-type price index for personal consumption expenditures
(2) MB-PCE: Market-based components of PCE prices
Source: BLS, BEA & IFL (UC3M)
Date: April 16, 2008

Graph IV.2.4.

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US



(1) Central tendency established by the Fed.
Source: BLS, BEA & IFL (UC3M)
Date: April 16, 2008

For **2008 and 2009**, then, we are forecasting average annual core inflation rates of 2.37% (±0.22) and 2.36% (±0.41), respectively, similar to the forecasts in last month's report.

[4] The values in brackets correspond to 80% confidence intervals.

Por el contrario, se espera que la inflación total anual media en EE.UU. se sitúe en el 3.87% (±0.49) en 2008, y en el 2.36% (±1.27) en 2009, **lo que representa dos décimas más para el 2008 respecto al informe anterior**.

In terms of the core personal consumption expenditure index –**core PCE**[5]-, which is the inflation indicator most closely monitored by the FED, with the March CPI figures, our forecasts have worsened slightly, and the forecast annual rate for March – to be published at the end of the month – is 2.08%. For 2008 and 2009, we are forecasting average annual rates of 2.13% and 2.12%, above the updated FED's forecasting intervals[6] para el año 2009: 2.0-2.2% for 2008 and 1.7-2.0% for 2009.

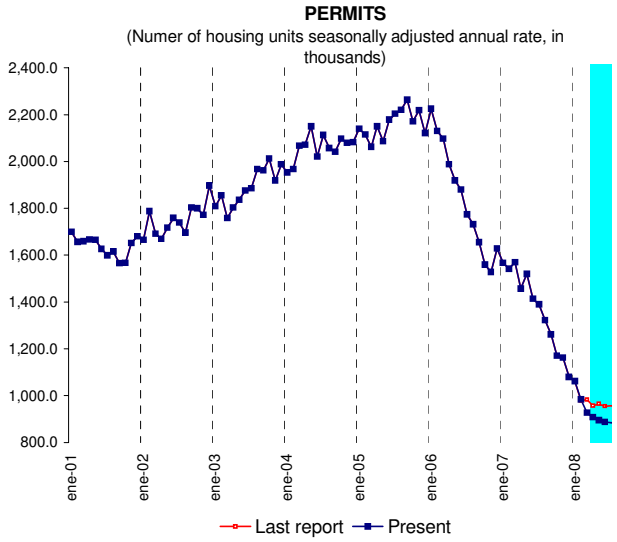
With regards to the real economy, the industrial production and used industrial capacity figures published today were slightly better than expected.

However, the housing sector figures, both related to housing starts and permits, were much worse than expected. Indeed, the monthly rate corrected for seasonality for building permits has fallen by 5.8% instead of increasing as forecast by 0.5%. Even worse was the performance of housing starts, with negative monthly values of 11.9% instead of the expected 3.8%. The number of housing starts is now 1/3 of the figure registered two years ago and at a historic low. The expectations, logically, have worsened.

As we close this Bulletin, there is no new information concerning the sales of new and used homes in March.

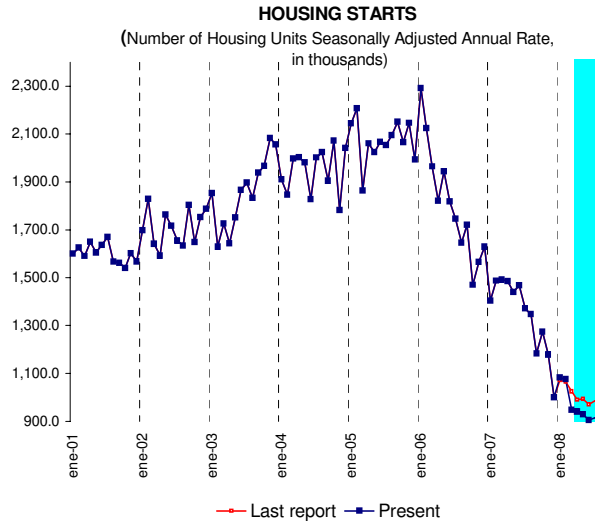
The figures related to the number of new homes sold in February were much as expected, stabilising at very low levels. On the other hand, prices registered a heavy and unexpected monthly increase, although they are highly volatile and the previous months' figures were also significantly revised. In the used home component, the number sold in February was somewhat higher than forecast, although at very low levels. As for prices, however, the figures were worse than expected, with additional falls in the annual rate which help to worsen the sector's situation (see Graphs at the end of this section).

Graph IV.2.5



Source: U.S. Census Bureau & IFL (UC3M)
Date: April 18, 2008

Graph IV.2.6



Source: U.S. Census Bureau & IFL (UC3M)
Date: April 18, 2008

[5] The PCE (Personal Consumption Expenditure) is a price index which has the advantage over the consumer price index (CPI) that, instead of using a fixed shopping basket, it adapts to real expenditure, reflecting changes in the composition of the basket between the periods compared.

[6] These forecasting intervals determine the so-called central tendencies. They are constructed by excluding the three lowest and highest projections from the forecasting distribution given by the Federal Open Market Committee (FOMC) participants, given their own assumptions about the factors that are likely to affect the economy. In particular, each participant assumption about future monetary policy is consistent with his own perspective of the policy actions that are more suitable to meet the Federal Reserve's dual objectives of maximum employment and price stability.

IV.3. OTHER TABLES AND PLOTS.

Tables:

- CPI observed values and forecasts in the US.

Plots:

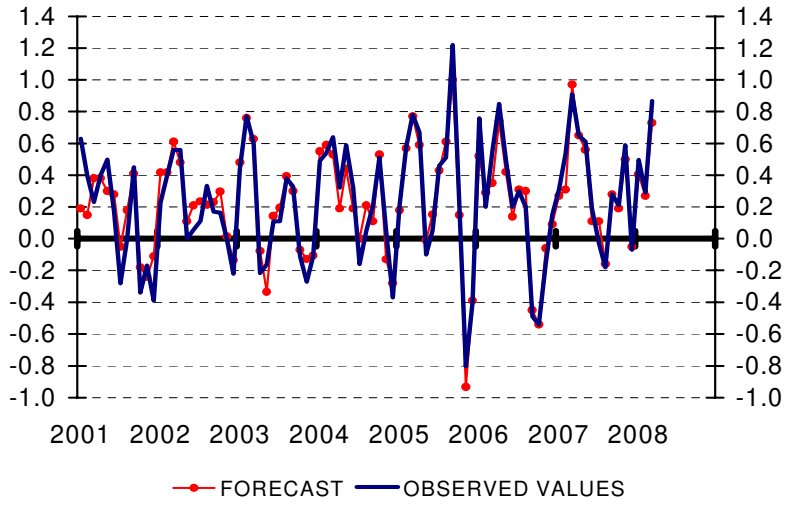
- CPI monthly growth rates.
- Commodities less food and energy (year-on-year rates).
- Some medical care services (year-on-year rates).
- Rent of primary residence (year-on-year rates).
- Services (year-on-year rates).
- Foods (year-on-year rates).
- West Texas Intermediate (dollars per barrel).
- Change in the expectations of headline inflation (year-on-year rates).
- New houses sold
- Median sales prices of new homes sold
- Existing homes sales.
- Sales price of existing homes.

OBSERVED VALUES AND FORECAST ON CPI IN US
(March 2008)

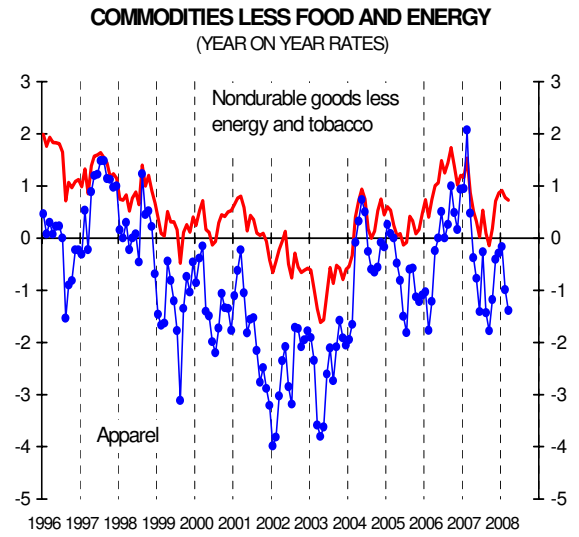
CONSUMER PRICES INDEX (CPI)	Relative importance Dec. 2007	Annual Growth (T^{1}_{12}) observed	Monthly Growth (T^{1}_{1})		Confidence Intervals at 80% level (+ -)
			observed (a)	forecasts (b)	
Food (1)	13.8	4.48	0.10	**0.04**	0.30
Energy (2)	9.7	17.05	5.10	**4.50**	1.22
Residual Inflation (3=2+1)	**23.5**	**9.46**	**2.16**	**1.87**	**0.49**
Non-food and non-energy goods (4)	**21.6**	**0.00**	**0.52**	**0.60**	**0.24**
Less tobacco	20.9	-0.16	0.54	**0.62**	0.22
-Durable goods	10.8	-0.98	-0.03	**-0.02**	0.28
-Nondurable goods	10.8	0.99	1.07	**1.24**	0.36
Non-energy services (5)	**54.9**	**3.28**	**0.45**	**0.29**	**0.14**
-Services less owner's equivalent rent of primary residence (5-a)	30.9	3.80	0.64	**0.36**	0.22
-Owner's equivalent rent of primary residence (a)	23.9	2.60	0.19	**0.19**	0.11
Core Inflation (6=4+5)	**76.5**	**2.35**	**0.47**	**0.38**	**0.12**
Core inflation less owner's equivalent rent of primary residence (6-a)	52.5	2.25	0.59	**0.46**	0.16
Core inflatión less owner's equivalent rent of primary residence and tobacco	51.8	2.22	0.60	**0.46**	0.16
Headline Inflation (7=6+3)	**100.0**	**3.98**	**0.87**	**0.73**	**0.13**
All items less owner's equivalent rent of primary residence (7-a)	76.1	4.42	1.08	**0.90**	**0.17**

Source: BLS & IFL (UC3M)
Date: April 16, 2008

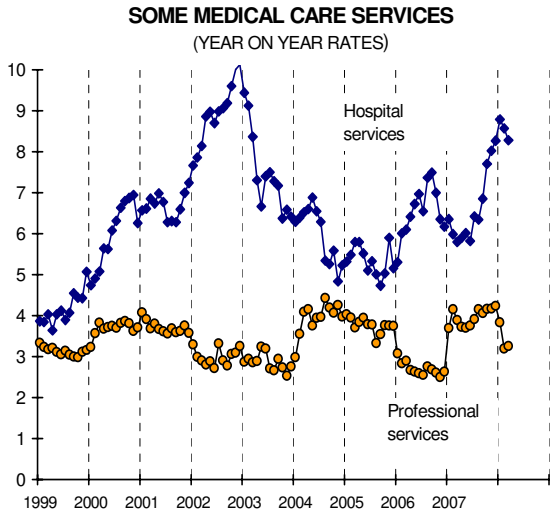
CPI MONTHLY GROWTH RATES IN USA



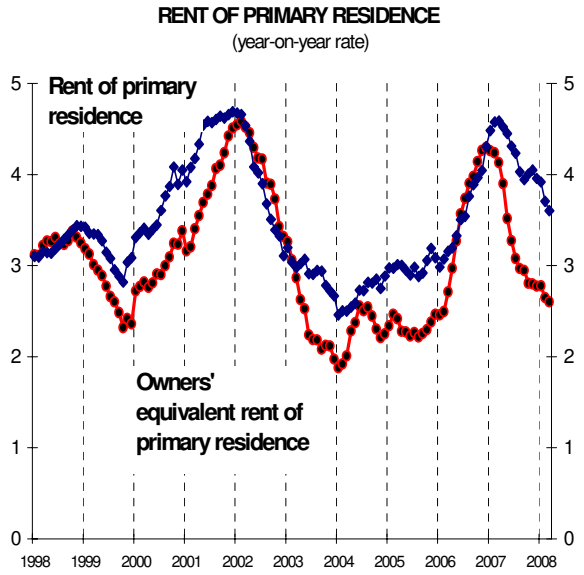
Source :BLS & IFL (UC3M)
Date: April 16, 2008



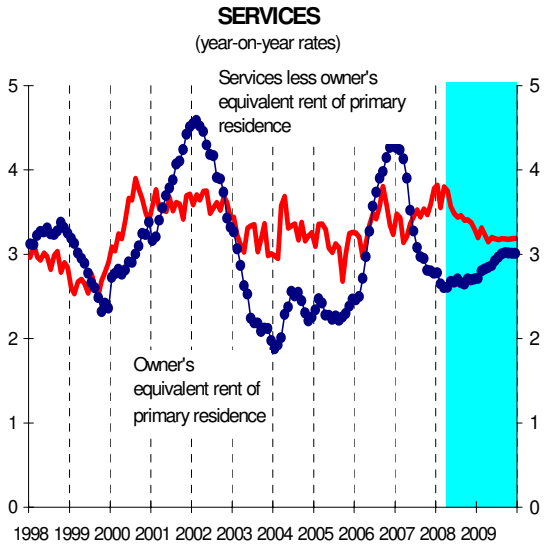
Source: BLS & IFL (UC3M)
Date: April 16, 2008



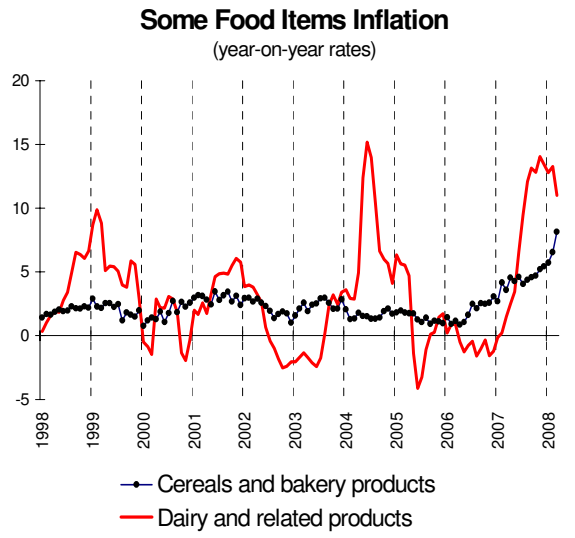
Source: BLS & IFL (UC3M)
Date: April 16, 2008



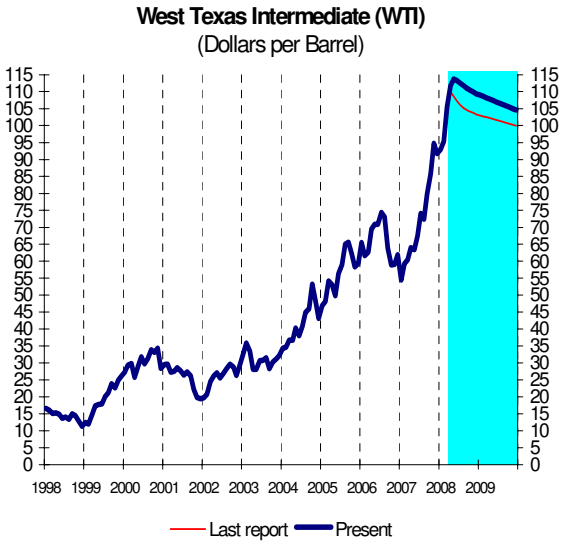
Source: BLS & IFL (UC3M)
Date: April 16, 2008



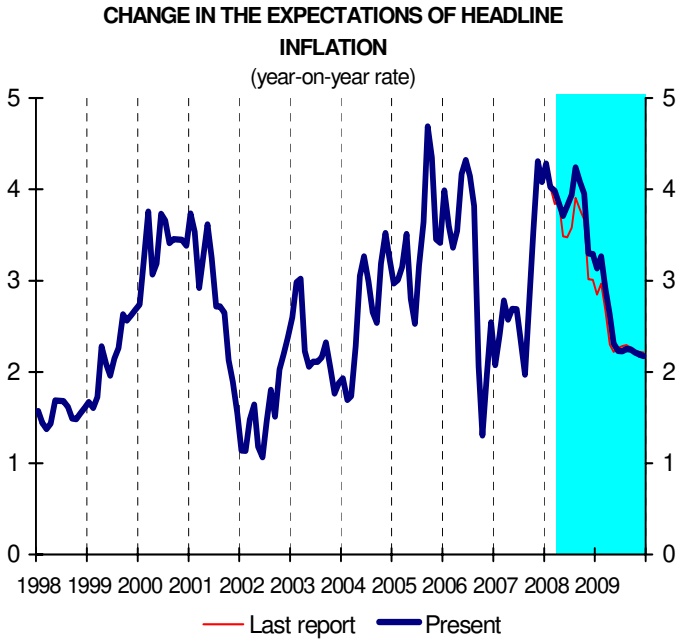
Source: BLS & IFL (UC3M)
Date: April 16, 2008



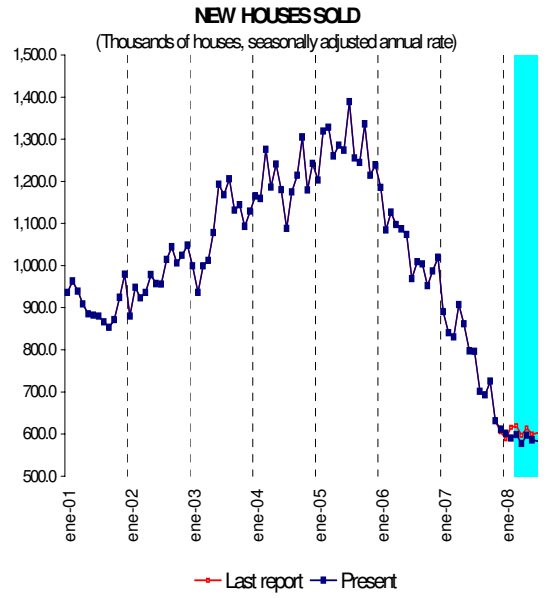
Source: BLS & IFL (UC3M)
Date: April 16, 2008



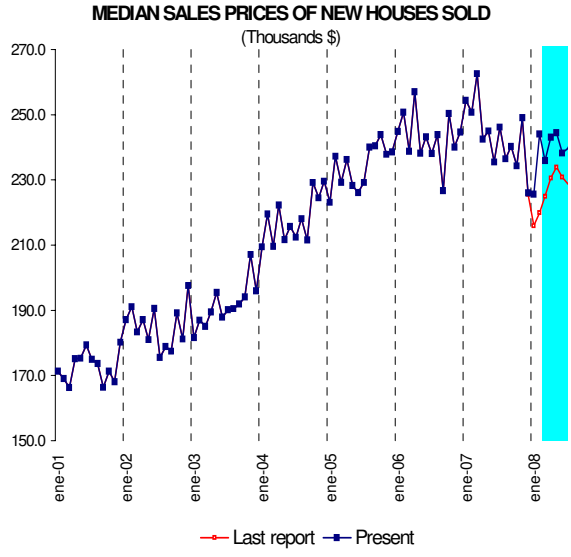
Source: BLS & IFL (UC3M)
Date: April 16, 2008



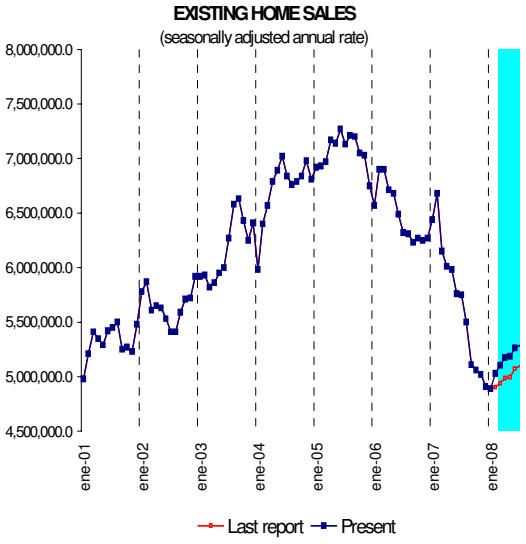
Source: BLS & IFL (UC3M)
Date: April 16, 2008



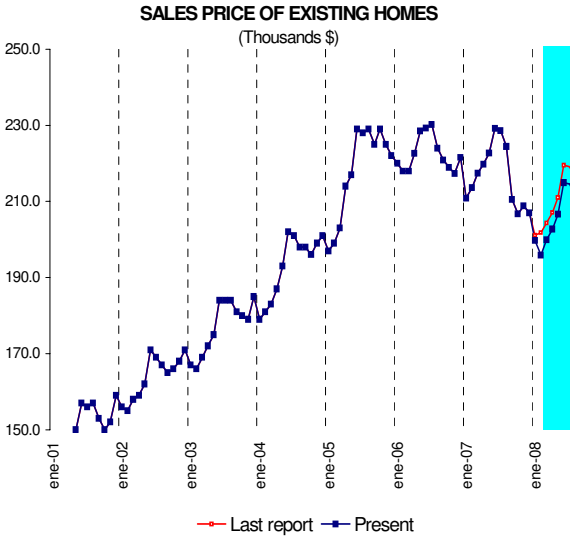
Source: U.S. Census Bureau & IFL (UC3M)
Date: March 27, 2008



Source: U.S. Census Bureau & IFL (UC3M)
Date: March 27, 2008



Source: National association of REALTORS & IFL (UC3M)
Date: March 27, 2008



Source: National association of REALTORS & IFL (UC3M)
Date: March 27, 2008

V. THE SPANISH ECONOMY.

V.1 MACROECONOMIC FORECASTS.

V.1.1 MACROECONOMIC TABLE AND INDICATORS OF SPANISH ECONOMY: ANNUAL RATES.

MACROECONOMIC TABLE AND INDICATORS

	Annual rates			
	2006	2007	Forecasts	
			2008	2009
Private Final Consumption Expenditure	3.8	3.2	1.8	1.8
Public Final Consumption Expenditure	4.8	5.2	4.5	4.5
Gross Fixed Capital Formation	6.8	5.9	1.9	0.4
Equipment	10.3	11.6	6.0	3.9
Building	6.0	4.0	-0.2	-1.1
Other products	4.6	4.2	3.1	0.0
National Demand (1)	5.1	4.6	2.6	1.9
Exports of Goods and Services	5.1	5.3	4.1	3.6
Imports of Goods and Services	8.3	6.6	4.4	3.7
Foreign Demand (1)	-1.3	-0.7	-0.4	-0.3
GDP (a)	**3.9**	**3.8**	**2.2**	**1.7**
GDP, current prices	8.0	7.0	6.4	5.7
Prices and Costs (b)				
CPI, annual average rate	3.5	2.8	4.2	2.7
CPI, dec./dec.	2.7	4.2	3.2	2.6
Compesation per employee	3.0	3.6	4.2	3.9
Unit labour cost	2.3	2.7	3.2	3.0
Labour Market (Data poll labour force) (c)				
Active population (% change)	3.3	2.8	2.4	2.2
Employment (EPA) Average year-on-year	4.1	3.1	1.9	1.7
Unemployment rate	8.5	8.3	8.8	9.1
Basic Balances (a)				
Foreign sector				
Current Account (m. €)	-86.324	-104.951	-110.587	-115.709
Net lending or borrowing (% GDP) (2)	-8.8	-9.5	-9.4	-9.3
Public Administration				
Net lending or borrowing (% GDP) (2)	1.8	2.2	0.5	0.2
Other Economic Indicators (d)				
Índustrial Production Index	3.7	2.3	0.2	0.3

(1) Contribution to GDP growth.
(2) In terms of National Accounts.

Source: INE & IFL (UC3M).
Date: (a) April 15, 2008
(b) April 22, 2008
(c) January 25, 2008
(d) April 4, 2008

V.1.2 QUARTERLY FORECASTS OF SPANISH GDP AND COMPONENTS OF DOMESTIC AND FOREIGN DEMAND.

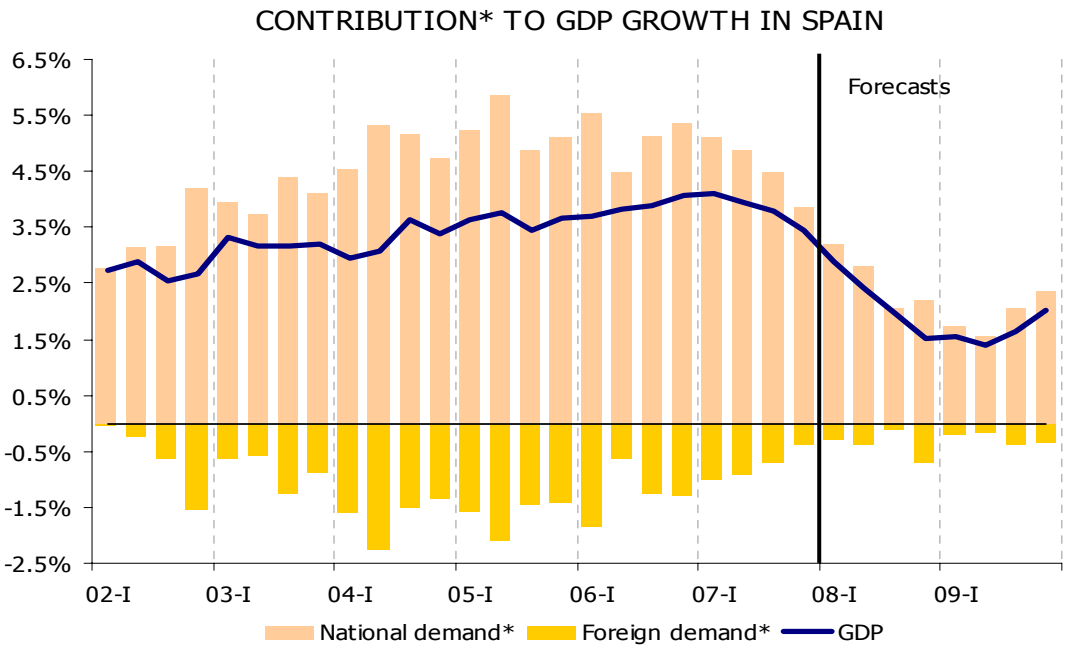
Table V.1.2.1

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN

			Final Consumption		Gross Fixed Capital Formation				National Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP
			Private	Public	Total	Equipment	Building	Other products					
ANNUAL AVERAGE		2004	4.2	6.3	5.1	5.1	5.4	3.8	**4.9**	4.2	9.7	**-1.7**	**3.3**
		2005	4.2	5.5	6.9	9.2	6.1	6.4	**5.3**	2.6	7.7	**-1.6**	**3.6**
		2006	3.8	4.8	6.8	10.3	6.0	4.6	**5.1**	5.1	8.3	**-1.3**	**3.9**
		2007	3.2	5.2	5.9	11.6	4.0	4.2	**4.6**	5.3	6.6	**-0.7**	**3.8**
		2008	1.8	4.5	1.9	6.0	-0.2	3.1	**2.6**	4.1	4.4	**-0.4**	**2.2**
		2009	1.8	4.5	0.4	3.9	-1.1	0.0	**1.9**	3.6	3.7	**-0.3**	**1.7**
ANNUAL RATES*	2007	QI	3.5	6.1	6.4	13.1	4.9	1.9	**5.1**	3.6	6.0	**-1.0**	**4.1**
		QII	3.4	5.0	6.7	13.0	4.6	4.7	**4.9**	4.8	6.7	**-0.9**	**4.0**
		QIII	3.1	5.1	5.8	11.7	3.8	4.3	**4.5**	7.7	8.4	**-0.7**	**3.8**
		QIV	2.7	4.4	4.8	8.6	2.9	6.1	**3.9**	5.1	5.4	**-0.4**	**3.5**
	2008	QI	2.3	4.6	2.9	5.9	1.0	4.7	**3.2**	7.1	6.5	**-0.3**	**2.9**
		QII	1.8	4.6	2.5	8.2	0.2	1.9	**2.8**	5.1	5.3	**-0.4**	**2.4**
		QIII	1.4	4.5	1.1	5.4	-1.3	2.8	**2.0**	2.0	1.9	**-0.1**	**2.0**
		QIV	1.8	4.4	1.2	4.6	-0.9	2.9	**2.2**	2.4	4.0	**-0.8**	**1.5**
	2009	QI	1.5	4.3	0.4	4.4	-1.6	1.1	**1.7**	2.6	2.7	**-0.2**	**1.5**
		QII	1.6	4.5	-0.5	1.9	-1.4	-1.2	**1.5**	3.3	3.1	**-0.1**	**1.4**
		QIII	1.8	4.5	0.7	4.9	-0.7	-1.0	**2.0**	3.9	4.3	**-0.4**	**1.7**
		QIV	2.2	4.7	1.0	4.5	-0.7	1.3	**2.4**	4.7	4.8	**-0.4**	**2.0**

The figures in the shaded area are forecasts.
(*) Year-on-year rates.
(1) Contribution to GDP growth
Source: INE & IFL (UC3M)
Date: April 15, 2008

Graph V.1.2.1



Source INE & IFL (UC3M)
Date: April 15, 2008

Table V.1.2.2

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN

			GVA								
			Agriculture	Energy	Industry	Construction	Market Services	Non-market Services	TOTAL	Tax	Real GDP
ANNUAL AVERAGE		2004	-2.3	3.2	0.6	5.1	3.8	3.7	**3.1**	4.4	**3.3**
		2005	-8.6	5.2	1.0	5.6	4.1	3.9	**3.3**	6.1	**3.6**
		2006	2.4	1.4	2.9	5.0	4.1	4.3	**3.8**	3.5	**3.9**
		2007	3.8	1.0	3.1	3.8	4.0	5.0	**3.8**	3.4	**3.8**
		2008	-2.5	2.8	1.2	-0.9	3.1	3.7	**2.2**	1.8	**2.2**
		2009	-1.5	2.1	0.6	-1.0	2.6	3.2	**1.7**	0.6	**1.7**
ANNUAL RATES*	2007	QI	6.8	-3.5	5.0	4.4	4.2	4.2	**4.1**	3.2	**4.1**
		QII	2.8	3.4	3.6	4.2	3.9	4.5	**3.9**	3.5	**4.0**
		QIII	2.8	0.0	2.4	3.8	4.0	5.3	**3.7**	4.1	**3.8**
		QIV	2.9	4.5	1.4	2.8	3.9	5.0	**3.5**	2.9	**3.5**
	2008	QI	-2.4	5.3	0.8	0.9	3.4	5.0	**2.7**	3.5	**2.9**
		QII	-2.2	1.2	1.3	-0.5	3.5	3.6	**2.4**	2.0	**2.4**
		QIII	2.6	3.4	1.1	-2.1	2.8	3.4	**2.0**	1.2	**2.0**
		QIV	-7.7	1.3	1.5	-2.1	2.6	2.9	**1.5**	0.7	**1.5**
	2009	QI	-2.4	2.1	0.7	-2.0	2.4	3.3	**1.5**	0.8	**1.5**
		QII	-1.2	2.2	0.4	-1.4	2.2	3.2	**1.5**	0.3	**1.4**
		QIII	-3.6	2.1	0.6	-0.5	2.7	3.2	**1.8**	0.4	**1.7**
		QIV	1.2	2.0	0.5	-0.1	3.0	3.1	**2.1**	0.8	**2.0**

The figures in the shaded area are forecasts.
(*) Year-on-year rates
Source: INE & IFL (UC3M)
Date: April 15, 2008

V.1.3 INDUSTRIAL PRODUCTION INDEX AND PRODUCTION SECTORS IN SPAIN: MONTHLY AND QUARTERLY FORECASTS.

Table V.1.3.1

ANNUAL GROWTH RATES IN THE IPI AND SECTORS IN SPAIN

			Durable Consumer Goods	Non durable Consumer goods	Consumer Goods	Capital Goods	Intermediate Goods	Energy	TOTAL
ANNUAL AVERAGE RATE		2004	0.1	0.0	0.0	1.9	1.9	4.9	1.8
		2005	-1.0	0.3	0.2	-0.7	-0.6	2.9	0.1
		2006	10.6	0.8	2.1	8.2	3.8	0.9	3.7
		2007	5.4	1.1	1.7	6.3	1.3	0.7	2.3
		2008	**-4.0**	**1.1**	**0.3**	**4.2**	**-2.9**	**2.7**	**0.2**
		2009	**-3.0**	**0.2**	**-0.3**	**3.9**	**-2.0**	**2.1**	**0.3**
ANNUAL RATES*	2007	TI	16.9	2.9	4.8	8.9	4.9	-4.4	4.2
		TII	5.7	1.5	2.1	5.3	1.0	2.8	2.4
		TIII	3.3	0.8	1.1	6.5	0.0	-1.0	1.4
		TIV	-2.8	-0.7	-1.0	4.7	-0.6	5.7	1.2
	2008	**TI**	**-8.5**	**-1.6**	**-2.7**	**0.0**	**-5.7**	**3.7**	**-2.4**
		TII	**-1.8**	**2.8**	**2.1**	**6.8**	**-1.2**	**2.6**	**1.9**
		TIII	**-3.0**	**2.0**	**1.3**	**5.8**	**-2.0**	**3.4**	**1.3**
		TIV	**-2.6**	**1.2**	**0.6**	**4.3**	**-2.7**	**1.2**	**0.3**
	2009	**TI**	**-0.7**	**0.8**	**0.6**	**6.1**	**-1.9**	**2.6**	**1.1**
		TII	**-6.0**	**-2.0**	**-2.6**	**1.3**	**-3.8**	**1.0**	**-1.7**
		TIII	**-1.8**	**1.1**	**0.7**	**4.7**	**-1.2**	**2.7**	**1.1**
		TIV	**-3.1**	**1.0**	**0.4**	**4.0**	**-1.1**	**2.0**	**0.9**

The figures in the shaded area are forecasts.
* Year-on-year rates.
Source: INE & IFL (UC3M)
Date: April 4, 2008

Table V.1.3.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN SPAIN

	2003	2004	2005	2006	2007	**2008**	**2009**
January	-0.1	-2.9	0.8	5.4	7.5	-0.6	**-2.1**
February	1.7	1.8	-1.0	2.7	3.6	3.9	**-3.5**
March	9.7	7.2	-6.7	11.0	2.1	**-9.8**	**9.1**
April	-4.5	0.7	7.4	-9.8	6.3	**10.7**	**-6.3**
May	-1.2	2.7	0.1	8.1	2.1	**-3.0**	**-1.7**
June	4.5	5.7	-0.2	5.2	-0.5	**-1.0**	**2.8**
July	1.9	0.0	-3.5	4.2	3.7	**3.2**	**0.8**
August	-1.4	5.3	3.7	5.0	1.6	**-4.9**	**0.5**
September	2.5	3.8	0.2	1.1	-1.3	**3.8**	**1.9**
October	0.8	-7.0	-0.1	7.3	4.7	**0.3**	**-1.6**
November	1.4	4.3	0.9	4.1	-1.0	**-3.7**	**2.8**
December	4.2	1.2	1.4	0.6	-0.2	**5.0**	**1.6**

The figures in the shaded area are forecasts.
Source: INE & IFL (UC3M)
Date: April 4, 2008

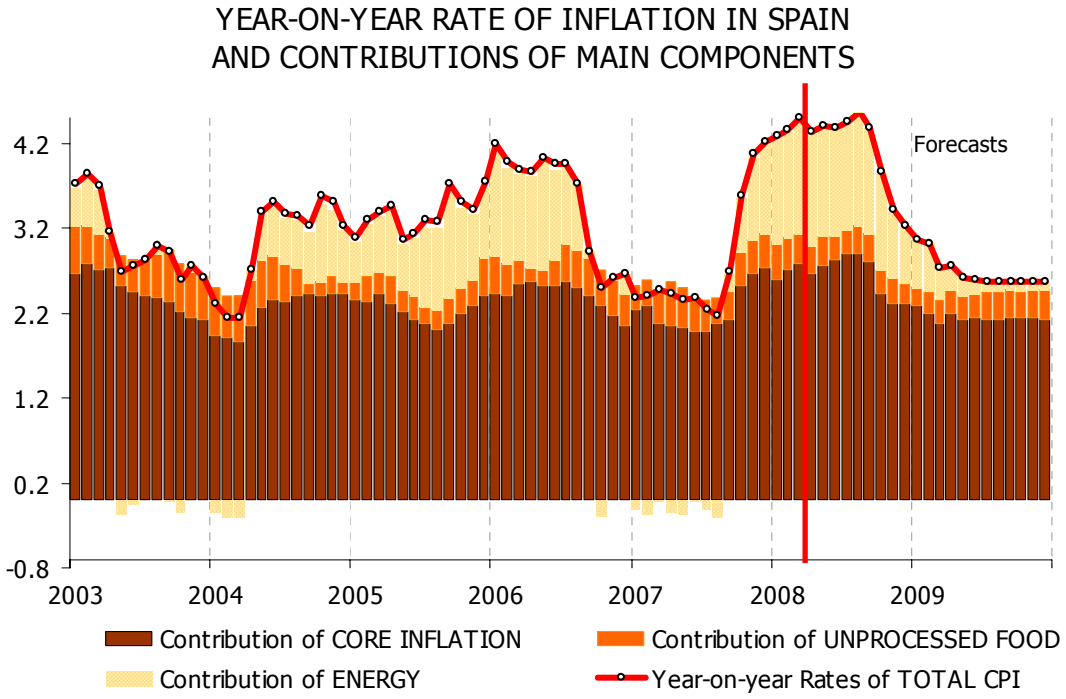
V.1.4 INFLATION.

Table V.1.4.1

FORECASTS IN THE ANNUAL AVERAGE RATE IN INFLATION IN SPAIN					
Consumer Price Index (CPI)	2005	2006	2007	Forecast	
				2008	2009
TOTAL (100%)	3.4	3.5	2.8	**4.2**	**2.7**
CORE (82.3%)	2.7	2.9	2.7	**3.2**	**2.6**
Processed food (16.8%)	3.4	3.6	3.7	**6.8**	**3.6**
Non-energy industrial goods (29.0%)	0.9	1.4	0.7	**0.3**	**0.4**
Services (36.5%)	3.8	3.9	3.9	**3.9**	**4.0**
RESIDUAL (17.7%)	6.5	6.3	3.2	**8.7**	**3.0**
Non-Processed food (8.1%)	3.3	4.4	4.7	**4.3**	**4.0**
Energy (9.6%)	9.6	8.0	1.7	**12.2**	**2.2**

Source: INE & IFL (UC3M)
Date: April 22, 2008

Graph V.1.4.1



Source: INE & IFL (UC3M)
Date: April 22, 2008

Table V.1.4.2

CPI ANNUAL GROWTH BY COMPONENTS IN SPAIN

		Consumer Prices Index									
		Core					Residual				
		Processed food	Non energy industrial goods	Services	TOTAL	Confidence intervals at 80% *	Non processed food	Energy	TOTAL	TOTAL 100%	Confidence intervals at 80% *
	Weights 2008	15.6%	29.6%	37.7%	82.9%		7.4%	9.8%	17.1%		
ANNUAL AVERAGE RATE	2000	0.9	2.1	3.7	2.5		4.2	13.3	8.8	3.4	
	2001	3.4	2.4	4.2	3.5		8.7	-1.0	3.6	3.6	
	2002	4.3	2.5	4.6	3.7		5.8	-0.2	2.6	3.5	
	2003	3.0	2.0	3.7	2.9		6.0	1.4	3.6	3.0	
	2004	3.6	0.9	3.7	2.7		4.6	4.8	4.7	3.0	
	2005	3.4	0.9	3.8	2.7		3.3	9.6	6.5	3.4	
	2006	3.6	1.4	3.9	2.9		4.4	8.0	6.3	3.5	
	2007	3.7	0.7	3.9	2.7		4.7	1.7	3.2	2.8	
	2008	**6.8**	**0.3**	**3.9**	**3.2**	**± 0.16**	**4.3**	**12.2**	**8.7**	**4.2**	**± 0.38**
	2009	**3.6**	**0.4**	**4.0**	**2.6**	**± 0.43**	**4.0**	**2.2**	**3.0**	**2.7**	**± 0.75**
ANNUAL RATES (growth of the month over the same month of the previous year)	2007 January	2.9	1.2	3.8	2.7		3.5	-1.3	0.9	2.4	
	2007 February	3.5	1.0	3.8	2.8		3.7	-1.8	0.8	2.4	
	2007 March	2.3	0.8	3.9	2.5		5.2	-0.3	2.3	2.5	
	2007 April	2.2	0.9	3.9	2.5		6.4	-1.5	2.2	2.4	
	2007 May	2.3	0.7	4.0	2.5		6.0	-1.7	1.9	2.3	
	2007 June	2.2	0.7	3.9	2.4		5.0	-0.2	2.3	2.4	
	2007 July	2.2	0.6	3.8	2.4		4.7	-1.2	1.5	2.2	
	2007 August	2.8	0.5	3.9	2.5		4.0	-2.2	0.7	2.2	
	2007 September	3.7	0.4	3.7	2.6		4.0	2.3	3.1	2.7	
	2007 October	6.1	0.4	3.8	3.1		4.7	7.0	6.0	3.6	
	2007 November	7.0	0.3	3.8	3.2		4.9	10.7	8.1	4.1	
	2007 December	7.4	0.3	3.8	3.3		4.9	11.5	8.5	4.2	
	2008 January	7.0	0.1	3.7	3.1		5.5	13.4	9.8	4.3	
	2008 February	7.4	0.2	3.8	3.3		5.2	13.3	9.6	4.4	
	2008 March	7.4	0.3	4.0	3.4		4.7	14.1	9.9	4.5	
	2008 April	**7.5**	**0.1**	**3.7**	**3.2**	**± 0.17**	**4.3**	**13.8**	**9.6**	**4.3**	**± 0.17**
	2008 May	**7.6**	**0.3**	**3.8**	**3.3**	**± 0.25**	**4.7**	**13.4**	**9.6**	**4.4**	**± 0.31**
	2008 June	**7.8**	**0.3**	**3.9**	**3.4**	**± 0.32**	**4.0**	**12.8**	**9.0**	**4.4**	**± 0.46**
	2008 July	**8.0**	**0.4**	**3.9**	**3.5**	**± 0.35**	**3.9**	**13.1**	**9.1**	**4.5**	**± 0.57**
	2008 August	**7.9**	**0.5**	**3.9**	**3.5**	**± 0.38**	**4.3**	**13.9**	**9.7**	**4.6**	**± 0.67**
	2008 September	**7.3**	**0.4**	**4.0**	**3.4**	**± 0.38**	**4.2**	**12.9**	**9.1**	**4.4**	**± 0.73**
	2008 October	**5.2**	**0.3**	**4.0**	**2.9**	**± 0.42**	**4.0**	**11.7**	**8.3**	**3.9**	**± 0.80**
	2008 November	**4.6**	**0.4**	**4.0**	**2.8**	**± 0.45**	**3.8**	**8.1**	**6.3**	**3.4**	**± 0.85**
	2008 December	**4.4**	**0.4**	**4.0**	**2.8**	**± 0.48**	**3.3**	**6.8**	**5.3**	**3.2**	**± 0.87**
	2009 January	**4.0**	**0.5**	**4.1**	**2.8**	**± 0.49**	**3.0**	**5.5**	**4.4**	**3.1**	**± 0.89**
	2009 February	**3.5**	**0.4**	**4.0**	**2.7**	**± 0.52**	**3.7**	**5.7**	**4.8**	**3.0**	**± 0.90**
	2009 March	**3.5**	**0.4**	**3.8**	**2.5**	**± 0.53**	**3.9**	**3.7**	**3.8**	**2.7**	**± 0.93**
	2009 April	**3.5**	**0.4**	**4.1**	**2.7**	**± 0.56**	**3.8**	**2.8**	**3.2**	**2.7**	**± 0.99**
	2009 May	**3.5**	**0.4**	**3.9**	**2.6**	**± 0.57**	**3.8**	**2.1**	**2.8**	**2.6**	**± 1.00**
	2009 June	**3.6**	**0.4**	**3.9**	**2.6**	**± 0.59**	**4.0**	**1.4**	**2.5**	**2.6**	**± 1.02**
	2009 July	**3.6**	**0.4**	**3.9**	**2.6**	**± 0.58**	**4.3**	**1.1**	**2.4**	**2.6**	**± 1.02**
	2009 August	**3.6**	**0.3**	**3.9**	**2.6**	**± 0.58**	**4.4**	**1.0**	**2.4**	**2.6**	**± 1.02**
	2009 September	**3.6**	**0.3**	**4.0**	**2.6**	**± 0.58**	**4.4**	**1.0**	**2.4**	**2.6**	**± 1.02**
	2009 October	**3.6**	**0.3**	**4.0**	**2.6**	**± 0.59**	**4.3**	**1.0**	**2.4**	**2.6**	**± 1.02**
	2009 November	**3.6**	**0.3**	**4.0**	**2.6**	**± 0.61**	**4.3**	**1.0**	**2.4**	**2.6**	**± 1.02**
	2009 December	**3.6**	**0.3**	**4.0**	**2.6**	**± 0.61**	**4.4**	**1.0**	**2.5**	**2.6**	**± 1.02**

* Confidence intervals calculated with historical errors.
The figures in the shaded areas are forecasts
Source: INE & IFL (UC3M)
Date: April 22, 2008

Table V.1.4.3

CPI MONTHLY GROWTH BY COMPONENTS IN SPAIN

			Consumer Prices Index							
			Core				Residual			
			Processed food	Non energy industrial goods	Services	TOTAL	Non processed food	Energy	TOTAL	TOTAL 100%
		Weights 2008	15.6%	29.6%	37.7%	82.9%	7.4%	9.8%	17.1%	
MONTHLY RATES (Growth of the month over the previous month)	January	2006	0.3	-3.6	0.5	-1.0	1.0	3.5	2.4	-0.4
		2007	1.0	-3.6	0.6	-0.8	0.0	-0.3	-0.2	-0.7
		2008	0.7	-3.8	0.5	-1.0	0.6	1.4	1.1	-0.6
		2009	**0.4**	**-3.7**	**0.6**	**-1.0**	**0.3**	**0.2**	**0.2**	**-0.8**
	February	2006	-0.1	-0.1	0.5	0.1	-1.5	0.7	-0.3	0.0
		2007	0.4	-0.3	0.4	0.2	-1.3	0.2	-0.5	0.1
		2008	0.7	-0.2	0.5	0.3	-1.6	0.0	-0.7	0.2
		2009	**0.3**	**-0.2**	**0.5**	**0.2**	**-0.9**	**0.2**	**-0.2**	**0.1**
	March	2006	1.4	1.0	0.5	0.9	-0.9	0.6	-0.1	0.7
		2007	0.3	0.8	0.6	0.6	0.6	2.0	1.4	0.8
		2008	0.3	0.9	0.8	0.7	0.1	2.8	1.7	0.9
		2009	**0.3**	**0.8**	**0.5**	**0.6**	**0.3**	**0.8**	**0.6**	**0.6**
	April	2006	0.3	2.8	0.7	1.4	-0.1	3.1	1.6	1.4
		2007	0.2	2.9	0.7	1.3	1.1	1.9	1.5	1.4
		2008	**0.3**	**2.8**	**0.4**	**1.2**	**0.7**	**1.6**	**1.2**	**1.2**
		2009	**0.3**	**2.8**	**0.7**	**1.3**	**0.6**	**0.7**	**0.7**	**1.2**
	May	2006	0.1	0.6	-0.1	0.2	0.4	1.7	1.1	0.4
		2007	0.2	0.4	-0.1	0.2	0.0	1.5	0.8	0.3
		2008	**0.2**	**0.5**	**0.0**	**0.3**	**0.4**	**1.1**	**0.8**	**0.4**
		2009	**0.3**	**0.5**	**-0.1**	**0.2**	**0.4**	**0.5**	**0.4**	**0.2**
	June	2006	0.1	-0.1	0.4	0.1	1.3	-0.7	0.2	0.2
		2007	0.1	-0.2	0.3	0.1	0.4	0.7	0.6	0.2
		2008	**0.3**	**-0.1**	**0.4**	**0.2**	**-0.3**	**0.2**	**0.0**	**0.2**
		2009	**0.3**	**-0.1**	**0.4**	**0.2**	**-0.1**	**-0.4**	**-0.3**	**0.1**
	July	2006	0.1	-3.7	0.7	-1.0	0.9	1.5	1.2	-0.6
		2007	0.1	-3.8	0.6	-1.0	0.5	0.5	0.5	-0.7
		2008	**0.2**	**-3.6**	**0.7**	**-0.9**	**0.5**	**0.7**	**0.6**	**-0.7**
		2009	**0.2**	**-3.6**	**0.7**	**-0.9**	**0.7**	**0.4**	**0.5**	**-0.7**
	August	2006	-0.3	-0.1	0.5	0.1	0.9	0.2	0.5	0.2
		2007	0.3	-0.3	0.6	0.2	0.2	-0.8	-0.3	0.1
		2008	**0.3**	**-0.2**	**0.6**	**0.3**	**0.6**	**0.0**	**0.2**	**0.3**
		2009	**0.3**	**-0.2**	**0.6**	**0.2**	**0.7**	**-0.1**	**0.2**	**0.2**
	September	2006	0.1	1.1	-0.4	0.2	0.6	-3.8	-1.8	-0.2
		2007	0.9	1.0	-0.6	0.3	0.7	0.6	0.6	0.3
		2008	**0.3**	**1.0**	**-0.5**	**0.2**	**0.6**	**-0.4**	**0.0**	**0.1**
		2009	**0.2**	**1.0**	**-0.5**	**0.2**	**0.5**	**-0.4**	**0.0**	**0.1**
	October	2006	0.0	2.7	0.0	0.9	-0.2	-3.5	-2.0	0.4
		2007	**2.3**	**2.7**	**0.1**	**1.4**	**0.5**	**1.0**	**0.7**	**1.3**
		2008	**0.3**	**2.6**	**0.0**	**1.0**	**0.2**	**-0.1**	**0.0**	**0.8**
		2009	**0.3**	**2.6**	**0.0**	**1.0**	**0.2**	**-0.1**	**0.0**	**0.8**
	November	2006	0.0	1.0	0.0	0.3	0.4	-0.7	-0.2	0.2
		2007	0.9	1.0	-0.1	0.5	0.6	2.7	1.7	0.7
		2008	**0.3**	**1.0**	**-0.1**	**0.4**	**0.5**	**-0.6**	**-0.2**	**0.3**
		2009	**0.3**	**1.0**	**-0.1**	**0.4**	**0.5**	**-0.6**	**-0.1**	**0.3**
	December	2006	0.1	-0.2	0.5	0.1	1.4	0.4	0.9	0.3
		2007	0.4	-0.3	0.5	0.2	1.5	1.1	1.3	0.4
		2008	**0.3**	**-0.2**	**0.5**	**0.2**	**1.0**	**-0.1**	**0.3**	**0.2**
		2009	**0.3**	**-0.2**	**0.5**	**0.2**	**1.1**	**-0.1**	**0.4**	**0.2**

The figures in the shaded area are forecasts.
Source: INE & IFL (UC3M)
Date: April 22, 2008

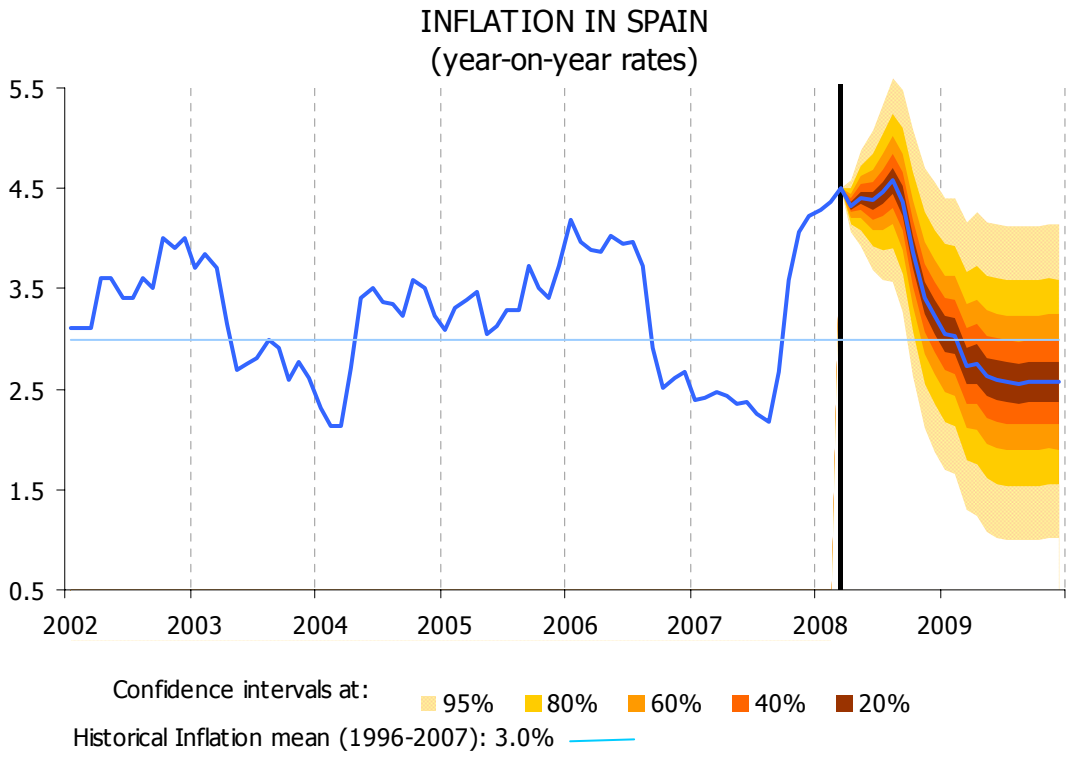
Table V.1.4.4

CPI ANNUAL AVERAGE GROWTH RATES BY COMPONENTS IN SPAIN WITH FORECASTS FOR 2008 AND 2009

				Weights 2008	2004	2005	2006	2007	2008	2009
CPI Total	Core Inflation	Processed food	AE less tobacco & fats	12.8	2.9	2.5	2.8	4.5	7.9	4.1
			Oils & Fats	0.8	9.4	10.5	23.4	-16.8	2.3	1.2
			Tobacco	2.0	0.4	6.6	1.5	8.8	3.4	1.2
			Processed food	15.6	3.6	3.4	3.6	3.7	6.8	3.6
		Non energy industrial goods	Vehicles	6.2	1.6	1.8	2.3	1.4	-0.7	-0.2
			Footwear	1.9	1.9	2.2	1.6	1.3	1.7	1.6
			Clothing	6.8	1.8	1.1	1.1	0.9	0.7	0.7
			Rest	14.7	0.3	0.5	1.2	0.3	0.2	0.3
			Non energy industrial goods	29.6	0.9	0.9	1.4	0.7	0.3	0.4
		Services	Postal services	0.0	3.1	2.7	5.7	3.6	2.8	3.0
			Cultural services	1.8	3.0	2.7	2.4	3.1	2.6	2.7
			Education	1.0	3.6	4.1	3.5	4.1	3.2	3.4
			Hotels	0.7	3.0	2.3	3.6	5.5	3.8	5.2
			Health	2.3	3.2	4.0	4.1	4.2	4.1	4.1
			Household equipment	1.8	4.4	4.5	4.4	4.2	5.3	5.7
			Restaurants	11.2	4.1	4.3	4.5	4.8	4.9	4.8
			Telephone	3.6	-1.1	-1.6	-1.4	0.3	0.6	0.0
			Transports	5.3	4.4	4.4	4.2	3.1	3.1	3.5
			Package holidays	1.4	1.4	2.2	3.1	0.6	6.9	6.9
			University	0.5	4.9	4.6	5.0	5.3	4.6	4.0
			Housing	5.2	4.5	4.8	4.7	4.7	4.1	4.4
			Rest	3.0	4.2	3.8	4.3	3.9	3.5	3.6
			Services	37.7	3.7	3.8	3.9	3.9	3.9	4.0
		Core Inflation		82.9	2.7	2.7	2.9	2.7	3.2	2.6
	Residual Inflation	Non processed foods	Meat	2.7	7.4	3.8	6.0	5.2	4.3	3.9
			Fruits	1.3	1.1	2.7	0.1	4.5	9.6	5.9
			Eggs	0.2	3.7	-3.2	2.8	4.3	10.2	2.8
			Vegetables	0.9	-1.5	5.4	-0.8	6.4	2.2	2.9
			Mollusc	0.6	1.1	5.4	2.3	0.1	1.3	4.3
			Potatoes	0.3	24.2	-8.2	17.6	8.4	-8.3	3.8
			Fish	1.4	4.4	3.8	5.7	2.5	3.4	3.3
			Non processed foods	7.4	4.6	3.3	4.4	4.7	4.3	4.0
		Energy	Heat energy	5.7	7.1	12.3	6.6	1.4	14.5	2.7
			Fuels	0.4	12.0	26.8	11.8	-0.8	25.2	-2.9
			Electricity and gas	3.6	0.8	4.0	9.6	2.1	6.9	2.1
			Energy	9.8	4.8	9.6	8.0	1.7	12.2	2.2
		Residual Inflation		17.1	4.7	6.5	6.3	3.2	8.7	3.0
	CPI Total			100.0	3.0	3.4	3.5	2.8	4.2	2.7

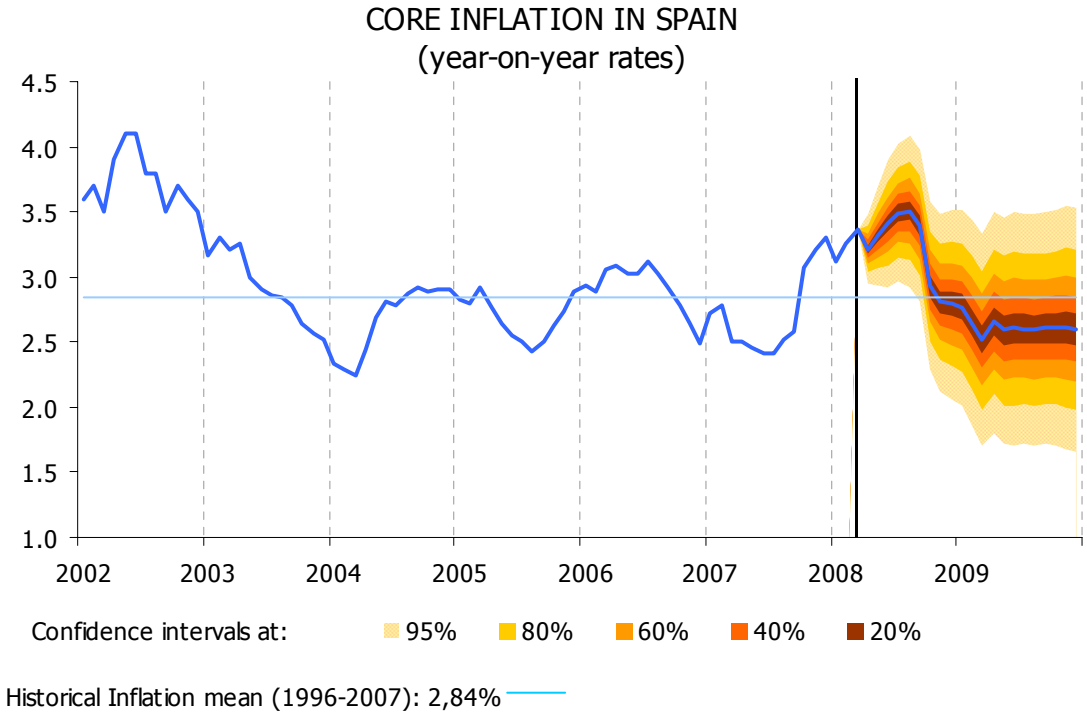
Bold figures are forecasts
Source: INE & IFL (UC3M)
Date: April 22, 2008

Graph V.1.4.2



Source: INE & IFL (UC3M)
Date: April 22, 2008

Graph V.1.4.3



Source: INE & IFL (UC3M)
Date: April 22, 2008

V.2 ANALYSIS OF THE SPANISH ECONOMY.

V.2.1 RECENT EVOLUTION OF THE SPANISH ECONOMY. THE PERFORMANCE OF THE SPANISH LABOUR MARKET ACCORDING TO THE ACTIVE POPULATION SURVEY (EPA)

V.2.1.1. Recent evolution of the Spanish economy

The results of the indicators published in the last month concerning the Spanish economy, some referring to March and others to February, provide a considerable amount of the economic information relative to the first quarter. In general terms, these results point to a continuing decline in economic activity, which we started to see in the middle of last year, but more intensely than in the three previous months. Therefore, our GDP growth forecasts for 2008-2009 and those estimated by other Institutions, have systematically been revised downwards over the last few months.

We now have complete information about the first quarter in relation to the most important labour market indicators, such as Social Security contributors and the Active Population Survey (EPA), which provide information about the creation of new jobs and unemployment. We also have complete information relative to the first quarter concerning the confidence of economic agents in consumption, construction, industry, retail trade, etc. However, the latest figures known for the IPI and cement consumption correspond to February.

With the latest information available, we have updated our growth forecasts for the real GDP and its component, on both the supply and the demand side, for 2008-2009. The results of these forecasts are shown in table V.2.1.1 and the three previous tables. A first glance at the table shows us that all GDP growth forecast revisions have systematically been downwards since last November. The latest forecasts estimate GDP growth of 2.2% for 2008 and 1.7% for 2009, two tenths and half a percentage point, respectively, less than the forecasts estimated in March.

Analysing the latest forecasts, we see that GDP deceleration is solely due to internal demand, considering that the contribution of foreign demand to GDP growth is improving and reducing its negative values. This improvement is solely due to a heavy fall in imports, consistent with the reduction in national demand. On the other hand, although most of the components on both the supply and the demand side will decelerate in 2008, this will be noted most in construction, which is the sector behind the current cycle change.

In 2008, internal demand will contribute 2.6pp to growth, two tenths of a decimal point less than the previous forecast and 2 points less than a year earlier. For 2009, we are expecting it to continue to fall to 1.9 pp. For household consumption, we expect an average annual growth rate of 1.8% in 2008, four tenths of a percentage point less than the previous forecasts, and 1.4 pp less than the previous year. For 2009, we expect the same growth as in 2008. This reduction in the growth of household consumption is largely due to less growth of employment, but also to higher interest rates and prices. On the other hand, salaries are increasing thanks to safeguard clauses which, in 2008, are having a considerable effect due to the significant deviation of the finally observed inflation rate from the expected rate, and recently approved tax measures. Public consumption is expected to remain strong, growing by 4.5% in 2008, somewhat less than last year. This growth rate is also forecast for 2009.

Table V.2.1.1

EMPLOYMENT, ACTIVE AND UNEMPLOYMENT POPULATION
year-on-year rates

	2006	2007	**2008**	**2009**
Occupied	4.1	3.1	**0.9**	**0.2**
Agriculture	-5.6	-2.0	**-4.1**	**-2.4**
Industrial	0.4	-0.9	**1.4**	**-2.2**
Construction	7.9	6.1	**-4.6**	**-3.0**
Services	5.1	3.9	**2.2**	**1.6**
Active	3.3	2.8	**2.7**	**1.9**
Unemployment rate	8.5	8.3	**9.9**	**11.4**

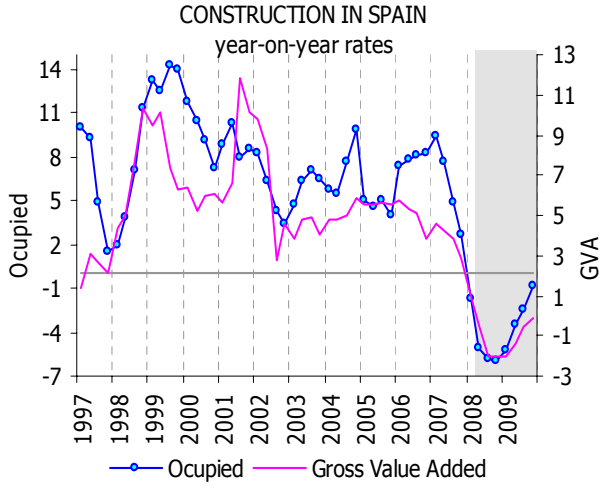
Source: INE & IFL (UC3M)
Date: April 25, 2008

Gross Fixed Capital Formation (GFCF) registered a heavy reduction in 2008 to 1.9pp from the 5.9% of 2007 and growth will continue to fall in 2009 to 0.4%. Although all this aggregate's components will reduce their growth rates, it will be noted the most in investment in construction, particularly the residential segment. For this year, construction is expected to fall by 0.2%, four tenths of a percentage point less than the March forecast and 4.2pp less than in 2007, with this fall increasing in 2009 (-1.1%). In the third quarter of 2008 we will

see negative year-on-year rates, and they will remain throughout the forecasting period.

If we break down the construction GFCF figures into housing and other constructions, we find different evolutions. The updated forecasts for housing construction show that in the first quarter of 2008 there is a clear year-on-year decrease which will last throughout 2008 and 2009, although it will improve slightly in the second half of the year. Housing construction is thus expected to register a negative average annual growth rate (-2.2%) in 2008, with a greater fall in 2009 (-4.4%). On the other hand, other constructions are expected to evolve less unfavourably for the forecasting period in view of some indicators such as official calls for tenders for civil works and official calls for tenders for residential construction. For 2008, the GFCF in other constructions will register an average annual growth rate of 1.9%, rising to 2.3% in 2009.

Graph V.2.1.1



With regards to the labour market, the Active Population Survey for the first quarter of 2008 was recently published. According to its estimates, employment registered a quarterly reduction of 75 thousand people which, when corrected for seasonality, represents growth of just over 10 thousand. In year-on-year terms, the rate of growth of employment fell by seven tenths of a percentage point, to 1.7%, representing 333 thousand new jobs in the last 12 months. On the other hand, the year-on-year growth of the active population rose to 3%, three tenths of a percentage point more than the previous quarter. As a result of these employment and active population figures, unemployment increased significantly with the unemployment rate rising by one percentage point to 9.6%.

V.2.1.2. The performance of the Spanish labour market according to the Active Population Survey (EPA) for the second quarter of 2008.

The forecast average annual growth rate of employment has been revised downwards for 2008 to 2008 to 0.9%, whereas the active population grows to 2.7%, so the unemployment rate will rise to close to the two-digit mark (9.9%). For 2009, employment growth will practically become stagnant and unemployment will continue to grow.
According to the Active Population Survey (EPA) for the first quarter of 2008, employment continued to weaken and its year-on-year rate of growth fell by seven tenths of a percentage point to 1.7%. On the other hand, the year-on-year growth rate of the active population rose to 3%, three tenths of a percentage point higher than the previous quarter. As a result of these employment and active population figures, unemployment increased significantly and the unemployment rate rose by one percentage point to 9.6%.

When comparing the observed labour market figures for the first quarter with our forecast, we find that employment grew less than expected. The opposite is true, however, for the active population and the unemployment rate.

Using this new information, we have revised our EPA employment, activity and unemployment forecasts for 2008-2009. The average annual growth rate of employment in 2008-2009 will continue the falling trend indicated in previous forecasts, but with more intensity, in view of the latest results of some relevant activity indicators. For 2008, employment is expected to register an average annual rate of 0.9%, one point less than our previous forecast, and 2.2 pp less than in 2007. The deceleration in 2008 will be found in all sectors except industry, with construction being the weakest, with a significant loss of employment (4.6%). For 2009, low growth is expected for employment (0.2%), which will remain practically unaltered. Services, with an expected growth rate of 2.2%, will be the only sector creating jobs in the year.

The forecast average annual growth rate of the active population for 2008 rises to 2.7%, three tenths of a percentage point more than the previous forecast. For 2009, it is expected to be 1.9%, three tenths of a percentage point less than the previous forecast. These results show that the labour supply will tend to register rates somewhat lower than those seen in the last few years, which were pushed

up by massive foreign national regularisation processes.

As a result of the expected labour supply and demand, the unemployment rate is expected to rise in 2008-2009, consistent with the lower growth rate expected in economic activity and creation of jobs. For 2008, the unemployment rate will be 9.9%, 1.6 points higher than in 2007, increasing to 11.4% in 2009. In both years, these rates represent an increase of 1.2 and 2.4pp, respectively, relative to the previous forecast.

V.2.2 INFLATION.

The INE has just published that the year-on-year rate of variation is 4.50%, as we forecast on March 15, so **our forecast for April (with the information set available on April 11 continued to be 4.2%**, remaining at 4.0% (average annual rate) for 2008.

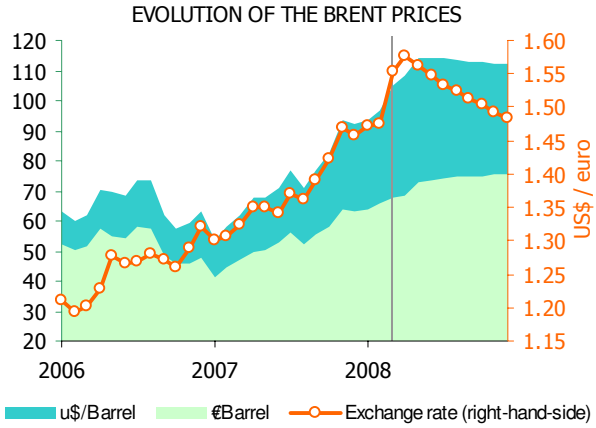
On April 22, however, we again updated our forecasts to consider the latest events affecting fuel as a result of the continuous rise in Brent oil prices. Expectations have worsened by one tenth of a percentage point for **April,** which will register a **4.3%** inflation rate and this innovation will continue in the future so that the **average for 2008** increases by two tenths of a percentage point to **4.2%.**

The new information provided by the INE can be seen with some pessimism. The reason lies in the greater than expected increase in core inflation, with an annual rate of 3.36% instead of the forecast 3.28%. As we explain below, this recently published information leads to an upwards revision in our core inflation expectations.

Core inflation: the recent upwards innovation registered in inflation of **processed food** worsens the expectations for this group in April, when it will register an annual inflation rate 0.2pp higher than was published in Bulletin 162. The effect of this innovation will be transmitted to the future and end with an average annual rate of 6.8% for 2008 (0.3pp more than our lasts forecasts) and 3.6% for 2009. The **services** group has again suffered an upwards revision of 0.1pp for April, which will continue in 2008 and 2009 to rates of 3.8% and 3.9%, respectively (0.1pp more than our previous forecast). Finally, to end with core inflation, for **non-energy industrial goods** we maintain our previous forecast of 0.3% for 2008 and 0.4% for 2009, although there is a deceleration in motor vehicle prices and an increase in other industrial goods.

With regards to **residual inflation**, our data set includes information available up to April 21. For 2008, we are forecasting an average rate of 8.7% (seven tenths of a percentage point more than the forecast published in Bulletin 162) and 3.0% for 2009 (around half a percentage point more than the Bulletin 162 forecast).The better than expected evolution of **unprocessed food** means that our inflation forecast for these prices is revised downwards by 0.6pp, resulting in an average annual rate of 4.3% for 2008 and maintaining our previous forecast for 2009 (4.0%). Finally, the price of **energy products** is revised upwards, even though they were better than expected in March. This group includes electricity and gas, the prices of which are regulated (although the price of butane gas, which will rise by 8.96% in April, is establishes every three months) and fuels. The evolution of the latter is closely linked to the evolution of Brent prices in euros, with an average of 105.10 dollars in March (8.6% more than in February, and only 3.1% when the cost is calculated in euros). The price in dollars is expected to increase by a further 8.7% on the futures market in June, and the exchange rate used in our model will represent a cost increase of 9.0%. Graph V.2.2.1 shows the evolution of Brent prices in dollars and euros, and we can see that the progressive depreciation of the dollar opens a divide which moderates the cost of crude oil imports for the euro area.

Graph V.2.2.1



Source: EIA, Consensus Forecasts, ECOWIN
Date: April 22, 2008

In conclusion, core inflation will remain at over 3.0% until September, 2008, thanks to the fall in the average annual inflation rate of food resulting from the strong increase registered in October, 2007. Finally, total inflation will also continue at over 4.0% until September, falling to less than 3.0% in 2009. By the middle of that year, Spanish inflation will converge to a rate of 2.6%. Graph 2 shows the path projected for inflation, at an 80% confidence interval. This interval captures the possible unforeseeable shocks which could make inflation stray from our central projection. Our central average inflation forecast for 2008 (4.2%) should therefore be registered with a 3.8-4.6% forecasting interval. For 2009, the average inflation rate expected is lower, although the range is larger: 2.0-3.5%.

Table V.2.2.1

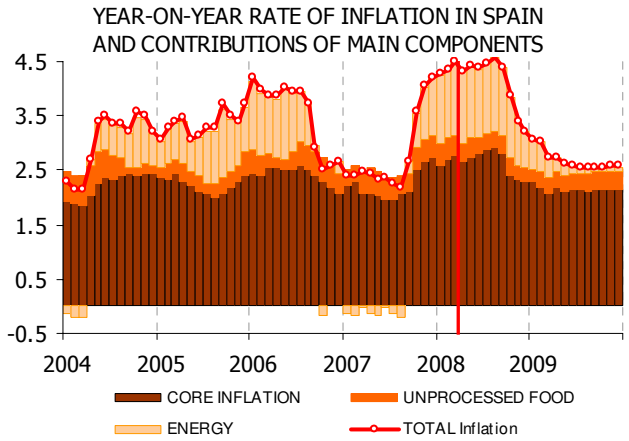
ANNUAL CPI GROWTH RATES IN SPAIN*						
CPI	Observed			Forecasts		
	Aver (2) 2006	Aver (2) 2007	2008 Mar (1)	2008 April (1)	Aver (2) 2008	Aver (2) 2009
CORE (82.9%)	2,9	2,7	3,4	**3,2 (±0,17)**	**3,2 (±0,16)**	**2,6 (±0,43)**
TOTAL (100%)	3,5	2,8	4,5	**4,3 (±0,17)**	**4,2 (±0,38)**	**2,7 (±0,75)**

- 80% confidence intervals calculated with historical errors.

Source: INE & IFL(UC3M)
Date: April 22, 2008

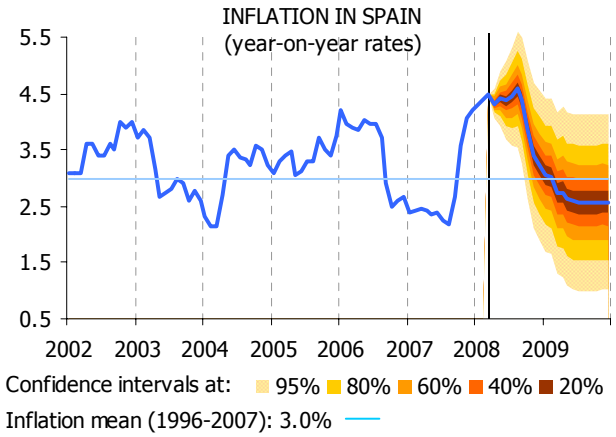
(1) Year-on-year rate
(2) Annual average rate

Graph V.2.2.2



Source: INE & IFL (UC3M)
Date: April 22, 2008

Graph V.2.2.3



Source: INE & IFL(UC3M)
Date: April 22, 2008

V.2.3 THE CONSTRUCTION SECTOR IN THE SPANISH ECONOMY

In the last few months, the Spanish construction sector has been undergoing considerable adjustment, after a long expansionary phase in which it was a leading driving force in the country's economy. For months now, the sector's different indicators have been worse than expected, with continuous downwards revisions of its GVA or GFCF forecasts. The adjustment process, then, is faster and more intense than initially expected. This deceleration in construction has been one of the leading factors causing a change of cycle in our economy, and it will continue to support this cyclic deceleration phase for the next two years. The adjustment process, however, is focused on the housing segment, as other constructions are still quite strong. Our forecasts point to a decline in the sector GVA of -0.9% in 2008 and -1% in 2009. New housing prices, in spite of the sector's lower activity rate, continue to register year-on-year growth rates of more than 5%, although this is less than in previous quarters, so the adjustment so far has most affected quantities.

In the last ten years, the construction sector registered one of the longest and strongest booms ever. From the late nineties to the first quarter of 2007, it was the most dynamic sector in the Spanish economy. Throughout that time, it drove its long expansionary process and supported its pattern of growth, together with consumption and a high rate of creation of employment. In the middle of last year it started to grow less, and is now practically at zero growth.

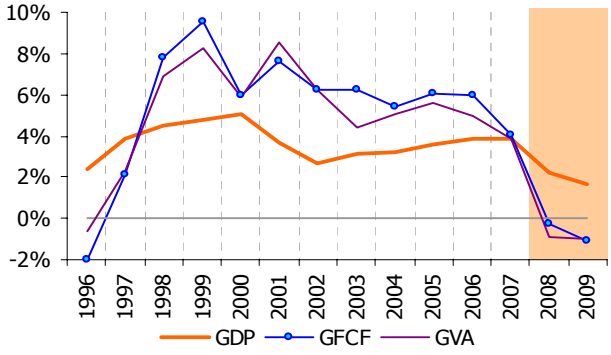
In most of the last ten years, construction registered a considerable growth differential with the economy as a whole; in 2001, the Gross Value Added (GVA) of the sector, in real terms, registered a growth rate of 8.6%, with 5.6% in 2005 and 5% in 2006, when the economy grew by 3.6%, 3.6% and 3.9%, respectively. The adjustment process which started in mid-2007 reduced its growth rate to the same as that of the economy (3.8%) and the perspectives show that it will soon start to decline.

Because of the sector's dynamic nature, during this long period of growth it has gradually gained weight relative to the economy. In 2007, its GVA represented 11% of Gross Domestic Product (GDP), compared to 7% in 1997. On the other hand, that year, investment in construction represented around 60% of the economy's Gross Fixed Capital Formation, although seven years earlier it had represented no more than 50%, and the sector's equivalent full-time employment was 13.6% of 14% of the total, when it had been much lower (9%) at the start of the expansionary phase. These figures show how the construction sector became more important for the Spanish economy in the last ten years.

Graph V.2.3.1 shows the rates of variation of the GDP and two of the leasing micromagnitudes of the construction sector. It clearly shows the sector's growth differential relative to the economy and the cyclic nature of both construction and the entire Spanish economy. We see a high correlation between the two cycles, and that the sector has clearly been procyclic, that the cyclic intensity of the sector is greater than that of the economy and that construction acts as a leading indicator of the general economic cycle.

Graph V.2.3.1

SPANISH GDP, GVA AND GROSS FIXED CAPITAL FORMATION IN CONSTRUCTION
year-on-year rates



In the first quarter of 2007, the construction sector's GVA grew at a year-on-year rate of 4.6%, seven tenths of a percentage point more than in the previous quarter. However, the construction boom appears to have come to an end, as growth started to slow down in the second quarter of last year, something which the residential construction sub-sector had already registered in the last quarter of 2006. This trend became considerably more intense in the third and fourth quarters of 2007 and focuses on the housing segment. Indeed, investment in other constructions showed no signs of moderation at the time and still continued to register high growth rates.

In the last few quarters, the decline in the property segment coincided with tighter monetary policy, increasing household indebtedness, and moderation in the rate of growth of housing prices, reducing revaluation expectations. In turn, the crisis on the international financial markets which started last

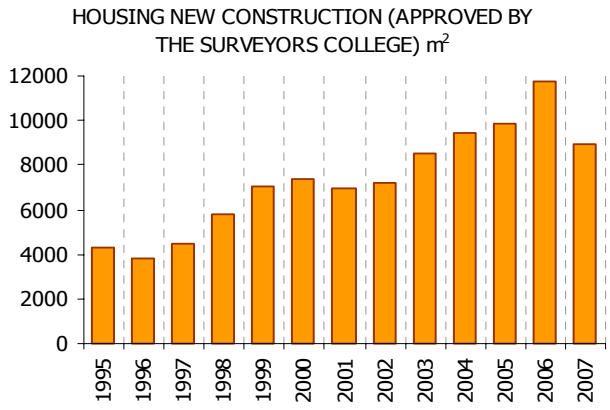
August enhanced the decline of the property sector, which is now referred to as stagnant.

This cyclic phase change in the Spanish economy was produced by the evolution of the construction sector, which is currently decisive in this respect. The sector's adjustment is significantly affecting job creation both directly, as jobs are lost in the sector, and indirectly, through other construction-related activities. It is also affecting household consumption and residential investment, factors which have supported the pattern of growth in the last few years. According to our forecasts, this deceleration process will continue throughout 2008 and 2009, when construction will grow much less than the economy as a whole (see graph V.2.3.1).

One characteristic of the construction sector is the low growth of its productivity, less than other sectors. In the last 10 years, there has been a decline in nearly all of them, coinciding with the property boom and the immigration flows which moderated the sector's labour costs. Indeed, in 2007 it registered a fall of -1.8%. Nonetheless, the adjustment in the sector's employment, which started in mid-2007 and is expected to continue in 2008 and 2009, will help to increase productivity. Our forecasts already point to positive, yet modest, growth in 2008- 2009, with 0.2% and 0.4%, respectively.

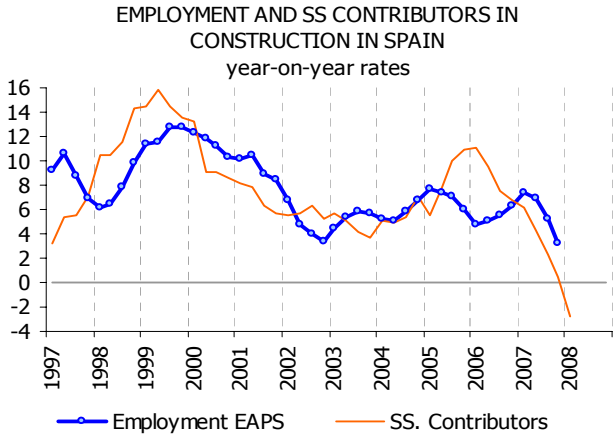
Besides the national accounts figures we have just mentioned, other more recent indicators such as cement consumption, new mortgages, building permits, housing starts, employment (SS contributors), and so on, confirm a more intense deceleration of the construction sector in the first few months of 2008.

Graph V.2.3.2



The construction sector's employment and unemployment indicators also tell of the difficult situation the sector is experiencing. The employment in construction figure estimated by the Active Population Survey (EPA) showed deceleration in the second quarter of last year, although it subsequently became more intense. The year-on-year growth rate for employment was 2.7% in the last quarter, when a year earlier it was much higher (8.3%). The same if found in equivalent to full-time employment in the National Accounts and Social Security (SS) contributors (see graph V.2.3.3). The latter, after considerably less growth throughout 2007, started to register negative year-on-year rates last December (-0.6%). This trend continued in the first few months of 2008, with March registering a year-on-year decrease of 4.9%, when a year earlier the sector was registering annual growth of 6%. In the first quarter, the year-on-year rate was -2.8% (see graph V.2.3.3). In turn, of the 106 thousand unemployed added to the registered unemployment figure last year, practically all were from construction. In the first three months of this year, unemployment in the sector has continued to rise, registering an annual growth rate of 44.2% in March, eight percentage points more than in the previous month.

Graph V.2.3.3



All this shows that, in the first quarter of this year, construction continued the deceleration which started least year, and that the adjustment process is both faster and more intense than initially expected.

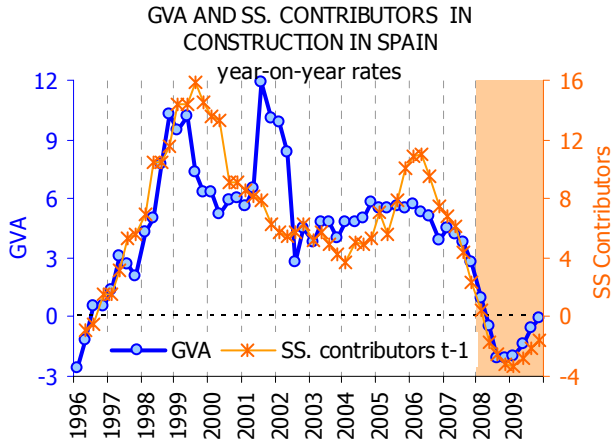
Construction sector forecasts

With the latest figures for some of the most significant construction indicators, we have updated the growth forecasts for the sector. They are currently decisive for forecasting the evolution of the overall GDP, as construction is a leading indicator for economic activity in general, with special emphasis on the property segment. As we mentioned earlier,

most of the indicators analysed show the growingly intense decline registered in the last few months, predicting a decline in the construction sector and, therefore, in economic activity in general.

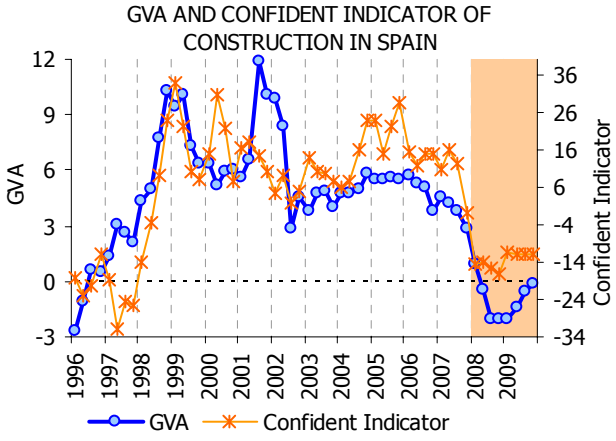
The forecasts for SS contributors from the construction sector show that negative year-on-year rates will continue throughout 2008-2009, although it could hit rock bottom in the fourth quarter of 2008 and the first of 2009, subsequently recovering (see graph V.2.3.4).

Graph V.2.3.4



In March, the construction confidence indicator fell by two points relative to the previous month, to -20. In the first quarter overall, confidence was valued at -14.6 points, compared to the -1 of the last quarter of 2007; these levels of confidence are similar to those of 1998 and slightly higher to these of 1996, when the sector's GVA registered negative rates (see graph V.2.3.5). The forecasts point to a continued loss of confidence in 2008 and some recovery in the first quarter of 2009, remaining on a level similar to that of the first quarter of this year throughout the rest of 2009.

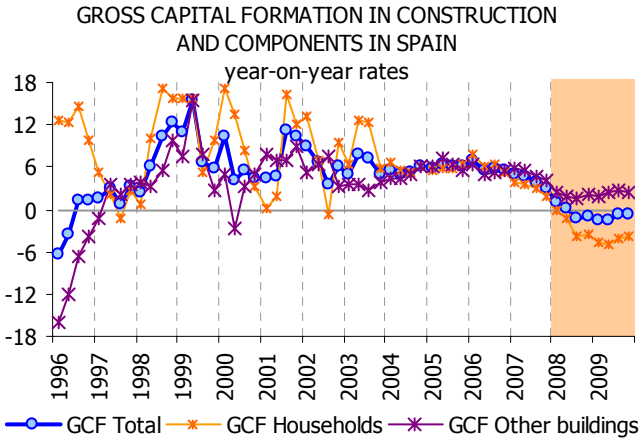
Graph V.2.3.5



With this new information plus the apparent cement consumption and construction production index figures, both referring to February, we have updated our construction GVA growth forecasts. They new show a more intense deceleration of the sector, with an average annual GVA growth rate of -0.9% expected for 2008, instead of the previous -0.3%. For 2009, we are expecting a fall of -1%, instead of the previously estimated small increase (0.2%).

This decline of the construction sector is primarily focused on the housing segment. Following is the forecast for the construction sector's GFCF broken down into housing and other constructions. Using the information provided by some specific housing segment indicators, such as building permits and calls for tender for residential buildings, together with more generic indicators pertaining to the entire sector, such as cement consumption and SS contributors, we have updated our housing GFCF forecasts. The new estimates show that housing construction may register a year-on-year decrease of -0.24% in the first quarter of this year, which will become more intense in the following quarters, ending the year at a year-on-year rate of -3.5%. The decline will continue in 2009, although the second quarter of that year will soften the fall (see graph V.2.3.6). These forecasts represent an average annual growth rate for investment in housing of -2.2% in 2008 and -4.4% for 2009, significantly worse than prior estimates.

Graph V.2.3.6

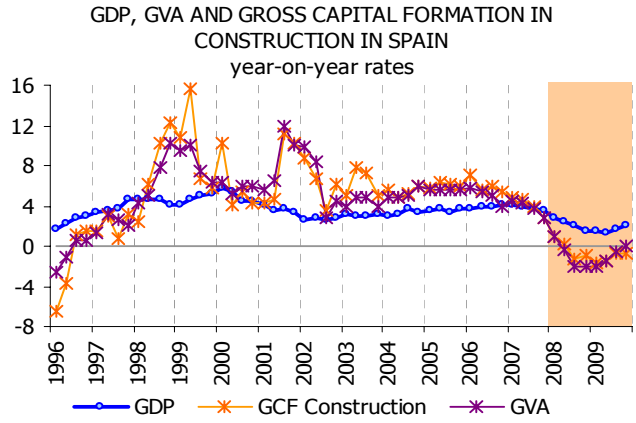


GFCF in other constructions, however, is not expected to register such an unfavourable evolution in 2008-2009, in view of the recent evolution of some of the sub-sector's relevant indicators, such as calls for tenders for civil works and non-residential buildings. This item is expected to decelerate in 2007, with an estimated average annual growth rate of 1.9%, compared with the 5.6% of 2007, but a gentle recovery is expected for 2009 with a rate of

2.3%, an improvement on our previous estimates. As a result of the expected evolution of these components, the GFCF in construction is expected to fall by 0.2% in 2008 and 1.1% in 2009 (see graph V.2.3.6).

At the end of last year, the construction sector started to register growth rates lower than the GDP, after having grown much more for a decade. The forecasts show that in the next few years, it will grow much less than the total GDP (see graph V.2.3.7) and that the change of course in the evolution of the construction sector has been decisive in the onset of this new cyclic phase.

Graph V.2.3.7



All this information shows a deceleration in construction, which is more than likely to register negative year-on-year rates in some of the quarters of 2008 and 2009. Most of the most recent indicators reveal the delicate situation currently being experienced by the sector.

In view of all this, construction has ceased to be the driving force behind the Spanish economy and is undergoing an intense adjustment process with a high risk of a recession in the next few months. In this context, the obvious question is, which other sector could take over from construction? Initially, there were great hopes for industry as, parallel with the recovery of the euro area, the sector registered some recovery in 2006 and 2007, but the latest IPI and recent deceleration of the euro area, where most of this sector's production goes, question industry's ability to take over from construction.

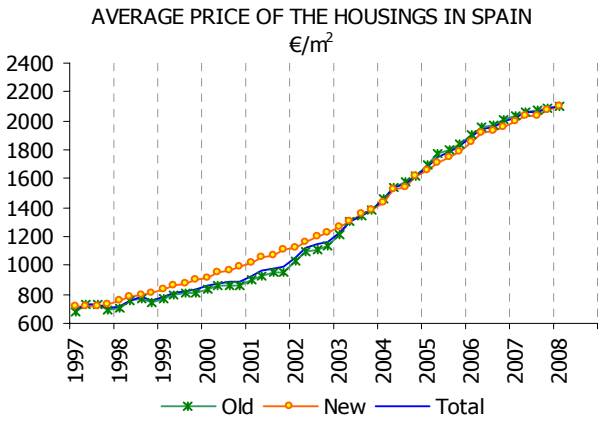
Services were highly dynamic in 2007, with an average annual growth rate of 4.2%, one tenth of a percentage point more than in the two previous years. The decline in construction will also affect this sector; indeed, it is already suffering indirect effects in everything related to property services, which have reduced their activity considerably in the last few months and will sooner or later be affected indirectly by what happens in construction. In any event, the high rates registered by the sector, although more moderate in the next few quarters, together with their weight in the total, could sustain growth in the next few years. Indeed, it is more than likely to be the only sector generating net employment.

Evolution of housing prices

Since the mid-nineties, one of the most characteristic features of the Spanish economy has evidently been rising housing prices. Specifically, the average price per square metres of housing, according to the Ministry of Development, was over 2000 euros at the end of 2007, three times the figure 10 years earlier, with little difference between new and used housing prices (see graph V.2.3.5). It is evident that this property asset revaluation process has had a positive effect on the wealth of Spanish households which will have affected household consumption in the last decade.

However, graph V.2.3.8 shows the year-on-year growth rate of these prices, showing that it rose heavily from 1997 to 2004. In the last few years of this phase, it registered year-on-year growth rates of over 15% and even 20% in some years.

Graph V.2.3.8



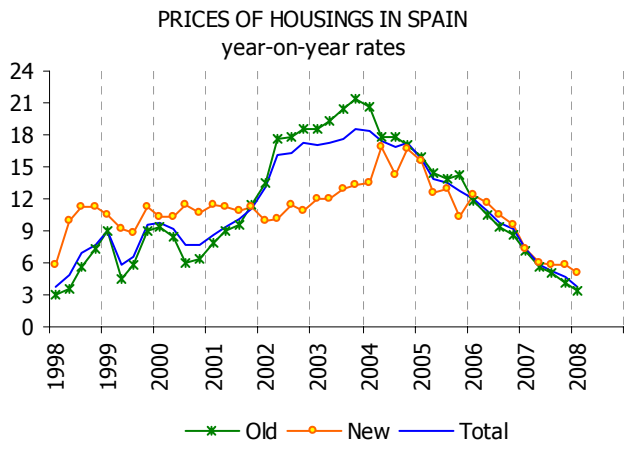
However, starting in 2004, we see a new phase with slower price growth, reaching an annual 4% by the end of 2007 and in the first quarter of 2008. Housing prices are expected to continue to fall, but the intensity and duration of this phase is difficult to estimate at this time.

There are different reasons behind the rise in housing prices in this cycle which is now coming to an end. Most of them are probably on the demand side, although some are also derived from supply.

Improved household income levels could be a very significant factor, followed by the high rate of creation of employment registered since the mid-nineties in the Spanish economy. However, the increase in housing prices was much greater than the rise in salary mass, the average annual growth rate of which ranged in this period from 6-8%. The most important factor behind this heavy increase in housing prices, however, could be falling interest rates and greater financing possibilities, more credit opportunities, longer mortgage payback periods, etc. We also have to consider the large amount of foreign capital for property purchases in tourist areas. Other factors, such as growing land prices, the sector's small gains in productivity compared with others and the lack of qualified hand labour in some areas may also have pushed housing prices upwards.

With regards to the most recent evolution of housing prices, in the first quarter of 2008 they registered a quarter-on-quarter growth rate of 0.8% and a 3.8% year-on-year rate, one point less than in the previous quarter. As graph V.2.3.9 shows, the deceleration in used house prices is more intense than for new homes, and they will more than likely register negative year-on-year growth rates by the end of this year.

Graph V.2.3.9



In spite of the deceleration found in housing prices, growth is still high, especially for new homes which, in the first quarter of 2008, continued to register a year-on-year growth rate of 5.1% It is evident that the adjustment taking place in housing construction is affecting quantities and substantially reducing the sector's activities. But if the housing demand continues to be moderate, in view of greater financing difficulties, and the estimates concerning over-valuation are realistic (20%), they are bound to fall sooner or later.

V.3. TABLES AND PLOTS.

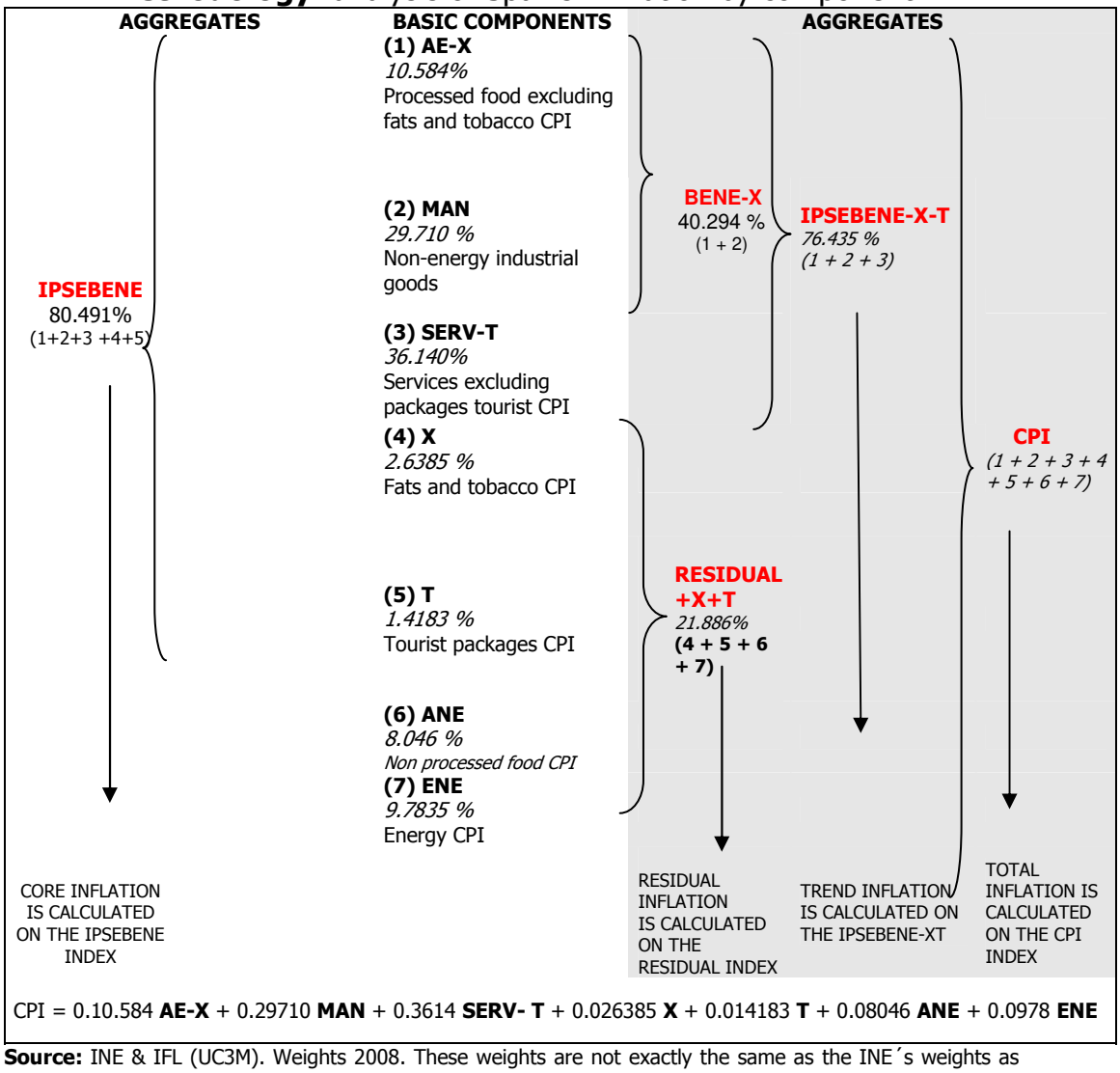
Tables:

- Methodology: analysis of Spanish inflation by component
- Observed values and forecasts for the Spanish CPI.

Plots:

- One month ahead and twelve months ahead forecasts for the Spanish CPI (year-on-year rates).
- One month ahead forecast errors in Spanish inflation.
- Forecasts for 2008 annual average CPI growth rate by component.

Methodology: analysis of Spanish inflation by component



Source: INE & IFL (UC3M). Weights 2008. These weights are not exactly the same as the INE´s weights as the result of slight aggregation errors that appear when applying the above methodology.

OBSERVED VALUES AND FORECASTS FOR THE SPANISH CPI. MONTHLY RATES

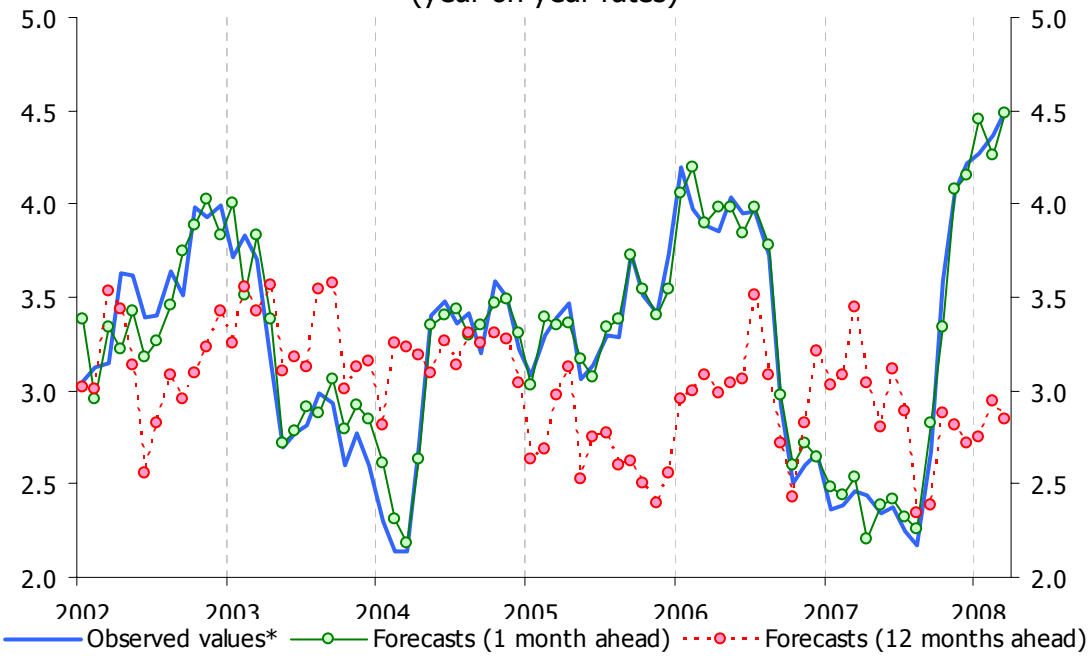
Consumer Price Index (CPI)	Weights 2008	Observed values March, 2008	Forecasts	Confidence intervals (*)
(1) Processed food	15.57	0.32	0.17	± 0.54
(2) Non energy industrial goods	29.58	0.89	0.91	± 0.31
(3) Services	37.72	0.78	0.66	± 0.15
CORE INFLATION [1+2+3]	**82.87**	**0.73**	**0.65**	± **0.17**
(4) Non-Processed food	7.37	0.11	0.62	± 1.03
(5) Energy	9.75	2.79	2.89	± 0.64
RESIDUAL INFLATION [4+5]	**17.13**	**1.65**	**1.93**	± **0.58**
TOTAL INFLATION [1+2+3+4+5]	**100.00**	**0.89**	**0.87**	± **0.17**

(*) Confidence intervals at 80%

(**) Forecasts published in the previous bulletin

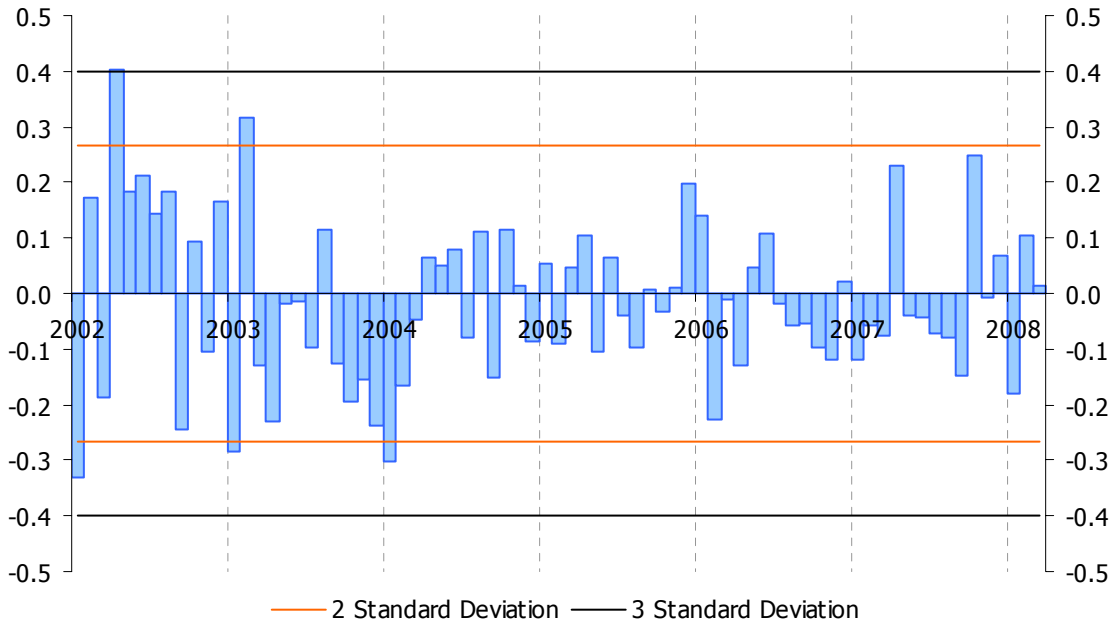
Source INE & IFL (UC3M)
Date: April 11, 2008

ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS FOR THE SPANISH CPI
(year-on-year rates)



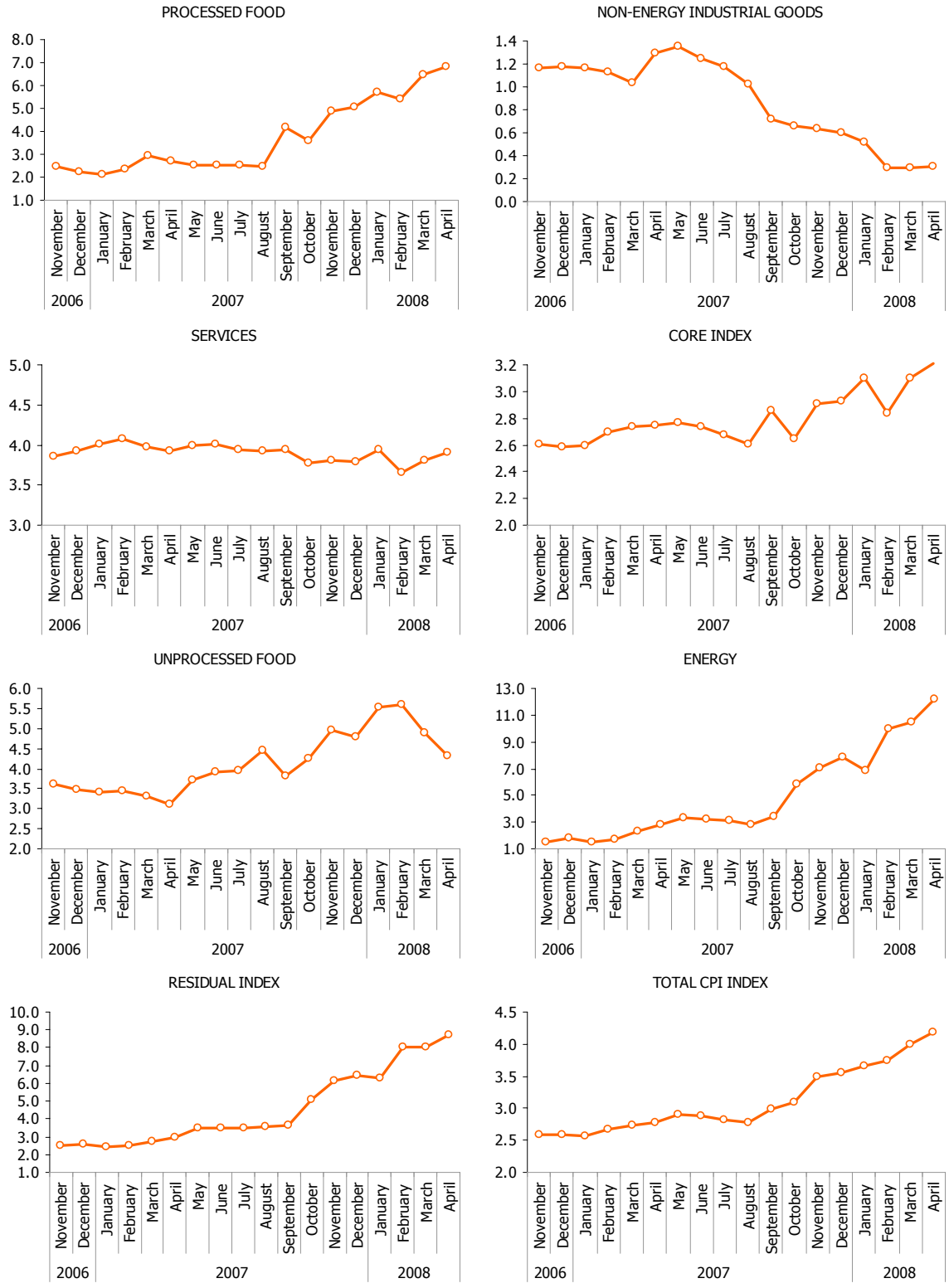
Source: INE & IFL (UC3M)
Date: April 11, 2008

ONE MONTH AHEAD FORECAST ERRORS IN SPANISH INFLATION



Source: INE & IFL (UC3M)
Date: April 11, 2008

FORECASTS FOR 2008 ANNUAL AVERAGE CPI GROWTH RATE BY COMPONENT



Note: These graphs show the average annual CPI growth rates for 2008 forecast in the Bulletin published in the month on the abscissa.
Source: INE & IFL(UC3M)
Date: April 22, 2008

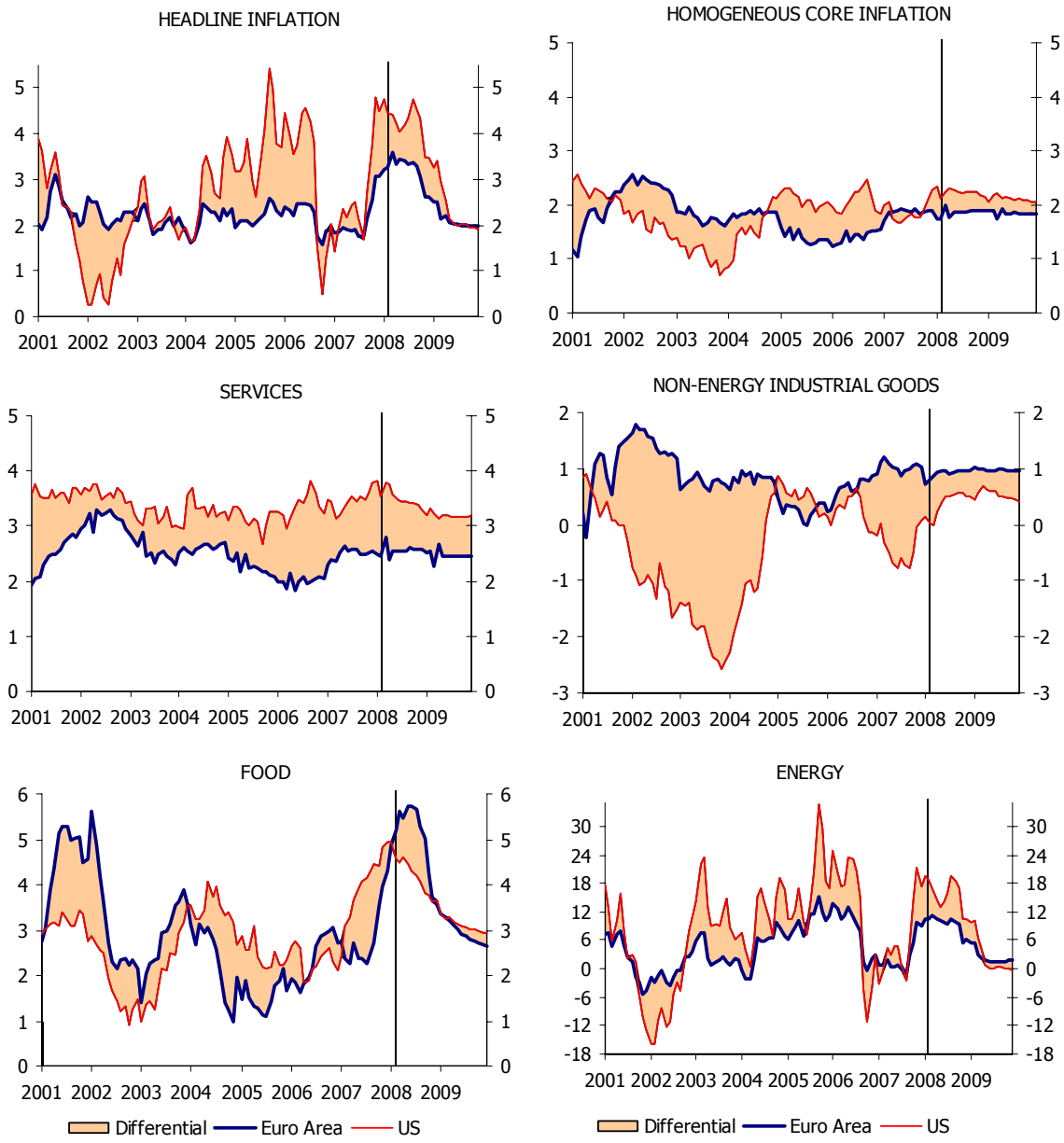
VI. SUMMARY OF FORECASTS FOR DIFFERENT AREAS.

VI.1 EURO AREA AND USA

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND US								
	2002	2003	2004	2005	2006	2007	Forecast	
							2008	2009
HEADLINE INFLATION								
Euro-area (100%).	2.2	2.1	2.1	2.2	2.2	2.1	**3.2**	**2.1**
US (76.2%). (1)	0.9	2.2	2.8	3.7	3.1	2.7	**4.2**	**2.3**
A HOMOGENEOUS MEASURE OF CORE INFLATION (2)								
Services and Non-energy industrial goods excluding food and tobacco.								
Euro- area (70.68%).	2.4	1.8	1.8	1.4	1.4	1.9	**1.9**	**1.8**
US (52.9%).(1)	1.6	1.1	1.6	2.1	2.1	1.8	**2.2**	**2.1**
DIFFERENT COMPONENTS OF THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Services.								
Euro- area (40.90%).	3.1	2.5	2.6	2.3	2.0	2.5	**2.6**	**2.5**
US (31.8%).(1)	3.6	3.2	3.3	3.1	3.4	3.5	**3.5**	**3.2**
(2) Non-energy industrial goods excluding food and tobacco.								
Euro- area (29.8%).	1.5	0.8	0.8	0.3	0.6	1.0	**0.9**	**1.0**
US (21.0%).	-1.1	-2.0	-0.9	0.5	0.3	-0.4	**0.4**	**0.5**
INFLATION IN EXCLUDED COMPONENTS FROM THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Food.								
Euro- area (19.51%).	3.1	2.8	2.3	1.5	2.4	2.8	**5.0**	**2.9**
US (13.9%).	1.8	2.1	3.4	2.4	2.3	4.0	**4.2**	**3.1**
(2) Energy.								
Euro- area (9.81%).	-0.6	3.0	4.5	10.1	7.7	2.6	**9.4**	**2.4**
US (8.70%).	-5.9	12.2	10.9	16.9	11.2	5.5	**15.6**	**2.5**

(1) excluding owner's equivalent rent of primary residence.
(2) This homogeneous measure of core inflation does not coincide with the usual measure of core inflation for the euro area nor for the USA. It has been constructed in order to compare the data in the euro area and in the USA.
Source: EUROSTAT, BLS & IFL (UC3M)
Date: April 25, 2008

YEAR-ON-YEAR RATES OF INFLATION IN THE EURO AREA AND US



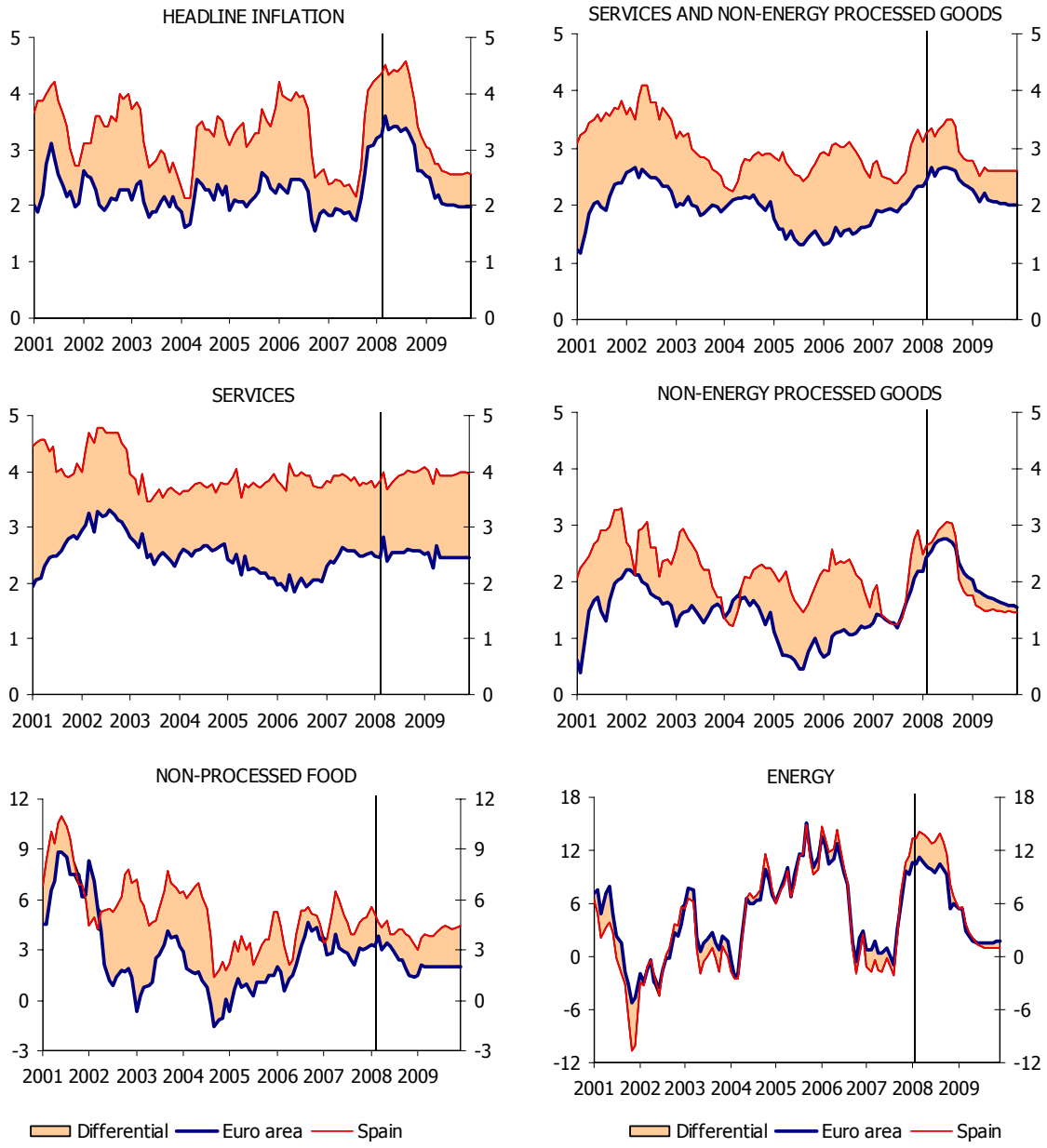
Source: EUROSTAT, BLS & IFL (UC3M)
Date: April 25, 2008
Headline inflation, homogeneous core inflation and inflation in services do not include owner´s equivalent rent of primary residence.
In the case of homogeneous core inflation, some additional transformations were required in both the euro area and U.S. inflation figures in order to make them comparable: the euro area figures exclude food and tobacco and the U.S. figures exclude tobacco (in addition to owner's equivalent rent of primary residence).

VI.2 EURO AREA AND SPAIN

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND SPAIN								
	2002	2003	2004	2005	2006	2007	Forecasts	
							2008	2009
HEADLINE INFLATION								
Spain (100%).	3.5	3.0	3.0	3.4	3.5	2.8	**4.2**	**2.7**
Euro-area (100%).	2.2	2.1	2.1	2.2	2.2	2.1	**3.2**	**2.1**
CORE INFLATION								
Services and Non-energy processed goods.								
Spain (82.87%).	3.7	2.9	2.7	2.7	2.9	2.7	**3.2**	**2.6**
Euro-area (82.58%).	2.5	2.0	2.1	1.5	1.5	2.0	**2.5**	**2.1**
COMPONENTS OF CORE INFLATION								
(1) Services.								
Spain (37.72%).	4.6	3.7	3.7	3.8	3.9	3.9	**3.9**	**4.0**
Euro- area (40.90%)	3.1	2.5	2.6	2.3	2.0	2.5	**2.6**	**2.5**
(2) Non-energy processed goods.								
Spain (45.15%).	2.6	2.4	1.9	1.9	2.2	1.8	**2.6**	**1.5**
Euro- area (41.68%).	1.9	1.4	1.5	0.7	1.1	1.5	**2.5**	**1.7**
RESIDUAL INFLATION								
1) Non-processed food.								
Spain (7.37%).	5.8	6.0	4.6	3.3	4.4	4.7	**4.3**	**4.0**
Euro- area (7.60%).	3.1	2.1	0.6	0.8	2.8	3.0	**2.7**	**2.0**
(2) Energy.								
Spain (9.75%).	-0.2	1.4	4.8	9.6	8.0	1.7	**12.2**	**2.2**
Euro- area (9.81%).	-0.6	3.0	4.5	10.1	7.7	2.6	**9.4**	**2.4**

Source: EUROSTAT, INE & IFL
Date: April 25, 2008

YEAR-ON-YEAR RATES OF INFLATION IN THE EURO AREA AND SPAIN



Source: EUROSTAT, INE & IFL (UC3M)
Date: April 25, 2008

VII. FORECASTS FROM DIFFERENT INSTITUTIONS

FORECASTS FROM DIFFERENT INSTITUTIONS[1]

INFLATION

	BIAM[2]		CONSENSUS FORECASTS[3]		IMF[4]		ECB[5]		ECB[6]		OECD[7]	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
EURO AREA	3,2	2,1	2,9	2,1	2,8	1,9	2,5	2,0	2,9	2,1	2,5	2,0
USA	3,9	2,5	3,7	2,6	3,0	2,0	-	-	-	-	2,7	1,9
SPAIN	4,2	2,7	3,6	2,6	4,0	3,0	-	-	-	-	3,6	2,5

REAL GDP
(Percentage change from previous year)

	BIAM[2]		CONSENSUS FORECASTS[3]		IMF[4]		ECB[5]		ECB[6]		OECD[7]	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
EURO AREA	1,7	1,8	1,5	1,7	1.4	1,2	1,8	2,0	1,7	1,8	1,9	2,0
USA	-	-	1,3	2,1	0,5	0,6	-	-	-	-	2,0	2,2
SPAIN	2,2	1,7	2,3	1,9	1,8	1,7	-	-	-	-	2,5	2,4

1 The forecasts are based on CPI in USA and Spain and on HICP in the euro area.
2 Bulletin of EU & US Inflation and Macroeconomic Analysis, April, 2008.
3 April, 2008.
4 IMF. World Economic Outlook. April, 2008.
5 Results of the ECB Survey of Professional Forecasters: ECB. Monthly Bulletin February, 2008.
6 ECB staff macroeconomic projection for the euro area. March, 2008. Point forecast implied by the interval presented in these projections.
7 OECD Economic Outlook 82. December, 2007. The inflation forecasts for the euro area and Spain are based on the HICP.

Our inflation forecasting procedure separately predicts core inflation and inflation in unprocessed food and energy, which is known as residual inflation. The innovations registered in the different components are projected for the future in total inflation with different multipliers. The innovations derived from residual inflation are less persistent.

In view of the IFL and Consensus Forecast inflation forecasts for the euro area, we find that the forecasts for 2008 are worse than those published in the last Bulletin. These two institutions present less optimistic inflation forecasts for 2008. In 2009, however, there is consensus concerning the long-term value of the variable. On the other hand, the latest GDP growth forecasts for the euro area for 2008 suggest rates of 1.5%-1.4% (Consensus Forecast and the last IMF update) or 1.7% (Bulletin and ECB staff macroeconomic projections). For 2009, everyone is within the 1.7 %-2.0% range, except the IMF which is forecasting 1.2%.

With regards to the forecasts for Spain, the Bulletin has revised the inflation rate for 2008 upwards more than the other institutions (4.2)%. A range of 2.5-2.7% is expected for 2009. On the other hand, expectations concerning GDP growth are homogeneous: 2.2-2.5% for 2008, except the IMF which is more pessimistic with 1.8%, and 1.7-1.9% for 2009, except the OECD which is more optimistic with 2.4%.

Finally, in the U.S., the Bulletin has published forecast inflation rates for 2008 and 2009 of 3.9% and 2.5%, respectively, similar to the Consensus Forecast. With regards to growth in the U.S. in 2008, the new IMGF Forecasts show a rate of 0.5%, eight tenths of a percentage point less than the Consensus Forecast.

VIII. MONTHLY DEBATE.

ANALYSIS OF COMPETITIVENESS IN A REGIONAL ECONOMY: THE CASE OF THE ASTURIAS REGION IN SPAIN

Joaquín Lorences Rodríguez

Department of Economics, University of Oviedo

This paper presents the most significant results of a study attempting to evaluate the degree of competitiveness of the economy of Asturias (Lorences, 2008). Since the European Union, at the Lisbon Summit in the year 2000, defined the objective of making Europe the most competitive economic area in the world, the use of the term competitiveness has become widespread in all economic, social and political fields, although its meaning is not without ambiguity.

From a business perspective, for instance, the concept of competitiveness refers to a firm's ability to survive and grow in a competitive market. A firm's competitiveness, then, is a **relative concept depending on its productive efficiency, production costs and profits compared with those of its rivals**. From this microeconomic viewpoint, the most representative indicators of a firm's competitiveness are based on its productivity, costs and relative returns on investment[7].

The macroeconomic concept of competitiveness referring to a region, however, is less clear, as geographical areas do not compete following the rules of a zero-sum game, the simplest representation of business competitiveness[8]. Indeed, experience shows that, in the same country, a region's growth tends to benefit others with which it has economic relations. This evidently does not prevent regions from competing in the conditions they offer for new productive investments, for instance: natural resources, environmental quality, basic infrastructures (drainage, energy, industrial land, communications), quantity and quality of hand labour, qualified personnel, research, financial system and local markets, investment incentives, political and administrative institutions, among others[9]. However, unlike the case of firms, a region's greater or lesser success in attracting investment is never a factor in its long-term survival, although the outcome will lead to better or worse living conditions for its inhabitants. The evaluation of a regional economy's competitiveness can therefore be contemplated from an ex ante perspective based on its **factors, resources and policies aimed at attracting investment** or, alternatively, from an ex post perspective, based on its **per capita income, employment rate and the quality of the basic services** available to its inhabitants[10].

It is clear, however, that from either of these two perspectives, **a regional economy's success depends on that of its companies and market activities or, alternatively, on the degree of efficiency achieved in such activities** if they are not subject to the rules of competition. There is therefore room for a microeconomic approach to the competitiveness of a region's economy based on evaluating the competitiveness of the companies and activities included in its productive system. The use of this perspective does not mean that we ignore the fact that a region's productive system depends on the basic conditions provided for economic development and is a decisive factor in its inhabitants' level of income and employment.

This microeconomic perspective is used in this paper to evaluate the competitiveness of the economy of the Asturias region. We have specifically attempted to answer the following questions: **Does Asturias have efficient production areas which are viable in the medium and long-term in a context of growing competition? What are these areas and how important are they in the region's economy? Which activities are not included in this competitive nucleus? Which factors are conditioning their future on the market?**

In the first part of the study, we propose and construct four indicators to evaluate the competitiveness of each of the region's production area, relative to the same activity in Spain as a

[7] For further details about this concept, see Segura (1993).
[8] See, for example, Krugman (1994) and (1995) and European Commission (1999)
[9] These factors are developed further in Porter (1990); Porter, Ketels and Delgado (2007); Sala i Martín, Blande, Drzeniek Hanouz, Geiger, Mia and Pau (2007).

[10] In relation to this aggregate perspective of competitiveness, see Bravo, S. and Gordo, E. (2003) and (2005); European Commission (1999) and (2001-2005); OECD (1994); Pérez, F. (director) (2004) and Villaverde (2007).

whole. These indicators are constructed from differences in unit labour cost, productivity and mean labour cost in each area, in Asturias and Spain. As you know, **unit labour cost can be defined as the quotient between mean labour cost and labour productivity**[11]. In other words, the unit labour cost indicates the part of each monetary unit of value added generated by a firm or production area spent on paying the workforce. Obviously, the rest of this value added is the gross operating margin (profit, amortisation and capital costs).

These indicators have been obtained for 25 of the 26 productive activities in Asturias for which the Spanish Regional Accounts edited by the National Statistics Institute (*Instituto Nacional de Estadística* - INE) provides relevant basic information[12] and, in order to facilitate interpretation of the results obtained for this region's economy, the same analysis has been replicated for the activities of all the autonomous regions.

The four indicators we have constructed are denoted **LEVEL A, B, C and D,** respectively. The first, **LEVEL A**, is the most demanding and it is attributed to activities registering a unit labour cost (ULC) lower than the country average, but only if their mean labour productivity (MLP) and mean labour cost (MLC) components are also greater than their respective country averages. On the other hand, **LEVEL B** is also attributed to activities with a lower ULC, whatever their relative MLP and MLC. This is the indicator usually used in competitiveness studies and its weakness is due to the fact that a sample ULC difference can have different components (MLP and MLC) and, therefore, different consequences for the productive area's long-term viability and productive efficiency. It is precisely to avoid these weaknesses that the other three have been constructed, in an attempt to control their components. **LEVEL C** only requires productivity to be greater than the country average, regardless of the unit labour costs. Finally, **LEVEL D** includes activities in which the unit labour costs are greater than the country average and productivity is lower.

According to these definitions, Asturias has eight productive activities on the highest level of competitiveness, **LEVEL A,** see table 1. These activities are **Electricity, water and gas, Textiles and apparel, Chemistry, Metallurgy and the manufacture of metal products, Other non-metal mineral products, Construction, Education** and **Healthcare and veterinary activities.** In all, they represent nearly 39% of the GVA of Asturias and over 33% of the region's employment, placing it **fifth in the ranking** of Spanish regions classified according to these activities' contribution to each region's employment, see table 2. In other words, according to these figures, Asturias is the fifth most competitive regional economy according to the weight of the most competitive activities on a nationwide scale in its productive system. These four areas can therefore be identified as the **competitive core of the economy of Asturias**.

First in the ranking is the Basque Country, with 14 activities on this level representing 61% of the GVA and 58.3% of the employment in the Basque economy. It is followed by Madrid with the same number, representing 48.9% of the GVA and 47.2% of employment. Third is Navarre with 10 areas representing 45.7% of the GVA and 42.7% of employment. The Balearic Islands come fourth, with four activities generating 43.2% of the GVA and 39.1% of employment. Asturias is followed by Catalonia, in sixth place, with five activities providing 18.1% of the GVA and 21.8% of employment.

Catalonia's sixth place may seem surprising, as it is not consistent with the conventional image of one of the most prosperous economies in the country. The surprise disappears, however, when we see the results obtained with the following competitiveness criterion**, LEVEL B,** which is less demanding with regard to relative productivity and mean labour cost. In the ranking estimated by this indicator, see table 3, Catalonia rises to fourth place according to the weight of activities with lower than average mean labour costs in its economy. This is a differential feature of the Catalan economy, especially in relation to the Basque Country and Madrid, with which it shares a high level of development.

In the case of Asturias, these activities have a much lower weight than in the Catalan economy, so the region falls to sixth place. According to the definition, **LEVEL B**, see table 1, not only includes the areas in **LEVEL A,** but also the following: **Property developers and business services, Catering, Financial brokers** and **Other social services and activities.** In all the represent 66.8% of the GVA and 52.8% of employment in Asturias.

[11] Good examples of analyses of these variables for the country as a whole can be found in De la Fuente and Monasterio (2001); Pérez (director) (2004).

[12] The activity not included in the analysis is **Households employing domestic staff,** because the method for estimating its GVA generates zero differences between the unit labour costs in the two areas.

In the ranking according to **LEVEL C**, according to the weight of activities with greater than average productivity, Asturias is in seventh place, see table 4. This is consistent with the previous classifications, showing that the region's economy is solidly positioned among the most competitive in the country. In all, these activities represent 55.2% of the region's GVA and 42.9% of its employment, around 10 percentage points less than the activities included in **LEVEL B**. In addition to the eight activities included in **LEVEL A,** they are **Property developers and business services** and **Food, beverages and tobacco.**

With regards to **LEVEL D,** which is the lowest of the four defined levels of competitiveness, Asturias is in eighth place, see table 5. In all, the twelve areas included in this level represent 30.3% of the region's GVA and 39.3% of its employment. The following activities are of significance in the economy of Asturias: **Retail trade and repairs**, **Transport and communications** and **Public administration,** representing 27% of the region's employment. However, as we can see, their distance from the country as a whole is less than that found with the other activities included in this level: **Timber and cork, Electric, electronic and optic equipment, Manufacture of transport material, Mining activities, Paper, publishing and graphic arts, Rubber and plastic materials, Machinery and mechanical equipment, Miscellaneous manufacture and Agriculture, livestock breeding and fisheries**.

In the second part of this paper, we study the genesis of the competitive standing of each of the activities described in the first part, with the following results.

The study basically consisted of following the evolution of each area in the period allowed by the available data at the time the study was conducted, 2000-2004, and comparing it with their evolution in the country as a whole and also in five regional aggregates or areas of reference showing the variability found in Spanish regional economies. These areas are: **Zone 1**, including Galicia, Cantabria and the Basque Country. **Zone 2**, besides the Cantabrian regions, also includes neighbouring Castilla y León. The next two zones gradually integrate the most developed regions. **Zona 3** includes the Basque Country, Madrid and Catalonia and **Zone 4** also includes Navarre and La Rioja. Finally, **Zone 5** is less homogenous and also includes Cantabria and Castilla y León. In this second part, in addition to the Spanish Regional Accounts, we also use information from the Central Firm Directory (DIRCE) edited by the INE and *Sociedad Asturiana de Estudios Económicos e Industriales* (SADEI) to develop other relevant aspects of the study. Specifically, these databases have enabled us to observe the evolution of the number of operating units of each activity during the period and study their relationship to its degree of competitiveness.

This follow-up has enriched the previous results, showing how the activities included in **LEVEL A** are solidly established with an evolution consistent with the pattern defining this demanding level of competitiveness (ULC below the national average and both MLP and MLC greater than their respective national averages.

Specifically, **Electricity, gas and water, Other non-metal mineral products, Metallurgy and manufacture of metal products** and **Healthcare and veterinary activities** not only maintained the pattern throughout the period relative to their nationwide equivalents but also did so relative to all the areas of reference.

Furthermore, **Chemical Industry** meets the demands of **LEVEL A** throughout the period and, in relation to the five defined zones, only fails to meet the last condition, with a lower MLC some of the years and only relative to zones 1 and 2. However, the differences between its MLC and those found in said areas tend to disappear in both cases at the end of the period.

Construction meets all the requirements of **LEVEL A,** in the years of reference, except that its ULC is greater than that of zones 1 and 2, although with a clearly decreasing trend fostering its growing productivity.

Education maintains the pattern described in relation to the national sector except that, in 2003, its ULC is 0.1% higher and in the first two years its mean labour cost was slightly less than the national average. In relation to the zones of reference, the ULC of Asturias is also greater, although by a small margin of less than 0.8% in 2004.

Textile industry and apparel has gradually progressed and reduced its divide from the national sector and in 2002 it meets all the requirements of this level of competitiveness. The figures also show that this area improves further in the following years, when it is also superior to all the zones of reference. The key to this process was heavy growth in MLP. These results constitute evidence of the efficiency of the strong restructuring measures applied in the sector in the last decade.

Ultimately, it can be confirmed that these activities, which define the **competitive core of the**

regional economy, have a very solid position which, in normal conditions, will remain in the medium-term. Therefore, **the fifth position of the economy of Asturias among the country's most competitive regions is solidly based** on an evolution consistent with the most demanding requirements of competitiveness.

With regards to the additional activities included in **LEVEL B** (with a lower ULC than Spain), the study of their evolution has identified relevant trends conditioning their position on this level and their ascent to **LEVEL A**.

Specifically, **Property developers and business services** maintains an ULC lower than the national average and than all the areas of reference throughout the period, while its MLP is higher than that of Spain and all these areas except for Zone 2, where it is lower by small percentages which tend to become smaller. The distance to **LEVEL A** of competitiveness is also small. Its ascent basically requires its MLC to cease to be below the national average, close to 8% in 2004. This requirement would not seem to be difficult to meet in the medium-term if the productivity of this sector in Asturias continues to greater than that of the country as a whole, as occurred during this period, favouring the convergence of its mean labour costs.

The **Catering** field registers a lower ULC than Spain and all the areas of reference in the years under study except for the penultimate year, in which it was slightly greater than the national average and that of zones 3, 4 and 5. However, the distance to **LEVEL A** is larger in this case, as its MLP is lower than the national average and that of all the zones of reference. Specifically, the MLP of the catering sector in Asturias would have to increase by approximately 17% to be equal to the Spanish average and compensate for the impact on the ULC of its current MLC coinciding with the average figure for Spain.

Like the previous field, **Financial brokers** registers an ULC lower than the national average during this period. The same occurs in relation to the five defined zones, with some exceptions in the first few years of the series. The field's inclusion in **LEVEL A** would require a 7% increase in productivity to equal the national average and facilitate the adaptation of its MLC.

The last field included in **LEVEL B** of competitiveness is **Other social services and activities** which, throughout the period, maintains a ULC lower than both the national average and that of the different sectors of reference. To improve and rise to **LEVEL A,** the field must increase its productivity by at least 5%.

LEVEL C, as mentioned earlier, includes activities in which productivity is higher than the national average, regardless of whether their ULC is lower or higher. Besides the fields in **LEVEL A**, it includes **Property developers and business services** from **LEVEL B** and **Food, beverages and tobacco**.

Throughout this period, **Food, beverages and tobacco** in Asturias registers higher productivity than the country as a whole, at least during the last three years, and also higher than Zone 1, although lower than the other zones. However, the changes taking place in its productive structure can be expected to end in a substantial improvement in its production efficiency and a better adjustment between its relative MPL and MLC figures. Specifically, the **Manufacture of fat and oil** and **Tobacco industry,** followed by **Milk industry, Flour manufacture, Meat industry** and **Manufacture of other food products** sub-sectors have reduced the number of plants in the region, while others such as **Manufacture of beverages, Manufacture of animal feed, Preparation and preservation of fruit and vegetables** and **Preparation and preservation of fish** have increased their number of facilities. For this industry to rise to **LEVEL A** would require a productivity increase of close to 9% to compensate for the activity's greater MLC in the region.

On the other hand, our study of the evolution of the fields included in the fourth level of competitiveness, **LEVEL D** (with a higher ULC and lower MLP than the national averages) has shown that in many cases the results suggest that measures are being taken which are consistent with their increasing competitiveness. In other cases, however, the information is less promising, as in the first case we study below.

Throughout the period, **Timber and cork** maintained unit labour costs which were significantly higher than the national average and that of the zones of reference, according to its lower MLP. Furthermore, this variable's evolution shows no sign of recovery and is preventing the sector from making full use of the advantage of having a lower MLC than all the areas with which it is compared. Consistent with this information, the value of the production, employment and number of facilities of most sub-activities have fallen in Asturias. Indeed, there has been a large decrease in the number of production facilities with no

salaried personnel. Likewise, there has been a reduction in the total number of facilities in most sub-sectors, except for **Manufacture of sheets, plywood boards and agglomerated particles** and **Manufacture of wooden containers and packaging,** which registered an increase in the number of facilities with salaried personnel. This reveals the existence of a broad and profound adjustment process which, if it continues, will probably end with a smaller, but more efficient, sub-sector.

Like the previous field, **Electric, electronic and optic equipment** registered a greater ULC than the references practically every year analysed. However, in all cases the lower MLP of the sector in Asturias not only did not improve, but indeed declined. Nonetheless, it would appear that the sector is undergoing an intensive restructuring and adjustment process, as suggested by the increase in employment by much larger rates than production, while significant changes are being made in the productive structure affecting both the type of facilities and the relative participation of the different sub-sectors in the industry. In particular, there has been a reduction in facilities without salaried personnel in the industry's most important sub-sector, **Manufacture of medical and surgical equipment and instruments,** although at the same time the number of facilities with salaried personnel has increased. In view of all this information, this sector can be expected to register a substantial improvement in its degree of competitiveness in the medium term.

The evolution of the results of **Manufacture of transport material** shows a very similar profile. The field's unit labour costs are always greater than the reference values and the key factor is also the activity's lower MLP in Asturias. These results suggest the need for reforms aimed at improving production efficiency, which is probably the objective of the structural changes being undertaken in the period. Specifically, **Naval construction and repair** experienced a heavy loss of production facilities with salaried personnel and **Manufacture of motorcycles and bicycles** also significantly reduces the number of production plants. On the other hand, **Manufacture of railway material** experienced much higher growth than the national average. These changes, together with fluctuations in production and sudden employment changes, appear to show that the reform process is underway. Competitiveness, then, is likely to improve in the medium term.

Trade and repairs also follows a similar pattern but, although its unit labour costs are always higher than for Spain, the difference is much smaller. Furthermore, it is important to highlight the fact that these differences have been constantly decreasing. In this case also, the decisive factor is the sector's low relative productivity in Asturias, although this variable has grown significantly during the period, while falling in other zones. This is very important and shows that the structural reforms being undertaken to reduce the weight of establishments without salaried personnel and increase that of medium-sized production facilities, are indeed improving the sector's efficiency in the region.

In the years analysed, the ULC of **Transport and communications** is always higher than the other regions. The reason for these differences is basically lower productivity. The available data shows that there is an adjustment and restructuring process in the activity which is reducing the total number of plants while increasing employment and production. The reduction in number of plants largely affects facilities with no salaried personnel, as medium-sized plants are increasing. According to the data, however, these measures have not yet had a positive impact on the sector's productivity. Further changes along these lines will probably have a significant effect on the sector's efficiency in the immediate future.

Public administration has a higher ULC than all the reference values, although low compared to those estimated for other regional activities. These small differentials, however, hide significantly lower MLP values. In spite of the progress achieved in MLP in the period, the relative inefficiency of **Public administration** in Asturias would appear to be too high, especially considering that its importance in the region's economic life means that it has an inevitable impact on other economic sectors.

The other sectors on **LEVEL D** of competitiveness form a subgroup characterised in that its productivity is higher than the national average and its mean labour cost is lower. In general, this maladjustment between relative MLP and MLC gives rise to differentials between the regional and national ULC which are much larger, so they are in a more difficult or compromised situation. Structural changes, however, are found in them all, and some of them have started to result in significant increases in efficiency.

Mining activities has substantially improved its unit labour costs since the start of this decade due to increased productivity, although its differentials with other regions continue to be considerable. The figures show that this increase is associated to an

intensive restructuring process which has resulted in a heavy reduction in GVA, employment and the total number of facilities, while the facilities pertaining to the **Extraction and agglomeration of anthracite, coal, lignite and peat** subsector are increasingly less important, unlike **Extraction of non-metal and non-energy minerals**.

Paper and the graphic arts increased its productivity more than the national average and that of the compared zones. However, this increase in efficiency was not sufficient to decrease its unit labour cost to similar levels as the areas of reference, and it remains much higher. Its productive structure has less medium-sized and large plants and more small facilities registering rapid growth. Specifically, **Graphic arts and related services,** the subsector with the largest number of establishments, reduced the number of plants both with and without salaried personnel, whereas nationwide there was a significant increase in both. On the other hand, **Publishing**, **Reproduction of recorded supports** and **Manufacture of paper and cardboard** increased their number of plants by percentages which were nonetheless insufficient to compensate for the losses in **Graphic arts and related services**.

Rubber and plastics also improved its productivity, although to a lesser extent, so its unit labour costs have fallen but need to continue to do so to reach the average level. It would appear that, in view of the disadvantage of higher costs, the sector in Asturias has reduced its number of facilities, although they have increased nationwide. These losses affected the two sub-sectors in the industry, although the most affected was **Manufacture of rubber products.**

Machinery and mechanical equipment has also reduced its unit labour costs thanks to increasing its productivity to levels higher than both the national average and the zones of reference contemplated here. These costs, however, are still significantly higher than the rest. In Asturias, this industry is also undergoing a restructuring process which is aimed, on the one hand, at a larger number of medium-sized and large plants and, on the other, at more development of the sector called **Manufacture of other machinery, equipment and mechanical material for general use** and a decrease in **Manufacture of miscellaneous machinery for specific uses,** the opposite of the nationwide trend**.**

Miscellaneous manufactures, however, have worsened their results with a significant increase in the sector's unit labour cost. This increase is due to a fall in productivity. Consistent with this loss of efficiency, the number of facilities also fell, largely affecting the principal subsector, **Furniture manufacture,** which was not compensated by the increases in other subsectors with more weight in the industry, such as **Manufacture of jewellery, silverwork and similar products** and **Other miscellaneous manufacturing industries.** In general, these trends are also found in the country as a whole, but less intensely than in Asturias.

We should particularly mention the **Agriculture, livestock breeding and fisheries** sector, where higher productivity has reduced the unit labour cost below that of other areas such as the Basque Country, Cantabria, Galicia and Castilla y León, which have similar productive structures. This better positioning of the sector in Asturias occurred at the same time as a significant decrease in the number of livestock and fishery facilities.

In sum, the analysis performed **confirms the classification of activities on the level of competitiveness assigned in the first part of the paper**. During the period in question, the different sectors evolved consistently with those levels, relative not only to the entire country but also to five representative zones. The eight sectors classified on the most demanding level is a guarantee of the **robustness of the competitive core of the region's present-day economy**. The weight of this selective set of activities identifies Asturias as being among the country's most efficient regions, showing the efficacy of the reconversion and adjustment process undergone by its economy in recent years.

This study also showed that, in more highly developed regions, this competitive core and, in general, activities which are more efficient than the national average, have greater weight than in less developed areas. This is really important, because it means that Asturias, after the hard work of many years, has positioned its economy among the most solvent in the country and is therefore in a position to **face the future with some guarantee that, within a reasonable time, the region will reach the same employment, income and welfare levels** as the most highly developed in Spain.

The time this will take will largely depend on the activities currently on the lowest level of competitiveness significantly increasing their productivity; they include **commercial activities, Transport and communications** and **Public Administration.** Besides their direct impact on the regional economy, increased efficiency in these sectors would also affect other activities, favouring their growth.

Table I*

DIFFERENCES (%) BETWEEN THE SECTOR'S LOCAL AND NATIONAL **ULC**, MLP AND MLC FIGURES AND WEIGHT (%) OF EACH FIELD AND **LEVEL OF COMPETITIVENESS** IN THE REGIONAL ECONOMY

ASTURIAS

	ULC<	MLP>	MLC>	GVA	L
EE Electricity, gas and water	-5.0	-38.1	33.1	3.9	0.6
DB+DC Textile and apparel; leather and footwear	-28.7	-30.7	2.0	0.3	0.3
DG Chemical industry	-9.6	-11.3	1.7	1.2	0.6
DI Other non-metal mineral products	-5.4	-26.0	20.6	1.9	1.2
DJ Metallurgy and manufacture of metal products	-12.8	-29.7	16.9	8.4	5.8
FF Construction	-1.1	-14.1	13.0	11.6	12.7
MM Education	-1.6	-3.6	2.0	5.8	5.8
NN Health and vet. activities; social services	-2.9	-5.6	2.7	5.7	6.2
Weight of the fields on LEVEL A				**38.7**	**33.2**
	ULC<	**MLP>**	**MLC<**		
KK Property developers and business services	-14.0	-6.8	-7.3	14.4	7.6
	ULC<	**MLP<**	**MLC<**		
HH Catering	-2.1	14.1	-16.2	5.5	5.8
JJ Financial brokerage	-3.0	5.9	-8.9	4.4	1.7
OO Other services	-7.0	3.9	-11.0	3.8	4.6
Weight of the fields on LEVEL B				**66.8**	**52.8**
	ULC>	**MLP>**	MLC>		
DA Food, beverages and tobacco	8.8	-2.8	11.5	2.1	2.2
Weight of the fields on LEVEL C				**55.2**	**42.9**
	ULC>	**MLP<**	**MLC<**		
DD Timber and cork	11.0	14.0	-3.1	0.3	0.6
DL Electric, electronic and optic equipment	28.5	53.2	-24.7	0.4	0.6
DM Transport material	18.5	43.7	-25.2	0.7	1.0
GG Trade and repairs	4.1	11.5	-7.4	10.2	15.7
II Transport and communications	4.3	16.3	-11.9	5.8	5.3
LL Public administration	1.4	13.8	-12.4	5.4	6.9
	ULC>	**MLP<**	**MLC>**		
CA+CB+DF Mining activities	150.1	136.9	13.2	1.9	1.8
DE Paper; publishing and graphic arts	32.2	22.8	9.4	0.9	0.8
DH Rubber and plastic materials	22.0	9.3	12.6	0.3	0.3
DK Machinery and mechanical equipment	21.1	10.6	10.5	1.3	1.2
DN Miscellaneous manufactures	26.7	24.6	2.0	0.5	1.0
AA+BB Agriculture, livestock breeding, hunting, forestry and fisheries	35.0	14.7	20.3	2.6	4.2
Weight of the fields on LEVEL D				**30.3**	**39.3**

Source: Lorences (2007).

* Signs > and < indicate that the variable's value is more or less than the respective national value. Beneath MLP and MLC are their contributions to the difference between the local and national ULC in each field. The letter L refers to employment. The weights of LEVEL A and LEVEL B are obtained by adding together those of the fields located above the respective line. The same applies to LEVEL C with the exception of the fields included in the [ULC< MLP< MLC<] subgroup. The weights of LEVEL D are obtained by adding together the immediately higher weights up to the LEVEL C total line. "Households with domestic staff" is not included, so the respective shares do not total 100.

Table 2

PERCENTAGE WEIGHT OF THE FIELDS ON LEVEL A OF COMPETITIVENESS

(Ordered according to share of employment: L)

Ordinal		GVA	L
1	Basque Country	61.0	58.3
2	Madrid	48.9	47.2
3	Navarre	45.7	42.7
4	Balearics	43.2	39.1
5	**Asturias**	**38.7**	**33.2**
6	Catalonia	18.1	21.8
7	Rioja	19.6	19.7
8	Cast-León	23.8	15.6
9	Cantabria	13.4	11.1
10	Canaries	8.0	8.1
11	Galicia	10.0	6.7
12	Murcia	7.3	6.1
13	Aragón	6.9	3.4
14	Andalusia	1.9	0.7
15	Extremadura	3.4	0.4
16	Cast-Mancha	1.9	0.4
17	Valencia	0.0	0.0

Source: Lorences (2007)

Table 3

PERCENTAGE WEIGHT OF THE FIELDS ON LEVEL B OF COMPETITIVENESS

(Ordered according to share of employment: L)

Ordinal		GVA	L
1	Murcia	69.8	64.7
2	Basque Country	61	58.3
3	Canaries	64.7	57.0
4	Catalonia	56.7	55.4
5	Madrid	53.3	52.9
6	**Asturias**	**66.8**	**52.8**
7	Navarre	56.9	52.2
8	Balearics	63.5	51.9
9	Andalusia	57.4	49.4
10	Valencia	49.0	44.4
11	Rioja	51.1	39.9
12	Cas-León	52.0	37.9
13	Galicia	43.1	36.4
14	Cantabria	46.4	33.3
15	Extremadura	36.1	30.3
16	Aragón	37.3	29.7
17	Cast-Mancha	30.2	23.3

Source: Lorences (2007)

Table 4

PERCENTAGE WEIGHT OF THE FIELDS
ON LEVEL C OF COMPETITIVENESS
(Ordered according to share of employment: L)

Ordinal		GVA	L
1	Basque Country	77.4	75.4
2	Navarre	82.0	73.3
3	Catalonia	59.2	60.7
4	Madrid	61.6	55.9
5	Rioja	62.7	55.0
6	Balearics	66.7	54.6
7	Asturias	55.2	42.9
8	Canaries	56.2	42.1
9	Cast-León	52.6	39.7
10	Andalusia	44.0	34.6
11	Cantabria	46.4	31.9
12	Galicia	41.2	31.7
13	Valencia	33.2	30.8
14	Cast-Mancha	34.4	28.0
15	Aragón	31.8	27.8
16	Murcia	24.4	14.6
17	Extremadura	12.9	4.7

Source: Lorences (2007)

Table 5

PERCENTAGE WEIGHT OF THE FIELDS
ON LEVEL D OF COMPETITIVENESS
(Ordered according to share of employment: L)

Ordinal		GVA	L
1	Cantabria	48.3	60.6
2	Galicia	49.7	51.8
3	Cast-Mancha	49.8	51.1
4	Aragón	46.0	49.2
5	Extremadura	46.0	46.7
6	Cast-León	38.6	45.9
7	Valencia	43.5	41.1
8	Asturias	30.3	39.3
9	Rioja	30.6	37.8
10	Balearics	28.4	33.8
11	Canaries	28.3	32.5
12	Andalusia	29.2	32.4
13	Murcia	29.2	28.9
14	Madrid	32.5	28.1
15	Catalonia	26.9	18.8
16	Basque country	21.7	18.7
17	Navarre	11.9	14.7

Source: Lorences (2007)

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VIII. INDICATORS CALENDAR.

APRIL

	1	**2**	**3**	**4** **Spanish IPI** (March)	**5**	**6**
7	8	**9** **Euro Area PIB** (I T 2008)	**10**	**11** **Spanish CPI** (March)	**12**	**13**
14 **Euro Area IPI** (March)	**15**	**16** **Euro Area HICP** **USA CPI** **USA IPI** (March)	**17**	18	**19**	**20**
21	**22**	**23**	**24** **Spanish IPRI** (April)	**25** **Spanish EPA** (I T 2008)	**26**	**27**
28	**29** **Spanish HICP** A.D. April	**30** **Euro Area HICP** A.D. April **Euro Área ESI** (April)				

MAY

			1 **PCE USA** (April)	**2**	**3**	**4**
5	**6** **Spanish IPI** (April)	**7**	**8**	**9**	**10**	**11**
12	**13** **Spanish HICP** (April)	**14** **Euro Area IPI** **USA CPI.** (April)	**15** **Euro Area HICP** **USA IPI** (April)	**16**	**17**	**18**
19	**20**	**21** **Spanish PIB** (I T 2008)	**22**	**23**	**24**	**25**
26 **Spanish IPRI** (May)	**27** **Euro area ESI** (May)	**28**	**29**	**30** **Euro area HICP** A.D. April **PCE USA.** (May)	**31**	

ESI: Economic Sentiment Indicator
CPI: Consumer Prices Index
HICP: Harmonised Index of Consumer Price
QNA: Quarterly National Accounts
PCE: The Personal Consumption Expenditure Price Index
EAPS Economically Active Population Survey
IPI: Industrial Production Index
A.D.: Advanced Indicator

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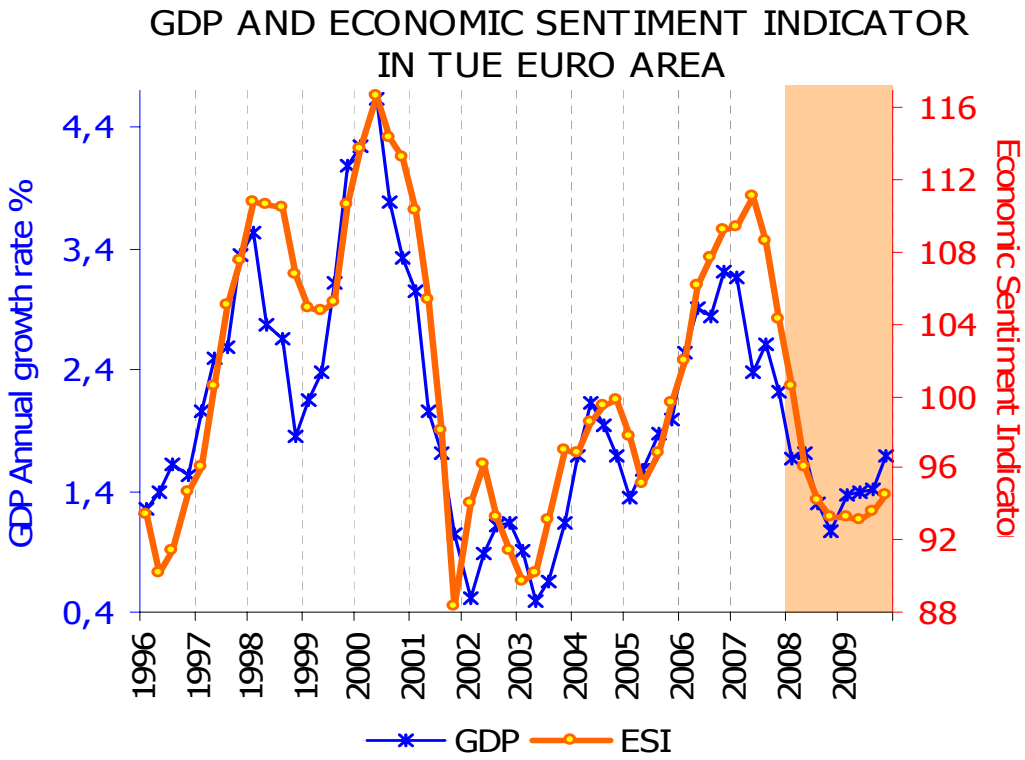

Note: for the GDP, the latest available figure corresponds to the fourth quarter of 2007. Information up to April is available for the ESI.
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