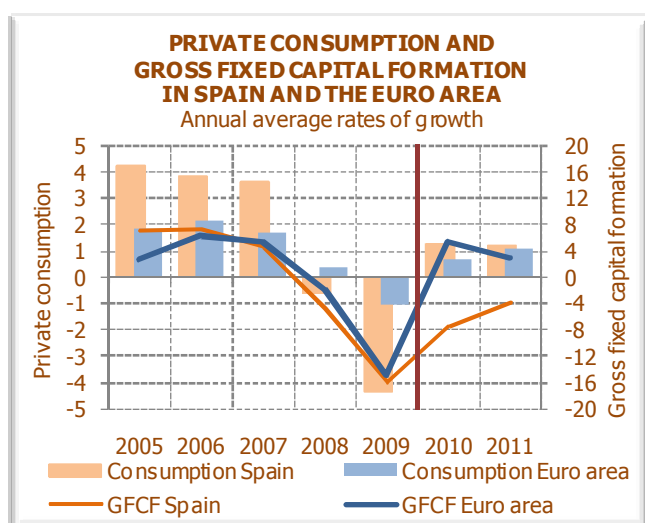


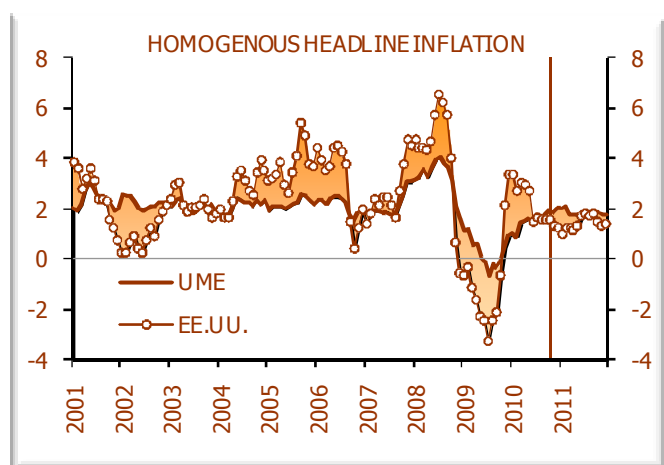


**In 2010-2011, private consumption in Spain is expected to grow by 1.2%, slightly more than in the euro area. However, investment will fall by more than 12% in the 2-year period, compared with 8.5% in the euro area.**



Source: INE & BIAM (UC3M)  
Date: November 30, 2010

**US inflation will continue to fall up to the first quarter of 2011, and will be less than in the euro area during most of next year.**



Source: BLS, EUROSTAT & BIAM (UC3M)  
Date: November 17, 2010

## LABOUR REFORM AFTER LAW 35/2010

José Ignacio Pérez Infante

P.65

The text analyses the recent labour reform, once the initial Royal Decree-Law became Law in September, emphasising the problems affecting the labour market that such a reform should solve and the content of this reform. An initial evaluation is also made of one of the most ambitious labour reforms since the Workers' Statute of 1980, considering both its positive aspects and its problems and shortcomings.

... From the onset of the economic crisis in the fourth quarter of 2007 to the third of 2010, the fall in salaried employment (...) focused on temporary employment, with a reduction of 1,438,700 people, -26.7%, as indefinite employment grew in that period by 25,300 people, 0.2%.

Even so, a decline in indefinite employment has been seen as the economic crisis persisted. While temporary employment fell by 183,600 people on average in the first three quarters of 2010, indefinite employment fell by 202,100, -1.8%, in relative terms.

This means that, together with the end of temporary contracts, significant numbers of people with indefinite contracts are being made redundant (...) while there were 620,000 in 2007, in 2009 there were 1,170,000, nearly double, and those redundancies went from representing 52% in 2007 to 68% in 2009.

# **BULLETIN OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS**

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## I. ECONOMIC OUTLOOK

The attack against the sovereign debt of the weakest euro area countries is stronger than ever before. This time, the detonator was the Irish situation, but the fire immediately spread to Portugal, Spain and, in the last few days, Italy and, to some extent, Belgium, with rumours that France could also be affected. The differentials with German debt have peaked again. The cost of insuring Spanish debt rose to 365 base points from the 270 registered in June, although the announcement of new restrictive measures by President Rodríguez Zapatero and Governor Trichet's intervention, it has again fallen to under 300 base points. Moreover, while Ireland, Portugal and Greece are classified as small, "salvageable" economies, Spain is now seen as of key importance for the euro's survival.

Why is this happening? An immediate acceptable answer is that, despite the budgetary adjustments approved before summer, the Spanish economy's structural problems, and those of the euro area, continue to exist.

The Spanish economy has been stagnant for a year. The few decimals growth obtained in the first half of 2010 were due to the need to restructure the Spanish productive system, to the lack of enough money to do so and, to some extent, to the maintenance of restrictive fiscal policies, including the VAT increase. Private sector growth has been zero or negative for all these months, as was aggregate GDP growth in the third quarter. The labour market, corrected for seasonality, has shown no sign of recovering. The forecasts are not very promising. They show that the GDP will also remain stagnant in the fourth quarter of 2010, growing at a quarterly rate of less than 0.2% in 2011, with an average annual rate of around 0.4%(±0.7). The forecast unemployment rate is 20.7%.

In the meantime, the strength of the banking system has been questioned again. The stress tests performed before summer lost credibility when 3 Irish banks

that had passed them had to be rescued. At the same time, the two banks that were intervened on the Spanish market sent the market a terrible signal: the losses and default rate in the audited accounts were much higher than the official figures published before the salvage operation. The loss of credibility for banking supervision and the system in general is enormous, and reactions have been late and, as yet, insufficient.

In order to understand the magnitude of the risks associated to the Spanish economy, we have to consider both the macroeconomic situation and the financial system. If sustained growth could be expected in the medium term, the Spanish financial system would be solvent and Spanish debt (much lower than that of other countries, including Germany) would not be cause for concern.

*The loss of credibility affecting banking supervision and the system in general has been enormous, and the steps taken to correct this situation were too late.*

On the other hand, if the financial system did not have to sustain private sector debt of nearly 220% of the GDP, even lengthy economic stagnation would not be capable of deteriorating public finances to levels compatible with the current prices of 5 or 10-year Spanish debt. Spain is complying with the plan and its fiscal policy has enough margin to continue to do so in the future, even if economic growth is significantly lower than forecast by the government.

But if Spain is forced to rescue its financial system by transforming private into public debt, as has occurred in Ireland, it could become insolvent in just a few months. This is the reason for the lack of market confidence and it is certainly not new. Spanish debt started to be more expensive than Italian debt in early 2008, when the debt/GDP ratio was 45% in Spain and 112% in Italy. It was clear even then that the market was incorporating private debt risk in the price of Spanish public debt and that the "nationalisation" of private losses had to come to an end. The risk premium has risen sharply now that expectations of economic stagnation have become consolidated and the strength of banks has been questioned.

*If the financial system did not have to sustain a private sector debt of close to 220% of the GDP, even lengthy economic stagnation could not deteriorate public finance to levels compatible with the current prices of Spanish 5 or 10-year debt.*

*Spain has agreed to reduce public deficit to a GDP ratio of around 80% by 2013. Spain is complying with this plan and has enough margin in its fiscal policy to continue to do so in the future.*



*If we hear time and time again that the banks are solvent without providing evidence, the markets will assume that the opposite is true. If there is favourable information that is not transmitted to the markets, they will assume that it simply does not exist.*

Both problems must be tackled immediately if we are to overcome this situation. The best possibilities of speed and effectiveness are found in the financial system. If banks' balance sheets are as sound as they claim, evidence must be published as soon as possible to confirm it. This is the road chosen by the Bank of Spain. If banks say they are solvent time and time again but refuse to provide evidence, the markets will assume just the opposite. If there is favourable information that does not reach the market, they will merely assume that it does not exist.

If banks, or some banks, need rescuing, the intervention plan can be designed quickly, learning from the basic errors seen in Ireland, avoiding indiscriminate cases and dissolving unviable institutions, while only guaranteeing deposits. The international investors who have lent money to insolvent banks will have to accept their losses.

At the same time, steps must be taken for the Spanish economy to grow again. The main problem affecting the Spanish economy is not consumption, but investment for restructuring its productive system. This requires business initiative; businesses must see that new business plans can be feasible and successful, as

there are sufficient infrastructures, sufficiently qualified hand labour and, in particular, there will be funding available for productive innovation. Foreign capital is very important and will not be available until there is less overall uncertainty regarding the Spanish economy.

*The increase in the rate of household saving in 2009 and 2010 is not the cause of the Spanish economy's stagnation and its reduction in 2011 will not be the solution.*

The fact that household saving rose in 2009 and 2010 has not caused economic stagnation and if it falls in 2011, it will not be the solution. This possible misunderstanding is due to a view of the economy in which consumption generates economic activation, while saving triggers disinvestment and stagnation. This is but a partial viewpoint, generated in a country that has been financing its excesses with foreign savings for over a decade. The problem is not the saving rate, but the inability to adjust the productive system quickly enough in order to be solidly competitive.

Household savings in Spain in the last two years have kept banks' balance sheets afloat, financed public expenditure (consumption) by buying debt, financed the little investment (also part of demand) there has been and reduced Spain's dependence on the foreign capital market. It has strengthened the balance sheets of households with excessive debt, improving their solvency and ability to tackle unexpected reductions in income. Finally, Spain has not become a net exporter of capital in these two years. To expect this saving to become consumption and lead Spanish recovery is, in our opinion, a serious mistake.

Rising saving rates are not a problem; they are a positive, healthy reaction that helps to blanket the true disequilibria affecting the Spanish economy.

In the first place, and with regards to the property market, we either return to mortgages for 120% of estimated value, which is impossible, or Spanish households need to save to make the

Table I.1

<b>GROSS DOMESTIC PRODUCT</b>		<b>Annual average rates of growth</b>				
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
AGRICULTURE	Spain	7,1	-2,1	1,0	<b>-1,7</b>	<b>-0,2</b>
	Euro area	0,9	0,9	2,3	<b>2,2</b>	<b>-4,3</b>
INDUSTRY AND ENERGY	Spain	0,8	-1,3	-12,3	<b>1,3</b>	<b>1,0</b>
	Euro area	3,2	-2,4	-13,1	<b>5,6</b>	<b>3,7</b>
CONSTRUCTION	Spain	2,5	-1,6	-6,2	<b>-6,7</b>	<b>-5,5</b>
	Euro area	2,3	-1,6	-5,8	<b>-3,0</b>	<b>-0,7</b>
SERVICES	Spain	4,8	2,3	-1,0	<b>0,5</b>	<b>1,3</b>
	Euro area	3,2	1,6	-1,7	<b>1,1</b>	<b>1,1</b>
GVA TOTAL	Spain	3,9	1,1	-3,5	<b>-0,2</b>	<b>0,5</b>
	Euro area	3,1	0,5	-4,2	<b>1,7</b>	<b>1,5</b>
TOTAL	Spain	3,6	0,9	-3,7	<b>-0,2</b>	<b>0,4</b>
	Euro area	2,8	0,4	-4,0	<b>1,7</b>	<b>1,3</b>

Source: INE & EUROSTAT & BIAM(UC3M)  
Date: November 30, 2010



down payment on all the housing that is now available at current prices.

Secondly, consider credit and the financing needs of the Spanish economy. Banks are not in a position to issue new assets without consolidating their liabilities, as shown by the attractive rates of return they are offering for deposits. If private saving disappears, the financial system's stability will be at risk, as will its ability to finance productive investment, which is what Spain really needs.

Thirdly, consider the current account deficit. Spanish foreign debt is the second largest in the world in nominal terms, only beaten by the US. This can only be solved by importing less, reducing our dependence on foreign capital, and exporting more. In other words, we need less consumption and more saving to finance the productive investment required for us to compete on the international markets.

Last but not least, consider wealth. One of the factors that increases the level of risk in Spain is the unfavourable ratio between household wealth and indebtedness. While the mean debt per adult is 31,000 dollars, financial wealth is only 43,000, and non-financial wealth 89,000. The ratio is therefore 1.4, lower than Portugal (2.1), Greece (1.9) and even Ireland (1.5) and far from countries like Germany (3.0), France (3.1), Italy (4.5), US (3.3) or UK (2.9). In terms of global wealth, the ratio improves to 4.3, with the Spanish economy half way between Portugal (4.0) and the United States (4.9). But non-financial wealth is largely property, the value of which in Spain is uncertain and extremely non-liquid. Savings in the last two years may seem excessive in relation to disposable income, but wealth is still very low.

According to our forecasts, Spanish household consumption will rise at an annual rate of 1.2% in 2010 and a similar rate in 2011, in both cases above the euro area average (0.7% and 1.1%, respectively). Gross fixed capital formation (investment), however, will fall

by 7.4% this year and 3.9% the next, while it is expected to grow by 8.5% in the two years in the euro area. That means a nearly 20-point difference in the two-year period.

Spain does not have a consumption problem, but needs to transform and modernise its productive system. The only way to do this is by fostering investment in physical and human capital, supporting the financial system for it in turn to support these investments. We cannot realistically expect credit to flow as it did before the crisis, but it could be gradually redirected from construction and other sectors to innovative, viable projects. It is not an easy process and immediate results cannot be expected, but it is the only real alternative to decline and stagnation. We are satisfied to see that the government's latest measures are moving in that direction, but we also need more courage and speed. The last FEDEA report, "A growth agenda for Spain" (with the collaboration of Prof. Michele Boldrin, among others), clearly shows the diagnosis and the basic elements of the road to be followed.

The euro's stability and survival in the next decade also depends more on the macroeconomic perspectives than the financial markets. The strongest and most competitive countries have no interest in

*Spanish household consumption will grow at an annual rate of 1.2% in 2010 and 2011, in both cases higher than the euro area average. Gross fixed capital formation, however, is expected to fall in Spain by 7.4% this year and 3.9% the next, while 8.5% growth is expected in the euro area. This represents a nearly 20-point difference in the two years.*

*Rising rates of saving are not abnormal; they are a positive and healthy reaction by households.*

Table I.2

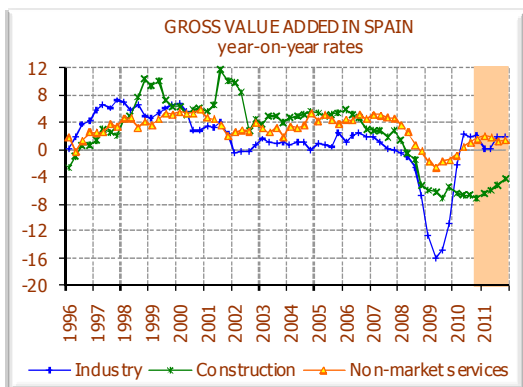
WEALTH ESTIMATES / DEBT, PER CAPITA			
USD, 2010			
	Total	Financial	Non-financial
United States	4,9	3,3	1,6
Europe	6,1	2,6	3,5
France	8,9	3,1	5,8
Germany	6,4	3,0	3,4
Greece	6,1	1,9	4,2
Ireland	2,9	1,5	1,3
Italy	11,4	4,5	6,9
Portugal	4,0	2,1	1,9
Spain	4,3	1,4	2,9
United Kingdom	6,5	2,9	3,6

Source: Credit Swiss & BIAM (UC3M)  
Date: November 25, 2010





Graph I.1



losing the single currency. These economies have even benefited from the sovereign debt crisis which not only caused a rapid depreciation of the euro but also reduced the return on euro bonds to a minimum. They also realise that, if the euro area was to disappear, exchange rates would immediately

adjust (unfavourably for them) and, more important still, they would have to accept the losses linked to the international exposure of their banks.

Likewise, the weakest countries have no interest in the single currency disappearing. The risk premium now paid by Spain is nothing compared what it would otherwise be paying, and the same can be said of the private sector's financing costs. The only scenario in which the peripheral countries could consider such a thing would be if default was inevitable or salvage conditions absurdly damaging. Even so, they know that a devaluation of their currencies would only be a short-term solution and the reforms they need are necessary in the euro area and elsewhere, as shown by the United Kingdom.

The ECB is more than capable of preventing the euro from disaster in the short term, and the basic interests of euro area countries regarding the single currency are still the same, as the only really conflictive point is the distribution of the cost of possible salvage operations. However, if the bases are not now established for the convergence of the competitiveness and productivity of euro area economies, we will be seeing the same problems year after year. The financial links connecting the different countries will be broken and their interest could be increasingly polarised. The

medium-term risk is a slow agony of the weaker countries, who will continue to lose competitiveness due to stricter fiscal policies, while international (and European) investors reduce their involvement in what they previously saw as safe assets.

The only significant changes in our forecasts refer to the composition of expected Spanish economic growth. The aggregate GDP forecast has been revised upwards to -0.2% ( $\pm 0.2$ ) for this year and 0.4% ( $\pm 0.7$ ) for the next. This is due to some improvement in private consumption growth expectations and those pertaining to non-market services on the supply side.

On the demand side, growth of investment was revised downwards for both construction and capital goods. The construction and industrial GVA forecast is worse, while the rise in market services in the fourth quarter has increased the sector's forecast to an average annual growth rate of 1.6% in 2011.

Euro area growth forecasts remain in line with previous bulletins. Expected GDP growth is 1.7% ( $\pm 0.2$ ) in 2010 and 1.3% ( $\pm 0.7$ ) in 2011. All sectors except construction will grow while the foreign market will make practically a zero contribution and investment will make a strong contribution to aggregate growth.

No significant changes are found in prices. The Spanish annual inflation rate continues to be affected by the VAT increase, which has taken it up to 2.3%. This cycle is expected to peak in December at 2.4% ( $\pm 0.35$ ), followed by a gradual reduction up to mid-2011. The VAT effect will end in the second half of the year, and annual rates could return to less than 1.0% at the end of December.

Euro area inflation rose to 1.9% in October and is expected to remain at that value in November. Energy prices could push the annual global inflation rate up to over 2.0% from December to

*The ECB is more than capable than prevent the collapse of the euro in the short term.*





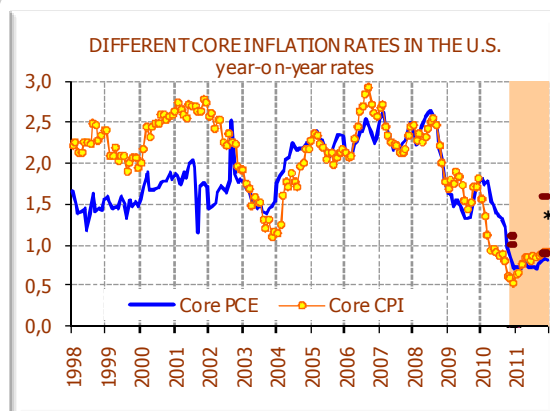
*Based on an accurate diagnosis of the current situation, the economic system has to be renovated in a way that will convince not only the markets but also the people.*

February, but European inflation appears to be exactly where the Central Bank wants it to be. It is expected to grow at a rate of 1.9% in 2011, with annual rates ranging from 2.1% to 1.8%. In the US, the annual inflation rate fell until September 2010, rising to 1.2% in October. This phase is expected to continue until the first quarter of 2011, followed by a gradual recovery. Service inflation in 2011 is also expected to be higher than for consumer goods, correctly the abnormal situation found in 2010. The annual core PCE index is expected to fall until the beginning of 2011, and remain at around 0.7% for most of next year. Our forecasts continue to be beneath the central tendency figures established by the Fed.

In sum, the macroeconomic variables show a situation of relative stability in a crisis that has still not come to an end. The financial markets are pressuring the weakest euro area economies to rapidly seek a viable solution to their lack of growth and chronic low productivity, to guarantee the stability of their financial systems without endangering public accounts.

There are no immediate solutions or short cuts. Despite an accurate diagnosis of the current situation, the economic system must be renovated in a way that will not only convince the markets but also the people. For them to support this process, views based on the short term are no use. Economic agents must be shown that bad investors are solely responsible for their losses and that we cannot merely defend the previous system while we wait for everything to go back how it was before.

Graph I.2



(\*) Central tendency projected by the FOMC, October 2010, for core PCE (fourth quarter of the previous year to the fourth quarter of the year indicated).

Source: BLS, BEA & IFL  
Date: November 17, 2010



## II. THE ECONOMY IN THE EURO AREA

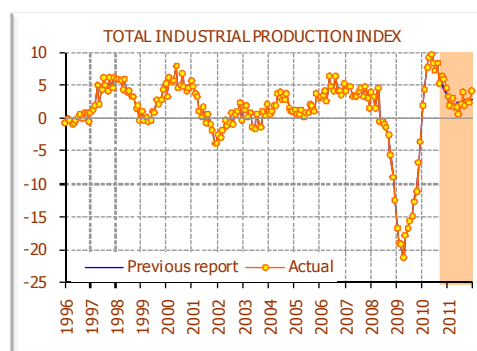
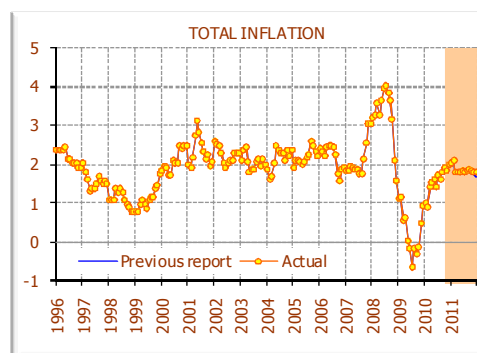
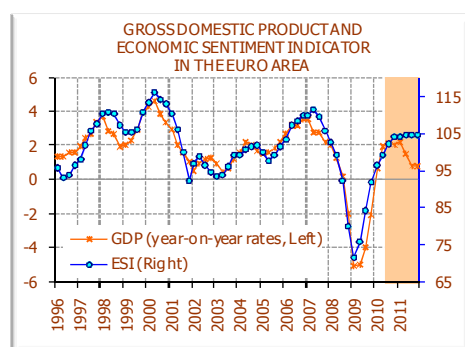
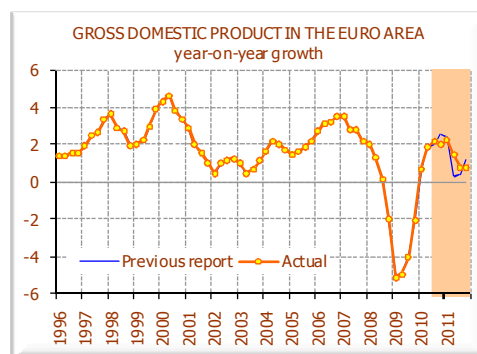
Inflation expectations for the euro area have risen slightly with the October figure. The inflation forecast for 2011 has risen by one tenth of a point to 1.9%(±0.78).

Average industrial growth forecasted for 2010 has increased to 6.5%, due to the good evolution of the leading indicators.

The sharp decline in industrial growth expected for the last quarter of the year will not appear until 1q11.

The Economic Sentiment Indicator continues to improve thanks to the good evolution of industrial confidence.

The GDP growth forecasts for 2010 and 2011 are 1.7%(±0.2) and 1.3%(±0.7), respectively.



MAIN VARIABLES AND INDICATORS IN THE EURO AREA						
Average annual rates						
	2006	2007	2008	2009	Forecasts	
					2010	2011
<b>GDP mp.<sup>1</sup></b>	3,2	2,8	0,4	-4,0	<b>1,7</b>	<b>1,3</b>
<b>Demand</b>						
Private final consumption	2,2	1,7	0,4	-1,0	<b>0,7</b>	<b>1,1</b>
Public final consumption	2,1	2,3	2,3	2,4	<b>0,9</b>	<b>0,6</b>
Gross capital formation	6,4	5,3	-1,8	-15,0	<b>5,4</b>	<b>3,1</b>
Contribution domestic demand	3,0	2,6	0,3	-3,4	<b>1,8</b>	<b>1,4</b>
Exports of goods and services	8,8	6,3	0,7	-13,1	<b>8,6</b>	<b>4,2</b>
Imports of goods and services	8,7	5,8	0,6	-11,8	<b>8,6</b>	<b>4,3</b>
Contribution foreign demand	0,2	0,3	0,1	-0,7	<b>0,1</b>	<b>0,0</b>
<b>Supply GVA</b>						
Total	3,2	3,1	0,5	-4,2	<b>1,7</b>	<b>1,5</b>
Agriculture	0,0	0,9	0,9	2,3	<b>2,2</b>	<b>-4,3</b>
Industry	3,9	3,2	-2,4	-13,1	<b>5,6</b>	<b>3,7</b>
Construction	3,1	2,3	-1,6	-5,8	<b>-3,0</b>	<b>-0,7</b>
Trade services	3,1	3,6	1,1	-5,1	<b>1,5</b>	<b>1,8</b>
Financial services	4,2	4,0	1,6	-1,5	<b>1,1</b>	<b>1,2</b>
Public services	1,6	1,8	1,8	1,1	<b>0,7</b>	<b>0,3</b>
<b>Prices (HICP<sup>2</sup>)</b>						
Total	2,2	2,1	3,3	0,3	<b>1,6</b>	<b>1,9</b>
Core	1,5	2,0	2,4	1,3	<b>1,0</b>	<b>1,5</b>
Processed food	2,1	2,8	6,1	1,1	<b>0,9</b>	<b>2,4</b>
Non-energy industrial goods	0,6	1,0	0,8	0,6	<b>0,4</b>	<b>1,0</b>
Services	2,0	2,5	2,6	2,0	<b>1,4</b>	<b>1,7</b>
Residual	5,5	2,8	7,3	-4,5	<b>4,5</b>	<b>3,4</b>
Non-processed food	2,8	3,0	3,5	0,2	<b>1,1</b>	<b>2,2</b>
Energy	7,7	2,6	10,3	-8,1	<b>7,1</b>	<b>4,3</b>
<b>Labour market<sup>3</sup></b>						
Unemployment rate	8,3	7,5	7,5	9,4	<b>10,1</b>	<b>9,9</b>
<b>Industrial production index (excluding construction)<sup>4</sup></b>						
Total	4,2	3,7	-1,8	-14,9	<b>6,5</b>	<b>2,4</b>
Consumer goods	3,0	2,4	-2,1	-5,0	<b>3,3</b>	<b>1,5</b>
Durables	4,6	1,3	-5,7	-17,4	<b>3,0</b>	<b>2,4</b>
Non-durables	2,7	2,6	-1,5	-3,0	<b>3,3</b>	<b>1,3</b>
Equipment	6,0	6,6	-0,2	-20,8	<b>7,4</b>	<b>3,6</b>
Intermediate	4,8	3,8	-3,4	-19,2	<b>9,2</b>	<b>2,9</b>
Energy	0,6	-0,9	0,4	-5,3	<b>3,5</b>	<b>-0,1</b>

The figures in the shaded area are forecasts.

(1) Data adjusted for seasonality and working days effect.

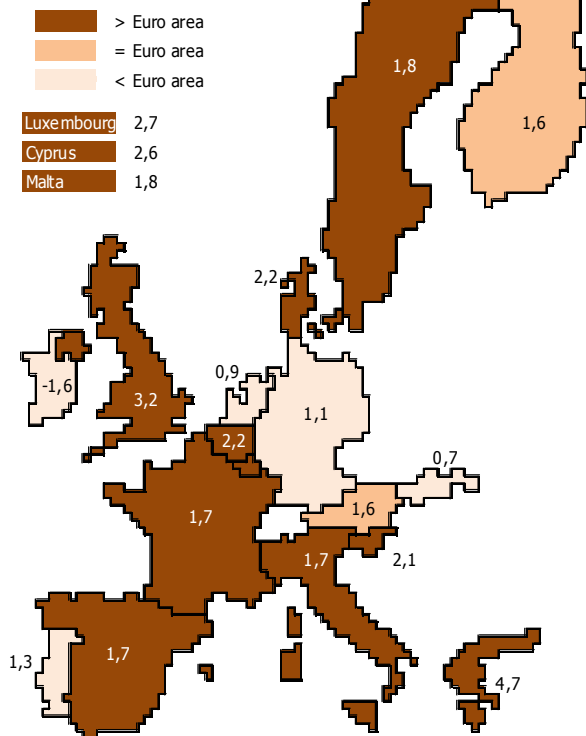
Source: EUROSTAT & BIAM (UC3M)

Date: (1) October 28, 2010 (2) November 16, 2010

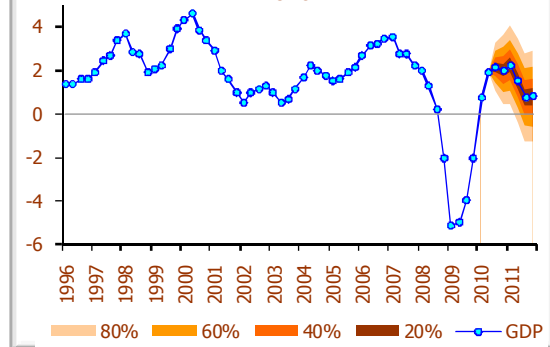
(3) November 30, 2010 (4) November 12, 2010



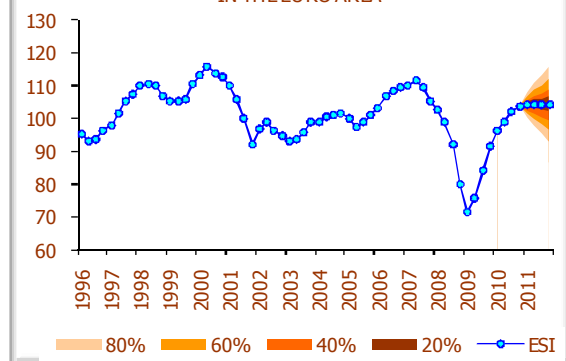
ANNUAL AVERAGE RATES OF GROWTH IN THE EURO AREA COUNTRIES AND UNITED KINGDOM, SWEDEN AND DENMARK FOR 2010



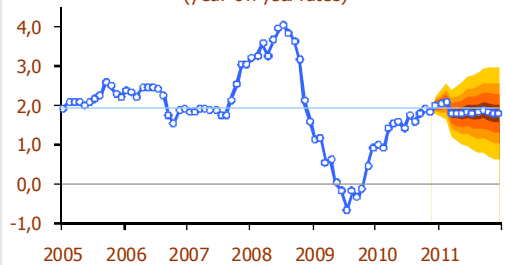
GROSS DOMESTIC PRODUCT IN THE EURO AREA



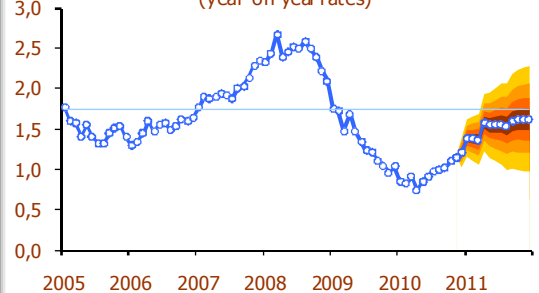
ECONOMIC SENTIMENT INDICATOR IN THE EURO AREA



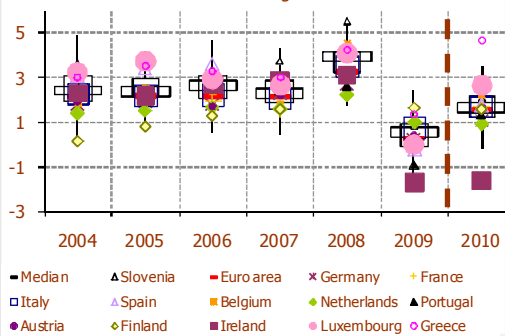
INFLATION IN THE EURO AREA (year-on-year rates)



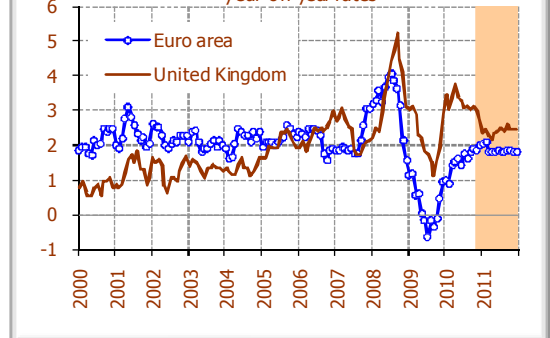
CORE INFLATION IN THE EURO AREA (year-on-year rates)



BOX DIAGRAM OF INFLATION IN THE COUNTRIES OF THE EURO AREA Annual average rate



HARMONIZED INDEX OF CONSUMER PRICES year-on-year rates



## II.1. MACROECONOMIC FORECASTS.

*Despite the negative surprise in the September IPI, our forecast has improved for the last quarter of this year, due to favourable leading indicators.*

The most recent leading indicators for the euro area confirm that growth fell in the third quarter relative to the first, as expected. The preliminary GDP estimation for the third quarter published recently by Eurostat shows that the economy registered a quarter-on-quarter growth rate of 0.4%, compared with 1% in the second quarter and 0.6% in the first. In year-on-year terms, the GDP registered a rate of 1.9%. The reduction in growth in the third quarter was anticipated by our forecasts, but has been greater than expected (0.7%).

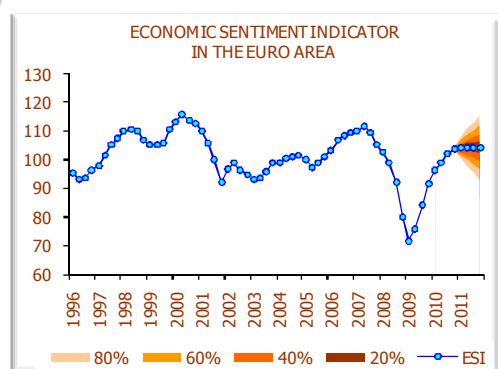
*The preliminary GDP estimation for the third quarter published recently by Eurostat shows that the economy registered a quarter-on-quarter growth rate of 0.4%.*

0.9% relative to the previous month, so its year-on-year rate of variation was 5.2%, versus 8.4% in August. The September IPI was a negative surprise and the year-on-year rate is showing a negative trend after registering 9.8% in May, after which it has fallen by 4.8 pp. IPI expectations have thus been revised downwards.

With regards to the industrial confidence indicator (ICI), confidence in the sector has improved in the last two months. A marginal improvement has been made to our IPI forecasts.

As in the previous quarters, there are still large differences between different euro area economies, and there are clearly two different speeds when it comes to overcoming the crisis. The growth of Germany (0.7%) and France (0.4%) contrasts with the decline of Greece (1.1%), Ireland and Portugal and the zero growth of Spain.

Graph II.1.1



Source: EUROSTAT & BIAM (UC3M)  
Date: October 28, 2010

The leading indicators all point to reduced growth in the third and fourth quarters. Retail sales and industrial production fell in September and this increased the unemployment rate, which had been stable for

the previous six months. In October, the economic sentiment indicator grew by one point, continuing to improve. The PMI of the manufacturing industry also grew significantly in October for the first time in 3 months, but the global PMI fell by three tenths of a point, which could be due to a weak demand.

The September Industrial Production Index, corrected for seasonality, fell by

Despite the negative surprise in the September IPI, our forecast has improved for the last quarter of this year, due to favourable leading indicators, especially the PMI of the manufacturing industry. The IPI forecast has been revised upwards for 2010, when we now expect an average annual growth rate of 6.5% instead of 6.3%. For 2011 the expected rate is 2.4%, three tenths of a point more than before. Intermediate and capital goods are expected to show greater growth in this period, with rates of 9.2% and 7.4% in 2010 and 2.9% and 3.6% in 2011.

The October Economic Sentiment Indicator (ISE) registered an increase of 0.9 points, reaching a total of 104.1, better than our forecast. This was due to industrial confidence, which grew for the fourth consecutive month; however, consumer confidence and confidence in the service sector remained unaltered, with construction rising but still at very low levels. The main euro area economies significantly improved their confidence indices, while the Spanish index fell slightly.

The indicator's forecast improved again in October, although they still show slower growth in the last two months of 2010 and throughout 2011. This is due to recent industrial confidence, which does not appear to be affected by the



*The forecast average annual GDP growth rate in this year has gone from 1.8% to 1.7% and the expectations for 2011 have gone from 1.1% to 1.3%.*

appreciation of the euro and the drop in global demand.

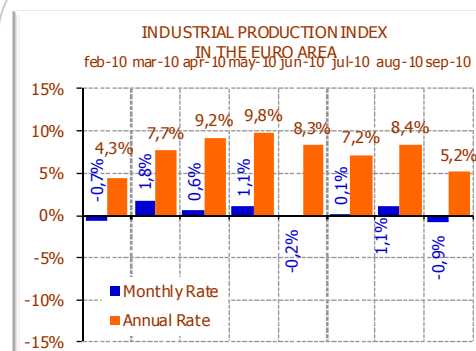
In our review of the euro area GDP growth rates, we see slight moderation for 2010 and an improvement for 2011.

The forecast average annual GDP growth rate in this year has gone from 1.8% to 1.7% and the expectations for 2011 have gone from 1.1% to 1.3%. The improvement expected for next year is largely due to industrial recovery up to the second half of the year.

With regards to the euro area labour market, the latest figures refer to the second quarter, when it remained stable for the second consecutive month. This represents a substantial improvement compared with the previous quarters of constant decline. On the other hand, hours worked in the second quarter started to grow after falling considerably in previous quarters, which could be a clear sign that creation of employment is not far away. The unemployment rate, after remaining at 10% for several months, rose by one tenth of a point in September, to 10.1% of the active population, only three tenths of a point more than a year earlier; however, the unemployment rate in the third quarter was the same as in the second, 10% of the active population. The perspectives show that the unemployment rate will continue to remain stable in the next few months.

*The unemployment rate, after remaining at 10% for several months, rose by one tenth of a point in September, to 10.1% of the active population.*

Graph II.1.2



Source: EUROSTAT & BIAM (UC3M)

Date: November 12, 2010

Table II.1.1

INDUSTRIAL PRODUCTION INDEX IN THE EURO AREA*					
Average year-on-year rates					
	2007	2008	2009	2010	2011
Consumer goods					
Durable	1,3	-5,7	-17,4	3,0	2,4
Non-durable	2,6	-1,5	-3,0	3,3	1,3
Capital	6,6	-0,2	-20,8	7,4	3,6
Intermediate	3,8	-3,4	-19,2	9,2	2,9
Energy	-0,9	0,4	-5,3	3,5	-0,1
Total	3,7	-1,8	-14,9	6,5	2,4
Annual growth of GVA industrial sector	3,2	-2,4	-13,1	5,6	3,7

Source: EUROSTAT & BIAM (UC3M)

Date: November 12, 2010



## GROSS DOMESTIC PRODUCT IN THE EURO AREA: DEMAND

GROSS DOMESTIC PRODUCT AND COMPONENTS IN THE EURO AREA										
Annual average and annual rates of growth										
		Final Consumption		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	2005	1,8	1,6	2,6	1,9	5,3	6,0	-0,1	1,8	
	2006	2,2	2,1	6,4	3,0	8,8	8,7	0,2	3,2	
	2007	1,7	2,3	5,3	2,6	6,3	5,8	0,3	2,8	
	2008	0,4	2,3	-1,8	0,3	0,7	0,6	0,1	0,4	
	2009	-1,0	2,4	-15,0	-3,4	-13,1	-11,8	-0,7	-4,0	
	2010	0,7	0,9	5,4	1,8	8,6	8,6	0,1	1.7 (±0.2)	
	2011	1,1	0,6	3,1	1,4	4,2	4,3	0,0	1.3 (±0.7)	
ANNUAL RATES*	2009	QI	-1,5	2,9	-15,2	-3,6	-16,1	-13,0	-1,5	-5,1
		QII	-1,1	2,5	-16,7	-3,8	-16,6	-14,4	-1,1	-4,9
		QIII	-1,2	2,6	-14,5	-3,4	-13,7	-12,3	-0,6	-4,0
		QIV	-0,4	1,7	-13,3	-2,9	-5,2	-7,1	0,8	-2,0
	2010	QI	0,3	1,2	0,2	0,4	5,6	4,8	0,3	0,7
		QII	0,4	1,2	7,6	2,2	11,6	12,0	-0,3	1,9
		QIII	1,1	0,4	5,8	2,0	9,0	8,3	0,2	2,2
		QIV	1,1	0,7	8,3	2,6	8,2	9,2	-0,6	2,0
	2011	QI	1,2	0,4	5,1	1,9	8,4	7,5	0,3	2,2
		QII	1,5	0,3	2,5	1,4	2,1	1,7	0,1	1,5
		QIII	1,1	0,8	2,9	1,4	3,4	4,8	-0,7	0,8
		QIV	0,4	0,9	1,9	0,8	3,1	3,2	0,0	0,8

GROSS DOMESTIC PRODUCT AND COMPONENTS IN THE EURO AREA										
Annual average and quarterly rates of growht										
		Final Consumption		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	2005	1,8	1,6	2,6	1,9	5,3	6,0	-0,1	1,8	
	2006	2,2	2,1	6,4	3,0	8,8	8,7	0,2	3,2	
	2007	1,7	2,3	5,3	2,6	6,3	5,8	0,3	2,8	
	2008	0,4	2,3	-1,8	0,3	0,7	0,6	0,1	0,4	
	2009	-1,0	2,4	-15,0	-3,4	-13,1	-11,8	-0,7	-4,0	
	2010	0,7	0,9	5,4	1,8	8,6	8,6	0,1	1.7 (±0.2)	
	2011	1,1	0,6	3,1	1,4	4,2	4,3	0,0	1.3 (±0.7)	
QUARTERLY RATES*	2009	QI	-0,5	0,8	-10,0	-2,4	-8,0	-7,5	-0,1	-2,5
		QII	0,0	0,5	-4,1	-0,8	-1,3	-2,8	0,6	-0,2
		QIII	-0,1	0,5	1,5	0,4	2,4	2,2	0,1	0,5
		QIV	0,2	-0,1	-1,1	-0,2	2,0	1,1	0,4	0,2
	2010	QI	0,2	0,2	4,1	1,1	2,5	4,3	-0,8	0,3
		QII	0,2	0,5	3,0	0,9	4,3	4,0	0,1	1,0
		QIII	0,5	-0,2	-0,3	0,2	0,0	-1,2	0,5	0,7
		QIV	0,2	0,1	1,2	0,4	1,2	2,0	-0,4	0,0
	2011	QI	0,3	0,0	1,1	0,4	2,7	2,7	0,1	0,5
		QII	0,4	0,4	0,4	0,4	-1,8	-1,7	-0,1	0,3
		QIII	0,2	0,3	0,1	0,2	1,3	1,9	-0,2	-0,1
		QIV	-0,5	0,2	0,3	-0,2	0,9	0,4	0,3	0,1

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 &amp; BIAM (UC3M)

Date: October 28, 2010





## GROSS DOMESTIC PRODUCT IN THE EURO AREA: SUPPLY

GROSS DOMESTIC PRODUCT AND COMPONENTS IN THE EURO AREA										
Annual average and annual rates of growht										
		GVA							Real GDP	
		Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services	TOTAL		
ANNUAL AVERAGE	2005	-6,3	1,6	1,7	2,1	2,8	1,3	1,7	1,8	
	2006	0,0	3,9	3,1	3,1	4,2	1,6	3,2	3,2	
	2007	0,9	3,2	2,3	3,6	4,0	1,8	3,1	2,8	
	2008	0,9	-2,4	-1,6	1,1	1,6	1,8	0,5	0,4	
	2009	2,3	-13,1	-5,8	-5,1	-1,5	1,1	-4,2	-4,0	
	2010	2,2	5,6	-3,0	1,5	1,1	0,7	1,7	1.7 (±0.2)	
	2011	-4,3	3,7	-0,7	1,8	1,2	0,3	1,5	1.3 (±0.7)	
ANNUAL RATES*	2009	QI	2,4	-16,3	-6,0	-6,2	-1,8	1,1	-5,2	-5,1
		QII	1,9	-16,3	-5,5	-5,7	-1,8	1,2	-5,0	-4,9
		QIII	2,4	-12,8	-6,0	-5,1	-1,6	1,0	-4,2	-4,0
		QIV	2,2	-6,6	-5,7	-3,3	-0,8	1,1	-2,3	-2,0
	2010	QI	1,5	3,7	-6,4	0,4	0,8	1,3	0,9	0,7
		QII	1,6	7,0	-4,5	1,2	1,2	1,2	1,9	1,9
		QIII	3,2	5,5	-1,5	1,5	0,6	0,2	1,6	2,2
		QIV	2,5	6,4	0,5	2,6	1,7	0,1	2,5	2,0
	2011	QI	-1,8	6,2	4,4	4,2	1,3	-0,4	2,6	2,2
		QII	-2,5	4,3	0,7	2,4	1,4	-0,1	1,8	1,5
		QIII	-7,0	3,5	-3,5	1,6	2,2	0,9	1,5	0,8
		QIV	-5,8	1,0	-4,3	-0,9	0,2	1,0	-0,1	0,8

GROSS DOMESTIC PRODUCT AND COMPONENTS IN THE EURO AREA										
Annual average and quarterly rates of growht										
		GVA							Real GDP	
		Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services	TOTAL		
ANNUAL AVERAGE	2005	-6,3	1,6	1,7	2,1	2,8	1,3	1,7	1,8	
	2006	0,0	3,9	3,1	3,1	4,2	1,6	3,2	3,2	
	2007	0,9	3,2	2,3	3,6	4,0	1,8	3,1	2,8	
	2008	0,9	-2,4	-1,6	1,1	1,6	1,8	0,5	0,4	
	2009	2,3	-13,1	-5,8	-5,1	-1,5	1,1	-4,2	-4,0	
	2010	2,2	5,6	-3,0	1,5	1,1	0,7	1,7	1.7 (±0.2)	
	2011	-4,3	3,7	-0,7	1,8	1,2	0,3	1,5	1.3 (±0.7)	
QUARTERLY RATES*	2009	QI	2,5	-8,2	-0,7	-3,4	-1,2	0,2	-2,6	-2,5
		QII	-0,4	-1,0	-1,7	-0,2	0,2	0,4	-0,2	-0,2
		QIII	0,2	2,1	-1,8	0,3	0,1	0,2	0,4	0,5
		QIV	-0,1	0,6	-1,7	0,1	0,1	0,3	0,1	0,2
	2010	QI	1,8	2,0	-1,4	0,3	0,5	0,4	0,6	0,3
		QII	-0,3	2,1	0,3	0,6	0,6	0,3	0,8	1,0
		QIII	1,7	0,7	1,3	0,6	-0,6	-0,8	0,1	0,7
		QIV	-0,7	1,4	0,3	1,1	1,2	0,2	0,9	0,0
	2011	QI	-2,5	1,7	2,5	1,8	0,1	-0,1	0,8	0,5
		QII	-1,0	0,3	-3,3	-1,1	0,7	0,7	0,0	0,3
		QIII	-2,9	0,0	-2,9	-0,3	0,2	0,2	-0,2	-0,1
		QIV	0,6	-1,0	-0,6	-1,3	-0,8	0,2	-0,7	0,1

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 &amp; BIAM (UC3M)

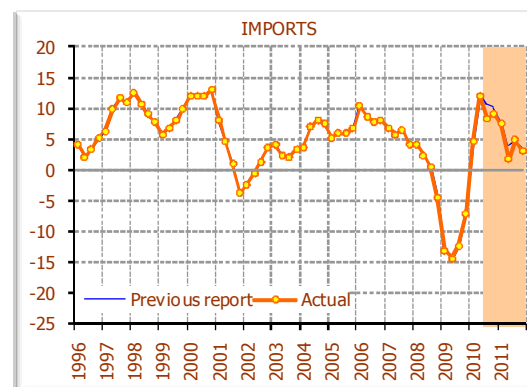
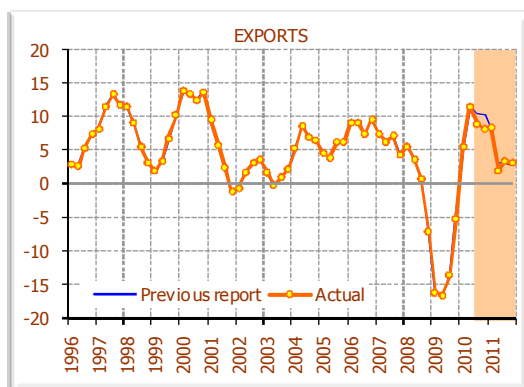
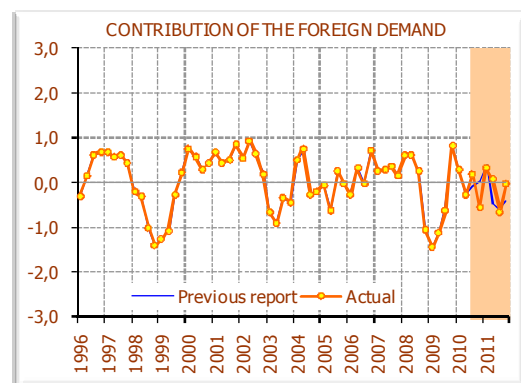
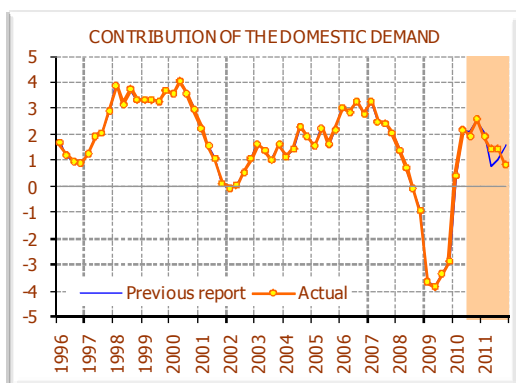
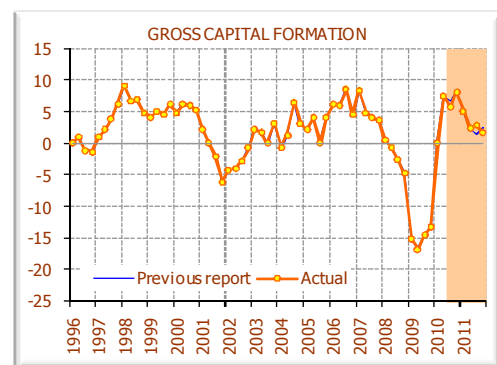
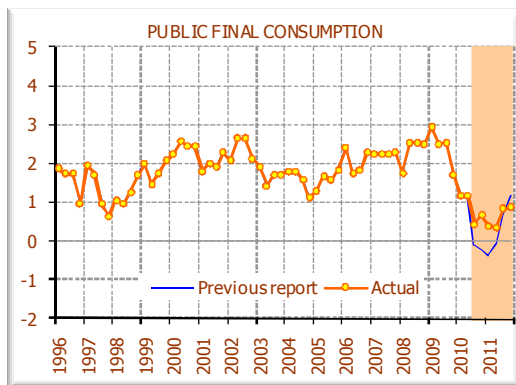
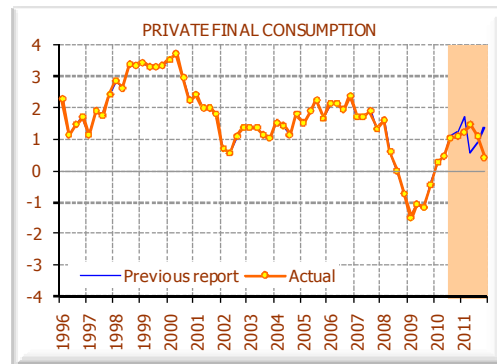
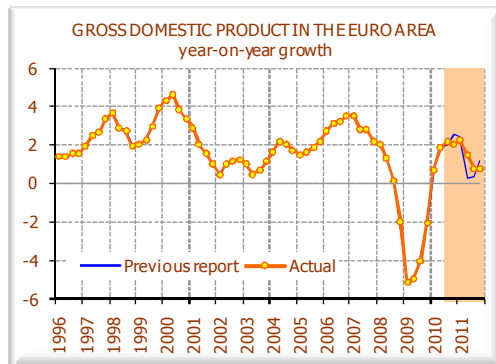
Date: October 28, 2010





## CHANGE IN FORECASTS AND DATA REVISION FOR THE COMPONENTS OF GROSS DOMESTIC PRODUCT DEMAND IN THE EURO AREA

### Year-on-year rates

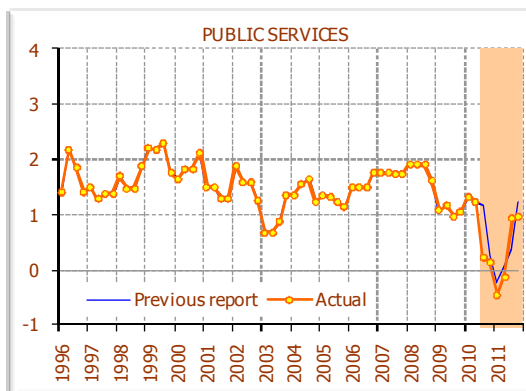
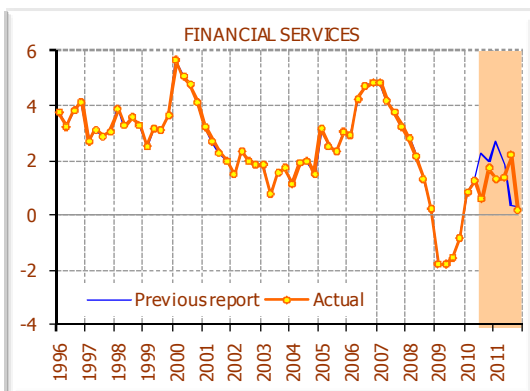
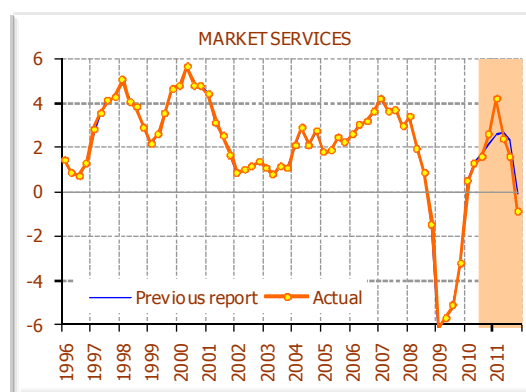
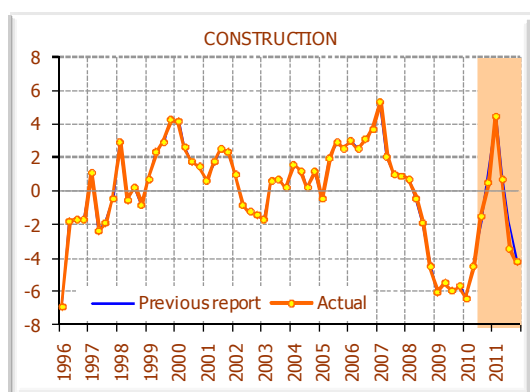
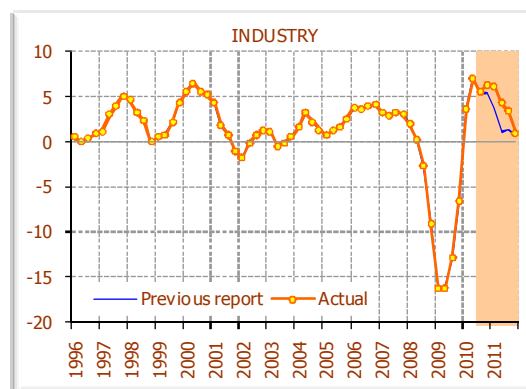
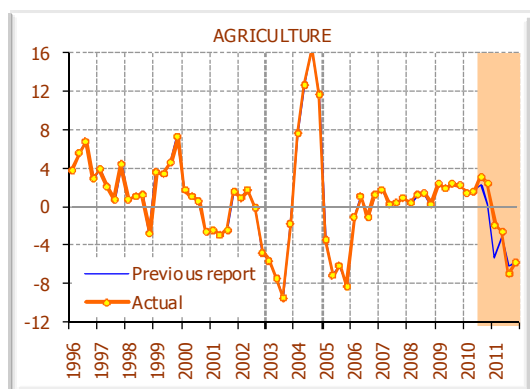


Source: EUROSTAT & BIAM (UC3M)  
Date actual report: October 28, 2010  
Date previous report: October 6, 2010



## CHANGE IN FORECASTS AND DATA REVISION FOR THE COMPONENTS OF GROSS DOMESTIC PRODUCT SUPPLY IN THE EURO AREA

Year-on-year rates



Source: EUROSTAT & BIAM (UC3M)  
 Date actual report: October 28, 2010  
 Date previous report: October 6, 2010



## INDUSTRIAL PRODUCTION INDEX IN THE EURO AREA

INDUSTRIAL PRODUCTION INDEX AND SECTORS IN THE EURO AREA*									
Annual rates of growth									
		Consumer Goods			Capital Goods	Intermediate Goods	Energy	TOTAL	
		Durable	Non Durable	Total					
ANNUAL AVERAGE RATES	2005	-0,8	1,2	0,9	2,5	0,6	1,5	1,4	
	2006	4,6	2,7	3,0	6,0	4,8	0,6	4,2	
	2007	1,3	2,6	2,4	6,6	3,8	-0,9	3,7	
	2008	-5,7	-1,5	-2,1	-0,2	-3,4	0,4	-1,8	
	2009	-17,4	-3,0	-5,0	-20,8	-19,2	-5,3	-14,9	
	2010	3,0	3,3	3,3	7,4	9,2	3,5	6,5	
	2011	2,4	1,3	1,5	3,6	2,9	-0,1	2,4	
ANNUAL RATES*	2009	QI	-19,7	-5,1	-7,2	-23,9	-25,4	-3,9	-18,3
		QII	-21,3	-3,2	-5,8	-24,1	-24,3	-8,8	-18,6
		QIII	-18,2	-2,2	-4,3	-20,8	-18,3	-5,5	-14,4
		QIV	-10,1	-1,5	-2,6	-13,8	-6,7	-3,6	-7,4
	2010	QI	0,0	3,6	3,2	2,6	8,0	3,1	4,7
		QII	4,9	3,5	3,7	9,0	13,9	5,4	9,1
		QIII	3,4	3,1	3,2	9,3	9,0	1,7	6,8
		QIV	3,8	2,9	3,0	8,8	6,0	-2,2	5,7
	2011	QI	3,4	3,0	3,1	6,8	0,8	1,2	1,5
		QII	2,2	1,7	1,8	3,4	0,0	-1,5	-4,4
		QIII	3,0	0,6	0,8	2,7	3,7	0,0	4,2
		QIV	1,3	0,0	0,2	1,7	7,3	5,8	-1,6

INDUSTRIAL PRODUCTION INDEX IN THE EURO AREA*							
year-on-year rates of growth							
	2005	2006	2007	2008	2009	2010	2011
January	1,2	3,2	4,1	3,8	-16,7	1,8	<b>3,3</b>
February	0,5	3,3	4,8	3,2	-19,0	4,2	<b>2,0</b>
March	0,6	4,2	4,7	1,4	-19,2	7,7	<b>3,0</b>
April	1,1	2,5	3,3	4,6	-21,3	9,2	<b>1,6</b>
May	0,1	6,3	3,4	-0,6	-17,8	9,8	<b>1,7</b>
June	0,9	4,8	3,2	-0,6	-16,8	8,3	<b>0,6</b>
July	0,7	4,0	4,1	-1,0	-15,8	7,2	<b>2,0</b>
August	2,1	6,4	4,5	-1,5	-15,0	8,4	<b>3,9</b>
September	1,8	4,1	3,3	-2,5	-12,7	5,2	<b>1,8</b>
October	1,1	4,2	4,8	-5,7	-11,1	<b>6,4</b>	<b>2,5</b>
November	3,6	3,3	3,1	-9,1	-6,9	<b>5,9</b>	<b>2,3</b>
December	2,9	5,1	1,5	-12,6	-3,6	<b>4,7</b>	<b>4,1</b>

Data adjusted for seasonality and working days effect

The figures in the shaded area are forecasts

\*Year-on-year rates

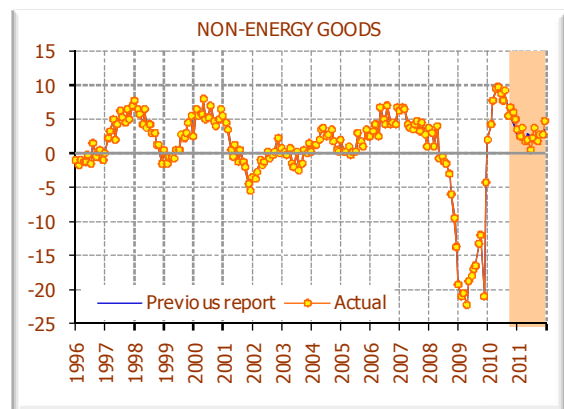
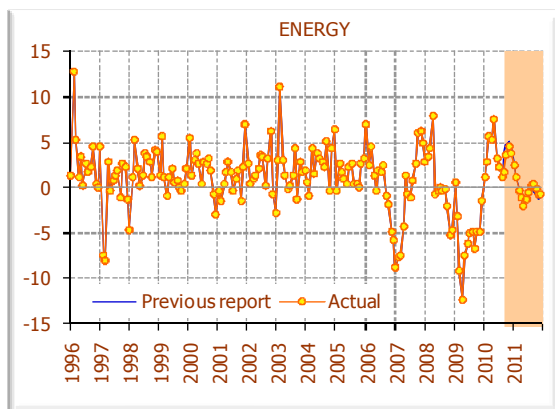
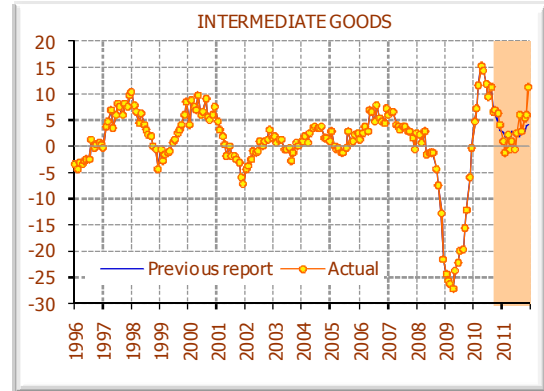
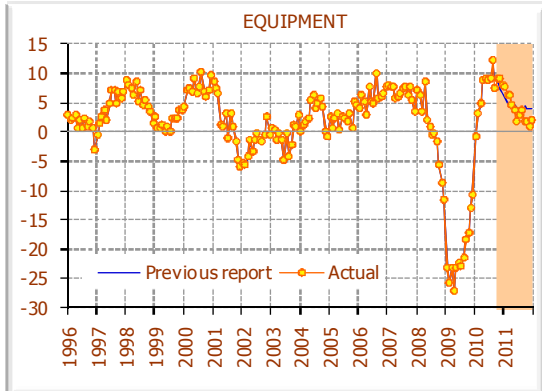
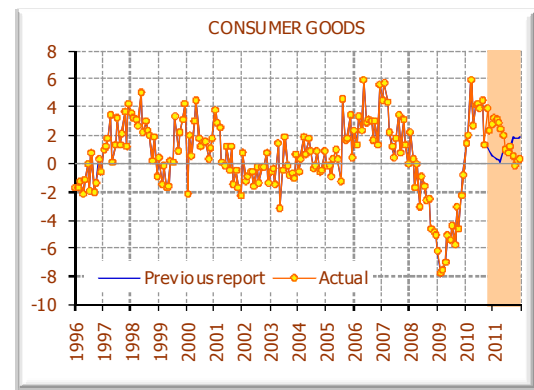
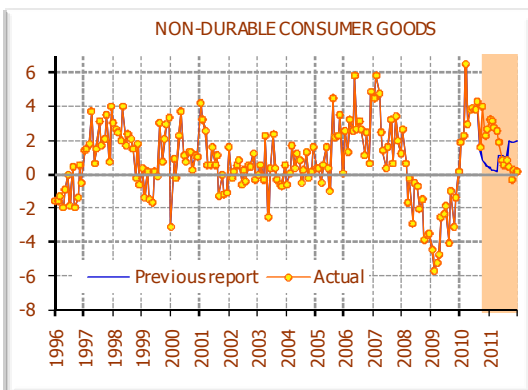
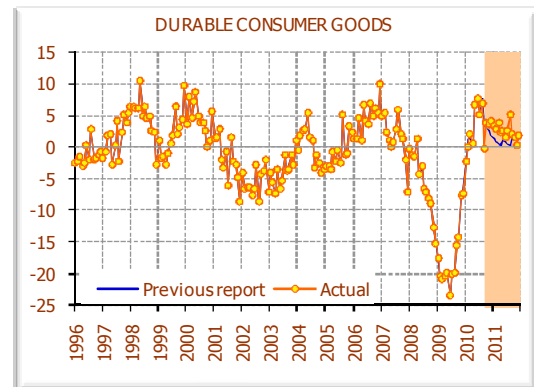
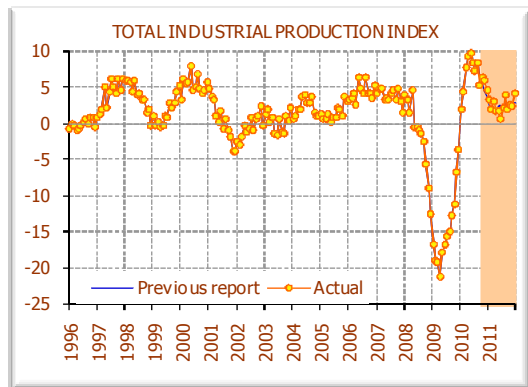
Source: EUROSTAT &amp; BIAM (UC3M)

Date: November 12, 2010



## CHANGE IN FORECASTS AND DATA REVISION FOR THE COMPONENTS OF INDUSTRIAL PRODUCTION INDEX DEMAND IN THE EURO AREA

### Year-on-year rates



Source: EUROSTAT & BIAM (UC3M)  
 Date actual report: November 12, 2010  
 Date previous report: October 13, 2010

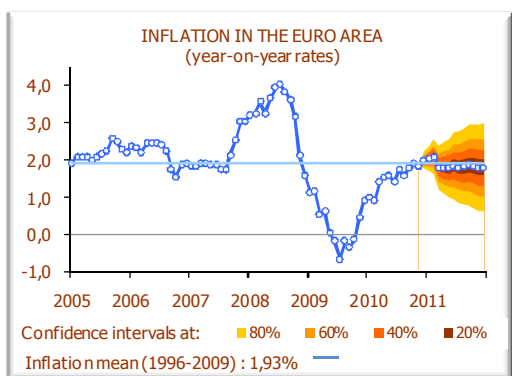


## II.2. INFLATION

The average annual inflation rate expected in the euro area for 2010 remains at 1.6% ( $\pm 0.03$ ). For 2011, the forecast has increased by one tenth of a point to 1.9% ( $\pm 0.78$ ). With regards to the last few months of this year, the estimated annual rate for December remains at 2.0%, while the forecast for November month has risen to 1.9%.

this year has been reduced to 0.2%, with prices growing around 1.4% in 2011, after an upwards revision of around six tenths of a percentage point. Last month's downwards revision has disappeared with the October figure.

Graph II.2.1



Source: EUROSTAT & BIAM(UC3M)  
Date: November 16, 2010

forecast at 1.0% ( $\pm 0.02$ ) and 1.5% ( $\pm 0.43$ ), respectively.

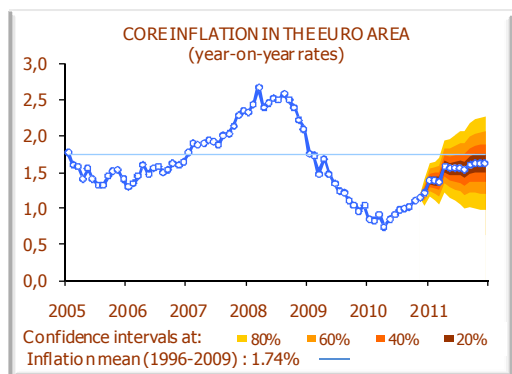
In general, the aggregate inflation forecasts remain stable and there are only significant changes in processed food and non-energy industrial goods. In both cases, there are upwards revisions that explain the rise in the average annual total and core inflation rates expected for next year.

*Inflation expectations for the euro area have risen slightly with the October figure. The inflation forecast for 2011 has risen by one tenth of a point to 1.9% ( $\pm 0.78$ ).*

Euro area prices remain stable and are gradually returning to an inflation rate of around 2.0%. The energy component continues to be decisive and its contribution to total inflation is significantly higher than average. At the same time, core inflation seems to be recovering slowly, with a rate of 1.1% in October, three tenths higher than in February and the highest in 2010.

The moderate rise in euro area inflation is compatible with some reactivation of economic activity as shown by GDP growth, but there are no signs of uncontrolled price rises. Indeed, non-energy inflation is clearly below the ECB's traditional target.

Graph II.2.2



Source: EUROSTAT & BIAM(UC3M)  
Date: November 16, 2010

Manufactured goods prices are expected to grow at an annual rate of 0.4% in 2010 and 1.0% in 2011. The second value is two tenths of a point higher than our previous forecasts.

With regards to processed food, the expected fall for

The annual inflation rate is expected to peak at 2.0% from December to January, subsequently starting to fall slowly. Total inflation will remain moderate due to a smaller effect of energy prices, but core inflation could consolidate its growth, reaching annual rates of close to 1.5% from the second half of 2011 on.

*With the new figures, core inflation expectations for 2010 remain at 1.0% ( $\pm 0.02$ ) and the forecast for 2011 has risen by one tenth of a point to 1.5% ( $\pm 0.43$ ).*



*The upwards revisions affect inflation in processed food and non-energy industrial goods. At the same time, residual inflation expectations have slightly decreased.*

Among the biggest countries of the euro area, only Spain has exceeded the 2.0% mark in the annual rate in October, with Germany significantly lower (1.0%). The rise in Spanish inflation, however, is largely due to the increase in indirect

taxes so it would be wrong to see this as an inflationist risk. The impact of tight fiscal policies on inflation is even clearer in Greece, the most inflationist in the euro area with an annual rate of 5.2% despite being affected by a deep and long-lasting recession.

In sum, a rise in the prices of non-energy industrial goods and processed food has slightly increased inflation expectations for 2011. The evolution of consumer prices remains stable and is compatible with moderate reactivation of euro area economies, with no significant inflationist risks in the short and medium terms. The total inflation forecast for 2011 has risen to 1.9%, while core inflation is expected to be 1.5%.

*In spite of a small increase, inflation expectations in the euro area remain stable. In the currency market, the problems in Ireland, Greece and Portugal are significantly weakening the single currency.*

Table II.2.1

INFLATION IN THE EURO AREA						
HICP	Annual rates <sup>1</sup> 2010		Annual average rates <sup>2</sup>			
	October	November	2008	2009	2010	2011
Core 82.6%	1,1	<b>1.2</b> <b>±0.13</b>	2,4	1,3	<b>1</b> <b>±0.02</b>	<b>1.5</b> <b>±0.43</b>
Total 100%	1,9	<b>1.9</b> <b>±0.11</b>	3,3	0,3	<b>1.6</b> <b>±0.03</b>	<b>1.9</b> <b>±0.78</b>

\* Intervals at 80% of confidence calculated with historical errors.

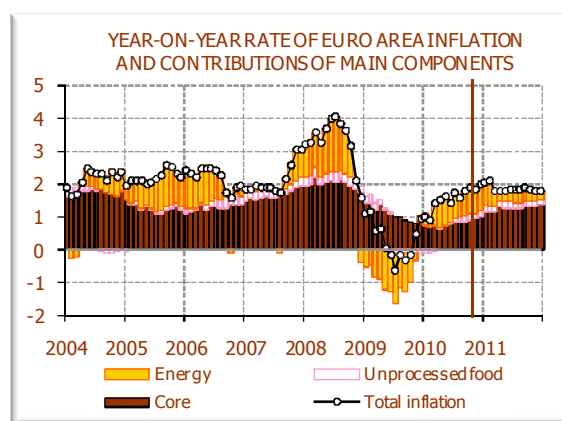
(1) Year-on-year rate anterior

(2) Yearly average rate

Source: EUROSTAT & BIAM(UC3M)

Date: November 16, 2010

Graph II.2.3



Source: EUROSTAT & BIAM(UC3M)

Date: November 16, 2010



Table II.2.2

GOODS AND SERVICES IN THE EURO AREA WITH NEGATIVE ANNUAL RATES IN HICP GROWTH																
Weights x 1000																
Special Group*	Weights 2010	Description	2010								2009				2008	
			October	September	August	July	June	May	April	March	February	January	QIV	QIII	QII	QI
PROCESSED FOOD 49.53	22,0	Milk, cheese and eggs				-0,4	-0,9	-1,5	-2,4	-2,5	-2,7	-2,8	-3,5	-3,8	-2,7	-1,0
	5,1	Oils and fats						-1,0	-1,3	-1,9	-2,2	-2,0	-3,8	-6,9	-4,2	-1,0
	25,9	Bread and cereals	-0,04	-0,3	-0,2	-0,4	-0,4	-0,4	-0,5	-0,5	-0,6	-0,7	-0,4			
	9,7	Sugar, jam, honey, chocolate and confectionery	-0,2	-0,3	-0,4	-0,4	-0,3	-0,3	-0,3	-0,2	-0,3	-0,3				
	9,3	Mineral waters, soft drinks, fruit and vegetable juices	-0,1	-0,8	-0,8	-0,9	-0,9	-0,6	-0,6	-0,5	-0,6	-0,2				
	4,6	Food products n.e.c.	-0,9	-0,7	-0,6	-0,8	-0,8	-0,6	-0,5	-0,2	0,0	-0,2				
	3,7	Coffee, tea and cocoa					-0,2	-0,4	-0,1	0,0	-0,1	-0,2	-0,1			
NON-ENERGY INDUSTRIAL GOODS 29.94	0,2	Clothing materials						0,0		0,0	-0,2	0,0	-1,7	-1,9	-2,0	-0,9
	49,7	Garments			-0,01					-0,3	-0,9	-0,6		-0,2		-0,4
	9,1	Major household appliances whether electric or not and small electric household appliances	-1,0	-0,9	-1,0	-1,0	-0,6	-0,6	-0,5	-0,3	-0,1	-0,1				-0,4
	38,9	Motor cars					-0,7	-0,7	-0,6	-0,8	-0,8	-1,2	-1,3	-1,0	-0,3	
	1,8	Telephone and telefax equipment	-10,6	-8,5	-1,3	-5,8	-8,3	-10,9	-8,4	-7,7	-7,4	-10,3	-8,6	-10,5	-11,9	-13,6
	4,7	Equipment for the reception, recording and reproduction of sound and pictures	-8,0	-8,0	-8,1	-8,3	-8,3	-8,7	-9,1	-9,4	-9,3	-10,3	-11,3	-12,9	-13,5	-13,4
	1,6	Photographic and cinematographic equipment and optical instruments	-10,7	-10,8	-10,9	-10,3	-10,6	-10,5	-10,5	-10,1	-10,1	-10,2	-10,7	-12,4	-14,2	-15,7
	4,9	Information processing equipment	-4,9	-3,8	-3,5	-3,9	-4,6	-5,2	-5,6	-5,4	-5,2	-6,1	-6,2	-8,4	-11,0	-13,0
	2,9	Recording media	-3,4	-3,0	-2,5	-2,7	-3,1	-3,6	-4,4	-3,2	-3,2	-3,7	-3,3	-3,7	-2,9	-3,6
	5,4	Games, toys and hobbies		-1,4	-1,0	-1,2	-0,7	-1,6	-1,1	-1,6	-1,8	-0,9	-1,4	-0,4	-0,2	-0,3
	6,5	Gardens, plants and flowers								0,0	0,0	0,0				-0,2
	6,0	Books							-0,1	0,0	0,0	0,0				-0,2
	12,3	Pharmaceutical products			-0,04	-0,1			-0,7	-0,3	-0,6	0,0				0,0
	5,1	Household textiles							-0,2	-0,4	-0,4	0,0				
	4,6	Other personal effects			-0,1					0,0	-0,8	-0,1				
SERVICES 50.04	3,1	Equipment for sport, camping and open	-0,1	-0,4	-0,7	-0,5	-0,5	-0,5	0,0	0,0	-0,1	-0,1				
	1,9	Carpets and other floor coverings	-0,1		-1,0	-0,6	-0,5	-0,4	-0,2	-0,4	-0,1					
	5,7	Passenger transport by air	-3,9	-1,3			-1,0	-0,2	0,0	-2,3	-2,6		-4,7	-5,1	-1,0	
	27,9	Telephone and telefax services	-1,1	-1,0	-0,9	-1,1	-1,1	-1,0	-0,5	-0,2	-0,6	-0,4	-0,2	0,0	-0,7	-1,1
	16,7	Accommodation services						-0,1	0,0	-0,5	0,0		-0,1	-0,4		
	15,7	Package holidays	-1,0	-1,6	-0,6	-1,4	-1,5	-2,2	-6,1	0,0	-1,7	-1,6				
	0,8	Passenger transport by sea and inland	-1,3	-1,7				-0,7	-1,1	-5,0	-3,2	-4,6				
	0,7	Other purchased transport services		-0,7	-0,8	-0,6	-1,8	-1,1	-1,1	-1,2	-1,3	-1,8	-1,3			
	0,0	Maintenance and repair of other major durables for recreation and culture						-0,1	-0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	10,8	Fish and seafood							0,0	-0,6	-0,6		-0,5	-0,7	-1,1	
	11,4	Fruits						-0,2	-1,3	-3,1	-3,3	-2,1	-2,8	-5,5	-0,5	
	14,7	Vegetables							0,0	-1,3	-2,5		-4,1	-2,9		
	36,1	Meat				-0,1	-0,1	-0,2	-0,6	-0,6	-0,7		-0,2			
	7,7	Liquid fuels							0,0	0,0	0,0		-12,4	-35,8	-37,6	-27,6
	42,8	Fuels and lubricants for personal transport equipment							0,0	0,0	0,0			-16,3	-18,5	-17,1
	15,5	Gas				-4,1	-5,2	-6,4	-14,9	-15,6	-16,3		-15,5	-9,1		
	5,2	Heat energy	-2,7	-4,6	-5,8	-7,5	-9,0	-10,2	-10,8	-11,2	-10,7	-10,0	-7,0			
			134,71	138,91	200,82	168,6	250,5	273,5	303,5	312,4	382,8	382,1	269,3	290,2	193,8	176,7
															106,2	71,4
																65,0

\* With the sum of the weights of the sub-groups with negative YoY price variations in the last month.

In shaded area the items with negative year-on-year inflation since January, 2009.

Source: EUROSTAT &amp; BIAM(UC3M)

Date: November 16, 2010





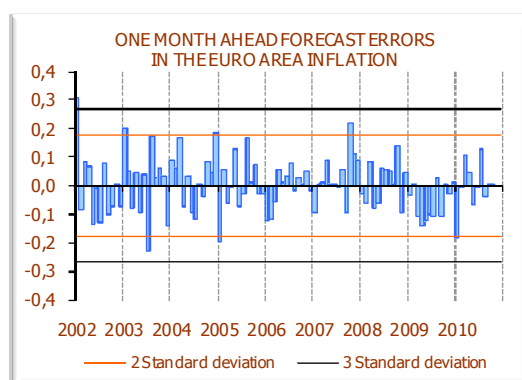
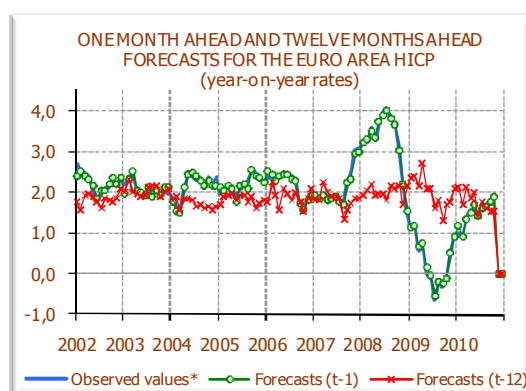
## FORECASTS ERRORS BY SECTORS, COUNTRIES IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK

INFLATION IN THE EURO AREA Annual rates, October, 2010				
Harmonized Index of Consumer Prices HICP	Weights 2010	Observed	Forecasts	Confidence Intervals*
Processed Food	118,64	1,22	1,11	± 0.38
Tobacco	23,77	4,92	4,96	
Processed food excluding tobacco	94,87	0,30	0,16	
Non-energy Industrial goods	292,76	0,72	0,61	± 0.21
Services	419,55	1,34	1,36	± 0.14
<b>CORE</b>	<b>830,95</b>	<b>1,10</b>	<b>1,05</b>	± 0.13
Non-processed food	72,93	2,41	2,60	± 0.72
Energy	96,12	8,54	8,75	± 0.86
<b>RESIDUAL</b>	<b>169,05</b>	<b>5,89</b>	<b>6,10</b>	± 0.57
<b>TOTAL</b>	<b>1000</b>	<b>1,91</b>	<b>1,90</b>	± 0.12

Inflation expectations for the euro area have risen slightly with the October figure. The inflation forecast for 2011 has risen by one tenth of a point to 1.9%(±0.78).

With the new figures, core inflation expectations for 2010 remain at 1.0% (±0.02) and the forecast for 2011 has risen by one tenth of a point to 1.5% (±0.43).

HARMONIZED INDICES OF CONSUMER PRICES BY COUNTRIES IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK Annual rates, October, 2010				
	Weights 2010 Euro area	Observed Monthly Rate	Forecast	Confidence Intervals at 80%
Germany	262,06	1,3	<b>1,3</b>	± 0.29
France	207,61	1,8	<b>1,9</b>	± 0.20
Italy	182,32	2,0	<b>2,0</b>	± 0.23
Spain	126,43	2,3	<b>2,3</b>	± 0.15
Netherlands	50,76	1,4	<b>1,2</b>	± 0.33
Belgium	32,47	3,1	<b>3,0</b>	± 0.32
Austria	30,40	1,9	<b>1,7</b>	± 0.37
Greece	36,33	5,2	<b>5,4</b>	± 0.78
Portugal	22,18	2,3	<b>1,9</b>	± 0.66
Finland	17,25	2,3	<b>1,9</b>	± 0.37
Ireland	14,71	-0,8	<b>-1,1</b>	± 0.30
Slovakia	7,22	1,0	<b>1,1</b>	± 0.24
Slovenia	3,90	2,1	<b>1,6</b>	
Luxembourg	2,76	2,9	<b>2,8</b>	
Cyprus	2,79	3,2	<b>3,5</b>	± 0.32
Malta	0,81	2,2	<b>2,9</b>	
United Kingdom		3,1	<b>3,0</b>	± 0.33
Sweden		1,6	<b>1,3</b>	± 0.50
Denmark		2,4	<b>2,6</b>	± 0.27



Source: EUROSTAT & BIAM(UC3M)  
Date: November 16, 2010



HARMONIZED INDEX OF CONSUMER PRICES AND COMPONENTS IN THE EURO AREA													
Annual rates of growth													
		HICP											
		Core				TOTAL80 % Confidence Intervals*		Residual		TOTAL80 % Confidence Intervals*			
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services			Non processed food	Energy			TOTAL	
Weights 2010		9,6%	2,3%	29,7%	41,4%	83,0%		7,5%	9,6%	17,0%	100%		
ANNUAL AVERAGE RATE	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	6,8	3,2	0,8	2,6	2,4		3,5	10,3	7,3	3,3		
	2009	0,2	4,7	0,6	2,0	1,3		0,2	-8,1	-4,5	0,3		
	2010	-0,2	5,4	0,4	1,4	1,0	± 0,02	1,1	7,1	4,5	1,6	± 0,03	
2011	1,4	6,0	1,0	1,7	1,5	± 0,43	2,2	4,3	3,4	1,9	± 0,78		
ANNUAL RATES (year-on-year rates)	2009	January	2,7	2,8	0,5	2,4	1,8		2,6	-5,3	-1,8	1,1	
		February	1,7	2,9	0,7	2,4	1,7		3,3	-4,9	-1,3	1,2	
		March	1,2	3,2	0,8	1,9	1,5		2,4	-8,1	-3,6	0,6	
		April	0,7	3,4	0,8	2,5	1,7		1,6	-8,8	-4,4	0,6	
		May	0,4	3,5	0,8	2,1	1,5		0,7	-11,6	-6,4	0,0	
		June	0,0	5,4	0,6	2,0	1,3		0,0	-11,7	-6,8	-0,1	
		July	-0,3	5,6	0,5	1,9	1,2		-1,1	-14,4	-8,9	-0,6	
		August	-0,6	5,8	0,6	1,8	1,2		-1,2	-10,2	-6,4	-0,2	
		September	-0,7	5,7	0,5	1,8	1,1		-1,3	-11,0	-6,9	-0,3	
		October	-0,9	5,8	0,3	1,8	1,0		-1,6	-8,5	-5,5	-0,1	
		November	-0,8	6,0	0,2	1,6	1,0		-1,3	-2,4	-1,8	0,5	
		December	-0,7	6,6	0,4	1,6	1,0		-1,6	1,8	0,4	0,9	
	2010	January	-0,8	6,5	0,1	1,4	0,9		-1,3	4,0	1,7	1,0	
		February	-0,8	6,3	0,1	1,3	0,8		-1,2	3,3	1,3	0,9	
		March	-0,7	5,9	0,1	1,6	0,9		-0,1	7,2	4,0	1,4	
		April	-0,7	6,2	0,2	1,2	0,8		0,7	9,1	5,4	1,5	
		May	-0,5	6,6	0,3	1,3	0,9		0,4	9,2	5,3	1,6	
		June	-0,3	5,4	0,4	1,3	0,9		0,9	6,2	3,9	1,4	
		July	-0,1	4,7	0,5	1,4	1,0		1,9	8,1	5,4	1,7	
		August	0,0	4,7	0,4	1,4	1,0		2,4	6,1	4,5	1,6	
		September	0,1	4,6	0,6	1,4	1,0		2,5	7,7	5,5	1,8	
		October	0,3	4,9	0,7	1,3	1,1		2,4	8,5	5,9	1,9	
		November	0,4	4,6	0,8	1,4	1,2	± 0,13	2,2	7,6	5,3	1,9	± 0,11
		December	0,6	4,8	0,8	1,4	1,2	± 0,18	2,6	8,4	5,9	2,0	± 0,23
	2011	January	0,9	5,5	1,0	1,5	1,4	± 0,23	2,6	7,2	5,3	2,0	± 0,34
		February	1,1	5,6	0,8	1,6	1,4	± 0,27	2,6	7,8	5,6	2,1	± 0,47
		March	1,3	6,5	0,9	1,4	1,4	± 0,32	2,1	5,2	3,9	1,8	± 0,59
		April	1,5	6,3	1,0	1,8	1,6	± 0,36	1,9	3,4	2,8	1,8	± 0,70
		May	1,6	5,9	1,0	1,7	1,5	± 0,41	2,7	3,1	2,9	1,8	± 0,79
		June	1,5	5,5	1,0	1,7	1,6	± 0,45	2,6	3,8	3,3	1,8	± 0,88
		July	1,5	5,7	1,0	1,7	1,6	± 0,51	2,1	3,8	3,1	1,8	± 0,96
		August	1,5	5,8	1,0	1,7	1,5	± 0,54	1,9	4,2	3,2	1,8	± 1,02
		September	1,6	6,2	1,1	1,7	1,6	± 0,59	1,9	4,1	3,2	1,9	± 1,08
		October	1,6	6,3	1,1	1,7	1,6	± 0,62	2,1	3,5	2,9	1,8	± 1,13
		November	1,6	6,4	1,1	1,7	1,6	± 0,64	2,1	3,1	2,7	1,8	± 1,17
		December	1,6	6,5	1,1	1,7	1,6	± 0,65	2,1	3,1	2,7	1,8	± 1,18

\* Confidence intervals calculated with historical errors

The figures in the shaded area are forecasts

Source: EUROSTAT & BIAM(UC3M)

Date: November 16, 2010



HARMONIZED INDEX OF CONSUMER PRICES AND COMPONENTS IN THE EURO AREA											
Monthly rates of growth											
			Harmonized Index of Consumer Prices								
			Core				TOTAL	Residual		TOTAL	TOTAL
			Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services		Non processed food	Energy		
Weights 2010			9,6%	2,3%	29,7%	41,4%	83,0%	7,5%	9,6%	17,0%	100%
MONTHLY RATES (Growth of the month over the previous month)	January	2008	1,0	0,9	-2,3	-0,2	-0,8	1,2	1,6	1,4	-0,4
		2009	0,2	0,4	-2,6	-0,4	-1,1	1,0	0,0	0,4	-0,8
		2010	0,0	0,4	-2,9	-0,5	-1,3	1,3	2,1	1,7	-0,8
		2011	0,3	1,0	-2,7	-0,4	-1,1	1,3	1,0	1,1	-0,7
	February	2008	0,9	0,3	0,3	0,5	0,5	-0,6	0,1	-0,2	0,3
		2009	-0,1	0,5	0,5	0,5	0,4	0,0	0,5	0,3	0,4
		2010	0,0	0,2	0,5	0,4	0,4	0,1	-0,1	0,0	0,3
		2011	0,2	0,4	0,4	0,4	0,4	0,2	0,4	0,3	0,4
	March	2008	0,4	0,2	1,7	0,4	0,9	0,5	2,3	1,5	1,0
		2009	-0,1	0,5	1,8	-0,1	0,6	-0,3	-1,2	-0,8	0,4
		2010	0,0	0,1	1,8	0,2	0,7	0,7	2,6	1,8	0,9
		2011	0,1	0,9	1,9	0,0	0,7	0,2	0,0	0,1	0,6
	April	2008	0,4	0,2	0,6	-0,2	0,2	0,7	1,0	0,9	0,3
		2009	-0,1	0,4	0,6	0,4	0,4	-0,1	0,2	0,1	0,4
		2010	-0,1	0,7	0,7	0,0	0,2	0,8	2,0	1,5	0,5
		2011	0,1	0,5	0,8	0,3	0,5	0,6	0,3	0,4	0,4
	May	2008	0,1	0,1	0,1	0,4	0,2	0,9	3,6	2,4	0,6
		2009	-0,2	0,2	0,0	0,0	0,0	0,0	0,4	0,2	0,1
		2010	0,0	0,6	0,1	0,1	0,1	-0,3	0,6	0,2	0,1
		2011	0,1	0,3	0,1	0,1	0,1	0,5	0,2	0,3	0,1
	June	2008	0,2	0,1	-0,2	0,3	0,1	0,2	2,6	1,6	0,4
		2009	-0,2	2,0	-0,3	0,1	0,0	-0,5	2,5	1,2	0,2
		2010	0,1	0,9	-0,2	0,2	0,1	0,0	-0,4	-0,2	0,0
		2011	0,1	0,5	-0,2	0,2	0,1	-0,1	0,3	0,1	0,1
	July	2008	0,3	0,5	-2,4	0,9	-0,4	-0,1	1,3	0,7	-0,2
		2009	-0,1	0,7	-2,5	0,8	-0,5	-1,2	-1,8	-1,5	-0,7
		2010	0,1	0,1	-2,4	0,9	-0,4	-0,2	0,0	0,0	-0,3
		2011	0,1	0,3	-2,4	0,8	-0,4	-0,7	0,1	-0,2	-0,4
	August	2008	0,3	0,1	0,4	0,3	0,3	-1,0	-3,0	-2,2	-0,1
		2009	0,0	0,2	0,5	0,2	0,3	-1,1	1,8	0,5	0,3
		2010	0,2	0,1	0,5	0,3	0,3	-0,7	-0,1	-0,4	0,2
		2011	0,1	0,2	0,4	0,3	0,3	-0,9	0,2	-0,2	0,2
	September	2008	0,1	0,1	1,7	-0,7	0,3	0,1	-0,4	-0,2	0,2
		2009	-0,1	0,0	1,5	-0,7	0,2	0,1	-1,2	-0,7	0,0
		2010	0,0	-0,1	1,7	-0,8	0,2	0,2	0,3	0,2	0,2
		2011	0,1	0,4	1,7	-0,7	0,3	0,2	0,2	0,2	0,2
	October	2008	0,2	0,0	0,9	0,1	0,4	0,4	-2,9	-1,5	0,0
		2009	0,0	0,1	0,7	0,1	0,3	0,1	-0,2	-0,1	0,2
		2010	0,1	0,4	0,9	0,0	0,4	0,0	0,6	0,3	0,4
		2011	0,1	0,5	0,9	0,0	0,4	0,2	0,0	0,1	0,3
	November	2008	-0,1	0,5	0,2	-0,1	0,0	0,0	-4,9	-2,8	-0,5
		2009	0,0	0,8	0,1	-0,2	0,0	0,3	1,4	0,9	0,1
		2010	0,1	0,5	0,2	-0,2	0,0	0,1	0,5	0,3	0,1
		2011	0,1	0,6	0,2	-0,2	0,0	0,2	0,1	0,1	0,0
	December	2008	-0,1	0,1	-0,2	0,8	0,3	0,5	-4,7	-2,4	-0,1
		2009	-0,1	0,7	0,0	0,8	0,4	0,2	-0,5	-0,2	0,3
		2010	0,1	0,8	0,1	0,8	0,5	0,5	0,2	0,3	0,5
		2011	0,1	0,9	0,1	0,8	0,5	0,6	0,1	0,3	0,5

\*The figures in the shaded area are forecasts

Source: EUROSTAT & BIAM(UC3M)

Date: November 16, 2010



HARMONIZED INDICES OF CONSUMER PRICES BY COUNTRIES IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK																							
Annual rates of growth																							
		Euro Area																United Kingdom		Sweden		Denmark	
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovakia	Slovenia	Luxembourg	Cyprus	Malta						
Weights 2010 %		26,2	20,8	18,2	12,6	5,1	3,2	3,0	3,6	2,2	1,7	1,5	0,7	0,4	0,3	0,3	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	12,2	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	7,2	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	3,5	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	8,4	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	7,5	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	2,8	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	4,3	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	1,9	3,8	2,7	2,2	0,7	2,3	1,7	1,7			
	2008	2,8	3,2	3,5	4,1	2,2	4,5	3,2	4,2	2,7	3,9	3,1	3,9	5,5	4,1	4,4	4,7	3,6	3,3	3,6			
	2009	0,2	0,1	0,8	-0,2	1,0	0,0	0,4	1,3	-0,9	1,6	-1,7	0,9	0,9	0,0	0,2	1,8	2,2	1,9	1,1			
	2010	1,1	1,7	1,7	1,7	0,9	2,2	1,6	4,7	1,3	1,6	-1,6	0,7	2,1	2,7	2,6	1,8	3,2	1,8	2,2			
2011	1,4	1,7	2,5	1,6	1,6	2,1	1,4	3,9	1,8	2,1	-1,3	1,4	2,4	1,6	1,4	1,6	2,4	1,6	2,0				
ANNUAL RATES OF GROWTH	2009	January	0,9	0,8	1,4	0,8	1,7	2,1	1,2	2,0	0,1	2,5	1,1	2,7	1,4	0,0	0,9	3,1	3,0	2,0	1,7		
		February	1,0	1,0	1,5	0,7	1,9	1,9	1,4	1,8	0,1	2,7	0,1	2,4	2,1	0,7	0,6	3,5	3,1	2,2	1,7		
		March	0,4	0,4	1,1	-0,1	1,8	0,6	0,6	1,5	-0,6	2,0	-0,7	1,8	1,6	-0,3	0,9	3,9	2,9	1,9	1,6		
		April	0,8	0,1	1,2	-0,2	1,8	0,7	0,5	1,1	-0,6	2,1	-0,7	1,4	1,1	-0,3	0,6	4,0	2,3	1,8	1,1		
		May	0,0	-0,3	0,8	-0,9	1,5	-0,2	0,1	0,7	-1,2	1,5	-1,7	1,1	0,5	-0,9	0,5	3,4	2,2	1,7	1,1		
		June	0,0	-0,6	0,6	-1,0	1,4	-1,0	-0,3	0,7	-1,6	1,6	-2,2	0,7	0,2	-1,0	0,1	2,8	1,8	1,6	0,9		
		July	-0,7	-0,8	-0,1	-1,3	-0,1	-1,7	-0,4	0,7	-1,4	1,2	-2,6	0,6	-0,6	-1,5	-0,8	0,8	1,7	1,8	0,7		
		August	-0,1	-0,2	0,1	-0,7	-0,1	-0,7	0,1	1,0	-1,2	1,3	-2,4	0,5	0,1	-0,2	-0,9	1,0	1,6	1,9	0,7		
		September	-0,5	-0,4	0,4	-0,9	0,0	-1,0	0,0	0,7	-1,8	1,1	-3,0	0,0	0,0	-0,4	-1,2	0,8	1,1	1,4	0,5		
		October	-0,1	-0,2	0,3	-0,6	0,4	-0,9	0,1	1,2	-1,6	0,6	-2,8	-0,1	0,2	-0,2	-1,0	-0,5	1,5	1,8	0,6		
		November	0,3	0,5	0,8	0,4	0,7	0,0	0,6	2,1	-0,8	1,3	-2,8	0,0	1,8	1,7	1,0	-0,1	1,9	2,4	0,9		
		December	0,8	1,0	1,1	0,9	0,7	0,3	1,1	2,6	-0,1	1,8	-2,6	0,0	2,1	2,5	1,6	-0,4	2,9	2,8	1,2		
	2010	January	0,8	1,2	1,3	1,1	0,4	0,8	1,2	2,3	0,1	1,6	-2,4	-0,2	1,8	3,0	2,5	1,2	3,5	2,7	1,9		
		February	0,5	1,4	1,1	0,9	0,3	0,8	0,9	2,9	0,2	1,3	-2,4	-0,2	1,6	2,3	2,8	0,7	3,0	2,8	1,8		
		March	1,2	1,7	1,4	1,5	0,7	1,9	1,8	3,9	0,6	1,5	-2,4	0,3	1,8	3,2	2,3	0,6	3,4	2,5	2,1		
		April	1,0	1,9	1,6	1,6	0,6	2,1	1,8	4,7	0,7	1,6	-2,5	0,7	2,7	3,1	2,5	0,8	3,7	2,1	2,4		
		May	1,2	1,9	1,6	1,8	0,4	2,5	1,7	5,3	1,1	1,4	-1,9	0,7	2,4	3,1	1,8	1,8	3,3	1,9	1,9		
		June	0,8	1,7	1,5	1,5	0,2	2,7	1,8	5,2	1,1	1,3	-2,0	0,7	2,1	2,3	2,1	1,8	3,2	1,6	1,7		
		July	1,2	1,9	1,8	1,9	1,3	2,4	1,7	5,5	1,9	1,3	-1,2	0,9	2,3	2,9	2,7	2,5	3,1	1,4	2,1		
		August	1,0	1,6	1,8	1,8	1,2	2,4	1,6	5,6	2,0	1,3	-1,2	1,1	2,4	2,5	3,4	3,0	3,1	1,1	2,3		
		September	1,3	1,8	1,6	2,1	1,4	2,9	1,7	5,7	2,0	1,4	-1,0	1,1	2,1	2,6	3,6	2,4	3,0	1,5	2,5		
		October	1,3	1,8	2,0	2,3	1,4	3,1	1,9	5,2	2,3	2,3	-0,8	1,0	2,1	2,9	3,2	2,2	3,1	1,6	2,4		
		November	1,3	1,7	2,2	2,2	1,3	2,7	1,7	4,9	2,1	2,0	-0,7	0,9	1,9	2,2	2,0	2,0	3,0	1,3	2,4		
		December	1,5	1,8	2,4	2,3	1,5	2,6	1,6	4,7	2,0	1,9	-0,8	1,0	2,0	2,1	1,8	2,2	2,7	1,1	2,5		
	2011	January	1,4	1,9	2,7	2,1	1,7	2,2	1,5	4,9	2,2	1,9	-0,8	1,1	2,3	2,0	1,5	1,7	2,3	1,1	2,1		
		February	1,6	1,7	2,8	2,2	1,7	2,4	1,7	4,7	2,1	2,1	-0,9	1,2	2,3	2,2	1,5	1,9	2,4	1,1	2,0		
		March	1,1	1,5	2,5	2,0	1,5	2,1	1,3	4,2	1,9	2,0	-0,9	1,2	2,2	1,6	1,8	1,8	2,3	1,3	1,8		
		April	1,1	1,5	2,5	1,9	1,5	2,1	1,3	3,9	2,0	2,0	-0,8	1,2	1,9	1,4	1,5	1,8	2,2	1,4	1,9		
		May	1,1	1,6	2,5	1,9	1,7	2,0	1,3	3,7	2,0	2,2	-1,1	1,3	2,2	1,3	1,7	1,4	2,4	1,6	2,2		
		June	1,3	1,7	2,5	1,8	1,8	2,1	1,3	3,7	2,0	2,2	-1,1	1,4	2,3	1,5	1,5	1,5	2,4	1,7	2,3		
		July	1,4	1,7	2,5	1,4	1,7	2,4	1,3	3,6	1,5	2,4	-1,4	1,4	2,6	1,2	1,1	1,3	2,5	1,8	2,1		
		August	1,4	1,7	2,5	1,3	1,7	2,2	1,4	3,6	1,5	2,2	-1,5	1,5	2,4	1,4	0,8	1,0	2,4	1,9	1,7		
		September	1,5	1,8	2,6	1,3	1,6	2,0	1,3	3,6	1,7	2,3	-1,6	1,6	2,7	1,5	0,8	1,4	2,6	1,7	1,8		
		October	1,5	1,8	2,6	1,1	1,6	2,0	1,3	3,7	1,5	1,9	-1,7	1,7	2,7	1,5	0,9	1,7	2,5	1,7	2,0		
		November	1,5	1,8	2,3	1,0	1,6	2,0	1,4	3,9	1,5	1,9	-1,8	1,7	2,5	1,9	1,6	1,7	2,5	1,8	2,0		
		December	1,6	1,8	2,3	1,0	1,6	2,1	1,5	4,0	1,5	1,9	-1,7	1,8	2,6	2,1	1,6	1,7	2,5	1,9	2,0		

\* The figures in the shaded area are forecasts

Source: EUROSTAT &amp; BIAM(UC3M)

Date: November 16, 2010



HARMONIZED INDICES OF CONSUMER PRICES BY COUNTRIES IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK																							
Monthly rates of growth																							
			Euro Area															United Kingdom		Sweden		Denmark	
			Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovakia	Slovenia	Luxembourg	Cyprus						
Weights 2010 %			26,2	20,8	18,2	12,6	5,1	3,2	3,0	3,6	2,2	1,7	1,5	0,7	0,4	0,3	0,3	0,1					
MONTHLY RATES (Growth of the month over the previous month)	January	2008	-0,4	0,0	-0,8	-0,6	0,0	-1,3	-0,3	-0,3	-0,1	1,2	-0,7	1,2	0,1	-0,4	-1,4	-0,4	-0,7	0,0	0,3		
		2009	-0,6	-0,4	-1,7	-1,3	0,0	-1,9	-0,6	-0,5	-0,9	0,3	-0,8	0,3	-0,3	-1,1	-2,3	-2,2	-0,7	-0,1	-0,4		
		2010	-0,6	-0,2	-1,5	-1,0	-0,3	-1,4	-0,4	-0,8	-0,6	0,1	-0,7	0,1	-0,6	-0,6	-1,4	-0,5	-0,2	-0,2	0,3		
		2011	-0,8	-0,2	-1,2	-1,2	0,0	-1,8	-0,4	-0,6	-0,4	0,1	-0,7	0,2	-0,3	-0,8	-1,8	-1,0	-0,5	-0,1	0,0		
	February	2008	0,6	0,2	0,1	0,1	0,9	2,5	0,3	-1,0	0,0	0,5	1,2	0,3	-0,1	1,0	0,3	0,4	0,8	0,4	1,0		
		2009	0,7	0,4	0,2	0,0	1,0	2,3	0,5	-1,1	0,0	0,7	0,2	0,0	0,6	1,8	0,0	0,8	0,8	0,6	1,0		
		2010	0,4	0,6	0,0	-0,2	0,9	2,3	0,2	-0,6	0,0	0,4	0,2	0,0	0,3	1,1	0,3	0,3	0,4	0,6	0,9		
		2011	0,5	0,5	0,0	-0,2	0,9	2,6	0,4	-0,8	0,0	0,6	0,2	0,1	0,3	1,3	0,3	0,5	0,5	0,6	0,7		
	March	2008	0,5	0,8	1,6	0,9	1,2	0,7	0,9	2,3	1,5	1,0	0,9	0,3	1,3	0,9	1,1	1,1	0,4	0,9	0,5		
		2009	-0,2	0,2	1,2	0,2	1,2	-0,6	0,2	2,0	0,8	0,4	0,1	-0,3	0,8	-0,1	1,4	1,5	0,2	0,5	0,4		
		2010	0,6	0,5	1,5	0,7	1,5	0,5	1,0	3,1	1,2	0,6	0,1	0,1	1,0	0,7	0,9	1,4	0,5	0,3	0,7		
		2011	0,1	0,3	1,3	0,6	1,2	0,3	0,6	2,6	0,9	0,5	0,1	0,2	1,0	0,1	1,2	1,3	0,4	0,4	0,6		
	April	2008	-0,3	0,4	0,6	1,1	0,4	0,2	0,3	0,8	0,3	0,2	0,1	0,3	0,7	0,5	1,2	2,3	0,8	0,4	0,4		
		2009	0,1	0,1	0,6	1,0	0,3	0,3	0,2	0,4	0,4	0,2	0,1	-0,1	0,2	0,5	0,9	2,3	0,3	0,3	-0,1		
		2010	-0,1	0,3	0,9	1,1	0,3	0,5	0,2	1,2	0,4	0,3	0,0	0,4	1,1	0,4	1,1	2,6	0,6	-0,1	0,2		
		2011	-0,1	0,3	0,9	0,9	0,4	0,4	0,2	1,0	0,6	0,3	0,1	0,3	0,8	0,3	0,9	2,6	0,5	0,1	0,3		
	May	2008	0,7	0,6	0,6	0,7	0,4	0,9	0,5	0,7	0,5	0,5	0,6	0,4	1,2	1,0	0,8	0,7	0,7	0,4	0,4		
		2009	-0,1	0,1	0,2	0,0	0,1	-0,1	0,1	0,2	-0,2	-0,1	-0,4	0,1	0,6	0,3	0,7	0,2	0,5	0,3	0,4		
		2010	0,1	0,1	0,1	0,2	-0,1	0,4	-0,1	0,8	0,2	-0,2	0,3	0,1	0,4	0,3	0,1	1,2	0,2	0,1	-0,1		
		2011	0,1	0,2	0,0	0,3	0,0	0,3	0,0	0,6	0,1	0,0	0,0	0,2	0,7	0,2	0,2	0,8	0,4	0,2	0,2		
	June	2008	0,4	0,4	0,5	0,6	-0,3	0,7	0,3	0,0	0,5	0,3	0,5	0,4	0,9	0,7	0,5	0,5	0,6	0,4	0,4		
		2009	0,4	0,1	0,2	0,5	-0,4	-0,1	-0,1	-0,1	0,2	0,4	0,0	0,0	0,5	0,7	0,1	-0,1	0,3	0,2	0,2		
		2010	0,0	0,0	0,1	0,2	-0,7	0,0	0,0	-0,2	0,2	0,2	-0,1	0,0	0,2	-0,1	0,3	-0,1	0,2	-0,1	-0,1		
		2011	0,2	0,1	0,1	0,1	-0,5	0,1	0,0	-0,1	0,2	0,2	-0,1	0,1	0,4	0,1	0,2	0,0	0,2	0,1	0,1		
	July	2008	0,7	-0,3	-0,6	-0,5	-0,1	-0,9	-0,3	-0,8	-0,5	-0,3	-0,5	0,0	0,0	-0,4	-0,6	1,9	0,0	-0,5	-0,3		
		2009	-0,1	-0,5	-1,2	-0,8	-1,6	-1,6	-0,4	-0,7	-0,4	-0,7	-0,8	-0,1	-0,8	-0,9	-1,4	-0,1	-0,1	-0,2	-0,6		
		2010	0,3	-0,3	-0,9	-0,4	-0,6	-1,8	-0,5	-0,4	0,4	-0,6	-0,1	0,1	-0,6	-0,4	-0,8	0,6	-0,3	-0,4	-0,1		
		2011	0,4	-0,3	-0,9	-0,8	-0,7	-1,5	-0,5	-0,5	-0,1	-0,4	-0,4	0,2	-0,3	-0,7	-1,2	0,4	-0,2	-0,3	-0,3		
	August	2008	-0,4	-0,1	0,0	-0,2	0,1	1,1	-0,2	-1,1	-0,4	0,3	0,0	-0,1	-0,7	0,0	0,3	0,3	0,6	0,1	0,2		
		2009	0,3	0,6	0,2	0,4	0,2	2,1	0,4	-0,8	-0,2	0,4	0,2	-0,2	0,1	1,3	0,2	0,6	0,5	0,2	0,3		
		2010	0,1	0,2	0,2	0,3	0,1	2,0	0,3	-0,7	-0,1	0,4	0,2	-0,1	0,1	1,0	0,9	1,0	0,5	-0,1	0,5		
		2011	0,1	0,3	0,2	0,2	0,2	1,9	0,3	-0,8	-0,1	0,2	0,1	0,0	-0,1	1,2	0,5	0,6	0,4	0,1	0,1		
	September	2008	-0,1	0,0	0,5	0,0	0,5	-0,1	0,4	2,1	0,5	0,6	0,3	0,4	0,0	0,1	1,2	0,0	0,5	1,0	0,5		
		2009	-0,5	-0,2	0,7	-0,3	0,5	-0,4	0,2	1,9	-0,1	0,3	-0,4	-0,1	-0,1	-0,1	0,8	-0,2	0,1	0,4	0,2		
		2010	-0,2	0,0	0,6	0,0	0,7	0,1	0,4	1,9	-0,1	0,4	-0,2	0,0	-0,4	0,0	1,0	-0,7	0,0	0,8	0,4		
		2011	-0,1	0,0	0,7	0,0	0,7	-0,1	0,3	1,9	0,2	0,5	-0,3	0,1	-0,1	0,1	1,0	-0,3	0,2	0,6	0,5		
	October	2008	-0,3	-0,1	0,5	0,3	-0,2	-0,2	0,0	0,0	-0,2	0,0	-0,4	0,3	0,0	-0,4	0,7	0,9	-0,3	-0,2	-0,2		
		2009	0,1	0,1	0,4	0,7	0,3	0,0	0,1	0,5	0,0	-0,5	-0,2	0,2	0,1	-0,2	0,9	-0,4	0,2	0,3	0,0		
		2010	0,1	0,1	0,7	0,9	0,2	0,1	0,3	0,1	0,3	0,4	0,1	0,0	0,1	0,1	0,6	-0,6	0,3	0,3	-0,1		
		2011	0,1	0,1	0,7	0,8	0,2	0,1	0,2	0,3	0,1	0,0	0,0	0,1	0,1	0,1	0,7	-0,2	0,1	0,3	0,0		
	November	2008	-0,6	-0,5	-0,5	-0,4	-0,4	-0,7	-0,3	-0,2	-0,7	-0,5	-0,1	0,1	-0,9	-1,3	-1,3	-3,0	-0,1	-0,5	-0,3		
		2009	-0,2	0,2	0,1	0,5	-0,1	0,2	0,2	0,6	0,1	0,2	-0,1	0,3	0,8	0,6	0,7	-2,6	0,3	0,0	0,0		
		2010	-0,2	0,1	0,3	0,5	-0,2	-0,1	0,0	0,3	0,0	-0,1	0,0	0,2	0,6	-0,2	-0,5	-2,7	0,1	-0,2	0,0		
		2011	-0,1	0,1	0,0	0,4	-0,2	-0,1	0,1	0,4	0,0	-0,1	-0,1	0,2	0,4	0,2	0,2	-2,7	0,1	-0,1	0,0		
	December	2008	0,4	-0,3	-0,1	-0,5	-0,8	-0,1	-0,2	-0,3	-0,5	-0,3	-0,7	-0,1	-0,7	-0,9	-1,0	0,2	-0,4	-0,2	-0,5		
		2009	0,9	0,3	0,2	0,0	-0,7	0,2	0,3	0,1	0,2	0,2	-0,5	-0,1	-0,4	-0,1	-0,4	-0,2	0,6	0,2	-0,2		
		2010	1,1	0,4	0,4	0,1	-0,6	0,0	0,2	0,0	0,0	0,0	-0,5	0,1	-0,3	-0,2	-0,6	0,0	0,3	0,0	-0,1		
		2011	1,2	0,4	0,3	0,1	-0,6	0,1	0,2	0,1	0,0	0,0	-0,5	0,2	-0,3	-0,1	-0,6	0,0	0,3	0,1	-0,1		

\*The figures in the shaded area are forecasts

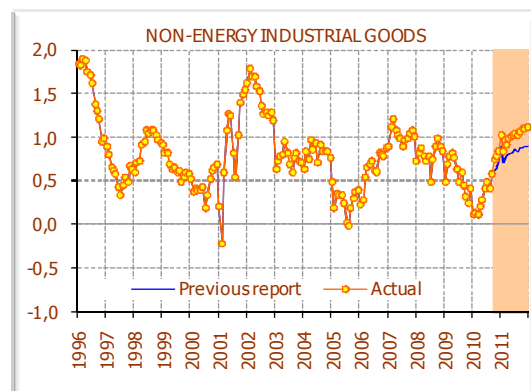
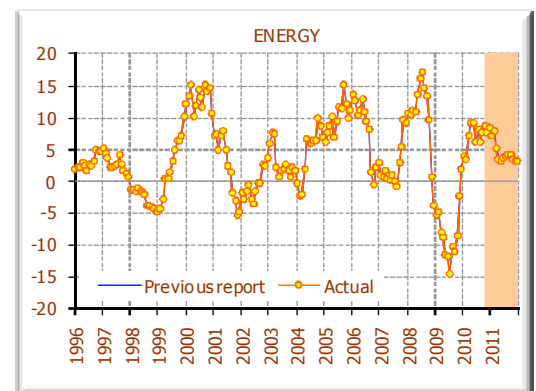
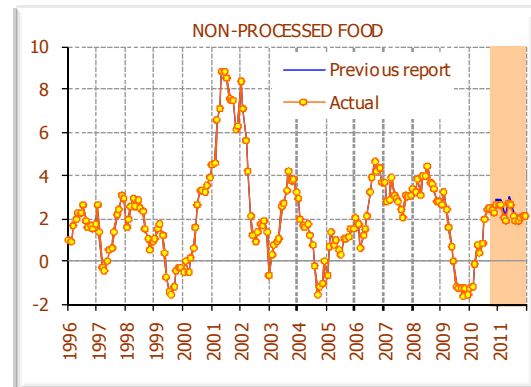
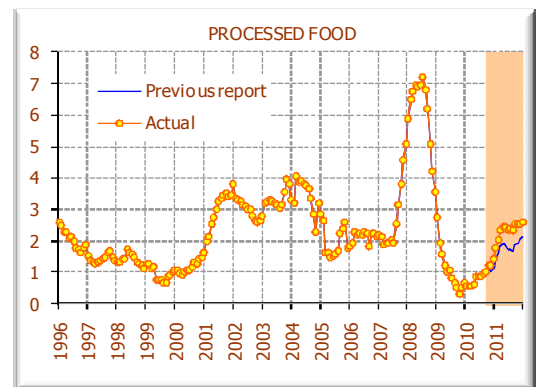
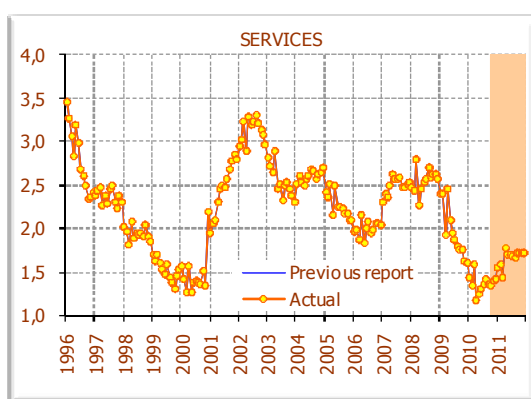
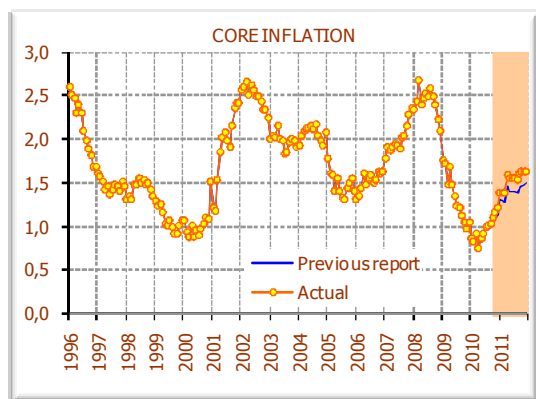
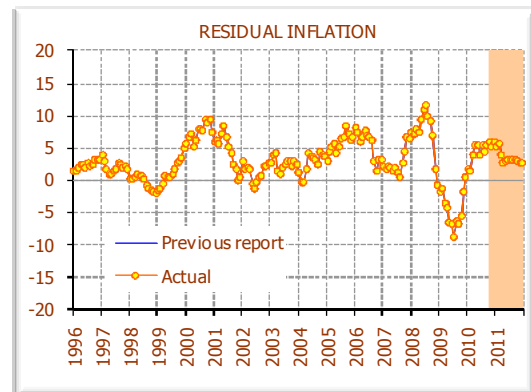
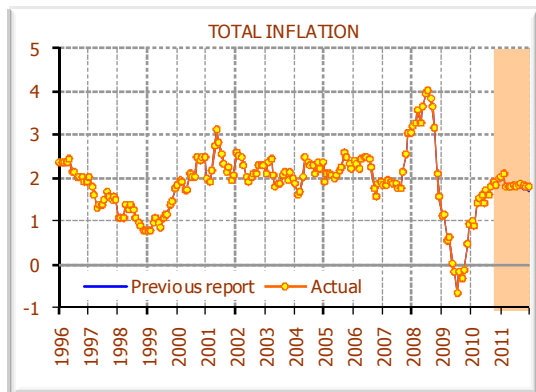
Source: EUROSTAT & BIAM(UC3M)

Date: November 16, 2010



## CHANGE IN FORECASTS FOR THE COMPONENTS OF HARMONISED INDEX OF CONSUMER PRICES IN THE EURO AREA

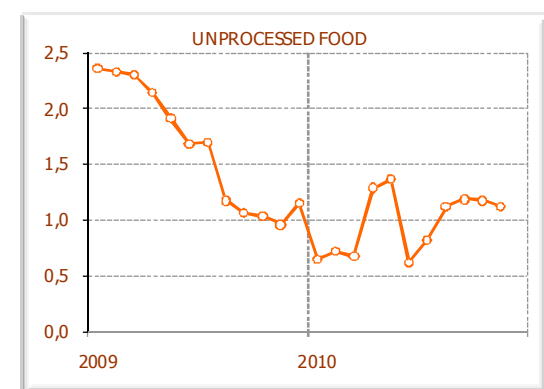
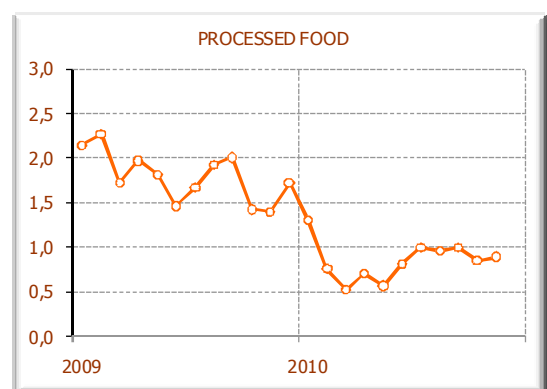
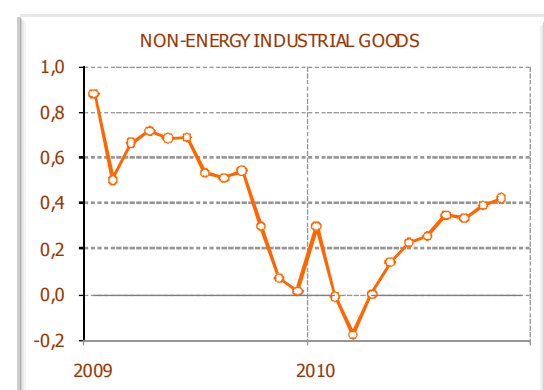
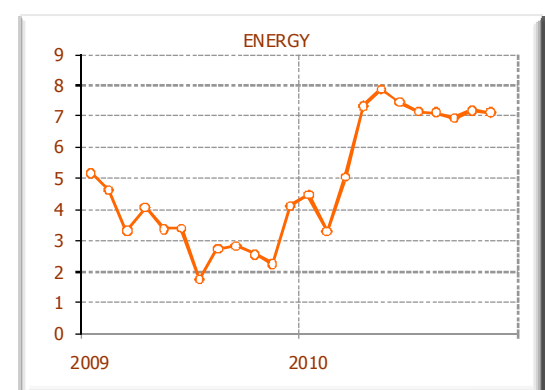
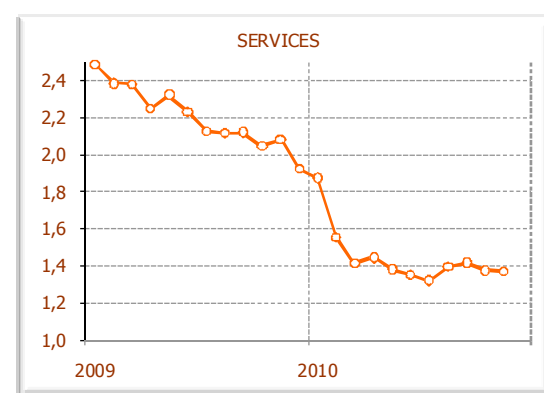
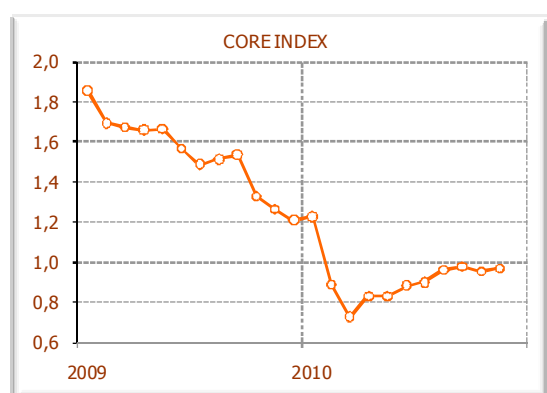
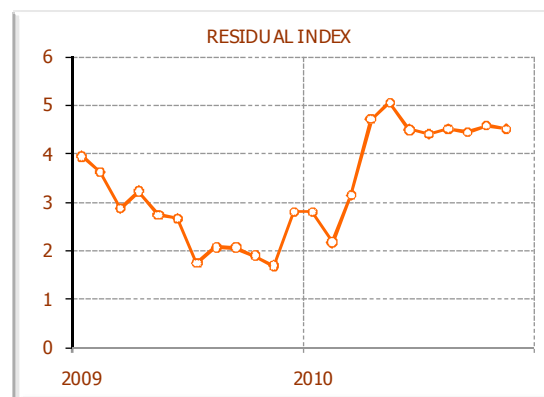
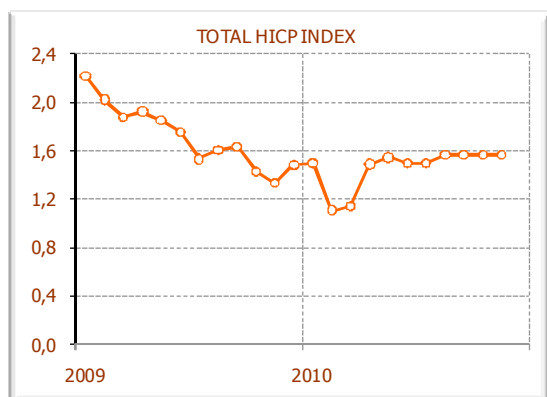
### Year-on-year rates



Source: EUROSTAT & BIAM (UC3M)  
 Date actual report: November 16, 2010  
 Date previous report: October 15, 2010



## EURO AREA INFLATION FORECASTS BY SPECIAL GROUP CHANGES OF EXPECTATIONS FOR THE AVERAGE 2010 RATE



Source: EUROSTAT & BIAM (UC3M)  
Date: November 16, 2010





## II.3. MONETARY POLICY

The sovereign debt crisis in the euro area has again arisen and lead to the intervention of the ECB. In his latest statements, governor Trichet has

reaffirmed that the euro is strong and that the Central Bank will do what it has to do to guarantee the euro area's financial stability. It has prolonged the offer of

unlimited liquidity for banks but has not taken a clear position with regards to the

new round of sovereign debt purchases. It has confirmed, however, that there will be no increase in the aggregate monetary supply.

The Central Bank could actually have been seeing with some satisfaction how the attack on the debts of countries with the most problems has also prevented a rapid appreciation of the euro versus the dollar, after the new monetary expansion phase established by the Fed that the ECB was unable to counteract.

Last month's inflation figures also show that prices are under control in the euro area and, despite energy prices, the annual inflation rate is right where the Central Bank wants it to be: near but less than 2.0%. According to our forecasts, energy prices could push the rate up to 2.1% in the first few months of 2010, but the average annual rate will remain at 1.8%.

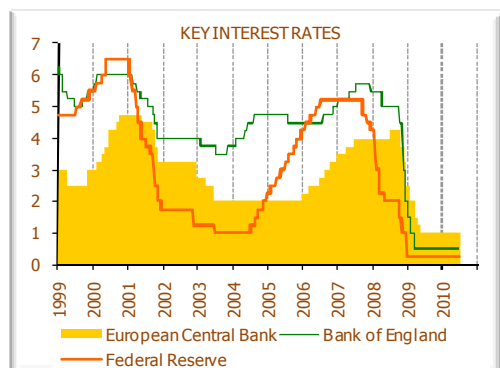
In the next few months we expect no changes in the reference rates, but it will be interesting to see how the extraordinary steps taken to protect the banking system and sovereign debt are managed. The purchase of bonds, as an emergency measure, did not work the last time and will probably not work now. The problem may be relieved for a few weeks or months but the real reasons for the current situation are not monetary and will affect

the markets again every time the ECB tries to go back.

With regards to credit in general in the euro area, the private sector is slowing returning to normal and there was a new rise in public sector credit, which grew at an annual rate of 12.0% in October, versus 7.3% in the previous month. This unusual rise is largely due to the rescue of the Irish banking system. Annual household credit growth remained at 2.9%. Credit to non-financial firms continues to register negative growth, with a rate of -0.6%, the same as in September.

Within household credit, there has been a considerable rise in mortgage loans, which grew by an annual 3.6%, and "other credits" which also grew by 3.0% in October. Consumer credit, however, remained at a negative rate of -0.8%, in line with the very slow recovery of private consumption indicators in the euro area.

Graph II.3.1



Date: November, 2010

*Within household credit, there has been a considerable rise in mortgage loans, which grew by an annual 3.6%, and "other credits" which also grew by 3.0% in October. Consumer credit, however, remained at a negative rate of -0.8%, in line with the very slow recovery of private consumption indicators in the euro area.*



### III. UNITED STATES

#### III.1. INDUSTRIAL PRODUCTION INDEX

INDUSTRIAL PRODUCTION INDEX AND SECTORS IN U.S.							
Annual rates of growth							
		Consumer Goods		Capital Goods	Intermediate Goods	TOTAL	
		Durable	Non Durable				
ANNUAL AVERAGE RATES	2006	0,4	0,6	4,2	2,2	2,2	
	2007	1,8	0,4	3,4	3,7	2,7	
	2008	-10,3	-2,1	-3,4	-2,7	-3,3	
	2009	-17,0	-2,4	-11,1	-9,7	-9,3	
	2010	12,4	2,6	4,5	6,8	5,6	
	2011	4,6	1,9	5,2	5,1	4,4	
ANNUAL RATES*	2009	QI	-25,9	-3,1	-12,4	-12,5	-11,5
		QII	-25,2	-4,0	-14,2	-13,9	-13,1
		QIII	-12,0	-1,9	-10,9	-8,6	-8,4
		QIV	-2,1	-0,6	-6,5	-3,1	-3,7
	2010	QI	13,2	1,2	-0,6	4,2	2,7
		QII	20,0	3,1	6,5	9,0	7,8
		QIII	10,0	3,8	6,3	7,5	6,6
		QIV	7,1	2,1	5,9	6,6	5,5
	2011	QI	6,0	2,0	5,8	6,0	5,1
		QII	5,0	1,9	5,5	5,4	4,6
		QIII	4,0	1,8	5,1	4,7	4,2
		QIV	3,2	1,7	4,6	4,2	3,8

INDUSTRIAL PRODUCTION INDEX AND SECTORS IN U.S.							
Annual rates of growth							
	2005	2006	2007	2008	2009	2010	2011
January	3,8	1,6	2,3	2,1	-10,6	1,5	<b>5,2</b>
February	3,1	1,2	3,1	0,4	-11,5	2,3	<b>5,1</b>
March	3,5	2,1	2,6	-0,3	-12,5	4,4	<b>4,9</b>
April	4,4	0,8	3,7	-0,9	-13,6	6,6	<b>4,7</b>
May	3,1	2,0	3,3	-2,1	-13,0	8,2	<b>4,6</b>
June	4,3	2,1	2,7	-2,4	-12,7	8,4	<b>4,5</b>
July	3,9	2,8	2,6	-1,8	-11,0	7,5	<b>4,4</b>
August	3,7	2,6	2,4	-3,7	-8,9	6,6	<b>4,3</b>
September	1,8	4,2	2,9	-7,8	-5,2	5,7	<b>4,1</b>
October	1,5	3,2	2,1	-6,5	-5,5	5,7	<b>4,0</b>
November	2,5	2,0	2,8	-7,6	-4,0	<b>5,5</b>	<b>3,8</b>
December	2,8	2,3	1,9	-8,9	-1,7	<b>5,4</b>	<b>3,7</b>

Source: Federal Reserve & BIAM(UC3M)

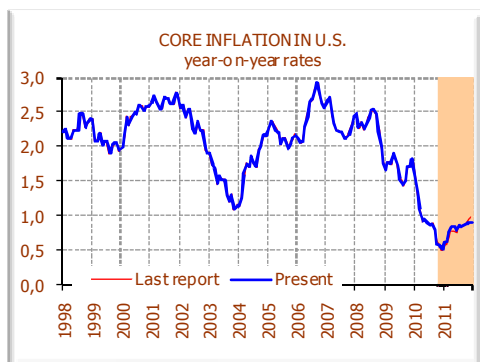
Date: November 16, 2010



### III.2. INFLATION

In the US in October, the general consumer price index rose by a monthly 0.12%<sup>1</sup>, less than the forecast 0.20%. The annual rate rose from 1.14% to 1.17%.

Graph III.2.1



Source: BLS & BIAM  
Date: November 17, 2010

0.80%. The evolution of educational services was moderate and there was a small upwards deviation in owner's estimated rent of primary residence.

*As we have been forecasting for months, the annual core inflation rate will fall considerably in the last few months of this year, reaching its lowest point in December, at around 0.5% (±0.19%).*

Import prices of both durable and non-durable goods were more moderate than expected. The production prices of durable goods registered a considerable downwards surprise, the opposite of those of non-durables.

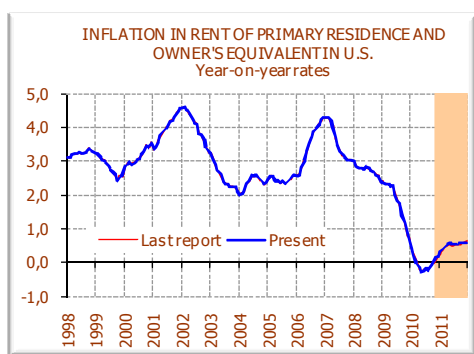
Based on the above, core inflation expectations remain unaltered (see Graph III.2.1).

Food prices were lower than expected, moderating medium-term expectations. The average annual inflation rate forecast for 2011 is 2.1%.

Energy prices registered a monthly increase of 0.45% instead of the expected 0.85%, due to fuel prices.

In the last few days, international oil prices have been up and down. On average, for our forecasting period, they are 1.5% lower than in last month's report.

Graph III.2.2



Source: BLS & BIAM  
Date: November 17, 2010

The core rate registered a monthly increase of 0.08% instead of the forecast 0.11%. The annual rate fell from 0.80% to 0.61%.

All groups were slightly lower than expected, with three exceptions:

second hand cars, owner's estimated rent of primary residence and transport services.

Non-energy industrial goods increased by a monthly 0.11% instead of the forecast 0.17%, with the annual rate falling considerably from 0.80% to 0.12%. The cut in the annual rate is explained by new and second hand cars. The group's small forecasting error is explained entirely by tobacco prices, which fell by 0.27% instead of rising as expected by 1.30%.

With regards to services, the monthly increase was 0.06%, similar to the forecast 0.08%, with the annual rate remaining at

*All groups were slightly lower than expected, with three exceptions: second hand cars, owner's estimated rent of primary residence and transport services. The inflation forecast for 2011 has fallen by one tenth of a point to 1.2% (± 1.45%).*

1. In our reports, unless differently specified, only non-seasonally adjusted data are used.



*In general lines, raw material prices are much on the same level as last month.*

Based on the above, the CPI in November is expected to fall by a monthly 0.04% ( $\pm 0.13$ ), with the annual rate falling from 1.17% to 1.06% (see Graph III.2.3).

The core inflation forecasts shows a monthly fall of 0.19% ( $\pm 0.11$ ), with the annual rate falling from 0.61% to 0.58%.

For months we have been forecasting that the annual core inflation rate would fall in the last few months of this year, due to the important price increases in motor vehicles last year. The annual core inflation rate is expected to fall to 0.5% by December this year, subsequently rising to 0.9% by the end of 2011.

For **2010 and 2011** we expect the average annual core inflation rates to be 0.92% ( $\pm 0.07$ )<sup>2</sup> and 0.82% ( $\pm 0.38$ ), respectively, as we forecast last month (Table III.2.1 and Graph III.2.1).

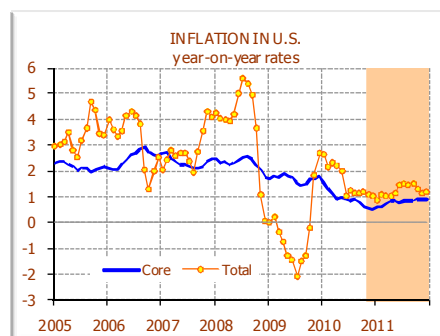
The average annual total inflation rate is expected to be 1.59% ( $\pm 0.19$ ) in 2010 and 1.23% ( $\pm 1.45$ ) in 2011. The forecast for 2011 has fallen by one tenth of a point since last month (see Table III.2.1).

*The core PCE in October is forecast at 0.96%. It is expected to fall even further to 0.7% by December this year.*

In terms of the core personal consumption expenditure index – core PCE<sup>3</sup>-, which is the inflation indicator most closely monitored by the Fed, our forecast for the core PCE in October is an annual rate of 0.96%. This forecast remains unaltered, beneath the lower limit established by the Fed for 2011 (see report)<sup>4</sup> (Graph III.2.4).

**In sum,** most groups were slightly lower than

Graph III.2.3



Source: BLS & BIAM  
Date: November 17, 2010

Table III.2.1

DIFFERENT MEASURES OF INFLATION IN THE U.S.						
Annual rates of growth						
		Total	Core			
		CPI	CPI	PCE	MB-PCE	
Annual Average Rates	2007	2,9	2,3	2,4	2,1	
	2008	3,8	2,3	2,3	2,3	
	2009	-0,4	1,7	1,5	1,9	
	2010	1,6	0,9	1,3	1,1	
	2011	1,2	0,8	0,8	0,8	
YEAR-ON YEAR RATES	2010	June	1,1	0,9	1,4	1,1
		July	1,2	0,9	1,4	1,1
		August	1,1	0,9	1,3	1,1
		September	1,1	0,8	1,2	1,0
		October	1,2	0,6	1,0	0,8
		November	1,1	0,6	0,8	0,7
		December	1,0	0,5	0,7	0,7
	2011	January	0,8	0,6	0,7	0,8
		February	1,1	0,6	0,7	0,8
		March	1,0	0,8	0,7	0,8
		April	1,0	0,8	0,8	0,9
		May	1,1	0,8	0,7	0,8

The shaded values are forecasts

(1) PCE: chain-type price index for personal consumption expenditures

(2) MB-PCE: Market-based components of PCE prices

Source: BLS & BIAM

Date: November 17, 2010

2. Considering an 80% confidence interval for all indices

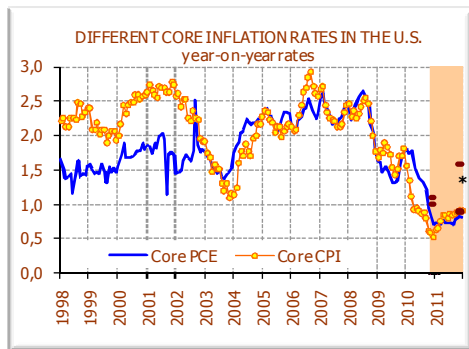
3. The PCE (Personal Consumption Expenditure) is a price index which has the advantage relative to the consumer price index (CPI) that instead of the shopping basket remaining unaltered, it is adjusted to actual expenditure and shows changes in its composition between the periods compared.

4. <http://www.federalreserve.gov/newsevents/press/monetary/fomcminutes20101103.pdf>



expected. Today, although energy and agricultural raw material prices have been up and down in the last week, they are on similar levels as were considered last month.

Graph III.2.4



(\*) Central tendency projected by the FOMC, October 2010, for core PCE (fourth quarter of the previous year to the fourth quarter of the year indicated).

Source: BLS & BIAM  
Date: November 17, 2010

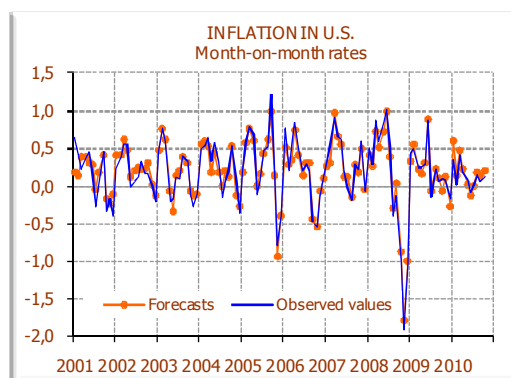
*Our forecasts continue to show that the core PCE will be beneath the lower limit of the central tendency established by the Fed for 2011.*

As expected, core inflation will reduce its annual rate to 0.5% in December, subsequently rising slowly throughout 2011.



## FORECASTING ERRORS IN U.S. INFLATION

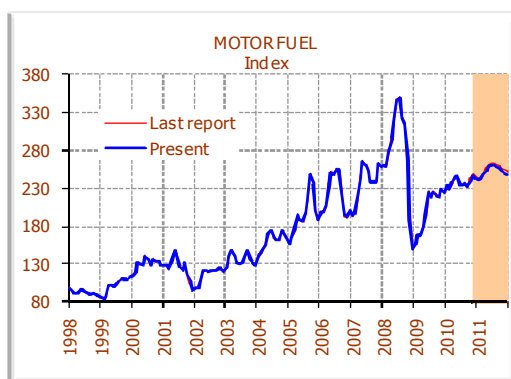
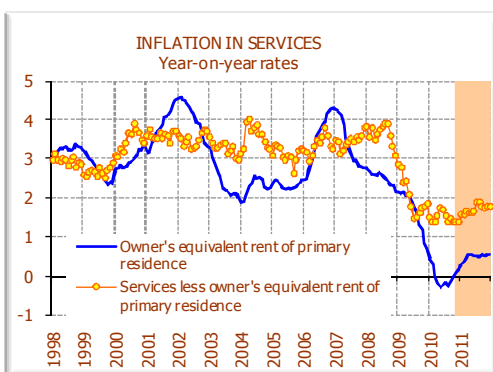
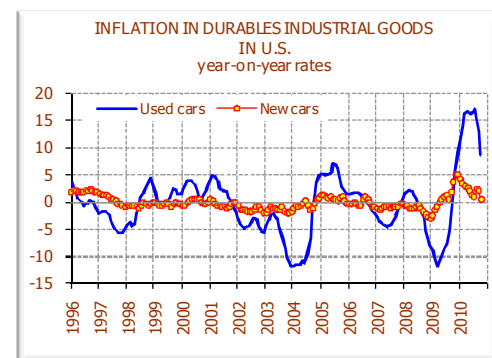
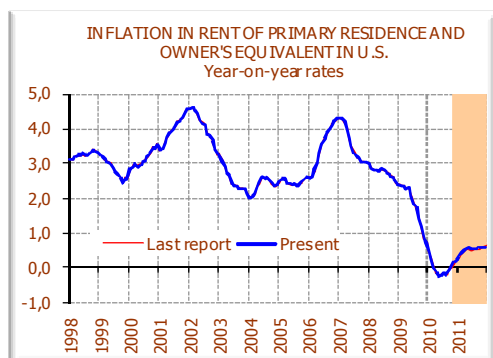
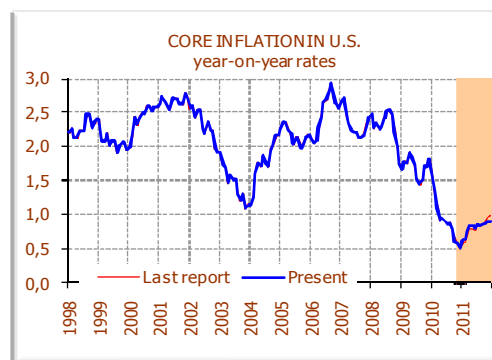
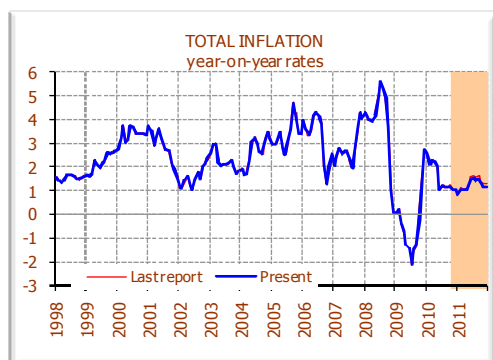
CONSUMER PRICE INDEX IN U.S. Monthly rates October, 2010				
	Relative Imp. Dec. 2009	Observed	Forecasts	Confidence Intervals*
<b>TOTAL INFLATION</b>	100,0	0,12	<b>0,20</b>	0,13
less Owner's equivalent rent of primary residence	76,4	0,13	<b>0,25</b>	0,17
<b>CORE INFLATION</b>	77,7	0,08	<b>0,11</b>	0,11
less Owner's equivalent rent of primary residence	54,1	0,07	<b>0,14</b>	0,15
Non-food and non-energy goods	21,3	0,11	<b>0,17</b>	0,27
Less tobacco	20,4	0,13	<b>0,13</b>	0,25
- Durable goods	10,0	-0,19	<b>-0,24</b>	0,31
- Non-durable goods	11,3	0,32	<b>0,52</b>	0,39
Non-energy services	56,4	0,06	<b>0,08</b>	0,13
- Services less Owner's equivalent rent of primary residence	32,8	0,05	<b>0,12</b>	0,21
- Owner's equivalent rent of primary residence	23,6	0,09	<b>0,03</b>	0,12
<b>RESIDUAL INFLATION</b>	22,3	0,29	<b>0,50</b>	0,47
Food	13,7	0,18	<b>0,28</b>	0,25
Energy	8,6	0,45	<b>0,85</b>	1,13



Source: BLS &amp; BIAM(UC3M)

Date: November 17, 2010

## OTHER GRAPHS ON U.S. INFLATION FORECASTS



Source: BLS &amp; BIAM(UC3M)

Date: November 17, 2010



CONSUMER PRICE INDEX AND COMPONENTS IN USA															
Annual rates of growth															
		CPI													
		Core						TOTAL Confidence Intervals at 80% level			Residual			TOTAL 100% Confidence Intervals at 80% level	
		Non-energy commodities less food			Non-energy services						Food	Energy	TOTAL		
		Durables	Non durables	All	Owner's equivalent rent of primary residence	Other services	All								
IR December 09		10,0%	11,3%	21,3%	23,6%	32,8%	56,4%	77,7%		13,7%	8,6%	22,3%			
	2002	-2,6	0,4	-1,1	4,1	3,5	3,8	2,3		1,8	-5,9	-0,8	1,6		
	2003	-3,2	-0,7	-2,0	2,4	3,3	2,9	1,5		2,1	12,2	5,3	2,3		
	2004	-2,3	0,4	-0,9	2,3	3,6	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	1,2	0,3	3,5	3,3	3,4	2,5		2,3	11,2	5,8	3,2		
	2007	-1,7	1,0	-0,4	3,4	3,4	3,4	2,3		4,0	5,5	5,1	2,9		
	2008	-1,4	1,7	0,1	2,5	3,6	3,1	2,3		5,5	13,9	9,0	3,8		
	2009	-0,9	3,4	1,3	1,7	2,0	1,9	1,7		1,8	-18,4	-6,8	-0,4		
	2010	1,4	0,8	1,1	0,0	1,5	0,8	0,9 ± 0,07		0,8	9,2	3,9	1,6 ± 0,19		
	2011	-1,4	0,8	-0,2	0,5	1,7	1,2	0,8 ± 0,38		2,1	3,5	2,6	1,2 ± 1,45		
ANNUAL RATES (growth of the month over the same month of the previous year)	2009	January	-2,9	1,9	-0,5	2,2	2,8	2,5	1,7		5,3	-20,4	-5,3	0,0	
		February	-2,6	2,5	0,0	2,1	2,8	2,5	1,8		4,8	-18,5	-4,8	0,2	
		March	-2,5	3,3	0,4	2,1	2,4	2,3	1,8		4,4	-23,0	-7,2	-0,4	
		April	-2,0	3,9	0,9	2,1	2,4	2,3	1,9		3,3	-25,2	-9,0	-0,7	
		May	-1,5	3,9	1,2	2,1	2,1	2,1	1,8		2,7	-27,3	-10,7	-1,3	
		June	-1,1	4,1	1,5	1,9	1,8	1,8	1,7		2,1	-25,5	-10,7	-1,4	
		July	-1,2	4,0	1,4	1,7	1,5	1,6	1,5		0,9	-28,1	-12,6	-2,1	
		August	-1,5	3,6	1,1	1,7	1,5	1,6	1,4		0,4	-23,0	-10,1	-1,5	
		September	-0,6	3,7	1,6	1,3	1,6	1,5	1,5		-0,2	-21,6	-9,7	-1,3	
		October	0,9	3,6	2,3	1,2	1,7	1,5	1,7		-0,6	-14,0	-6,1	-0,2	
		November	1,8	3,3	2,6	0,8	1,8	1,4	1,7		-0,7	7,4	2,3	1,8	
		December	2,5	3,5	3,0	0,7	1,9	1,4	1,8		-0,5	18,2	5,9	2,7	
	2010	January	2,5	3,3	2,9	0,4	1,5	1,0	1,6		-0,4	19,1	6,4	2,6	
		February	2,3	2,6	2,5	0,3	1,4	0,9	1,3		-0,2	14,4	4,9	2,1	
		March	2,2	1,6	1,9	0,0	1,4	0,8	1,1		0,2	18,3	6,6	2,3	
		April	1,9	0,5	1,2	-0,2	1,6	0,8	0,9		0,5	18,5	6,9	2,2	
		May	1,6	0,5	1,1	-0,3	1,7	0,9	0,9		0,7	14,7	5,8	2,0	
		June	1,3	0,6	1,0	-0,2	1,7	0,9	0,9		0,7	3,0	1,6	1,1	
		July	1,5	0,6	1,0	-0,2	1,5	0,8	0,9		0,9	5,2	2,5	1,2	
		August	2,3	0,5	1,3	-0,3	1,4	0,7	0,9		1,0	3,8	2,1	1,1	
		September	1,6	0,0	0,8	-0,1	1,4	0,8	0,8		1,4	3,8	2,3	1,1	
		October	0,3	-0,1	0,1	0,0	1,4	0,8	0,6		1,4	5,9	3,1	1,2	
		November	-0,4	0,0	-0,1	0,1	1,4	0,9	0,6 ± 0,11		1,7	4,4	2,7	1,1 ± 0,13	
		December	-0,8	-0,1	-0,4	0,2	1,4	0,9	0,5 ± 0,19		1,9	4,2	2,8	1,0 ± 0,46	
	2011	January	-1,0	0,1	-0,5	0,3	1,6	1,0	0,6 ± 0,26		2,0	0,9	1,6	0,8 ± 0,84	
		February	-1,2	0,2	-0,5	0,4	1,6	1,1	0,6 ± 0,31		2,2	3,1	2,5	1,1 ± 1,20	
		March	-1,4	0,6	-0,3	0,5	1,7	1,2	0,8 ± 0,35		2,1	2,1	2,1	1,0 ± 1,52	
		April	-1,2	0,9	-0,1	0,5	1,6	1,2	0,8 ± 0,38		1,9	1,4	1,7	1,0 ± 1,77	
		May	-1,3	1,0	-0,1	0,5	1,6	1,2	0,8 ± 0,41		2,0	2,6	2,2	1,1 ± 1,93	
		June	-1,3	0,8	-0,2	0,5	1,7	1,2	0,8 ± 0,44		2,1	6,3	3,7	1,5 ± 2,03	
		July	-1,5	0,7	-0,3	0,5	1,9	1,3	0,9 ± 0,48		2,2	6,1	3,8	1,5 ± 2,10	
		August	-1,7	0,8	-0,4	0,5	1,9	1,3	0,8 ± 0,53		2,2	5,5	3,5	1,4 ± 2,16	
		September	-1,7	1,1	-0,2	0,5	1,8	1,3	0,9 ± 0,58		2,1	6,3	3,7	1,5 ± 2,23	
		October	-1,5	1,2	-0,1	0,5	1,7	1,2	0,9 ± 0,63		2,1	3,6	2,7	1,3 ± 2,30	
		November	-1,5	1,2	0,0	0,5	1,8	1,3	0,9 ± 0,65		2,0	2,1	2,0	1,2 ± 2,39	
		December	-1,4	1,2	0,0	0,6	1,8	1,3	0,9 ± 0,68		1,9	2,5	2,1	1,2 ± 2,43	

Source: BLS &amp; BIAM(UC3M)

Date: November 17, 2010





CONSUMER PRICE INDEX AND COMPONENTS IN USA													
Monthly rates of growth													
			CPI										TOTAL 100%
			Core						TOTAL	Residual			
			Non-energy commodities less food			Non-energy services				Food	Energy	TOTAL	
			Durables	Non durables	All	Owner's equivalent rent of primary residence	Other services	All					
IR December 09			10,0%	11,3%	21,3%	23,6%	32,8%	56,4%	77,7%	13,7%	8,6%	22,3%	
MONTHLY RATES (Growth of the month over the previous month)	January	2008	0,2	-0,4	-0,1	0,2	0,8	0,6	0,4	0,9	0,9	0,9	0,5
		2009	0,2	-0,4	-0,1	0,2	0,6	0,4	0,3	0,4	2,0	1,0	0,4
		2010	0,2	-0,5	-0,2	-0,1	0,2	0,1	0,0	0,6	2,8	1,4	0,3
		2011	0,0	-0,4	-0,2	0,1	0,4	0,3	0,1	0,7	-0,4	0,3	0,2
	February	2008	-0,2	0,9	0,3	0,1	0,5	0,3	0,3	0,3	-0,1	0,1	0,3
		2009	0,2	1,5	0,8	0,1	0,4	0,3	0,4	-0,2	2,4	0,7	0,5
		2010	0,0	0,8	0,4	0,0	0,3	0,2	0,2	0,0	-1,7	-0,7	0,0
		2011	-0,2	0,8	0,4	0,0	0,3	0,2	0,2	0,1	0,4	0,2	0,2
	March	2008	0,0	1,1	0,5	0,2	0,6	0,4	0,5	0,1	5,1	2,2	0,9
		2009	0,0	1,9	1,0	0,2	0,2	0,2	0,4	-0,3	-0,7	-0,4	0,2
		2010	-0,1	0,9	0,5	-0,1	0,2	0,1	0,2	0,1	2,7	1,1	0,4
		2011	-0,2	1,4	0,6	0,0	0,3	0,2	0,3	0,0	1,7	0,6	0,4
	April	2008	-0,3	0,5	0,1	0,2	0,0	0,1	0,1	0,8	4,2	2,3	0,6
		2009	0,1	1,0	0,6	0,1	0,1	0,1	0,2	-0,2	1,3	0,3	0,2
		2010	-0,2	-0,1	-0,2	0,0	0,2	0,1	0,0	0,1	1,4	0,6	0,2
		2011	0,0	0,2	0,1	0,0	0,2	0,1	0,1	0,0	0,8	0,3	0,2
	May	2008	-0,3	-0,4	-0,3	0,1	0,3	0,2	0,1	0,5	7,0	3,3	0,8
		2009	0,2	-0,4	-0,1	0,1	0,0	0,0	0,0	-0,2	4,0	1,3	0,3
		2010	0,0	-0,4	-0,2	0,0	0,2	0,1	0,0	0,1	0,7	0,3	0,1
		2011	-0,1	-0,3	-0,2	0,0	0,2	0,1	0,0	0,1	1,8	0,8	0,2
	June	2008	-0,1	-0,9	-0,5	0,2	0,6	0,4	0,2	0,6	7,2	3,5	1,0
		2009	0,3	-0,8	-0,3	0,0	0,3	0,2	0,1	0,0	9,9	3,6	0,9
		2010	0,0	-0,7	-0,4	0,1	0,3	0,2	0,0	-0,1	-1,3	-0,5	-0,1
		2011	0,0	-0,8	-0,5	0,0	0,3	0,2	0,0	0,0	2,3	0,9	0,2
	July	2008	0,0	-0,6	-0,3	0,1	0,6	0,4	0,2	1,0	1,9	1,4	0,5
		2009	-0,1	-0,7	-0,4	0,0	0,4	0,2	0,0	-0,2	-1,7	-0,8	-0,2
		2010	0,1	-0,8	-0,4	0,0	0,2	0,1	0,0	0,0	0,3	0,1	0,0
		2011	-0,1	-0,8	-0,5	0,0	0,4	0,3	0,1	0,1	0,2	0,1	0,1
	August	2008	-0,4	0,8	0,2	0,2	0,2	0,2	0,2	0,5	-5,2	-2,1	-0,4
		2009	-0,7	0,5	-0,1	0,1	0,3	0,2	0,1	0,0	1,5	0,6	0,2
		2010	0,0	0,4	0,2	0,0	0,1	0,1	0,1	0,2	0,1	0,2	0,1
		2011	-0,2	0,5	0,2	0,0	0,1	0,1	0,1	0,2	-0,4	-0,1	0,1
	September	2008	-0,6	1,7	0,5	0,2	-0,1	0,0	0,2	0,6	-3,1	-1,1	-0,1
		2009	0,2	1,7	1,0	-0,1	0,0	0,0	0,2	-0,1	-1,3	-0,6	0,1
		2010	-0,4	1,2	0,5	0,0	0,1	0,0	0,2	0,3	-1,3	-0,3	0,1
		2011	-0,4	1,5	0,6	0,1	0,0	0,0	0,2	0,2	-0,5	-0,1	0,1
	October	2008	-0,4	0,5	0,1	0,2	0,0	0,1	0,1	0,5	-10,3	-4,3	-1,0
		2009	1,2	0,4	0,8	0,0	0,1	0,1	0,3	0,1	-1,5	-0,5	0,1
		2010	-0,2	0,4	0,1	0,1	0,0	0,1	0,1	0,2	0,4	0,3	0,1
		2011	0,0	0,5	0,3	0,1	0,0	0,0	0,1	0,2	-2,1	-0,7	-0,1
	November	2008	-0,4	-0,2	-0,3	0,3	-0,4	-0,1	-0,2	0,0	-18,0	-7,4	-1,9
		2009	0,4	-0,4	0,0	-0,1	-0,3	-0,2	-0,2	-0,1	2,4	0,8	0,1
		2010	-0,2	-0,3	-0,3	0,1	-0,3	-0,2	-0,2	0,2	0,9	0,5	0,0
		2011	-0,1	-0,3	-0,2	0,1	-0,3	-0,1	-0,2	0,1	-0,6	-0,2	-0,2
	December	2008	-0,3	-1,1	-0,7	0,1	-0,2	-0,1	-0,3	0,0	-9,9	-3,6	-1,0
		2009	0,3	-0,9	-0,3	0,0	-0,2	-0,1	-0,2	0,2	-0,8	-0,2	-0,2
		2010	-0,1	-1,0	-0,6	0,1	-0,2	-0,1	-0,2	0,3	-1,0	-0,2	-0,2
		2011	-0,1	-1,0	-0,6	0,1	-0,2	-0,1	-0,2	0,2	-0,5	-0,1	-0,2

Source: BLS &amp; BIAM(UC3M)

Date: November 17, 2010



*In October there were small negative innovations.*

*Both housing starts and new and second hand home sales were lower than expected.*

*The delay in mortgage foreclosures, among other factors, is creating some distortion in the residential sector figures.*

### III.3. PROPERTY SECTOR

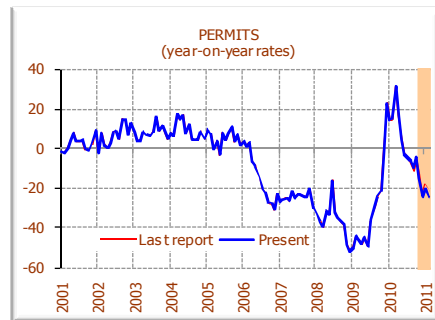
Building permits were as expected, with a monthly increase of 0.5%<sup>1</sup>. The number of housing starts registered a monthly decrease of 11.7% instead of the expected 7.6% (see Graphs III.3.1, III.3.1b, III.3.2 and III.3.2b).

New home sales fell by a monthly 8.1% instead of increasing as expected by 3.3%, with prices falling significantly (the opposite of last month), but this is relatively insignificant given the volatility of this price series (see Graphs III.3.3, III.3.3b, III.3.4 and III.3.4b).

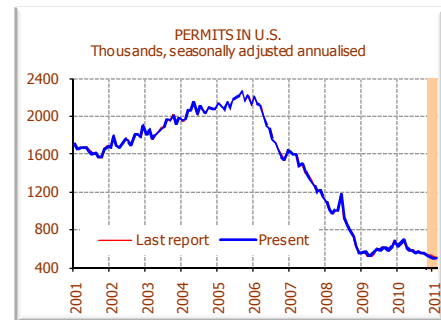
Second hand house sales fell by 2.2% instead of increasing by 2.9% as expected. Prices were much as expected, at the same levels as last year (see Graphs III.3.5, III.3.5b, III.3.6 and III.3.6b).

The sector will remain weak in November, with monthly decreases of 0.8% in second hand house sales and 6.1% in sales of new homes.

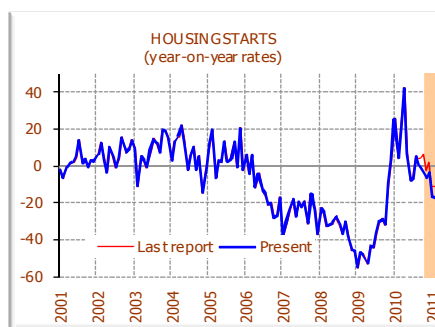
Graph III.3.1



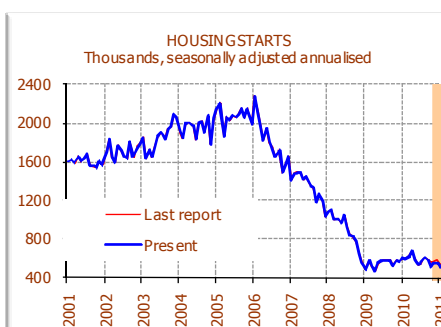
Graph III.3.1b



Graph III.3.2



Graph III.3.2b



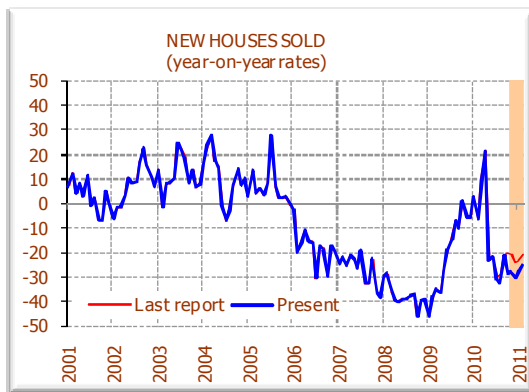
Source: U.S. Census Bureau & BIAM (UC3M)

Date: November 24, 2010

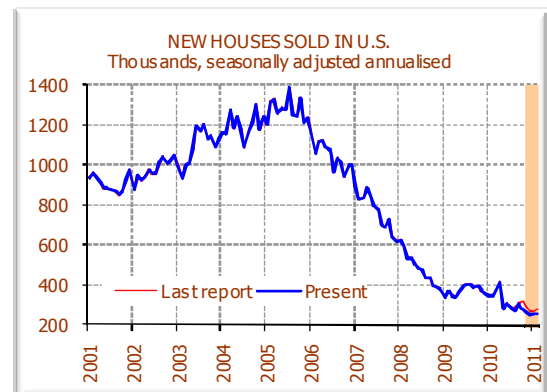
1. Seasonally adjusted and annualized.



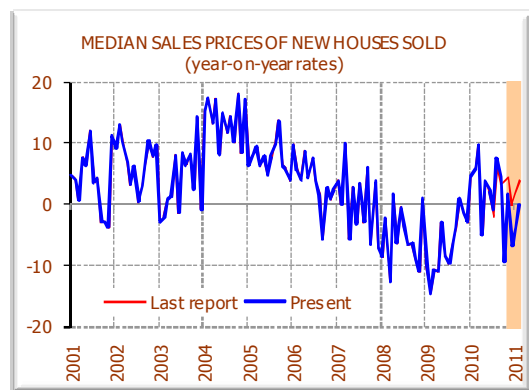
Graph III.3.3



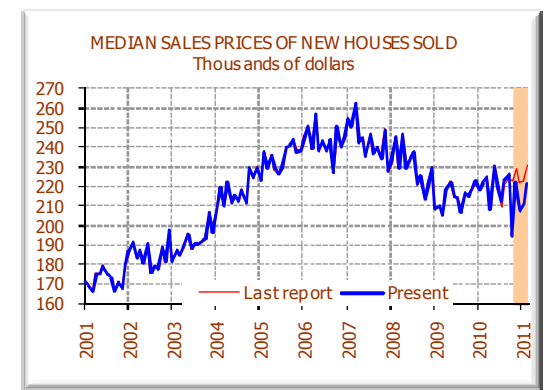
Graph III.3.3b



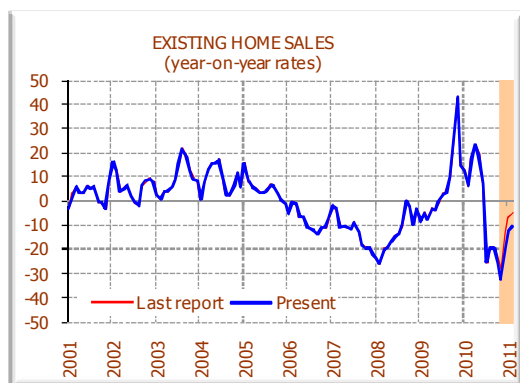
Graph III.3.4



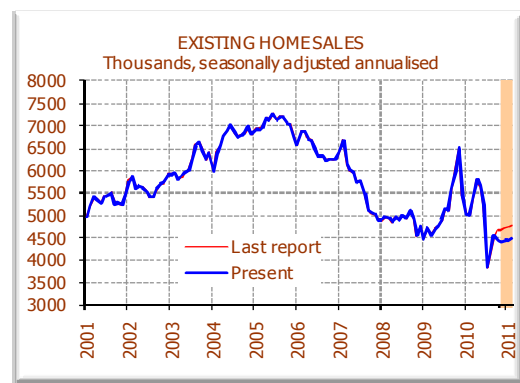
Graph III.3.4b



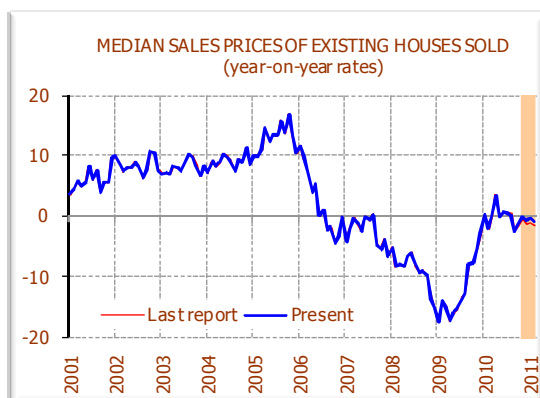
Graph III.3.5



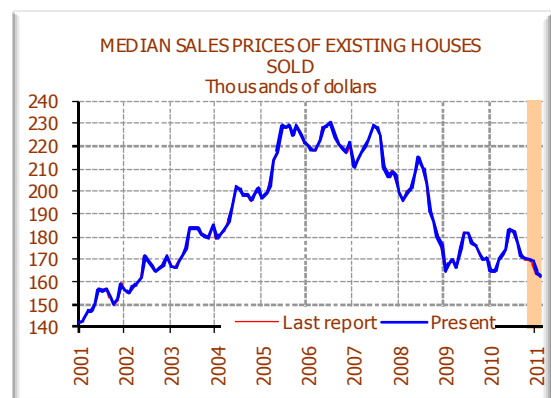
Graph III.3.5b



Graph III.3.6



Graph III.3.6b



## IV. SPAIN

The inertia of public spending, despite the announced cuts, and a greater contribution by foreign demand will keep the Spanish economy out of a technical recession in the third quarter.

Our GDP estimates and an evaluation of leading economic and labour market indicators confirm the absence of a firm sign of Spanish economic recovery.

The third quarter figures show a positive seasonal effect. Employment continues to fall in annual terms. A positive rate is not expected until the fourth quarter of 2011.

The VAT increase and energy prices have pushed Spanish inflation up to 2.3%, probably the highest in this cycle.

Industrial production in September in Spain registered negative annual growth, as forecast.

Once these effects are over, the annual inflation rate is expected to move towards values of close to 1.0%.

MAIN VARIABLES AND INDICATORS IN SPAIN						
Average annual rates						
	2006	2007	2008	2009	Forecasts	
					2010	2011
<b>GDP mp.<sup>1</sup></b>	4,0	3,6	0,9	-3,7	<b>-0,2</b>	<b>0,4</b>
<b>Demand</b>						
Private final consumption	3,8	3,6	-0,6	-4,3	<b>1,2</b>	<b>1,2</b>
Public final consumption	4,6	5,5	5,8	3,2	<b>0,0</b>	<b>-0,1</b>
Gross fixed capital formation	7,2	4,5	-4,8	-16,0	<b>-7,5</b>	<b>-3,9</b>
Equipment	9,9	10,4	-2,5	-24,8	<b>1,9</b>	<b>2,7</b>
Construction	6,0	3,2	-5,9	-11,9	<b>-11,1</b>	<b>-7,5</b>
Other products	7,5	0,8	-4,1	-16,2	<b>-8,4</b>	<b>-1,4</b>
Contribution domestic demand*	5,5	4,4	-0,6	-6,8	<b>-1,0</b>	<b>-0,4</b>
Exports of goods and services	6,7	6,7	-1,1	-11,6	<b>9,1</b>	<b>4,1</b>
Imports of goods and services	10,2	8,0	-5,3	-17,8	<b>4,8</b>	<b>0,9</b>
Contribution foreign demand*	-1,4	-0,8	1,5	2,9	<b>0,8</b>	<b>0,8</b>
<b>Supply GVA</b>						
Agriculture	5,8	7,1	-2,1	1,0	<b>-1,7</b>	<b>-0,2</b>
Energy	1,3	0,9	5,8	-6,4	<b>2,8</b>	<b>0,9</b>
Industry	1,9	0,8	-2,7	-13,6	<b>0,9</b>	<b>1,1</b>
Construction	4,7	2,5	-1,6	-6,2	<b>-6,7</b>	<b>-5,5</b>
Trade services	4,6	4,9	1,7	-1,9	<b>0,5</b>	<b>1,6</b>
Non-trade services	4,0	4,8	4,7	2,1	<b>0,3</b>	<b>0,1</b>
Total	4,1	3,9	1,1	-3,5	<b>-0,2</b>	<b>0,5</b>
Tax	3,7	0,9	-1,1	-6,0	<b>0,5</b>	<b>-0,3</b>
<b>Prices CPI<sup>2</sup></b>						
Total	3,5	2,8	4,1	-0,3	<b>1,7</b>	<b>1,6</b>
Core	2,9	2,7	3,2	0,8	<b>0,6</b>	<b>1,0</b>
dec / dec	2,7	4,2	1,4	0,8	<b>2,4</b>	<b>0,9</b>
<b>Labour market<sup>3</sup></b>						
Active population (% change)	3,3	2,8	3,0	0,8	<b>0,2</b>	<b>0,4</b>
Employment EPA (Aver. year-on year)	4,1	3,1	-0,5	-6,8	<b>-2,3</b>	<b>-0,3</b>
Unemployment rate	8,5	8,3	11,3	18,0	<b>20,1</b>	<b>20,7</b>
<b>Basic Balances<sup>1</sup></b>						
Foreign sector						
Balance of current account (m€)	-88958	-105273	-103617	-53609	<b>-49898</b>	<b>-46473</b>
Net lending or borrowing (% of GDP)	-8,4	-9,6	-9,1	-4,7	<b>-4,3</b>	<b>-3,9</b>
Public Administration						
Net lending or borrowing (% of GDP)	2,0	1,9	-4,1	-11,2	<b>-8,5</b>	<b>-7,2</b>
<b>Industrial production index (excluding construction)<sup>4</sup></b>						
Total	3,7	2,4	-7,1	-16,2	<b>0,8</b>	<b>0,8</b>

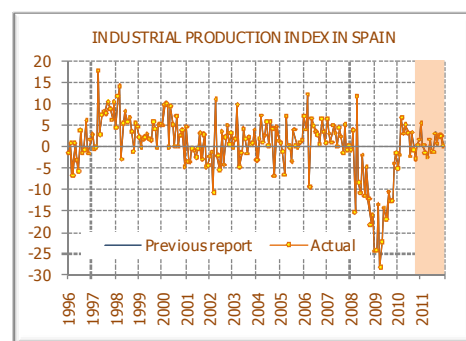
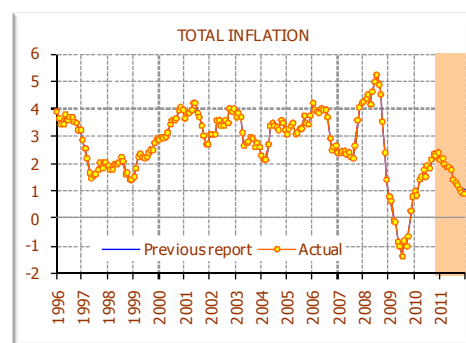
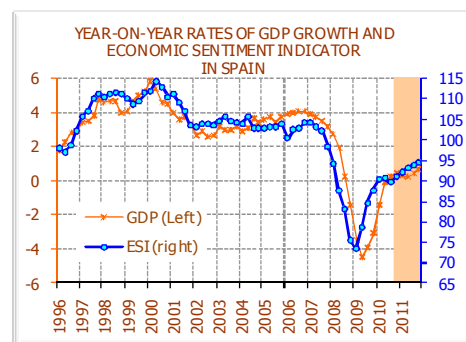
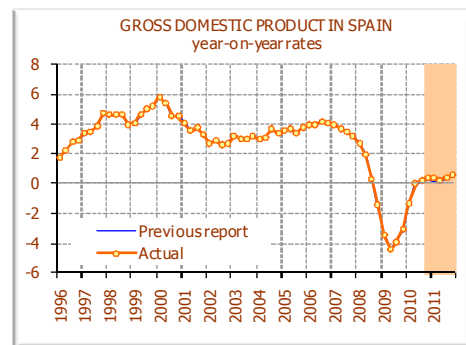
The figures in the shaded area are forecasts

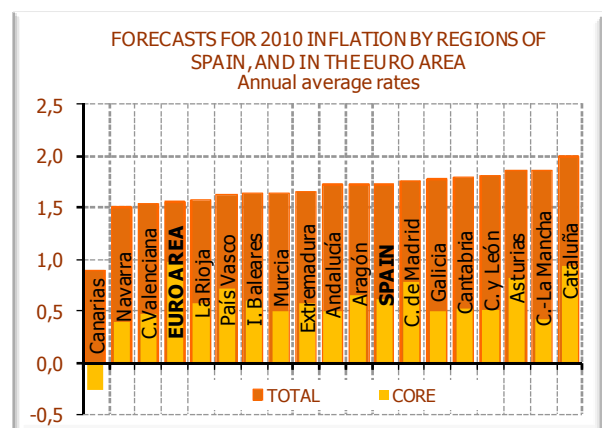
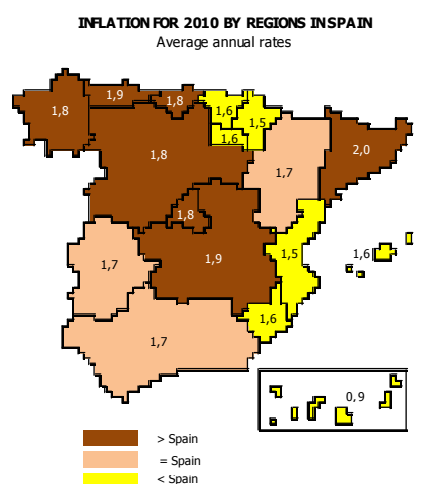
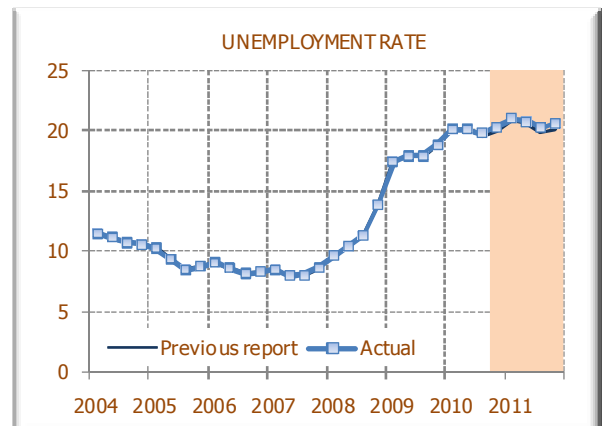
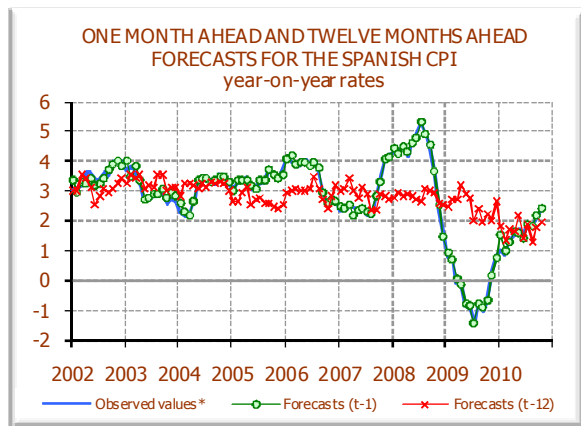
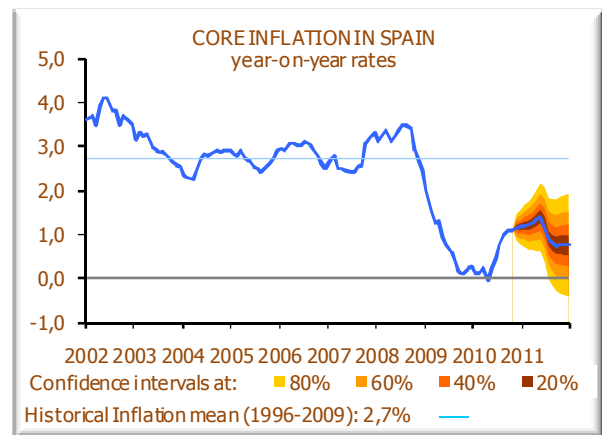
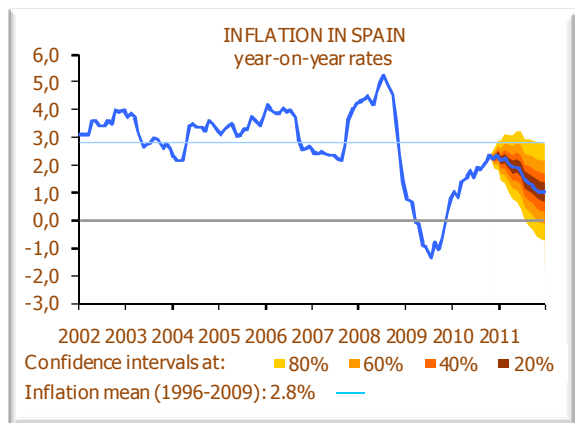
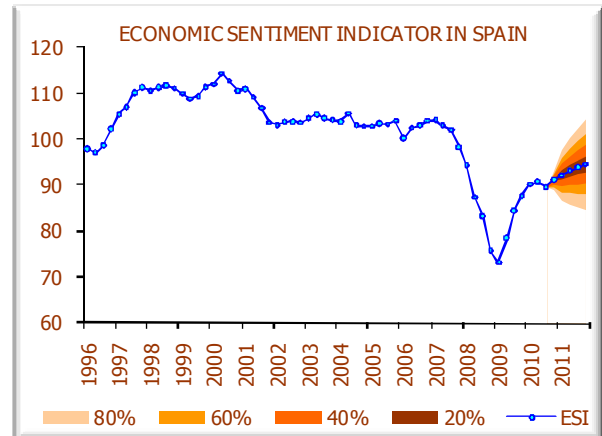
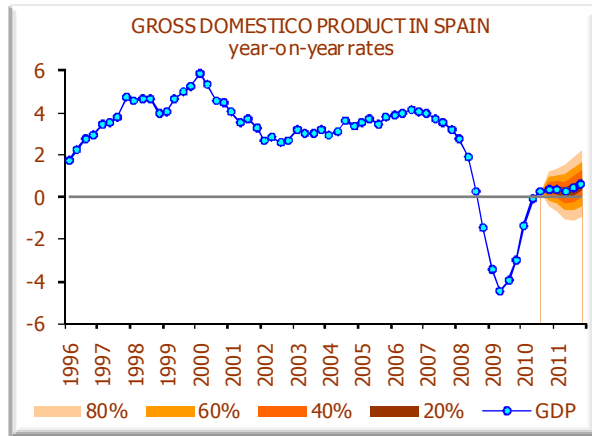
(1) Data adjusted for seasonality and working days effect.

Source: EUROSTAT & BIAM (UC3M)

Dates: (1) November 30, 2010 (2) November 26, 2010

(3) November 2, 2010 (4) November 5, 2010





## IV.1. MACROECONOMIC FORECASTS

*The GDP forecast has been revised upwards for both 2010 and 2011, to an average rate of 0.2% for this year and 0.4% for the next.*

As we have been anticipating for several months, the Spanish economy reduced its growth rate in the third quarter of this year, which was zero, after growing by 0.3% in the second, as shown by the quarterly national accounts published in mid-November. This situation is expected to continue at least in the fourth quarter of this year, representing a pause in the recovery process found in the first two quarters of the year.

The most significant information published in November comprised the September Industrial Production Index (IPI), the third quarter's national accounts, and November's SS contributors and registered unemployment. The Spanish IPI fell by a year-on-year rate of 0.8%, less than our forecast and the year-on-year IPI growth rate, corrected for the calendar effect, was 1.4%, three tenths of a point less than the previous month. The downwards innovation is marginal, so the IPI forecast remains at 0.8% for 2010 and falls to 0.8% for 2011. The October

*The October and November labour market figures continued to show that employment is falling at a slower rate, and unemployment is increasing but moderately.*

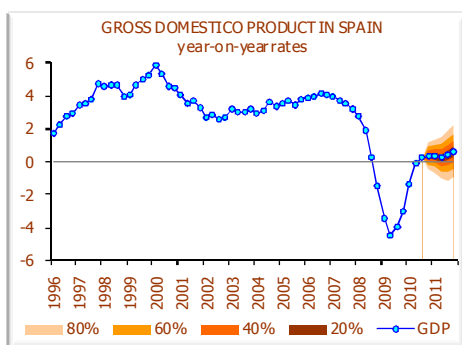
to reduce public spending in May and the effect of the purchases made in anticipation of the VAT increase in July.

On the demand side, the increase in the year-on-year GDP rate in the third quarter was due to foreign demand, which increased its contribution by seven tenths of a point to 1 pp, thanks to strong exports and a reduction in imports. This more than compensated for the fall in growth registered by domestic demand (0.8 pp), which was extremely weak. Private consumption reduced its annual growth rate from 2.2% to 1.4% due to factors such as the purchases anticipating the VAT increase, the weak labour market and a reduction in household wealth (both financial and property). Capital investment fell by a quarter-on-quarter rate of 5.2% and its year-on-year rate of variation fell from 8.7% in the second quarter to 2.4% in the third.

The Spanish labour market, according to Social Security contributors and registered unemployment in October and November, can be expected to continue to reduce the rate at which employment is falling and unemployment is rising, showing that the end of this adjustment process could be near. In November, SS contributors fell by 53,400 people. Corrected for seasonality, this represents a reduction of 18,000, or -0.1%, compared with -0.2% in October. In year-on-year terms, the decline was 1.3%, less than the previous month (1.4%). Registered unemployment grew by 24,300 people. When corrected for seasonality, however, this represents 45,000.

Our macroeconomic forecasts for the Spanish economy for 2010-2011 have

Graph IV.1.1



Source: INE & BIAM(UC3M)  
Date: November 5, 2010

and November labour market figures continued to show that employment is falling at a slower rate, and unemployment is increasing but moderately. The following third quarter accounts information was much in line with our forecast, although with some important differences in some components.

The Spanish GDP, in volume and corrected for seasonality and calendar, did not change in the third quarter. In year-on-year terms, this represents 0.2% growth, the first positive movement in two years. There are several reasons for this, including the measures established

*The increase in the year-on-year GDP rate in the third quarter was due to foreign demand, which increased its contribution by seven tenths of a point to 1 pp.*





*The forecast for imports of goods and services has been revised downwards slightly for this year, to an average annual growth rate of 4.8%, instead of the previously forecast 5.4%, due to the decline in domestic demand.*

therefore been revised. The national accounts in the third quarter were worse than our last forecasts, estimated at the end of October, so they have been revised downwards slightly. The GDP forecast has been revised upwards for

both 2010 and 2011, to an average rate of 0.2% for this year and 0.4% for the next.

Domestic demand will continue to pull GDP growth down, by 1.1pp in 2010 and 0.4pp in 2011. Foreign demand, as usual during recessions, will make positive contributions, 0.8pp in each year. Private consumption registered a heavy adjustment by falling by a quarter-on-quarter rate of 1.1% in the third quarter, after rising by 1.5% in the previous three months, less than expected (-0.5%). This has forced us to revise our forecasting models, leading to an upwards revision in our private consumption forecast, which has risen to an average annual rate of 1.2% in both 2010 and 2011.

Capital investment was worse than expected with a quarter-on-quarter decrease of 5.2%. The perspectives for 2010 and 2011 are now 1.9% and 1.7%, much less than our previous forecast. The figure for construction (-3.2%) was worse than our forecast (-1.9%) because the sector is still in a critical situation. The average annual decline expected for this year is 11.1%, followed by 7.5% next year. This is still due to the property segment. In this respect, the number of housing starts in the last twelve months was less than 150,000, the lowest figure since the early 1980s.

The forecast for imports of goods and services has been revised downwards slightly for this year, to an average annual growth rate of 4.8%, instead of the previously forecast 5.4%, due to the decline in domestic demand. For 2010, the forecast has improved from 0.6% to 0.9%. As for exports, there has been an

upwards revision, estimating an average annual growth rate of 9.1% for this year, and 4.1% for 2011. This is consistent with the improvement found in the world economy and, in particular, the euro area. The contribution of foreign demand to GDP growth will be 0.8pp in 2010.

The GVA of all productive sectors except construction and agriculture will register positive average growth in 2010 and 2011. The energy and manufacturing industries will be the most dynamic in 2010, growing by 2.8% and 0.9%, respectively, considerable recovery after the heavy reduction in 2009. For 2011, the most dynamic sector will be market services, which are expected to grow by 1.6%; non-market services, however, are only expected to grow by (0.1%) due to the fiscal consolidation process in the Spanish economy.

*The GVA of all productive sectors except construction and agriculture will register positive average growth in 2010 and 2011.*





## GROSS DOMESTIC PRODUCT IN THE SPAIN: DEMAND

GROSS DOMESTIC PRODUCT IN SPAIN													
Annual rates of growht													
		Final Consumption		Gross Capital Formation					Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP
		Private	Public	Equipment	Building	Other							
ANNUAL AVERAGE	2005	4,2	5,5	9,2	6,1	7,1	7,0	5,3	2,5	7,7	-1,7	3,6	
	2006	3,8	4,6	9,9	6,0	7,5	7,2	5,5	6,7	10,2	-1,4	4,0	
	2007	3,6	5,5	10,4	3,2	0,8	4,5	4,4	6,7	8,0	-0,8	3,6	
	2008	-0,6	5,8	-2,5	-5,9	-4,1	-4,8	-0,6	-1,1	-5,3	1,5	0,9	
	2009	-4,3	3,2	-24,8	-11,9	-16,2	-16,0	-6,8	-11,6	-17,8	2,9	-3,7	
	2010	1,2	0,0	1,9	-11,1	-8,4	-7,5	-1,0	9,1	4,8	0,8	-0.2 (±0.2)	
	2011	1,2	-0,1	2,7	-7,5	-1,4	-3,9	-0,4	4,1	0,9	0,8	0.4 (±0.7)	
ANNUAL RATES	2009	QI	-5,0	5,9	-24,2	-12,2	-12,1	-15,3	-6,0	-16,5	-21,5	2,5	-3,5
		QII	-5,5	4,3	-31,5	-12,0	-16,9	-18,0	-7,4	-15,8	-22,2	3,0	-4,4
		QIII	-4,2	2,7	-25,5	-11,7	-18,7	-16,4	-6,6	-11,0	-17,2	2,6	-3,9
		QIV	-2,6	0,1	-16,9	-11,9	-17,2	-14,0	-5,4	-2,1	-9,2	2,4	-3,0
	2010	QI	-0,3	-0,5	-4,4	-11,4	-15,4	-10,4	-2,9	9,1	2,3	1,5	-1,4
		QII	2,2	0,1	8,7	-11,4	-11,2	-6,8	-0,4	11,6	9,3	0,3	0,0
		QIII	1,4	-0,1	2,4	-11,6	-3,3	-7,0	-0,8	8,7	3,9	1,0	0,2
		QIV	1,7	0,4	1,6	-10,0	-2,4	-5,6	-0,3	7,0	3,6	0,7	0,4
	2011	QI	1,1	0,2	1,3	-8,9	-1,8	-5,0	-0,6	3,8	-0,1	0,9	0,4
		QII	0,1	-0,5	-1,3	-8,4	-0,2	-5,1	-1,3	3,5	-2,7	1,5	0,2
		QIII	1,7	-0,1	5,4	-6,7	-2,0	-2,8	0,2	4,6	3,3	0,2	0,4
		QIV	1,7	-0,2	5,5	-6,0	-1,5	-2,5	0,4	4,5	3,4	0,2	0,6

Year-on-year-rates

GROSS DOMESTIC PRODUCT IN SPAIN													
Annual and quarterly rates of growht													
		Final Consumption		Gross Capital Formation					Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP
		Private	Public	Equipment	Building	Other							
ANNUAL AVERAGE	2005	4,2	5,5	9,2	6,1	7,1	7,0	5,3	2,5	7,7	-1,7	3,6	
	2006	3,8	4,6	9,9	6,0	7,5	7,2	5,5	6,7	10,2	-1,4	4,0	
	2007	3,6	5,5	10,4	3,2	0,8	4,5	4,4	6,7	8,0	-0,8	3,6	
	2008	-0,6	5,8	-2,5	-5,9	-4,1	-4,8	-0,6	-1,1	-5,3	1,5	0,9	
	2009	-4,3	3,2	-24,8	-11,9	-16,2	-16,0	-6,8	-11,6	-17,8	2,9	-3,7	
	2010	1,2	0,0	1,9	-11,1	-8,4	-7,5	-1,0	9,1	4,8	0,8	-0.2 (±0.2)	
	2011	1,2	-0,1	2,7	-7,5	-1,4	-3,9	-0,4	4,1	0,9	0,8	0.4 (±0.7)	
QUARTERLY RATES	2009	QI	-1,4	0,7	-12,1	-3,5	-3,3	-6,3	-2,2	-6,6	-7,4	0,6	-1,6
		QII	-1,0	0,1	-8,4	-2,2	-6,7	-3,9	-1,8	-0,9	-2,3	0,8	-1,1
		QIII	-0,4	-0,1	0,7	-3,0	-6,8	-2,8	-1,0	2,8	-0,1	0,8	-0,3
		QIV	0,2	-0,6	2,4	-3,8	-1,6	-2,0	-0,5	2,8	1,3	0,3	-0,2
	2010	QI	0,9	0,1	1,2	-3,0	-1,2	-1,6	0,2	4,1	4,4	-0,1	0,1
		QII	1,5	0,7	4,2	-2,2	-2,0	-0,6	0,9	1,4	3,6	-0,6	0,3
		QIII	-1,1	-0,4	-5,2	-3,2	1,5	-2,9	-1,3	0,1	-5,0	1,3	0,0
		QIV	0,4	0,0	1,6	-2,0	-0,6	-0,6	-0,1	1,2	0,9	0,0	0,0
	2011	QI	0,4	-0,1	0,9	-1,9	-0,6	-1,0	0,0	1,1	0,6	0,1	0,1
		QII	0,4	0,0	1,5	-1,6	-0,5	-0,6	0,1	1,1	0,9	0,0	0,2
		QIII	0,5	0,0	1,2	-1,4	-0,3	-0,6	0,1	1,1	0,9	0,0	0,2
		QIV	0,5	-0,1	1,8	-1,2	-0,2	-0,2	0,2	1,1	1,0	0,0	0,2

Data adjusted for seasonality and working days effect

\*The figures in the shaded area are forecasts

(1)Contribution to GDP growth

Quarter-on-quarter rates

Source: INE &amp; BIAM (UC3M)

Date: November 30, 2010



## GROSS DOMESTIC PRODUCT IN THE SPAIN: SUPPLY

GROSS DOMESTIC PRODUCT IN SPAIN									
Annual rates of growth									
		Gross Value Added						Tax	Real GDP
		Agriculture	Energy	Industry	Construction	Market services	Non-market services		
ANNUAL AVERAGE	2005	-8,2	1,2	1,1	5,2	4,3	3,9	3,3	6,1
	2006	5,8	1,3	1,9	4,7	4,6	4,0	4,1	3,7
	2007	7,1	0,9	0,8	2,5	4,9	4,8	3,9	0,9
	2008	-2,1	5,8	-2,7	-1,6	1,7	4,7	1,1	-1,1
	2009	1,0	-6,4	-13,6	-6,2	-1,9	2,1	-3,5	-6,0
	2010	-1,7	2,8	0,9	-6,7	0,5	0,3	-0,2	0,5
	2011	-0,2	0,9	1,1	-5,5	1,6	0,1	0,5	-0,3
ANNUAL RATES	2009	QI	0,4	-5,5	-12,7	-6,1	-1,8	2,5	-3,2
		QII	0,7	-6,5	-15,9	-6,3	-2,6	2,2	-4,2
		QIII	1,6	-7,3	-14,8	-7,1	-1,7	2,0	-3,7
		QIV	1,6	-6,3	-11,0	-5,4	-1,6	1,6	-2,9
	2010	QI	-1,5	0,2	-2,1	-6,5	-0,8	0,5	-1,4
		QII	-2,0	0,8	2,3	-6,6	0,4	0,6	-0,2
		QIII	-2,2	4,6	1,7	-6,8	1,0	0,3	0,2
		QIV	-1,1	5,8	2,1	-7,1	1,5	-0,1	0,5
	2011	QI	-2,9	2,5	0,2	-6,4	2,0	0,4	0,5
		QII	-0,4	1,3	0,2	-6,0	1,7	-0,2	0,4
		QIII	1,3	-0,3	1,9	-5,2	1,3	0,2	0,4
		QIV	1,1	0,2	1,9	-4,4	1,4	0,2	0,6

\* Year-on-year rates.

GROSS DOMESTIC PRODUCT IN SPAIN									
Annual and quarterly rates of growth									
		Gross Value Added						Tax	Real GDP
		Agriculture	Energy	Industry	Construction	Market services	Non-market services		
ANNUAL AVERAGE	2005	-8,2	1,2	1,1	5,2	4,3	3,9	3,3	6,1
	2006	5,8	1,3	1,9	4,7	4,6	4,0	4,1	3,7
	2007	7,1	0,9	0,8	2,5	4,9	4,8	3,9	0,9
	2008	-2,1	5,8	-2,7	-1,6	1,7	4,7	1,1	-1,1
	2009	1,0	-6,4	-13,6	-6,2	-1,9	2,1	-3,5	-6,0
	2010	-1,7	2,8	0,9	-6,7	0,5	0,3	-0,2	0,5
	2011	-0,2	0,9	1,1	-5,5	1,6	0,1	0,5	-0,3
QUARTERLY RATES	2009	QI	3,8	-3,4	-5,2	-1,1	-0,8	0,5	-1,5
		QII	-1,0	0,6	-3,9	-1,4	-0,7	0,6	-1,0
		QIII	-0,7	-2,2	-0,7	-1,8	0,2	0,1	-0,3
		QIV	-0,5	-1,4	0,4	-1,3	-0,2	0,3	-0,2
	2010	QI	0,7	3,2	2,1	-2,1	-0,1	-0,5	0,0
		QII	-1,5	1,2	0,4	-1,6	0,5	0,7	0,2
		QIII	-0,8	1,6	-1,3	-1,9	0,8	-0,2	0,1
		QIV	0,5	-0,3	0,8	-1,6	0,2	0,0	0,1
	2011	QI	-1,1	0,0	0,3	-1,4	0,4	0,0	0,1
		QII	1,0	0,0	0,4	-1,2	0,3	0,1	0,1
		QIII	0,9	-0,1	0,4	-1,0	0,4	0,1	0,2
		QIV	0,4	0,2	0,8	-0,9	0,4	0,0	0,2

Data adjusted for seasonality and working days effect

The figures in the shaded area are forecasts

(1)Contribution to GDP growth

Quarter-on-quarter rates

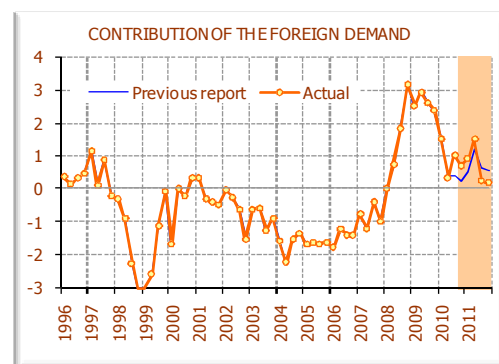
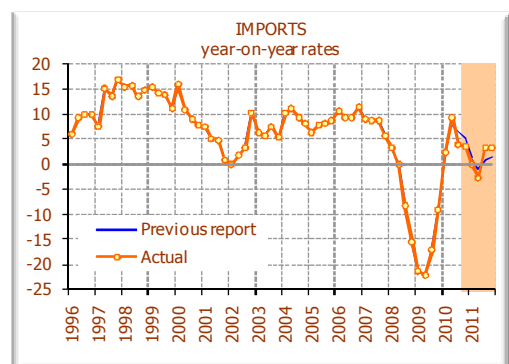
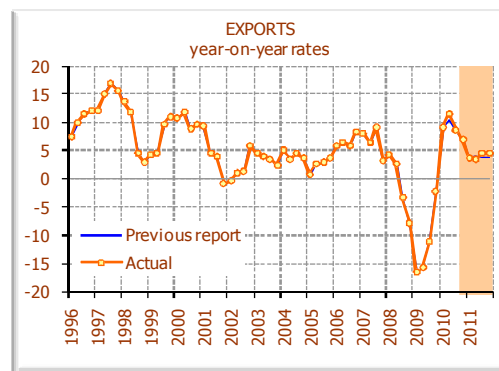
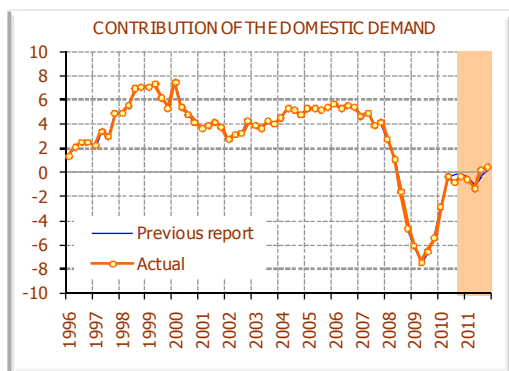
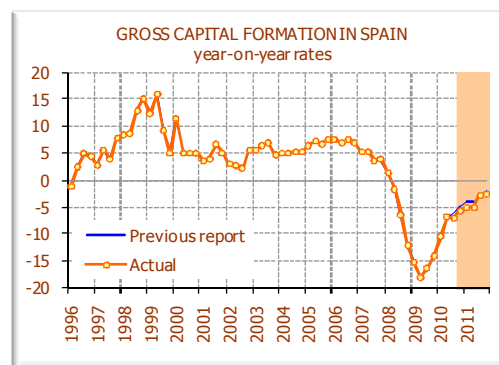
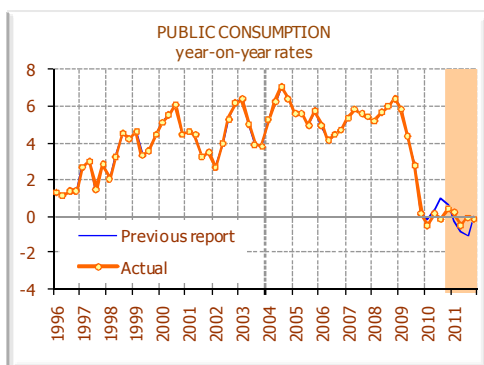
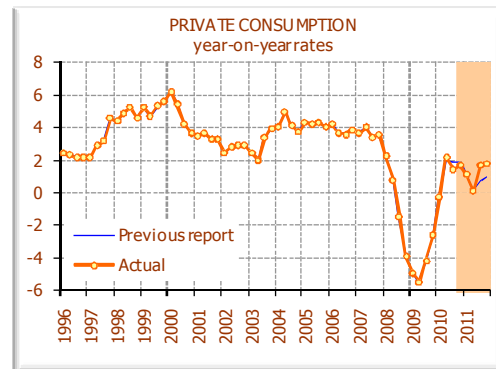
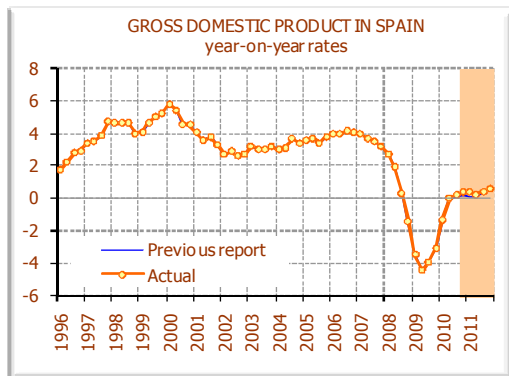
Source: EUROSTAT &amp; BIAM (UC3M)

Date: November 30, 2010



## CHANGE IN FORECASTS AND DATA REVISION FOR THE COMPONENTS OF GROSS DOMESTIC PRODUCT DEMAND IN SPAIN

### Year-on-year rates



Source: INE & BIAM (UC3M)

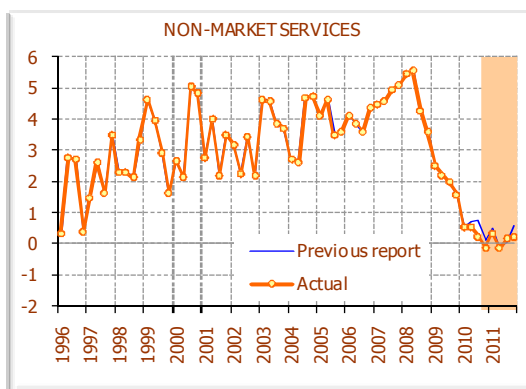
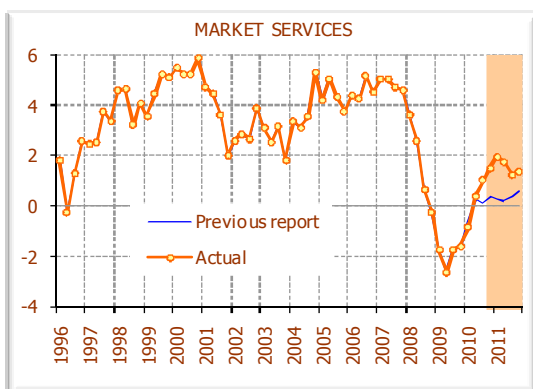
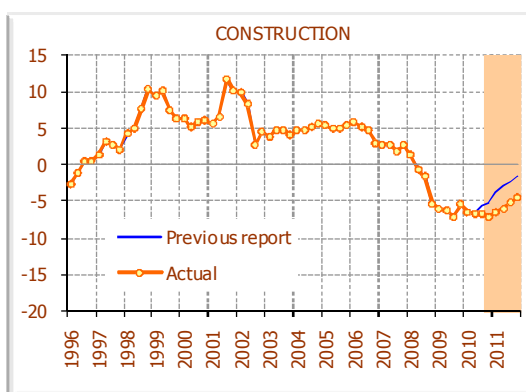
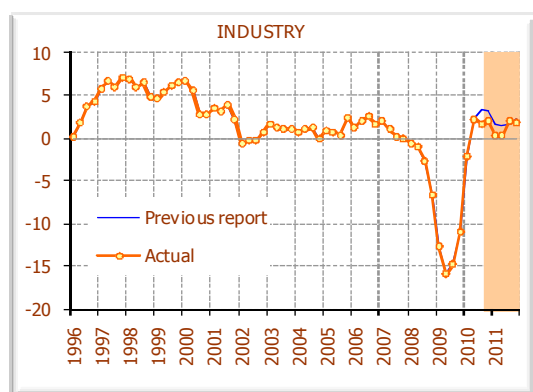
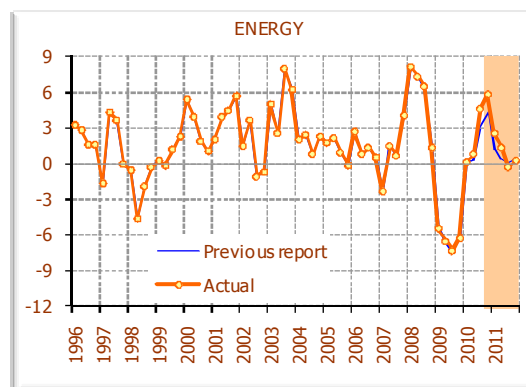
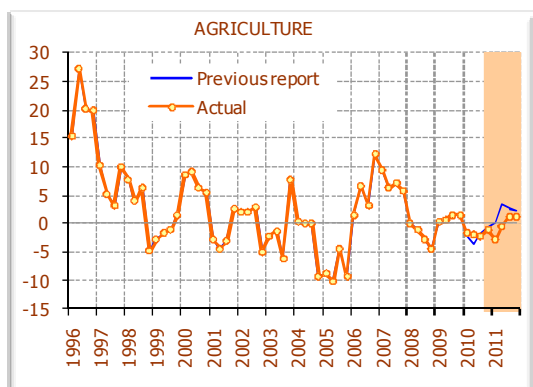
Date actual report: November 30, 2010

Date previous report: November 3, 2010



## CHANGE IN FORECASTS AND DATA REVISION FOR THE COMPONENTS OF GROSS DOMESTIC PRODUCT SUPPLY IN SPAIN

### Year-on year rates



Source: INE & BIAM (UC3M)

Date actual report: November 30, 2010

Date previous report: November 3, 2010



## INDUSTRIAL PRODUCTION INDEX IN SPAIN

INDUSTRIAL PRODUCTION INDEX AND SECTORS IN SPAIN										
Annual rates of growth										
		Consumer Goods								
		Durable	Non Durable	Total	Capital Goods	Intermediate Goods	Energy	Non-Energy	TOTAL	
ANNUAL AVERAGE			-1,6	0,3	0,1	-1,1	-0,3	3,1	-0,3	0,2
			8,3	0,9	2,1	7,7	3,6	0,9	4,1	3,7
			3,4	2,0	2,2	5,0	1,6	0,8	2,6	2,4
			-16,5	-2,2	-4,6	-8,7	-11,0	1,6	-8,4	-7,1
			-28,3	-5,5	-8,8	-22,5	-21,4	-8,6	-17,4	-16,2
			-6,1	1,7	0,8	-3,9	2,9	2,6	0,5	0,8
		2,6	0,4	0,6	-3,4	2,6	2,5	0,5	0,8	
ANNUAL RATES*	2008	QI	-14,1	-1,7	-3,7	-4,9	-7,8	4,7	4,7	-4,5
		QII	-10,1	-0,4	-2,1	-3,3	-5,3	2,0	2,0	-3,1
		QIII	-16,8	-1,1	-3,5	-6,8	-8,6	1,6	1,6	-5,4
		QIV	-25,1	-5,6	-8,9	-19,7	-22,7	-1,7	-1,7	-15,4
	2009	QI	-29,6	-8,2	-11,4	-28,3	-28,9	-8,3	-8,3	-21,0
		QII	-35,9	-8,6	-12,9	-28,6	-28,2	-10,5	-10,5	-21,9
		QIII	-28,8	-4,2	-7,5	-19,6	-18,6	-6,8	-6,8	-13,9
		QIV	-17,1	-0,6	-2,9	-11,2	-6,0	-8,7	-8,7	-6,5
	2010	QI	-12,0	1,8	0,2	-2,6	2,1	-0,8	-0,8	0,1
		QII	-1,6	4,1	3,4	-0,7	7,5	1,9	1,9	3,8
		QIII	-5,7	0,7	0,1	-6,3	0,9	4,2	4,2	-0,3
		QIV	-4,9	0,2	-0,3	-6,1	0,9	5,5	5,5	-0,3
	2011	QI	4,3	1,3	1,5	-3,7	2,6	4,3	4,3	1,3
		QII	1,7	-1,0	-0,7	-4,9	0,5	3,1	3,1	-0,6
		QIII	2,2	-0,3	-0,1	-3,5	3,4	0,8	0,8	0,6
		QIV	2,3	1,6	1,7	-1,7	4,1	2,0	2,0	1,9

INDUSTRIAL PRODUCTION INDEXES IN SPAIN							
Annual rates of growth							
	2005	2006	2007	2008	2009	2010	2011
January	0,9	7,2	6,6	-0,8	-24,5	-5,0	<b>5,6</b>
February	-1,0	4,1	3,0	3,8	-24,3	-1,9	<b>0,4</b>
March	-6,6	12,4	1,0	-15,3	-13,5	6,8	<b>-1,4</b>
April	7,3	-9,4	5,1	12,0	-28,4	3,0	<b>-2,4</b>
May	0,3	6,7	3,3	-8,4	-22,3	5,1	<b>1,8</b>
June	-0,1	4,8	0,1	-10,9	-14,3	3,2	<b>-1,1</b>
July	-3,4	3,7	4,5	-1,9	-16,9	-2,3	<b>-1,2</b>
August	4,1	3,0	2,4	-11,5	-10,6	3,4	<b>3,0</b>
September	0,3	0,6	-1,3	-4,7	-12,7	-0,8	<b>0,8</b>
October	0,0	6,6	5,3	-12,2	-12,8	<b>-2,8</b>	<b>2,7</b>
November	1,0	3,6	-0,8	-18,3	-4,0	<b>0,4</b>	<b>2,6</b>
December	1,5	0,8	0,2	-16,0	-1,5	<b>1,8</b>	<b>0,3</b>

- Data adjusted for seasonality and working days effect

The figures in the shaded area are forecasts.

Source: INE & BIAM (UC3M)

Date: November 5, 2010



INDUSTRIAL PRODUCTION INDEX BY ECONOMIC ACTIVITIES IN SPAIN												
Average annual rates of growth												
			Weights 2009	2005	2006	2007	2008	2009	2010	2011		
IPI Total	B Mining and quarrying	05 Mining of coal and lignite	0,4	-9,6	2,8	-4,0	-3,7	-15,3	12,7	-4,8		
		08 Other mining and quarrying	1,4	1,7	4,3	2,7	-15,4	-25,8	5,5	6,5		
			1,8	-3,8	3,1	0,9	-13,3	-23,5	7,3	3,1		
	D Industrias manufactureras	10 Manufacture of food products	10,7	1,8	0,6	2,1	-0,8	-0,4	2,3	3,7		
		11 Manufacture of beverages	3,3	0,8	1,6	0,6	1,4	-4,7	-4,0	4,6		
		12 Manufacture of tobacco products	0,4	-2,1	-14,8	5,4	-2,4	-10,1	-1,3	-4,7		
		13 Manufacture of textiles	1,7	-10,9	-2,3	-4,4	-17,7	-18,4	7,7	-2,1		
		14 Manufacture of wearing apparel	1,8	-9,9	-2,9	-1,2	-9,1	-18,8	-5,9	1,3		
		15 Manufacture of leather and related products	0,9	-12,9	-6,1	-8,2	-7,9	-19,5	3,4	2,6		
		16 Manufacture of wood and of products of wood and cork, except furniture; manufacture	2,1	0,0	2,5	0,9	-9,4	-15,7	3,3	15,8		
		17 Manufacture of paper and paper products	2,6	-0,3	1,2	1,7	-1,8	-8,7	5,3	1,2		
		18 Printing and reproduction of recorded media	2,3	8,8	0,6	5,4	-10,8	-12,2	2,7	4,2		
		19 Manufacture of coke and refined petroleum products	3,5	2,8	2,2	-1,7	4,2	-10,4	1,2	7,9		
		20 Manufacture of chemicals and chemical products	5,8	0,8	1,4	2,3	-5,4	-0,8	5,2	2,2		
		21 Manufacture of basic pharmaceutical products and pharmaceutical preparations	2,4	0,5	10,1	7,6	8,0	0,6	8,5	6,2		
		22 Manufacture of rubber and plastic products	3,4	1,0	2,2	2,1	-10,9	-14,3	7,2	0,0		
		23 Manufacture of other non-metallic mineral products	8,0	2,0	3,9	-1,2	-21,3	-27,7	-1,8	9,3		
		24 Manufacture of basic metals	4,3	-1,8	6,3	0,7	-6,6	-21,5	9,8	-4,6		
		25 Manufacture of fabricated metal products, except machinery and equipment	10,7	5,7	4,5	4,5	-9,5	-22,1	-5,6	2,1		
		26 Manufacture of computer, electronic and optical products	1,6	-8,1	3,4	7,5	4,1	-26,1	5,8	-9,1		
		27 Manufacture of electrical equipment	3,7	-0,5	11,5	3,0	-6,2	-26,2	-3,1	0,3		
		28 Manufacture of machinery and equipment n.e.c.	5,4	-0,6	15,4	9,4	-8,4	-26,1	-3,6	-2,2		
		29 Manufacture of motor vehicles, trailers and semi-trailers	7,4	-5,0	5,7	4,2	-16,1	-19,0	9,9	-3,9		
		30 Manufacture of other transport equipment	2,1	0,4	0,6	7,7	6,6	-12,4	-10,8	-2,5		
		31 Manufacture of furniture	2,8	0,7	8,9	4,7	-19,6	-29,1	-7,6	0,6		
		32 Other manufacturing	1,8	-4,5	3,9	0,5	-8,1	-14,0	6,0	-1,3		
		33 Repair and installation of machinery and equipment	0,3	-9,0	55,6	-4,2	12,8	-16,2	-19,9	-20,3		
				89,0	0,0	4,0	2,6	-7,8	-16,2	0,6	0,8	
			D Electricity, gas, steam and air conditioning supply		9,2	4,0	0,6	2,3	1,2	-7,6	2,8	1,1
					100	0,4	3,7	2,5	-7,0	-15,5	0,8	0,8

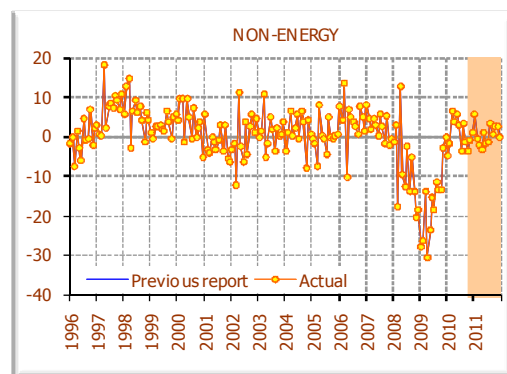
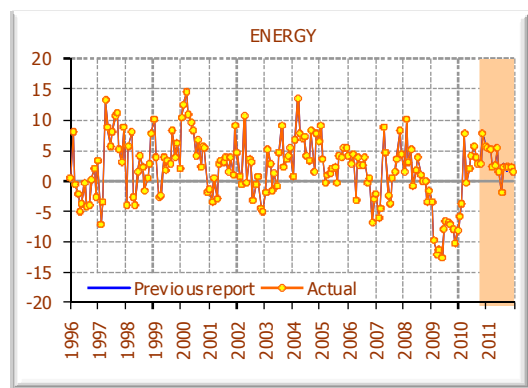
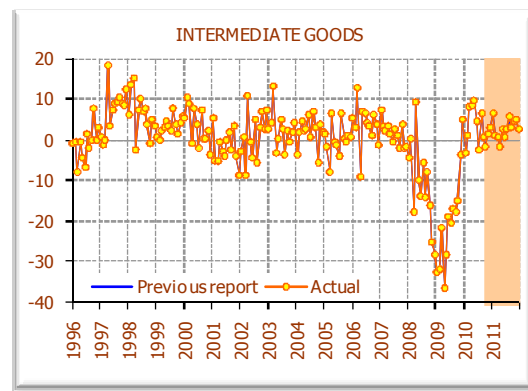
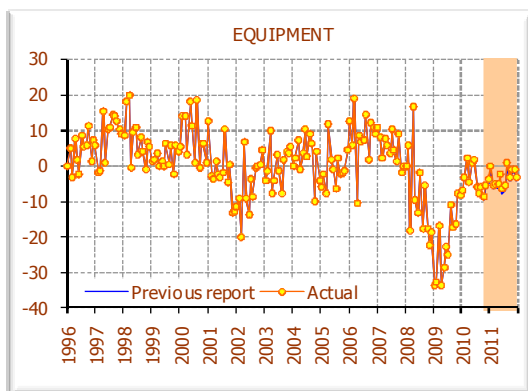
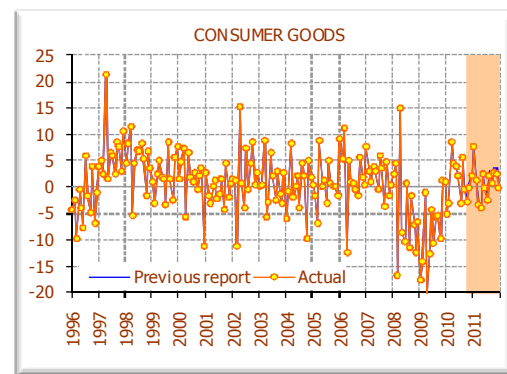
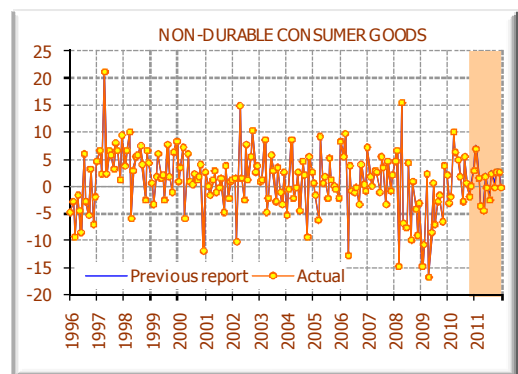
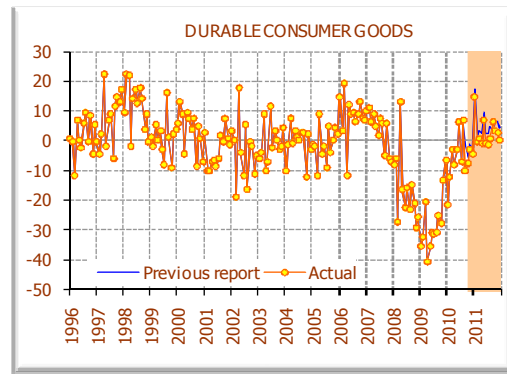
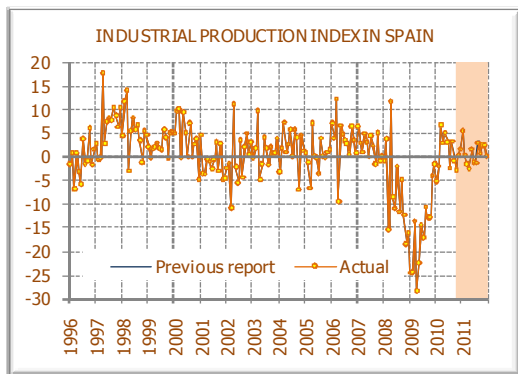
Source: INE &amp; BIAM (UC3M)

Date: November 5, 2010



## CHANGE IN FORECASTS AND DATA REVISION FOR THE COMPONENTS OF INDUSTRIAL PRODUCTION INDEX DEMAND IN SPAIN

### Year-on year rates



Source: EUROSTAT & BIAM (UC3M)  
 Date actual report: November 5, 2010  
 Date previous report: October 14, 2010





## IV.2. INFLATION

*Total inflation is expected to register an average annual rate of 1.7% ( $\pm 0.04$ ) this year and 1.6% ( $\pm 1.32$ ) the next.*

The annual inflation rate in Spain in October was 2.3%, 0.07pp less than our forecast. Different media have seen this as an upwards innovation, as it is higher than the advance HICP published at the end of October. This is wrong, however, as the two indices are similar yet different. Whether the CPI is higher than the HICP depends on the different weights given to some components.

Despite the downwards innovation, our forecasts remain unaltered for 2010. The expected average annual rate is 1.7%, with 0.6% core inflation. The annual rate forecast for November and December is 2.2% ( $\pm 0.17$ ) and 2.3% ( $\pm 0.35$ ), respectively. Core inflation in 2011 is expected to fall to 1.0% ( $\pm 0.8$ ). The total inflation forecast remains at 1.6% due to an increase in the average growth rate expected for energy prices.

*The forecast for core inflation in 2011 has fallen by one tenth of a point to 1.0% ( $\pm 0.80$ ).*

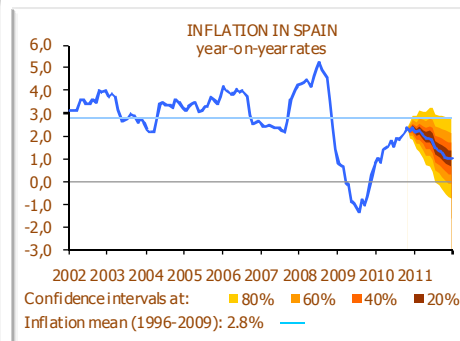
Inflation in October was less than expected due to the service sector. It was the driving force behind Spanish inflation in the years of rapid economic growth and has been gently falling since the onset of the crisis. The October figure shows that the downwards adjustment in this sector has not yet ended. The forecast for service inflation has been reduced again this month and the average annual rate expected for 2011 has gone from 1.6% to 1.5%.

The October figure shows that the inflationist rise in the last few months has clear causes that are unrelated to economic recovery or demand. The Spanish economy has not returned to its inflationist customs and is not reducing its competitiveness due to the rising inflation rate. Nearly a third of the annual rate is derived from July's VAT increase.

Another percentage point comes from energy prices. We have often mentioned that energy prices in Spain are more sensitive to international oil prices, for two reasons. In the first place, fuel taxation in Spain is less than the European average, so the proportion of the price that directly depends on oil prices is greater. Secondly, energy consumption in Spain is highly biased towards oil, with gas being much less important compared with the rest of the euro area. Inflation in energy products in Spain in October was 12.56% compared with a forecast 8.8% in the euro area. This unfavourable differential, however, does not alter the fact that energy continues to be relatively cheaper in Spain than in the rest of the area.

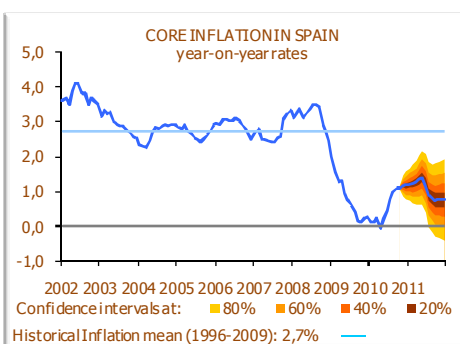
Spanish inflation, together with these two effects, energy prices and the tax increase, would register an annual rate of nearly half a percentage point. As the forecasts for the second half of 2011 show, it is expected to increase very gradually and weakly

Graph IV.2.1



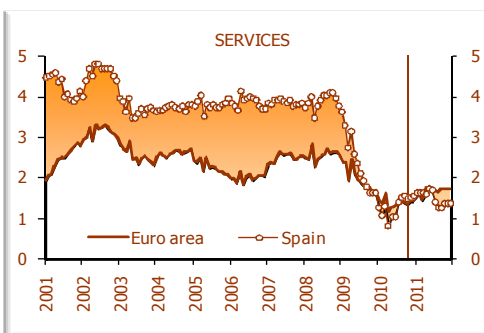
Source: INE & BIAM(UC3M)  
Date: November 26, 2010

Graph IV.2.2



Source: INE & BIAM(UC3M)  
Date: November 26, 2010

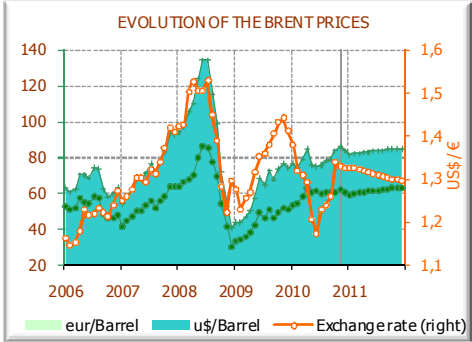
Graph IV.2.3



Source: INE & BIAM(UC3M)  
Date: November 26, 2010



Graph IV.2.4



Source: INE & BIAM(UC3M)  
Date: November 26, 2010

during the forecasting period. Once the VAT increase effect is over, and assuming an average of 5.5% growth of energy prices in 2011, the annual inflation rate in the second half of the year would be around 1.1%, with core inflation ranging from 0.7% to 0.8%. These values are much lower than the historic average, and Spanish inflation will again

be beneath the euro area average.

In sum, the October figure has showed that the fall in service prices has not yet ended. The other components evolved much as expected. The upwards innovation in unprocessed food did not have a significant impact on our forecasts, due to the high volatility of these prices, and there were no important changes in manufactured

goods and processed food. The forecasts for total and core inflation remain substantially stable.

*The drop in inflation in services has not yet ended.  
The forecast for 2011 shows an average rate of 1.5%.*

*The relative weight of goods and services with negative annual inflation has fallen again this month to 22.6%.*

Table IV.2.1

INFLATION IN SPAIN						
CPI	Annual rates 2010		Annual average rates			
	October	November				
			2008	2009	2010	2011
Core 82.7%	1,1	1.2 ±0.19	3,2	0,8	0.6 ±0.04	1 ±0.8
Total 100%	2,3	2.3 ±0.17	4,1	-0,3	1.7 ±0.04	1.6 ±1.32

\* The figures in the shaded area are forecasts  
Source: INE & BIAM(UC3M)  
Date: November 26, 2010



Table IV.2.3

COICOP SUBCLASSES IN SPAIN WITH NEGATIVE VALUES IN YEAR-ON-YEAR INFLATION RATES																			
weights x 1000																			
Special Group*	Weights 2010	Subdasse COICOP	2010										2009				2008		
			October	September	August	July	June	May	April	March	February	January	QI	QII	QIII	QIV	QIV	QIII	Average
PROCESSED FOOD 65.505	0,997	Rice	-10,5	-11,0	-11,5	-10,9	-10,9	-9,6	-9,6	-9,2	-8,1	-6,2							
	16,19	Bread	-0,2	-0,1	-0,3	-0,4	-0,1	-0,2	-0,3	-0,4	-0,5	-0,6	-0,6	-0,5	-0,1				
	1,235	Farinaceous-based products	-1,1	-1,7	-0,7	-1,2	-0,7	-1,0	-1,4	-2,0	-3,3	-3,5	-6,2	-9,8	-6,8				
	9,315	Bakery and pastry-cook products		-0,02		-0,4	-0,6	-0,8	-1,0	-0,4	-0,7	-0,8	-0,4						
	1,537	Flours and cereals	-4,2	-4,9	-3,9	-3,1	-4,0	-3,7	-5,0	-3,3	-2,2	-2,0	-0,9	0,0					
	15,882	Delicatessen type meat products						-0,2	-0,3	-0,5	-0,6	-0,7	-0,6	-0,2					
	2,953	Meat preparation	-0,9	-2,2	-1,3	-0,4	-1,1	-1,0	-0,7	-0,4	-0,6	-0,8							
	6,205	Preserved and processed fish				-0,1	-0,6	-0,6	-1,0	-1,3	-1,6	-1,1	-0,8						
	10,187	Milk	-2,9	-2,8	-4,2	-4,1	-6,0	-6,4	-8,8	-7,2	-7,2	-7,6	-9,1	-9,6	-7,9	-6,6	-3,9		
	7,494	Other dairy products	-0,04	-0,9	-1,5	-4,0	-4,3	-5,9	-6,6	-6,5	-6,9	-5,5	-5,7	-3,5	-1,1				
	6,821	Cheeses			-0,5	-0,3	-0,3	-0,1	-0,4	-0,7	-1,4	-1,1	-1,9	-1,2	-0,3				
	0,546	Butter and margarine		-1,3	-1,6	-2,5	-2,9	-3,1	-3,2	-2,5	-2,6	-2,2	-1,5	-0,4					
	5,192	Oils	-5,0					-2,2	-2,5	-3,4	-3,8	-3,5	-8,6	-17,5	-14,6	-8,5	-0,3		
	2,656	Preserved fruits, nuts and dried fruits	-2,0	-1,4	-1,7	-1,3	-2,0	-1,7	-1,7	-1,3	-1,0	-1,3	-0,7						
	0,834	Fresh pulses and vegetables	-0,9	-0,6	-0,2	0,0	-0,3	-0,4	-0,8	-1,1	-1,6	-1,9	-2,0	-1,0	-1,2		-0,2		
	3,406	Frozen and preserved pulses and vegetables	-0,1	-0,4	-0,5	-0,8	-1,4	-1,6	-1,5	-2,2	-2,0	-1,9	-1,5						
	1,078	Sugar	-10,0	-10,8	-11,9	-10,8	-9,6	-7,6	-6,9	-7,1	-7,0	-7,4	-8,8	-7,5	-7,5	-3,9			
	4,84	Chocolates						-0,4	-0,6	-0,6	-1,0	-1,4	-1,5	-0,6					
	3,333	Other foods			-0,3	-0,6	-0,6	-0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0			
	0,831	Baby food	-1,6	-2,4	-1,8	-2,2	-2,5	-2,8	-2,6	-1,9	-1,5	-1,2	-1,5	-2,0	-2,3	-1,2			
	3,006	Coffee, cocoa and infusions		-0,6	-0,7	-0,1	-0,4	-0,5	-1,1	-0,9	-0,4	-0,6	-0,9	-0,6					
	7,739	Water and juices	-2,3	-2,9	-4,2	-3,9	-3,0	-1,9	-2,3	-1,2	-1,6	-0,1							
	3,176	Wines	-0,4	-0,5	-0,1	-0,4	-1,3	-1,4	-1,8	-1,5	-1,6	-1,6	-1,6	-0,7					
NON-ENERGY INDUSTRIAL GOODS 84.849	22,441	Men's outerwear		-0,6	-0,6	-0,6	-0,6	-0,6	-0,8	-0,9	-1,2	-1,2	-0,7	-2,6	-2,3	-2,5			
	1,435	Men's underwear							0,0	0,0	0,0	0,0		-0,7					
	29,133	Women's outerwear	-0,5	-0,7	-0,8	-0,8	-1,3	-1,5	-1,8	-1,9	-2,2	-2,1	-2,4	-3,4	-2,6	-2,6	-0,1		
	2,496	Women's underwear							0,0	0,0	0,0	0,0							
	10,336	Children's and infants' garments					-0,1	-0,4	-1,0	-1,0	-1,1	-1,1	-1,2	-1,9	-1,0	-1,7			
	1,705	Clothing accessories of garments							0,0	0,0	0,0	0,0		-0,9		-1,1			
	6,575	Men's footwear						-0,3	-0,3	-0,2	-0,3	-0,01	-0,1	-0,2					
	8,641	Women's footwear							-0,3	-0,1	-0,2	0,0	-0,6	-1,2	-0,5	-0,4			
	3,356	Children's and infants' footwear							-0,5	-0,9	-1,2	-1,1	-0,7	-0,5	-0,4	-0,3			
	2,737	Other equipments					-0,2	-0,1	-0,2	0,0	-0,1	0,0		-0,1					
	6,324	Household textiles					-0,3	-0,3	-0,2	-0,1	0,0	0,0							
	4,63	Refrigerators, washing machines and dishwash.	-2,0	-2,0	-2,2	-2,1	-2,2	-2,0	-1,9	-1,5	-1,4	-1,2	-1,0	-0,6	-0,9	-1,3	-1,6	-2,2	-1,9
	1,47	Cookers and ovens	-1,4	-1,6	-1,6	-1,6	-1,8	-1,7	-2,0	-1,6	-1,4	-1,4				0,0	-1,2	-1,3	-0,8
	2,53	Heating and air conditioning		-0,1					0,0	0,0	0,0	0,0					-0,7	-0,9	-0,5
	1,305	Other household appliances							0,0	0,0	0,0	0,0				-0,1	-0,1	-0,4	-0,2
	13,616	Cleaning products for household	-0,9	-0,8	-1,2	-1,1	-1,1	-1,1	-1,0	-0,4	-0,7	-0,2	0,0	0,0	0,0	0,0			
	3,777	Other non-durable household goods							0,0	0,0	0,0	0,0	-0,1	0,0	0,0	0,0			
	9,307	Medicines and other pharmaceutical products	-5,0	-3,4	-3,3	-3,3	-2,8	-2,9	-7,3	-7,4	-7,6	-7,4	-7,5	-7,3	-5,6	-4,7	-5,9	-6,5	-6,5
	6,549	Therapeutic appliances and equipment	-0,6	-0,7	-0,004	0,0	-0,3	-0,3	-0,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0			
	47,126	Motor vehicles				-0,1	-2,3	-3,9	-4,2	-4,2	-4,3	-5,6	-6,5	-5,7	-2,7	-1,5	0,0	-0,4	-0,5
	2,182	Other vehicles					-1,6	-1,0	-0,9	-1,3	-1,3	-0,8				-0,9	-2,7	-3,1	-2,4
	1,51	Spare parts and maintenance accessories							0,0	-0,1	-0,9	-1,5	-2,2	-1,0	-0,6				
	0,686	Telephone equipments	-13,9	-15,0	-16,0	-15,8	-15,8	-17,8	-25,1	-27,3	-26,7	-25,8	-34,9	-35,4	-31,1	-22,9	-16,7	-23,8	-25,7
	4,93	Equip. recep., record. and rep. of sound and pict	-7,2	-7,3	-7,6	-8,1	-9,0	-9,1	-9,0	-9,5	-9,9	-10,6	-12,9	-13,4	-13,8	-14,6	-12,5	-12,3	-12,7
	1,188	Photographic and cinematographic equipments	-13,6	-12,4	-12,4	-12,3	-14,1	-13,9	-15,5	-14,3	-16,2	-16,1	-15,7	-17,9	-19,5	-20,5	-19,3	-19,0	-18,0
	4,196	Information processing equipments	-5,2	-5,0	-5,1	-5,7	-6,3	-6,3	-6,2	-6,9	-7,6	-7,9	-9,0	-11,4	-14,4	-17,4	-19,9	-20,7	-21,5
	2,242	Recording media	-0,2					-0,1	0,0	-0,7	-0,8	-0,4		-0,5	-0,8	-0,7	-1,4	-1,0	-0,9
	6,062	Games and toys	-1,5	-2,2	-2,7	-3,9	-2,5	-2,4	-2,5	-3,1	-2,4	-2,7	-3,6	-1,9	-1,3	-0,6	-0,4	-0,5	-0,4
	0,797	Large sports equipment		-0,8	-1,3	-1,8	-1,5	-1,0	-0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0		-0,2	
	0,84	Other recreational and sporting articles	-0,3				-0,3	-0,7	-0,6	-0,1	-0,1	0,0	-1,0	-0,4	-0,8	-0,1			
	2,003	Gardens, plants and flowers							0,0	0,0	-0,7	-0,3	-1,1	-0,3					
	4,284	Books		-0,5	-0,3														
	18,568	Personal care articles					-0,6	-0,7	-0,9	-0,5	-0,3	-0,5	0,0						
	2,812	Other articles for personal use		-0,6						0,0	0,0	0,0	0,0	-0,9	-1,0	-0,3	-0,4		
SERVICES 54.022	9,775	Services for the maintenance of the dwelling					-0,2	-0,2	-0,2	-0,1	0,0	0,0	0,0	0,0	0,0	0,0			
	1,201	Hospital services	-0,9	-1,0	-1,0	-1,0	-1,2	-1,1	-1,4	-0,3	-0,1	-0,1	0,0	0,0	0,0	0,0			
	3,478	Other services in respect of personal transport					-0,9	-0,9	-1,0	-1,2	-1,1	-0,9	0,0	0,0	0,0	0,0			
	3,321	Air transport			-0,6	-0,7				0,0	-0,7	-0,9	-0,9	-1,3					
	38,06	Telephone services	-0,5	-0,3	-0,3	-0,3	-0,9	-0,9	-0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0			
	14,761	Package holidays	-3,4	-2,2	-0,1	-1,6	-5,3	-5,9	-10,5	-2,7	-8,0	-6,3	-4,3	-2,0					
	1,158	Obligatory education								0,0	0,0	0,0		-2,8	-2,1	-2,1			
7,524	Hotels and other lodgings			-1,2				-1,4	-0,1	-0,6	-1,7	-1,8	-2,5		-1,3				
NON-PROCESSED FOOD 22.285	8,982	Beef						0,0	-0,3	-0,5	0,0	0,0	0,0	0,0	0,0				
	6,111	Pork	-1,2	-1,8	-2,2	-2,1	-1,2	-2,0	-2,7	-2,9	-3,9	-4,8	-4,9	-4,9	-4,2	-1,3			
	3,028	Sheep meat	-5,8	-3,2	-2,0	-1,1		0,0	-2,5	-5,3	-4,6	-2,1							
	7,642	Poultry	-0,6	-4,1	-4,0	-4,1	-3,7	-3,2	-4,4	-7,7	-9,4	-7,7	-4,1	-3,6	-3,7		-1,3		
	1,453	Other meats, viscera and other non-meat edibles	-2,9	-1,6	-2,2	-2,4	-2,5	-2,7	-2,6	-3,9	-3,9	-4,4	-4,8	-3,4	-2,4				
	10,066	Fresh fish						0,0	0,0	-1,6	-0,8	-0,8	-2,9	-5,2	-7,0	-6,2	-1,9		
	2,247	Frozen fish	-1,0	-1,4	-1,8	-1,6	-1,6	-2,0	-2,9	-3,1	-3,2	-3,2	-2,6	-1,6	-1,2				
	5,436	Crustaceans and molluscs						0,0	0,0	-1,7	-1,0	-1,2	-2,2	-3,5	-2,1	-1,3	-0,1	-0,2	
	1,804	Eggs	-1,5	-2,1	-1,7	-1,3	-0,3	-0,3	-0,6	-0,7	-0,7	-0,6	0,0	0,0	0,0	0,0			
	13,013	Fresh fruits					-1,8	-4,2	-5,0	-5,1	-4,8	-4,1	-4,0	-2,3					
8,677	Fresh vegetables						-0,6	-1,7	-2,2	-2,9	-1,6	0,0	0,0	0,0	0,0				
2,836	Potatoes and processed potato products						-2,8	-6,4	-7,6	-8,8	-8,8	-11,2	-14,3	-4,5			-1,7		
ENERGY 0	11,988	Gas						0,0	-16,2	-16,2	-16,2	-16,2	-19,2	-15,5	-12,5				
	4,441	Other fuels						0,0	0,0		0	0	-13,3	-40,1	-41,7	-30,7	-7,0		
	57,898	Fuels and lubricants						0,0	0,0	0	0	0	-18,1	-22,3	-20,0	-6,5			
Total weight in COICOP subclasses with negative year-on-year rates			226,7	264,1	270,5	318,1	382,2	425,6	444,6	422,0	429,5	412,0	306,0	285,8	281,1	203,1	133,2	105,8	

\*With the sum of the weights of the sub-groups with negative YoY price variations in the last month.

In shaded area the items with negative year-on-year inflation since January, 2009.

Source: INE &amp; BIAM(UC3M)

Date: November 26, 2010



CONSUMER PRICE INDEX AND COMPONENTS IN SPAIN											
Annual rates of growth											
		Consumer Prices Index									
		Core					Residual				
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL	Confidence intervals at 80% *	Non processed food	Energy	TOTAL	TOTAL 100% Confidence intervals at 80% *
Weights 2010		12,6%	2,0%	29,0%	39,8%	83,4%		6,5%	10,1%	16,6%	
AVERAGE ANNUAL RATES	2002	3,9	7,4	2,5	4,6	3,7		5,8	-0,2	2,6	3,5
	2003	2,9	3,8	2,0	3,7	2,9		6,0	1,4	3,6	3,0
	2004	3,3	5,6	0,9	3,7	2,7		4,6	4,8	4,7	3,0
	2005	3,0	6,6	0,9	3,8	2,7		3,3	9,6	6,5	3,4
	2006	3,9	1,5	1,4	3,9	2,9		4,4	8,0	6,3	3,5
	2007	3,0	8,8	0,7	3,9	2,7		4,7	1,7	3,2	2,8
	2008	6,9	3,5	0,3	3,9	3,2		4,0	11,9	8,5	4,1
	2009	-0,7	11,7	-1,3	2,4	0,8		-1,3	-9,0	-5,4	-0,3
	2010	-1,3	14,2	-0,5	1,3	0,6	± 0,04	0,1	12,2	7,2	1,7 ± 0,04
	2011	0,0	8,0	0,4	1,5	1,0	± 0,80	2,5	5,0	4,0	1,6 ± 1,32
Year-on-year rates	2009	January	2,3	4,0	-0,3	3,6	2,0	1,3	-9,3	-4,8	0,8
		February	1,3	4,7	-0,7	3,3	1,6	2,2	-8,1	-3,7	0,7
		March	0,6	4,7	-0,6	2,7	1,3	0,8	-11,6	-6,4	-0,1
		April	0,1	4,7	-0,7	3,1	1,3	0,0	-12,4	-7,1	-0,2
		May	-0,7	4,7	-0,8	2,6	0,9	-0,6	-15,3	-9,1	-0,9
		June	-1,1	11,1	-1,1	2,4	0,8	-2,7	-14,2	-9,1	-1,0
		July	-1,6	17,6	-1,5	2,1	0,6	-2,7	-15,9	-10,2	-1,4
		August	-1,7	17,6	-1,8	1,9	0,4	-2,5	-10,2	-6,5	-0,8
		September	-2,1	17,6	-2,1	1,8	0,1	-2,5	-10,2	-6,5	-1,0
		October	-2,1	17,7	-2,1	1,6	0,1	-2,6	-6,6	-4,3	-0,7
		November	-2,0	17,7	-1,7	1,6	0,2	-2,7	1,9	0,6	0,3
		December	-1,8	17,7	-1,7	1,6	0,3	-3,1	7,5	3,4	0,8
	2010	January	-1,9	16,6	-1,7	1,2	0,1	-3,2	11,4	5,6	1,0
		February	-2,0	17,2	-1,5	1,1	0,1	-3,8	9,9	4,5	0,8
		March	-1,9	17,2	-1,5	1,3	0,2	-2,2	13,9	7,5	1,4
		April	-2,0	17,1	-1,5	0,8	-0,1	-1,3	16,7	9,5	1,5
		May	-1,6	17,0	-1,1	1,0	0,2	-0,8	16,4	9,6	1,8
		June	-1,3	17,7	-0,8	1,0	0,4	0,5	10,9	6,8	1,5
		July	-1,0	11,7	-0,1	1,4	0,8	1,1	11,8	7,6	1,9
		August	-0,9	11,6	0,2	1,5	1,0	1,6	8,9	6,0	1,8
		September	-0,6	11,6	0,4	1,5	1,1	1,3	11,1	7,2	2,1
		October	-0,5	11,6	0,6	1,5	1,1	2,1	12,6	8,4	2,3
		November	-0,5	11,6	0,6	1,5	1,2 ± 0,19	2,4	11,5	7,7	2,3 ± 0,17
		December	-0,5	11,6	0,6	1,5	1,2 ± 0,30	2,9	12,4	8,5	2,4 ± 0,35
	2011	January	-0,4	10,9	0,6	1,6	1,2 ± 0,40	3,0	9,1	6,6	2,1 ± 0,53
		February	-0,1	8,7	0,6	1,6	1,2 ± 0,47	3,4	9,1	6,8	2,2 ± 0,72
		March	0,1	9,9	0,6	1,6	1,3 ± 0,55	3,2	7,1	5,5	2,0 ± 0,89
		April	0,4	10,7	0,7	1,6	1,3 ± 0,61	3,4	5,1	4,4	1,9 ± 1,03
		May	0,3	11,7	0,7	1,7	1,4 ± 0,70	3,3	4,9	4,2	1,9 ± 1,17
		June	0,2	5,8	0,7	1,7	1,2 ± 0,77	2,6	5,6	4,4	1,8 ± 1,28
		July	0,1	6,3	0,2	1,4	0,9 ± 0,85	2,2	4,9	3,8	1,4 ± 1,39
		August	-0,1	6,3	0,2	1,3	0,8 ± 0,92	1,7	5,1	3,7	1,3 ± 1,47
		September	-0,2	6,4	0,0	1,3	0,7 ± 0,98	1,9	4,5	3,4	1,2 ± 1,55
		October	-0,3	6,4	0,0	1,4	0,8 ± 1,05	1,8	3,0	2,5	1,1 ± 1,63
		November	-0,3	6,5	0,0	1,4	0,8 ± 1,10	2,0	1,6	1,8	0,9 ± 1,70
		December	-0,3	6,7	-0,1	1,4	0,8 ± 1,13	2,1	1,3	1,7	0,9 ± 1,73

\* Confidence intervals calculated with historical errors

\*The figures in the shaded area are Forecasts

Source: INE &amp; BIAM(UC3M)

Date: November 26, 2010



CONSUMER PRICE INDEX AND COMPONENTS IN SPAIN											
Monthly rates of growth											
			Consumer Prices Index								
			Core				TOTAL	Residual		TOTAL	TOTAL 100 %
			Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services		Non processed food	Energy		
Weights 2010			12,6%	2,0%	29,0%	39,8%	83,4%	6,5%	10,1%	16,6%	
MONTHLY RATES (Growth of the month over the previous month)	January	2008	0,5	2,4	-3,8	0,5	-1,0	0,6	1,4	1,1	-0,6
		2009	-0,1	2,7	-4,4	0,3	-1,4	0,3	-0,8	-0,4	-1,2
		2010	-0,2	1,8	-4,4	-0,1	-1,6	0,2	2,8	1,8	-1,0
		2011	-0,1	1,2	-4,4	0,0	-1,5	0,3	-0,3	0,0	-1,3
	February	2008	0,7	0,9	-0,2	0,5	0,3	-1,6	0,0	-0,7	0,2
		2009	-0,3	1,6	-0,6	0,2	-0,1	-0,7	1,3	0,5	0,0
		2010	-0,4	2,1	-0,4	0,1	-0,1	-1,4	0,0	-0,5	-0,2
		2011	-0,1	0,0	-0,4	0,1	-0,1	-0,9	0,0	-0,4	-0,1
	March	2008	0,4	0,1	0,9	0,8	0,7	0,1	2,8	1,7	0,9
		2009	-0,3	0,0	1,0	0,3	0,4	-1,3	-1,1	-1,2	0,2
		2010	-0,2	0,0	1,1	0,5	0,5	0,4	2,5	1,7	0,7
		2011	0,0	1,2	1,1	0,4	0,6	0,2	0,6	0,4	0,6
	April	2008	0,3	0,1	2,9	0,2	1,1	0,4	1,2	0,9	1,1
		2009	-0,3	0,1	2,7	0,6	1,2	-0,4	0,3	0,0	1,0
		2010	-0,4	0,0	2,7	0,1	0,9	0,5	2,7	1,9	1,1
		2011	-0,2	0,8	2,7	0,1	1,0	0,6	0,8	0,7	0,9
	May	2008	0,3	0,0	0,3	0,2	0,3	0,1	4,3	2,6	0,7
		2009	-0,5	0,1	0,3	-0,3	-0,1	-0,5	0,9	0,3	0,0
		2010	-0,1	0,0	0,6	-0,1	0,2	0,0	0,7	0,4	0,2
		2011	-0,2	0,8	0,7	0,1	0,3	0,0	0,5	0,3	0,3
	June	2008	0,3	0,0	-0,2	0,5	0,2	1,3	3,1	2,4	0,6
		2009	-0,2	6,1	-0,5	0,3	0,0	-0,8	4,4	2,4	0,4
		2010	0,1	6,7	-0,2	0,3	0,2	0,5	-0,5	-0,1	0,2
		2011	0,0	1,1	-0,1	0,2	0,1	-0,3	0,2	0,0	0,1
	July	2008	0,2	0,0	-3,6	0,7	-0,9	-0,1	2,3	1,4	-0,5
		2009	-0,3	6,0	-3,9	0,5	-1,1	-0,1	0,3	0,1	-0,9
		2010	0,0	0,5	-3,3	0,8	-0,7	0,6	1,1	0,9	-0,4
		2011	-0,2	1,0	-3,8	0,5	-1,1	0,2	0,4	0,3	-0,8
	August	2008	0,2	0,0	-0,2	0,6	0,3	0,0	-3,9	-2,4	-0,2
		2009	0,1	0,0	-0,5	0,5	0,1	0,2	2,5	1,7	0,3
		2010	0,2	0,0	-0,2	0,6	0,3	0,7	-0,1	0,2	0,3
		2011	0,1	0,0	-0,2	0,5	0,2	0,2	0,1	0,1	0,2
	September	2008	0,2	0,0	1,1	-0,5	0,2	0,4	-1,8	-0,9	0,0
		2009	-0,2	0,0	0,8	-0,7	-0,1	0,3	-1,7	-1,0	-0,2
		2010	0,1	0,0	1,1	-0,7	0,0	0,1	0,2	0,2	0,1
		2011	0,0	0,1	0,9	-0,7	0,0	0,3	-0,3	-0,1	0,0
	October	2008	0,1	0,0	2,7	0,0	0,9	-0,4	-3,9	-2,4	0,3
		2009	0,0	0,0	2,7	-0,1	0,9	-0,5	0,0	-0,2	0,7
		2010	0,1	0,0	2,9	-0,2	0,9	0,3	1,3	0,9	0,9
		2011	0,0	0,0	2,8	-0,1	0,9	0,2	-0,1	0,0	0,8
	November	2008	0,0	0,0	1,0	-0,2	0,3	0,1	-6,6	-3,8	-0,4
		2009	0,1	0,0	1,4	-0,2	0,4	-0,1	1,9	1,2	0,5
		2010	0,2	0,0	1,4	-0,1	0,5	0,3	1,0	0,7	0,5
		2011	0,2	0,0	1,4	-0,1	0,5	0,5	-0,4	0,0	0,4
	December	2008	-0,1	0,0	-0,5	0,3	0,0	0,6	-5,8	-3,0	-0,5
		2009	0,1	0,0	-0,4	0,3	0,0	0,2	-0,6	-0,3	0,0
		2010	0,2	0,0	-0,4	0,3	0,0	0,7	0,2	0,4	0,1
		2011	0,2	0,2	-0,4	0,3	0,0	0,8	-0,2	0,3	0,1

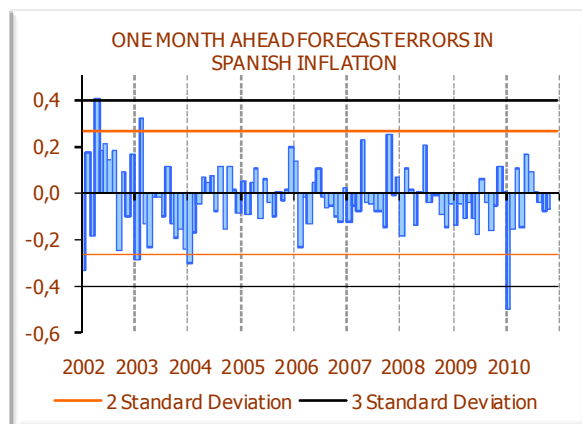
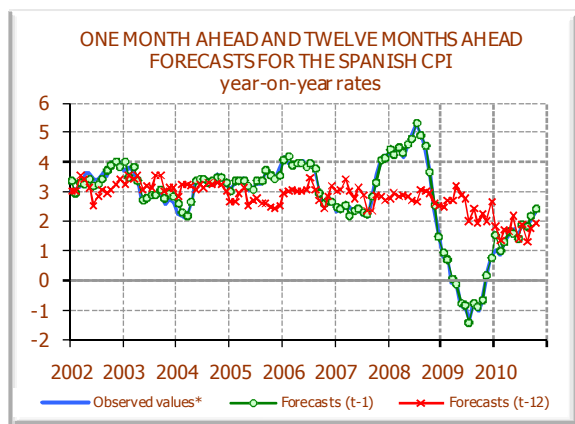
\* The figures in the shaded area are Forecasts

Source: INE & BIAM(UC3M)

Date: November 26, 2010



## FORECASTS ERRORS IN SPAIN



INFLATION IN SPAIN				
Annual rates, October, 2010				
Consumer Price Index CPI	Weights 2010	Observed	Forecasts	Confidence Intervals at 80%
Processed food	14,54	1,15	1,10	0,48
Non-energy industrial goods	29,02	0,58	0,60	0,31
Services	39,80	1,47	1,46	0,17
<b>CORE</b>	<b>83,36</b>	<b>1,11</b>	<b>1,10</b>	<b>0,19</b>
Non-processed food	6,55	2,05	2,08	0,96
Energy	10,09	12,58	12,70	0,71
<b>RESIDUAL</b>	<b>16,64</b>	<b>8,45</b>	<b>8,23</b>	<b>0,73</b>
<b>TOTAL</b>	<b>100</b>	<b>2,33</b>	<b>2,33</b>	<b>0,17</b>

Source: INE &amp; BIAM (UC3M)

Date: November 12, 2010



INFLATION BY COMPONENTS IN THE CONSUMER PRICE INDEX OF SPAIN										
Annual average rates										
				Weights 2009	2006	2007	2008	2009	2010	2011
CPI Total	Core Inflation	Processed food	AE less tobacco & fats	10,3	2,8	4,5	7,4	-0,1	-1,2	0,0
			Oils & Fats	0,6	23,4	-16,8	2,2	-11,4	-2,4	0,1
			Tobacco	1,7	1,5	8,8	3,5	11,7	14,2	8,0
				12,6	3,6	3,8	6,7	0,9	0,9	1,1
		Non energy industrial goods	Vehicles	5,6	2,3	1,4	-0,5	-3,8	-1,2	1,3
			Footwear	1,8	1,6	1,3	1,4	-0,4	0,6	1,6
			Clothing	6,6	1,1	0,9	0,4	-2,1	-0,6	-0,4
			Rest	15,0	1,2	0,3	0,3	-0,1	-0,2	0,2
				29,0	1,5	0,8	0,4	-1,2	-0,5	0,4
		Services	Postal services	0,0	5,7	3,6	2,8	2,8	4,5	2,1
			Cultural services	1,9	2,4	3,1	2,8	2,7	1,4	1,6
			Education	0,9	3,5	4,1	3,4	2,5	2,1	1,9
			Hotels	0,8	3,6	5,5	4,2	-1,4	-0,1	0,3
			Health	2,5	4,1	4,2	4,1	3,9	2,7	2,8
			Household equipment	1,9	4,4	4,2	4,4	3,4	2,5	1,8
			Restaurants	11,8	4,5	4,8	4,7	2,2	1,2	1,3
			Telephone	3,7	-1,4	0,3	0,6	0,1	-0,4	0,1
			Transports	5,6	4,2	3,1	4,1	3,1	2,2	2,2
			Package holidays	1,5	3,1	0,6	4,5	0,2	-4,0	-1,0
			University	0,5	5,0	5,3	5,2	5,3	3,3	3,2
			Housing	5,4	4,7	4,6	4,1	3,0	1,7	1,8
			Rest	3,3	4,3	3,9	3,8	2,4	1,6	1,8
				39,8	3,8	3,8	3,9	2,4	1,3	1,5
			83,4	2,9	2,7	3,2	0,8	0,6	1,0	
	Residual Inflation	Non processed foods	Meat	2,4	6,0	5,2	3,9	-0,6	-1,8	2,4
			Fruits	1,2	0,1	4,5	9,4	0,3	-1,1	1,9
			Eggs	0,2	2,8	4,3	10,7	1,2	-0,9	-0,2
			Vegetables	0,8	-0,8	6,4	2,4	2,1	1,1	2,7
			Mollusc	0,5	2,3	0,1	-0,2	-2,2	3,1	6,5
			Potatoes	0,3	17,6	8,4	-1,7	-7,0	7,7	11,0
			Fish	1,2	5,7	2,5	1,2	-4,6	1,4	-0,1
				6,5	4,2	4,5	3,8	-1,2	0,1	2,5
		Energy	Heat energy	5,9	6,6	1,4	13,0	-15,2	16,5	5,4
			Fuels	0,5	11,8	-0,8	23,5	-32,7	23,3	3,2
			Electricity and gas	3,7	9,6	2,1	8,7	2,1	4,2	4,7
				10,1	8,0	1,7	11,9	-9,0	12,2	5,0
				16,6	6,1	3,1	8,2	-5,2	7,2	4,0
				100,0	3,5	2,8	4,1	-0,3	1,7	1,6

\* The figures in the shaded area are forecasts

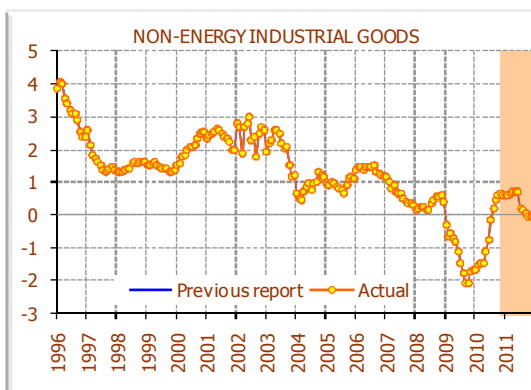
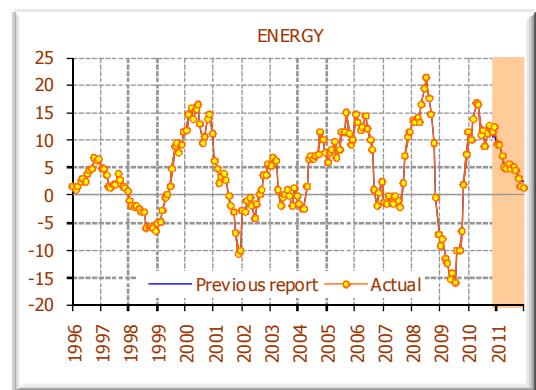
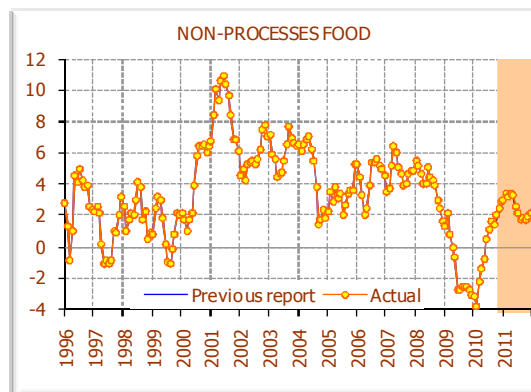
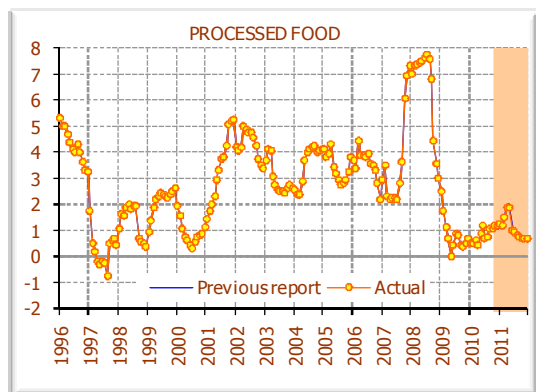
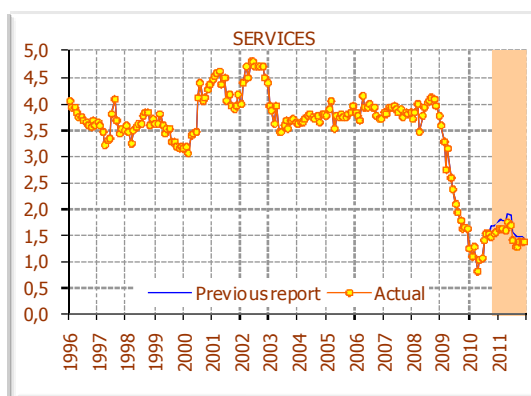
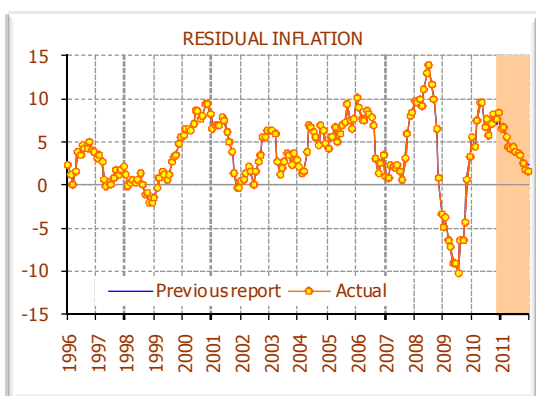
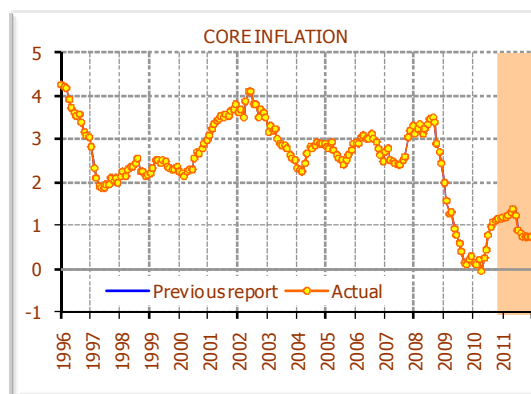
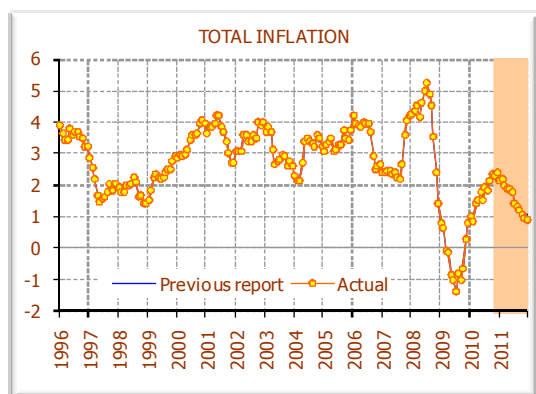
Source: INE & BIAM(UC3M)

Date: November 26, 2010





## CHANGE IN FORECASTS OF ANNUAL RATE OF INFLATION BY SPECIAL GROUPS IN SPAIN Year-on year rates



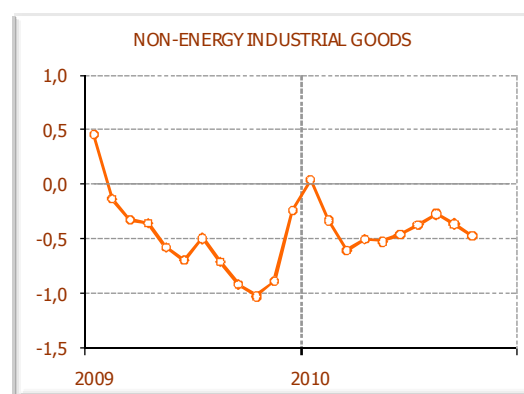
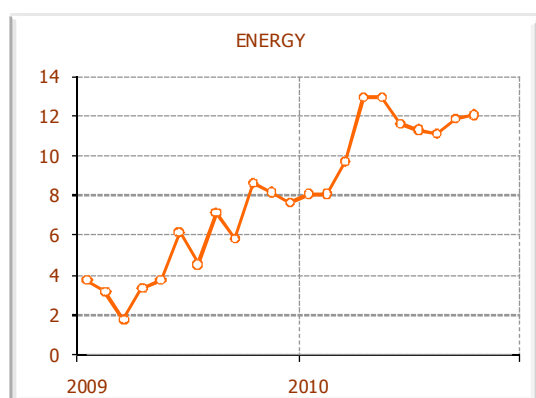
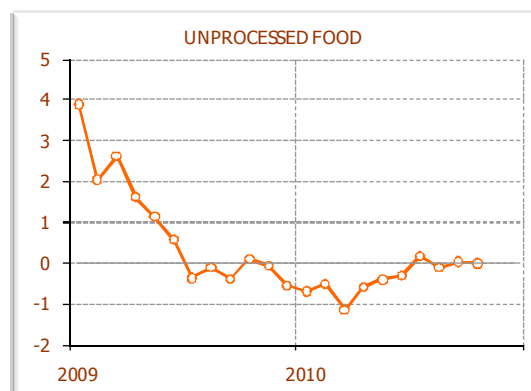
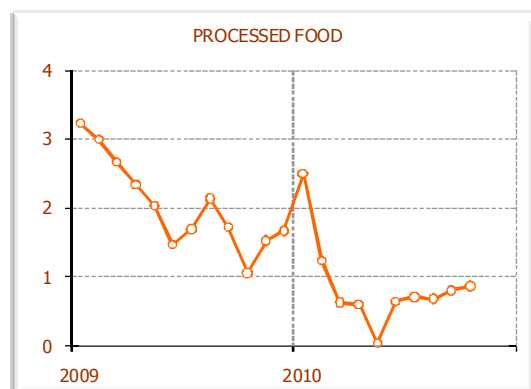
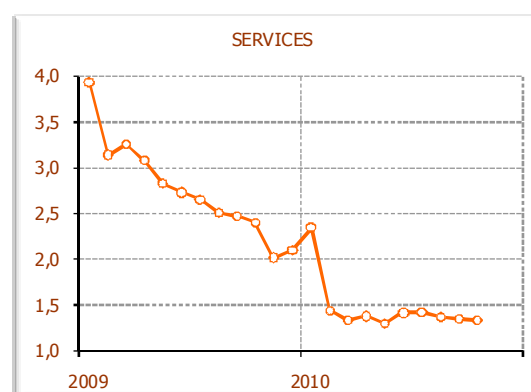
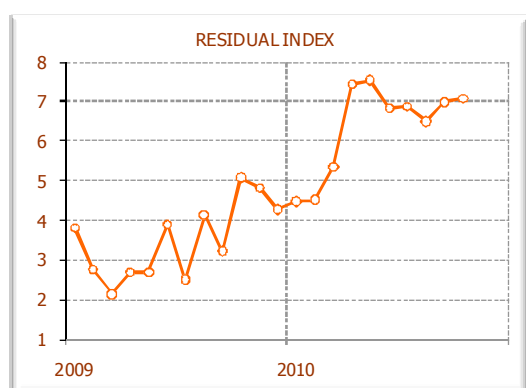
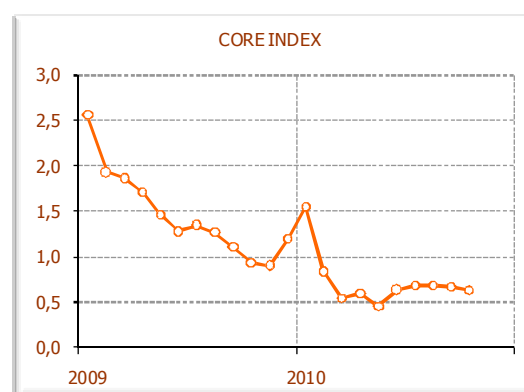
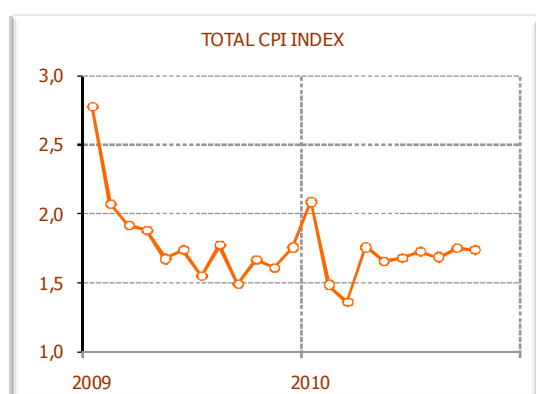
Source: INE & BIAM (UC3M).

Date actual report: November 26, 2010

Date previous report: October 14, 2010



## FORECASTS FOR 2010 ANNUAL AVERAGE CPI GROWTH RATE BY COMPONENT



Note: These graphs show the average anual CPI growth rates forecast in the Bulletin published in the month on the abscissa

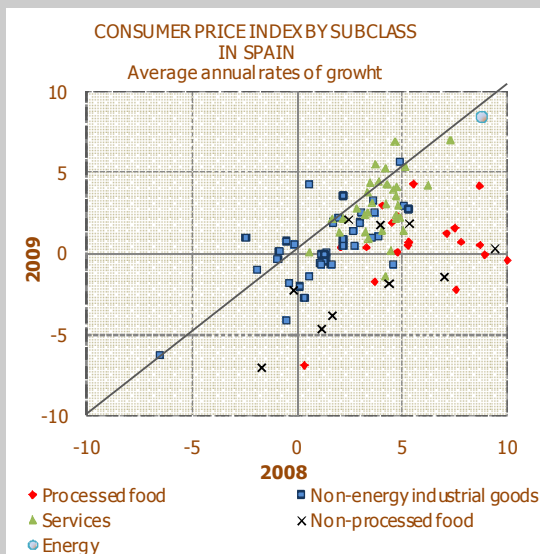
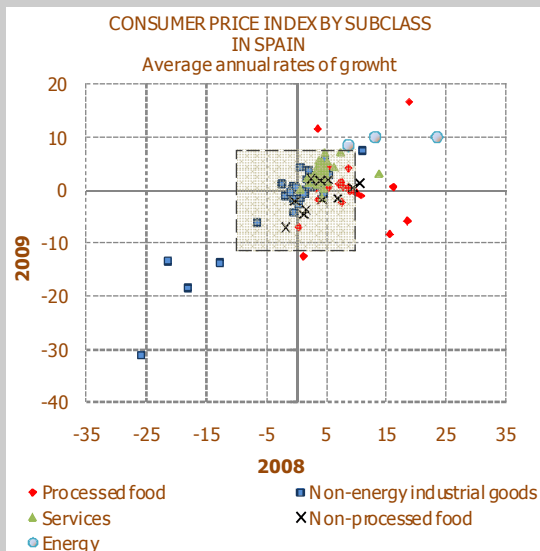
Source: INE & BIAM (UC3M)

Date: November 26, 2010



## INFLATION FORECASTING BY SUBCLASS IN SPAIN

The tables and graphs show the observed values for 2007, 2008 and 2009 and Forecasts for 2010 and 2011, according to the five special groups.



The graph below zooms on the grey area marked in the previous figure.

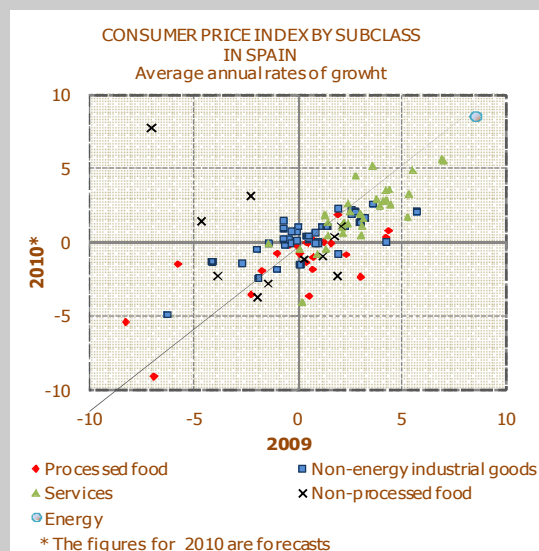
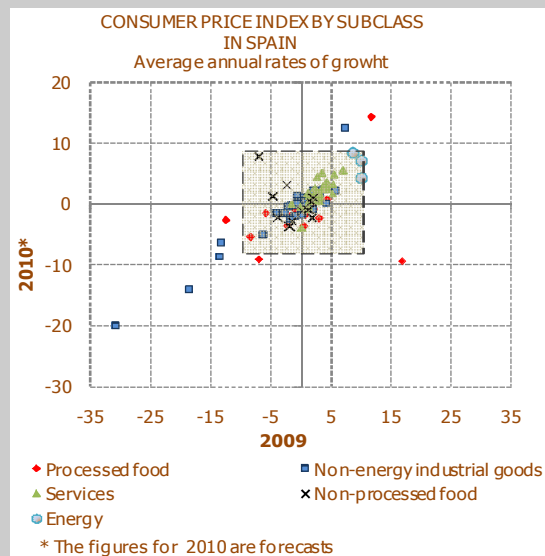
Source: EUROSTAT & BIAM (UC3M)

CONSUMER PRICE INDEX BY SUBCLASS IN SPAIN					
Annual average rates of growth					
	2007	2008	2009	2010	2011
<b>PROCESSED FOOD</b>					
Rice	2,7	18,8	16,8	-9,4	-3,0
Flours and cereals	3,7	8,7	0,5	-3,6	-1,7
Bread	8,2	8,9	0,0	-0,3	-0,9
Pastry goods, cakes, mixes and doughs for bakery pi	2,6	7,5	1,6	-0,1	1,5
Farinaceous-based products	3,9	18,5	-5,8	-1,5	-0,2
Delicatessen type meat products	3,9	3,3	0,4	-0,1	-0,5
Processed meat products	2,3	4,8	2,3	-0,8	-0,2
Preserved and processed fish	3,7	5,3	0,7	0,1	3,3
Milk	10,0	15,6	-8,3	-5,4	-1,9
Other dairy products	3,1	7,6	-2,2	-3,5	-1,4
Cheeses	3,7	10,0	-0,4	-0,2	0,6
Preserved fruits, nuts and dried fruits	0,5	2,1	0,4	-1,4	-0,5
Dried pulses and vegetables	3,8	10,8	-1,0	-0,8	-1,5
Frozen and preserved pulses and vegetables	6,3	7,8	0,7	-1,0	0,0
Sugar	1,6	0,3	-6,9	-9,0	-4,2
Chocolates and confectionery	2,8	5,3	0,5	-0,1	1,2
Other food products	3,5	8,7	4,2	0,3	2,6
Baby food	3,7	3,7	-1,7	-2,0	-2,3
Coffee, cocoa and infusions	4,7	7,1	1,3	0,0	2,9
Mineral water, soft drinks, fruit and vegetable juices	2,5	4,0	3,0	-2,4	-1,5
Spirits and liqueurs	2,5	4,5	1,9	1,8	2,0
Wines	2,5	4,7	0,1	-0,8	0,1
Beer	3,6	5,5	4,3	0,8	2,4
Tobacco	8,8	3,5	11,7	14,2	8,0
Butter and margarine	4,6	16,2	0,7	-1,8	1,5
Oils	-18,4	1,1	-12,4	-2,6	-0,1
<b>NON-ENERGY INDUSTRIAL GOODS</b>					
Men's outerwear	0,4	0,1	-2,0	-0,4	0,9
Men's underwear	1,9	1,2	0,0	0,8	1,1
Women's outerwear	1,4	0,3	-2,7	-1,4	-1,1
Women's underwear	1,1	1,4	0,0	1,1	-0,9
Children's and infants' garments	1,5	0,6	-1,4	-0,1	-1,2
Clothing accessories of garments	-7,2	1,4	-0,2	0,8	-1,1
Men's footwear	1,9	1,3	0,0	0,2	1,9
Women's footwear	0,7	1,6	-0,7	1,0	1,9
Children's and infants' footwear	1,6	1,3	-0,5	0,2	0,3
Motor vehicles	1,4	-0,5	-4,1	-1,3	1,2
Other vehicles	-0,6	-2,4	1,0	0,0	1,0
Spare parts and maintenance accessories	3,9	4,6	-0,7	1,4	3,7
Materials for the maintenance and repair of the dwe	5,7	5,1	3,0	1,4	2,9
Water supply	5,4	4,9	5,7	2,1	3,0
Furniture	3,9	3,9	1,1	1,1	2,9
Other equipments	4,8	2,7	0,5	0,4	2,4
Household textiles	2,1	2,2	0,5	0,2	0,8
Refrigerators, washing machines and dishwashers	-1,3	-1,9	-1,0	-1,9	-1,9
Cookers and ovens	0,5	-0,8	0,1	-1,6	-0,9
Heating and air conditioning	-1,1	-0,5	0,8	0,7	-0,4
Other household appliances	0,3	-0,2	0,5	0,5	0,0
Glassware, crockery and cutlery	1,6	3,1	2,6	1,9	2,0
Other kitchen utensils and furnishing	4,2	3,7	2,6	2,2	2,2
Tools and accessories for house and garden	4,1	3,0	1,9	2,3	2,4
Cleaning household articles	1,4	1,7	1,9	-0,8	0,2
Other non-durable household articles	2,7	2,7	1,4	1,1	1,8
Medicines and other pharmaceutical products	-9,0	-6,5	-6,3	-4,9	-4,1
Therapeutic appliances and equipment	1,7	3,6	1,0	0,0	0,8
Telephone equipments	-5,2	-25,7	-30,9	-20,0	-22,4
Equip. for the reception, recording and reproduction i	-11,4	-12,7	-13,7	-8,5	-9,3
Photographic and cinematographic equipments	-14,5	-18,0	-18,5	-14,1	-17,3
Information processing equipments	-20,0	-21,5	-13,3	-6,2	-13,3
Recording media	-1,3	-0,9	-0,4	-0,1	-0,2
Games and toys	-0,8	-0,4	-1,8	-2,4	-2,1
Large sports equipment	-0,5	0,6	4,3	0,1	1,6
Other recreational and sporting articles	0,0	1,1	-0,6	-0,1	-0,3
Gardens, plants, flowers and pets	4,1	5,3	2,8	2,0	2,2
Books	2,9	2,0	2,2	1,1	1,0
Newspapers and magazines	1,4	2,2	3,6	2,6	1,5
Material de papelería	2,7	3,7	3,2	1,6	2,1
Personal care articles	2,1	2,2	0,8	0,0	1,1
Jewellery, costume jewellery, clocks and watches	9,7	11,1	7,5	12,5	15,6
Other articles for personal use	0,8	1,1	-0,6	0,2	-0,4

1. There exists a small aggregation caused by the fact that some sub-group contains goods and services that belong to different special groups.



CONSUMER PRICE INDEX BY SUBCLASS IN SPAIN					
Annual average rates of growth					
	2007	2008	2009	2010	2011
<b>SERVICES</b>					
Maintenance and repair services	4,5	4,8	4,1	2,8	3,2
Other services related to vehicles	3,7	3,3	1,3	-0,4	-0,4
Railway transport	4,2	3,7	5,5	4,9	3,9
Road transport	3,9	4,2	5,3	1,7	2,0
Air transport	3,0	13,7	3,0	0,5	1,9
Other transport services	3,9	7,3	7,0	5,5	3,4
Insurances connected with transport	1,7	2,0	1,3	1,8	1,5
Restaurants, bars, coffee bars, canteens	4,8	4,7	2,2	1,2	1,3
Hotels and other lodgings	5,5	4,2	-1,4	-0,1	0,3
Package holidays	0,6	4,5	0,2	-4,0	-1,0
Higher education	5,3	5,2	5,3	3,3	3,2
Postal services	3,6	2,8	2,8	4,5	2,1
Telephone services	0,3	0,6	0,1	-0,4	0,1
Rentals for housing	4,4	4,2	3,1	1,1	1,5
Services for the maintenance and repair of the dwell	5,5	5,1	1,4	0,5	1,7
Sewerage collection	4,6	3,4	3,8	2,9	2,8
Out-of-hospital medical and paramedical services	4,0	4,9	2,2	1,3	2,4
Dental services	3,2	3,2	2,4	1,3	1,6
Hospital services	3,6	3,4	0,9	-0,8	0,9
Medical services	5,3	4,7	6,9	5,6	4,8
Recreational and sporting services	2,8	1,7	2,1	1,0	1,2
Cultural services	3,4	3,6	3,1	1,6	1,8
Education	4,1	3,4	2,5	2,1	1,9
Repair of footwear	5,8	6,2	4,2	3,5	4,8
Domestic service and other household services	4,4	4,8	3,0	1,9	1,3
Insurances connected with the dwelling	3,6	3,5	4,4	3,6	2,9
Personal care services	4,1	4,0	1,4	1,3	1,3
Social services	5,2	4,6	4,0	2,5	2,3
Other insurances	3,9	3,9	4,5	2,6	3,3
Financial services	7,8	4,7	3,6	5,1	1,4
Other services	2,2	2,2	2,2	0,6	1,4
Repair of household appliances	3,9	4,3	4,2	2,8	4,1
Repairs and cleaning of garments	3,8	4,7	2,4	2,6	3,2
<b>NON-PROCESSED FOOD</b>					
Beef	6,0	4,0	1,7	0,3	3,1
Pork	2,7	1,6	-3,8	-2,3	1,1
Mutton	-0,7	5,3	1,9	-2,3	2,5
Poultry	9,7	4,3	-1,9	-3,7	3,1
Other meats, viscera and other non-meat edibles	0,1	7,0	-1,5	-2,8	0,3
Fresh fish	2,5	1,2	-4,6	1,4	-0,1
Crustaceans and molluscs	0,1	-0,2	-2,2	3,1	6,5
Eggs	4,3	10,7	1,2	-0,9	-0,2
Fresh fruits	4,5	9,4	0,3	-1,1	1,9
Fresh pulses and vegetables	6,4	2,4	2,1	1,1	2,7
Potatoes and processed potato products	8,4	-1,7	-7,0	7,7	11,0
<b>ENERGY</b>					
Electricity and gas	2,1	8,7	8,6	8,6	7,3
Other fuels	-0,8	23,5	10,1	4,4	1,6
Fuels and lubricants	1,4	13,0	10,0	7,1	4,7



The graph below zooms on the grey area marked in the previous figure.

Source: EUROSTAT & BIAM (UC3M)

Date: November 12, 2010



### IV.3. SITUATION OF THE SPANISH LABOUR MARKET TOWARDS THE END OF 2010. FORECASTS FOR 2010 AND 2011

Occupation grew by a quarter-on-quarter rate of 70,000 people. When corrected for seasonality, this represents a decrease of around 30,000.

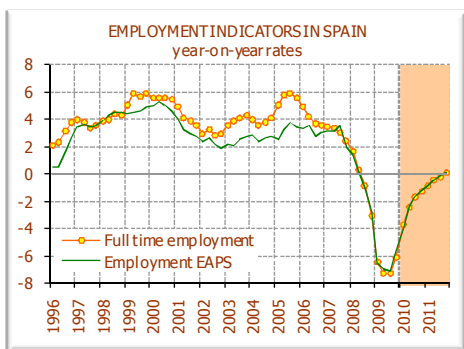
The economic crisis is having a much worse effect on the Spanish labour market than in other countries. Indeed, the unemployment rate has risen to 20% from one-digit figures and two million jobs have been lost. In the last three quarters, however, the effects have decreased, and market adjustment could be seen shortly. These results show that the labour market is inefficient and urgently needs to be reformed. Last June's labour market reform needs to be supplemented with other pending aspects and it is too soon yet to evaluate its results. From a sectoral perspective, the crisis has had a worse effect on construction and the manufacturing industry, although some branches related to the service sector or, directly or indirectly, to the public sector, have created net employment during the crisis.

a quarter-on-quarter rate of 70,000 people. When corrected for seasonality, this represents a decrease of around 30,000. This variation represents a quarter-on-quarter drop of 0.2%, less than in the second quarter (0.3%) and the first (0.6%), so the drop in employment continues to slow down. Relative to a year earlier, 323,400 jobs had been lost, representing a year-on-year decrease of 1.71%, considerably less than in the previous quarter (2.5%) and close to our forecast (-1.67%). This is consistent with the relative improvement found in economic activity in the last few quarters. However, GDP growth remained stable in the third quarter, after growing slightly in the first two, and this trend will probably continue in the fourth.

*Part time rate in the last two years, it is still below the euro area average and has less cyclical sensitivity, so its effect as an employment adjustment factor in recessions is less in Spain than in the euro area.*

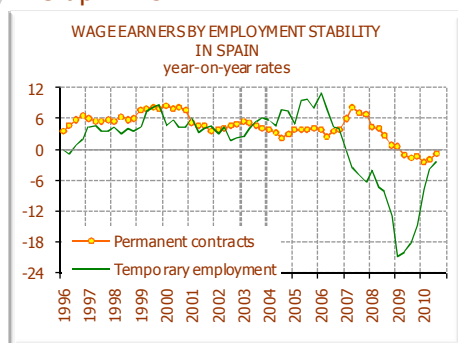
#### IV.3.1. The demand for employment

Graph IV.3.1.1



Source: INE

Graph IV.3.1.2



Source: INE (EPA)

The Spanish labour market's adjustment is not yet complete towards the end of 2010, although unemployment is growing at an increasingly slower rate and this adjustment process will probably end in a few quarters time. Labour indicators such as the Active Population Survey (EPA), employment estimated by the Quarterly National Accounts, and the partial information provided by Social Security (SS) contributors and registered unemployment all point in that direction.

According to the third quarter EPA, occupation grew by

The occupation rate, calculated as the percentage of employed people in the population over 16 years of age, grew to 48.2%, although it fell slightly when corrected for seasonality. Since the onset of the crisis, this rate has registered a reduction of 6 points, after growing considerably since the late nineties. Also, in the third quarter 90,000 people were employed in the public sector, meaning that the growth in employment was solely due to this, which is not precisely consistent with the fiscal consolidation process affecting the Spanish economy.

With regards to professional status, salaried employees continued to show a relative improvement in July-September, with a year-on-year rate of reduction of 1.2%, better than the previous quarter's 2.4%. On the other hand, non-salaried employees fell by 4% relative to a year earlier, one percentage point worse than the previous quarter, showing that 194,000 salaried jobs and 130,000 non-salaried jobs were lost in the last four quarters.

With regards to employment stability, indefinite salaried employees reduced their year-on-year rate of decline from 1.9% to 0.8%, as did temporary employees, from

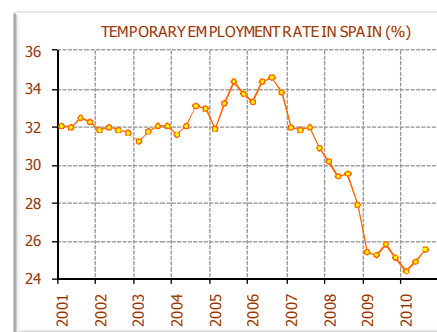


3.8% to 2.4%. This means that slightly less than 100,000 jobs were lost in both cases, although previously many more temporary jobs had been lost. As a result of this, the temporary employment rate in the third quarter increased by seven tenths of a point to 25.6%, double the euro area rate.

With regards to working hours, in the third quarter of 2010 the full-time employed declined by 2.3% relative to a year earlier. Part-time employment registered a year-on-year increase of 2.4%. The part-time employment rate was 12.8%, seven tenths of a point less than in the second quarter,

although half a point higher than a year earlier. Despite the increase in the part time rate in the last two years, it is still below the euro area average and has less cyclical sensitivity, so its effect as an employment adjustment factor in recessions is less in Spain than in the euro area.

Graph IV.3.1.3



Source: INE (EPA)

Table IV.3.1.1

RECENT EVOLUTION OF EMPLOYMENT INDICATORS										
	Annual variation as %							Thousands		
	2008	2009	III	IV	I	II	III	Average 2009	Last figure Level	Δ annual
<b>ECONOMICALLY ACTIVE POPULATION SURVEY (EAPS)</b>										
<b>Total employed</b>	-0,5	-6,8	-7,3	-6,1	-3,6	-2,5	-1,7	18888,0	18546,8	-323,4
<b>Employed by economic sector</b>										
- Agriculture	-5,0	-4,0	-6,4	-2,6	-0,3	-1,1	2,3	786,1	754,0	16,8
- Industry	-1,1	-13,3	-14,9	-11,9	-10,4	-6,4	-4,4	2775,0	2600,6	-119,0
- Construction	-10,9	-23,0	-23,3	-17,3	-15,9	-11,6	-9,8	1888,3	1668,1	-182,2
- Services	2,1	-2,5	-2,8	-3,3	-0,6	-0,4	-0,3	13438,7	13524,1	-39,0
Employment rate	53,0	49,1	49,1	48,5	48,2	48,0	47,9	49,1	47,9	1,1
<b>Employed by professional status</b>										
Wage earners	-0,5	-6,0	-6,5	-5,0	-3,7	-2,4	-1,2	15680,7	15456,4	193,8
- With an indefinite contract	3,0	0,9	-1,7	-1,3	-2,4	-1,9	-0,8	11698,3	11506,5	-97,6
- With a temporary contract	-8,0	-18,4	-18,2	-14,7	-7,6	-3,8	-2,4	3982,4	3949,9	-96,1
Non wage earners	-0,5	-10,3	-10,6	-11,1	-3,3	-3,0	-4,0	3207,3	3090,5	-130,0
<b>Employed by type of working day</b>										
- Complete	-0,7	-7,6	-8,1	-6,9	-4,4	-3,1	-2,3	16472,9	16174,8	-379,0
- Part time	1,1	-0,4	-0,3	-0,3	1,2	2,0	2,4	2415,1	2371,9	55,8
<b>Social Security contributors</b>										
- Total	3,0	-0,5	-0,9	-3,4	-3,0	-1,9	-1,6	18019,0	17761,9	-243,0

Source: INE and MTAS.





#### IV.3.2. Sectoral employment in the economic crisis

As mentioned in previous issues, this economic crisis is having a much greater effect on employment than the recession in the early nineties. It is also greater than in other countries. Dating the onset of the crisis, for practical purposes, in the first quarter of 2008, when employment figures according to the new National Classification of Economic Activities of 2009 (CNAE-09) were available, employment was then 20,402,300 and is now 18,546,800, representing 1,855,100 less jobs and a 9.1% reduction.

Initially, the first job losses were in the construction sector, which originated the crisis in Spain, but gradually spread to other major sectors. Construction and the manufacturing industry are the most affected by the crisis, while services practically held their own, with some growth in some branches.

Table 2 contains hard data showing the effect of the current economic crisis on employment in different sectors, broken down according to the CNAE-09.

The greatest losses are found in construction, as a result of the crisis affecting the property segment. In this sector, job losses total 1,002,300, or 37.5%, representing more than half of all job losses in the period. Within the sector, the worst off is building construction, with 724,500 job losses, nearly half the employment registered in the first quarter of 2008 (49.2%). Specialised construction was also affected by the crisis, with the 1,019,800 jobs registered in the first quarter of 2008 having fallen to 741,000 two and a half years later, representing a reduction of 27.3%. Civil engineering (public works), however, increased its employment rate by 700 people. One branch of activity that is in the service sector but closely related to construction is Property Agencies, where employment fell by 29%, equivalent to 35,000 jobs.

Industry is also highly affected by the reduction in economic activity. In the first quarter of 2008, industry represented 3.3 million jobs, 712,800 (21.5%) of which have disappeared, most of them in the manufacturing industry (706,300, 23%).

Mining suffered from 10,400 jobs losses, 19.5% of its employment at the onset of the crisis. Other smaller branches have not been so affected, however, including water supplies, sanitation, waste management and the supply of electricity, gas, steam and air conditioning. The first of them has practically maintained its level of employment, with a reduction of only 2,000 people (2.8%), and the second generated 5,100 jobs, or 5.1%, probably in the renewable energy sector, especially wind farms and solar energy. The controversy related to the subsidies granted to these sources of energy could eventually affect employment in these industries.

The primary sector has lost 28,000 jobs, a 9.1% reduction. This trend, however, is also found when there is not an economic crisis. The largest numbers of job losses are found in farming, livestock breeding and hunting (12.7%), fishing and fish farms (12.7%). Employment has increased slightly (4.3%) in the forestry sector.

Employment in general in the service sector was not much affected by the crisis, although the different branches show varied results. The reduction overall during the crisis was 30,700 jobs, or 0.2%. The most negative branch was property activities, with a reduction of 35,100 jobs, or 29%, followed by financial activities and insurance (12%), the retail and wholesale trades, motor vehicle and motorcycle repairs, with a 9.6% reduction (307,500 job losses) and transport and storage (3.7%). Some branches have generated net employment, including the public administration and defence, with 16% growth (195,200 jobs), artistic, recreational and entertainment activities (22.1%), healthcare activities and social services (19.7%). May of the activities that have created employment are directly related to the public sector, while others are managed by private companies related to healthcare and social services, the latter probably related to the Dependence Act.

*Construction and the manufacturing industry are the most affected by the crisis, while services practically held their own, with some growth in some branches.*





Table IV.3.2.1

EMPLOYED BY BRANCH OF ACTIVITY <sup>1</sup>				
	Level (Thousands)		Variation	
	I.Q. 08	III.Q. 10	Miles	Porcentaje
<b>TOTAL</b>	<b>20402,1</b>	<b>18546,8</b>	<b>-1855,3</b>	<b>-9,1</b>
<b>AGRICULTURE, CATTLE BREEDING, FORESTRY AND FISHING</b>	<b>863,6</b>	<b>754,1</b>	<b>-109,5</b>	<b>-12,7</b>
Crop and animal production, hunting and related service activities	781,4	682,5	<b>-98,9</b>	<b>-12,7</b>
Forestry and logging	32,4	33,8	<b>1,4</b>	<b>4,3</b>
Fishing and aquaculture	49,8	37,8	<b>-12</b>	<b>-24,1</b>
<b>INDUSTRY</b>	<b>3313,4</b>	<b>2600,6</b>	<b>-712,8</b>	<b>-21,5</b>
Extractive industries	53,2	42,8	<b>-10,4</b>	<b>-19,5</b>
Manufacturing industry	3072,8	2366,5	<b>-706,3</b>	<b>-23</b>
Supply of electrical energy, gas, steam and air conditioning	72,3	70,3	<b>-2</b>	<b>-2,8</b>
Water supply, sewage, waste management and remediation activities	115,1	121	<b>5,9</b>	<b>5,1</b>
<b>CONSTRUCTION</b>	<b>2670,3</b>	<b>1668</b>	<b>-1002,3</b>	<b>-37,5</b>
Building construction	1471,3	746,8	<b>-724,5</b>	<b>-49,2</b>
Civil engineering	179,2	179,9	<b>0,7</b>	<b>0,4</b>
Specialised construction activities	1019,8	741,3	<b>-278,5</b>	<b>-27,3</b>
<b>SERVICES</b>	<b>13554,8</b>	<b>13524,1</b>	<b>-30,7</b>	<b>-0,2</b>
Wholesale and retail trade; repair of motor vehicles and motorcycles	3210,2	2902,7	<b>-307,5</b>	<b>-9,6</b>
Transport and storage	955,2	920,3	<b>-34,9</b>	<b>-3,7</b>
Accommodation	1396,4	1431,8	<b>35,4</b>	<b>2,5</b>
Information and communications	526,4	526,1	<b>-0,3</b>	<b>-0,1</b>
Financial and insurance activities	518,1	455,8	<b>-62,3</b>	<b>-12</b>
Real estate activities	121,2	86,1	<b>-35,1</b>	<b>-29</b>
Professional, scientific and technical activities	876,1	852,9	<b>-23,2</b>	<b>-2,6</b>
Administrative and support service activities	915,4	923,3	<b>7,9</b>	<b>0,9</b>
Public Administration and defence; Compulsory social security activities	1223,6	1418,8	<b>195,2</b>	<b>16</b>
Education	1159,2	1120	<b>-39,2</b>	<b>-3,4</b>
Health activities and social services	1182,7	1416,1	<b>233,4</b>	<b>19,7</b>
Arts, recreation and entertainment	281,4	343,6	<b>62,2</b>	<b>22,1</b>
Other services	435,9	374,1	<b>-61,8</b>	<b>-14,2</b>
Household activities such as those employing domestic personnel and such as those producing goods and services for their own use	750,8	750,6	<b>-0,2</b>	<b>0</b>
<sup>1</sup> Clasificación CNAE-2009				
Source: INE Economically active population survey (EAPS)				



### IV.3.3. Labour supply and unemployment

In this economic crisis, the active population adapted with some delay to the weakness of the Spanish economy and the effect was not seen until the first quarter of 2009. The reduction of the active population continued until the first quarter of this year but rose in the second and third. Together with the drop in employment, this certainly does not favour the evolution of the unemployment rate. In the third quarter, the active population hardly changed, at a total of 23,121,500. When corrected for seasonality, however, this represents an increase of around 35,000 people, equivalent to a quarter-on-quarter growth rate of 0.2%. Relative to a year earlier, there was an increase of 128,000 people, or 0.6%, four tenths of a point more than in the second quarter. Our forecasts, however, anticipate a slight decline.

This tendency for the labour supply to increase in the current context in Spain may seem contradictory, although this apparent paradox can be explained by the added worker effect (family members who join the labour market when the primary breadwinner loses his/her job) which is greater than the discouraged worker effect (people who stop looking for work due to discouragement). The activity

among the population aged from 16 to 64 remained at 74.5% in the third quarter of 2010, as the increase in female activity was completely counteracted by the reduction in male activity. The activity rate for the over 16s remained at 60.1%. When we compare this to before the economic crisis, we find that the ratio has not fallen. This could be because new female members of the labour market may counteract the adverse cyclical component.

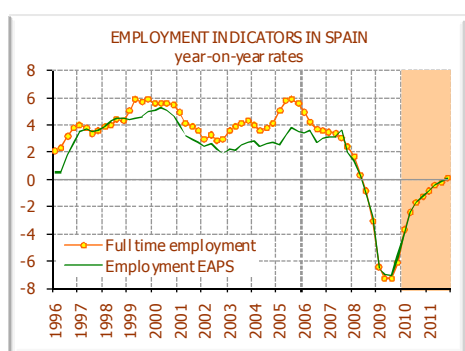
Analysing the labour supply by gender, the male active population aged 16-64 is less dynamic than its female counterpart. This is increasing the activity rate differential between the sexes (see graph 4). The activity rate in males (16-64) in the first quarter remained at 81.6%, growing by half a point to 66.4% in females.

As a result of the above, the number of unemployed fell by 70,800 in July-September, 2010, totalling 4,574,700. When corrected for seasonality, however, this represents an increase of around 65,000 people. Relative to the same quarter of 2009, unemployment had increased by 451,400, representing a high rate of year-on-year variation (10.9%). The unemployment rate relative to the active population was 19.80% or, when corrected for seasonality, 20.2%.

Unemployment continues to affect certain groups with greater intensity, such as the young (16-24 year olds), with a rate of 41.2% of the active population, the unqualified (the rate is 30% for those who have only finished primary school) and immigrants, with a rate of over 30%.

The reduction of the active population continued until the first quarter of this year but rose in the second and third. Together with the drop in employment, this certainly does not favour the evolution of the unemployment rate.

Graph IV.3.3.1



Source: INE

The activity among the population aged from 16 to 64 remained at 74.5% in the third quarter of 2010, as the increase in female activity was completely counteracted by the reduction in male activity.

The unemployment rate relative to the active population was 19.80% or, when corrected for seasonality, 20.2%.

Table IV.3.3.1

RECENT EVOLUTION OF ACTIVITY AND UNEMPLOYMENT INDICATORS										
	Annual variation as %							Thousands		
	2008	2009			2010			Average 2009	Last figure	
			III	IV	I	II	III		Level	Δ annual
ECONOMICALLY ACTIVE POPULATION SURVEY (EAPS)										
Active population	3,0	0,8	0,2	-0,4	-0,4	0,2	0,6	23037,5	23121,5	128
Activity rate > 16 years old	73,7	74	73,9	73,9	74,1	74,5	74,5	74	74,5	0,6
Unemployed	41,3	60,2	58,7	34,9	15,0	12,3	10,9	4149,5	4574,7	451,4
Unemployment rate	11,3	18,0	17,9	18,8	20,0	20,1	19,8	18,0	19,8	1,9
Public employment service										
- Unemployment	24,6	43,5	43,5	29,8	18,5	12,6	9,3	3644,0	4017,8	308,3

Source: INE and MTAS.



#### IV.3.4. Employment, activity and unemployment perspectives for 2010-2011

Our recent forecasts remain largely unaltered. The year-on-year employment rate expected for the fourth quarter is -1.22%, representing 429,000 job losses in 2010. The average annual rate forecast for 2010 has gone from 2.22% to 2.27%. For 2011, employment is expected to fall slightly by 0.34% instead of the previously forecast 0.29%. This would represent an annual average of 64,000 job losses, with annual growth of 11,000 jobs.

Job losses this year will be found in all major sectors, led by construction (11.4%), slightly worse than our previous forecast. It will be followed by industry (-6.3%), agriculture (-0.2%) and services (-0.3%). For 2011, the service sector is expected to create net employment (0.5%) with industry and construction continuing to lose jobs at a significantly slower pace than in 2010.

The forecast average annual growth of the active population has been increased slightly, due to the upwards innovation in the third quarter, due to greater participation of the foreign population. In 2010, the labour supply will grow by 0.23% instead of the previously forecast 0.15%) and in 2011 by 0.41%, instead of the previously forecast 0.34%. The unemployment rate forecast has therefore worsened by a few tenths of a point.

For 2010, the average annual unemployment rate relative to the active population will be 20.05%, and the rate can be expected to end the year at 20.3%. In the first quarter of 2011 it will be 21%, representing 4.7 and 4.8 million unemployed in those specific quarters. In average annual terms, the unemployment rate this year will be 4.6 million people, nearly half a million more than in 2009. For 2011 it is expected to rise by 0.61 points to 20.7%; these figures represent average unemployment of 4.8 million people, 158,000

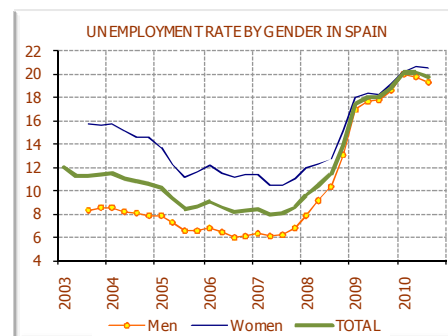
*The forecast average annual growth of the active population has been increased slightly, due to the upwards innovation in the third quarter, due to greater participation of the foreign population.*

more than last year, and an increase of 97,000 in the four quarters of this year.

The unemployment rate expected for the first quarter of 2011 (21%, or 4,847,000 people) could be the highest it will get, as the level and rate of unemployment will subsequently start to fall, although at a very slow rate. It is unlikely, then, that the Spanish economy will register 5 million unemployed.

*The unemployment rate expected for the first quarter of 2011 (21%, or 4,847,000 people) could be the highest it will get, as the level and rate of unemployment will subsequently start to fall, although at a very slow rate.*

Graph IV.3.4.1



Source: INE

Table IV.3.4.1

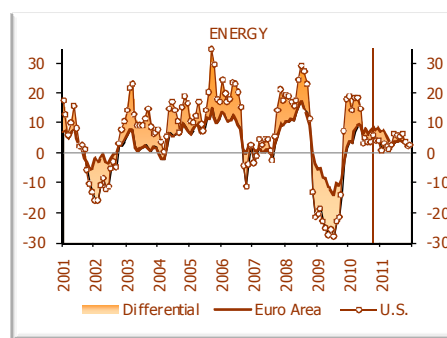
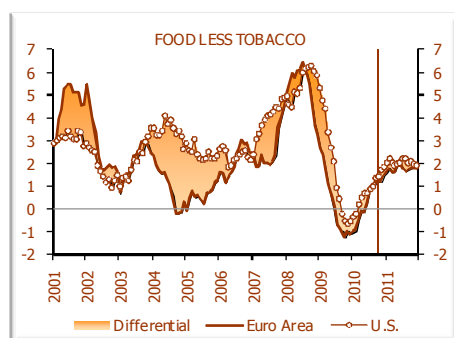
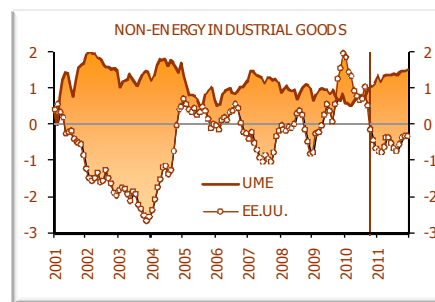
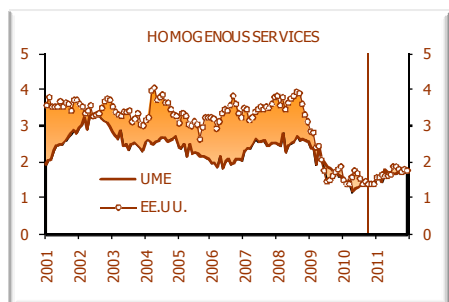
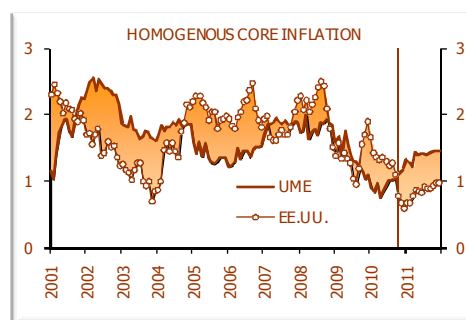
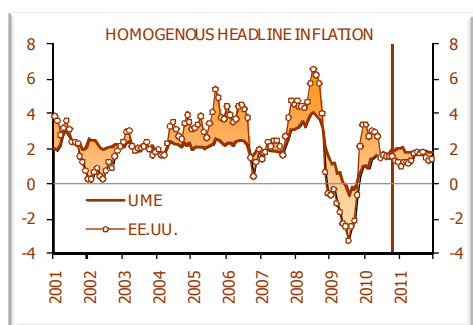
ECONOMICALLY ACTIVE POPULATION SURVEY				
	year-on-year rates		2010	2011
	2008	2009		
Employed	-0,5	-6,8	-2,3	-0,3
Agriculture	-5,0	-4,0	-0,2	-0,5
Industry	-1,1	-13,3	-6,3	-2,5
Construction	-10,9	-23,0	-11,4	-3,5
Services	2,1	-2,5	-0,3	0,5
Active	3,0	0,8	0,2	0,4
Unemployment rate	11,3	18,0	20,1	20,7

Fuente: INE & IFL (UC3M)  
Fecha: 30 de octubre de 2010



## V. SUMMARY OF FORECASTS FOR DIFFERENT AREAS

HOMOGENOUS INFLATION IN THE EURO AREA AND U.S.										
Annual average rates										
	Weights 2009	2003	2004	2005	2006	2007	2008	2009	Forecasts 2010 2011	
TOTAL										
less Owner's equivalent rent of primary residence										
Euro area	100,0	2,1	2,1	2,2	2,2	2,1	3,3	0,3	1,6	1,9
U.S.	76,4	2,2	2,8	3,7	3,1	2,7	4,3	-1,0	2,1	1,4
HOMOGENOUS CORE INFLATION										
- Non-energy industrial goods and Services, less Processed Food in the Euro area.										
- Non-energy industrial goods less Tobacco in U.S.										
- Services less Owner's equivalent rent of primary residence in U.S.										
Euro area	71,1	1,8	1,8	1,4	1,4	1,9	1,8	1,4	1,0	1,4
U.S.	53,2	1,1	1,6	2,1	2,1	1,8	2,1	1,4	1,2	0,9
COMPONENTS OF HOMOGENOUS CORE INFLATION										
Services less Owner's equivalent rent of primary residence										
Euro area	41,4	2,5	2,6	2,3	2,0	2,5	2,6	2,0	1,4	1,7
U.S.	32,8	3,3	3,6	3,1	3,3	3,4	3,6	2,0	1,5	1,7
Non-energy industrial goods less Tobacco										
Euro area	29,7	0,8	0,8	0,3	0,6	1,0	0,8	0,6	0,4	1,0
U.S.	20,4	-2,1	-1,0	0,3	0,1	-0,7	-0,1	0,5	0,7	-0,5
EXCLUDED COMPONENTS FROM HOMOGENOUS CORE INFLATION										
Food less Tobacco										
Euro area	17,1	2,1	1,0	0,6	2,1	2,6	5,3	0,2	0,4	1,8
U.S.	13,7	2,1	3,4	2,4	2,3	4,0	5,5	1,8	0,8	2,1
Energy										
Euro area	9,6	3,0	4,5	10,1	7,7	2,6	10,3	-8,1	7,1	4,3
U.S.	8,6	12,2	10,9	16,9	11,2	5,5	13,9	-18,4	9,2	3,5



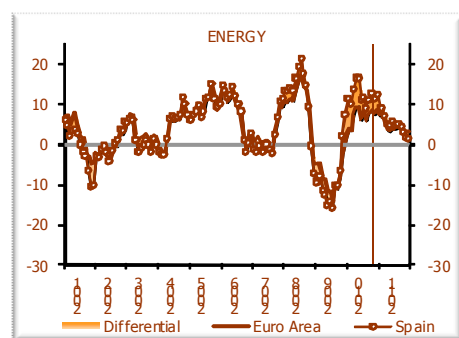
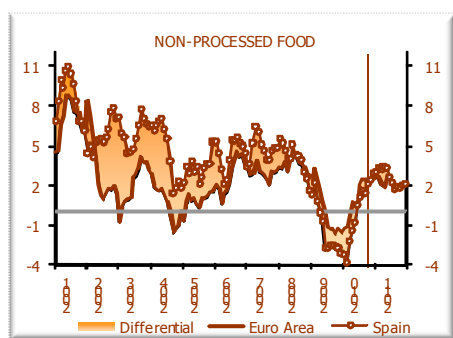
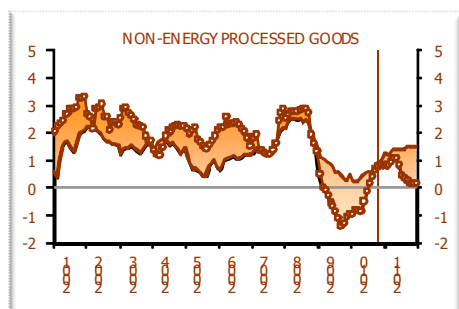
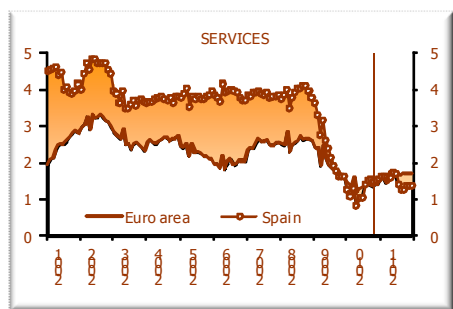
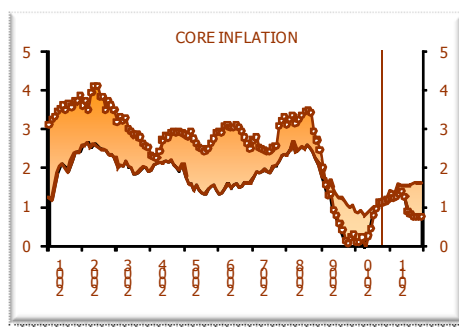
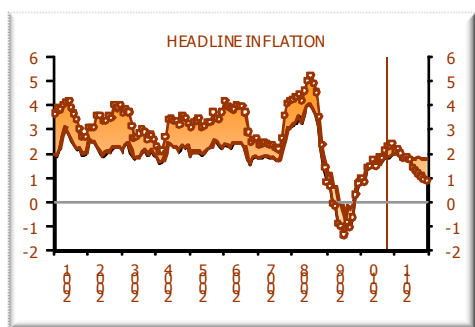
1. Excluding owner's equivalent rent of primary residence. 2. This homogeneous measure of core inflation does not coincide with the usual measure of core inflation for the euro area nor for the USA. It has been constructed in order to compare the data in the euro area and in the USA.

Source: EUROSTAT, BLS & BIAM (UC3M)

Date: November 16, 2010



INFLATION IN SPAIN AND IN THE EURO AREA										
Annual average rates										
	Weights 2009	2003	2004	2005	2006	2007	2008	2009	Forecasts	
									2010	2011
<b>TOTAL</b>										
Spain	100,0	3,0	3,0	3,4	3,5	2,8	4,1	-0,3	<b>1,7</b>	<b>1,6</b>
Euro area	100,0	2,1	2,1	2,2	2,2	2,1	3,3	0,3	<b>1,6</b>	<b>1,9</b>
<b>CORE INFLATION</b>										
Services and Non-energy industrial goods										
Spain	82,5	2,9	2,7	2,7	2,9	2,7	3,2	0,8	<b>0,6</b>	<b>1,0</b>
Euro area	83,0	2,0	2,1	1,5	1,5	2,0	2,4	1,3	<b>1,0</b>	<b>1,5</b>
<b>COMPONENTS OF CORE INFLATION</b>										
Processed food										
Spain	13,4	3,0	3,6	3,4	3,6	3,8	6,7	0,9	<b>0,9</b>	<b>1,1</b>
Euro area	11,9	3,3	3,4	2,0	2,1	2,8	6,1	1,1	<b>0,9</b>	<b>2,4</b>
Non-energy industrial goods										
Spain	30,1	2,0	1,0	1,1	1,5	0,8	0,4	-1,2	<b>-0,5</b>	<b>0,4</b>
Euro area	29,7	0,8	0,8	0,3	0,6	1,0	0,8	0,6	<b>0,4</b>	<b>1,0</b>
Services										
Spain	38,9	3,6	3,6	3,7	3,8	3,8	3,9	2,4	<b>1,3</b>	<b>1,5</b>
Euro area	41,4	2,5	2,6	2,3	2,0	2,5	2,6	2,0	<b>1,4</b>	<b>1,7</b>
<b>COMPONENTS OF RESIDUAL INFLATION</b>										
Non-processed food										
Spain	7,2	5,7	4,4	3,4	4,2	4,5	3,8	-1,2	<b>0,1</b>	<b>2,5</b>
Euro area	7,5	2,1	0,6	0,8	2,8	3,0	3,5	0,2	<b>1,1</b>	<b>2,2</b>
Energy										
Spain	10,3	1,4	4,8	9,6	8,0	1,7	11,9	-9,0	<b>12,2</b>	<b>5,0</b>
Euro area	9,6	3,0	4,5	10,1	7,7	2,6	10,3	-8,1	<b>7,1</b>	<b>4,3</b>



Source: EUROSTAT, BLS & BIAM (UC3M)  
Date: November 26, 2010



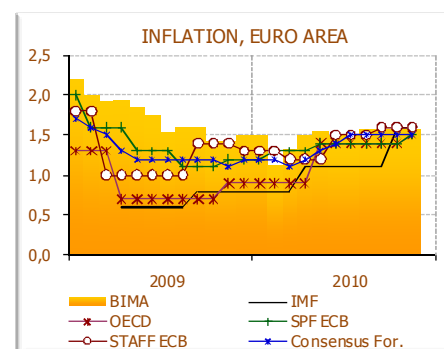
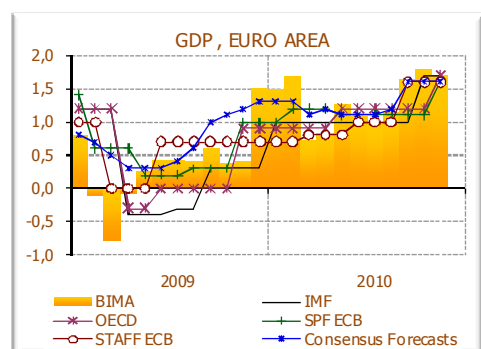
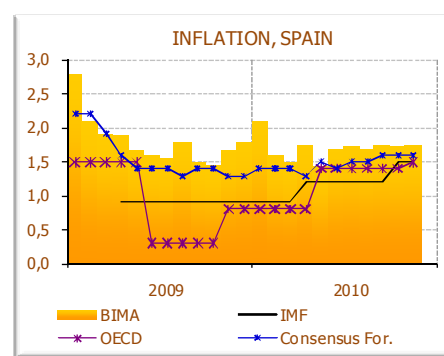
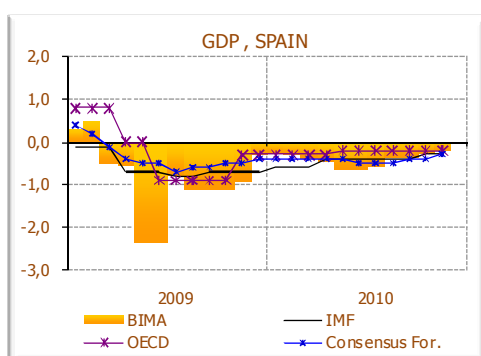
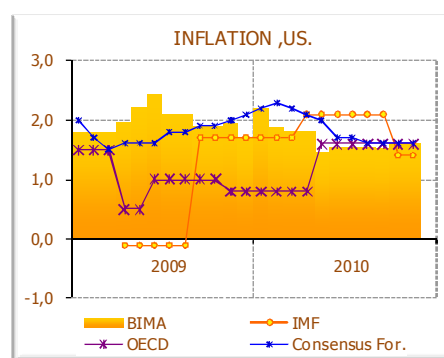
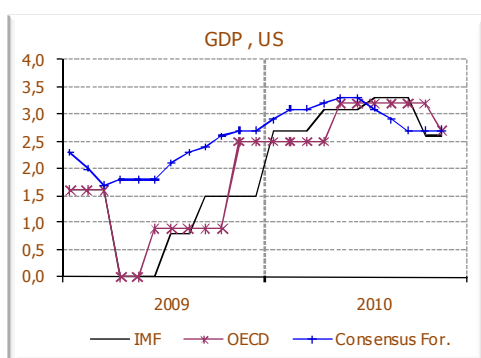
## VI. FORECASTS OF DIFFERENT INSTITUTIONS

FORECASTS FOR DIFFERENT INSTITUTIONS															
Annual average rates															
		UNITED STATES				SPAIN				EURO AREA					
		Consensus Forecasts <sup>1</sup>	BIMA <sup>2</sup>	IMF <sup>3</sup>	OECD <sup>4</sup>	Consensus Forecasts	BIMA	IMF	OECD	Consensus Forecasts	BIMA	IMF	ECB SPF <sup>5</sup>	ECB Staff <sup>6</sup>	OECD <sup>4</sup>
GDP	2010	2,7	-	2,6	2,7	-0,3	-0,2	-0,3	-0,2	1,6	1,7	1,7	1,6	1,6	1,7
	2011	2,4	-	2,3	2,2	0,6	0,4	0,7	0,9	1,4	1,3	1,5	1,5	1,4	1,7
CPI	2010	1,6	1,6	1,4	1,6	1,6	1,7	1,5	1,5	1,5	1,6	1,6	1,5	1,6	1,5
	2011	1,4	1,2	1,0	1,1	1,4	1,6	1,1	0,9	1,6	1,9	1,5	1,5	1,7	1,3

1. Consensus Forecasts, November, 2010.
2. BIMA. Bulletin of EU & US Inflation and Macroeconomic Analysis, November, 2010.
3. FMI. IPC: World Economic Outlook. October, 2010; GDP: October, 2010.
4. OCDE. Euro area and US: Interim Economic Outlook, November, 2010
5. BCE SPF, "Survey of Professional Forecasters", November, 2010.
6. BCE STAFF, staff macroeconomic projection for the Euro Area. September, 2010. Point forecast for interval.

## EVOLUTION OF FORECASTS FOR 2010

Annual average rates





## VII. MONTHLY DEBATE. By José Ignacio Pérez Infante

### LABOUR REFORM AFTER LAW 35/2010

José Ignacio Pérez Infante

*Economist*

*The text analyses the recent labour reform, once the initial Royal Decree-Law became Law in September, emphasising the problems affecting the labour market that such a reform should solve and the content of this reform. An initial evaluation is also made of one of the most ambitious labour reforms since the Workers' Statute of 1980, considering both its positive aspects and its problems and shortcomings.*

#### I. INTRODUCTION

After the government's unsuccessful attempt to reach an agreement with social agents concerning the new labour reform, it was approved by Royal Decree-Law 10/2010, of 16 June, on urgent measures for the reform of the labour market, published in the BOE on the following day, 17 June. Once it had gone through the parliamentary process, after some significant changes, it became Law 35/2010, of 17 September, with the same title (BOE of 18 September).

Although a previous paper of mine that was published in the July issue of the Bulletin<sup>1</sup> analysed the proposed reform in detail, it is now time to consider it again, both with regards to its objectives and content and to the problems it solved, the difficulties and shortcomings that it involves and the problems it leaves unsolved.

The new paper is also justified as there have been some significant changes, such as the definition of objective economic causes for redundancy, with compensation of twenty days of salary per year of service, a change to the objective cause for dismissal due to absenteeism, different changes made to mass redundancy through employment regulation procedures, the broadening of the scope of the workers who can be hired according to

the fostering of indefinite employment format, the correction of different aspects related to changes in working conditions and clauses whereby employers can fail to comply with workers' agreements with regards to salaries, changes to come of the economic incentives for indefinite hiring and training, especially in relation to theoretical training, the new definition of partial unemployment when working hours are reduced, and the obligation of those receiving unemployment benefits to participate in training activities after the first 30 days of unemployment instead of the first one hundred days.

Law 35/2010 also establishes a series of commitments for the government, in addition to those established by the original bill, including reforming the unemployment benefit system when employment starts to recover in order to link it more to active employment policies, changing the Labour Procedure Act within six months to send appeals against the labour courts to social courts in relation to mass redundancies and, finally, reforming collective negotiations if an agreement has not been reached in six months by the social agents, as established in the Agreement for Employment and Collective Negotiation (AENC) signed on 9 February.

The rest of the paper will be analysing the labour market problems that should be at least reduced by a labour reform (second section), the content of the new reform (third) and an initial assessment of this reform (fourth section).

*The new paper is also justified as there have been some significant changes, such as the definition of objective economic causes for redundancy, with compensation of twenty days of salary per year of service, a change to the objective cause for dismissal due to absenteeism, different changes made to mass redundancy through employment regulation procedures.*

1. José Ignacio Pérez Infante: "The Spanish Labour Market and the latest labour reform". *Bulletin of Inflation and Macroeconomic Analysis (BIAM)* No. 196, July 2010, pages 69-77. Instituto Flores de Lemus. Universidad Carlos III.





## II. LABOUR MARKET PROBLEMS AND APPROACHES TO LABOUR REFORM

Two important features of the Spanish labour market are its high temporary employment rates, around 30% at the onset of the economic crisis, the highest in the EU<sup>2</sup>, and unemployment rate, also the highest in the EU and 19.8% in the third quarter of 2010.

Together with, and related to, these characteristics, are the fact that employment fluctuates much more in Spain than in other developed countries. It grows enormously at times of economic growth and falls rapidly during recessions. While employment grew by nearly 4% in 2001-2007 in Spain, compared with under 1% in the euro area, in 2009 employment fell by 6.7%, much more than in the euro area, -1.9%.

The fact that employment fell more in Spain than in the euro area in 2009 contrasts with the fact that the fall in the Spanish GDP, 3.6%, was less than in the euro area, where it was 4.1%<sup>3</sup>.

Heavy fluctuations in employment, indicating that firms adjust to changes in economic conditions largely through temporary employment, which rises with economic growth and falls when growth decreases or becomes negative, contrasts with what happens in other countries, where firms reduce employment in recessions much less than economic activity. They use other adjustment mechanisms, such as reducing working hours, while in times of growth, as there are workers that are not used to capacity from the previous recession, employment does not grow as much as economic activity.

2. The crisis had a greater impact on temporary than on indefinite employment, and the temporary employment rate fell by more than six points, to 25.6%, in the third quarter of 2010. Alter Poland, Spain has the highest rate in the EU.

3. The decline in the Spanish GDP in 2009 may be underestimated, if we consider the negative evolution of many of the available economic indicators, due to the national accounts' tendency to smooth out economic cycles (see the article by Ángel Laborda, "El PIB, mejor de lo previsto", in *El País de los Negocios* on Sunday 14 November 2010). Even so, the fall in employment and the GDP in Spain was much greater than in the euro area.

This can be seen in the difference between Spain and Germany in 2009 in the rate of decline of the GDP (-3.6% and -4.9%, respectively) and employment (-6.7% and -0.1%).

The greater fluctuations in employment in Spain than in other countries can also be explained, as well as by the specific features of the Spanish productive model, where seasonal activities are of considerable importance, by two factors related to the regulation of labour relations and working conditions. The first is the high temporary employment rate and the second is the difficulty involved in using internal flexibility mechanisms, such as changing working conditions and hours, and salary flexibility, such as not complying with workers' agreements when firms have financial problems. These difficulties are due to the strict application of the Workers' Statute and the fact that collective negotiation is prevented from reaching agreements in this respect.

Indeed, the greater facility for temporary hiring and for dismissal compared with indefinite hiring, together with the problems involved in adapting working conditions, and even salaries, to changes in economic circumstances, explain why firms adapt to such changes via employment, as alternatives were scarce until this last reform.

In this situation, from the onset of the economic crisis in the fourth quarter of 2007 to the third of 2010, the fall in salaried employment, nearly a million and a half people (-1,413,500), more than 8% (-8.4%)<sup>4</sup>, focused on temporary employment, with a reduction of 1,438,700 people, -26.7%, as indefinite employment grew in that period by 25,300 people, 0.2%<sup>5</sup>.

Even so, a decline in indefinite employment has been seen as the economic crisis persisted. While temporary employment fell

4. In the same period, the fall in total employment was nearly two million people (-1,963,800), -9.6%, as non-salaried employment also fell by 550,300, -15.1%.

5. An analysis of the impact of the economic crisis can be found in Pérez Infante, J.I.: "The labour market in the current economic crisis", in *Bulletin of Inflation and Macroeconomic Analysis (BIAM)* No. 197, September 2010, Instituto Flores de Lemus. Universidad Carlos III.

*Two important features of the Spanish labour market are its high temporary employment rates, around 30% at the onset of the economic crisis, the highest in the EU<sup>2</sup>, and unemployment rate, also the highest in the EU and 19.8% in the third quarter of 2010.*



by 183,600 people on average in the first three quarters of 2010, indefinite employment fell by 202,100, -1.8%, in relative terms.

This means that, together with the end of temporary contracts, significant numbers of people with indefinite contracts are being made redundant. Indeed, using the number of new unemployment benefit applicants, while there were 620,000 in 2007, in 2009 there were 1,170,000, nearly double, and those redundancies went from representing 52% in 2007 to 68% in 2009.

Of those redundancies affecting indefinite contracts, nearly eight hundred thousand were according to Law 45/2002, according to which an employer can dismiss an employee without objective cause and without having to pay processing salaries, providing the employer deposits the amount of compensation due within 48 hours in the respective labour court.

This facility to dismiss for no cause since Law 45/2002 has eventually led to such dismissals being the norm, even though for causes such as organisation or production reasons could involve lower compensation amounts (twenty days of salary with a maximum of twelve months' salary versus forty-five days of salary per year of service with a maximum of forty-two months' salaries for ordinary indefinite contracts). These effects of Law 45/2002 are due to the elimination of uncertainty regarding the dismissal's category (with or without cause) and to the speed with which the labour contract is rescinded, as dismissal is firm in most cases<sup>6</sup>.

This reasoning would also justify the reduced importance, despite the economic crisis, of mass redundancies, which in 2009 represented only 80,000, around 7% of the total number of job losses.

All these problems explain the need for a new labour reform as, although the principal cause for unemployment growth is closely related to a decline in economic activity and the temporary employment

rate could partly be due to the peculiar features of the Spanish productive model, it is clear that the distortions in the Spanish labour market increase the effects of economic shocks on employment and aggravate problems such as its precariousness.

In view of the above causes of employment fluctuations, the priority objective of a labour reform would be to reduce the duality found on the Spanish labour market by reducing the temporary employment rate to average EU levels (around 13%)<sup>7</sup>, and to improve internal flexibility by enabling firms to change working hours and other working conditions when there are significant changes in their economic situations<sup>8</sup>.

In this respect, measures are required to limit temporary hiring to jobs that are actually of a temporary nature, effectively combating irregular and abusive hiring by more strictly defining the causes for temporary employment. Measures are also needed to prevent the repeated renewal of temporary contracts to the same or different workers to do the same job.

With regards to promoting indefinite hiring, measures could be established to reduce the labour cost differential, both for hiring and for rotations, including redundancy compensation. They could consist of incentives for indefinite hiring, as before, together with other measures such as reducing the difference between the compensation due for dismissal of

*This facility to dismiss for no cause since Law 45/2002 has eventually led to such dismissals being the norm, even though for causes such as organisation or production reasons could involve lower compensation amounts.*

*The priority objective of a labour reform would be to reduce the duality found on the Spanish labour market and to improve internal flexibility by enabling firms to change working hours and other working conditions when there are significant changes in their economic situations.*

7. According to Eurostat, in the First quarter of 2010, the average temporary employment rate was 13.2% in the EU-27 and 14.9% in the euro area.

8. In addition to the analysis of the problems of the labour market that require a labour reform and the basic OBJECTIVES of such a reform, see Pérez Infante, J.I. (2009), "Objetivos y contenidos de las reformas laborales en España y propuestas de futuro", in *Circunstancia* No. 20 (electronic journal of Fundación José Ortega y Gasset at [www.fog.es](http://www.fog.es)), reproduced in Valeriano Gómez (editor) (2009) "La reforma laboral en España". Editorial Biblioteca Nueva Fundación José Ortega y Gasset. Also see papers by Carlos García Serrano, Miguel Ángel Malo and José Ignacio Pérez Infante, "Para una reforma laboral negociada", Publisher in *Relaciones Laborales* No. 9/2010, pages 139-162, and "Dos cuestiones claves de la reforma laboral: Despidos y Negociación Colectiva", soon to be Publisher in a monographic *sigue* of *Temas Laborales*.

6. Workers, unless dismissal can be declared null and void with the firm's compulsory admission, will have no incentive to appeal to the courts as they would have to pay costs, both in time and money, while the right to unemployment benefits would be immediate.



*The existence of not only quantitative but also qualitative misadjustments between the labour supply and demand would explain the permanent existence of significant employment vacancies and unemployed individuals.*

temporary and indefinite personnel<sup>9</sup> or increasing the difference between the employer's contributions to other contingencies such as unemployment, for temporary and indefinite personnel<sup>10</sup>. These measures, although they could be problematic in the current economic context, could be considered for when the situation improves.

Other measures could consist of reducing the uncertainty of employers when there are objective reasons for mass redundancies, clarifying not only the economic reasons but also the technical, organisational and productive reasons, making such redundancy procedures both faster and easier. All this would also help to solve the problem of the majority of dismissals without cause even when there are objective causes for dismissal.

On the other hand, measures to facilitate internal flexibility in companies would have to enable, when required by the economic situation, geographical mobility between different company sites, functional mobility and the modification of their working conditions, as yet very limited. In this respect, changes should also be made to the collective negotiation process, to improve the articulation of different sectors and better adapt working conditions in companies covered by such agreements to their economic circumstances. It should be easier not to apply the salary regime established in sectoral agreements for firms with economic difficulties.

9. *The compensation due when a temporary contract ends is eight days of salary per year of service, when the contract is directly between the employee and the employer, or twelve days of salary per year of service when the contract is between a temporary employment agency and a user. The compensation due for dismissal due to an objective cause, however, is twenty days of salary per year of service (with a maximum of 12 salaries) and when it is without cause the compensation is 45 days per year of service for ordinary indefinite contracts or 33 days if dismissal is without objective cause and the contract was to foster indefinite hiring (with a maximum of 42 or 24 months' salary, respectively).*

10. *After changes to the 1999 and 2000 budgets and the 2006 reform, the social security contribution paid by the employers is 1.20 points higher for temporary than for indefinite contracts for full-time labour and 2.20 points higher for part-time labour. For the employee, the contribution is five hundredths of a point higher in temporary than in indefinite contracts, irrespective of whether they are full or part-time agreements.*

However, as well as the above problems affecting the Spanish labour market, there are others that explain the persistence of unemployment, how difficult it is to reduce it even at times of heavy economic growth or, in other words, structural unemployment, which can now be estimated at around 10%, half the current unemployment rate (19.8% in the third quarter of 2010).

In this respect, the existence of not only quantitative but also qualitative misadjustments between the labour supply and demand would explain the permanent existence of significant employment vacancies and unemployed individuals. This could be due to a series of deficiencies such as an inefficient public employment service, insufficient occupational training, with not enough workers qualified for productive or technological jobs, and the limitations affecting the geographical mobility of workers, both for reasons related to the labour market, such as salary differences between the different autonomous regions, and the high temporary employment and unemployment rates in all of them<sup>11</sup>, or related to different problems such as high housing prices or the lack of homes for rent.

Therefore, any labour reform aimed at solving the labour market's current problems should include measures to favour adjustment between the demand and supply of labour, such as better employment services, occupational training to meet productive requirements or greater geographic mobility.

Finally, although most indicators do not appear to confirm that the Spanish benefits system is more generous than most European systems<sup>12</sup>, **it certainly appears that the active employment policy system and, specifically, the incentives for hiring, have not been suitable for favouring the employment of the unemployed**, both

11. *Even the unemployment rate in the Basque Country, the region with the lowest rate (10% in the third quarter of 2010) is higher than the EU average, 9.6% in September 2010.*

12. *Malo, M.A. and García-Serrano, C.: "El sistema de protección por desempleo y la salida del paro" in Papeles de Economía Española No. 124, 2010, pages 247-265 (monographic issue on the reform of the labour market). Fundación de las Cajas de Ahorro.*



because of the shortcomings of the regulation of training contracts, and the limitations applicable to part-time employment, and because of the orientation of other active employment policies, shown in the low relative expenditure in this respect<sup>13</sup>, with favours the dead weight effect<sup>14</sup>.

In this respect, the labour reform should also include changes in training contracts, which should be true employment-training contracts for unqualified youngsters, and in part-time contracts, to better distribute employment, rather than focus as it does now on low quality female employment for low wages. There should also be an increase in the relative weight of active policy spending on professional training and labour intermediation, and substantial changes in the incentives for indefinite hiring, creating a selective system for disabled people and the long-term unemployed, promoting equal opportunities.

### III. CONTENT OF THE NEW LABOUR REFORM

The primary objectives of the new labour reform are very similar to those described above as desirable: reducing the duality of the labour market, increasing firms' internal and salary flexibility, fostering the employment of the most vulnerable unemployed and improving labour intermediation<sup>15</sup>.

The reduction of the labour market's duality is to be achieved with measures that limit temporary hiring and favour indefinite hiring, including measures to reduce the difference between costs of dismissal. This group of measures also

13. According to Eurostat and the OECD, Spanish spending on active labour market policies in relation to the GDP is considerable lower than the unweighted average of the countries included in these statistics (EU-27, euro area and OECD), although spending on economic incentives for hiring is much higher than average.

14. When the contract is signed without economic incentives.

15. These are the main objectives of the recently approved labour reform. There are others that we will not be considering, even though they are related to the labour market, such as measures that limit sick leave, which could reduce employee absenteeism.

includes steps to limit the causes of objective dismissal, in order to reduce uncertainty.

The reform also includes changes in the legal regulation of geographic mobility, working conditions and salary adjustments, together with measures to favour reduced working hours instead of dismissing employees in unfavourable economic situations.

The reform attempts to foster employment for the most vulnerable by changing the system of incentives for hiring, limiting such incentives for the disabled, the long-term unemployed and the over 45s, and changes in the legal regulation of apprenticeships, which also has benefits in employers' Social Security contributions.

Finally, labour intermediation is favoured by authorising private employment agencies and adapting Spanish laws to Community legislation with regards to temporary employment agencies, reducing the constraints to their scope of application and ensuring the same working conditions for their and a firm's own workers.

In relation to these objectives, the recent labour reform, after the amendments that Law 35/2010 makes to Royal Decree-Law 10/2010, can be summarised as follows:

#### 1) Measures aiming to reduce the duality of the labour market:

a) Reducing the divide between dismissal costs for indefinite workers and for temporary employees. By using the Salary Guarantee Fund (FOGASA), the cost of dismissal is reduced by eight days of salary per year of service without affecting the compensation received by the individual, for any indefinite contract, and the classification of said dismissal as with or without cause, with the only exception of disciplinary dismissal. Also, the compensation for termination of a temporary contract rises from eight to twelve days of salary per year of service, except for interim and training contracts, so it is now the same as for workers assigned by temporary employment agencies.

*The labour reform should also include changes in training contracts, which should be true employment-training contracts for unqualified youngsters, and in part-time contracts, to better distribute employment, rather than focus as it does now on low quality female employment for low wages.*





*1) Measures aiming to reduce the duality of the labour market:*

*a) Reducing the divide between dismissal costs for indefinite workers and for temporary employees.*

*b) Limiting the duration and repeated renewal of temporary contracts.*

*c) Increasing the possibility of using the contract for fostering indefinite hiring.*

*2) Measures aimed at facilitating due dismissal for objective causes in detriment of undue dismissal:*

*a) Delimiting the objective causes of dismissal.*

*b) Simplifying the requirements for individual objective dismissal.*

*c) Changing the mass redundancy process*

The FOGASA eight-day subsidy will be applicable until the Capitalisation Fund becomes effective on 1<sup>st</sup> January 2012<sup>16</sup> and it will be limited to contracts signed after 18 June 2010 (effective date of the Royal Decree-Law), providing that the duration of the contract is more than one year. For the increase from eight to twelve days of salary upon termination of a temporary contract, due to the current economic situation, a transition period is established, increasing one day of salary per year of service after 1<sup>st</sup> January 2012, reaching the twelve days after 1<sup>st</sup> January 2015.

b) Limiting the duration and repeated renewal of temporary contracts, so the maximum duration of such a contract is established at three years (it was previously unlimited), which can be extended by sectoral workers' agreement to four years<sup>17</sup>, and the limitations to repeated renewal of temporary contracts, which referred to the same job and company in the 2006 reform, will also apply to different jobs and, when applicable, business groups<sup>18</sup>.

c) Increasing the possibility of using the contract for fostering indefinite hiring, with compensation for objective dismissal without cause comprising 33 days of salary per year of service, with a maximum of 24 months' salary, instead of 45 days of salary

*16. The tenth additional provision of Law 35/2010 establishes that, within one year of 18 June 2010, the government, after consulting the most representative union and business organisations, will approve a bill that regulates the establishment of a Capitalisation Fund, which will not represent an increase in employers' SS contributions. The amounts in the Fund in favour of each worker will be paid in case of redundancy, geographic mobility, training activities or at retirement. As established in the additional provision, in the case of redundancy, the respective compensation will be reduced in the amount equivalent to that paid by the Capitalisation Fund.*

*17. This maximum duration is not applicable to contracts for construction projects or university teaching or research contracts.*

*18. According to the new Law, repeated renewal of temporary contracts will also be limited in cases of business inheritance or subrogation, although it was already considered in article 44 of the Workers' Statute. Remember that article 15.5 of the Workers' Statute, according to the 2006 labour reform, meant that workers hired for more than 24 months by two or more contracts for the same (now "or different") job in the same firm (now "or business group") became indefinite employees.*

per year of service (with a maximum of 42 months). This would reduce the average amount of compensation and help to reduce the difference in this respect between indefinite and temporary contracts.

This is achieved by applying it to new groups until it covers practically all the unemployed, and also contemplating the possibility of converting temporary contracts into this type of indefinite contracts, previously limited to temporary contracts signed before 31 December 2007, and also reducing the uncertainty derived from objective dismissals without cause as said dismissals can be recognised as such not only by the courts but also by the employer<sup>19</sup>.

**2) Measures aimed at facilitating due dismissal for objective causes in detriment of undue dismissal:**

a) Delimiting the objective causes of dismissal, specifically economic, technical, organisational and productive causes, more than in the Workers' Statute, which referred to the purpose of terminating contracts<sup>20</sup> rather than the cause. The fact that companies have to provide justification of dismissal is another aspect of the reform that could promote objective dismissals<sup>21</sup>.

b) Simplifying the requirements for individual objective dismissal by reducing the prior notification period from 30 to 15

*19. These contracts can also be favoured by less constraints on hiring when a company has made mass redundancies in the last six months, limiting these constraints to contracts signed since 18 June 2010 and when dismissal is only derived from ordinary indefinite contracts.*

*20. In the case of redundancy for economic causes, to help to overcome negative economic situations or, in the case of technical, organisational or productive causes, to overcome problems preventing firms from operating with individual dismissal or to guarantee the firm's future viability.*

*21. There are also more possibilities of dismissal for absenteeism as, although the limit remains at 20% absence in two consecutive months or 25% in any four of twelve consecutive months, the total absenteeism rate limit is reduced from 5% to 2.5% (art. 52.d. of Workers' Statute). Also to reduce absenteeism, Law 35/2010 establishes different measures aimed at improving the management of temporary disability contracts.*



days and converting null dismissal into without cause when the employer fails to comply with notification requirements and pay the necessary compensation.

c) Changing the mass redundancy process (art. 51 of Workers' Statute)<sup>22</sup> in several ways. One is the unification of technical, organisational or productive causes with those of individual objective dismissal (they were previously different. Another is the reduction of the time required to process the procedure, with a shorter period for discussions between employer and employees (no more than 30 calendar days, and 15 when the company has less than 50 employees) and for the labour authority to approve the process, which is now seven days instead of 15<sup>23</sup>. The government also undertakes to change the Labour Procedure Law so that mass redundancy procedures are assigned to the social jurisdiction, so appeals will be processed faster.

### 3) Measures aimed at increasing internal and salary flexibility:

a) Favours reduced working hours for objective causes, with several measures, such as the application of the same redundancy process as for temporary contract suspension<sup>24</sup>, when the reduction is between 10% and 70% of working hours, the improvement of the measures approved in Law 27/2009, of 30 December, with more support for firms that temporarily suspend contracts and reduce

working hours<sup>25</sup>, and increasing the maximum number of days (from 100 to 180) of entitlement to unemployment benefits. At the same time, the regulation of partial unemployment benefits<sup>26</sup> when working hours are reduced has changed, with these benefits being calculated by the hour and not by the day, so the percentage consumed is equivalent to the reduction in working hours<sup>27</sup>.

b) Facilitating geographical mobility (art. 40 of the Workers' Statute) and the substantial modification of working conditions (article 41), for which it is established that the discussion period in search of an agreement is no more than fifteen days (previously, no less than 15 days) solving the problem of lack of legal representation of employees<sup>28</sup>, which is common in small firms<sup>29</sup>, and it enables employers and workers' representatives to replace the discussion period by whatever procedure the firm establishes. These last two possibilities are also applicable for mass redundancy processes and failure to comply with the salary-related terms of collective agreements.

c) Increasing the possibility of changing working conditions related to the distribution of time, and the purpose of such changes, including not only measures aimed to improving employers' economic

3) Measures aimed at increasing internal and salary flexibility:  
a) Favours reduced working hours for objective causes.  
b) Facilitating geographical mobility and the substantial modification of working conditions.  
c) Increasing the possibility of changing working conditions.  
d) Favours the application of salaries not contemplated in workers' agreements in firms with economic problems.

22. Most of the changes are introduced in the Law, as the Royal Decree-Law only unified the technical, organisational or productive causes of mass with individual dismissal, favouring the authorisation of the former when the measure is deemed reasonable, without requiring the measure to be necessary for the purpose established in the Statute for this kind of dismissal, as before.

23. During the discussion period, re-employment or professional training activities must be considered to improve employability and, in the case of firms with 50 or more employees, the plan is classified as social.

24. The new Law establishes that, for temporary suspension, and therefore for reduced working hours, the procedure will be the same as for mass redundancy, irrespective of how many employees the company has and the number affected by the suspension.

25. Increasing rebate on company contributions to the SS from 50% to 80%, when it includes measures such as training activities to improve employability or any other activity aimed at maintaining the company's employment and internal flexibility to help to balance professional and family life.

26. The number of days duration of unemployment benefits by the number of days receiving total or partial benefits due to temporary suspension of contract or reduced working hours, respectively, up to a maximum of 180 days.

27. The new Law changes the definition of partial unemployment, establishing that temporary reduction of working hours must refer to **daily** hours, with the reduction limited to 10%-70%, while it was previously one third of total working hours.

28. Workers can choose to use up to three workers from the same firm, democratically elected, to represent them or a union commission, also with three members, appointed by the most representative unions in the business sector in question.

29. According to article 62.1 of the Workers' Statute, employee representation is limited to firms with more than 10 employees and, if the majority so agrees, firms with 6-10 employees.



4) Change to the system of incentives for indefinite hiring.  
a) Simplifying and reducing the number of beneficiaries

5) Measures aimed at favouring training contracts:  
a) Establishing a rebate of all SS contribution payments until 31 December 2011.  
b) Increasing the possibility of contracts to obtain practical experience.  
c) Changing specific aspects of training contracts.

6) Measures aimed at improving intermediation and employment:  
a) Authorising private, for-profit employment agencies.  
b) Increasing the obligations of those who receive unemployment benefits.  
c) Increasing the possibilities of temporary employment agencies.

situations but also to prevent a negative evolution of the business and improve its perspectives. It also distinguishes between changing working conditions established in sectoral agreements from other cases. In the first case, it was previously a requirement for there to be an agreement between the company and the workers' representatives, but this is no longer the case, and can be subject to the mediation procedures established in regional or national interprofessional agreements. This is an important step in providing more flexibility for businesses.

d) Favouring the application of salaries not contemplated in workers' agreements in firms with economic problems<sup>30</sup>, upon agreement, which was previously not possible (art. 82.3 of the Statute)<sup>31</sup>. In case of disagreement, procedures are provided. Law 35/2010 establishes that regional or national interprofessional agreements determine procedures for solving discrepancies, including the possibility of submitting them to arbitration.

#### 4) Change to the system of incentives for indefinite hiring.

a) Simplifying and reducing the number of beneficiaries, limited to the unemployed with particular insertion problems, such as young people aged from 16 to 30 who have not even completed secondary school or have no qualifications, and the over 45s who are long-term unemployed (registered as unemployed for at least 12 of the 18 previous months), providing the contracts are signed before 31 December 2011. In both cases, the incentives are greater for women than for men. On the other hand, the previous incentives are only maintained for very specific individuals, such as the disabled, those affected by social exclusion and the victims of domestic abuse, and contracts for training, relief positions and to replace people who retire early at the age of 64.

30. Specifically, when the company's economic situation and perspectives could be harmed by application of the respective salary regime, rather than the firm's economic stability considered in previous legislation.

31. It is no longer required for sectoral agreements to establish the conditions and procedures for firms not to apply the salary regime.

#### 5) Measures aimed at favouring training contracts:

a) Establishing a rebate of all SS contribution payments until 31 December 2011.

b) Increasing the possibility of contracts to obtain practical experience, extending the period applicable from four to five years after obtaining the qualification and from six to seven for disabled employees.

c) Changing specific aspects of training contracts, such as increasing the maximum age from 21 to 25 until 31 December 2011, including unemployment benefits<sup>32</sup>, establishing that the maximum wage equivalent to the minimum salary in proportion to effective working hours is limited to the first year (in the second, it will be the minimum salary regardless of working hours) and other changes aimed at making theoretical training more flexible for employers.

#### 6) Measures aimed at improving intermediation and employment:

a) Authorising private, for-profit employment agencies.

b) Increasing the obligations of those who receive unemployment benefits, who are required to attend training courses when they have been receiving said benefits for more than 30 days (previously 100).

c) Increasing the possibilities of temporary employment agencies, adapting Spanish legislation to the 2008 EU Directive on work through such agencies, to previously excluded activities and sectors such as public administrations, agriculture, mining and construction and only excluding hazardous activities such as jobs involving exposure to radiation or cancerigenous, mutagenic or toxic agents. Up to 31 December 2011, interprofessional or national sectoral agreements will determine the limitations for contracts for some high-risk activities such as construction and mining. Also in relation to temporary employment agencies, important changes have been made to ensure equal working conditions and other workers' rights, according to the 2008 EU Directive.

32. Except for apprentice workshops, trade schools or employment workshops





#### IV. AN INITIAL EVALUATION OF THE RECENT LABOUR REFORM

The 2010 reform is one of the most extensive since the Workers' Statute was approved in 1980, both in the aspects that have changed and in the scope of said changes, only exceeded by the 1994 reform, which was also approved without consensus with social agents and at a time when there was an economic crisis and the unemployment rate was close to 25%.

Initially, the primary objectives of the recent reform appear to be very similar to those described as desirable and necessary in section II to overcome some of the main problems affecting the Spanish labour market.

Indeed, to reduce the labour market's duality, measures aim to reduce the different in costs between indefinite and temporary contracts, limits are established for the duration of temporary contracts, there are more possibilities for contracts fostering indefinite hiring, the objective causes of dismissal are better defined and mass redundancies become easier, strengthening the social content and emphasising the need for re-employment activities. The commitment to submit appeals to the social courts could also favour this type of redundancy.

All these measures could reduce the labour market's segmentation, largely derived from the productive structure and the unstable nature of many jobs, reducing the fraudulent use of temporary contracts and preventing firms with objective causes for dismissal from being forced to use undue dismissals. This is something that a single contract with undue dismissal could not achieve<sup>33</sup>.

Important measures aim at increasing companies' internal and salary flexibility. Following the German model, firms can adapt to the economic situation by reducing working hours and not by dismissal. They also facilitate the geographical mobility of employees and changes to working conditions, enabling companies with economic problems to fail to apply the salary clauses of their sectoral workers' agreements.

The possibility of failing to apply sectoral agreements with regards to salaries and working conditions could create greater flexibility, as an alternative to the common proposal presented by economists and national and international organisations consisting of decentralising collective negotiation processes in a country like Spain where 75% of all companies have less than 6 employees and more than 85% have less than ten.

To encourage hiring unemployed individuals who find it particularly difficult to find jobs, the system of economic incentives has been substantially altered and now applies to few groups such as young and older long-term unemployed, so that most of the groups previously benefiting from incentives no longer do so. At the same time, important changes are made to training contracts.

Finally, to reduce the qualitative differences between labour supply and demand, the fact that there can be jobs available and unemployed at the same time, the new labour reform makes changes to improve intermediation, authorising private for-profit employment agencies. This is consistent with Spain's adherence to WLO Convention No. 181 and extends the scope of temporary employment agencies to activities that were previously not included, as established in the 2008 EU Directive.

The new labour reform therefore attempts to mitigate some of the greatest problems affecting our labour market, which explain heavy employment fluctuations, the existence of groups who find it very difficult to find jobs (young people and women who have never before been employed and people who have been out of work for long periods), and the persistence of important structural unemployment, which was difficult to reduce even in the last period of growth.

However, before we analyse the possible shortcomings of this labour reform, there are a series of circumstances that threaten its success.

The first is the lack of consensus with social agents and, specifically, the indifference of both business organisations and trade unions. This could make its

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33. See the article by Pérez Infante, J.I. in *Bulletin No. 196*, July 2010.



*The weakness of the measures aimed at limiting temporary hiring and at reducing the cost differences between indefinite and temporary contracts. On the one hand, references to specific types of temporary contract have been avoided. The link between sub-contracts and temporary contracts per project continues, and no steps have been taken to prevent temporary contracts being subsequently issued to different workers for the same job in the same company*

application difficult, especially if we consider past experience. The 1997 reform, which did have consensus, was very limited but successfully applied. The 1994 and 2001 reforms, which did not have consensus, failed miserably. Together with the present reform, the 2001 reform was one of the most ambitious ever.

The second is its approval in an economic recession in which, despite the increase in seasonal employment in the last two quarters (second and third of 2010), employment continues to fall in year-on-year terms and the unemployment rate remains at close to 20%. Measures to favour indefinite hiring will probably not be successful in this situation, with greater impact of those that favour reducing the business costs of any kind of redundancy.

The third is the fact that the labour reform alone is unlikely to create employment, both because, whatever the official line, that is not its main purpose, and because the creation of employment primarily depends on economic growth and the productive model, and neither of them depend on the labour reform.

Moreover, in the short term, economic growth and increased employment, which would reduce cyclical unemployment and can currently be estimated at around 10%<sup>34</sup>, could be limited by Spanish economic policy's present priority of reducing the deficit and public debt, which does not go hand in hand with Keynesian policies aimed at increasing public expenditure and fiscal support to encourage growth. In the long term, the growth of the economy and employment, as well as changes in the economic model, also depend on factors such as increased physical capital, higher qualified human resources and infrastructures, and the technological innovation that will evidently be limited by budgetary constraints.

34. The total unemployment rate, 19.8% in original figures and 20.2% when corrected for seasonality, in the third quarter of 2010, can be broken down into structural and cyclical unemployment. If the unemployment rate in the third quarter of 2007, before the onset of the economic crisis, was 8% and 8.3%, respectively, when cyclical unemployment was practically zero, and considering that long-term unemployment (21.9% in the third quarter of 2007 and 43% in the same quarter of 2010) has probable increased structural unemployment, it can be estimated that the two components represent about half each. In other words, both the structural and cyclical unemployment rates can be estimated at around 10%.

Furthermore, if we analyse the content of the reform, we also find a series of problems that could limit its efficacy and results, in spite of its positive aspects. These problems include:

- The weakness of the measures aimed at limiting temporary hiring and at reducing the cost differences between indefinite and temporary contracts. On the one hand, references to specific types of temporary contract have been avoided. The link between sub-contracts and temporary contracts per project continues, and no steps have been taken to prevent temporary contracts being subsequently issued to different workers for the same job in the same company. On the other, because the reduction of cost differences is limited by the long transition period applied to the increase of compensation for termination of temporary contracts (twelve days of salary per year of service is not reached until January 2015) and no steps are taken to increase the SS contributions of temporary contracts and reduce those of definitive contracts. Also, with regards to the public sector, the special treatment given to some issues such as the limits to the duration of per-project contracts and the repeated renewal of temporary contracts could make the situation worse, as the public sector's temporary employment rate is similar to or even higher than that of the private sector.
- The reduction of the cost of dismissal to the employer, through FOGASA subsidies, which will cease to apply when the Capitalisation Fund is created on 1<sup>st</sup> January 2012, pending the final configuration of the fund, might not be very effective, as it will only apply to dismissals derived from contracts signed from 18 June 2010 on with a duration of at least a year. Also, the FOGASA subsidy of eight days of salary per year of service will apply to dismissals with and without cause, which ultimately could be classified as irregular, except for disciplinary dismissals. This means that different situations will have the same treatment. Furthermore, making undue dismissal cheaper could contradict the objective of fostering dismissals with cause when there are objective reasons.



- The delimitation of the economic causes of dismissal, by defining a negative economic situation not only with reference to current losses but also to the possibility of future losses and a persistent decline in income which could affect a firm's viability or its ability to maintain its employment volume, particularly considering that there are other objective causes (technical, organisational and productive), could cause problems for the legal classification of dismissal with cause, thus increasing uncertainty, as such causes could be difficult to prove. None of this will help to reduce the uncertainty of dismissals for economic causes<sup>35</sup>.
- The delimitation of other objective causes cannot be expected to solve our current problems, as the changes required in forms for some of these causes to exist are not clear (the term "among other changes" is used in the definition of the three causes)<sup>36</sup>. Also, the purpose of dismissal due to these causes finally depends on the future, as the dismissal must help to improve the firm's situation or prevent a negative economic evolution.
- Although the measures related to internal and salary flexibility initially appear to be correct, there are some doubts concerning their efficacy, both in reducing working hours and in changing working conditions and failure to comply with sectoral salary agreements. Although the reduction of working hours is much better delimited than before, and there is more support for businesses (the incentive grows from 50% to 80%) and for the employee (benefits available for up to 180 days instead of 100), this change will not be sufficient in a context

in which partial unemployment beneficiaries are no more than three thousand a month, despite the previous incentives.

- On the other hand, the lack of specificity with regards to the instruments or procedures to be used to solve disagreements, discrepancies between employers and employees' representatives could also limit the efficacy of these measures. These procedures, which are to be established in national or regional interprofessional agreements between business organisations and unions, could be insufficient if, as previously, decisions depend on sectoral commissions. Only the application of suitable and binding arbitration methods could clearly help to overcome such disagreements.
- The change to the economic incentive system also creates uncertainty regarding the nature and efficacy of said change. The decision to exclude people over 45 who are not yet among the long-term unemployed is risky, as these people, generally with few qualifications, will find it difficult to find jobs. At the same time, as the Law itself establishes but fails to solve, it makes no sense to maintain incentives for people over 59, as the purpose is to prolong their active lives and not employment, do they should be financed by the SS and not the State. With regards to the aid provided for new groups (young and over 45 long-term unemployed), the amounts (800 euros per year for the young and 1200 euros per year for the over 45s, extended to 1000 and 1400 euros a year, respectively, for women) are low according to the evaluations made for the previous incentive system, which included aid for the unemployed with family responsibilities in a greater amount, 1500 euros per year. The three-year duration of these incentives is also an important reduction for the over 45s, as it was previously the same as the duration of the contract, and for young people the duration was four years.
- Likewise, the changes in training contracts could not be enough to make them true apprenticeship contracts, especially considering that there are no further measures to convert them into

*The lack of specificity with regards to the instruments or procedures to be used to solve disagreements, discrepancies between employers and employees' representatives could also limit the efficacy of these measures.*

35. Although it was not precise enough, the definition of economic cause according to Royal Decree-Law 10/2010, "when business results show a negative economic situation" made no reference to future losses or business viability. Neither did it refer to reduced income, as it could be due to other objective causes, such as those related to production.

36. According to Law 35/2010, there are technical causes when there are **changes, among others**, in means or instruments of production, organisational causes when there are **changes, among others**, in work systems and methods, and productive causes when there are **changes, among others** in the demand for the firm's products or services.



*The labour reform makes no changes in two key aspects for the future of the Spanish labour market: part-time employment and active employment policies.*

indefinite contracts. The minimum amount of theoretical training, as low as 15% of total working hours, could become worse with the flexibility allowed by the Law by permitting said training to be given prior to hiring by public administrations, in the context of public programmes aimed at access to the labour market for unqualified school leavers. The temporary change from 21 to 25 years, until 31 December 2011, does not seem appropriate, as it could alter the very nature of a contract for unqualified young people, especially when the reform does not allow such contracts for unqualified individuals with professionalism certificates.

- Furthermore, despite the seventeenth additional provision, which establishes that the government will continue to strengthen the public employment services, some doubts arise concerning the authorisation of private for-profit employment agencies without first having made the effort to reinforce the public employment system and establish true coordination mechanisms between the national and regional services. The development of private firms, without strengthening public services or increasing their coordination, could weaken them even further at a time when most indicators (such as civil servants per unemployed individual and the percentage of jobs arranged by the public employment services) show that Spain is far behind most other European Union countries in this respect.
- Finally, the labour reform makes no changes in two key aspects for the future of the Spanish labour market: part-time employment and active employment policies.

Part-time employment, the legal regulation of which must be changed if work is to be more fairly distributed, as in other European countries. Firms will therefore be more flexible to deal with changes in demand, and may concentrate work in a few hours per day or days per week. Employees are also able to study and fulfil other responsibilities to their families. At the present time, part-time work is rarely voluntary and mostly applies to women with unqualified, poorly paid jobs.

The reform makes little reference to active employment policies, especially with regards to professional training, a field that has shortcomings in relation to the lack of coordination between the three levels (official, occupational for employment and continuous or permanent) and between the different regions, little quality and planning in relation to the productive system and technological changes. A reform in this area is both essential and urgent.

It is precisely the need for profound changes in active employment policies, especially in relation to professional training, together with regulation of the new capitalisation fund, the strengthening of public employment services and the regulatory development of standards for private employment agencies, which, according to Law 35/2010, must be completed within six months, are the most serious problems that the government urgently has to solve. In this respect, dialogue with social agents is essential if we are to overcome the current situation and ensure that the new measures and reforms are truly effective.







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NOVEMBER						
<b>1</b> <b>USA PCE</b> (September)	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b> <b>Spanish IPI</b> (October)	<b>6</b>	<b>7</b>
<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b> <b>Spanish CPI</b> (October) <b>Euro Area IPI</b> (September)	<b>13</b>	<b>14</b>
<b>15</b>	<b>16</b> <b>Euro Area HICP</b> (October)	<b>17</b> <b>USA CPI</b> (October) <b>Euro Area GDP</b> III Trimestre	<b>18</b>	<b>19</b>	<b>20</b>	<b>21</b>
<b>22</b>	<b>23</b>	<b>24</b> <b>USA PCE</b> (October)	<b>25</b>	<b>26</b>	<b>27</b>	<b>28</b>
<b>29</b> <b>Spanish HICP</b> A.D. November <b>Spanish ESI</b> <b>Euro Area ESI</b> (November)	<b>30</b> <b>Euro Area HICP</b> A.D. November					

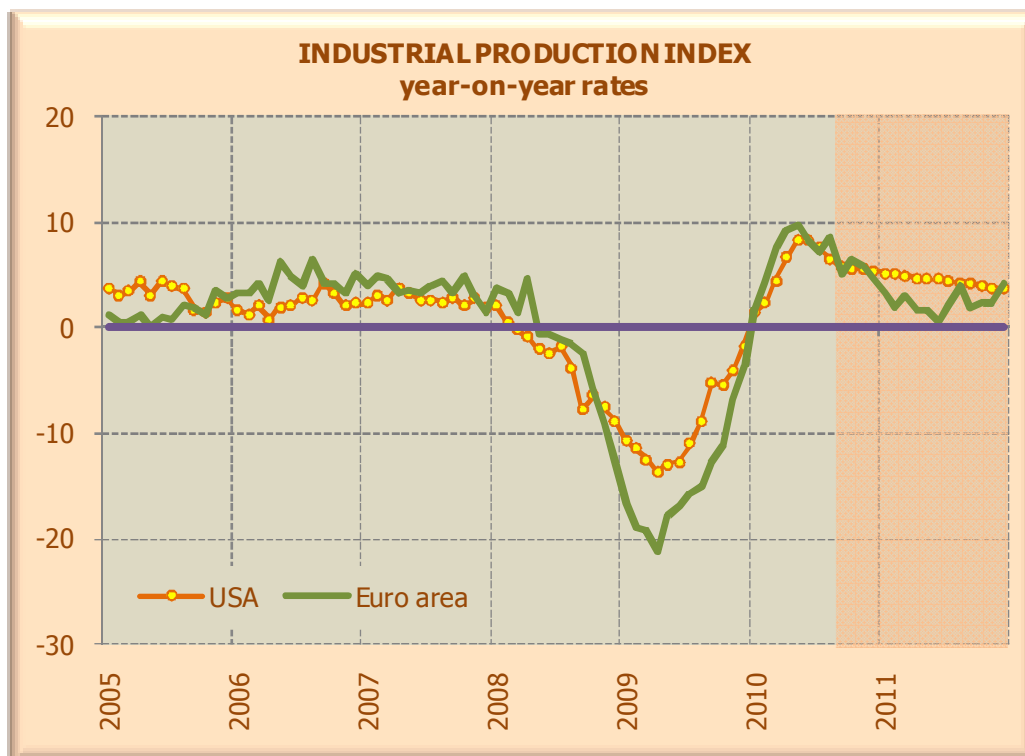
DECEMBER						
		<b>1</b>	<b>2</b>	<b>3</b> <b>Spanish IPI</b> (November)	<b>4</b>	<b>5</b>
<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>13</b>	<b>14</b> <b>Euro Area IPI</b> (November)	<b>15</b> <b>Spanish CPI</b> <b>USA CPI</b> (November)	<b>16</b> <b>Euro Area HICP</b> (November)	<b>17</b>	<b>18</b>	<b>19</b>
<b>20</b>	<b>21</b>	<b>22</b>	<b>23</b> <b>USA PCE</b> (October)	<b>24</b>	<b>25</b>	<b>26</b>
<b>27</b>	<b>28</b>	<b>29</b>	<b>30</b>	<b>31</b>		

\* ESI: Economic Sentiment Indicator  
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 PCE: The Personal Consumption Expenditure Price Index  
 EAPS Economically Active Population Survey  
 IPI: Industrial Production Index  
 A.D.: Advanced Indicator





**Industrial production recovery was greater in the euro area so far in 2010. After the end of the year, however, growth of the US Industrial Production Index could be greater.**



Data adjusted for seasonality and working days effect

The figures in the shaded area are forecasts

\*Year-on-year rates

Source: EUROSTAT & BLS & BIAM (UC3M)

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