



OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS



Universidad Carlos III de Madrid

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Second Phase

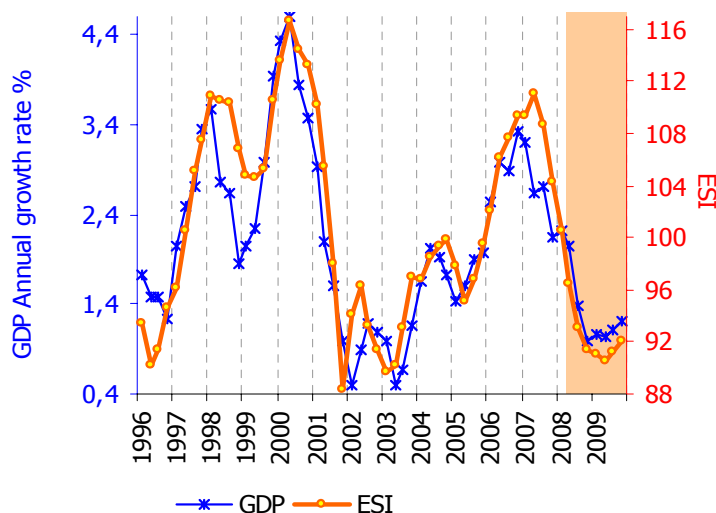
THE CONTINUING JOB DESTRUCTION IN AGRICULTURE, CONSTRUCTION AND MANUFACTURING, AND THE GROWTH OF ACTIVE POPULATION WILL INCREASE THE SPANISH UNEMPLOYMENT RATE UP TO 13.1% IN 2009

EMPLOYED, ACTIVE AND UNEMPLOYED POPULATION Year on year rates				
	2006	2007	2008	2009
Employed	4.1	3.1	0.1	-0.6
Agriculture	-5.6	-2.0	-3.9	-4.5
Manufacturing	0.4	-0.9	0.3	-0.8
Construction	7.9	6.1	-8.4	-5.2
Services	5.1	3.9	2.0	0.6
Active	3.3	2.8	2.8	2.2
Unemployment rate	8.5	8.3	10.7	13.1

Source: INE & IFL (UC3M)
Date: July 24, 2008

Economic growth in the Euro Area will continue to slow down. In the fourth quarter of 2008 the year on year GDP growth rate will be around 1.0%.

GDP AND ECONOMIC SENTIMENT INDICATOR
IN THE EURO AREA



Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)
Date: June 27, 2008

N. 166
July, 2008

Monthly Debate. p. 62
The Diminishing gap in earnings
by education level in Spain
Ismael Sanz Labrador.

"Spain is de-specialising in advanced sectors more intensive in human and technological capital, those in which developed countries use to specialise as a consequence of globalisation. Indeed, the education premium reduction in our country could be a result of this de-specialisation in sectors intensive in human and technological capital, which could be leading to a reduction in the demand for skilled workers. Spain should improve the quality of the education, in particular of the secondary education which has been shown to be below the OECD average."

Financing the current account
deficit of the Spanish economy.
p.49
Nicolás Carrasco

"Last year, the Spanish economy needed financing in the amount of 99,866 million euros, 25% more than the previous year. In January-April of this year, according to the Bank of Spain's balance of payment figures, the need for financing was 38,260 million euros, 13% more than a year earlier. In 2008 it will probably exceed 11% of GDP."

N. 166



www.uc3m.es/boletin



OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS



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TERMINOLOGY USED:

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

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

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

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*The cut-off date for the statistics included in this Bulletin was July 24, 2008.

I. ECONOMIC OUTLOOK

The most evident aspect of the current economic situation is that it is certainly one of the most complex and difficult to analyse of the last few decades. It is a crisis on the supply side, characterised by a large increase in the relative prices of raw materials, enhanced by a massive loss of value of property and financial assets. At the same time, growing energy and food prices have pushed inflation rates up worldwide, while uncertainty concerning the evolution of the economy and the real magnitude of the losses increased the risk premiums paid in the capital markets. Above and beyond this summary description, repeated in different versions in all the media, it is evident that some key aspects of the situation continue to lack an acceptable explanation. In the first place, oil and food prices have practically doubled in 7 months, and that is difficult to interpret if these increases are only attributed to growing worldwide demand. Some difficulties or even monopolistic manipulation of the supply could have contributed to such an increase. The sudden change in prices in the last few days, attributed to a drop in U.S. growth perspectives, is consistent with the interpretation attributing oil price increases to real supply and demand effects, with speculation being less significant.

It is also evident that the financial markets have not correctly assessed risk in the last few years. To stabilise these markets, many countries are nationalising the risks and losses of firms which, until a few months ago, were announcing huge profits with clear moral risk implications in the medium and long term. Calls for new regulations and subsequent controls have not had the expected results. Nearly a year after the U.S. subprime mortgage crisis, there has been no major reform in how the financial markets operate. At the same time there is no sufficiently backed proposal which could be applicable in the near future and is credible enough to transmit confidence to the markets. This confusion and lack of information consistently damages markets and economies, making it more difficult for them to recover.

Last month, we approached the economic situation with a detailed analysis of our forecasts and the methods on which they are based. We said then that the lowest year-on-year GDP growth values would be reached in mid-2009 in both Spain and the euro area, while inflation

would peak in August and, consistently with the evolution of oil prices, will converge in the second half of 2009 to 2% in the euro area and 2.6% in Spain and the U.S. The profile of these forecasts has not changed in the last month, although inflation and growth rates have been revised upwards and downwards, respectively. The June article on the Economic Situation also said that some anomalies, such as the liquidity crisis in the interbank market, would be solved as growth and inflation perspectives became clearer for the principal economies. From this viewpoint, the figures observed in July have not helped to clarify the situation and we continue to see tension and disequilibria which are threatening economic stability and ultimately help to deteriorate the expectations of economic agents. The figures observed this month have confirmed that the economic situation has worsened. In Spain, as in other euro area countries, the economic sentiment indicator is at an all-time low and the latest industrial production figures, relative to May, were worse than expected. These and other indicators have pushed our growth forecasts down for both Spain and the euro area. For Spain, we are now expecting an average annual growth rate of 1.5% (± 0.3) and 0.3% (± 0.5) for 2008 and 2009, respectively. The likelihood of finding quarters with negative growth, estimated at around 15% in the last Bulletin, is now around 50%. With regards to euro area growth, the downwards revisions were smaller, with expected growth rates of 1.7% (± 0.3) for 2008 and 1.1% (± 0.4) for 2009, and the likelihood of negative year-on-year growth rates is less than 5%. These forecasts refer to the aggregate GDP and should be seen as provisional until we have the figures for other quantitative indicators providing information about different sectors, with which we will be able to update our forecasts for each of the components on both the supply and the demand sides. The macroeconomic accounts figures, to be published in August, will enable us to completely and consistently update these forecasts.

With regards to the U.S., a different trend has been seen in the last two months; the Consensus Forecast and Economist Poll growth forecasts were increased slightly in June and July, and the industrial production figures were better than we had expected. However, the U.S. economy has been continuing to lose jobs and reduce working hours for several months, although the unemployment rate remained constant this last



month, largely due to slower growth in the active population. The debate about whether the U.S. will technically enter a recession continues, and we will have to wait for the second quarter's national accounts to obtain a more conclusive answer to this question.

The inflation figures observed in July again beat historic records. Although observed inflation values were in line with our forecasts, the evolution of oil prices has caused new upwards revisions. In the U.S., we are expecting an average annual inflation rate of 4.8% (± 0.28) for 2008 and 3.3% (± 1.22) for 2009. The forecasts for the euro area are 3.6% (± 0.15) and 2.3% (± 0.48), with rates of 4.6% (± 0.21) expected for Spain this year, followed by 3.0% (± 0.78) for 2009. The year-on-year rates in November and December, 2008 in Spain will be 4.2% (± 0.67) and 4.0% (± 0.73), respectively.

The following graphs and text analyse the change in expectations concerning economic growth and inflation according to the Bulletin, and a comparison with the changes made by other institutions.

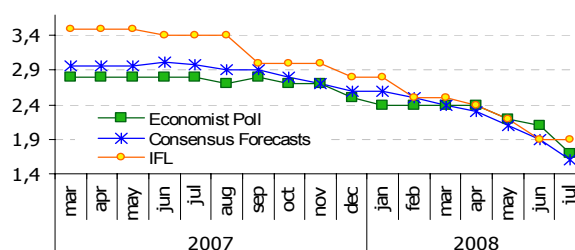
This revision process is normal in cycle change periods, when econometric models need new information in order to accurately estimate the new evolution pathway of endogenous economic variables. Ours, like most econometric forecasting models, are based on the information provided by leading indicators. These indicators anticipate the behaviour of forecasting variables by a few months. However, it is difficult to obtain forecasts from them and estimated are based on their recent historic evolution. Therefore, the ability of econometric models to detect changing trends far in advance is normally limited. Graphs I.1 and I.2 show the evolution of average GDP growth forecasts in 2008 according to the Economist Pool, Consensus Forecasts and the IFL over the last 15 months. These graphs confirm constant but highly gradual adaptation to new economic conditions. In view of these data, our impression is that some highly negative forecasts, which even refer to recession, which were published in the autumn of 2007, were based on an idea of a declining economy, but not on quantitative forecasting methods. In order to determine whether this impression is accurate, we would need observe closely the methods used to estimate those forecasts.

As we can see from graphs I.1 and I.2, it was only after August, 2007, when forecasts show significant worse growth perspectives for Spain and the euro area, and not until the beginning of 2008 was the average growth rate for 2008

estimated at significantly lower than 2.0%. Also, for the euro area, growth forecasts for 2008 have improved slightly in the last few months, after very low figures in March and April. This was not the case for Spain, whose growth forecasts for both 2008 and 2009 have continued to worsen since the summer of 2007. This revision process has even accelerated in the last month, with the average growth rate expected for 2008 going from 1.9% to 1.5%. This fact has increased the pessimism of many market operators, with expectations concerning the national accounts for the second quarter declining.

Graph I.1

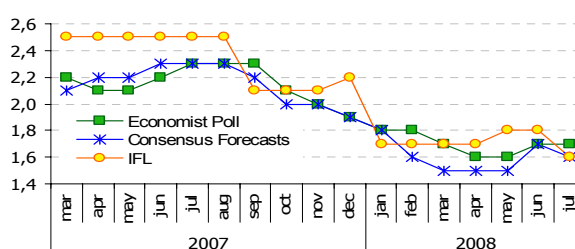
EVOLUTION OF FORECASTS IN SPAIN
GDP average rate of growth, 2008



Source: BLS, BEA & IFL
Date: July 24, 2008

Graph I.2

EVOLUTION OF FORECASTS IN THE EURO AREA
GDP average rate of growth, 2008



Source: BLS, BEA & IFL
Date: July 24, 2008

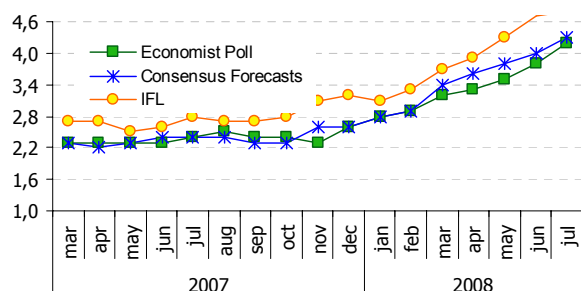
Graphs I.3, I.4 and I.5 show the changes in expectations regarding inflation forecasts for 2008. Growing oil and food prices, and the obvious consequences for inflation, were completely unexpected until November, 2007. Even after then, there have been continuous revisions in the forecast average inflation rate for 2008, always due to food and energy prices, whereas the expectations regarding core inflation have remained relative stable in both the euro area and the U.S. In the second half of July, oil prices fell by about 15%, showing an important turning point. Similar reductions have been seen in the prices of basic food and, to a lesser extent, in the



price of metals and other raw materials. If this trend is confirmed in the next few months, inflation forecasts will stabilise and there could even be downwards revisions.

Graph I.3

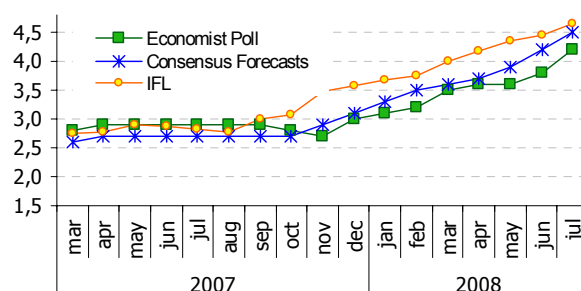
EVOLUTION OF FORECASTS IN US.
CPI average rate of growth, 2008



Source: BLS, BEA & IFL
Date: July 24, 2008

Graph I.4

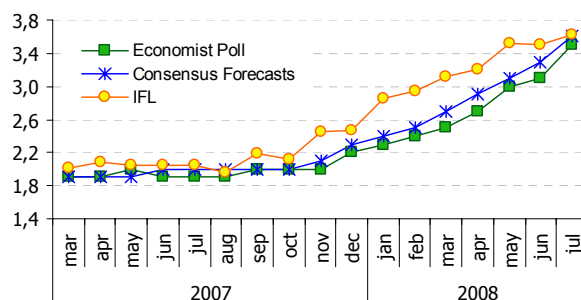
EVOLUTION OF FORECASTS IN SPAIN
CPI average rate of growth, 2008



Source: BLS, BEA & IFL
Date: July 24, 2008

Graph I.5

EVOLUTION OF FORECASTS IN THE EURO AREA
HICP average rate of growth, 2008



Source: BLS, BEA & IFL
Date: July 24, 2008

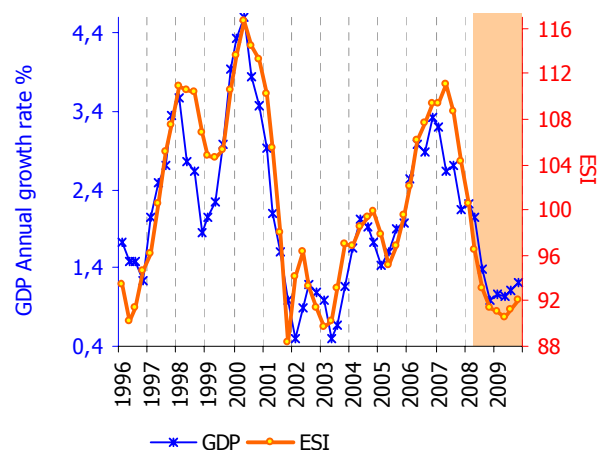
Below we comment with more details the new forecasts and the recent evolution of the U.S., Spain and euro area economies.

Euro area

In July, growth expectations in the euro area weakened due to the surprising fall in both the ESI and the industrial production index. The euro area economic sentiment indicator fell again after the slight increase registered in June, to 94.9 points, 2.7 less than in the previous month (see graph I.9). The euro area industrial production index (IPI) figures for May were much lower than expected, with a negative annual growth rate of 0.6% instead of the forecast 2.1%.

Graph I.6

GDP AND ECONOMIC SENTIMENT INDICATOR
IN THE EURO AREA



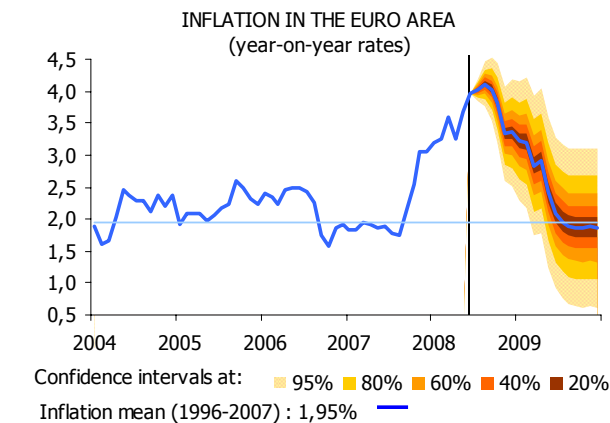
Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)
Date: June 27, 2008

Inflation is at an all-time high, with the year-on-year rate for June at around 4.1%. Inflation forecasts have been revised upwards slightly. The year-on-year inflation rate is expected to peak in August at 4.1% (± 0.23), falling to 3.3% (± 0.53) in December, 2008 and not reaching values close to 2.0% until the second half of 2009 (see graph 1.7). In this scenario, which continues to involve a high risk of inflation, the ECB has announced that subsequent increases in the official interest rate are possible, although not immediately.

With this clearly negative news for the European economy, the labour market continues to be unexpectedly dynamic. The Commission's opinion polls and other indicators show that the creation of employment has not weakened in the second quarter and could be performing favourably. The unemployment rate remained at 7.2%, the lowest ever in the euro area's history.



Graph I.7



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

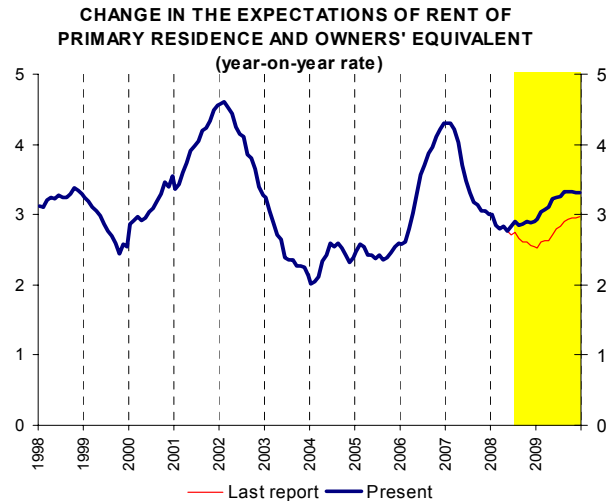
United States

The year-on-year inflation rate in June in the U.S. was exactly 5.0%. This value resulted from two different trends. On the one hand, food, energy and transport-related prices are growing due to higher raw material costs. On the other, the good performance of other goods and services could be due to a weak demand. This scenario is now complicated by an upwards innovation in house rental prices which, if sustained in the next few months, will represent significant deterioration in inflation expectations (see graph I.8). House rentals represent nearly 20% of the U.S. headline inflation index. Considering that inflation rates in this item had been falling since January, 2007, the recent upwards surprise and expected increase in the next few months are certainly important. On the one hand, they show that inflation expectations have been reinforced, and on the other that there is still a solid demand for housing, suggesting that the low house sales figures could be more due to uncertainty regarding future prices than the lack of demand. In any event, in view of these figures, the FED has announced that inflation is currently its main concern and it has informed the market that it intends to increase the official interest rate in the next few months.

With regards to the housing sector, housing starts and building permits in June registered very high rates, solely because of the statistical effect of the change of method applied in New York State. After correcting for this effect, neither permits nor starts show signs of recovery. Building permits have risen by a monthly rate corrected for seasonality of 1.5%, similar to the forecast 1.0%. Likewise, housing starts registered a fall of 3.5% instead of the expected 0.6%.

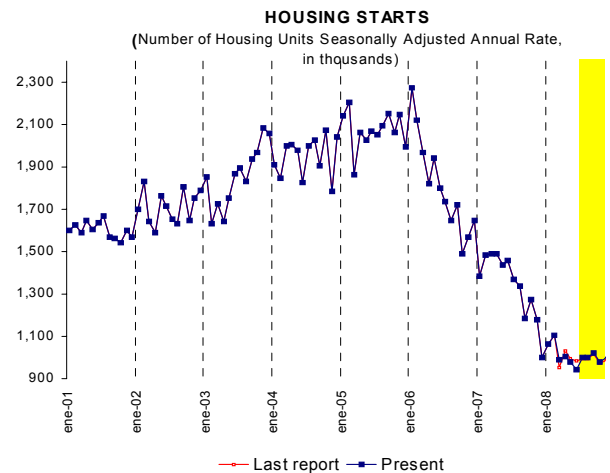
The labour market continues to be weak, with an annual active population growth rate going from 0.04% to -0.26%. The unemployment rate, which rose by 0.5 pp last month, remained unaltered at 5.5%.

Graph I.8



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

Graph I.9



Source: U.S. Census Bureau & IFL (UC3M)
Date: July 17, 2008

Spain

In July, growth expectations for the Spanish economy declined more than in the euro area. As mentioned earlier, the average annual GDP growth rate for 2008 and 2009 were revised downwards considerably, largely as a result of the industrial production index and economic sentiment figures.

The Active Population Survey figures were also negative for the Spanish economy, with employment growing much less than expected and the unemployment rate growing significantly. Job



creation is slowing down this year and a negative rate of 0.6% is expected for 2009.

Table I.1

EMPLOYED, ACTIVE AND UNEMPLOYED POPULATION year-on-year rates				
	2006	2007	2008	2009
Occupied	4.1	3.1	0.1	-0.6
Agriculture	-5.6	-2.0	-3.9	-4.5
Manufacturing	0.4	-0.9	0.3	-0.8
Construction	7.9	6.1	-8.4	-5.2
Services	5.1	3.9	2.0	0.6
Active	3.3	2.8	2.8	2.2
Unemployment rate	8.5	8.3	10.7	13.1

Source: INE & IFL (UC3M)

Date: July 24, 2008

The construction and industrial sectors will destroy the largest number of jobs (see table I.1). The annual active population growth rate was surprisingly high again; for 2008 it is expected to be 2.8%, the same value observed in 2007, whereas it will be 2.2% in 2009. These growth rates are exceptionally high, considering that slower growth in the Spanish economy should reduce incentives to join the labour market. Observing the figures on table I.1, we can see

how most of the expected increase in the unemployment rate can be attributed to the market's inability to absorb the heavy increase in the labour supply. Other figures show that this growth in the labour supply is largely due to immigration which, in spite of signs of a recession, continues to increase in Spain.

In June, the year-on-year rate of inflation was 5.0%. The inflation differential with the euro area continues to be around 1 pp, largely due to the service sector. The inflation rate is expected to peak in August, falling to 4.2% (± 0.67) and 4.0% (± 0.73) in November and December 2008. In 2009, consistent with the evolution of energy prices, the year-on-year rate of inflation will continue to fall until it reaches values close to 2.6% in the second half of the year.

In this issue of the Bulletin, **Nicolás Carrasco** examines the Spanish economy's financing needs and the problematic evolution of its foreign trade deficit. **Ismael Sanz** analyses salary differences in Spain relative to educational levels, finding evidence that Spain is being left behind in the most dynamic industries and those making the greatest use of human capital.



II. THE ECONOMY IN THE EURO AREA.

II.1 MACROECONOMIC FORECASTS.

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

	Annual Rates				
	2005	2006	2007	Forecasts	
				2008	2009
GDP mp (1)	1.8	2.9	2.6	1.7	1.1
Prices (2)					
HICP, annual average rate	2.2	2.2	2.1	3.6	2.3
HICP, dec. / dec.	2.2	1.9	3.1	3.3	1.9
Labour market (3)					
Unemployment rate	8.9	8.3	7.4	7.2	7.1
Other Economic Indicators (4)					
Industrial Production Index (excluding construction)	1.4	4.1	3.6	1.1	1.5

The figures in the shaded area are forecasts.

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

Source: EUROSTAT & IFL (UC3M)

Date: (1) June 3, 2008.

(2) July 16, 2008

(3) May 30, 2008.

(4) July 14, 2008.

NOTE: During this month we only publish our new forecasts for the total GDP that were estimated the 14th of July. These forecasts are obtained using an econometric model that directly relates the total GDP to a set of leading indicators. On the contrary, the forecast of the demand and supply side components of the GDP requires additional information that is not available in this moment. For this reason the last forecast for the separated GDP components was published the 3rd of June and it's now obsolete. In order to avoid confusion between two different methodologies generating different values, we decided to publish only the total GDP forecast. The new forecast for the GDP components will be published again after the 3rd of September when data of the 2nd quarter Euro Area accounts will be available.

QUARTERLY GROWTH RATES OF EURO AREA GDP			
	2007	2008	2009
TI	3.2	2.2	1.1
TII	2.6	2.0	1.0
TIII	2.7	1.4	1.1
TIV	2.1	1.0	1.2



II.1.2 INDUSTRIAL PRODUCTION INDEX: MONTHLY AND QUARTERLY FORECASTS.

Table II.1.2.1

ANNUAL GROWTH RATES IN THE IPI AND SECTORS IN THE EURO AREA								
		Consumer Goods		Capital Goods	Intermediate Goods	Energy	TOTAL	
		Durable	Non Durable					
ANNUAL AVERAGE RATES	2004	0.1	0.7	3.4	2.3	2.2	2.1	
	2005	-0.8	0.7	3.0	0.9	1.4	1.4	
	2006	4.4	2.2	5.9	4.9	0.8	4.1	
	2007	1.7	2.5	6.0	3.9	-0.5	3.6	
	2008	-2.4	-0.5	3.6	0.6	0.7	1.1	
	2009	-0.2	0.5	2.9	1.4	1.0	1.5	
ANNUAL RATES*	2007	TI	5.0	3.6	7.3	6.8	-7.7	4.3
		TII	1.8	2.1	5.0	3.2	-0.3	3.1
		TIII	2.6	3.2	6.7	3.6	1.1	4.1
		TIV	-2.2	1.2	5.3	1.9	5.6	3.0
	2008	TI	-1.8	0.5	5.2	1.4	4.5	2.5
		TII	-2.7	-1.2	4.5	0.7	1.2	1.3
		TIII	-5.0	-1.4	1.4	-0.5	-1.1	-0.4
		TIV	-0.5	0.0	3.1	0.8	-1.9	1.0
	2009	TI	-1.1	-0.5	1.5	0.0	1.1	0.4
		TII	0.0	0.9	3.2	2.0	1.1	2.0
		TIII	0.0	0.4	3.0	1.4	0.8	1.6
		TIV	0.1	1.0	3.7	2.1	1.1	2.1

The figures in the shaded area are forecasts.

* Adjusted by working days.

** Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: July 14, 2008

Table II.1.2.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN THE EURO AREA							
	2003	2004	2005	2006	2007	2008	2009
January	0.3	-1.3	-0.3	-0.5	-2.0	-0.3	-1.5
February	1.2	2.1	0.4	0.6	1.5	1.3	1.3
March	9.2	9.7	9.4	10.8	10.7	8.7	10.2
April	-6.3	-6.3	-4.9	-7.1	-8.1	-5.8	-6.6
May	-1.7	0.1	-1.0	2.9	2.5	-1.9	0.8
June	3.6	3.9	4.4	3.3	3.2	4.6	3.7
July	-1.1	-2.3	-2.3	-3.5	-2.4	-2.8	-3.3
August	-21.4	-21.9	-20.3	-18.8	-18.3	-19.4	-22.0
September	29.7	31.9	30.5	27.9	26.2	27.0	33.6
October	5.0	2.9	1.9	2.6	3.5	4.2	2.9
November	-1.2	-1.8	0.8	-0.3	-1.7	-0.6	-1.0
December	-7.8	-7.9	-8.1	-6.1	-7.3	-7.5	-7.3

* Adjusted by working days.

The figures in the shaded area are forecasts.

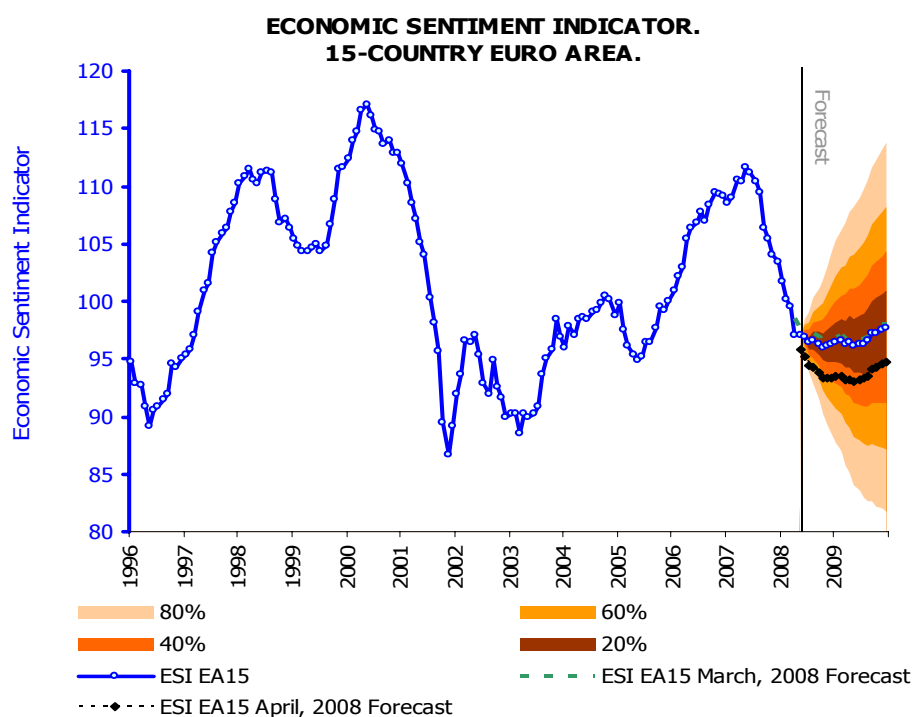
Source: EUROSTAT & IFL (UC3M)

Date: July 14, 2008



II.1.3. ECONOMIC SENTIMENT INDICATOR.

Graph II.1.3.1



Source: EUROPEAN COMMISSION & IFL (UC3M)

Source: May 29, 2008

II.1.4. INFLATION.

Table II.1.4.1

FORECASTS IN THE ANNUAL AVERAGE RATE IN INFLATION IN THE EURO AREA					
Harmonized Index of Consumer Price (HICP)	2005	2006	2007	Forecast	
				2008	2009
TOTAL (100%)	2.2	2.2	2.1	3.6	2.3
CORE (82.8%)	1.5	1.5	2.0	2.4	2.0
Processed food without tobacco (9.4%)	0.5	1.6	2.3	7.0	2.8
Processed food with tobacco (11.9%)	2.0	2.1	2.8	6.3	3.4
Non-energy industrial goods (30.0%)	0.3	0.6	1.0	0.7	0.7
Services (40.8%)	2.3	2.0	2.5	2.5	2.5
RESIDUAL (17.2%)	5.7	5.5	2.8	9.3	3.8
Non-Processed food (7.6%)	0.8	2.8	3.0	3.2	2.3
Energy (9.6%)	10.1	7.7	2.6	14.1	4.9

Source: EUROSTAT & IFL (UC3M)

Date: July 16, 2008



Table II.1.4.2

HICP ANNUAL GROWTH BY COMPONENTS IN THE EURO AREA											
		Harmonized Index of Consumer Prices									
		Core					Residual			TOTAL 80 % Confidence Intervals*	
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL 80 % Confidence Intervals*	Non processed food	Energy	TOTAL		
Weights 2008		9.6%	2.3%	29.8%	40.9%	82.6%	7.6%	9.8%	17.4%	100%	
ANNUAL AVERAGE RATE	1999	0.5	3.1	0.7	1.5	1.1	0.0	2.4	1.2	1.1	
	2000	0.7	3.4	0.5	1.5	1.0	1.8	13.0	7.4	2.1	
	2001	2.7	3.8	0.9	2.5	1.9	7.0	2.2	4.4	2.3	
	2002	2.4	5.9	1.5	3.1	2.5	3.1	-0.6	1.2	2.2	
	2003	2.1	8.4	0.8	2.5	2.0	2.1	3.0	2.6	2.1	
	2004	1.3	12.2	0.8	2.6	2.1	0.6	4.5	2.6	2.1	
	2005	0.5	7.8	0.3	2.3	1.5	0.8	10.1	5.7	2.2	
	2006	1.6	3.9	0.6	2.0	1.5	2.8	7.7	5.5	2.2	
	2007	2.3	4.5	1.0	2.5	2.0	3.0	2.6	2.8	2.1	
	2008	7.0	3.3	0.7	2.5	2.4 ± 0.11	3.2	14.1	9.3	3.6 ± 0.15	
	2009	2.8	6.0	0.7	2.5	2.0 ± 0.38	2.3	4.9	3.8	2.3 ± 0.48	
ANNUAL RATES (year-on-year rates)	2007	January	1.4	5.1	0.9	2.3	1.8	3.7	0.9	2.1	1.8
		February	1.2	5.6	1.1	2.4	1.9	2.8	0.8	1.6	1.8
		March	1.1	4.9	1.2	2.4	1.9	2.9	1.8	2.3	1.9
		April	1.1	5.0	1.1	2.5	1.9	3.9	0.4	1.9	1.9
		May	1.1	4.9	1.0	2.6	1.9	3.1	0.3	1.5	1.9
		June	1.3	4.8	1.0	2.6	1.9	3.0	0.9	1.8	1.9
		July	1.3	4.3	0.9	2.6	1.9	2.8	0.0	1.2	1.8
		August	1.8	5.2	1.0	2.6	2.0	2.4	-0.9	0.5	1.7
		September	2.6	5.2	1.0	2.5	2.0	2.1	3.0	2.6	2.1
		October	4.0	3.1	1.1	2.5	2.1	3.1	5.5	4.5	2.6
		November	4.9	3.3	1.1	2.5	2.3	3.0	9.7	6.8	3.1
		December	5.6	3.1	1.0	2.5	2.3	3.1	9.2	6.5	3.1
	2008	January	6.6	3.0	0.7	2.5	2.3	3.3	10.6	7.4	3.2
		February	7.4	3.2	0.8	2.4	2.4	3.2	10.4	7.2	3.3
		March	7.7	3.3	0.9	2.8	2.7	3.8	11.2	8.0	3.6
		April	7.9	3.2	0.8	2.3	2.4	3.1	10.8	7.4	3.3
		May	7.9	3.3	0.7	2.5	2.5	3.9	13.7	9.4	3.7
		June	8.0	3.3	0.7	2.5	2.5	3.9	16.0	10.7	4.0
		July	8.1	3.4	0.7	2.5	2.5 ± 0.14	3.6	16.6	10.9	4.0 ± 0.12
		August	7.9	2.8	0.7	2.5	2.5 ± 0.19	3.1	18.2	11.6	4.1 ± 0.23
		September	7.3	3.0	0.7	2.6	2.5 ± 0.24	3.1	17.7	11.3	4.0 ± 0.32
		October	6.0	3.5	0.7	2.6	2.3 ± 0.27	2.6	17.1	10.7	3.8 ± 0.40
		November	5.2	3.7	0.7	2.6	2.2 ± 0.31	2.2	13.2	8.4	3.3 ± 0.47
		December	4.7	4.3	0.7	2.6	2.2 ± 0.35	2.1	13.7	8.6	3.3 ± 0.53
	2009	January	4.0	5.1	0.7	2.5	2.1 ± 0.39	2.2	12.8	8.2	3.2 ± 0.57
		February	3.5	5.0	0.7	2.5	2.0 ± 0.43	2.8	12.7	8.4	3.2 ± 0.63
		March	3.2	5.7	0.7	2.3	1.9 ± 0.45	2.7	10.2	7.0	2.8 ± 0.66
		April	3.0	6.1	0.7	2.7	2.1 ± 0.48	2.7	9.1	6.4	2.9 ± 0.70
		May	3.0	6.1	0.7	2.5	2.0 ± 0.49	2.3	5.3	4.1	2.4 ± 0.70
		June	2.8	6.2	0.7	2.5	2.0 ± 0.50	2.1	2.8	2.6	2.1 ± 0.72
		July	2.7	6.2	0.7	2.5	2.0 ± 0.51	2.1	1.9	2.0	2.0 ± 0.74
		August	2.5	6.2	0.7	2.5	1.9 ± 0.51	2.1	1.4	1.7	1.9 ± 0.74
		September	2.4	6.3	0.7	2.5	1.9 ± 0.53	2.1	1.3	1.6	1.9 ± 0.76
		October	2.3	6.3	0.7	2.5	1.9 ± 0.53	2.1	1.3	1.6	1.9 ± 0.76
		November	2.3	6.3	0.7	2.5	1.9 ± 0.53	2.1	1.4	1.7	1.9 ± 0.76
		December	2.2	6.4	0.7	2.5	1.9 ± 0.52	2.1	1.3	1.7	1.9 ± 0.76

* Confidence intervals calculated with historical errors.

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: July 16, 2008



Table II.1.4.3

HICP MONTHLY GROWTH BY COMPONENTS IN THE EURO AREA											
		Harmonized Index of Consumer Prices									
		Core					Residual			TOTAL	
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL	Non processed food	Energy	TOTAL		
Weights 2008		9.6%	2.3%	29.8%	40.9%	82.6%	7.6%	9.8%	17.4%	100%	
MONTHLY RATES (Growth of the month over the previous month)	January	2006	0.3	0.0	-2.0	-0.4	-0.9	0.9	2.4	1.8	-0.4
		2007	0.2	0.7	-2.0	-0.1	-0.7	0.9	0.4	0.6	-0.5
		2008	1.0	0.6	-2.3	-0.2	-0.8	1.2	1.6	1.4	-0.4
		2009	0.4	1.5	-2.2	-0.2	-0.8	1.3	0.8	1.0	-0.5
	February	2006	0.3	0.0	0.0	0.4	0.2	0.4	0.4	0.4	0.3
		2007	0.1	0.4	0.2	0.5	0.4	-0.5	0.3	0.0	0.3
		2008	0.9	0.6	0.3	0.5	0.5	-0.6	0.1	-0.2	0.3
		2009	0.3	0.4	0.3	0.5	0.4	-0.1	0.1	0.0	0.3
	March	2006	0.2	0.8	1.6	0.1	0.7	-0.2	0.5	0.2	0.6
		2007	0.2	0.1	1.6	0.0	0.6	-0.1	1.5	0.8	0.7
		2008	0.4	0.2	1.7	0.4	0.9	0.5	2.3	1.5	1.0
		2009	0.2	0.9	1.7	0.2	0.7	0.5	0.0	0.2	0.6
	April	2006	0.1	0.1	0.8	0.2	0.4	0.4	2.8	1.7	0.7
		2007	0.1	0.3	0.7	0.4	0.5	1.4	1.4	1.4	0.6
		2008	0.4	0.2	0.6	-0.2	0.2	0.7	1.0	0.9	0.3
		2009	0.2	0.5	0.6	0.3	0.4	0.7	0.1	0.3	0.4
	May	2006	0.1	0.2	0.2	0.1	0.1	0.9	1.0	1.0	0.3
		2007	0.1	0.1	0.1	0.2	0.2	0.1	0.9	0.6	0.2
		2008	0.1	0.1	0.1	0.4	0.2	0.9	3.6	2.4	0.6
		2009	0.1	0.2	0.1	0.2	0.1	0.5	0.0	0.2	0.2
	June	2006	0.0	0.3	-0.2	0.3	0.1	0.2	-0.1	0.1	0.1
		2007	0.1	0.1	-0.2	0.2	0.0	0.1	0.5	0.3	0.1
		2008	0.3	0.1	-0.2	0.3	0.1	0.0	2.5	1.5	0.4
		2009	0.1	0.2	-0.2	0.3	0.1	-0.1	0.0	0.0	0.1
	July	2006	0.1	0.5	-2.0	0.8	-0.3	-0.2	1.4	0.7	-0.1
		2007	0.2	0.0	-2.1	0.8	-0.3	-0.4	0.5	0.1	-0.2
		2008	0.3	0.2	-2.1	0.8	-0.3	-0.7	1.0	0.3	-0.2
		2009	0.1	0.2	-2.1	0.8	-0.3	-0.7	0.1	-0.3	-0.3
	August	2006	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.0	0.1
		2007	0.5	0.8	0.2	0.2	0.2	-0.3	-0.9	-0.7	0.1
		2008	0.3	0.2	0.2	0.2	0.2	-0.8	0.5	0.0	0.2
		2009	0.2	0.2	0.2	0.2	0.2	-0.8	0.1	-0.3	0.1
	September	2006	0.1	0.2	1.5	-0.4	0.3	0.6	-3.2	-1.6	0.0
		2007	0.8	0.2	1.5	-0.5	0.4	0.2	0.6	0.5	0.4
		2008	0.3	0.4	1.5	-0.5	0.3	0.2	0.2	0.2	0.3
		2009	0.2	0.4	1.5	-0.5	0.3	0.2	0.1	0.1	0.3
	October	2006	0.1	2.0	0.7	0.0	0.4	-0.4	-1.8	-1.2	0.1
		2007	1.5	0.0	0.8	0.0	0.5	0.6	0.6	0.6	0.5
		2008	0.3	0.5	0.7	0.0	0.3	0.2	0.1	0.1	0.3
		2009	0.2	0.5	0.8	0.0	0.3	0.2	0.1	0.1	0.3
	November	2006	0.1	0.1	0.3	-0.1	0.0	0.6	-0.5	0.0	0.0
		2007	1.0	0.2	0.3	-0.1	0.2	0.5	3.4	2.2	0.5
		2008	0.2	0.4	0.3	-0.1	0.1	0.1	0.0	0.0	0.1
		2009	0.2	0.4	0.3	-0.1	0.1	0.1	0.1	0.1	0.1
	December	2006	0.0	0.3	0.0	0.9	0.4	0.4	0.1	0.2	0.4
		2007	0.7	0.1	-0.1	0.9	0.5	0.5	-0.3	0.0	0.4
		2008	0.2	0.7	-0.1	0.9	0.5	0.4	0.1	0.2	0.4
		2009	0.2	0.8	-0.1	0.9	0.4	0.4	0.1	0.2	0.4

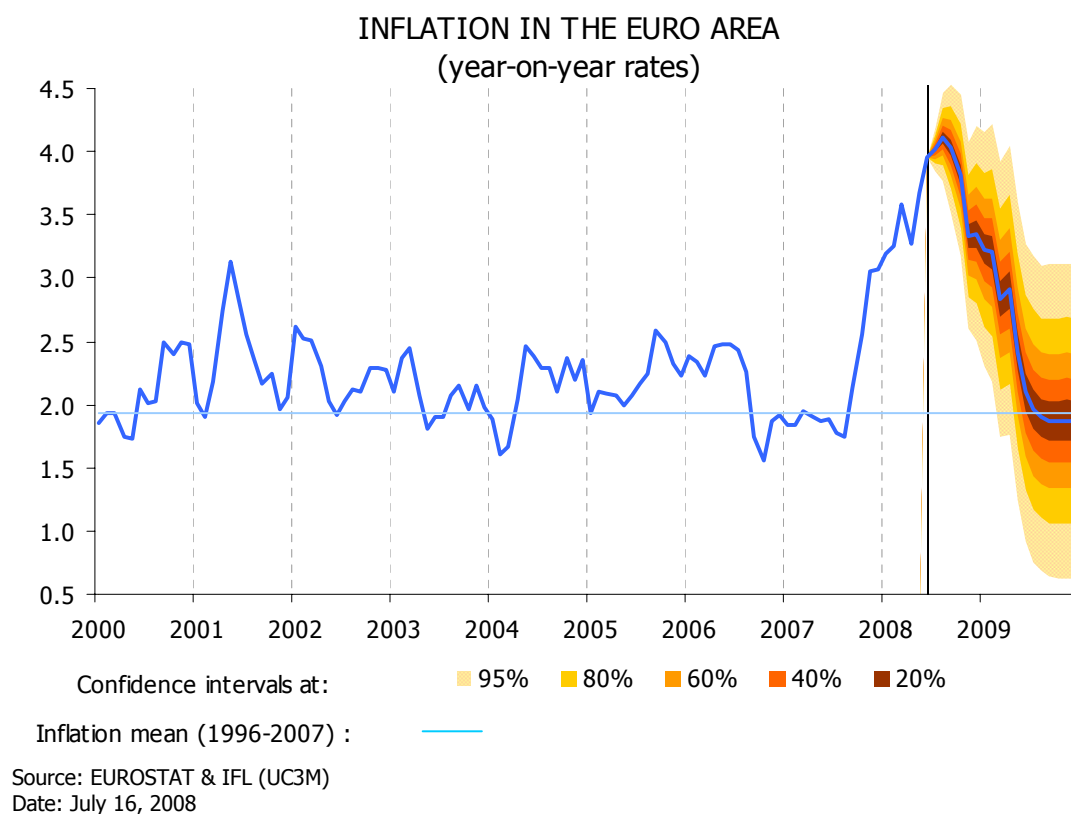
The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

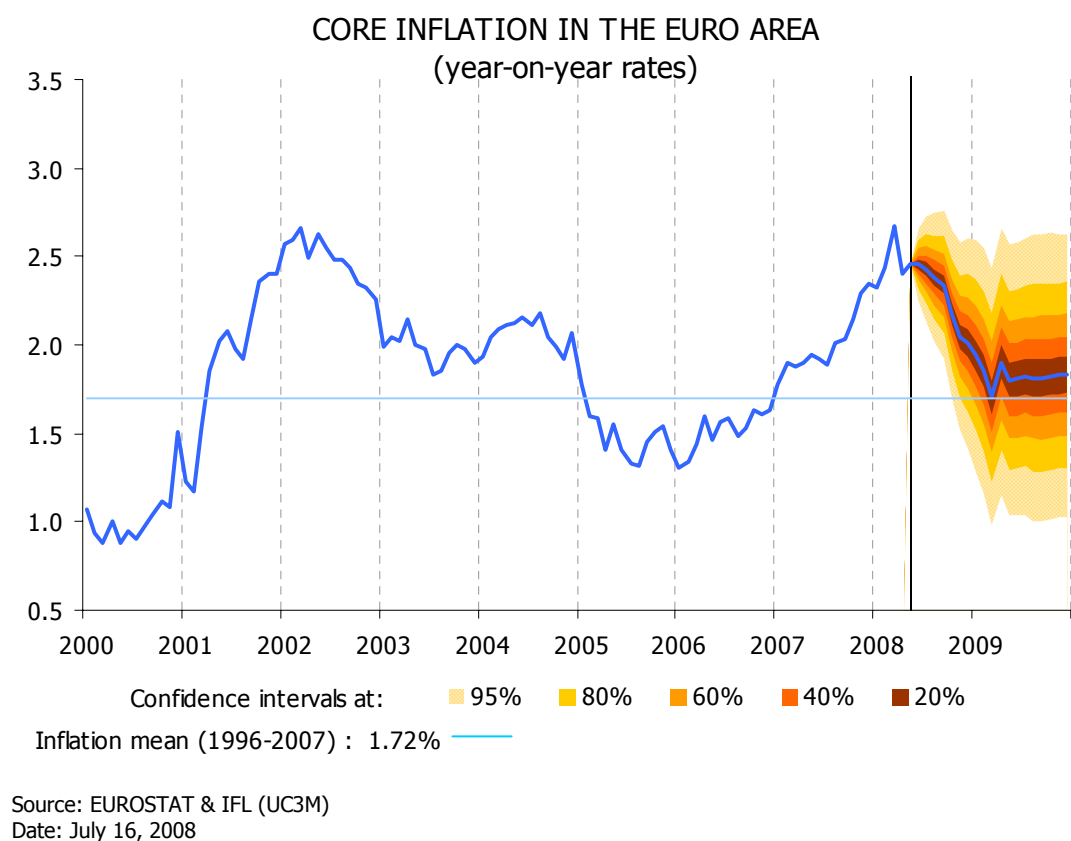
Date: July 16, 2008



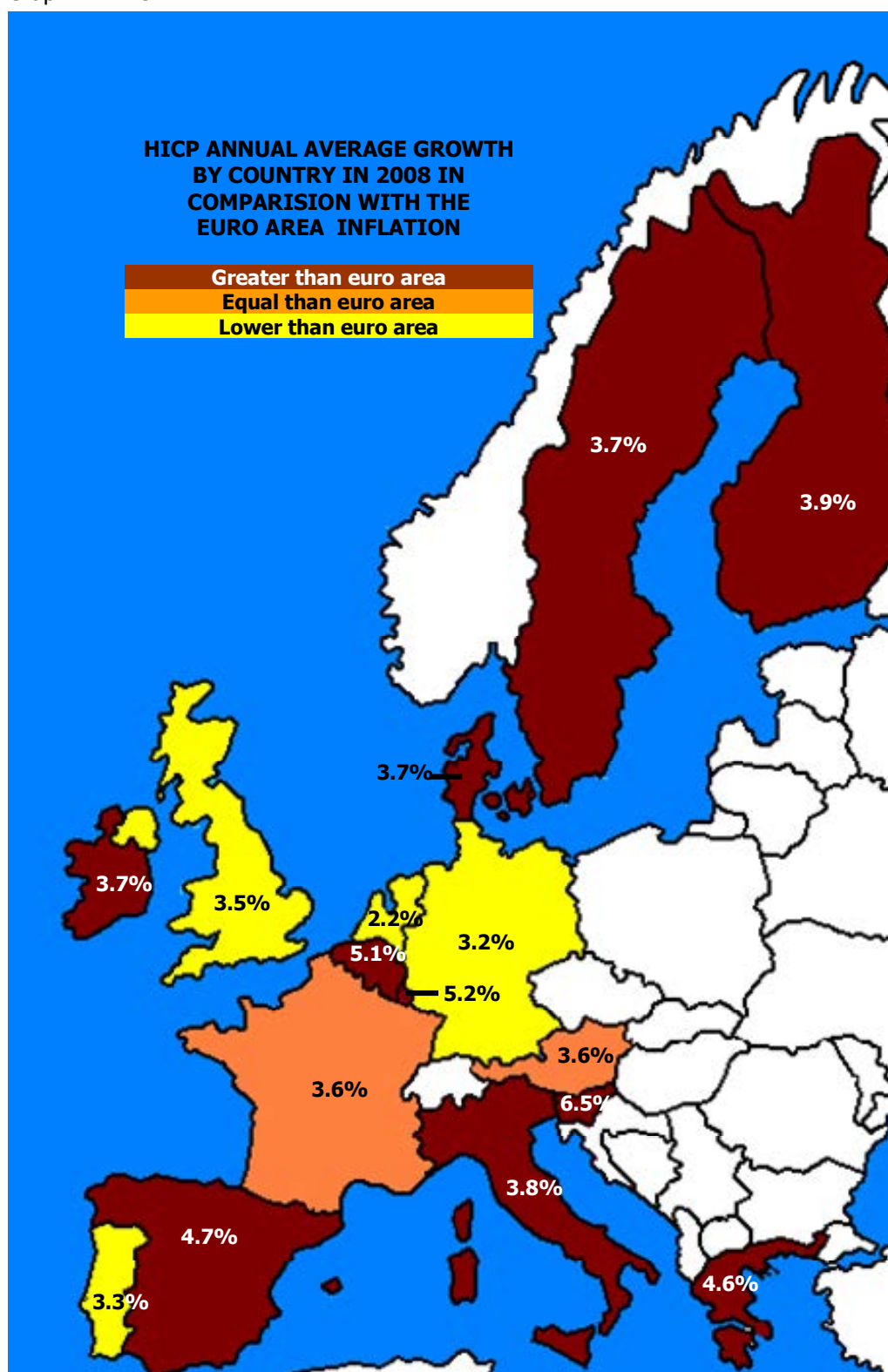
Graph II.1.4.1



Graph II.1.4.2



Graph II.1.4.3



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



Table II.1.4.4

HICP ANNUAL GROWTH BY COUNTRY IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK																				
		Euro Area																		
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovenia	Luxembourg	Cyprus	Malta				
Weights 2008 %		27.0	20.5	18.6	12.7	5.0	3.4	3.1	3.4	2.2	1.6	1.5	0.3	0.3	0.2	0.1				
ANNUAL AVERAGE RATE	2000	1.4	1.8	2.6	3.5	2.3	2.7	2.0	2.9	2.8	2.9	5.3	8.9	3.8	4.9	3.0	0.8	1.3	2.7	
	2001	1.9	1.8	2.3	2.8	5.1	2.4	2.3	3.7	4.4	2.7	4.0	8.6	2.4	2.0	2.5	1.2	2.7	2.3	
	2002	1.4	1.9	2.6	3.6	3.9	1.6	1.7	3.9	3.7	2.0	4.7	7.5	2.1	2.8	2.6	1.3	1.9	2.4	
	2003	1.0	2.2	2.8	3.1	2.2	1.5	1.3	3.4	3.3	1.3	4.0	5.7	2.5	4.0	1.9	1.4	2.3	2.0	
	2004	1.8	2.3	2.3	3.1	1.4	1.9	2.0	3.0	2.5	0.1	2.3	3.7	3.2	1.9	2.7	1.3	1.0	0.9	
	2005	1.9	1.9	2.2	3.4	1.5	2.5	2.1	3.5	2.1	0.8	2.2	2.5	3.8	2.0	2.5	2.0	0.8	1.7	
	2006	1.8	1.9	2.2	3.6	1.7	2.3	1.7	3.3	3.0	1.3	2.7	2.5	3.0	2.2	2.6	2.3	1.5	1.9	
	2007	2.3	1.6	2.0	2.8	1.6	1.8	2.2	3.0	2.4	1.6	2.9	3.8	2.7	2.2	0.7	2.3	1.7	1.7	
	2008	3.2	3.6	3.8	4.7	2.2	5.1	3.6	4.6	3.3	3.9	3.7	6.5	5.2	4.7	3.8	3.5	3.7	3.7	
	2009	2.2	2.2	3.1	3.0	2.3	4.4	3.4	4.3	3.1	2.3	3.4	5.4	5.3	3.9	2.7	3.1	3.0	2.3	
ANNUAL RATES (year-on-year rates)	2007	January	1.8	1.4	1.9	2.4	1.2	1.7	1.7	3.0	2.6	1.3	2.9	2.8	2.3	1.4	1.2	2.7	1.6	1.8
		February	1.9	1.2	2.1	2.5	1.4	1.8	1.7	3.0	2.3	1.2	2.6	2.3	1.8	1.2	0.8	2.8	1.7	1.9
		March	2.0	1.2	2.1	2.5	1.9	1.8	1.9	2.8	2.4	1.6	2.9	2.6	2.4	1.4	0.5	3.1	1.6	1.9
		April	2.0	1.3	1.8	2.5	1.9	1.8	1.8	2.6	2.8	1.5	2.9	2.9	2.5	1.6	-1.1	2.8	1.6	1.7
		May	2.0	1.2	1.9	2.4	2.0	1.3	1.9	2.6	2.4	1.3	2.7	3.1	2.3	1.9	-1.0	2.5	1.2	1.7
		June	2.0	1.3	1.9	2.5	1.8	1.3	1.9	2.6	2.4	1.4	2.8	3.8	2.3	1.7	-0.6	2.4	1.3	1.3
		July	2.0	1.2	1.7	2.3	1.4	1.3	2.0	2.7	2.3	1.6	2.7	4.0	2.0	2.3	-0.2	1.9	1.4	1.1
		August	2.0	1.3	1.7	2.2	1.1	1.2	1.7	2.7	1.9	1.3	2.3	3.4	1.9	2.2	0.6	1.7	1.2	0.9
		September	2.7	1.6	1.7	2.7	1.3	1.4	2.1	2.9	2.0	1.7	2.9	3.6	2.5	2.3	0.9	1.7	1.6	1.2
		October	2.7	2.1	2.3	3.6	1.6	2.2	2.9	3.0	2.5	1.8	3.0	5.1	3.6	2.7	1.6	2.0	1.9	1.8
		November	3.3	2.6	2.6	4.1	1.8	2.9	3.2	3.9	2.8	2.2	3.5	5.7	4.0	3.2	2.9	2.1	2.4	2.5
		December	3.1	2.8	2.8	4.3	1.6	3.1	3.5	3.9	2.7	1.9	3.2	5.7	4.3	3.7	3.1	2.1	2.5	2.4
	2008	January	2.9	3.2	3.1	4.4	1.8	3.5	3.1	3.9	2.9	3.5	3.1	6.4	4.2	4.1	3.8	2.2	3.0	3.0
		February	2.9	3.2	3.1	4.4	2.0	3.6	3.1	4.5	2.9	3.3	3.5	6.4	4.2	4.7	4.0	2.5	2.9	3.3
		March	3.3	3.5	3.6	4.6	1.9	4.4	3.5	4.4	3.1	3.6	3.7	6.6	4.4	4.4	4.3	2.4	3.2	3.3
		April	2.6	3.4	3.6	4.2	1.7	4.1	3.4	4.4	2.5	3.3	3.3	6.2	4.3	4.3	4.1	3.0	3.2	3.4
		May	3.1	3.7	3.7	4.7	2.1	5.1	3.8	4.9	2.8	4.1	3.7	6.2	4.8	4.6	4.1	3.3	3.9	3.6
		June	3.4	4.0	4.0	5.1	2.3	5.8	4.0	4.9	3.4	4.3	3.9	6.8	5.3	5.2	4.4	3.8	4.1	4.2
		July	3.3	4.0	4.1	5.4	2.5	5.7	4.0	4.9	3.4	4.2	3.9	7.2	5.6	4.9	4.2	4.1	4.1	4.3
		August	3.5	4.0	4.2	5.5	2.7	5.9	4.2	4.9	3.7	4.4	4.1	7.1	5.7	5.1	3.9	4.1	4.2	4.4
		September	3.4	4.0	4.3	5.3	2.7	6.2	4.0	4.8	3.8	4.4	3.9	7.0	6.1	4.9	3.7	4.2	4.0	4.4
		October	3.4	3.8	4.1	4.7	2.5	5.7	3.7	4.8	3.6	4.2	3.8	6.4	5.8	4.8	3.6	4.0	3.9	4.0
		November	2.9	3.4	4.0	4.3	2.4	5.2	3.5	4.5	3.5	3.8	3.6	6.1	6.0	4.6	3.0	3.9	3.6	3.2
		December	3.2	3.3	3.9	4.1	2.4	5.3	3.4	4.6	3.5	4.0	3.7	5.9	6.1	4.4	3.1	3.8	3.6	3.3
	2009	January	3.0	2.9	3.7	4.0	2.6	5.1	3.6	4.5	3.4	2.9	3.7	5.7	6.0	4.2	2.7	3.8	3.3	2.9
		February	3.0	3.0	3.7	3.9	2.5	5.1	3.6	4.3	3.4	3.0	3.6	5.9	6.0	3.9	2.7	3.6	3.4	2.5
		March	2.6	2.7	3.5	3.6	2.4	4.8	3.4	4.4	3.0	2.6	3.4	5.7	5.6	4.1	2.5	3.6	3.2	2.6
		April	2.7	2.6	3.4	3.7	2.5	4.9	3.5	4.4	3.3	2.7	3.6	5.8	5.6	4.1	3.0	3.3	3.2	2.6
		May	2.3	2.2	3.2	3.2	2.3	4.5	3.3	4.2	3.2	2.3	3.5	5.6	5.2	3.9	2.9	3.1	2.9	2.4
		June	2.0	1.9	3.0	2.8	2.2	4.3	3.2	4.2	3.0	2.1	3.3	5.1	5.0	3.6	2.7	2.8	2.8	2.1
		July	1.9	1.9	2.9	2.5	2.2	4.3	3.2	4.2	3.0	2.1	3.3	5.1	5.0	3.8	2.7	2.8	2.8	2.1
		August	1.8	1.8	2.9	2.6	2.2	4.2	3.1	4.2	3.0	2.1	3.2	5.1	4.9	3.6	2.7	2.8	2.8	2.1
		September	1.8	1.8	2.9	2.6	2.2	4.1	3.2	4.3	3.0	2.1	3.3	5.1	5.0	3.7	2.7	2.8	2.9	2.1
		October	1.8	1.8	2.8	2.6	2.2	4.2	3.3	4.3	3.0	2.1	3.3	5.1	5.1	3.8	2.7	2.8	2.9	2.1
		November	1.8	1.8	2.8	2.6	2.2	4.0	3.4	4.4	3.0	2.1	3.5	5.1	5.1	3.8	2.7	2.8	3.1	2.1
		December	1.8	1.8	2.8	2.6	2.2	3.9	3.5	4.3	3.0	2.1	3.4	5.1	5.2	3.8	2.7	2.8	3.1	2.1

The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: July 16, 2008



Table II.1.4.5

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

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: July 16, 2008



II.2. ECONOMIC GROWTH, INFLATION AND MONETARY POLICY

II.2.1 Economic growth

The most important macroeconomic information concerning the euro area published in the last month, largely referring to May and June, supports the continued fall in the rate of GDP growth shown by our forecasts for the second, third and fourth quarters of the year. The June economic sentiment indicator continued to fall in this month and the second quarter and the May Industrial Production Index, a very important indicator in the overall analysis of the situation, reduced its growth rate to negative figures. Both these indicators performed worse than expected. The latest results of the household consumption indicators are also poor, largely referring to the first two months of the second quarter of the year.

Eurostat recently published the second estimation of the first quarter's GDP, revising quarter-on-quarter growth downwards to 0.7% and the year-on-year rate to 2.1%. This reduction in the first quarter, however, was compensated by an increase of the same magnitude in the rates of variation in the previous quarter. The downwards revision in the first quarter is justified by greater growth in exports (2%) than the provisional figures showed (1.8%). This, together with a sustained export growth rate, has led the foreign sector to contribute zero de GDP growth in the first quarter, whereas one tenth of a point was provisionally estimated.

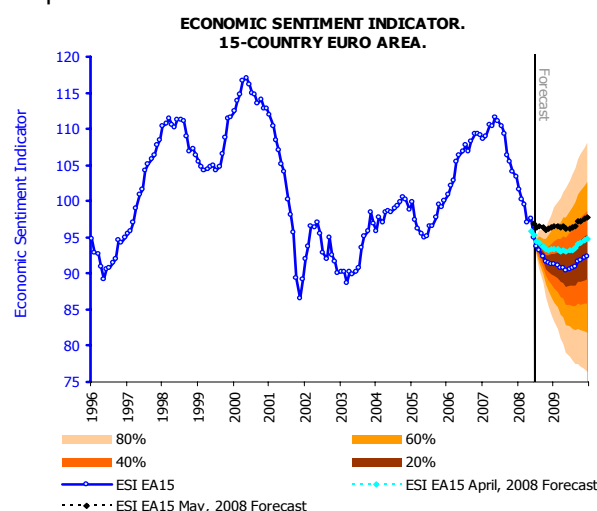
In its latest update of the forecasts for July, 2008, the International Monetary Fund (IMF) considers that the world economy will continue to decelerate, but not as rapidly or intensely as it estimated in April. It has revised its forecasts upwards, estimating an average annual GDP growth rate of 1.7% for 2008 and 1.2% for 2009, versus the 1.4% and 1.2%, respectively, estimated in April.

The June Economic Sentiment Indicator (ESI) shows that the confidence of agents in the evolution of the euro area economy, after increasing in May, has decreased again to 94.9 points, 2.7 less than the previous month. This result was worse than expected, according to the IFL forecast, although the figure is within the 95% confidence interval. Most of the sectors except services contributed to this decline in the ESI.

With the new ESI figure, we have updated our forecasts for the indicator downwards (see graph II.2.1.1). Although confidence in the euro area economy is expected to deteriorate in the next few months, it will probably not be as intense as in the

last year, although it is now expected to last longer, until the second quarter of 2009. The indicator will recover in the second quarter of 2009, when it is expected to reach levels similar to those registered in the last quarter of 2002, when the euro area economy was growing by a year-on-year rate of around 1%.

Graph II.2.1.1



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: June 27, 2008

With the new ESI figure, we have updated our forecasts for the aggregate euro area GDP. The movement is again downwards, as we now expect the GDP growth rate in the second half of this year to continue to decline until the fourth quarter, when it is expected to register a year-on-year rate of 1%, significantly lower than our previous forecast estimated at the beginning of June (1.7%). It is expected to recover in the second half of 2009, when it will reach year-on-year rates of 1.1%-1.2%, less than our previous forecast (1.6-1.7%). These estimates must always be taken with caution, as we use partial information and really should wait for more quantitative indicators to be published.

The May Industrial Production Index (IPI) showed a year-on-year decline of 1.9%, after growing 1% in April, with the year-on-year rate on negative levels (-0.6%). This year-on-year result is much lower than our forecast (2.1%), due to the downwards innovations registered in major sectors.

We also have the June industrial confidence index (ICI) for the euro area, showing a decline since last month which was worse than expected. The forecasts updated with the latest figure show a greater fall in confidence in the industrial sector's



evolution in 2008, remaining at those low levels at the end of the year. In the first half of 2009, it will remain stable at these same levels before improving slightly in the second half of the year.

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

	2006	2007	2008	2009
Consumer goods				
Durable	4.4	1.7	-2.4	-0.2
Non Durable	2.2	2.5	-0.5	0.5
Capital	5.9	6.0	3.6	2.9
Intermediate	4.9	3.9	0.6	1.4
Energy	0.8	-0.3	0.7	1.0
Total	4.0	3.4	1.1	1.5
Annual Gross Value Added Growth (industrial sector)	3.7	3.3	2.3	1.9

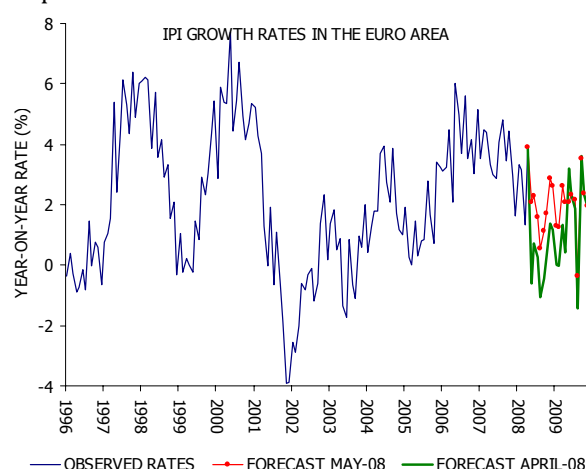
* Working days adjusted data and construction sector excluded.

Source: EUROSTAT & IFL (UC3M)

Date: July 14, 2008

In view of this data, the forecast average annual growth of the euro area IPI has been revised downwards to 1.1% for 2008 and 1.5% for 2009. These results show some intensification of the reduction in growth anticipated by our previous forecasts pertaining to the Industrial Sector's Gross Value Added (IGVA).

Graph II.2.1.2



Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)

Date: July 14, 2008

With regards to the available household consumption indicators, they show that private consumption was more moderate in the second quarter, partly due to rising inflation. Car registrations in May fell by 5.7% relative to the previous month, after falling by 2.4% in April. The retail trade index fell in month-on-month terms in April by (0.6%), after another decrease in March. In turn, the qualitative indicators, showing perception of household consumption, in June, mentioned earlier in relation to economic sentiment, again fell in this month, especially

consumer and retail trade confidence. The labour market, discussed below, continues, however, to be a stronghold for private consumption.

With regards to the euro area labour market, Eurostat has published the employment estimated for the first quarter of this year, consisting of a quarter-on-quarter rate of 0.3%, the same as the previous quarter, compatible with an annual growth rate of 1.6%, two tenths of a point less than the fourth quarter of 2007. The Commission's opinion polls are other indicators anticipated that the creation of employment has not weakened in the second quarter and could be favourable. In May, the unemployment rate remained at 7.2% of the active population, as in the four previous months, and three tenths of a point less than a year earlier. These results show that the euro area labour market has not yet been much affected by the increasing uncertainty regarding economic activity.

The analysis and evaluation of the latest economic results published for the euro area economy and the forecasts for some indicators, show that the GDP in the second quarter is declining considerably. This loss of strength is probably greater than expected in our forecasts published in Bulletin 165. We showed a year-on-year GDP growth rate of 1.9%, three tenths less than in the first quarter. This rate will probably be lower when the second quarter's accounts figures are published.

II.2.2 Inflation

Although inflation in June was substantially in line with our expectations, the upwards innovations in processed food and the evolution of energy prices on the international markets have given rise to important revisions to inflation forecasts for the euro area. The forecast average annual total inflation rates are now 3.6% (± 0.15) for 2008 and 2.3% (± 0.48) for 2009, respectively, 0.1 and 0.2 pp higher than our previous forecasts (see table II.2.2.1).

Table II.2.2.1

RATES OF INFLATION IN THE EURO AREA *						
HICP	Observed			Forecasts		
	Aver. 2006 ⁽²⁾	Aver. 2007 ⁽²⁾	2008 Jun ⁽¹⁾	2008 Jul ⁽¹⁾	Aver. 2008 ⁽²⁾	Aver. 2009 ⁽²⁾
CORE (82,6%)	1.5	2.0	2.5	2.5 (± 0.14)	2.4 (± 0.11)	2.0 (± 0.38)
TOTAL (100%)	2.2	2.1	4.0	4.0 (± 0.12)	3.6 (± 0.15)	2.3 (± 0.48)

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

Source: EUROSTAT & IFL (UC3M)

Date: July, 16, 2008

⁽¹⁾ Year-on-year rate

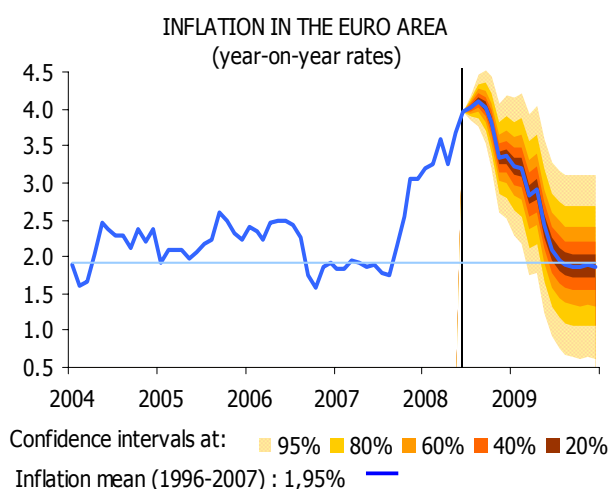
⁽²⁾ Annual average rate



The average annual inflation rate for processed food has risen by 4 decimal points for 2008 and nine decimal points for 2009, to 7.0% and 2.8%. For the first 6 months of 2009, the upwards revision was more than 1.2 pp., causing a 0.2 pp increase in our core inflation forecasts for the year. The forecast average annual core inflation rates are now 2.4% (± 0.11) and 2.0% (± 0.38) for 2008 and 2009, respectively. This is a source of concern for two reasons: the first one is that it affects the most stable component of the inflation index, expectations for which have been revised downwards in the last three months; the second is that the revision was very intense, especially in the mean term, suggesting a long-lasting rising trend in processed food prices.

The average annual inflation rate for energy rose by 0.4 pp for 2008 and 0.5 pp for 2009, to 14.1% and 4.9%, respectively. The year-on-year rate of inflation of this component is expected to peak during August at 18.2%, falling to 13.7% in December and rapidly continuing to fall to values of under 2.0% in the second half of 2009.

Graph II.2.2.1



Source: EUROSTAT & IFL(UC3M)

Date: July 16, 2008

The small upwards surprise in unprocessed food prices, did not lead to significant changes in the respective inflation forecasts. Neither were there significant variations in the forecasts for other items (industrial goods, services and tobacco).

In conclusion, energy and food continue to push inflation rates up, as we have seen in the last few

months. The greatest novelty in June is the increase in the forecasts for the processed food component, leading to a 0.2pp increase in our forecast for the average 2009 core inflation.

II.2.3 Monetary Policy

On July 3, exactly as expected, the ECB increased the official interest rate by 25 base points. As specified in the last monthly ECB newsletter, this decision was made in order to prevent second round effects and counteract growing risks affecting price stability. In its forecasts, the ECB assumes that the inflation rate will be much higher than 2.0% in the next few months and will converge to the BCE objective only gradually during 2009. According to the ECB, the principal inflationist risks are derived from food and energy prices and from salary adjustments.

The ECB's analysis of the macroeconomic situation is quite optimistic, particularly in relation to the perspectives of growth of the world economy. European Central Bank experts claim that emerging countries will maintain high growth rates, helping to sustain foreign demand in euro area countries. With regards to the euro area economy, the ECB considers that the fundamental parameters are strong and that the available figures point to gradual moderation of economic growth.

The effects of a more restrictive monetary policy and less growth have soon been seen in monetary aggregates. The annual growth rate of M3 went from 10.0% in May to 9.5% in June, whereas M1 growth fell by 0.9 pp, from 2.3% to 1.4%. Also seen was a fall in the rate of growth of household loans, the year-on-year rate of which went from 4.9% to 4.2%.

Both the ECB's analysis of the economic situation and the most recent statements of BCE board have shown that the European Central Bank considers that subsequent interest rate increases are possible if inflationist tension is not moderated. However, in view of the recent downwards evolution of oil and food prices, and slower growth of monetary masses, further increases are unlikely in the short run. The ECB is expected to leave rates unaltered in the next meeting.



II.3. TABLES AND PLOTS.

Tables:

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

Plots:

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



METHODOLOGY: ANALYSIS OF EURO AREA INFLATION BY COMPONENT

AGGREGATES		BASIC COMPONENTS	
HICP TOTAL	IPSEBENE 82.583% 1 + 2 + 3 + 4	BENE 41.679% 1 + 2 + 3	(1) AE (a) 9.643 % <i>HICP Processed Food excluding tobacco</i> (2) TOBACCO 2.263 % <i>HICP Tobacco</i> (3) MAN 29.773 % <i>HICP Non Energy Industrial Goods</i> (4) SER 40.904 % <i>HICP Services</i> (5) ANE 7.604 % <i>HICP Non processed Food</i> (6) ENE 9.812 % <i>HICP Energy</i>
	CORE INFLATION (IT IS CALCULATED ON THE IPSEBENE INDEX)		
	RESIDUAL INFLATION 17.417% 5 + 6		
	RESIDUAL INFLATION (IT IS CALCULATED ON THE RESIDUAL INDEX)		
$\text{HICP} = 0.09643 \text{ AE} + 0.02263 \text{ TOBACCO} + 0.29773 \text{ MAN} + 0.40904 \text{ SER} + 0.07604 \text{ ANE} + 0.09812 \text{ ENE}$			

Source: EUROSTAT & IFL (UC3M)
2008 weights

OBSERVED VALUES AND FORECASTS FOR THE EURO AREA HICP MONTHLY RATES				
Harmonised Index of Consumer Price (HICP)	Weights 2008	Observed June, 2008	Forecast (**)	Confidence intervals (*)
(1) Processed Food	119.06	0.26	0.07	± 0.40
(2) Tobacco	22.63	0.11	0.20	
(3) Processed Food excluding tobacco [1-2]	96.43	0.30	0.04	
(4) Non Energy Industrial Goods	297.73	-0.21	-0.24	± 0.22
(5) Services	409.04	0.31	0.23	± 0.14
CORE INFLATION [1+4+5]	825.83	0.11	0.04	± 0.14
(6) Unprocessed Food	76.04	0.05	-0.09	± 0.75
(7) Energy	98.12	2.53	2.78	± 0.84
RESIDUAL INFLATION [6+7]	174.17	1.47	1.56	± 0.56
HEADLINE INFLATION [1+4+5+6+7]	1000.00	0.38	0.32	± 0.12

(*) 80% Confidence intervals

(**) Forecasts published in the previous bulletin

Source: EUROSTAT & IFL(UC3M)

Date: July 16, 2008



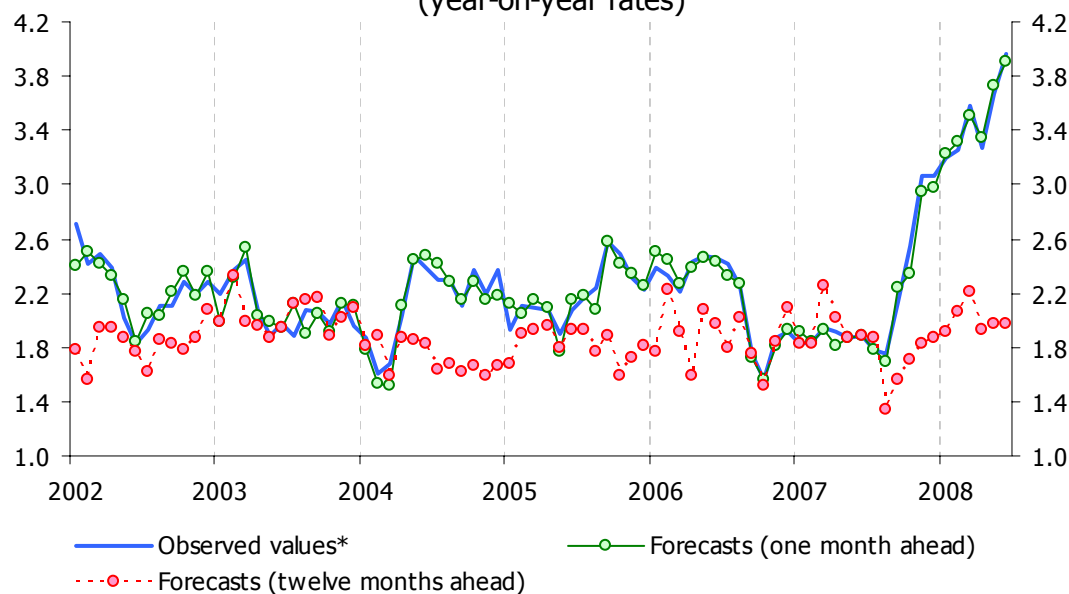
FORECAST ERRORS IN THE MONTHLY INFLATION RATE BY COUNTRIES IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK IN JUNE				
	Weights 2008 euro area	Observed Monthly Rate	Forecast	Confidence Intervals at 80%
Germany	270.45	0.4	0.39	± 0.29
France	205.45	0.4	0.35	± 0.20
Italy	185.71	0.5	0.40	± 0.23
Spain	126.83	0.6	0.37	± 0.15
Netherlands	50.24	-0.3	-0.45	± 0.33
Belgium	33.60	0.7	0.11	± 0.32
Austria	30.97	0.3	0.07	± 0.37
Greece	33.73	0.0	-0.13	± 0.78
Portugal	22.32	0.5	0.21	± 0.66
Finland	16.25	0.3	0.08	± 0.37
Ireland	15.07	0.5	0.31	± 0.30
Slovenia	3.43	0.9	0.50	± 0.24
Luxembourg	2.72	0.7	0.28	± 0.32
Cyprus	2.46	0.5	0.16	
Malta	0.77	0.5	0.06	
United Kingdom		0.6	0.13	± 0.33
Sweden		0.4	0.06	± 0.5
Denmark		0.4	0.04	± 0.27

Source: EUROSTAT & IFL(UC3M)

Date: July 16, 2008



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

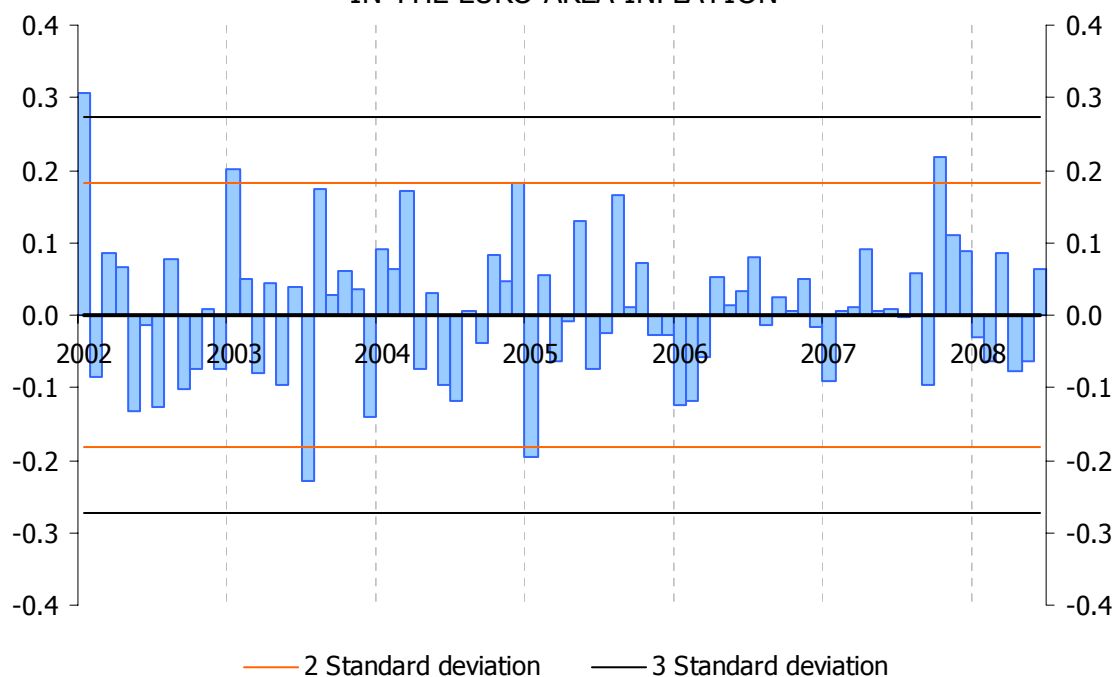


* Observed values without revisions in the HICP

Source : EUROSTAT & IFL(UC3M)

Date: July 16, 2008

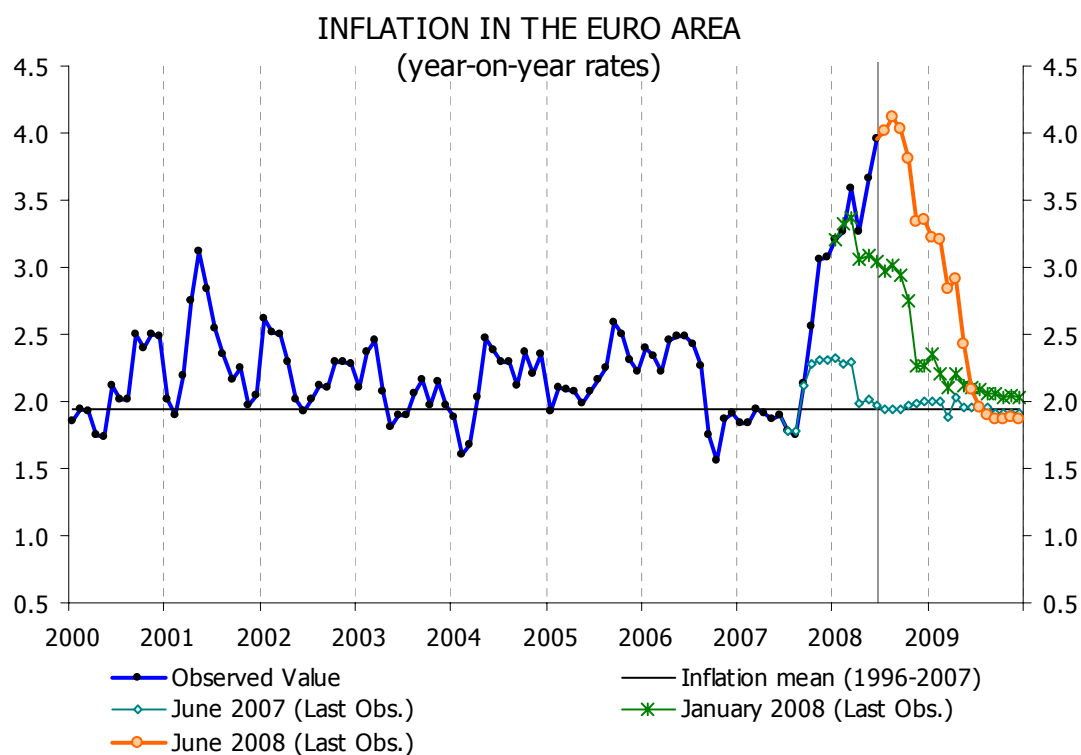
ONE MONTH AHEAD FORECAST ERRORS IN THE EURO AREA INFLATION



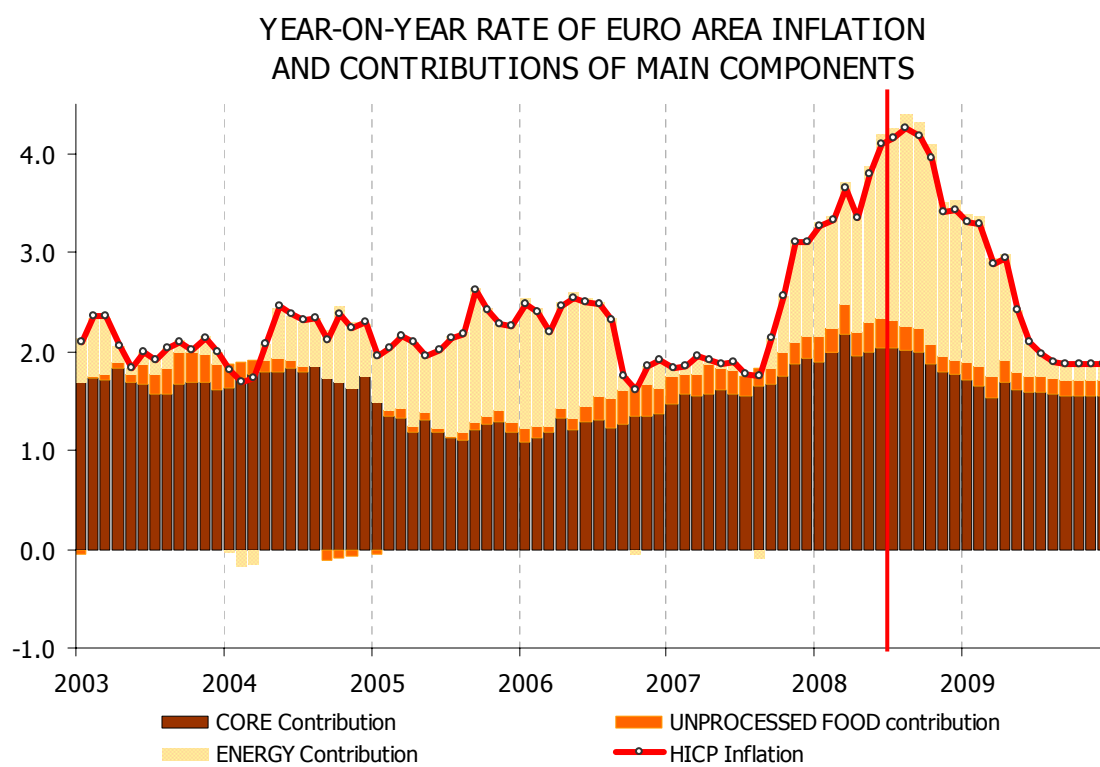
Source : EUROSTAT & IFL(UC3M)

Date: July 16, 2008





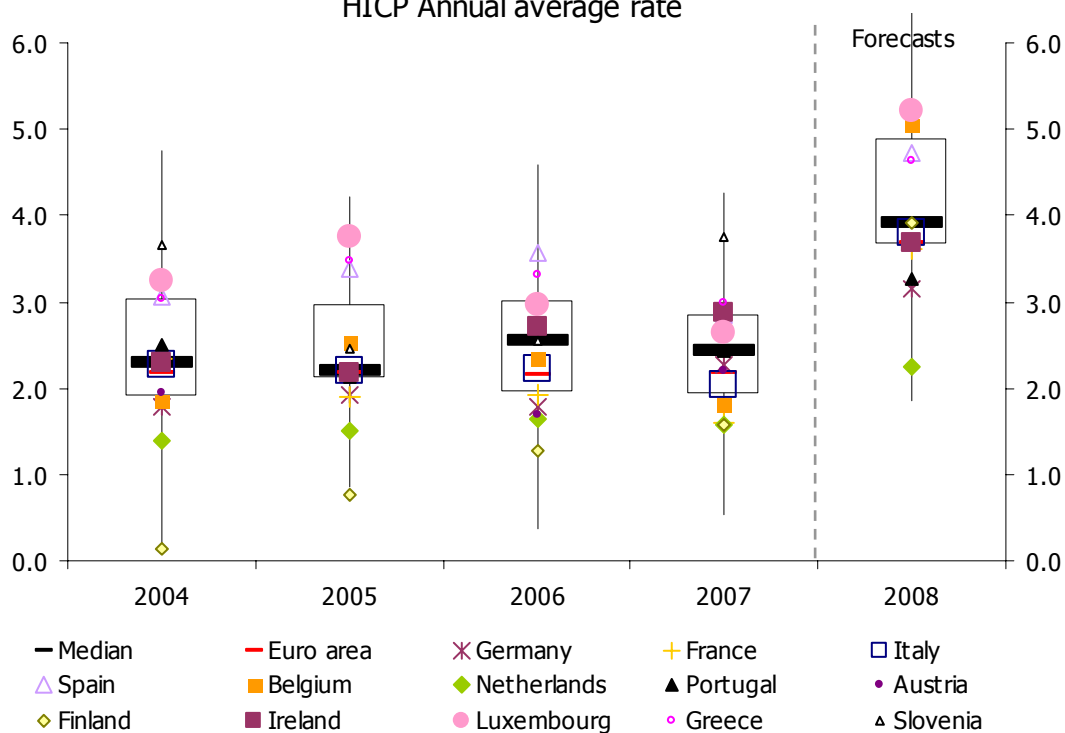
Source: EUROSTAT & IFL(UC3M)
Date: July 16, 2008



Source: EUROSTAT & IFL(UC3M)
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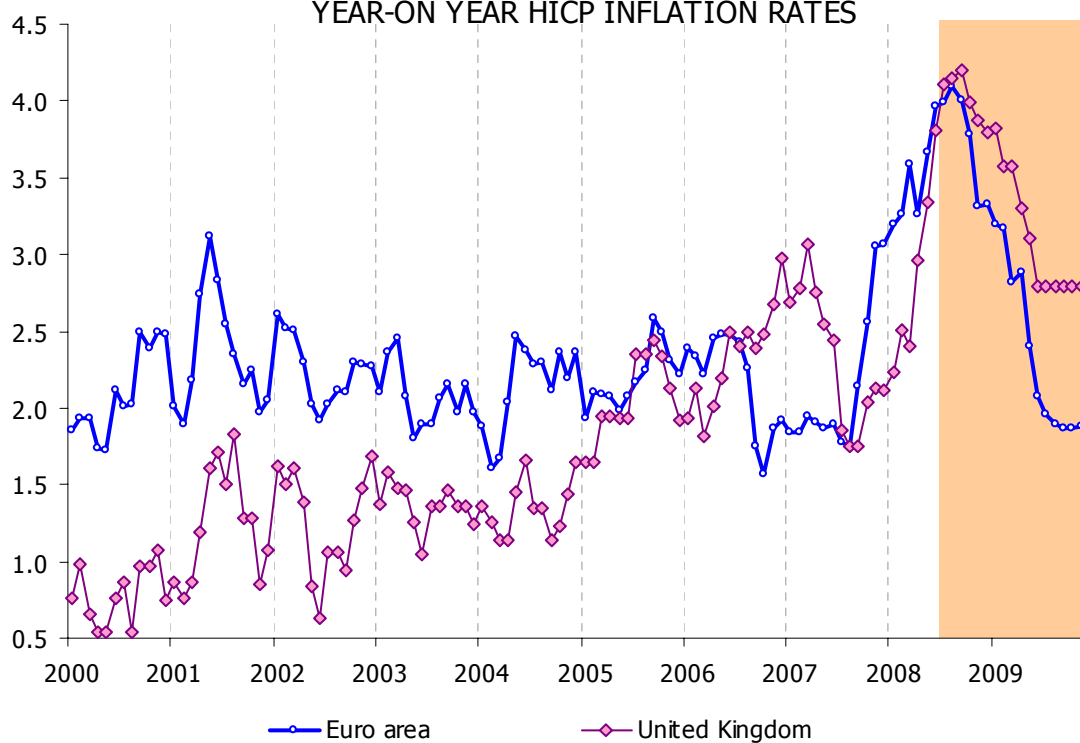


BOX DIAGRAM OF EURO AREA COUNTRIES INFLATION
HICP Annual average rate



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

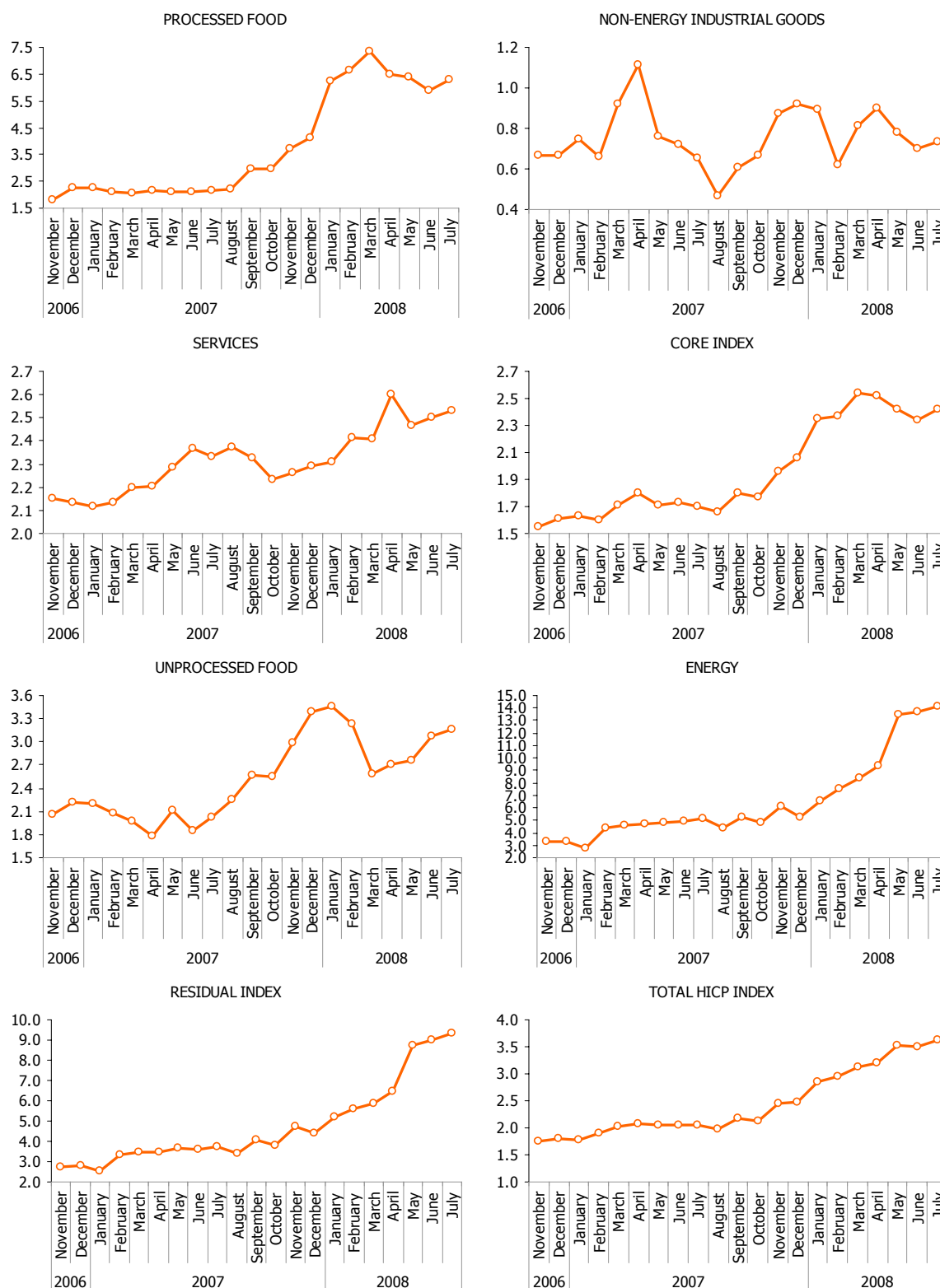
YEAR-ON YEAR HICP INFLATION RATES



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



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



Note: These graphs show the average annual HICP growth rates for 2008 forecast in the Bulletin published in the month on the abscissa

Source: EUROSTAT & IFL (UC3M)

Date: July 16, 2008



III. UNITED STATES.

III.1. MACROECONOMIC FORECASTS.

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

Table III.1.1.1

ANNUAL GROWTH RATE IN THE IPI SECTORS IN THE US							
		Consumer Goods		Equipment & Supplies	Materials	TOTAL	
		Durable	Non durable				
AVERAGE ANNUAL RATE	2004	1.1	1.4	2.7	3.0	2.5	
	2005	0.5	3.6	4.6	2.3	3.3	
	2006	-1.3	0.8	2.6	2.2	2.2	
	2007	-0.3	2.3	1.9	1.9	1.7	
	2008	-5.1	1.0	0.2	1.5	0.3	
	2009	2.7	1.3	2.4	2.8	1.9	
ANNUAL RATES*	2007	TI	-3.4	3.5	1.8	1.0	1.3
		TII	0.0	2.2	1.9	1.6	1.5
		TIII	2.4	2.0	2.1	1.8	1.7
		TIV	0.9	1.2	1.7	3.2	2.1
	2008	TI	-2.7	0.6	1.0	2.8	1.6
		TII	-7.8	1.2	-0.2	1.5	0.1
		TIII	-6.8	0.8	-0.7	0.1	-1.0
		TIV	-2.9	1.5	0.8	1.4	0.5
	2009	TI	0.7	1.1	1.5	2.1	1.0
		TII	4.4	1.1	2.6	2.8	2.2
		TIII	3.1	1.7	2.9	3.4	2.5
		TIV	2.6	1.5	2.7	3.0	2.1

The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: FEDERAL RESERVE & IFL (UC3M)

Date: July 17, 2008.

Table III.1.1.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN THE US							
	2003	2004	2005	2006	2007	2008	2009
January	2.78	1.42	3.89	1.96	1.19	2.59	0.30
February	3.45	1.91	3.15	1.62	1.64	1.17	1.42
March	2.73	1.20	3.39	2.54	1.03	1.08	1.42
April	0.39	2.44	4.35	1.23	1.85	0.98	1.92
May	0.44	3.31	3.09	2.40	1.30	0.09	2.41
June	-0.51	2.45	4.31	2.33	1.23	-0.70	2.25
July	0.09	3.56	3.95	2.93	1.60	-2.34	3.87
August	0.26	2.67	3.82	2.55	1.51	-0.58	1.69
September	0.54	1.97	2.08	3.77	2.19	-0.24	1.96
October	0.97	3.02	1.97	2.46	1.83	0.93	1.86
November	1.76	2.49	2.83	1.31	2.56	0.42	2.28
December	2.18	3.47	3.06	1.32	2.04	0.09	2.08

The figures in the shaded area are forecast.

Source: FEDERAL RESERVE & IFL (UC3M)

Date: July 17, 2008.



III.1.2 INFLATION.

Table III.1.2.1

AVERAGE ANNUAL RATE OF GROWTH IN US

CONSUMER PRICES INDEX (CPI)	2004	2005	2006	2007	2008 (forecasts)	2009 (forecasts)
Food (1)	3.4	2.4	2.3	4.0	5.0	4.3
Energy (2)	10.9	16.9	11.2	5.5	23.8	8.3
Residual Inflation (3=2+1)	6.0	7.6	5.7	4.6	12.6	6.1
Non-food and non-energy goods (4)	-0.9	0.5	0.3	-0.4	0.1	0.0
-Durable goods	-2.3	0.4	-0.7	-1.7	-1.1	-1.4
-Nondurable goods	0.5	0.6	1.3	1.0	1.4	1.5
Non-energy services (5)	2.9	2.8	3.4	3.4	3.3	3.4
-Services less owner's equivalent rent of primary residence (5-a)	3.3	3.1	3.4	3.5	3.8	3.6
-Owner's equivalent rent of primary residence (a)	2.3	2.3	3.5	3.4	2.7	3.1
Core Inflation (6=4+5)	1.8	2.2	2.5	2.3	2.4	2.4
[Confidence intervals at 80% level]					± 0.11	± 0.42
Core inflation less owner's equivalent rent of primary residence (6-a)	1.6	2.1	2.1	1.9	2.3	2.1
Headline Inflation (7=6+3)	2.7	3.4	3.2	2.9	4.8	3.3
[Confidence intervals at 80% level]					± 0.28	± 1.22
All items less owner's equivalent rent of primary residence (7-a)	2.8	3.7	3.1	2.7	5.4	3.4

Source: BLS & IFL (UC3M)

Date: July 16, 2008



Table III.1.2.2

USA ANNUAL RATES OF GROWTH ON CPI AND ITS COMPONENTS															
		CONSUMER PRICE INDEX													
		CORE INFLATION							Confidence Intervals at 80% level	RESIDUAL INFLATION			ALL	Confidence Intervals at 80% level	
		Non energy commodities less food			Non energy services			ALL				ALL			
		durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL			Food	Energy				
RI December 2007		10.8%	10.8%	21.6%	23.9%	30.9%	54.9%	76.5%		13.8%	9.7%	23.5%	100.0%		
AVERAGE ANNUAL	2002	-26	0.4	-1.1	4.1	3.6	3.8	23		1.8	-5.9	-0.8	1.6		
	2003	-32	-0.7	-2.0	2.4	3.2	2.9	1.5		2.1	12.2	5.3	2.3		
	2004	-23	0.5	-0.9	2.3	3.3	2.9	1.8		3.4	10.9	6.0	2.7		
	2005	0.4	0.6	0.5	2.3	3.1	2.8	2.2		2.4	16.9	7.6	3.4		
	2006	-0.7	1.3	0.3	3.5	3.4	3.4	2.5		2.3	11.2	5.7	3.2		
	2007	-1.7	1.0	-0.4	3.4	3.5	3.4	2.3		4.0	5.5	4.6	2.9		
	2008	-1.1	1.4	0.1	2.7	3.8	3.3	2.4	± 0.11	5.0	23.8	12.6	4.8	± 0.28	
	2009	-1.4	1.5	0.0	3.1	3.6	3.4	2.4	± 0.42	4.3	8.3	6.1	3.3	± 1.22	
ANNUAL RATES (growth over the same month of the previous year)	2007	January	-1.8	1.5	-0.2	4.3	3.5	3.8	2.7		2.4	-3.1	0.2	2.1	
		February	-1.8	1.9	0.0	4.2	3.4	3.8	2.7		3.1	-1.0	1.5	2.4	
		March	-1.7	1.2	-0.3	4.1	3.1	3.6	2.5		3.3	4.4	3.7	2.8	
		April	-1.8	0.9	-0.5	3.9	3.2	3.5	2.3		3.7	2.9	3.4	2.6	
		May	-2.0	0.7	-0.7	3.5	3.4	3.4	2.2		3.9	4.7	4.2	2.7	
		June	-1.9	0.4	-0.8	3.3	3.4	3.4	2.2		4.1	4.6	4.3	2.7	
		July	-2.1	0.9	-0.6	3.1	3.5	3.3	2.2		4.2	1.0	2.8	2.4	
		August	-2.0	0.5	-0.7	3.0	3.4	3.2	2.1		4.3	-2.5	1.4	2.0	
		September	-1.8	0.4	-0.8	2.9	3.5	3.3	2.1		4.5	5.3	4.8	2.8	
		October	-1.7	0.7	-0.5	2.8	3.5	3.2	2.2		4.4	14.5	8.2	3.5	
		November	-1.2	1.2	0.0	2.8	3.6	3.3	2.3		4.8	21.4	11.1	4.3	
		December	-1.1	1.3	0.1	2.8	3.8	3.3	2.4		4.9	17.4	9.8	4.1	
	2008	January	-0.9	1.2	0.2	2.8	3.8	3.4	2.5		4.9	19.6	10.5	4.3	
		February	-1.0	1.1	0.0	2.6	3.6	3.2	2.3		4.6	18.9	10.0	4.0	
		March	-1.0	1.0	0.0	2.6	3.8	3.3	2.4		4.5	17.0	9.5	4.0	
		April	-1.2	1.4	0.1	2.6	3.5	3.1	2.3		5.1	15.9	9.5	3.9	
		May	-1.1	1.4	0.1	2.6	3.6	3.2	2.3		5.1	17.4	10.2	4.2	
		June	-1.0	1.5	0.2	2.6	3.8	3.3	2.4		5.3	24.7	13.5	5.0	
		July	-1.2	1.8	0.3	2.7	3.8	3.3	2.5	± 0.12	5.4	29.0	15.2	5.5	± 0.13
		August	-1.2	1.8	0.3	2.6	3.9	3.4	2.5	± 0.19	5.2	34.0	16.9	5.8	± 0.42
		September	-1.3	1.5	0.1	2.6	4.0	3.4	2.5	± 0.25	5.1	31.9	15.9	5.6	± 0.70
		October	-1.3	1.4	0.1	2.7	3.9	3.4	2.5	± 0.30	5.1	30.1	15.1	5.4	± 0.88
		November	-1.3	1.3	0.0	2.7	4.0	3.4	2.4	± 0.34	5.0	22.7	12.3	4.8	± 1.02
		December	-1.3	1.1	-0.1	2.8	4.0	3.4	2.4	± 0.38	5.1	23.1	12.5	4.8	± 1.13
	2009	January	-1.5	1.1	-0.2	2.8	3.8	3.4	2.4	± 0.41	4.9	22.7	12.2	4.7	± 1.17
		February	-1.5	1.1	-0.2	2.9	4.0	3.5	2.5	± 0.44	4.9	23.7	12.6	4.9	± 1.22
		March	-1.6	1.3	-0.1	2.9	3.9	3.5	2.5	± 0.48	5.0	19.6	11.2	4.6	± 1.29
		April	-1.3	1.2	-0.1	3.0	4.0	3.6	2.6	± 0.51	4.5	15.8	9.4	4.2	± 1.39
		May	-1.4	1.4	0.0	3.1	3.8	3.5	2.5	± 0.53	4.4	9.9	6.8	3.6	± 1.46
		June	-1.5	1.6	0.1	3.1	3.5	3.4	2.4	± 0.56	4.1	4.1	4.1	2.9	± 1.53
		July	-1.4	1.5	0.1	3.2	3.4	3.3	2.4	± 0.56	4.0	2.2	3.1	2.6	± 1.67
		August	-1.4	1.6	0.1	3.3	3.4	3.3	2.4	± 0.56	4.0	1.8	3.0	2.6	± 1.67
		September	-1.4	1.6	0.1	3.3	3.3	3.3	2.4	± 0.56	3.9	2.3	3.2	2.6	± 1.72
		October	-1.4	1.7	0.1	3.3	3.4	3.3	2.4	± 0.56	3.9	2.4	3.2	2.6	± 1.79
		November	-1.4	1.7	0.1	3.3	3.3	3.3	2.4	± 0.56	3.8	2.1	3.1	2.6	± 1.82
		December	-1.4	1.7	0.1	3.2	3.2	3.2	2.4	± 0.56	3.8	1.8	2.9	2.5	± 1.86

Confidence intervals are calculated with historical errors.

The figures in the shaded area are forecasts.

Source: BLS & IFL (UC3M)

Date: July 16, 2008



Table III.1.2.3

USA MONTHLY RATES OF GROWTH ON CPI AND ITS COMPONENTS												
CONSUMER PRICE INDEX												
CORE INFLATION												
RESIDUAL INFLATION												
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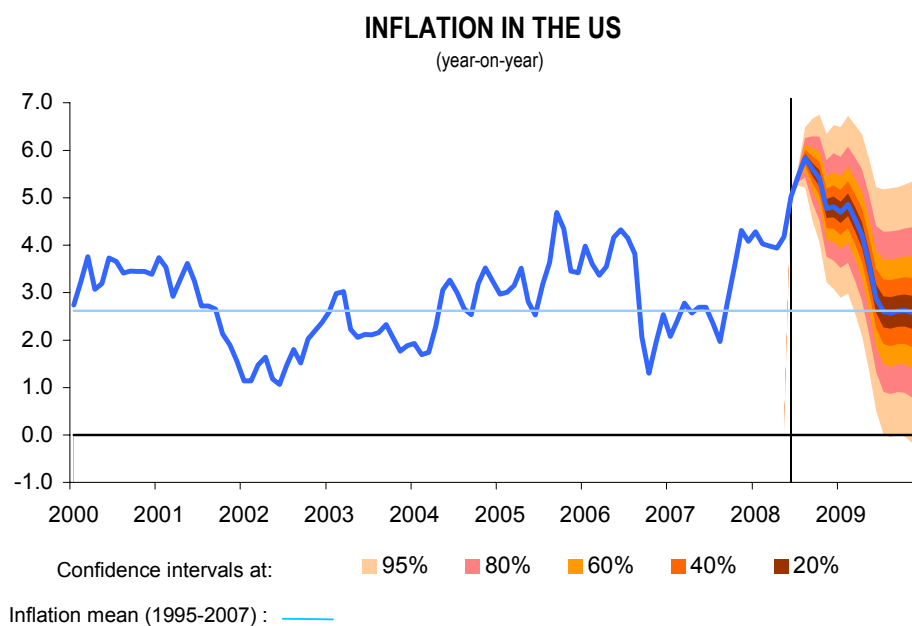
The figures in the shaded area are forecasts

Source: BLS & IFL (UC3M)

Date: July 16, 2008

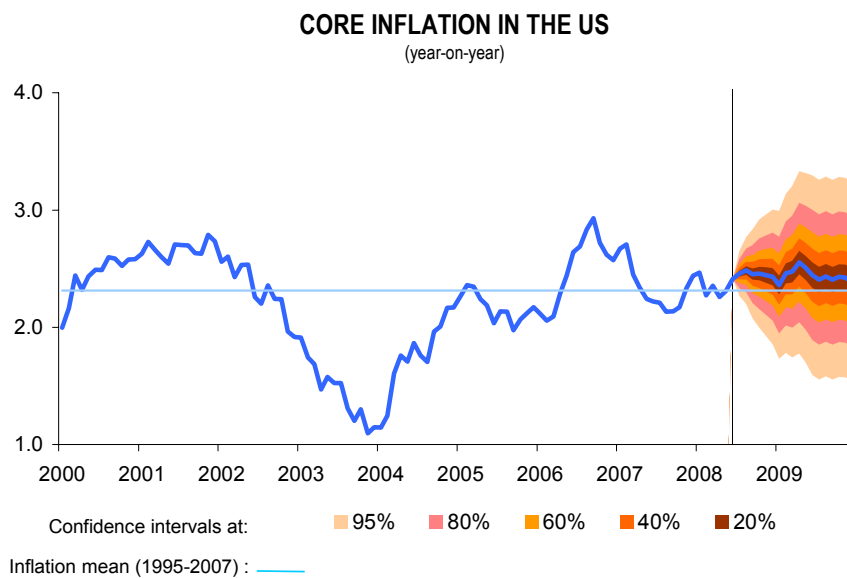


Graph III.1.2.1



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

Graph III.1.2.2



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



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

- The general CPI figure was as expected, but was the result of downward innovations in fuel and upward movements in food and core inflation.
- Core inflation was worse than expected due to home rentals and owner's rent of primary residence and telecommunication services, representing considerable deterioration in inflation expectations.
- For the next few months, we are expecting a rise in the annual general CPI rate, which could peak at 5.8% in August, falling to 4.8% in December.

In **June** in the U.S. consumer prices rose by a monthly rate of 1.01%¹, more or less as expected (0.99%). The annual rate grew from 4.18% to 5.02%.

On the other hand, **core index** prices rose by 0.17% instead of the forecast 0.10%, with the annual rate rising from 2.31% to 2.41%.

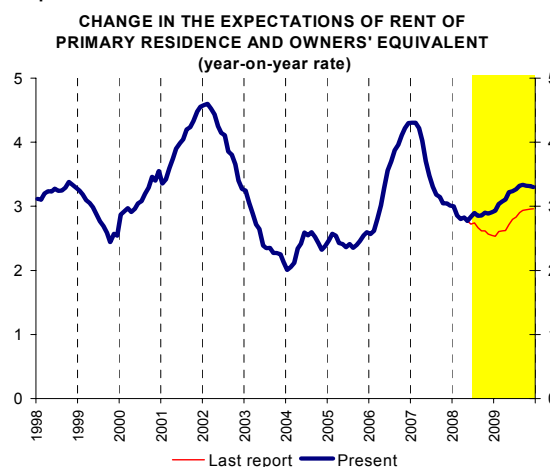
The poor performance of core inflation was solely centred on services. Indeed, non-energy industrial goods performed as expected in practically all their components. The monthly service rate, however, was 0.45% versus the forecast 0.36%.

This deviation in service prices is solely justified by long-distance call costs in the telecommunications sector and home rentals, including owner's rent of primary residence. In fact, the monthly rate in home rentals was 0.35% instead of the expected 0.21% and the figure for owner's rent of primary residence was 0.24% instead of 0.13%. These two upwards innovations are highly significant and, given the importance of these items in the core index, they represent a substantial worsening in inflation expectations (see Graph III.2.1). The other items in the service group evolved as forecast.

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

¹ In relation to the U.S. CPI, our reports use rates not corrected for seasonality, unless specified otherwise.

Graph III.2.1

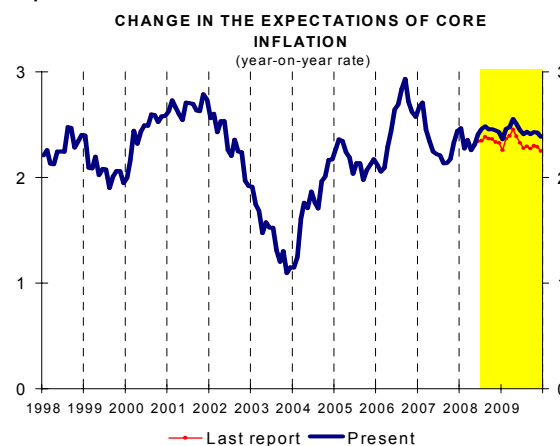


Source: BLS & IFL (UC3M)

Date: July 16, 2008

The prices of non-energy industrial goods remain contained in spite of the upwards pressure resulting from costs. However, home rental prices, which were decelerating somewhat, have again risen and will need to be monitored in the next few months. Core inflation forecasts have therefore been revised upwards (see Graph III.2.2).

Graph III.2.2



Source: BLS & IFL (UC3M)

Date: July 16, 2008

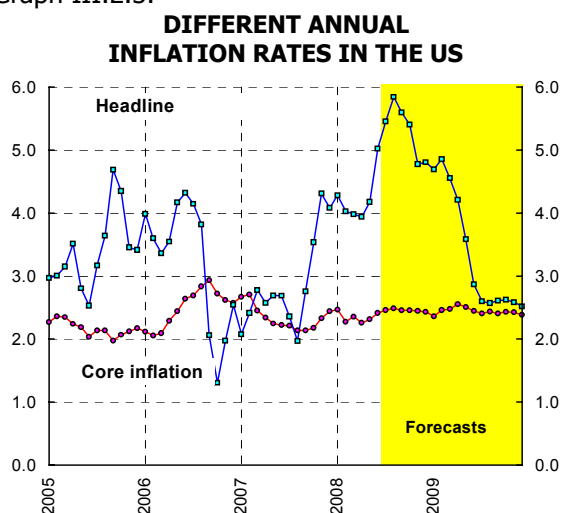
As for the **prices not included in the core index**, food increased more than expected due to highly volatile fruit and vegetables, whereas cereals and their derivatives remained unaltered this month (see graph in the Appendix). With regards to energy prices, they performed somewhat better than expected for fuel, where we were expecting an even greater increase (7.85% versus the forecast 9.26%).



With a view to forecasting, **crude oil prices** on the international markets continue to rise, although they have fallen in the last few days, so the expected evolution of the price of West Texas oil is similar to last month (see graph in the Appendix).

The **profile expected for the next few months** is acceleration of the general index, which could peak in August at 5.8%, falling to 4.8% in December this year, and continuing to fall to 2.6% by July, 2009 (see Graph III.2.3).

Graph III.2.3.



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

For the headline CPI in **July**, we are forecasting a monthly increase of 0.39% (± 0.13), with the annual rate rising from 5.02% to 5.45%. The increase in the annual rate is largely explained by energy prices, for which we are forecasting a monthly increase of 1.7% versus the 1.7% decrease in July last year. For core inflation, the monthly rate will rise by 0.18% (± 0.12), with the annual rate growing slightly from 2.41% to 2.46%.

For **2008 and 2009** we are therefore forecasting average annual core inflation rates of 2.40% (± 0.11)² and 2.44% (± 0.42), respectively, one tenth of a point more than last month's forecasts (see Table III.2.1).

On the other hand, average annual headline inflation is expected to be 4.78% (± 0.28) in 2008 and 3.34% (± 1.22) in 2009. These figures are somewhat higher than those forecast last month (see Table III.2.1).

² Considering a 80% confidence interval for all indices

Table III.2.1.

DIFFERENT ANNUAL INFLATION RATE MEASURES IN THE US				
	CPI		PCE ¹	MB-PCE ²
	Headline	Core	Core	Core
	% annual	% annual	% annual	% annual
2008 January	4.3	2.5	2.0	1.8
February	4.0	2.3	2.0	1.7
March	4.0	2.4	2.1	1.8
April	3.9	2.3	2.1	1.9
May	4.2	2.3	2.1	1.9
June	5.0	2.4	2.2	2.0
July	5.5	2.5	2.2	2.0
August	5.8	2.5	2.2	2.1
September	5.6	2.5	2.2	2.0
October	5.4	2.5	2.1	2.0
November	4.8	2.4	2.1	1.9
December	4.8	2.4	2.1	1.9
average annual				
2007	2.9	2.3	2.1	1.9
2008	4.8	2.4	2.1	1.9
2009	3.3	2.4	2.1	1.8

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

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

Source: BLS, BEA & IFL (UC3M)

Date: July 16, 2008

In terms of the core personal consumption expenditure index –**core PCE**³–, which is the inflation indicator most closely monitored by the Fed, with the June CPI figure our forecasts are slightly worse than last month, with the June annual rate forecast at 2.20%. For 2008 and 2009, the forecasts point to an average annual rate of 2.14% and 2.15%, with the 2008 values slightly lower and the 2009 values slightly higher than the central tendency established by the FED⁴ (see Graph III.2.4).

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

As for employment, the **unemployment rate** remained at 5.5% due to a deceleration in the annual growth rate of the active population, which fell from 1.08% to 0.86%, whereas the occupied population rate decreased from 0.04% to -0.21%.

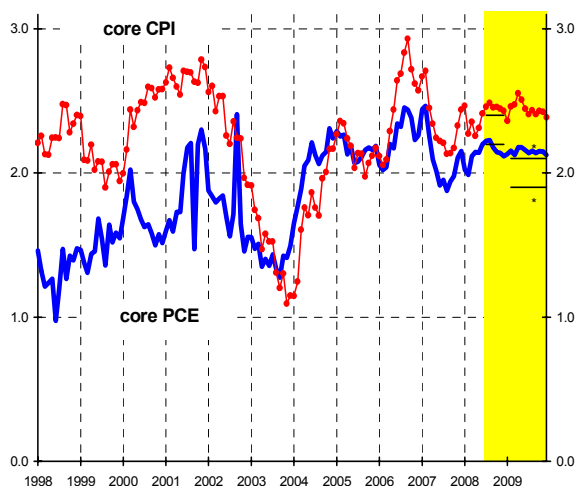
³ The PCE (Personal Consumption Expenditure) has the advantage over the consumer price index (CPI) that, instead of the shopping basket remaining unaltered, it adapts to actual expenditure, contemplating changes in its composition between the periods compared.

⁴ These forecasting intervals known as central tendencies are constructed by excluding the three highest and lowest forecasts provided by FOMC members, each of which assumes its own hypotheses concerning all the variables and economic policy. In particular, each participant assumes a monetary policy consistent with its own forecast and the most advisable policies for maximising the double objective of inflation and employment.



Graph III.2.4.

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US



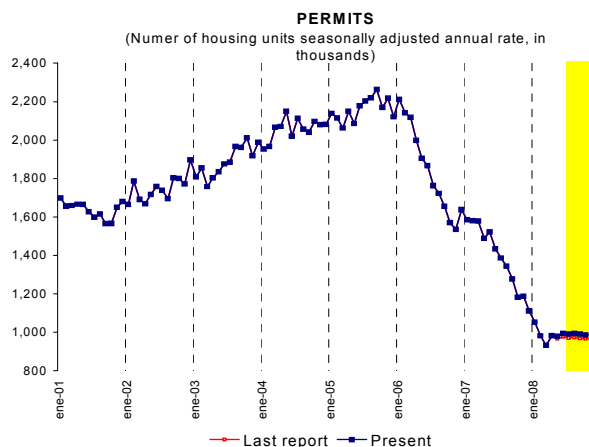
(1) Central tendency established by the Fed.

Source: BLS, BEA & IFL (UC3M)

Date: July 16, 2008

In relation to the **housing sector**, housing starts and building permits in June registered very high rates, solely due to the statistical effect of a change of methodology in the New York State. After correcting for this effect, building permits have risen by 1.5% in monthly rate corrected for seasonality, much like the forecast 1.0%. Housing starts registered a fall of 3.5% instead of the expected 0.6%. Therefore, in spite of the figures published today, neither building permits nor housing starts show signs of recovery (see Graphs III.2.5 and III.2.6).

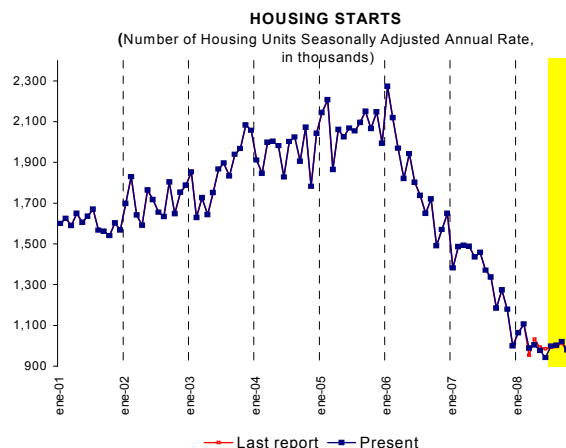
Graph III.2.5



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

Date: July 17, 2008

Graph III.2.6



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

Date: July 17, 2008

To date, the information concerning new and second hand home sales in June is not yet available.

The figures for May, with regards to **new house sales**, were worse than expected, with a monthly fall of 2.5% versus the forecast 3.2%. However, the fall in the annual rate was reduced and went from a negative 42.1% to 40.3%. As for prices, there was a seasonal monthly fall of 2.4%, less than the expected 5.1%. In all, the erratic annual rate went from 0.4% to -5.7%.

The **second hand home** component was better than expected. Indeed, the number of used homes sold in May, with regards to the monthly rate, rose by 2.0% instead of falling by 0.8% as forecast, with the annual rate growing from -18.6% to -15.9%. With regards to prices, however, the figures were as expected, with the annual rate going from a negative 8.5% to an also negative 6.3%.

To conclude, with regards to prices, we continue to see the two trends identified in previous reports. On the one hand, we have the prices of food, energy and transport, which are rising due to higher raw material costs and, on the other, the good performance of other goods and services, which could be due to a weak demand.

This scenario is now affected by rising prices of home rentals. Should this trend continue in the next few months, it will represent a significant decline in inflation expectations.

In the real field, industrial production was better than expected, whereas employment and construction continue to evolve in a negative manner.



III.3. OTHER TABLES AND PLOTS.

Tables:

- CPI observed values and forecasts in the US.

Plots:

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



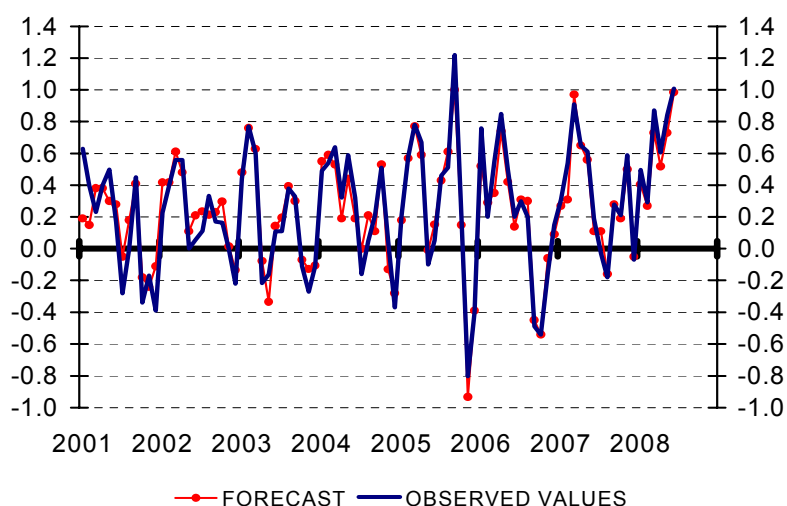
OBSERVED VALUES AND FORECAST ON CPI IN US
(June 2008)

CONSUMER PRICES INDEX (CPI)	Relative importance Dec. 2007	Annual Growth (T ¹ ₁₂) observed	Monthly Growth (T ¹ ₁)		Confidence Intervals at 80% level (+ -)
			observed (a)	forecasts (b)	
Food (1)	13.8	5.34	0.56	0.27	0.31
Energy (2)	9.7	24.67	7.20	7.83	1.23
Residual Inflation (3=2+1)	23.5	13.48	3.53	3.65	0.50
Non-food and non-energy goods (4)	21.6	0.24	-0.53	-0.55	0.23
Less tobacco	20.9	0.01	-0.61	-0.57	0.22
-Durable goods	10.8	-1.02	-0.12	-0.18	0.27
-Nondurable goods	10.8	1.53	-0.95	-0.91	0.36
Non-energy services (5)	54.9	3.27	0.45	0.36	0.15
-Services less owner's equivalent rent of primary residence (5-a)	30.9	3.76	0.61	0.53	0.22
-Owner's equivalent rent of primary residence (a)	23.9	2.64	0.24	0.13	0.11
Core Inflation (6=4+5)	76.5	2.41	0.17	0.10	0.12
Core inflation less owner's equivalent rent of primary residence (6-a)	52.5	2.32	0.14	0.09	0.16
Core inflation less owner's equivalent rent of primary residence and tobacco	51.8	2.26	0.13	0.09	0.16
Headline Inflation (7=6+3)	100.0	5.02	1.01	0.99	0.13
All items less owner's equivalent rent of primary residence (7-a)	76.1	5.77	1.24	1.25	0.17

Source: BLS & IFL (UC3M)

Date: July 16, 2008

CPI MONTHLY GROWTH RATES IN USA

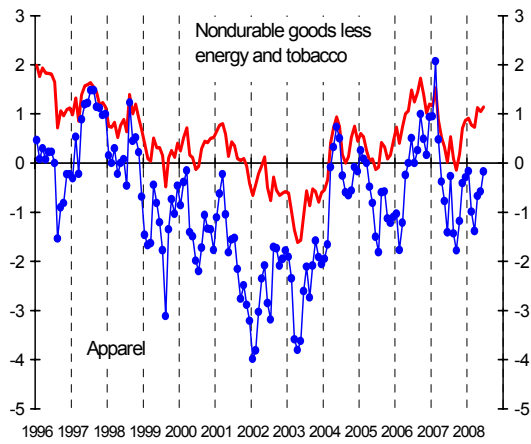


Source :BLS & IFL (UC3M)

Date: July 16, 2008

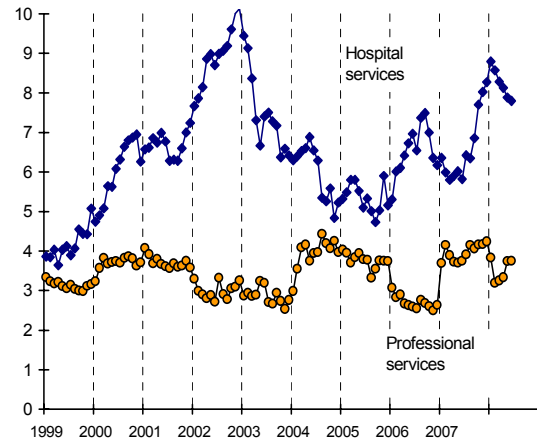


COMMODITIES LESS FOOD AND ENERGY
(YEAR ON YEAR RATES)



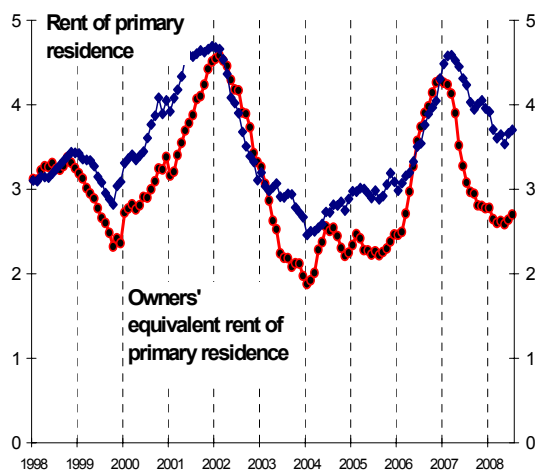
Source: BLS & IFL (UC3M)
Date: July 16, 2008

SOME MEDICAL CARE SERVICES
(YEAR ON YEAR RATES)



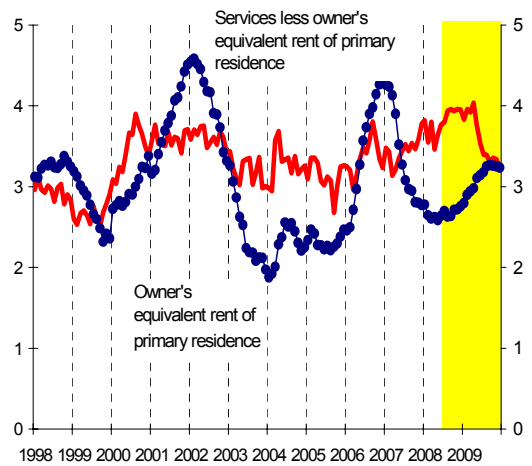
Source: BLS & IFL (UC3M)
Date: July 16, 2008

RENT OF PRIMARY RESIDENCE
(year-on-year rate)



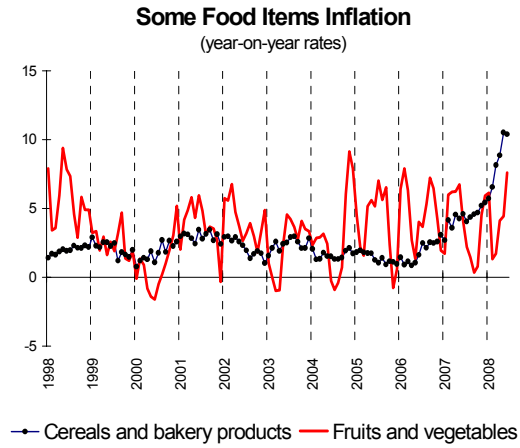
Source: BLS & IFL (UC3M)
Date: July 16, 2008

SERVICES
(year-on-year rates)

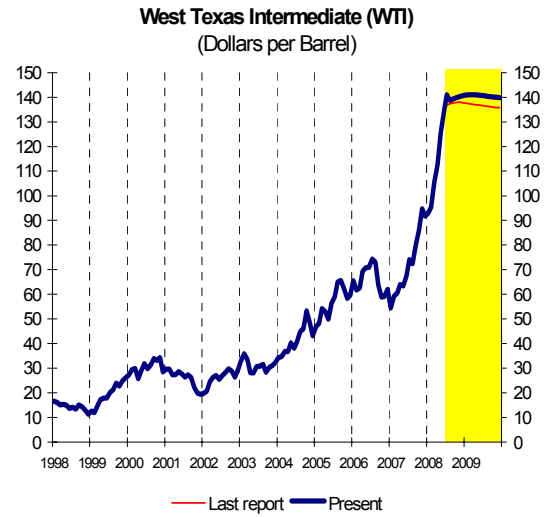


Source: BLS & IFL (UC3M)
Date: July 16, 2008

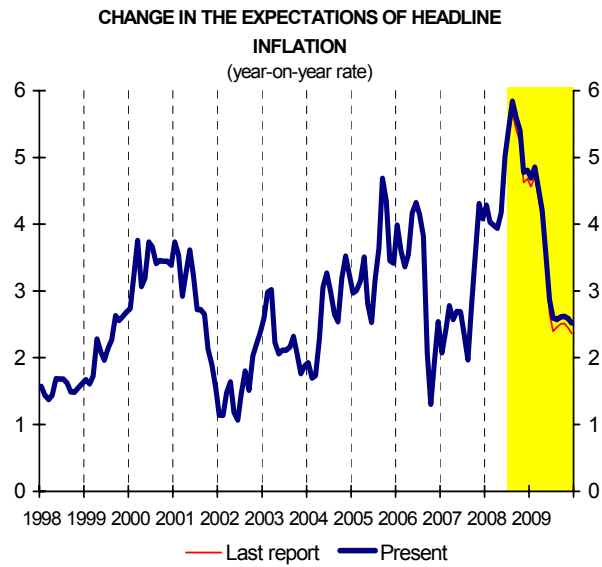




Source: BLS & IFL (UC3M)
Date: July 16, 2008

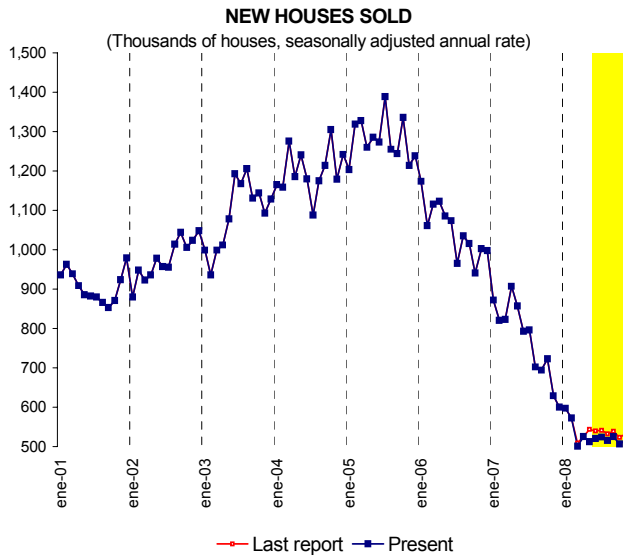


Source: BLS & IFL (UC3M)
Date: July 16, 2008

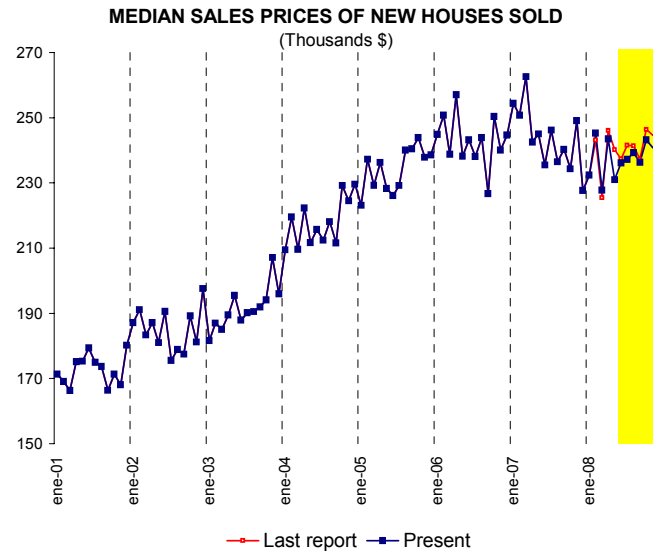


Source: BLS & IFL (UC3M)
Date: July 16, 2008

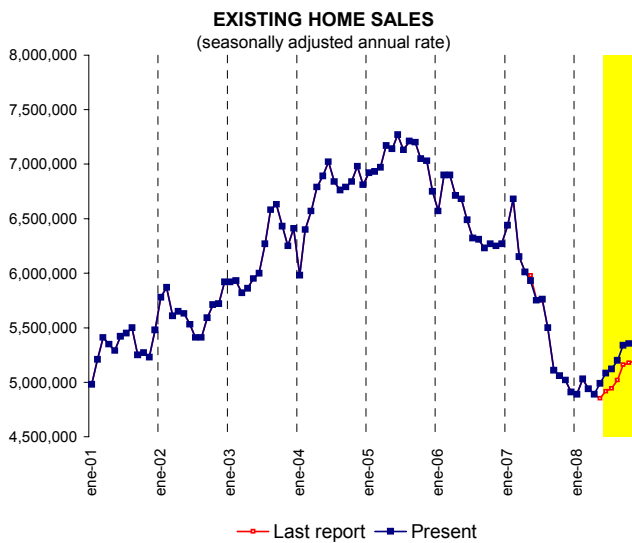




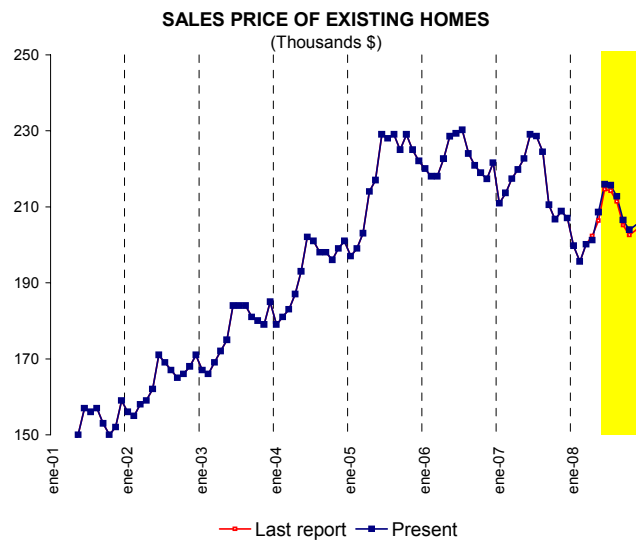
Source: U.S. Census Bureau & IFL (UC3M)
Date: June 27, 2008



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



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



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



IV. THE SPANISH ECONOMY.

IV.1 MACROECONOMIC FORECASTS.

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

MACROECONOMIC TABLE AND INDICATORS				
	Annual rates			
	2006	2007	Forecasts	
			2008	2009
GDP (a)	3.9	3.8	1.5	0.3
Prices and Costs (b)				
CPI, annual average rate	3.5	2.8	4.6	3.0
CPI, dec./dec.	2.7	4.2	4.0	2.6
Compensation per employee	3.0	3.6	4.2	3.9
Unit labour cost	2.3	2.7	3.2	3.0
Labour Market (Data poll labour force) (c)				
Active population (% change)	3.3	2.8	2.7	1.9
Employment (EPA) Average year-on-year	4.1	3.1	0.9	0.2
Unemployment rate	8.5	8.3	9.9	11.4
Basic Balances (a)				
Foreign sector				
Current Account (m. €)	-86.324	-104.951	-123.987	-130.520
Net lending or borrowing (% GDP) (2)	-8.1	-9.5	-11.2	-10.9
Public Administration				
Net lending or borrowing (% GDP) (2)	1.8	2.2	0.5	0.2
Other Economic Indicators (d)				
Industrial Production Index	3.7	2.3	-0.8	-0.6
(1) Contribution to GDP growth.				
(2) In terms of National Accounts.				
Source: INE & IFL (UC3M).				
Date: (a) May 21, 2008				
(b) July 11, 2008				
(c) April 25, 2008				
(d) July 4, 2008				

NOTE: During this month we only publish our new forecasts for the total GDP that were estimated the 4th of July. These forecasts are obtained using an econometric model that directly relates the total GDP to a set of leading indicators. On the contrary, the forecast of the demand and supply side components of the GDP requires additional information that is not available in this moment. For this reason the last forecast for separated GDP components was published the 21st of May and it's now obsolete. In order to avoid confusion between two different methodologies generating different values, we decided to publish only the total GDP forecast. The new forecast for the GDP components will be published again after the 27th of August when the data of the 2nd quarter national accounts will be available.

SPANISH GDP GROWTH RATES			
	2007	2008	2009
TI	4.1	2.7	0.1
TII	4.0	1.9	0.1
TIII	3.8	1.1	0.3
TIV	3.5	0.4	0.7



IV.1.2 INDUSTRIAL PRODUCTION INDEX AND PRODUCTION SECTORS IN SPAIN: MONTHLY AND QUARTERLY FORECASTS.

Table IV.1.2.1

ANNUAL GROWTH RATES IN THE IPI AND SECTORS IN SPAIN									
		Consumer Goods			Capital Goods	Intermediate Goods	Energy	TOTAL	
		Durable	Non Durable	Total					
ANNUAL AVERAGE RATES	2004	0.1	0.0	0.0	1.9	1.9	4.9	1.8	
	2005	-1.0	0.3	0.2	-0.7	-0.6	2.9	0.1	
	2006	10.6	0.8	2.1	8.2	3.8	0.9	3.7	
	2007	5.4	1.1	1.8	6.3	1.3	0.7	2.3	
	2008	-3.3	0.0	-0.6	2.2	-4.3	3.9	-0.8	
	2009	-3.1	0.1	-0.5	3.2	-4.3	3.0	-0.6	
ANNUAL RATES*	2007	TI	16.9	2.9	4.8	8.9	4.9	-4.4	4.2
		TII	5.7	1.5	2.1	5.3	1.0	2.8	2.4
		TIII	3.3	0.8	1.2	6.5	0.0	-1.0	1.3
		TIV	-2.8	-0.7	-1.0	4.7	-0.6	5.7	1.2
	2008	TI	-10.8	-3.3	-4.4	-2.2	-7.3	4.6	-3.8
		TII	-0.9	0.7	0.3	5.3	-3.8	3.6	0.2
		TIII	-1.3	0.8	0.4	2.9	-3.5	5.5	0.2
		TIV	0.1	1.7	1.5	2.9	-2.4	2.1	0.4
	2009	TI	-3.4	-1.7	-1.0	5.2	-3.7	4.1	-0.2
		TII	-3.7	-3.3	-0.9	1.4	-3.7	2.4	-1.7
		TIII	-3.4	-1.0	1.0	3.4	-6.1	2.6	-1.5
		TIV	-2.1	6.4	-0.9	3.1	-4.0	2.6	1.1

The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: INE & IFL (UC3M)

Date: July 4, 2008

Table IV.1.2.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN SPAIN							
	2003	2004	2005	2006	2007	2008	2009
January	-0.2	-2.9	1.0	5.4	7.3	-0.7	-0.4
February	1.8	1.8	-1.0	2.8	3.5	4.1	-2.7
March	9.8	7.2	-6.7	10.9	2.2	-13.8	2.6
April	-4.5	0.7	7.4	-9.8	6.3	11.8	-3.1
May	-1.1	2.6	0.2	8.1	2.0	-7.2	-1.7
June	4.6	5.6	-0.1	5.2	-0.6	-2.4	-0.2
July	2.0	0.0	-3.4	4.2	3.7	-0.2	-1.0
August	-1.5	5.4	3.7	5.0	1.6	0.1	-0.6
September	2.3	3.8	0.2	1.1	-1.2	0.8	-2.6
October	0.8	-7.0	-0.1	7.2	4.7	-0.1	1.2
November	1.3	4.3	0.9	4.1	-1.0	-0.2	0.9
December	4.2	1.2	1.3	0.6	-0.2	1.7	1.2

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: July 4, 2008



IV.1.3 INFLATION.

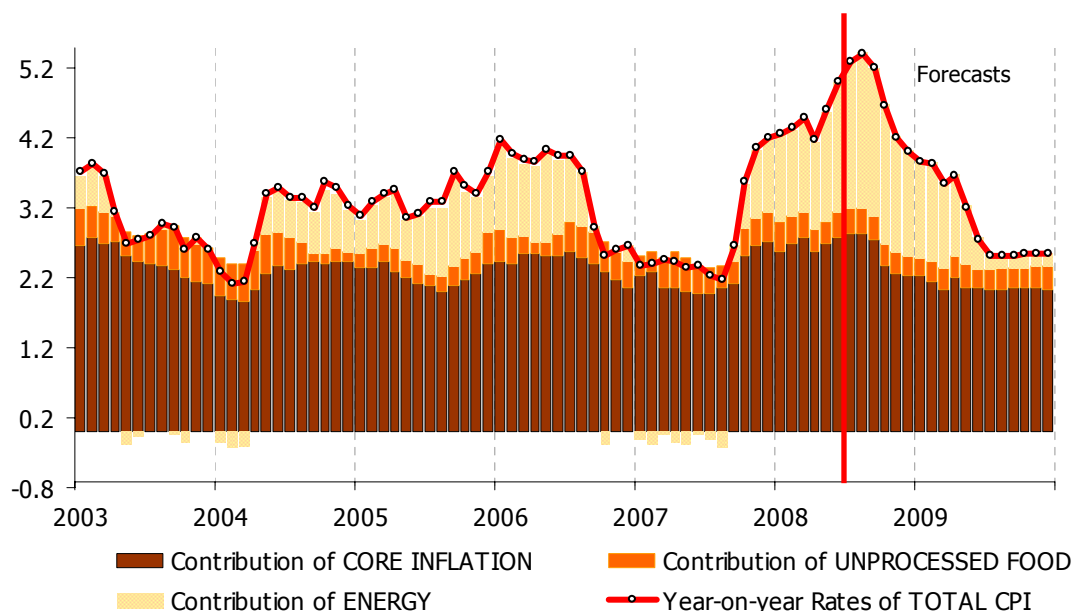
Table IV.1.3.1

FORECASTS IN THE ANNUAL AVERAGE RATE IN INFLATION IN SPAIN					
Consumer Price Index (CPI)	2005	2006	2007	Forecast	
				2008	2009
TOTAL (100%)	3.4	3.5	2.8	4.6	3.0
CORE (82.9%)	2.7	2.9	2.7	3.2	2.6
Processed food (15,6%)	3.4	3.6	3.7	6.7	3.5
Non-energy industrial goods (29.6%)	0.9	1.4	0.7	0.2	0.2
Services (37,7%)	3.8	3.9	3.9	3.9	4.0
RESIDUAL (17,1%)	6.5	6.3	3.2	11.8	5.1
Non-Processed food (7,4%)	3.3	4.4	4.7	4.6	4.0
Energy (9,8%)	9.6	8.0	1.7	17.5	5.9

Source: INE & IFL (UC3M)

Date: July 11, 2008

Graph IV.1.3.1

YEAR-ON-YEAR RATE OF INFLATION IN SPAIN
AND CONTRIBUTIONS OF MAIN COMPONENTS

Source: INE & IFL (UC3M)

Date: July 11, 2008



Table IV.1.3.2

CPI ANNUAL GROWTH BY COMPONENTS IN SPAIN												
		Consumer Prices Index										
		Core			Residual			TOTAL 100% Confidence intervals at 80% *				
		Processed food	Non energy industrial goods	Services	TOTAL	Confidence intervals at 80% *	Non processed food			Energy	TOTAL	
Weights 2008		15.6%	29.6%	37.7%	82.9%		7.4%	9.8%	17.1%			
ANNUAL AVERAGE RATE	2000	0.9	2.1	3.7	2.5		4.2	13.3	8.8	3.4		
	2001	3.4	2.4	4.2	3.5		8.7	-1.0	3.6	3.6		
	2002	4.3	2.5	4.6	3.7		5.8	-0.2	2.6	3.5		
	2003	3.0	2.0	3.7	2.9		6.0	1.4	3.6	3.0		
	2004	3.6	0.9	3.7	2.7		4.6	4.8	4.7	3.0		
	2005	3.4	0.9	3.8	2.7		3.3	9.6	6.5	3.4		
	2006	3.6	1.4	3.9	2.9		4.4	8.0	6.3	3.5		
	2007	3.7	0.7	3.9	2.7		4.7	1.7	3.2	2.8		
	2008	6.7	0.2	3.9	3.2	± 0.10	4.6	17.5	11.8	4.6	± 0.21	
	2009	3.5	0.2	4.0	2.6	± 0.39	4.0	5.9	5.1	3.0	± 0.78	
ANNUAL RATES (growth of the month over the same month of the previous year)	2007	January	2.9	1.2	3.8	2.7		3.5	-1.3	0.9	2.4	
		February	3.5	1.0	3.8	2.8		3.7	-1.8	0.8	2.4	
		March	2.3	0.8	3.9	2.5		5.2	-0.3	2.3	2.5	
		April	2.2	0.9	3.9	2.5		6.4	-1.5	2.2	2.4	
		May	2.3	0.7	4.0	2.5		6.0	-1.7	1.9	2.3	
		June	2.2	0.7	3.9	2.4		5.0	-0.2	2.3	2.4	
		July	2.2	0.6	3.8	2.4		4.7	-1.2	1.5	2.2	
		August	2.8	0.5	3.9	2.5		4.0	-2.2	0.7	2.2	
		September	3.7	0.4	3.7	2.6		4.0	2.3	3.1	2.7	
		October	6.1	0.4	3.8	3.1		4.7	7.0	6.0	3.6	
		November	7.0	0.3	3.8	3.2		4.9	10.7	8.1	4.1	
		December	7.4	0.3	3.8	3.3		4.9	11.5	8.5	4.2	
	2008	January	7.0	0.1	3.7	3.1		5.5	13.4	9.8	4.3	
		February	7.4	0.2	3.8	3.3		5.2	13.3	9.6	4.4	
		March	7.4	0.3	4.0	3.4		4.7	14.1	9.9	4.5	
		April	7.4	0.2	3.5	3.1		4.0	13.3	9.2	4.2	
		May	7.5	0.2	3.8	3.3		4.1	16.5	11.1	4.6	
		June	7.7	0.1	3.9	3.3	# 0.00	5.0	19.2	13.0	5.0	# 0.00
		July	7.8	0.3	4.0	3.4	± 0.17	4.8	21.7	14.4	5.3	± 0.17
		August	7.7	0.3	4.0	3.4	± 0.25	4.9	22.8	15.0	5.4	± 0.31
		September	7.1	0.3	4.1	3.3	± 0.32	4.6	21.8	14.3	5.2	± 0.46
		October	4.9	0.2	4.0	2.9	± 0.35	4.4	20.6	13.5	4.7	± 0.57
		November	4.3	0.2	4.0	2.7	± 0.38	4.3	16.7	11.4	4.2	± 0.67
		December	4.2	0.2	4.0	2.7	± 0.38	3.8	15.3	10.4	4.0	± 0.73
	2009	January	3.8	0.3	4.2	2.7	± 0.42	3.4	13.9	9.4	3.9	± 0.81
		February	3.3	0.3	4.1	2.6	± 0.45	4.0	14.1	9.8	3.8	± 0.88
		March	3.3	0.2	3.8	2.5	± 0.48	4.3	12.0	8.7	3.5	± 0.92
		April	3.4	0.2	4.3	2.7	± 0.50	4.4	11.4	8.4	3.7	± 0.94
		May	3.4	0.2	4.0	2.5	± 0.53	4.5	7.6	6.3	3.2	± 0.95
		June	3.5	0.2	3.9	2.5	± 0.54	3.5	4.2	3.9	2.8	± 0.98
		July	3.6	0.2	3.9	2.5	± 0.56	3.8	2.0	2.6	2.5	± 1.03
		August	3.6	0.2	3.9	2.5	± 0.57	4.1	1.7	2.7	2.5	± 1.05
		September	3.6	0.2	3.9	2.5	± 0.59	4.1	1.6	2.6	2.5	± 1.08
		October	3.6	0.2	3.9	2.5	± 0.59	4.0	1.6	2.6	2.5	± 1.08
		November	3.6	0.2	3.9	2.5	± 0.59	4.1	1.6	2.7	2.6	± 1.08
		December	3.6	0.2	3.9	2.5	± 0.59	4.2	1.6	2.8	2.6	± 1.08

* Confidence intervals calculated with historical errors.

The figures in the shaded areas are forecasts

Source: INE & IFL (UC3M)

Date: July 11, 2008



Table IV.1.3.3

CPI MONTHLY GROWTH BY COMPONENTS IN SPAIN										
		Consumer Prices Index							TOTAL 100%	
		Core			TOTAL	Residual		TOTAL		
		Processed food	Non energy industrial goods	Services		Non processed food	Energy			
Weights 2008		15.6%	29.6%	37.7%	82.9%	7.4%	9.8%	17.1%		
MONTHLY RATES (Growth of the month over the previous month)	January	2006	0.3	-3.6	0.5	-1.0	1.0	3.5	2.4	-0.4
		2007	1.0	-3.6	0.6	-0.8	0.0	-0.3	-0.2	-0.7
		2008	0.7	-3.8	0.5	-1.0	0.6	1.4	1.1	-0.6
		2009	0.4	-3.7	0.6	-1.0	0.3	0.2	0.2	-0.8
	February	2006	-0.1	-0.1	0.5	0.1	-1.5	0.7	-0.3	0.0
		2007	0.4	-0.3	0.4	0.2	-1.3	0.2	-0.5	0.1
		2008	0.7	-0.2	0.5	0.3	-1.6	0.0	-0.7	0.2
		2009	0.3	-0.2	0.5	0.2	-1.1	0.3	-0.3	0.1
	March	2006	1.4	1.0	0.5	0.9	-0.9	0.6	-0.1	0.7
		2007	0.3	0.8	0.6	0.6	0.6	2.0	1.4	0.8
		2008	0.3	0.9	0.8	0.7	0.1	2.8	1.7	0.9
		2009	0.3	0.9	0.5	0.6	0.4	0.8	0.6	0.6
	April	2006	0.3	2.8	0.7	1.4	-0.1	3.1	1.6	1.4
		2007	0.2	2.9	0.7	1.3	1.1	1.9	1.5	1.4
		2008	0.2	2.9	0.2	1.1	0.4	1.2	0.9	1.1
		2009	0.3	2.8	0.6	1.3	0.6	0.6	0.6	1.2
	May	2006	0.1	0.6	-0.1	0.2	0.4	1.7	1.1	0.4
		2007	0.2	0.4	-0.1	0.2	0.0	1.5	0.8	0.3
		2008	0.2	0.3	0.2	0.3	0.1	4.3	2.6	0.7
		2009	0.2	0.4	-0.1	0.1	0.2	0.8	0.5	0.2
	June	2006	0.1	-0.1	0.4	0.1	1.3	-0.7	0.2	0.2
		2007	0.1	-0.2	0.3	0.1	0.4	0.7	0.6	0.2
		2008	0.2	-0.2	0.5	0.2	1.3	3.1	2.3	0.6
		2009	0.3	-0.2	0.4	0.2	0.3	-0.2	0.0	0.1
	July	2006	0.1	-3.7	0.7	-1.0	0.9	1.5	1.2	-0.6
		2007	0.1	-3.8	0.6	-1.0	0.5	0.5	0.5	-0.7
		2008	0.2	-3.6	0.7	-0.9	0.4	2.6	1.7	-0.4
		2009	0.2	-3.6	0.7	-0.9	0.6	0.4	0.5	-0.7
	August	2006	-0.3	-0.1	0.5	0.1	0.9	0.2	0.5	0.2
		2007	0.3	-0.3	0.6	0.2	0.2	-0.8	-0.3	0.1
		2008	0.2	-0.2	0.6	0.3	0.3	0.1	0.2	0.2
		2009	0.2	-0.2	0.6	0.2	0.6	-0.1	0.2	0.2
	September	2006	0.1	1.1	-0.4	0.2	0.6	-3.8	-1.8	-0.2
		2007	0.9	1.0	-0.6	0.3	0.7	0.6	0.6	0.3
		2008	0.2	1.0	-0.5	0.2	0.4	-0.3	0.0	0.1
		2009	0.2	1.0	-0.5	0.2	0.3	-0.4	-0.1	0.1
	October	2006	0.0	2.7	0.0	0.9	-0.2	-3.5	-2.0	0.4
		2007	2.3	2.7	0.1	1.4	0.5	1.0	0.7	1.3
		2008	0.3	2.6	0.0	1.0	0.3	-0.1	0.1	0.8
		2009	0.3	2.6	0.0	1.0	0.2	-0.1	0.1	0.8
	November	2006	0.0	1.0	0.0	0.3	0.4	-0.7	-0.2	0.2
		2007	0.9	1.0	-0.1	0.5	0.6	2.7	1.7	0.7
		2008	0.3	1.0	-0.1	0.4	0.5	-0.6	-0.2	0.3
		2009	0.3	1.0	-0.1	0.4	0.5	-0.6	-0.1	0.3
	December	2006	0.1	-0.2	0.5	0.1	1.4	0.4	0.9	0.3
		2007	0.4	-0.3	0.5	0.2	1.5	1.1	1.3	0.4
		2008	0.3	-0.2	0.5	0.2	1.0	-0.1	0.3	0.2
		2009	0.3	-0.3	0.5	0.2	1.1	-0.1	0.4	0.2

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: July 11, 2008



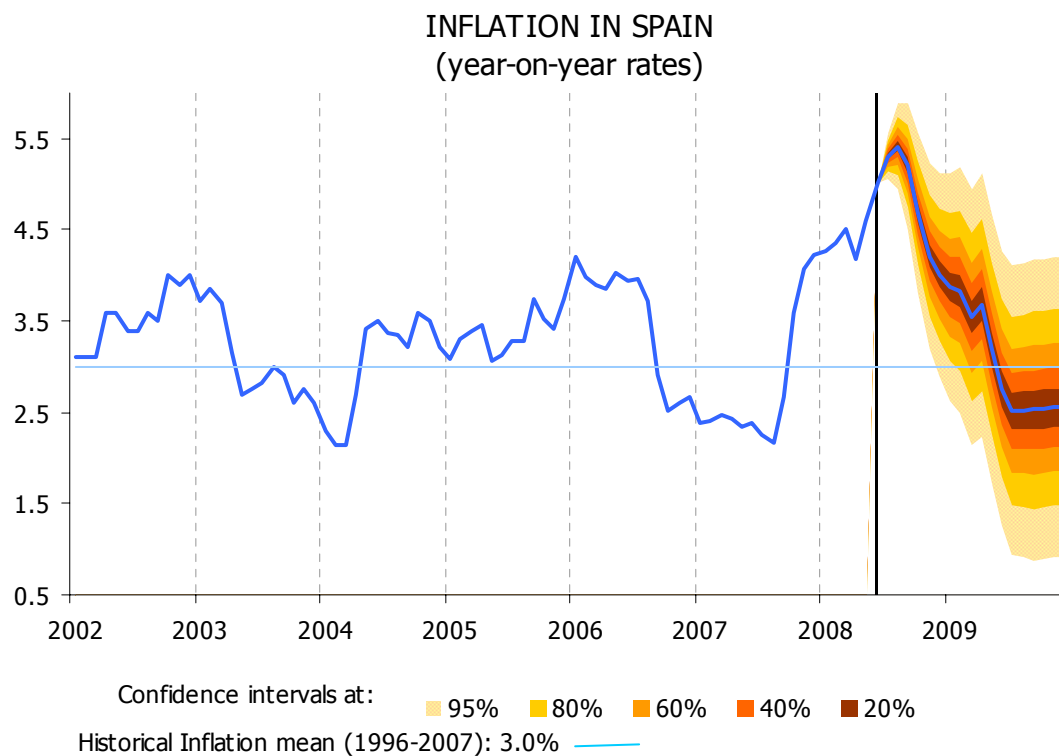
Table IV.1.3.4

CPI ANNUAL AVERAGE GROWTH RATES BY COMPONENTS IN SPAIN WITH FORECASTS FOR 2008 AND 2009											
					Weights 2008	2004	2005	2006	2007	2008	2009
CPI Total	Core Inflation	Processed food	AE less tobacco & fats	12.8	2.7	2.5	2.8	4.5	7.7	4.0	
			Oils & Fats	0.8	14.7	10.5	23.4	-16.8	2.8	1.9	
			Tobacco	2.0	5.6	6.6	1.5	8.8	3.5	1.3	
			Processed food	15.6	3.6	3.4	3.6	3.7	6.7	3.5	
		Non energy industrial goods	Vehicles	6.2	1.6	1.8	2.3	1.4	-0.7	-0.2	
			Footwear	1.9	1.9	2.2	1.6	1.3	1.6	1.5	
			Clothing	6.8	1.8	1.1	1.1	0.9	0.4	0.2	
			Rest	14.7	0.3	0.5	1.2	0.3	0.2	0.2	
			Non energy industrial goods	29.6	0.9	0.9	1.4	0.7	0.2	0.2	
		Services	Postal services	0.0	3.1	2.7	5.7	3.6	2.8	3.0	
			Cultural services	1.8	3.0	2.7	2.4	3.1	2.8	3.1	
			Education	1.0	3.6	4.1	3.5	4.1	3.3	3.5	
			Hotels	0.7	3.0	2.3	3.6	5.5	5.3	5.9	
			Health	2.3	3.2	4.0	4.1	4.2	4.0	4.0	
			Household equipment	1.8	4.4	4.5	4.4	4.2	4.4	4.7	
			Restaurants	11.2	4.1	4.3	4.5	4.8	4.8	4.7	
			Telephone	3.6	-1.1	-1.6	-1.4	0.3	0.6	0.0	
			Transports	5.3	4.4	4.4	4.2	3.1	3.9	4.2	
			Package holidays	1.4	1.4	2.2	3.1	0.6	5.0	6.8	
			University	0.5	4.9	4.6	5.0	5.3	4.6	4.0	
			Housing	5.2	4.5	4.8	4.7	4.7	4.0	4.3	
			Rest	3.0	4.2	3.8	4.3	3.9	3.5	3.5	
			Services	37.7	3.7	3.8	3.9	3.9	3.9	4.0	
		Core Inflation			82.9	2.7	2.7	2.9	2.7	3.2	2.6
	Residual Inflation	Non processed foods	Meat	2.7	3.6	3.8	6.0	5.2	4.3	4.0	
			Fruits	1.3	6.3	2.7	0.1	4.5	8.7	4.2	
			Eggs	0.2	11.6	-3.2	2.8	4.3	10.8	3.5	
			Vegetables	0.9	3.6	5.4	-0.8	6.4	2.9	4.1	
			Mollusc	0.6	3.1	5.4	2.3	0.1	0.8	2.6	
			Potatoes	0.3	16.2	-8.2	17.6	8.4	-0.1	9.5	
			Fish	1.4	2.0	3.8	5.7	2.5	3.5	3.4	
			Non processed foods	7.4	4.6	3.3	4.4	4.7	4.6	4.0	
		Energy	Heat energy	5.7	7.1	12.3	6.6	1.4	21.8	6.7	
			Fuels	0.4	12.0	26.8	11.8	-0.8	39.7	11.7	
			Electricity and gas	3.6	0.8	4.0	9.6	2.1	8.2	3.7	
			Energy	9.8	4.8	9.6	8.0	1.7	17.5	5.9	
		Residual Inflation			17.1	4.7	6.5	6.3	3.2	11.8	5.1
	CPI Total			100.0	3.0	3.4	3.5	2.8	4.6	3.0	

Bold figures are forecasts
Source: INE & IFL (UC3M)
Date: July 11, 2008



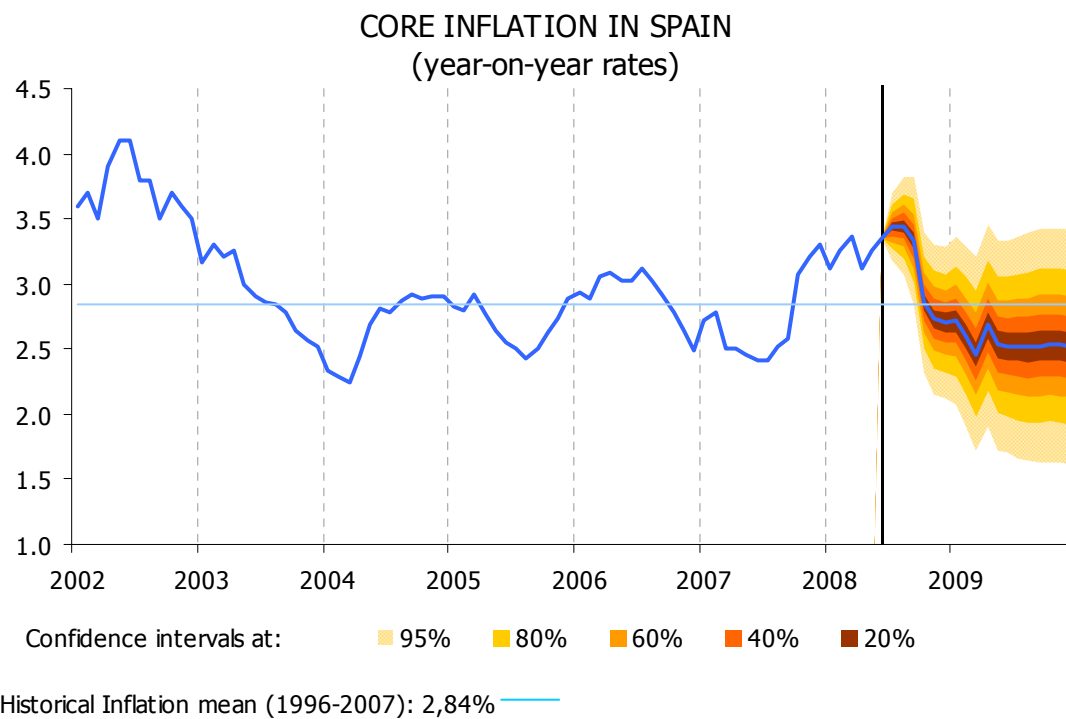
Graph IV.1.3.2



Source: INE & IFL (UC3M)

Date: July 11, 2008

Graph IV.1.3.3



Source: INE & IFL (UC3M)

Date: July 11, 2008



IV.2 ANALYSIS OF THE SPANISH ECONOMY.

IV.2.1 RECENT EVOLUTION OF THE SPANISH ECONOMY.

The results of the leading macroeconomic indicators published in the last month, largely referring to May and June, confirm that the Spanish economy in the second quarter of this year has continued to weaken and that this deceleration is more intense than was expected a few months ago. To a great extent, this reduction in the growth rate is due to the adjustment in the construction sector, especially the residential segment, which has been registering negative year-on-year rates for months. However, although construction is leading this deceleration process, the other major sectors are also being affected by slower growth.

This panorama of increasingly weak economic activity is supported by the most recent figures for the following indicators. They include the May Industrial Production Index (IPI), the June Economic Sentiment Indicator (ESI), different construction indicators for May and June and, especially, the Active Population Survey (EPA) for the second quarter of this year, which has confirmed the poor result expected from the labour market and which had been anticipated to a certain extent by the Social Security contributor and registered unemployment figures in the previous months, discussed in the different Bulletins.

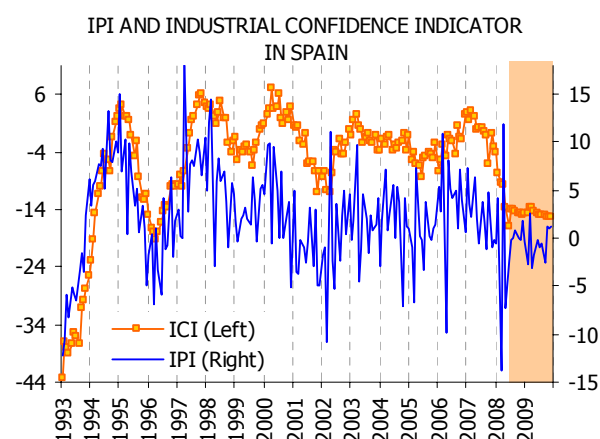
In May, the Industrial Production Index (*IPI*) registered a year-on-year decrease of -7.3%, three percentage points (pp) less than our forecast. When this figure is corrected for the calendar effect, the fall in the IPI is a little less (-5.5%). Analysing the discrepancy between the observed value and our forecast, we see that it was due to downwards innovations in all groups according to the economic destination of the goods (durable and non-durable consumer goods, capital goods, intermediate goods and energy).

Also published were the expectations of economic agents regarding the industrial sector's evolution in June. They again declined, continuing the indicator's fall for over a year, although more intensely since the end of last year. The updated forecasts estimated with the new information point to this decline continuing until at least the first quarter of 2009, when it will reach levels not seen since 1996 (see graph IV.2.1.1). Confidence is expected to start to improve slightly between the second and third quarters of 2009.

With this new industrial sector information, we have updated our IPI forecasts, resulting in a slight

downwards revision for both 2008 and 2009. This year, it is expected to register an average annual decrease of 0.8%, one tenth of a point less than last month, compared with last year's 2.3% growth. The IPI is expected to recover somewhat in 2009, especially in the second half, but remaining at negative rates (-0.6%). This estimate is also slightly worse than our previous forecast.

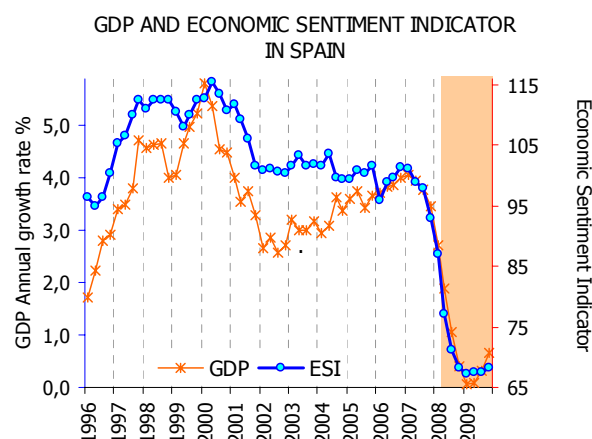
Graph IV.2.1.1



Source: EUROPEAN COMMISSION, INE & IFL (UC3M)
Date: July 14, 2008

The Spanish Economic Sentiment Indicator (ESI) for June again fell significantly, just over six points to a total of 73. This is considerably worse than forecast by the IFL. The decline was largely due to a loss of confidence in all sectors, but particularly consumption and services. After this result, the progressive decline in the ESI seen since early 2007 continues, although it has been more intense in the second quarter of this year.

Graph IV.2.1.2



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: July 27, 2008



Updating the ESI forecast with the new information, the result is a downwards revision of confidence in the Spanish economy. We are now expecting the ESI to continue to decline in the second half of 2008, although as in previous months, we expect this pattern to be mitigated this year, tending to end in the first quarter of 2009. From the second quarter on, the ESI will start to recover timidly, although reaching very low values not seen since the end of 1992.

With regards to construction activity, the most recently published indicators clearly show how this sector has weakened. Apparent cement consumption in June increased its rate of reduction by registering a year-on-year rate of -33.6%, compared with the previous month's -18.7%. However, when the figure is corrected for the calendar effect, the decrease is significantly smaller (-14.9%) and similar to last May. Also published was the Construction Industry Production Index edited by Eurostat, which registered a year-on-year decrease of 10.8%, less than the previous month (-19%), after seven consecutive months of decline. In turn, so far this year, the annual rate was -10.5%, due to both the building sector (-9.9%) and civil works (-12.7%).

In relation to the labour market, the second quarter's EPA figures have been published, showing that the labour market is intensifying the weakening process registered since the middle of last year. Creation of employment has stopped and unemployment has increased considerably and, as with economic growth indicators, the adjustment in the labour market is more intense than was expected a few months ago.

Employment in April-June this year showed a year-on-year growth rate of 0.3%, representing a significant cut of 1.4pp relative to the previous period. In the second quarter, employment increased by 22.9 thousand people, although after correcting for seasonality, there was a decrease of 141 thousand, -0.7%. On the other hand, the active population continued to be surprisingly strong, registered year-on-year growth of 3.1%, one tenth of a point more than in the previous quarter. As a result of this, the unemployment rate relative to the active population rose to 10.4%, 0.8 points more than in the previous period.

These results were considerably worse than the forecasts we estimated in April with the EPA figures for the first quarter. Growth in employment was significantly smaller than our forecast, although not active population, so the observed unemployment rate was higher than our forecast.

Deceleration of employment affected all major non-agricultural sectors, but construction was the weakest with a year-on-year fall of 7.9%, six points less than the previous quarter. Industry reduced its rate of year-on-year variation to 0.9%, with a deceleration of 1.3%, and services continued to show an acceptable rate of year-on-year variation (2.1%), which was nonetheless seven tenths of a point less than in the January-March period.

Adjustment of employment is largely affecting temporary workers, whereas fixed contracts, although their year-on-year growth rate is falling, continue to be strong. Indeed, temporary employment intensified its falling trend seen for over a year, with a year-on-year decrease of -7.3%, 3.4 points less than the previous quarter. However, fixed employment reduced its year-on-year growth rate by four tenths of a point to 4.1%. This different behaviour by type of employment, according to the stability in the current recessive phase, responds to the lower cost associated to dismissing temporary employees, leading to a significant reduction in the temporary employment rate to 29.4%, a figure not seen since 1990.

Table IV.2.1.1

EMPLOYED, ACTIVE AND UNEMPLOYED POPULATION
year-on-year rates

	2006	2007	2008	2009
Occupied	4.1	3.1	0.1	-0.6
Agriculture	-5.6	-2.0	-3.9	-4.5
Manufacturing	0.4	-0.9	0.3	-0.8
Construction	7.9	6.1	-8.4	-5.2
Services	5.1	3.9	2.0	0.6
Active	3.3	2.8	2.8	2.2
Unemployment rate	8.5	8.3	10.7	13.1

Source: INE & IFL (UC3M)

Date: July 24, 2008

With the new information, we have revised our employment, activity and unemployment forecasts for the active population survey. We see that average annual growth in employment in 2008-2009 will continue the falling trend seen in our previous forecasts, but more intensely. For 2008, we are expecting employment to be practically stagnant, with an average annual growth rate of 0.1%, eight tenths of a point less than our previous forecast and 3 pp less than in 2007. This will be found this year in all sectors, with construction being the weakest and registering significant job losses, 8.4%. It will be followed by agriculture (-3.9%), although services and industry will register positive year-on-year rates, 2% and 0.3%, respectively. For 2009, we are expecting a 0.6% drop in employment, with the



tertiary sector being the only one without job losses, with an annual rate of 0.6%.

The forecast average growth rate of the active population for 2008 has been revised upwards to 2.8%, one tenth of a point more than the previous forecast. For 2009, it is expected to be 2.2%, three tenths of a point more. As a result of the forecast related to the supply and demand of labour, the

unemployment rate has been revised upwards for 2008-2009, due to less expected growth in economic activity and creation of employment and the continued strength of the active population. For 2008, the unemployment rate will be 10.7%, 2.4 points more than was registered in 2007, and it is expected to reach 13.1% for 2009. In both years, these rates are higher than our previous forecasts by 0.8 and 1.7pp, respectively.



IV.2.2 INFLATION.

In June, year-on-year inflation was 5.0%. This was one decimal point less than the provisional HICP figure published by the INE on June 27 and two decimal point higher than our expectations. With this new figure, the average annual inflation forecast has been revised upwards by one tenth of point for both 2008 and 2009, to 4.6% (± 0.21) and 3.0% (± 0.78), respectively. Inflation is expected to peak in August at 5.4% (± 0.31) followed by a gradual reduction in which the year-on-year rate will fall to 4.0% (± 0.73) by the end of 2008.

In the latest advances concerning inflation in Spain, it was suggested that there was a risk of inflation rising unexpectedly due to the transport strike in mid-June. We also suggested that the possible effects would largely be found in the unprocessed food component. This month, the annual inflation rate observed in the sector was 5.0%, 1.5pp greater than our latest forecasts. The high volatility of this component means that, from a statistical perspective, it is difficult to quantify the contribution of the transport strike to the rise in inflation in this item. We will have to observe the figures in the next few months before we can reach a final conclusion.

It is a fact, however, that the latest figures have interrupted the falling trend found in unprocessed food inflation since February, generating a significant upwards revision in our forecasts. We are now expecting an average annual rate for the item of 4.6% for 2008 and 4.0% for 2009, respectively, 8 and 5 tenths of point higher than our previous estimates.

Energy also presented an upwards surprise with an annual inflation rate of 19.2%, 0.7pp higher than the forecast. The annual inflation rate in this item has grown by 6 percentage points in the last two months and, according to our estimates, will continue to grow to 22.8% in August.

Core inflation expectations for 2008 and 2009 remain constant, at around 3.2% (± 0.10) and 2.6% (± 0.39), respectively. In the different components included in this index there was a small upwards surprise in the services sector, compensated by a 0.1% inflation rate for non-energy industrial goods, one tenth of a point less than expected. The average annual inflation forecast for non-energy industrial goods was revised downwards this month to 0.2% for both 2008 and 2009. These figures represent a historic low for the Spanish economy; they are half a point lower than the respective forecasts for the euro area.

Prices in the services sector grew by a year-on-year 3.9% in June, nearly one tenth of a point more than

expected. The forecast average annual inflation rate for this sector has been revised upwards by one tenth of a point to 3.9% for 2008, whereas the 2009 forecast remains unaltered. The forecasting error was largely due to the evolution of transport service prices and, within this sub-group, air transport prices. They grew by 17.5% in June in year-on-year terms.

To conclude, core inflation continues to maintain a stable profile although the upwards innovation in transport services appears to show that increases are being registered in some sectors prices due to more expensive energy costs.

Table V.2.2.1

INFLATION RATES IN SPAIN*						
CPI	Observed			Forecasts		
	Aver ⁽²⁾ 2006	Aver ⁽²⁾ 2007	2008 Jun ⁽¹⁾	2008 Jul ⁽¹⁾	Aver ⁽²⁾ 2008	Aver ⁽²⁾ 2009
CORE (82.9%)	2,9	2,7	3,3	3,4 ($\pm 0,17$)	3,2 ($\pm 0,10$)	2,6 ($\pm 0,39$)
TOTAL (100%)	3,5	2,8	5,0	5,3 ($\pm 0,17$)	4,6 ($\pm 0,21$)	3,0 ($\pm 0,78$)

* 80% confidence intervals calculated with historical errors.

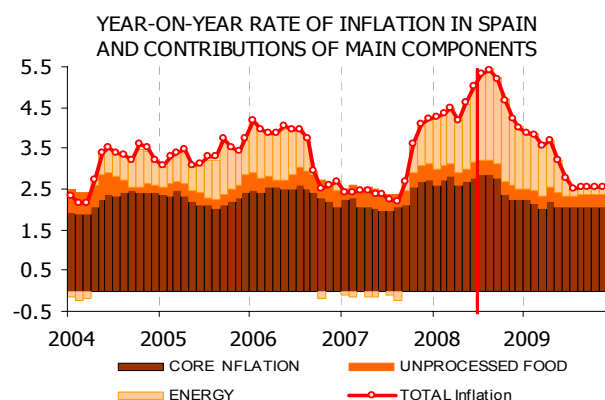
Source: INE & IFL(UC3M)

Date: July 11, 2008

⁽¹⁾ Year-on-year rate

⁽²⁾ Annual average rate

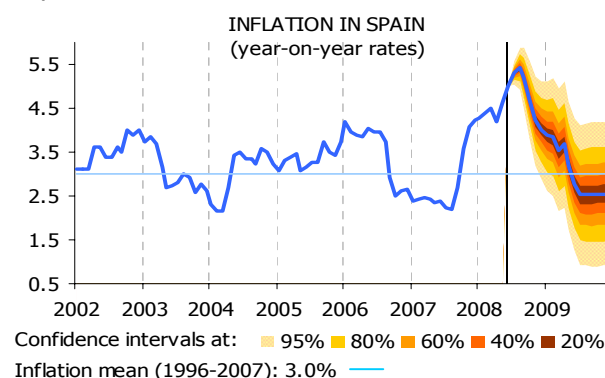
Graph IV.2.2.1



Source: INE & IFL (UC3M)

Date: July 11, 2008

Graph IV.2.2.2



Source: INE & IFL(UC3M)

Date: July 11, 2008



IV.2.3 FINANCING THE CURRENT ACCOUNT DEFICIT OF THE SPANISH ECONOMY

The June Bulletin analysed the performance of the Spanish foreign sector in relation to the current account balance and its different sub-balances, especially focusing on 2007 and the first few months of 2008 and estimating forecasts for 2008-2009. Following is an analysis of the foreign trade deficit from the perspective of saving and investment and its financing by current account and capital. To a great extent, the heavy increase in this deficit is due to households, who have gone from being net savers to net debtors, resulting from their investment in property in the last few years. With regards to the financing of this deficit, we have seen a change since last August. Portfolio investment, which has been one of the principal instruments for financing the foreign deficit, has become negative in the last few years since the financial unease last summer, and it has been partially replaced by short-term financing included in other investments.

IV.2.3.1. The Spanish economy's financing capacity

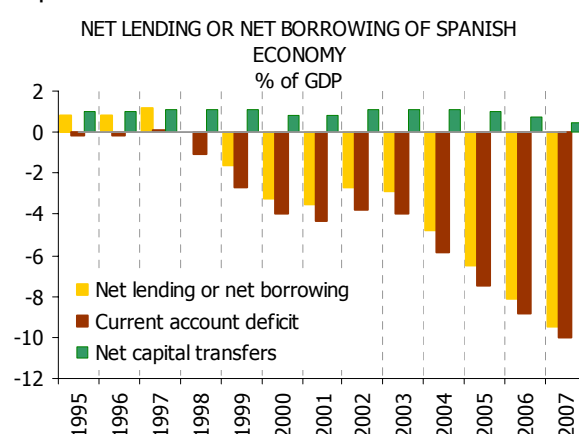
As we saw in last month's Bulletin, the Spanish economy is registering a high and growing current account (C/A) deficit which last year represented 10% of the GDP and will probably be over 11% this year. These high C/A deficit figures show the great need for financing in the Spanish economy. If we add the c/a balance to the capital account balance, we obtain the financing capacity (+) or requirement (-) relative to foreign markets. Historically, the Spanish economy has always registered a positive, although small, capital transfer balance.

In 2007, that balance totalled 5,083 million euros, 0.5% of the GDP, and it has registered a moderately falling evolution in the last few years, largely due to the reduction in capital transfers from the European Union, when Spain benefited from structural and cohesion funds. With Spain's new economic status relative to the EU, these funds are tending to decrease and will disappear completely in the next few years. Therefore, when this item is added to the c/a deficit, last year the Spanish economy showed a 9.5% financing requirement, which could exceed 10.5% this year.

Graph IV.2.3.1.1 shows this aggregation for 1995-2007, showing the close relationship between c/a balance and financing capacity or requirements relative to the rest of the world, as net capital transfers are very small in relation to the c/a

balance and will become even smaller in the next few years due to the decreasing weight of capital transfers. In 1995-1998, the years before Spain joined the euro area, the Spanish economy registered financing capacity, although before 1995 it often required financing for foreign trade. This change was largely due to the delayed effect of the devaluations occurred in the late first half of the 90s and the adjustments made to meet Maastricht conditions. On the other hand, in 1999 the Spanish economy showed a need for financing (-1.6%), after which this need started to rise to -8.1% in 2006, -9.5% in 2007 and probably around 11% in 2008.

Graph IV.2.3.1.1



Last year, our economy needed financing in the amount of 99,866 million euros, 25% more than the previous year. In January-April of this year, according to the Bank of Spain's balance of payment figures, the need for financing was 38,260 million euros, 13% more than a year earlier.

Having analysed the evolution of the c/a balance and its composition, and the capacity or need for financing, the next question is whether a c/a deficit as large as this (10% of the GDP in 2007 and probably 11.5% in 2008) is sustainable in the medium and long term. The answer is different now that Spain is part of a monetary union. If it was not, a situation like this would very probably have led to a devaluation of its currency and rising interest rates, in order to adjust domestic demand. Belonging to the euro area, however, means that Spain has lost basic and important monetary policy management instruments, such as the possibility of changing interest rates and exchange rates, as interest rates are established according to the average situation in the euro area, irrespective of each country's specific situation. This certainly involves greater facilities for financing the c/a deficit,



enabling the country to maintain higher deficit levels for longer periods.

The problem of maintaining high deficits remains, however, as if the loss of competitiveness derived from the high inflation and labour costs differentials relative to our leading competitors persists, foreign lenders will start to apply stricter financing conditions if they see that these problems are not suitably corrected, increasing the risk premium and ultimately restricting credit. The situation has been complicated even further since the financial market crisis last summer derived from the subprime mortgage problem. This pattern of behaviour has already started to occur in the first few months of this year, when the capture of liabilities on the foreign market significantly decreased.

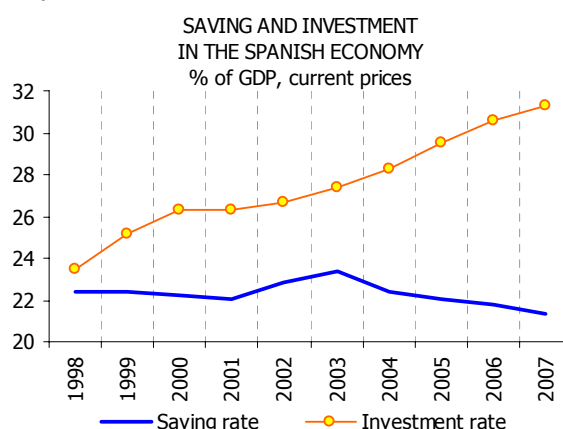
On the other hand, private consumption and investment will start to weaken; indeed, this is already occurring, affecting domestic demand, so the deficit will be corrected sooner or later but this correction is in danger of being too sudden. If foreign demand does not improve when there is a significant reduction in domestic demand, as registered by the Spanish economy since the middle of last year, taking over as the driving force behind growth, there will be a considerable economic deceleration which will be painful in terms of investment, employment and economic welfare. The latest figures and our forecasts for the Spanish economy show that this pattern is growing, as imports are falling and exports remain dynamic, so either this or next year, the sector's contribution will cease to be negative.

IV.2.3.2. The foreign deficit from the perspective of saving and investment

The c/a deficit and capacity (+) or need (-) for financing, according to the approach followed in last month's analysis published in the June Bulletin, shows an excess of domestic demand relative to domestic production. From another perspective, however, it can also be seen as the difference between national savings and investment. In case of financing needs, it means that domestic savings are not sufficient to finance the economy's investment and foreign financing is required. In case of financing capacity, the other situation would be true, with our excess of savings relative to investment financing investments abroad. From this viewpoint, it also shows how the nation's financial asset position has changed relative to the rest of the world.

Graph IV.2.3.2.1 shows the evolution of savings and investment in terms of proportion of the GDP, or saving and investment rates. The difference between the two each year is the Spanish economy's capacity or need of financing. Since the mid-1990s and particularly since the introduction of the euro in 1999, this divide has been constantly growing. The graph also shows that the c/a deficit and corresponding need for financing has largely occurred due to dynamic investments, which have gained weight relative to the GDP, with the ratio showing a strong growing trend. In 2006, it represented more than 30% of the GDP, when in 1995 it was just under 22%. While the investment rate was growing, the saving rate showed some growth in 1995-2003, but subsequently started to fall, and continues to do so, thus widening this divide.

Graph IV.2.3.2.1



A breakdown of the Spanish economy's capacity or need for financing according to institutional sectors (households, firms and public sector) is a useful exercise showing certain features of the pattern of growth maintained by the Spanish economy in the last decade. It particularly shows that the main cause for the foreign deficit in the last few years was the private sector (households and firms). Graph IV.2.3.2.2 shows information about the financial status of the three institutional sectors from 1995 to 2007, identifying the following features:

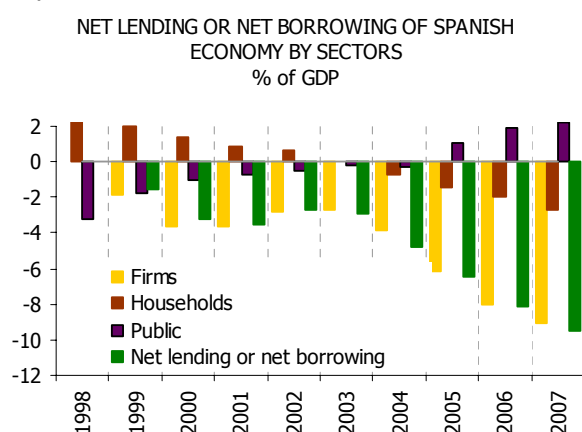
- Firms absorb most of the requirements for foreign funds. In 2006, they represented 7.9% of the GDP, and 9% in 2007. This deficit, however, is due to non-financial firms, as they tend to show some superavit when the figures are broken down into financial and non-financial enterprises.
- The Spanish household sector has traditionally had financing capacity, as their savings used to be smaller than their own investment, namely housing, and the remaining savings used to



finance other sectors. Since the mid-1990s, however, their financing capacity started to decrease and started to require foreign financing in 2003. This deficit represented 2% of the GDP in 2006 and 2.7% in 2007. This change in household financial status was due to the real estate boom registered in the last decade, which helped to significantly deteriorate the c/a deficit. As this boom has come to an end, we can expect the household saving rate to increase and the investment rate to fall, so this sector will probably register a superavit in the next few years, although this will be hindered by the high level of accumulated indebtedness.

- Since the mid-1990s, the public sector has followed the opposite trend. Traditionally, the Spanish public sector has always registered a deficit; in 1995, it was nearly 7% of the GDP. From then on, it started to decrease and registered financing capacity in 2005 and the two following years. Indeed, the superavit was 1.9% of the GDP in 2006 and 2.3% in 2007. However, the deceleration now affecting the Spanish economy, with growing unemployment and the subsequent increase in unemployment benefits, together with significantly less income, means that this superavit has practically disappeared in the first half of this year, so the balance will be negative in the next few years.

Graph IV.2.3.2.2



IV.2.3.3. Financing the foreign deficit

The above breakdown of financing needs according to institutional sector shows that non-financial firms and households, that is the private sector, are the main cause for such a large foreign deficit. We must remember, however, that households and firms did not directly obtain the

funds to finance that deficit, because households at least do not have easy access to the international markets. The Spanish financial system acted as an intermediary, through resident banks which obtained those funds abroad and distributed them to the final users in the form of loans.

In the last few years, an important role was played in obtaining foreign funds for the Spanish economy by so-called securitised assets, closely related to the mortgage market. Basically, the mechanism is as follows. A bank with mortgages can transfer them to a securitisation fund which issued bonds supported by the mortgages. Until the subprime crisis last summer, international investors showed great appreciation for these bonds, due to their high returns and apparently low risk. The panorama has changed, however, since this financial shock, and they are no longer easily accepted on the international financial markets.

An observation of the financial balance of payments accounts tells us that portfolio investment was the main instrument for channelling foreign funds. This item has grown considerably in the last few years; in 2006, it registered a net positive balance of 186,000 thousand million euros, around 80% of all foreign financing. In 2007, however, the net balance fell to 118,000 thousand million euros, starting in August after the financial shocks. This financing modality includes both securitisation bonds and mortgage notes, the former issued by securitisation funds and the latter by banks and savings banks.

In 2007 there was an increase in foreign financing through direct foreign investment, a less volatile modality than portfolio investment. There was also growth in other investments, which multiplied the 2006 figure by 3.3. It is obvious that the fall in portfolio investment found in 2007 is being replaced by short-term loans included under other investments.

In the first four months of this year, portfolio investments have continued to fall to negative levels. There is a reduced financial flow from abroad, accumulating the financial balance, without the assets of the Bank of Spain, net input of 18,490 million euros, 63% less than the same period last year. Financial liabilities generated capital input of 58,597 million euros, 43% less than a year earlier, responding to the negative sign of the portfolio investment balance since last August. Variation in assets registered net output of 40,107 million euros, 23.7% less than the same period the previous year. This fall also responds to a change to a negative portfolio investment figure.



This change in foreign deficit financing shown by the 2007 figures has been triggered by last summer's financial shocks which made foreign investors less likely to go for securities backed by mortgages and Spanish banks can no longer sell them abroad. Although the credit rating of our mortgages is relatively high compared to other

countries, contagion could be occurring and will certainly continue in the future. If this recent behaviour of the foreign financing structure persists, it will be difficult to finance the foreign deficit, especially that derived from housing construction, directly related to securitisation bonds.



IV.3. TABLES AND PLOTS.

Tables:

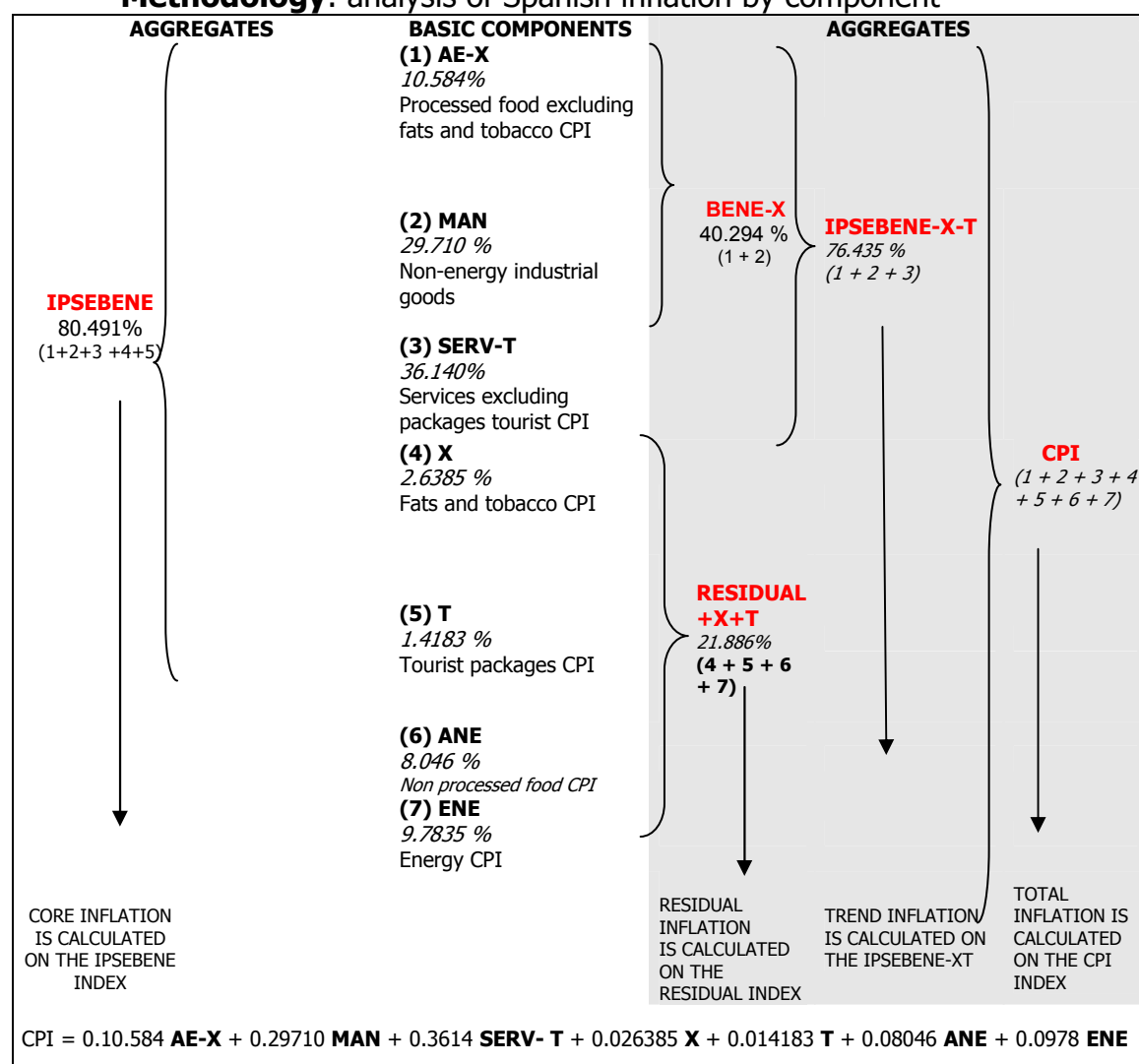
- Methodology: analysis of Spanish inflation by component
- Observed values and forecasts for the Spanish CPI.

Plots:

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



Methodology: analysis of Spanish inflation by component



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

OBSERVED VALUES AND FORECASTS FOR THE SPANISH CPI. MONTHLY RATES				
Consumer Price Index (CPI)	Weights 2008	Observed values June, 2008	Forecasts	Confidence intervals (*)
(1) Processed food	15.57	0.22	0.24	± 0.53
(2) Non energy industrial goods	29.58	-0.21	-0.15	± 0.31
(3) Services	37.72	0.48	0.38	± 0.15
CORE INFLATION [1+2+3]	82.87	0.19	0.17	± 0.17
(4) Non-Processed food	7.37	1.35	-0.17	± 1.01
(5) Energy	9.75	3.06	2.39	± 0.63
RESIDUAL INFLATION [4+5]	17.13	2.37	1.35	± 0.57
TOTAL INFLATION [1+2+3+4+5]	100.00	0.58	0.38	± 0.17

(*) Confidence intervals at 80%

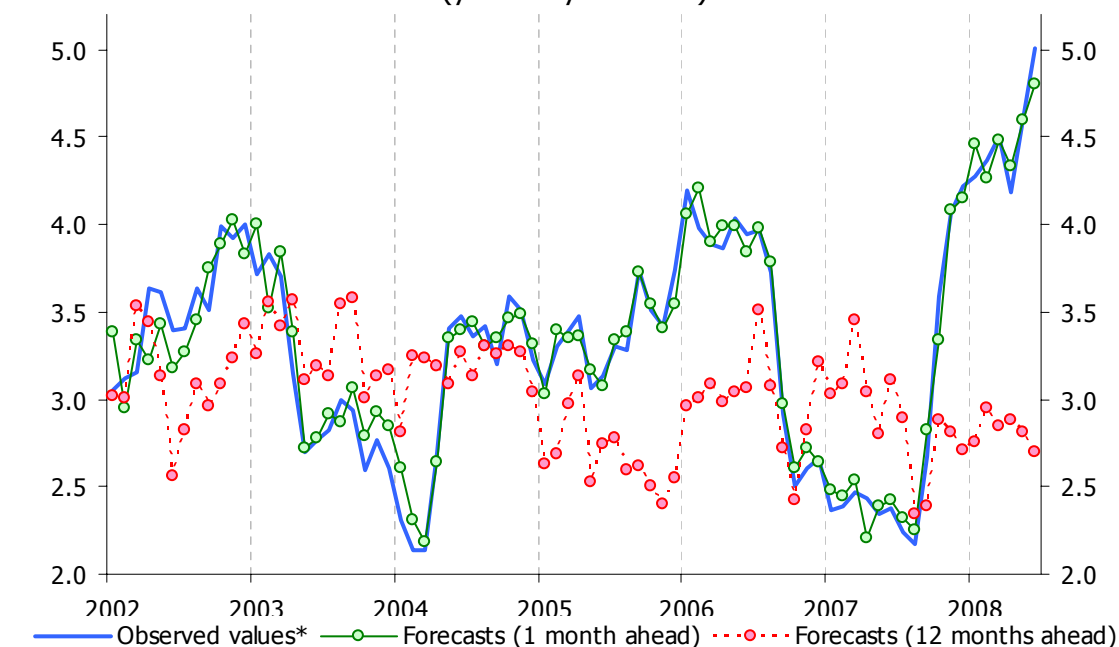
(**) Forecasts published in the previous bulletin

Source INE & IFL (UC3M)

Date: July 11, 2008

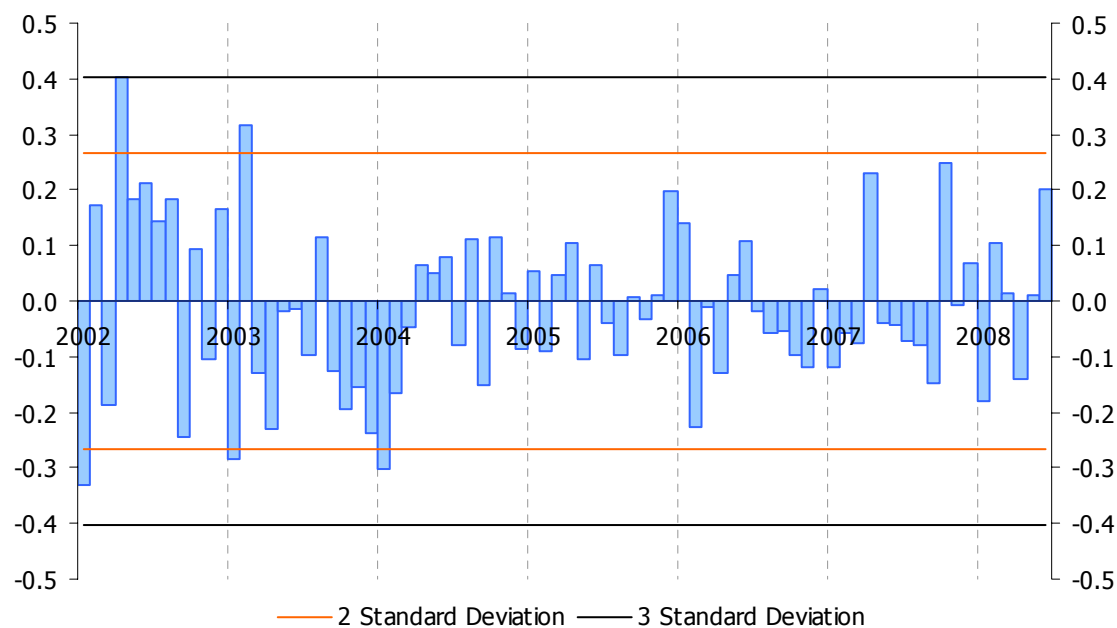


ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS FOR THE SPANISH CPI (year-on-year rates)



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

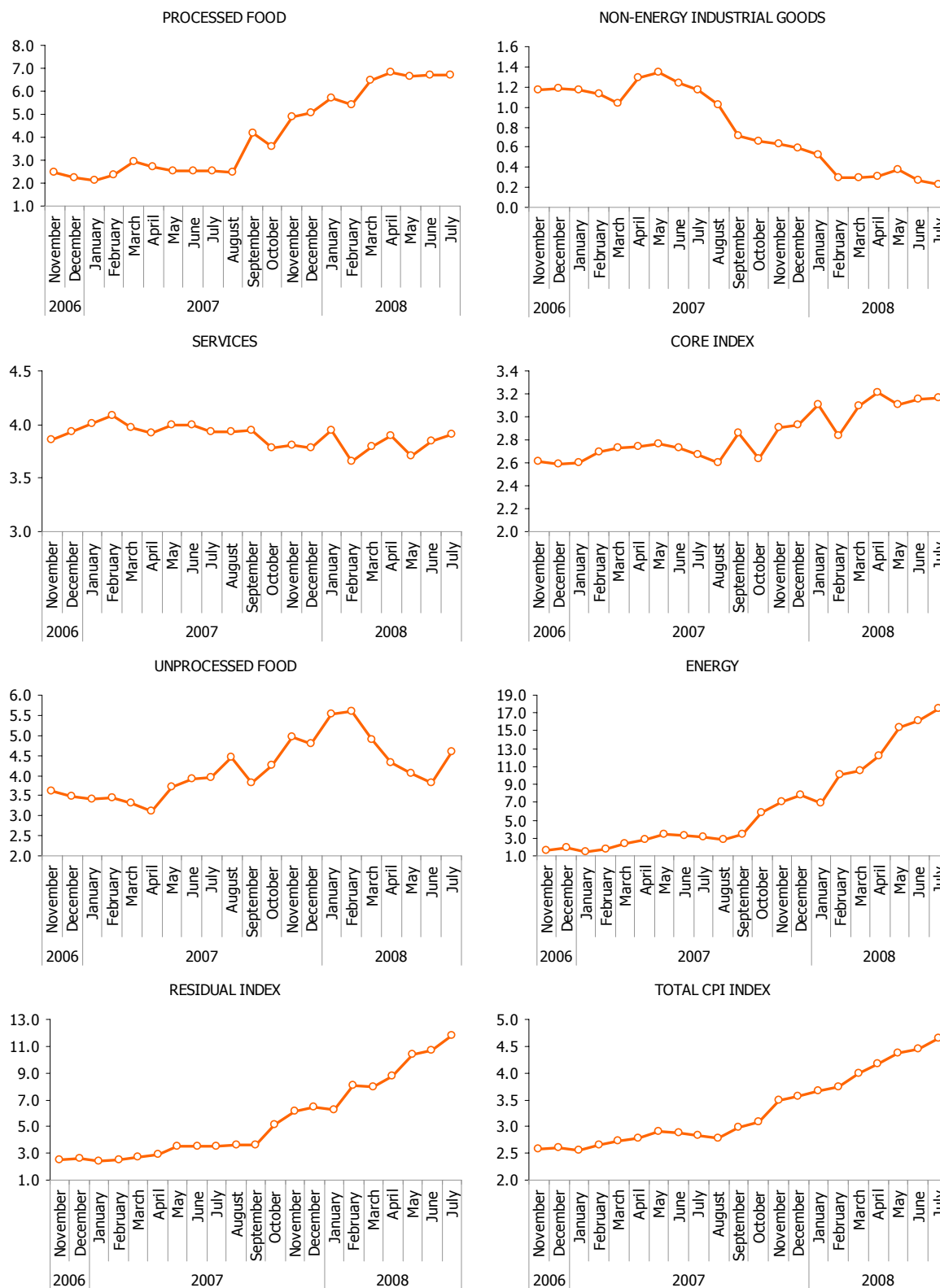
ONE MONTH AHEAD FORECAST ERRORS IN SPANISH INFLATION



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



FORECASTS FOR 2008 ANNUAL AVERAGE CPI GROWTH RATE BY COMPONENT



Note: These graphs show the average annual CPI growth rates for 2008 forecast in the Bulletin published in the month on the abscissa.

Source: INE & IFL(UC3M)

Date: July 11, 2008



V. SUMMARY OF FORECASTS FOR DIFFERENT AREAS.

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND US								
	2002	2003	2004	2005	2006	2007	Forecast	
							2008	2009
HEADLINE INFLATION								
Euro-area (100%).	2.2	2.1	2.1	2.2	2.2	2.1	3.6	2.3
US (76.2%). ⁽¹⁾	0.9	2.2	2.8	3.7	3.1	2.7	5.4	3.4
A HOMOGENEOUS MEASURE OF CORE INFLATION ⁽²⁾								
Services and Non-energy industrial goods excluding food and tobacco.								
Euro- area (70.68%).	2.4	1.8	1.8	1.4	1.4	1.9	1.8	1.7
US (52.9%). ⁽¹⁾	1.6	1.1	1.6	2.1	2.1	1.8	2.2	2.1
DIFFERENT COMPONENTS OF THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Services.								
Euro- area (40.90%).	3.1	2.5	2.6	2.3	2.0	2.5	2.5	2.5
US (31.8%). ⁽¹⁾	3.6	3.2	3.3	3.1	3.4	3.5	3.8	3.6
(2) Non-energy industrial goods excluding food and tobacco.								
Euro- area (29.8%).	1.5	0.8	0.8	0.3	0.6	1.0	0.7	0.7
US (21.0%).	-1.1	-2.0	-0.9	0.5	0.3	-0.4	0.1	0.0
INFLATION IN EXCLUDED COMPONENTS FROM THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Food.								
Euro- area (19.51%).	3.1	2.8	2.3	1.5	2.4	2.8	5.1	3.0
US (13.9%).	1.8	2.1	3.4	2.4	2.3	4.0	5.0	4.3
(2) Energy.								
Euro- area (9.81%).	-0.6	3.0	4.5	10.1	7.7	2.6	14.1	4.9
US (8.70%).	-5.9	12.2	10.9	16.9	11.2	5.5	23.8	8.3

⁽¹⁾ excluding owner's equivalent rent of primary residence.

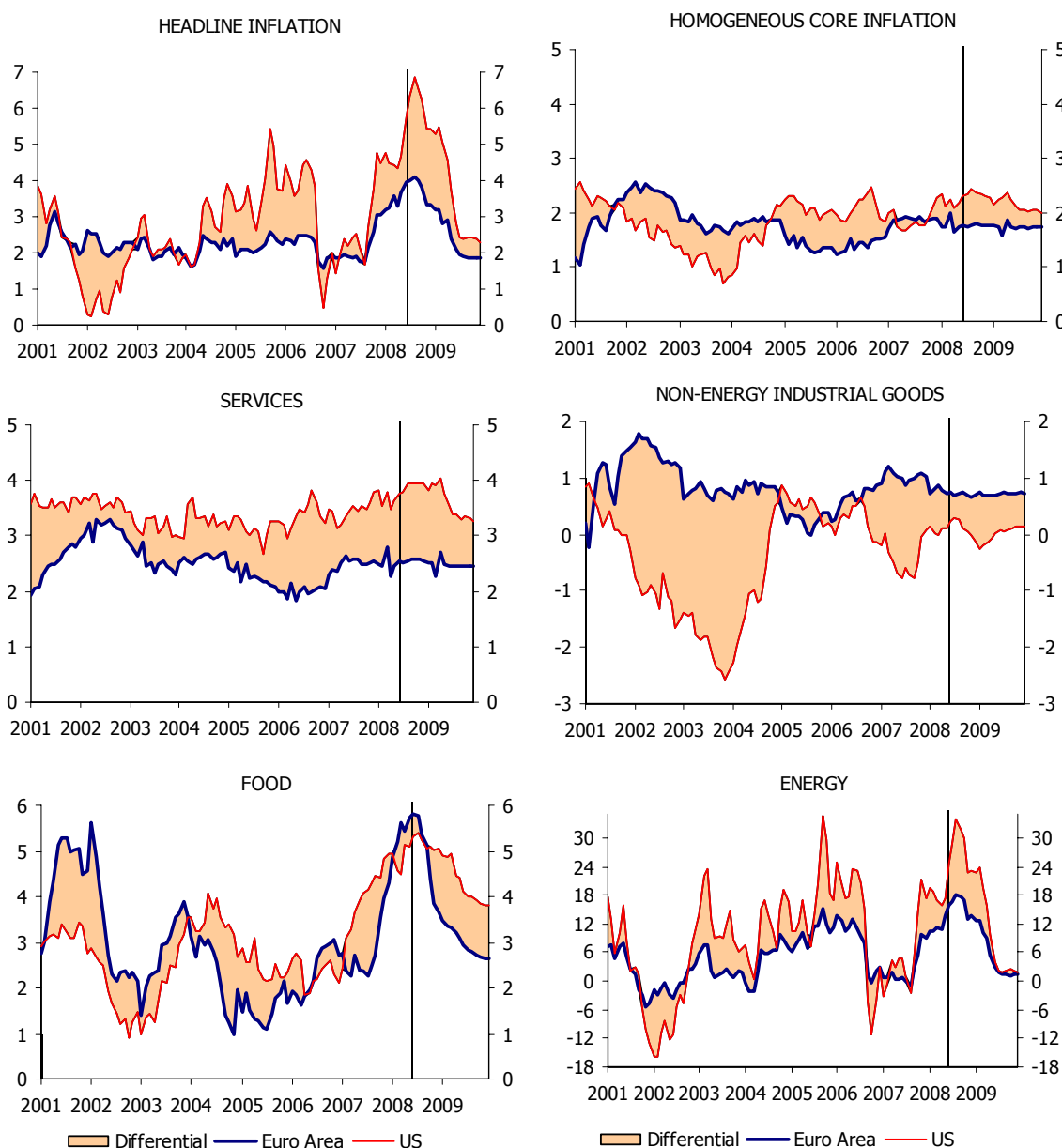
⁽²⁾ This homogeneous measure of core inflation does not coincide with the usual measure of core inflation for the euro area nor for the USA. It has been constructed in order to compare the data in the euro area and in the USA.

Source: EUROSTAT, BLS & IFL (UC3M)

Date: July 16, 2008



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



Source: EUROSTAT, BLS & IFL (UC3M)

Date: July 16, 2008

Headline inflation, homogeneous core inflation and inflation in services do not include owner's equivalent rent of primary residence.

In the case of homogeneous core inflation, some additional transformations were required in both the euro area and U.S. inflation figures in order to make them comparable: the euro area figures exclude food and tobacco and the U.S. figures exclude tobacco (in addition to owner's equivalent rent of primary residence).



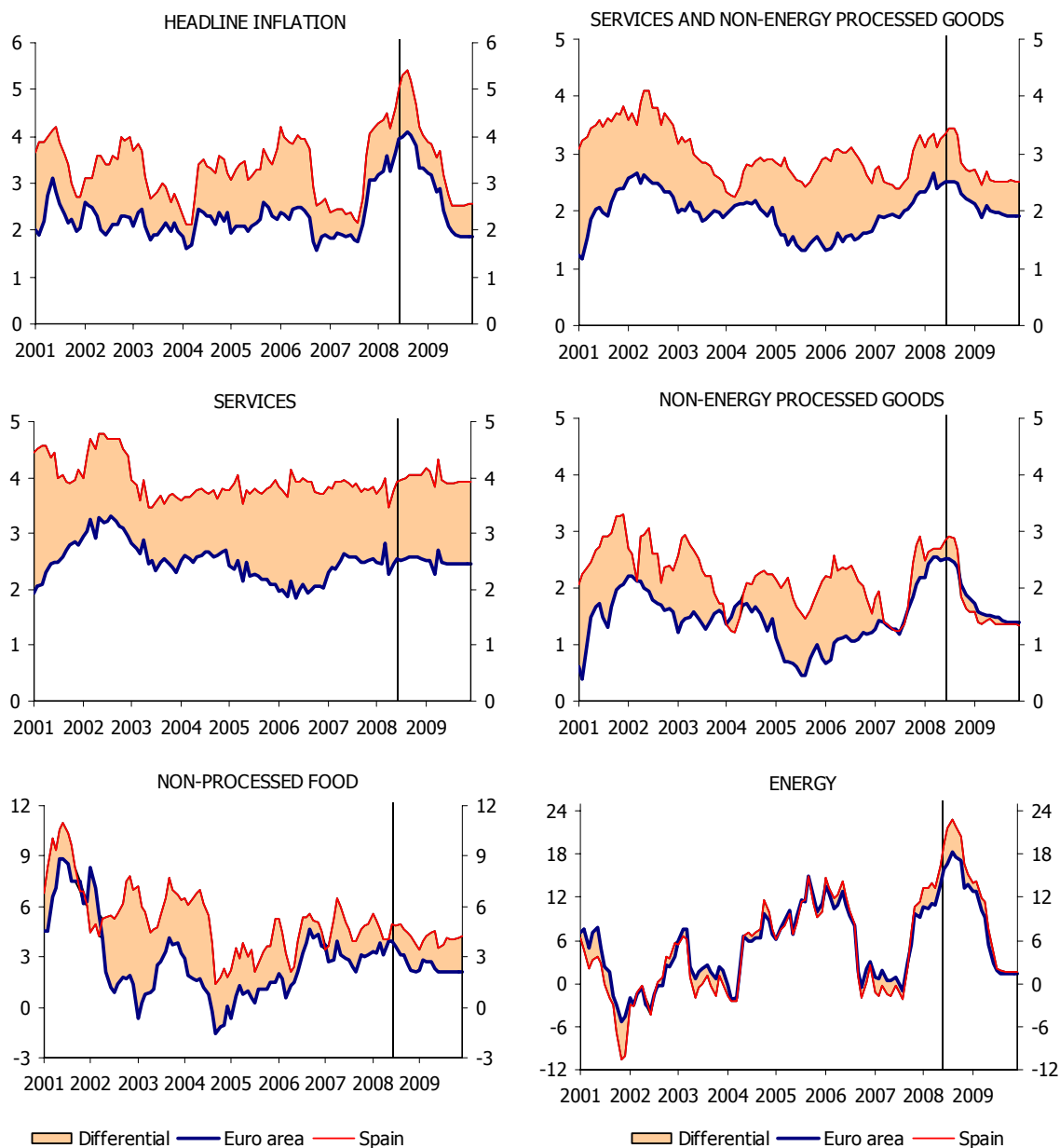
V.2 EURO AREA AND SPAIN

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND SPAIN								
	2002	2003	2004	2005	2006	2007	Forecasts	
							2008	2009
HEADLINE INFLATION								
Spain (100%).	3.5	3.0	3.0	3.4	3.5	2.8	4.6	3.0
Euro-area (100%).	2.2	2.1	2.1	2.2	2.2	2.1	3.6	2.3
CORE INFLATION								
Services and Non-energy processed goods.								
Spain (82.87%).	3.7	2.9	2.7	2.7	2.9	2.7	3.2	2.6
Euro-area (82.58%).	2.5	2.0	2.1	1.5	1.5	2.0	2.4	2.0
COMPONENTS OF CORE INFLATION								
(1) Processed food (including tobacco)								
Spain (15.57%)	3.7	3.0	3.6	3.4	3.6	3.7	6.7	3.5
Euro-area (11.91%)	3.1	3.3	3.4	2.0	2.1	2.8	6.3	3.4
(2) Non-energy industrial goods.								
Spain (29.59%).	3.7	2.0	0.9	0.9	1.4	0.7	0.2	0.2
Euro- area (29.77%).	1.5	0.8	0.8	0.3	0.6	1.0	0.7	0.7
(3) Services.								
Spain (37.72%).	4.6	3.7	3.7	3.8	3.9	3.9	3.9	4.0
Euro- area (40.90%)	3.1	2.5	2.6	2.3	2.0	2.5	2.5	2.5
RESIDUAL INFLATION								
1) Non-processed food.								
Spain (7.37%).	5.8	6.0	4.6	3.3	4.4	4.7	4.6	4.0
Euro- area (7.60%).	3.1	2.1	0.6	0.8	2.8	3.0	3.2	2.3
(2) Energy.								
Spain (9.75%).	-0.2	1.4	4.8	9.6	8.0	1.7	17.5	5.9
Euro- area (9.81%).	-0.6	3.0	4.5	10.1	7.7	2.6	14.1	4.9

Source: EUROSTAT, INE & IFL
Date: July 16, 2008



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



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



VI. FORECASTS FROM DIFFERENT INSTITUTIONS

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

REAL GDP (Percentage change from previous year)												
	BIAM ²		CONSENSUS FORECASTS ³		IMF ⁴		ECB ⁵		ECB ⁶		OECD ⁷	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
EURO AREA	1,7	1,1	1,6	1,2	1,7	1,2	1,6	1,6	1,8	1,5	1,7	1,4
USA	-	-	1,5	1,5	1,3	0,8	-	-	-	-	1,2	1,1
SPAIN	1,5	0,3	1,6	1,1	1,8	1,2	-	-	-	-	1,6	1,1

1 The forecasts are based on CPI in USA and Spain and on HICP in the euro area.

2 Bulletin of EU & US Inflation and Macroeconomic Analysis, July 2008.

3 July 2008.

4 IMF. World Economic Outlook. April 2008. GDP growth rates updated in July, 2008

5 Results of the ECB Survey of Professional Forecasters: ECB. May 2008.

6 ECB staff macroeconomic projection for the euro area. March, 2

7 008. Point forecast implied by the interval presented in these projections.

8 OECD Economic Outlook 82. June 2008. The inflation forecasts for the euro area and Spain are based on the HICP. For the euro area, only the members of the OECD.

During the month of July the BIAM and the Consensus Forecast updated their GDP growth and inflation forecast while the IMF only updated the economic growth estimates. All the other values have been left unchanged since the last Bulletin.

All the inflation forecasts have been revised upwards as a consequence of increasing oil and food prices. The Consensus Forecast revised upwards its inflation forecasts for Spain and U.S.A. by 3 decimal points for both 2008 and 2009, and increased those for the euro area by 0.3% for 2008 and by 0.1% for 2009. The changes in the Bulletin forecasts were smaller in magnitude and ranged between 1 and 2 decimal points. Even if the spread between our forecasts and the others declined during the last month, the Bulletin forecasts are still the most pessimistic among those considered in this summary.

The changes in the forecasts for the GDP growth have been larger and more heterogeneous than those related to inflation. The Bulletin revised slightly downwards its forecasts for GDP growth in the euro area. We now expect the Euro Area economy to grow around 1.7% in

2008 and 1.1% in 2009. The downward shift in our expectations for the Spanish economy has been much bigger. The expected GDP growth was revised downwards almost half of a percentage point for 2008 and a full percentage point for 2009. We now expect GDP to grow in Spain at the rate of 1.5% during this year and of 0.3% during the next year. The Consensus Forecast revised downward its estimations of GDP growth in Spain and in the Euro Area while left unchanged the forecasts for the United States. The IMF increased its estimates of expected growth in United States and in the Euro area while implemented a significant cut of the Spanish GDP growth rate.

From a general point of view the forecasts of the GDP growth rates appear to be more heterogeneous than usual. The Bulletin is much more pessimistic than other institutions about the growth rate of the Spanish economy during 2009. At the same time the growth rate of the American economy forecasted by the IMF is almost half of that estimated in the Consensus Forecast for 2009. Regarding the economic growth in the Euro Area there seems to be more agreement, with forecasted rates of 1.6-1.7% for 2008 and of 1.1-1.2% for 2009.



The Diminishing gap in earnings by education level in Spain

Abstract: Spain is de-specialising in advanced sectors more intensive in human and technological capital, those in which developed countries use to specialise as a consequence of globalisation. Indeed, the education premium reduction in our country could be a result of this de-specialisation in sectors intensive in human and technological capital, which could be leading to a reduction in the demand for skilled workers. Spain should improve the quality of the education, in particular of the secondary education which has been shown to be below the OECD average (OECD: PISA project). If we fail to catch up with developed countries in education and technological progress we will find our country competing with emerging countries in the less intensive sectors in human and technological capital. The reduction in the education premium in Spain could be the first prove that this scenario is not that far.

VII.1. Introduction

The wage gap between qualified workers and non-qualified workers has increased in the last decades in developed countries. Two factors can explain this evolution. In first place, the technological change is biased towards skilled-workers. These workers are able to adapt to the introduction of innovations, including those related to the Information and Communication Technologies (ICT). In second place, the globalization increases the incentives to specialise in those sectors intensive in factors in which a country is abundant. Therefore, developed countries will further specialise in sectors intensive in human capital, increasing the demand for skilled workers. In addition, multinationals in developed countries can outsource the less human capital intensive phases of their production to developing countries, again rising the relative demand for skilled workers.

Spain is an exception to the rising earning gaps by educational levels in developed countries. This performance could be due to the technological lag of Spain or to the fact that our country is loosing ground in sectors intensive in human capital. Any of these possibilities will be worrying for the growth sustainability of our country. It has also been argued that Spain has had too many university graduates in the last years. The oversupply of university graduates can not be the explanation of the reduction in the education premium. In first place, the flow of university graduates in Spain could have been above the European average for some years, but the stock of workers with university grade studies is still somewhat below that average. In second place, Acemoglu et al (2005) argue that an oversupply of university graduates could lead to the surge of firms intensive in human capital, something that it is not

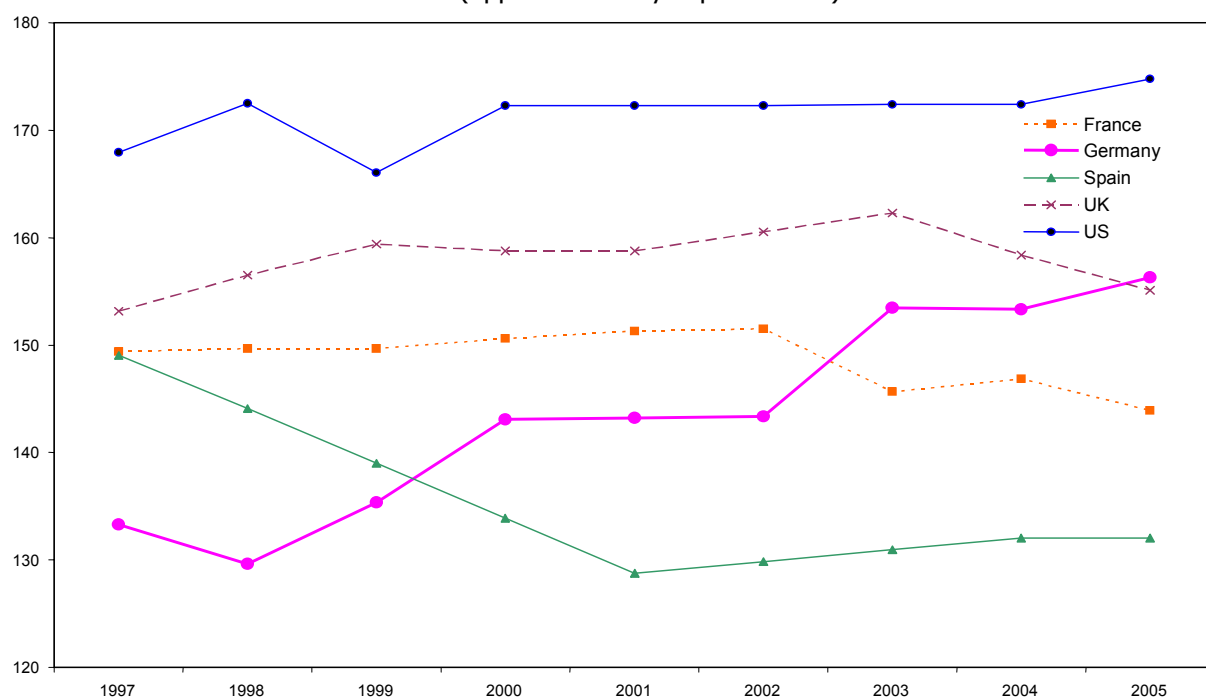
happening in Spain. In fact, the supply of skilled workers can't be seen as a problem and is a resource for any country.

VII.2. The evolution of earnings by educational level

Figure VII.2.1 shows the evolution of the relative earnings of the population between 25 and 64 years with university degree when compared to upper secondary level population in the period 1997-2005 (Source: OECD. Education at a Glance). The relative earnings have increased in Germany, in the US and, to a lesser extent, in the UK since 1997. On average, university working age population earns 56%, 75% and 55% more than upper secondary population, respectively. This is nothing new. Canals (2006) reports that the relative wage in the US and UK has increased in 45% since 1970. In contrast, the relative earning diminished in France from 49% to 44%. This reduction was more significant in the case of Spain, where the educational premium dropped from 49% to 32%. Even when Spain was receiving a huge flow of low skilled immigrants, the wage gap diminished. Most of the reduction in the skill premium took place in the first part of the period, until 2001. The relative earnings in the period 2001-2005 were almost constant with a slight increasing tendency. Figure 2 shows the evolution of the earnings of the working population with secondary education level when compared to those with upper secondary level. With the exception of the US, the relative earnings gaps have been significantly reduced over the period 1997-2005, particularly in the case of Germany and Spain. In our country the relative earnings rose from 76% in 1997 to 85% in 2005.



Figure VII.2.1: Relative earnings of university- graduated working age population (upper secondary superior=100).



Source: OECD Education at a Glance

Figure VII.2.2: Relative earnings of secondary education level working age population (upper secondary=100).



Source: OECD Education at a Glance



The evolution of the relative earnings in the most relevant OECD countries is consistent with Autor et al. (2008). These authors claim that the technological change increases only the demand for skilled workers performing non-routine cognitive tasks, such as doctors, lawyers and investors. In contrast, the introduction of innovations reduces the demand for skilled workers performing repetitive tasks such as accounting, engineers, computer programmers, etc. In fact, these tasks are subset to outsourcing in developing countries. The technological change, finally, does not affect to low skilled workers performing manual non-routine tasks. Autor et al. (2008) hypothesis would explain the divergence (convergence) of the relative earnings of secondary (university) working age population compared to upper secondary workers.

VII.3. Factors explaining the wage inequality by education levels.

The education premium in Spain has been significantly reduced in the last year in a sharp contrast to the general performance of the most important OECD countries. In this section we review the factors explaining the wage inequality by education levels to examine which factors may be leading to this surprising evolution of the Spanish earnings. According to Chusseau et al. (2008) the main factors explaining the education premium are:

1. Supply:
 - Relative supply by education levels
 - Immigration
2. Institutional factors:
 - Unionization
 - Minimum wage
 - Labour market regulation
3. Demand factors
 - Skill Bias Technological Change (SBTC)
 - International trade and outsourcing.

Supply and institutional factors seems to have played a role in the increasing wage gap between education levels in the US. Autor et al. (2008) report that the growth of the supply of university graduates slowed down from 3.89% between 1960 and 1989 to 2.27% in the period 1990-2005. Dew Becker and Gordon (2008) find that the diminishing unionization rate has increased the wage gap among the male workers, whereas the minimum wage has had a similar role among women. Nevertheless, these supply and institutional factors do not play a significant role in OECD countries other than the US (Chusseau et al., 2008). The

growth of the supply of university graduates has nothing but increased in OECD countries. The unionization rate has also diminished in most OECD countries, as in the US, but the labour market regulation remains fairly similar avoiding that this change affects the wage gap.

In sum, demand factors seems to be the major driving forces behind the increasing wage gap by education levels (Chusseau et al., 2008). Earlier studies pointed out to the SBTC as the main factor increasing the demand for skilled workers and, hence, raising their relative wages. This technological changes may increase the relative productivity of skilled workers (i.e., as a consequence of the introduction of computers) or it may raise the relative productivity of the sectors more intensive in human capital (as the case of the ICT, which affects almost all sector but to a different degree). More recent studies point out to the increasing role of globalization. International trade leads to developed countries to specialize in sectors intensive in human capital, thus rising relative wages of skilled workers. Moreover, firms may outsource the less skill intensive tasks to developing countries, further reducing the relative demand for unskilled workers (Canals, 2006).

VII.4. Evolution of factors driving the wage gap in Spain

Table VII.4.1 shows the annual change in the supply of university graduates in Spain and the most important OECD countries. Between 1998 and 2006, the number of graduates in Spain increased by an annual 2.2%. This rate of growth is only above Germany. It can be argued that the number of university graduates rose particularly in the period 1997-2001 in which the relative earnings diminished. In contrast, the education premium was constant in 2001-2005 when the supply of university graduates slowed down and even decreased. However, the evolution of the relative earnings by education levels is not related to a supply factor. In first place, the relationship between supply and the education premium does not apply for all countries: the UK registered a slight increase in the relative earnings even when the rate of growth in the number of university graduates was the highest. In second place, the causal relationship could go the other way: Spanish students reacted to the reduction of the education premium in the period 1997-2001 by enrolling to a lesser degree in Universities. This reaction would explain the negative growth rates in the supply of university graduates after 2004.



In third place, the conclusion would be rather different if we focus on levels rather than growth rates. Figure VII.4.3 shows that the stock of human capital, measured in terms of average number of education years of the working age population, for Spain and the larger OECD countries elaborated by the OECD (Arnold, Bassanini and Scarpetta, 2007). The US is the country with the highest stock of human capital, followed by the UK, France and finally Spain. The supply of university graduates does not seem to be the driving force of the education premium, because then Spain should be the country with the highest relative earnings. Finally, and in fourth place, Spain has received a huge flow of immigrants in the period 1997-2005 which would have offset any *excess supply* of college graduates, if this *excess* were true. In 2006, 840.844 immigrants arrived to Spain, ten times more than in 1998 when this number was only 81.227 (Eurostat Metadata: Population and Social conditions: Population). This figure is well above the number of immigrants arriving in 2006 to Germany (661.885), UK (529.008) and, above all, France (182.390). The supply of low skilled labour force should have reduced the wages of low-qualified workers in Spain, increasing the relative earnings by education levels.

We now focus on institutional factors. Table VII.4.2 shows the labour market regulation index of the Economic Freedom of the World, 2007 Annual Report (The Fraser Institute). This index goes from 0 (maximum labour market rigidity) to 10 (maximum labour market flexibility). Spain shows the same level of rigidity than France, and slightly lower than Germany, in the minimum wage and the centralized collective bargaining. In the case of the regulation of the labour market and the cost of hiring and firing, our country seems to be in a worse situation, well below the 5. High firing costs reduces the incentives to hire low-skill workers avoiding further dispersion of wages.

In short, institutional factors may have a role explaining the low wage gap by education levels in Spain, but this role is rather small to account for the diverging trend in our country compared to Germany and France. We focus the in the remaining explaining factor of the education premium: the demand factors.

Table VII.4.3 shows the production and export structure of the Spanish manufacture sectors. The value added share of the sectors more intensive in human and technological capital has diminished since 1985 and it is now in 2005 half of that of the same sector in the EU-25. Indeed, the productive structure of Spain has diverged from that of the EU. The share in the EU-25 production of intermediary technological sectors –chemical, mechanic machinery and transport equipment- has increased at the cost of traditional sectors –metallic products, non-metallic minerals, food, textile and wood-. In contrast, the Spanish intermediary technological sectors have increased their share at the cost of the most advanced ones. Also the export share of the most advance sectors –office and computer equipment, electronic and electrical equipment- has remained constant. The Spanish exports in these advanced sectors do not reach the 50% of the imports in this same sector. Intermediary and traditional sectors also show a trade deficit.

In sum, Spain seems to have de-specialised in advanced sectors that are more intensive in human and technological capital, those in which developed countries use to specialise as a consequence of globalisation. These advance sectors are those with higher growth rates perspectives, the most productive and those which create more qualified jobs.

Indeed, the education premium reduction could be a result of this de-specialisation in sectors intensive in human and technological capital, which could be leading to a reduction in the demand for skilled workers.

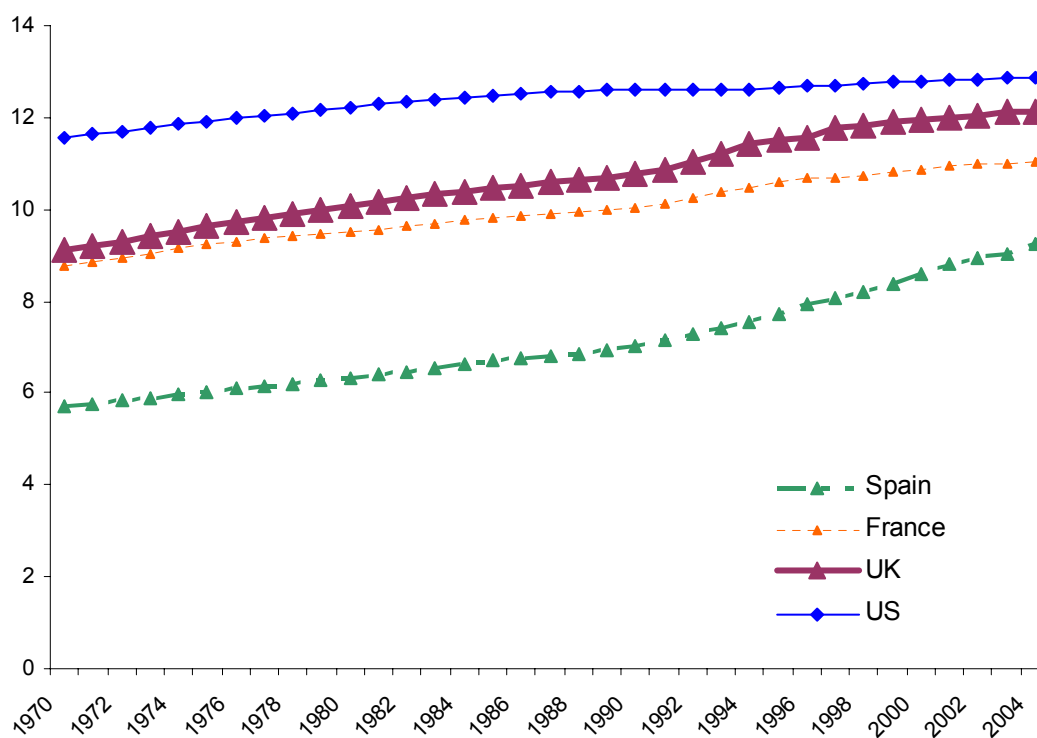
Table VII.4.1. Annual growth rate in university graduates

	1999	2000	2001	2002	2003	2004	2005	2006	1998-2006
France	0,6	1,6	4,7	4,8	4,8	3,2	3,2	3,2	3,3
Germany	-2,4	-4,0	-1,8	-0,9	3,7	4,9	7,5	4,3	1,3
Spain	10,9	-2,6	6,8	4,9	2,7	-0,3	-2,4	-1,9	2,2
UK	2,2	5,9	9,4	1,9	7,0	-1,0	6,3	1,2	4,1
US	0,1	4,0	1,1	3,0	5,2	5,0	3,4	3,2	3,1

Sources: Eurostat Metadata: Population and social conditions: Education.



Figure VII.4.3: Average years of education of the working age population (1970-2004)



Source: Arnold, Bassanini and Scarpetta, 2007. OECD Economics Department

Table VII.4.2. Labour market regulation

	Minimum wage	Labour market regulation	Relevance of centralized collective bargaining	Hiring costs	Firing costs
Germany	6,1	2,4	3,2	3,5	3,8
France	6,8	2,4	6,4	0,0	7,0
Spain	7,2	2,8	6,1	0,4	4,8
UK	6,5	5,8	8,1	7,4	6,9
US	7,7	7,0	7,8	7,4	10,0

Source: Economic Freedom of the World: 2007 Annual Report

Table VII.4.3: The production and export structure of industrial sectors in Spain (1985-2005).

	1985	1995	2005
Valued added structure	100,0	100,0	100,0
Advanced manufactures	6,4	7,4	5,8
Intermediary manufactures	27,6	31,5	32,5
Traditional manufactures	66,0	61,2	61,7
Export structure	100,0	100,0	100,0
Advanced manufactures	7,2	9,7	9,5
Intermediary manufactures	41,9	52,5	55,2
Traditional manufactures	50,9	37,8	35,3
Exports to Imports ratio	122,4	85,4	72,4
Advanced manufactures	46,2	51,8	44,4
Intermediary manufactures	115,6	92,0	76,8
Traditional manufactures	107,7	92,1	78,5

Source: Myro y Gandoy (2007)



VII.5. Conclusions

The education is a key factor in the economic development of country, affecting labour and total factor productivity. Globalisation and technological change has nothing but increased the relevance of education. A high skilled labour force increases the competitiveness of a country, raises the attractiveness for Foreign Direct Investment and helps the introduction and adaptation to innovations. The Spanish recent performance in competitiveness, foreign direct inflows and technological adaptation is not very promising. Spain should improve the quality of the education, in particular of the secondary education which has been shown to be below the OECD average (OECD: PISA project). If we fail to catch up with developed countries in education and technological progress we will find our country competing with emerging countries in the less intensive sectors in human and technological capital. The reduction in the education premium in Spain seems to be the first prove that this scenario is not so far.

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VIII. INDICATORS CALENDAR.

JULY

	1	2	3	4 Spanish IPI (June)	5	6
7	8	9 Euro Área PIB Second Quarter	10	11 Spanish HICP (June)	12	13
14 Euro Area IPI (June)	15	16 Euro Area HICP USA CPI (June)	17	18	19	20
21	22	23 Spanish IPRI (July)	24 Spain EPA Second Quarter	25	26	27
28	29	30 Euro area ESI (July)	31 Euro area HICP A.D. July			

AUGUST

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

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



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The annual growth rate of college graduates in Spain was negative during the last three years

The average years of education of the Spanish working age population remain substantially lower than in the main developed countries.

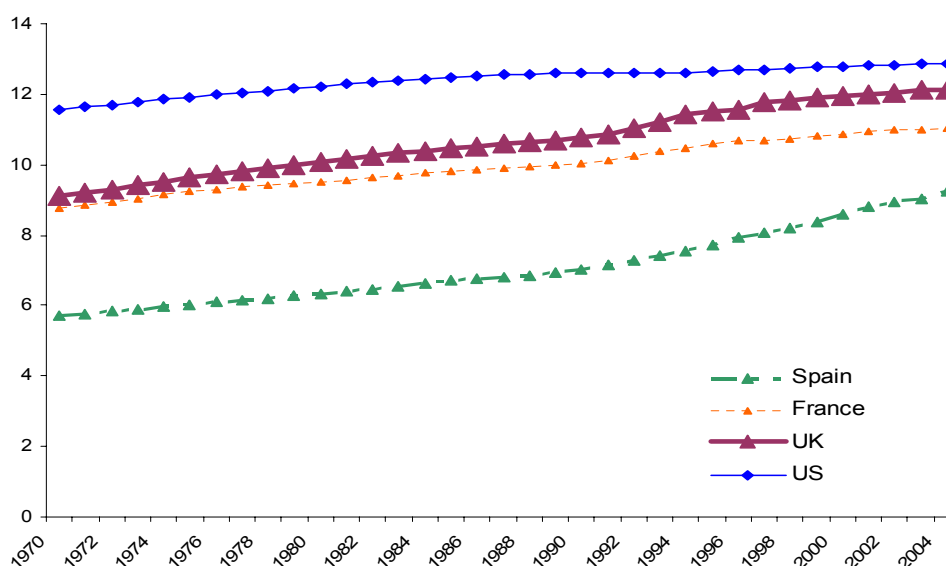
(Look at the monthly debate section)

Annual growth rate in university graduates

	1999	2000	2001	2002	2003	2004	2005	2006	1998-2006
France	0,6	1,6	4,7	4,8	4,8	3,2	3,2	3,2	3,3
Germany	-2,4	-4,0	-1,8	-0,9	3,7	4,9	7,5	4,3	1,3
Spain	10,9	-2,6	6,8	4,9	2,7	-0,3	-2,4	-1,9	2,2
UK	2,2	5,9	9,4	1,9	7,0	-1,0	6,3	1,2	4,1
US	0,1	4,0	1,1	3,0	5,2	5,0	3,4	3,2	3,1

Sources: Eurostat Metadata: Population and social conditions: Education.

Average years of education of the working age population (1970-2004)



Source: Arnold, Bassanini and Scarpetta, 2007. OECD Economics Department

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