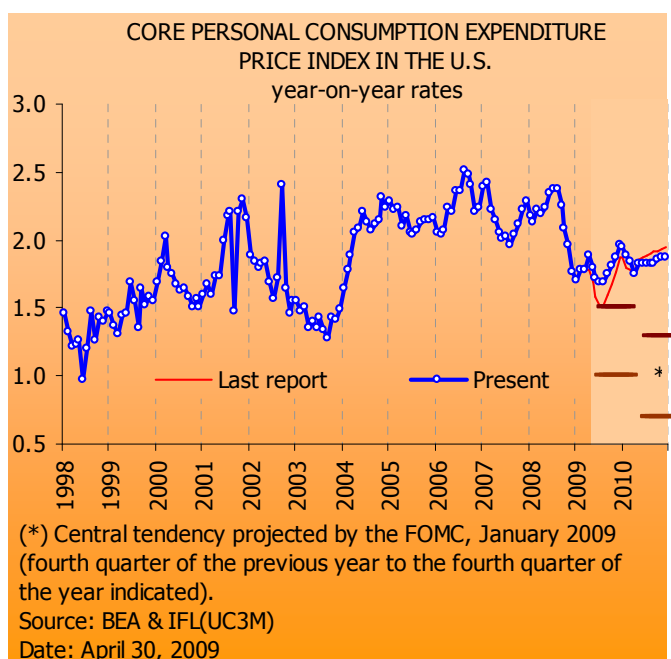




THE RECOVERY IN THE PRICES OF DURABLE GOODS MODIFIES OUR FORECASTS FOR THE CORE PCE FAR ABOVE THE CENTRAL TENDENCY OF THE FED



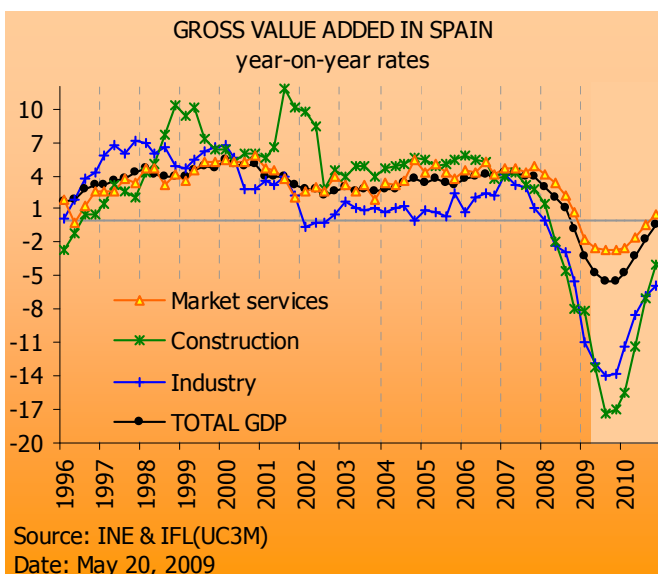
Interview with Prof. David Hendry

By Juan J. Dolado

Page 75

"...real business cycle models are totally at odds with reality as we enter the most serious finance-driven recession since the Great Depression-which was also finance driven. This is their Waterloo, just as they claimed the failure to forecast the 1970's Oil Crisis was the death-knell for Keynesian models. Some of the policy errors have been due to using completely the wrong model class, namely dynamic stochastic general equilibrium models (DSGEs) with so-called New-Keynesian Phillips Curves (NKPCs) for inflation, which totally misrepresent persistence as they are so badly mis-specified. A Darwinian outcome would now eliminate all attempts to represent high-dimensional, complex and wide-sense non-stationary systems with naive single-agent optimization as if the reality were constant and non-heterogeneous."

THE STRONG DETERIORATION OF THE RESIDENTIAL CONSTRUCTION IN SPAIN WILL CONTINUE IN 2010 REDUCING THE POSSIBILITIES OF A FAST RECOVERY



Analysis of the current account of the Spanish economy

By Nicolás Carrasco

Page 62

In its last, long period of growth, which lasted from the mid-90s to 2007, the Spanish economy accumulated a high and persistent foreign trade deficit which led to an unprecedented current account (C/A) deficit. In the last year of that period, the figure was 10.1% of the GDP, the second highest in the world, after the US. Throughout the period of growth, elevated GDP growth was due to domestic demand, and the foreign sector made a negative contribution to it every year. This negative contribution grew throughout the growth period.

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

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*The cut-off date for the statistics included in this Bulletin was May 28, 2009.

I. ECONOMIC OUTLOOK

Practically all the information concerning the evolution of the leading economies in the first quarter of 2009 was published in May. The gross domestic product, international trade and domestic demand figures, like the evolution of the labour market, have confirmed that from January to March 2009 was the worst quarter for the last 60 years on a worldwide scale and, for many countries, the worst quarter since series have been kept.

The fall in the gross domestic product of the US, the euro area and Spain was greater than expected by our forecasts and those of most international agencies. The expected fall in 2009 has increased in all forecasts. Although the bad news has focused on the most advanced economies, in the first quarter of 2009, several developing countries have entered a technical recession or seen their economy suffer more and faster than expected.

However, many leading indicators for April, published in May, have risen considerably, and so have the leading world stock markets. These indicators are of two types. On the one hand, there are indices constructed through direct surveys. The Economic Sentiment Indicator (ESI), the Industrial Confidence Indicator (ICI) and the Purchasing Managers Index (PMI) are some examples. In general, they usually vary relative to

the relative weight of those surveyed who expect general or specific conditions to improve or worsen. In a second phase, these data are adjusted with statistical techniques so that their relationship with the year-on-year rate of variation of the GDP is as strong and firm as possible, and they are interpreted in relation to a central value beneath which contraction of the economy in year-on-year terms is forecast. On the other hand, there are leading indicators which are constructed as a combination of different variables in a one-dimensional index. These indicators, sometimes described as synthetic, are obtained by statistical techniques aimed at maximising the predictive power of the indicator's present value relative to the future evolution of the GDP or other variables. Conference Board indicators are examples of this.

Some of these indicators started to rise in April, suggesting that the economy was declining at a slower pace. The increase became consolidated and spread in May, followed by rising stock markets, which some economists see as an important precursor of economic recovery. The currently available data suggest that the second quarter will very likely be better than the first and that, although the economy is expected to continue to decline, it can be sustained that the worst of the crisis, at least for the time being, has either passed or is expected to pass in the next few quarters of 2009.

Table I.1

ECONOMIC INDICATORS OF THE MAIN ECONOMIES							
	EURO AREA	GERMANY	SPAIN	ITALY	UNITED KINGDOM	U.S.A.	JAPAN
GDP¹ 1 quarter (quarterly)	-2.5	-3.8	-1.8	-2.4	-1.9	-1.6	-3.2
PIB¹ 1 quarter (annual)	-4.6	-6.9	-2.9	-5.9	-4.1	-2.6	-4.3
IPI march (annual)	-20.2	-21.7	-24.7	-23.8	-14.8	-13.7	-34.4
Exports² march (annual)	-16.7	-24	-24	-26	-26	-23.8	-49.4
Retail sales³ march (annual)	-4.2	-1.9	-8.2	1.6	0.8	-6.8	-3.4
Unemployment rate⁴ marzo (%)	8.9	7.6	17.4	5.8	6.6	8.1	4.4

1) GDP Japan: 4 quarter 2008.

2) Non-seasonal adjusted. U.S.A. and Japan: february 2009.

3) Italy: february 2009

4) U.K. January 2009. Italy: december 2008. U.S.A. and Japan: february 2009.

Source: EUROSTAT & ECOWIN

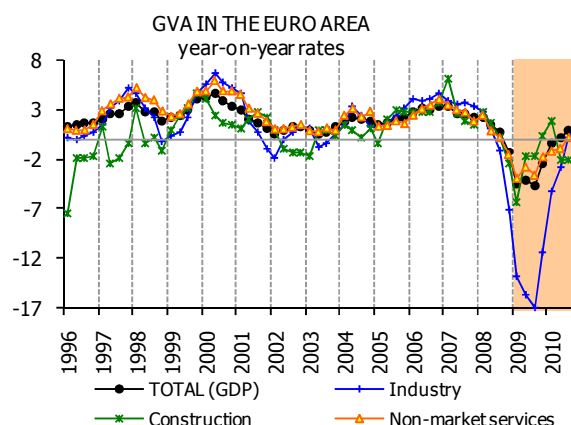


The problem is that, as quantitative models failed to predict the recession, they could now be failing by predicting a slow but continued recovery, instead of a recovery with backward steps as the economic cycle rises. This possible form of recovery, which is known as type W in contrast with the former, type V, is difficult to forecast with causal econometric models as there are important structural changes which it is difficult to reliably estimate. Predicting the form of economic recovery with other types of econometric models based on economic sentiment or leading indicators, which is the procedure used in this Bulletin, see Minguez and Espasa (2007), can only capture the form of recovery, W, V or U –there are not enough letters in the alphabet to describe all the most feasible forms of recovery–, if it first occurs in the indicator. The current values of the available indicators and the forecasts of their future values estimated from the former indicate that recovery will be U-shaped in Spain and W-shaped in the euro area, but new indicator values in 2009 could change our diagnosis of how economic recovery will take place.

With or without intermediate falls, whether the worst is or will soon be over depends on perspective. It is true, on the one hand, that the feeling of panic and complete uncertainty associated to the financial markets is over. All risk aversion measures have been reduced. The yield differentials between public and private debt have fallen significantly in both the US and Europe, and new public and debt issues have been favourably accepted by the market, although the consequences of the warning that UK debt is no longer classified as AAA are difficult to evaluate. CDS (credit default swaps), both low and high risk, have reduced their cost by around 25%. Besides showing an improvement in agents' expectations and calmer markets, these variables also show a real reduction in financing costs for governments and firms, with a positive direct impact on the world economy. This is thanks to unprecedented intervention by the State and central banks which, explicitly or implicitly, has ensured the solvency of the financial system, flooding the markets with exceptionally cheap liquidity and generous contracyclical public expenditure programmes.

On the other hand, as the creation of jobs reacts with some delay to GDP progress, all the forecasts suggest that the unemployment rate will continue to increase at least throughout 2009 in the euro area, as in Spain and the US, with net job losses everywhere. From the labour market perspective, the worst is yet to come.

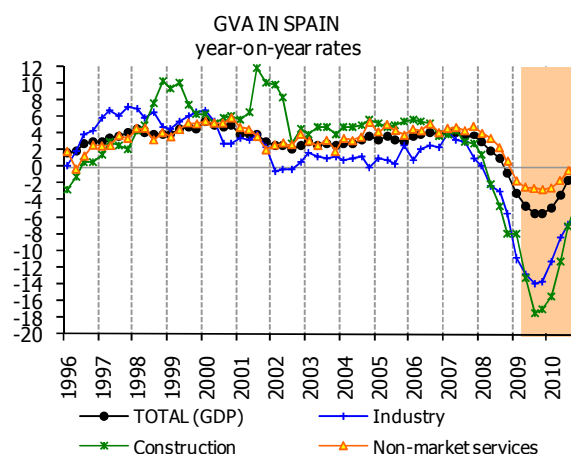
Graph I.1



Source: Eurostat
Date: May 15, 2009

As for production levels, the euro area GDP is expected to remain constant in the second quarter, with a practically zero rate of variation relative to the previous quarter, when adjusted for seasonality. In the third quarter of 2009, the GDP will fall again in quarterly terms (-0.8%), although much less than in the previous two (-1.5% and -2.5%). Recovery is then expected to become stronger and the euro area economy is expected to register a slightly positive growth rate in 2010 (0.2%). In other words, another drop like that of the last two quarters is unlikely, but it will be nearly a year before the economy grows again, and it will probably do so very slowly. The year-on-year rate will reach its lowest point in the third quarter of 2009 at -4.8%, only slightly less than in the first quarter (-4.6%). The rise in the leading indicators used in our models and the upwards revisions made to them show that the expectations for 2010 described last month remain in force, but the poor first quarter figures has reduced our expectations for this year.

Graph I.2



Source: INE
Date: May 20, 2009



According to our forecasts, the Spanish economy will undergo a more intense and longer decline, largely due to the drop in construction and the problems associated to absorbing the surplus supply of residential construction. This sector's contraction will also continue in 2010, making a rapid recovery doubtful. Quarterly GDP growth rates in Spain will continue to be negative until the first quarter of 2010, although in absolute terms they will be lower than in the first quarter of this year. The year-on-year rate will reach its lowest point in the last quarter of this year, at nearly -5.0%. The average annual growth rate will be -4.3% and -2.3% in 2009 and 2010, respectively. Jobs will continue to be lost until the property sector has stabilised and the unemployment rate will be close to 20% at the end of 2009, and continue to rise until the second half of the following year. The rate at which this happens will be slower but it is clear that, in many respects, the worst has yet to come for the Spanish economy.

According to Consensus Forecasts, the evolution of the US economy will be better. The average GDP reduction expected for 2009 is 2.9%. For 2010, the forecast is for 2.8% growth. Household consumption is also expected to grow again, with positive year-on-year rates by the end of 2009. It is clear that the markets expect the US economy to recover before the euro area.

In sum, the world economy has just ended the worst quarter in many years; the good news is that the speed at which this is happening is slower and that, at the end of 2009 or beginning of 2010, the main economies will again register positive growth. In spite of its intensity, the economic crisis will be assumed by the current income production and distribution system and the likelihood of a new depression is very small. The financial wealth of households and firms is now longer in danger and no-one has lost their deposits.

The cost of this huge bailout process for the US, euro area, UK and Japan will be around 20% of the GDP. According to the IMF, the ratio of public debt relative to the GDP will increase by just over 20 pp between 2008 and 2010 in all these countries. The long term projections up to 2014 show an increase of around 30 pp. Although the private sector, also because of the credit restrictions applied by banks, is starting to deleverage its positions with incredible speed, aggregate debt relative to the GDP will probably increase in all developed countries in the next few years.

Except for Japan and Italy, whose public debt will be respectively more than 220% and 120% of the

GDP in 2010, the other countries will be at high but sustainable levels. Even so, the debt which States are accumulating and will continue to accumulate in the next few years, will largely be used to cover financial system losses, help households with problems or finance an already unsustainable level of public spending. Part of this spending will be used to finance public goods, but the fact is that the world economy will be much poorer and more in debt when this crisis ends.

Considering the risks that the economic and financial system has faced, 20 or 30 pp of public debt relative to the GDP may not be too high a price to pay for salvaging the world economy from the worst recession in the last 60 years. But the problem is that not only is public debt growing, but there are also a series of conditions which question the ability of many countries to grow in the next decade at the same pace as in the last 10 or 15 years.

There are two ways in which to assume a heavy increase in public debt without endangering a country's wellbeing in the medium and long term: a period of high growth and fiscal discipline or a period of high inflation which reduces the real value of the debt relative to the GDP. Or a combination of the two.

Obviously, repaying debt thanks to an increase in income is much better than taking the inflationist pathway. But indebted countries will find it difficult to grow again. The crisis is expected to disappear slowly over the next two years. In the longer run, it is difficult to be optimistic and we cannot expect the world economy to start to run again after one or two years of adjustment. Indeed, it is even difficult to imagine where such growth could come from.

The private consumption bubble, due to the spectacular increase in property and financial wealth and financed with the savings of emerging countries, will not return. We cannot expect consumers from China, Germany and countries with high saving rates to change their attitudes and finance the recovery of world demand, and in any case this would be a double-edged sword.

First of all, there are few economic reasons to expect marginal propensity to consume to increase in these countries just when uncertainty is at its highest and there is a great reduction in future wealth caused by growing public debt. Secondly, the economic crisis has given rise to an important reduction in foreign capital flows towards emerging countries; these countries now need to



save more in order to finance their investments with their own resources.

As for the possible effects of a new consumption boom, most western economies need to sell a lot of debt (public and private) in order to finance States and firms and recapitalise their financial sectors. In other words, they need savings.

Another typical way of leaving a recession is to resort to foreign demand, even through currency depreciation. Things are not that simple, however, for several reasons. Firstly, the crisis is now a global one. There is no foreign demand; the principal exporters have seen their exports drop with year-on-year reduction rates of more than 20%. The IMF is forecasting a fall of over 10% in international trade in 2009. The global dimension of the crisis also prevents the exchange rate from forming part of a possible solution. Everyone needs to export now; some to rebalance their current account deficits and others to use the excess capacity accumulated while the world economy was growing. There are cases like Spain, which has no direct control over the exchange rate, and others like China and the US, the interests of which are so different that the threat of depreciation of the dollar could cause an economic, social and political earthquake.

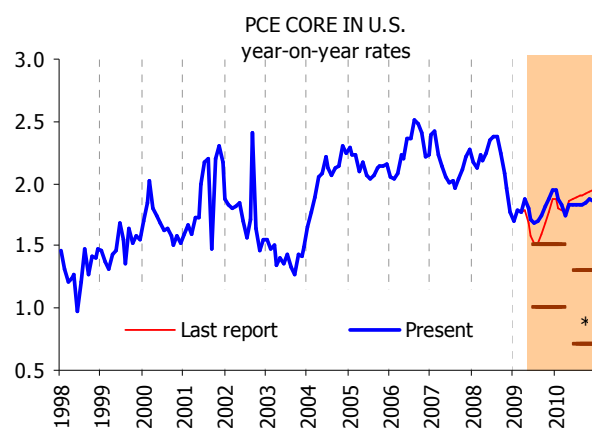
The situation with regards to inflation is just as complicated. Generating too much inflation could help States to reduce the debt/GDP ratio. For private debt, everything depends on price rigidity. If debt is at a fixed rate and nominal salaries grow at the same rate as inflation, the real value of private debt is also reduced. However, if debt is at variable interest rates and inflation reduces real salaries, the situation of indebted households could worsen. The losers are sure to be net savers who, in most cases, will see the real value of their deposits reduced.

The possibility of some States, led by the US, attempting an inflationist solution to the crisis (and the increase in State indebtedness that it has generated) has gained in importance in the last few weeks, while the risk of deflation, which was at the focal point of economic debate for several months, is now seen as insignificant. The relative weight of goods and services with negative annual inflation now remains relatively stable at acceptable levels, and the latest US inflation figures show a significant increase in the prices of some goods, leading to a substantial upwards revision of our forecasts.

In March and April, core inflation in the US was surprisingly high because of durable consumer

goods prices. With this new information, for 2009 and 2010 we are forecasting average annual core inflation rates of 1.8% (± 0.18) and 1.9% (± 0.39), respectively, 0.2% and 0.05% more than last month's forecasts. With regards to the FED, in April it rose its central tendency for the core PCE for the last quarter of this year. Indeed, in January it was 0.9%-1.1% (with most FOMC members in the 0.9%-1.0% range), and it is now 1.0%-1.5%, with great dispersion among FOMC members. In spite of the increase, our forecast annual core PCE rate for the last quarter of this year is 1.9%, two tenths of a point more than the highest FOMC member forecast.

Graph I.3



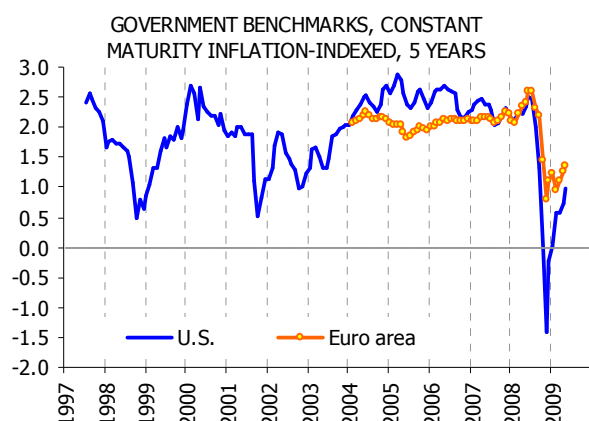
Source: BLS, BEA & IFL
Date: May 25, 2009

The problem with FED forecasts is that there is an enormous conflict of interests. In order to continue to issue bonds with practically zero nominal yield values, inflation expectations have to be very low. Once most of the debt required to finance the rescue of the US economy has been issued, the temptation to generate inflation will be considerable. Indeed, considering the liquidity already injected into the system, all that the Federal Reserve has to do is to refrain from increasing interest rates on time.

This is classic problem of time inconsistency of economic and monetary policy over time. For the time being, the market is not betting on the inflationist scenario and inflation expectations remain low, but rising. The breakeven point of American 5-year bonds indexed to inflation has risen rapidly since December, but is still close to 1.0%, less than the values observed in the euro area (1.34%).



Graph I.4



Source: Ecwin
Date: May 27, 2009

In spite of the market signals, an economic analysis suggests a different response. The fundamental question in a problem of this kind is whether the punishment that the market can apply to American debt in the future is enough to discourage the occasional use of such an opportunistic strategy. Without a new reserve currency, and if the Fed convinces the market that the excess inflation would be temporary (two or three years?), the responsible is probably negative. The market's punishment of American debt is based on the possibility of world savings rejecting the dollar as a reserve currency. Otherwise, the world will have to admit that the US has been allowed to assume more debt that it can reasonably return, and the creditors will have to accept a reduction in its real value. Providing that the outbreak of inflation is contained (some press articles have referred to average rates of 5% or 6% for three years), it is unlikely that the euro, the Yuan or a basket of currencies created by the IMF could possibly replace the dollar in the next 5 years. Although it may be easy to create inflation, it is not so easy to control. Too much inflation for too long would push up the cost of debt in the long term, partly cancelling out the real debt reduction effect behind its creation. Too high inflation could also hinder growth or make it perform in an erratic manner.

Could Japan, the UK and the euro area follow the same road? It is unlikely, except for the UK. The BoJ has had the opportunity to monetise the country's huge debt for more than a decade and not used it. With regards to the European Monetary Union, generating more than 2.0% inflation is incompatible with the mandate of the ECB. It should also be considered that the indebtedness of the euro area and its leading economies should not reach such extreme levels and the social and political rejection of increased fiscal pressure aimed at reducing public debt is weaker than in the US.

As for inflation forecasts, in 2009 and 2010 we continue to see moderate prices. The euro area can expect average annual rates of 0.5% and 1.9%, respectively. In the US, headline inflation will be lower with an average annual rate of -0.4% expected for 2009, followed by 2.2% in 2010. In Spain, the economic crisis is affecting consumer prices significantly, and the forecasts are lower than for the above areas. In 2009, prices will fall by an average of 0.3%, followed by 1.7% growth in 2010. Core inflation will also be lower than ever before at values of 1.1% and 1.5%, respectively.

In sum, the GDP of the leading economies is falling at a slower pace and, according to different indicators, will reach its lowest point in 2009. The Spanish economy's recovery will be slower because of the long and dramatic adjustment of the construction sector, which will last throughout 2010. The likelihood of a long world depression is very small, but the impact of the recession on the public accounts of western countries will be enormous. The expected increased indebtedness is coupled with signs of a slow recovery and reduced potential growth in the medium and long term. Without sustained growth, some countries, including the US, could decide to deflate their debt by generating excess inflation for a few years, adding more uncertainty concerning the future evolution of the world economy.



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 OF GROWTH						
	2005	2006	2007	2008	Forecasts	
					2009	2010
GDP mp. (1)	1.8	3.0	2.6	0.7	-4.0	0.2
Demand						
Private final consumption	1.8	2.1	1.6	0.5	-2.6	1.1
Public final consumption	1.6	1.8	2.2	2.0	2.0	0.5
Gross capital formation	3.4	5.8	4.2	0.6	-12.9	-3.1
Contribution domestic demand	2.0	2.8	2.2	0.8	-4.0	0.0
Exports of goods and services	5.2	8.5	5.9	1.6	-17.7	1.9
Imports of goods and services	5.8	8.3	5.3	1.7	-17.1	1.5
Contribution foreign demand	-0.1	0.2	0.3	0.0	-0.5	0.2
Supply						
GVA total	1.8	3.0	2.9	0.8	-3.9	0.2
GVA agriculture	-6.5	-1.7	0.7	1.9	-1.0	0.8
GVA industry	2.1	4.2	3.6	-1.1	-14.5	-1.6
GVA construction	1.8	2.9	3.0	0.5	-2.5	-1.3
GVA trade services	1.5	3.2	2.7	0.4	-3.1	-0.7
VAB financial services	2.9	3.7	3.6	2.1	-1.7	0.5
GVA public services	1.4	1.3	1.7	1.4	1.1	2.6
Prices (2)						
HICP annual average rate	2.2	2.2	2.1	3.3	0.6	1.9
HICP dec / dec	2.2	1.9	3.1	1.6	1.6	1.9
Labour market (3)						
Unemployment rate	8.8	8.3	7.4	7.5	9.3	10.2
Other economic indicators (4)						
Industrial production index (excluding construction)	0.9	3.5	3.1	-2.0	-20.0	-10.3

The figures in the shaded area are forecasts.

1) Data adjusted for seasonality and working days effect.

Source: EUROSTAT & IFL (UC3M)

Date: 1) April 7, 2009.

2) May 15, 2009

3) May 13, 2009.

4) May 13, 2009. April 16, 2009.



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

Table II.1.2.1

Table 11.1.2.1

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA										
		Final Consumption		Gross Capital Formation	Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP	
		Private	Public							
ANNUAL AVERAGE	2004	1.4	1.6	1.8	1.5	6.7	6.5	0.2	1.9	
	2005	1.8	1.6	3.4	2.0	5.2	5.8	-0.1	1.8	
	2006	2.1	1.8	5.8	2.8	8.5	8.3	0.2	3.0	
	2007	1.6	2.2	4.2	2.2	5.9	5.3	0.3	2.6	
	2008	0.5	2.0	0.6	0.8	1.6	1.7	0.0	0.7	
	2009	-2.6	2.0	-12.9	-4.0	-17.7	-17.1	-0.5	-4.0	
	2010	1.1	0.5	-3.1	0.0	1.9	1.5	0.2	0.2	
ANNUAL RATES*	2008	QI	1.6	1.6	3.5	2.0	5.5	4.3	0.6	2.1
		QII	0.8	2.2	2.0	1.3	4.4	3.2	0.5	1.4
		QIII	0.4	2.5	0.4	0.9	2.5	2.5	0.0	0.6
		QIV	-0.7	1.7	-3.3	-0.8	-5.6	-3.2	-1.1	-1.3
	2009	QI	-3.3	1.8	-11.7	-4.1	-13.8	-12.0	-0.9	-4.6
		QII	-3.0	1.7	-11.4	-3.9	-19.4	-17.7	-1.0	-4.2
		QIII	-3.0	1.7	-15.1	-4.7	-22.5	-21.8	-0.6	-4.8
		QIV	-1.3	2.7	-13.5	-3.2	-15.1	-16.8	0.5	-2.5
	2010	QI	1.0	2.7	-7.1	-0.5	-10.1	-10.5	0.0	-0.4
		QII	1.2	2.4	-6.4	-0.3	-1.4	-2.0	0.2	0.0
		QIII	1.4	-1.0	0.0	0.6	7.9	7.4	0.3	0.9
		QIV	0.7	-2.0	1.6	0.3	12.4	12.8	0.1	0.4

Data adjusted for seasonality and working days effect.

The figures in the shaded area are forecasts.

(1) Contribution to GDP growth.

* Year-on-year rates.

Source: EUROSTAT & IFL (UC3M).

Date: April 7, 2009.

Table II.1.2.2

Table 11.1.2.2

QUARTERLY RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA										
		Final Consumption		Gross Capital Formation	Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP	
		Private	Public							
ANNUAL AVERAGE	2004	1.4	1.6	1.8	1.5	6.7	6.5	0.2	1.9	
	2005	1.8	1.6	3.4	2.0	5.2	5.8	-0.1	1.8	
	2006	2.1	1.8	5.8	2.8	8.5	8.3	0.2	3.0	
	2007	1.6	2.2	4.2	2.2	5.9	5.3	0.3	2.6	
	2008	0.5	2.0	0.6	0.8	1.6	1.7	0.0	0.7	
	2009	-2.6	2.0	-12.9	-4.0	-17.7	-17.1	-0.5	-4.0	
	2010	1.1	0.5	-3.1	0.0	1.9	1.5	0.2	0.2	
QUARTERLY RATES*	2008	QI	0.2	0.6	1.2	0.5	1.8	1.3	0.2	0.7
		QII	-0.2	0.8	-1.2	-0.2	0.0	-0.3	0.1	-0.3
		QIII	0.2	0.9	-0.6	0.1	0.1	1.4	-0.5	-0.2
		QIV	-0.9	-0.6	-2.7	-1.2	-7.3	-5.5	-0.8	-1.5
	2009	QI	-2.4	0.7	-7.6	-2.9	-7.0	-7.9	0.2	-2.5
		QII	0.1	0.7	-0.8	0.0	-6.5	-6.7	0.0	0.0
		QIII	0.1	0.9	-4.7	-0.8	-3.7	-3.7	-0.1	-0.8
		QIV	0.9	0.4	-1.0	0.4	1.5	0.5	0.4	0.8
	2010	QI	-0.2	0.8	-0.7	-0.1	-1.5	-1.0	-0.2	-0.3
		QII	0.3	0.3	-0.1	0.2	2.5	2.2	0.1	0.4
		QIII	0.3	-2.4	1.7	0.1	5.4	5.5	0.0	0.1
		QIV	0.2	-0.7	0.7	0.1	5.8	5.6	0.2	0.3

Data adjusted for seasonality and working days effect.

The figures in the shaded area are forecasts.

(1) Contribution to GDP growth.

* Year-on-year rates.

Source: EUROSTAT & IFL (UC3M).

Date: April 7, 2009.



Table II.1.2.3

Table 11.1.2.15

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA										
GVA										
		Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services	TOTAL	Real GDP	
ANNUAL AVERAGE	2004	11.9	2.1	0.9	2.6	1.5	1.5	2.0	1.9	
	2005	-6.5	2.1	1.8	1.5	2.9	1.4	1.8	1.8	
	2006	-1.7	4.2	2.9	3.2	3.7	1.3	3.0	3.0	
	2007	0.7	3.6	3.0	2.7	3.6	1.7	2.9	2.6	
	2008	1.9	-1.1	0.5	0.4	2.1	1.4	0.8	0.7	
	2009	-1.0	-14.5	-2.5	-3.1	-1.7	1.1	-3.9	-4.0	
	2010	0.8	-1.6	-1.3	-0.7	0.5	2.6	0.2	0.2	
ANNUAL RATES*	2008	QI	1.6	2.7	2.8	2.4	2.9	1.2	2.3	2.1
		QII	2.2	1.2	1.6	0.8	2.6	1.2	1.6	1.4
		QIII	2.5	-1.2	0.2	0.1	1.9	1.4	0.7	0.6
		QIV	1.3	-7.1	-2.4	-1.6	0.9	1.6	-1.3	-1.3
	2009	QI	-2.0	-13.8	-6.5	-4.0	-1.2	0.4	-4.2	-4.6
		QII	-2.0	-15.6	-1.8	-2.9	-1.6	0.5	-4.1	-4.2
		QIII	-0.8	-17.0	-1.7	-3.7	-2.4	1.1	-4.6	-4.8
		QIV	0.7	-11.4	0.2	-1.8	-1.8	2.4	-2.4	-2.5
	2010	QI	1.7	-5.2	1.8	-1.3	-0.5	3.7	-0.4	-0.4
		QII	1.8	-2.8	-2.1	-1.0	0.1	3.7	0.0	0.0
		QIII	0.9	0.1	-2.0	0.1	1.3	2.6	0.9	0.9
		QIV	-1.2	1.6	-2.6	-0.8	1.1	0.5	0.4	0.4

Data adjusted for seasonality and working days effect.

The figures in the shaded area are forecasts.

*Year-on-year rates.

Source: EUROSTAT & IFL (UC3M).

Date: April 7, 2009

Table II.1.2.4

Table 11.1.2.1

QUARTERLY RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA										
GVA										
		Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services	TOTAL	Real GDP	
ANNUAL AVERAGE	2004	11.9	2.1	0.9	2.6	1.5	1.5	2.0	1.9	
	2005	-6.5	2.1	1.8	1.5	2.9	1.4	1.8	1.8	
	2006	-1.7	4.2	2.9	3.2	3.7	1.3	3.0	3.0	
	2007	0.7	3.6	3.0	2.7	3.6	1.7	2.9	2.6	
	2008	1.9	-1.1	0.5	0.4	2.1	1.4	0.8	0.7	
	2009	-1.0	-14.5	-2.5	-3.1	-1.7	1.1	-3.9	-4.0	
	2010	0.8	-1.6	-1.3	-0.7	0.5	2.6	0.2	0.2	
QUARTERLY RATES*	2008	QI	1.8	0.2	2.7	0.5	0.7	0.1	0.6	0.7
		QII	0.0	-0.7	-1.8	-0.6	0.5	0.4	-0.1	-0.3
		QIII	-0.5	-1.3	-1.4	-0.2	0.0	0.5	-0.3	-0.2
		QIV	0.0	-5.5	-1.7	-1.4	-0.3	0.5	-1.5	-1.5
	2009	QI	-1.5	-7.0	-1.6	-1.9	-1.3	-1.1	-2.4	-2.5
		QII	0.0	-2.7	3.1	0.6	0.1	0.5	0.0	0.0
		QIII	0.7	-2.9	-1.3	-1.0	-0.9	1.1	-0.8	-0.8
		QIV	1.5	0.8	0.2	0.5	0.4	1.8	0.8	0.8
	2010	QI	-0.6	-0.4	-0.1	-1.3	-0.1	0.2	-0.3	-0.3
		QII	0.2	-0.3	-1.0	0.9	0.7	0.5	0.4	0.4
		QIII	-0.2	0.0	-1.2	0.1	0.4	0.1	0.1	0.1
		QIV	-0.6	2.4	-0.4	-0.3	0.2	-0.3	0.3	0.3

Data adjusted for seasonality and working days effect.

The figures in the shaded area are forecasts.

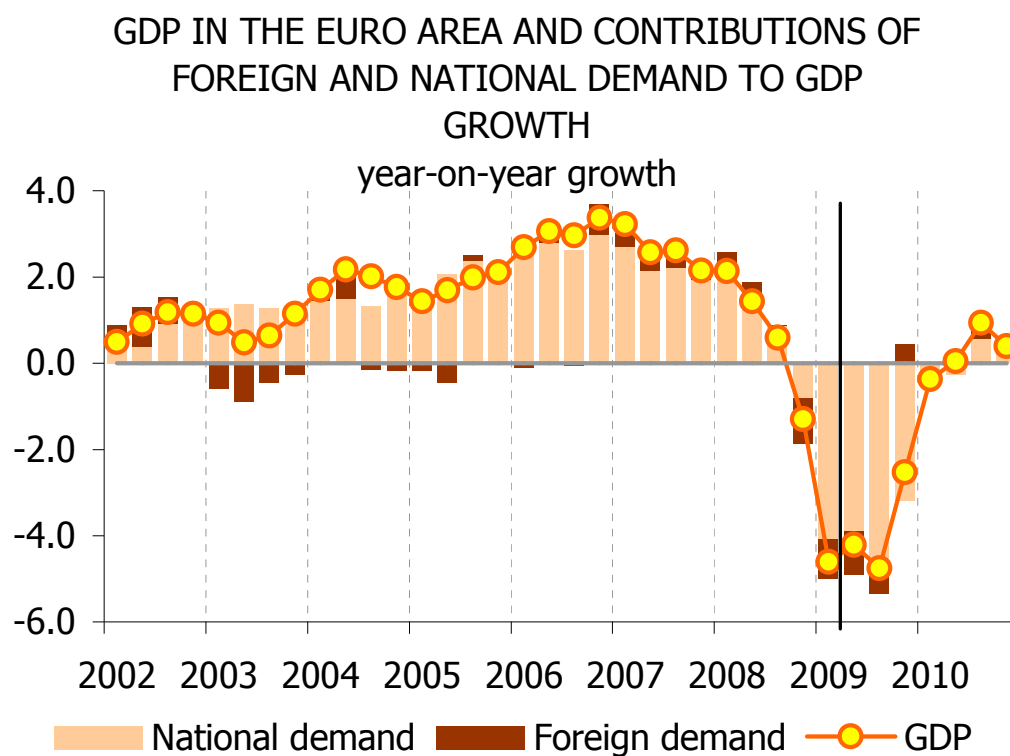
*Year-on-year rates.

Source: EUROSTAT & IFL (UC3M).

Date: April 7, 2009.



Graph II.1.2.1

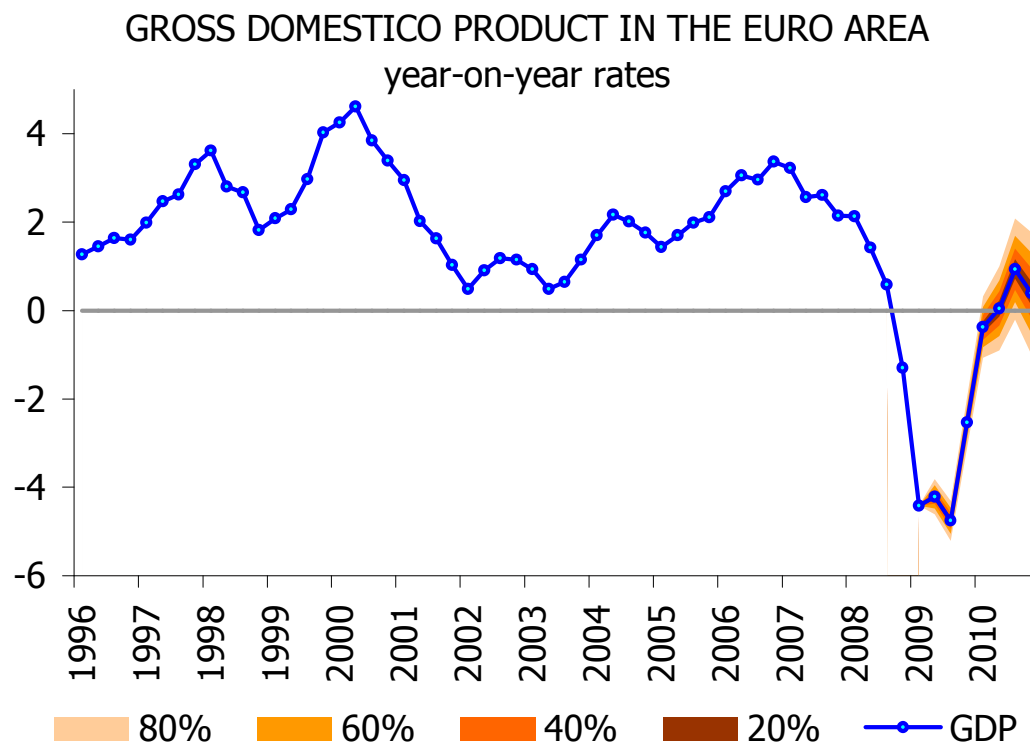


*Data adjusted for seasonality and working days effect.

Source: EUROSTAT & IFL (UC3M).

Date: April 7, 2009

Graph II.1.2.2



Source: EUROPEAN COMMISSION & IFL (UC3M)

Source: April 7, 2009



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

Table III.1.3.1

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	0,0	0,1	2,9	2,2	2,7	2,1
	2005	-0,9	0,7	2,6	0,7	1,1	1,3
	2006	4,6	2,9	5,8	4,8	0,5	4,2
	2007	1,2	2,7	6,4	3,7	-1,1	3,7
	2008	-5,4	-0,9	-0,4	-3,4	-0,6	-1,8
	2009	-20,7	-5,7	-23,2	-24,2	-0,2	-17,1
	2010	-9,5	-2,1	-10,9	-10,2	2,7	-4,9
ANNUAL RATES*	2008	QI	-0,9	1,3	4,9	1,7	2,7
		QII	-2,2	-0,7	3,3	0,7	1,0
		QIII	-7,1	-1,4	-0,8	-1,1	-1,5
		QIV	-11,3	-2,6	-8,6	-4,6	-9,0
	2009	QI	-21,3	-6,2	-23,6	-25,0	-5,4
		QII	-21,6	-5,7	-24,6	-25,8	-2,3
		QIII	-20,3	-5,6	-22,4	-23,4	2,6
		QIV	-19,6	-5,3	-22,3	-22,1	4,5
	2010	QI	-15,2	-3,7	-18,0	-16,2	5,2
		QII	-9,3	-1,9	-10,1	-8,5	5,2
		QIII	-8,9	-2,0	-9,7	-9,3	0,9
		QIV	-4,6	-0,7	-5,8	-6,1	-0,2

The figures in the shaded area are forecasts.

* Adjusted by working days.

** Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: May 13, 2009

Table III.1.3.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN THE EURO AREA							
	2004	2005	2006	2007	2008	2009	2010
January	0.4	1.5	3.0	4.1	3.6	-16.4	-12.1
February	1.2	0.4	3.3	4.8	3.2	-19.0	-10.0
March	2.0	0.5	4.2	4.6	1.4	-20.2	-7.8
April	1.9	1.1	2.5	3.2	4.6	-21.0	-3.1
May	3.8	-0.1	6.5	3.4	-0.8	-19.2	-2.3
June	4.0	0.9	4.6	3.3	-0.6	-16.2	-5.2
July	2.6	0.7	4.0	4.1	-1.1	-16.2	-4.8
August	2.2	2.1	6.2	4.6	-0.9	-15.7	-4.3
September	3.7	1.7	4.0	3.3	-2.4	-15.8	-3.7
October	1.4	1.1	4.3	5.0	-6.0	-15.3	-2.8
November	1.3	3.5	3.3	3.1	-9.1	-14.8	-1.5
December	0.8	2.8	5.3	1.4	-12.3	-14.3	-0.3

* Adjusted by working days.

The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: May 13, 2009



II.1.4. INFLATION.

Table II.1.4.1

ANNUAL AVERAGE RATE OF INFLATION IN THE EURO AREA							
Harmonized Index of Consumer Price (HICP)	Weights 2008	2005	2006	2007	2008	Forecasts	
						2009	2010
TOTAL	100.0	2.2	2.2	2.1	3.3	0.5	1.8
CORE	83.0	1.5	1.5	2.0	2.4	1.5	1.7
Processed food without tobacco	9.6	0.5	1.6	2.3	6.8	0.4	0.8
Processed food (with tobacco)	11.9	2.0	2.1	2.8	6.1	1.0	1.8
Non-energy industrial goods	29.7	0.3	0.6	1.0	0.8	0.7	0.7
Services	41.4	2.3	2.0	2.5	2.6	2.2	2.3
RESIDUAL	17.0	5.7	5.5	2.8	7.3	-4.1	2.7
Non- processed food	7.5	0.8	2.8	3.0	3.5	1.1	1.9
Energy	9.6	10.1	7.7	2.6	10.3	-8.0	3.4

Source: EUROSTAT & IFL (UC3M)

Date: May 15, 2009



Table II.1.4.2

Table 11.17.11.2

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 2009		9.6%	2.3%	29.7%	41.4%	83.0%		7.5%	9.6%	17.0%	100%		
ANNUAL AVERAGE RATE	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	6.8	3.2	0.8	2.6	2.4		3.5	10.3	7.3	3.3		
	2009	0.4	3.5	0.7	2.2	1.5	± 0.17	1.1	-8.0	-4.1	0.5	± 0.29	
	2010	0.8	6.1	0.7	2.3	1.7	± 0.52	1.9	3.4	2.7	1.8	± 0.80	
ANNUAL RATES (year-on-year rates)	2008	January	6.6	3.3	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		3.3	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	7.9	3.3	0.8	2.5	2.5		4.0	16.1	10.8	4.0	
		July	8.1	3.7	0.5	2.6	2.5		4.4	17.1	11.5	4.0	
		August	7.8	3.0	0.7	2.7	2.6		3.7	14.6	9.8	3.8	
		September	7.0	2.9	0.9	2.6	2.5		3.6	13.5	9.1	3.6	
		October	5.6	2.9	1.0	2.6	2.4		3.4	9.6	6.9	3.2	
		November	4.4	3.2	0.9	2.6	2.2		2.8	0.7	1.6	2.1	
		December	3.6	3.2	0.8	2.6	2.1		2.8	-3.7	-0.8	1.6	
	2009	January	2.7	2.8	0.5	2.4	1.8		2.6	-5.3	-1.8	1.1	
		February	1.7	2.9	0.7	2.4	1.7		3.3	-4.9	-1.3	1.2	
		March	1.2	3.2	0.8	1.9	1.5		2.4	-8.1	-3.6	0.6	
		April	0.7	3.4	0.8	2.5	1.7		1.6	-8.8	-4.4	0.6	
		May	0.5	3.4	0.8	2.2	1.5	± 0.13	1.1	-11.2	-6.0	0.2	± 0.11
		June	0.2	3.5	0.7	2.2	1.5	± 0.19	0.8	-13.2	-7.4	-0.2	± 0.23
		July	-0.1	3.2	0.6	2.1	1.4	± 0.24	0.2	-13.8	-8.0	-0.4	± 0.36
		August	-0.4	3.4	0.7	2.1	1.3	± 0.27	0.3	-10.7	-6.0	0.0	± 0.49
		September	-0.4	3.7	0.7	2.1	1.4	± 0.31	0.4	-10.3	-5.8	0.1	± 0.62
		October	-0.5	4.1	0.7	2.1	1.4	± 0.35	0.2	-7.4	-4.1	0.4	± 0.73
		November	-0.3	4.0	0.7	2.1	1.4	± 0.38	0.4	-2.3	-1.1	0.9	± 0.82
		December	-0.2	4.6	0.7	2.1	1.4	± 0.42	0.5	2.7	1.7	1.5	± 0.90
	2010	January	0.0	5.7	0.6	2.2	1.5	± 0.46	0.8	3.6	2.4	1.6	± 0.94
		February	0.2	5.6	0.7	2.2	1.5	± 0.49	0.9	3.2	2.2	1.7	± 0.97
		March	0.4	6.0	0.7	2.5	1.7	± 0.52	1.4	4.8	3.3	2.0	± 0.97
		April	0.6	6.1	0.7	2.0	1.5	± 0.55	2.1	4.6	3.5	1.8	± 0.97
		May	0.7	6.2	0.7	2.3	1.6	± 0.56	2.2	4.0	3.2	1.9	± 0.96
		June	0.9	6.1	0.7	2.3	1.7	± 0.56	2.2	3.8	3.1	1.9	± 0.95
		July	1.0	6.2	0.7	2.3	1.7	± 0.56	2.2	3.3	2.8	1.9	± 0.96
		August	1.1	6.2	0.7	2.3	1.7	± 0.57	2.2	2.8	2.6	1.9	± 0.96
		September	1.2	6.2	0.7	2.4	1.7	± 0.57	2.2	2.8	2.5	1.9	± 0.96
		October	1.2	6.2	0.7	2.4	1.8	± 0.57	2.2	2.7	2.5	1.9	± 0.96
		November	1.3	6.3	0.7	2.4	1.8	± 0.57	2.2	2.5	2.4	1.9	± 0.96
		December	1.3	6.4	0.7	2.4	1.8	± 0.57	2.2	2.4	2.3	1.9	± 0.96

* Confidence intervals calculated with historical errors.

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: May 15, 2009



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 2009		9.6%	2.3%	29.7%	41.4%	83.0%	7.5%	9.6%	17.0%	100%	
MONTHLY RATES (Growth of the month over the previous month)	January	2007	0.2	0.7	-2.0	-0.1	-0.7	0.9	0.4	0.6	-0.5
		2008	1.0	0.9	-2.3	-0.2	-0.8	1.2	1.6	1.4	-0.4
		2009	0.2	0.4	-2.6	-0.4	-1.1	1.0	0.0	0.4	-0.8
		2010	0.3	1.4	-2.7	-0.3	-1.0	1.3	0.9	1.1	-0.7
	February	2007	0.1	0.4	0.2	0.5	0.4	-0.5	0.3	0.0	0.3
		2008	0.9	0.3	0.3	0.5	0.5	-0.6	0.1	-0.2	0.3
		2009	-0.1	0.5	0.5	0.5	0.4	0.0	0.5	0.3	0.4
		2010	0.2	0.3	0.6	0.5	0.5	0.2	0.2	0.2	0.4
	March	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	-0.1	0.5	1.8	0.0	0.6	-0.3	-1.2	-0.8	0.4
		2010	0.1	0.9	1.8	0.2	0.8	0.2	0.3	0.3	0.7
	April	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	-0.1	0.4	0.6	0.4	0.4	-0.1	0.2	0.1	0.4
		2010	0.1	0.5	0.7	-0.1	0.2	0.6	0.1	0.3	0.2
	May	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	0.0	0.2	0.1	0.5	0.8	0.6	0.2
		2010	0.0	0.2	0.0	0.4	0.2	0.6	0.2	0.4	0.2
	June	2007	0.1	0.1	-0.2	0.2	0.0	0.1	0.5	0.3	0.1
		2008	0.2	0.1	-0.2	0.3	0.1	0.2	2.6	1.6	0.4
		2009	-0.1	0.2	-0.2	0.3	0.1	-0.2	0.3	0.1	0.1
		2010	0.0	0.2	-0.2	0.3	0.1	-0.1	0.2	0.0	0.1
	July	2007	0.2	0.0	-2.1	0.8	-0.3	-0.4	0.5	0.1	-0.2
		2008	0.3	0.5	-2.4	0.9	-0.4	-0.1	1.3	0.7	-0.2
		2009	-0.1	0.2	-2.5	0.8	-0.5	-0.7	0.7	0.1	-0.4
		2010	0.1	0.2	-2.5	0.9	-0.5	-0.7	0.1	-0.2	-0.4
	August	2007	0.5	0.8	0.2	0.2	0.2	-0.3	-0.9	-0.7	0.1
		2008	0.3	0.1	0.4	0.3	0.3	-1.0	-3.0	-2.2	-0.1
		2009	0.0	0.2	0.5	0.2	0.3	-0.9	0.5	-0.1	0.2
		2010	0.1	0.2	0.5	0.2	0.3	-0.9	0.1	-0.3	0.2
	September	2007	0.8	0.2	1.5	-0.5	0.4	0.2	0.6	0.5	0.4
		2008	0.1	0.1	1.7	-0.7	0.3	0.1	-0.4	-0.2	0.2
		2009	0.0	0.4	1.7	-0.6	0.3	0.2	0.1	0.1	0.3
		2010	0.1	0.4	1.7	-0.6	0.3	0.2	0.1	0.1	0.3
	October	2007	1.5	0.0	0.8	0.0	0.5	0.6	0.6	0.6	0.5
		2008	0.2	0.0	0.9	0.1	0.4	0.4	-2.9	-1.5	0.0
		2009	0.1	0.5	0.9	0.0	0.4	0.2	0.2	0.2	0.3
		2010	0.1	0.5	0.9	0.1	0.4	0.2	0.1	0.1	0.3
	November	2007	1.0	0.2	0.3	-0.1	0.2	0.5	3.4	2.2	0.5
		2008	-0.1	0.5	0.2	-0.1	0.0	0.0	-4.9	-2.8	-0.5
		2009	0.1	0.4	0.2	-0.1	0.0	0.2	0.3	0.2	0.1
		2010	0.1	0.5	0.2	-0.1	0.1	0.2	0.1	0.1	0.1
	December	2007	0.7	0.1	-0.1	0.9	0.5	0.5	-0.3	0.0	0.4
		2008	-0.1	0.1	-0.2	0.8	0.3	0.5	-4.7	-2.4	-0.1
		2009	0.1	0.7	-0.2	0.9	0.4	0.6	0.2	0.4	0.4
		2010	0.1	0.8	-0.2	0.9	0.4	0.6	0.1	0.3	0.4

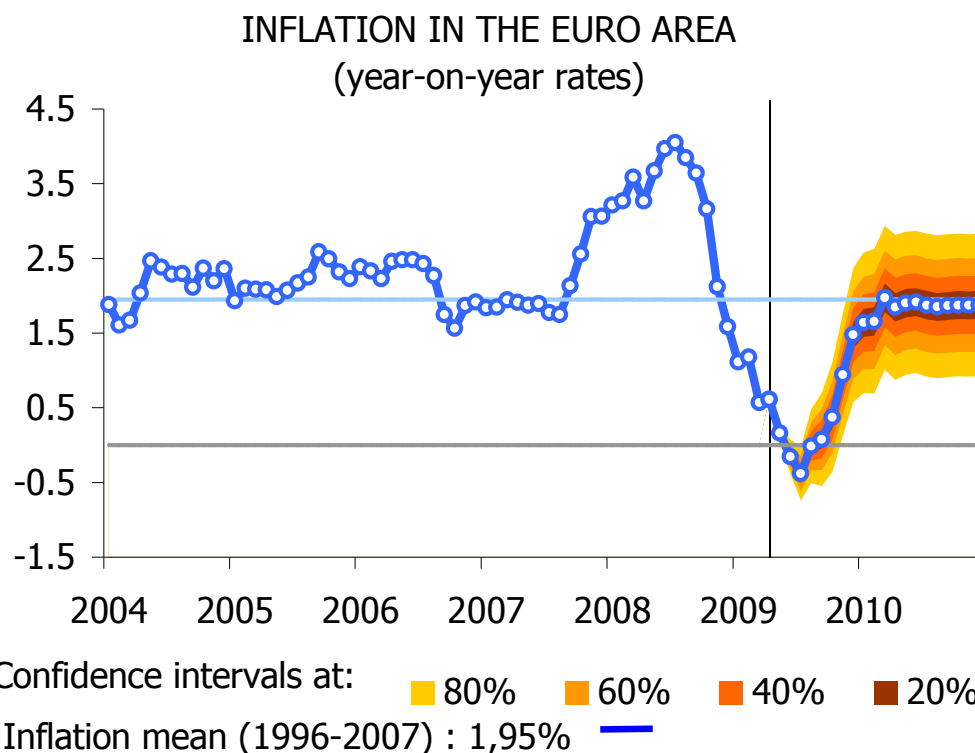
The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: May 15, 2009

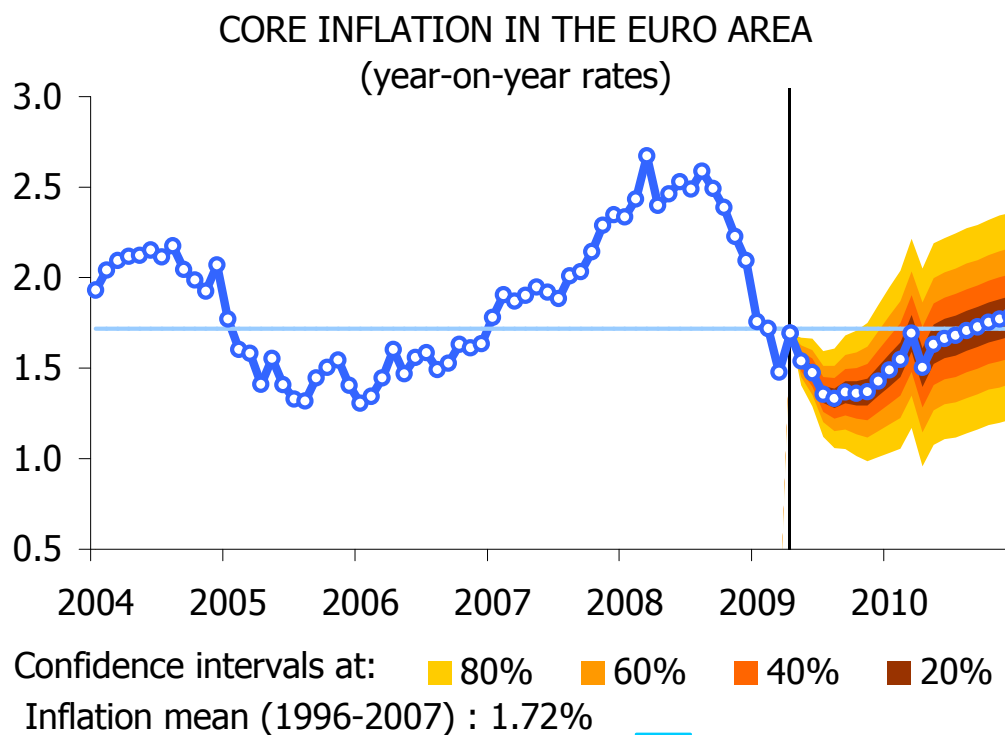


Graph II.1.4.1



Source: EUROSTAT & IFL (UC3M)
Date: May 15, 2009

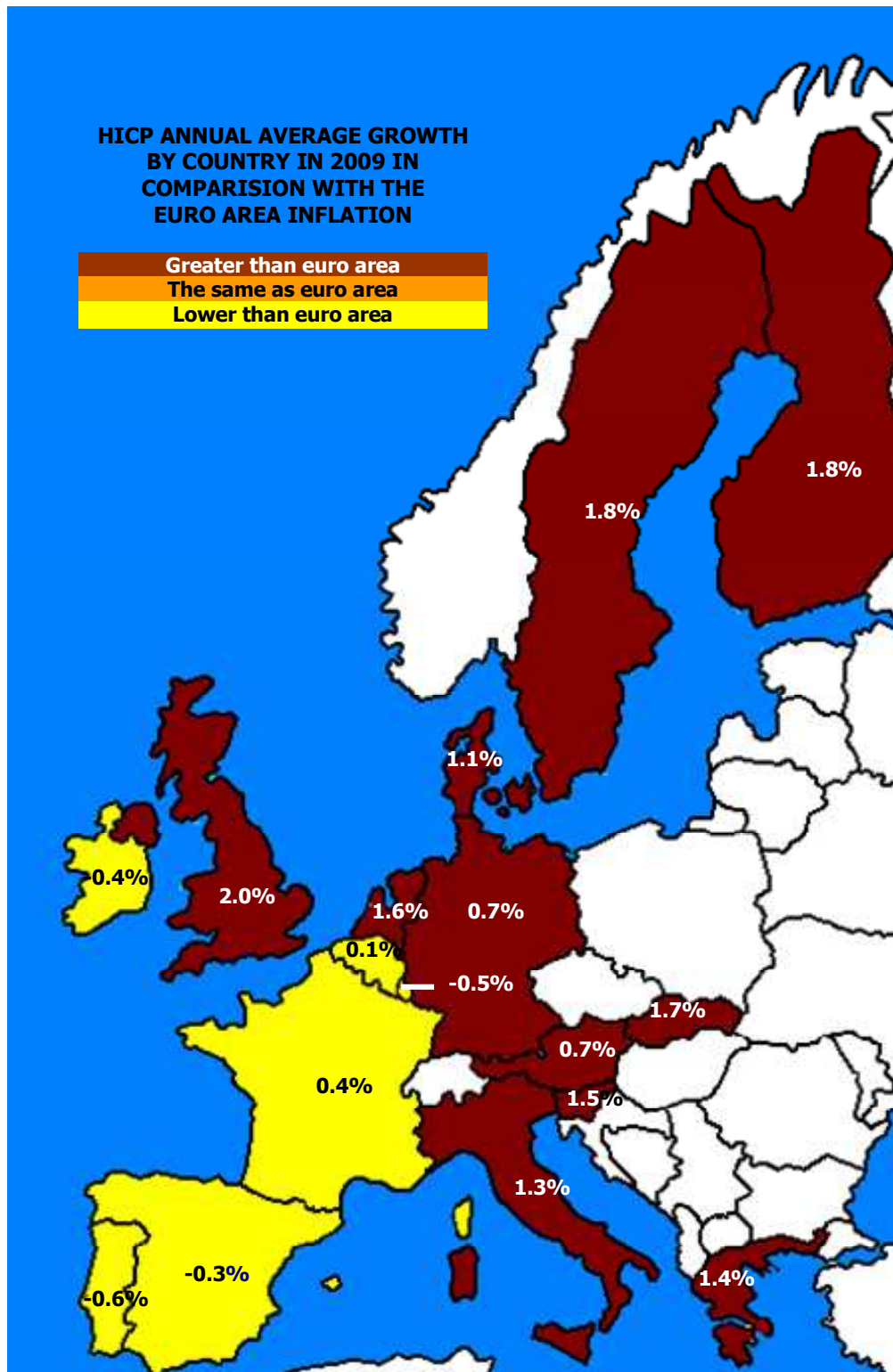
Graph II.1.4.2



Source: EUROSTAT & IFL (UC3M)
Date: May 15, 2009



Graph II.1.4.3



Source: EUROSTAT & IFL (UC3M)
Date: May 15, 2009



Table II.1.4.4

HICP ANNUAL GROWTH BY COUNTRY IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK																					
		Euro Area																United Kingdom Sweden Denmark			
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovakia	Slovenia	Luxembourg	Cyprus	Malta				
Weights 2009 %		26.1	20.6	18.5	12.8	5.1	3.4	3.0	3.5	2.2	1.7	1.6	0.7	0.4	0.3	0.3	0.1				
ANNUAL AVERAGE RATE	2000	1.4	1.8	2.6	3.5	2.3	2.7	2.0	2.9	2.8	2.9	5.3	12.2	8.9	3.8	4.9	3.0	0.8	1.3	2.7	
	2001	1.9	1.8	2.3	2.8	5.1	2.4	2.3	3.7	4.4	2.7	4.0	7.2	8.6	2.4	2.0	2.5	1.2	2.7	2.3	
	2002	1.4	1.9	2.6	3.6	3.9	1.6	1.7	3.9	3.7	2.0	4.7	3.5	7.5	2.1	2.8	2.6	1.3	1.9	2.4	
	2003	1.0	2.2	2.8	3.1	2.2	1.5	1.3	3.4	3.3	1.3	4.0	8.4	5.7	2.5	4.0	1.9	1.4	2.3	2.0	
	2004	1.8	2.3	2.3	3.1	1.4	1.9	2.0	3.0	2.5	0.1	2.3	7.5	3.7	3.2	1.9	2.7	1.3	1.0	0.9	
	2005	1.9	1.9	2.2	3.4	1.5	2.5	2.1	3.5	2.1	0.8	2.2	2.8	2.5	3.8	2.0	2.5	2.0	0.8	1.7	
	2006	1.8	1.9	2.2	3.6	1.7	2.3	1.7	3.3	3.0	1.3	2.7	4.3	2.5	3.0	2.2	2.6	2.3	1.5	1.9	
	2007	2.3	1.6	2.0	2.8	1.6	1.8	2.2	3.0	2.4	1.6	2.9	1.9	3.8	2.7	2.2	0.7	2.3	1.7	1.7	
	2008	2.8	3.2	3.5	4.1	2.2	4.5	3.2	4.2	2.7	3.9	3.1	3.9	5.5	4.1	4.4	4.7	3.6	3.3	3.6	
	2009	0.7	0.4	1.3	-0.3	1.6	0.1	0.7	1.4	-0.6	1.8	-0.4	1.7	1.5	-0.5	0.2	2.9	2.0	1.8	1.1	
	2010	2.0	1.8	2.4	1.7	1.9	0.6	1.7	2.2	0.8	1.8	1.5	2.1	3.4	1.4	1.9	2.5	2.2	2.5	1.9	
ANNUAL RATES (year-on-year rates)	2008	January	2.9	3.2	3.1	4.4	1.8	3.5	3.1	3.9	2.9	3.5	3.1	3.2	6.4	4.2	4.1	3.8	2.2	3.0	3.0
		February	3.0	3.2	3.1	4.4	2.0	3.6	3.1	4.5	2.9	3.3	3.5	3.4	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	3.6	6.6	4.4	4.4	4.3	2.4	3.3	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	3.7	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	3.7	4.9	2.8	4.1	3.7	4.0	6.2	4.8	4.6	4.1	3.3	3.7	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	4.3	6.8	5.3	5.2	4.4	3.8	4.0	4.2
		July	3.5	4.0	4.0	5.3	3.0	5.9	3.8	4.9	3.1	4.3	3.6	4.4	6.9	5.8	5.3	5.6	4.4	3.8	4.4
		August	3.3	3.5	4.2	4.9	3.0	5.4	3.6	4.8	3.1	4.6	3.2	4.4	6.0	4.8	5.1	5.4	4.8	4.1	4.8
		September	3.0	3.4	3.9	4.6	2.8	5.5	3.7	4.7	3.2	4.7	3.2	4.5	5.6	4.8	5.0	4.9	5.2	4.2	4.5
		October	2.5	3.0	3.6	3.6	2.5	4.8	3.0	4.0	2.5	4.4	2.7	4.2	4.8	3.9	4.8	5.7	4.5	3.4	3.8
		November	1.4	1.9	2.7	2.4	1.9	3.2	2.3	3.0	1.4	3.5	2.1	3.9	2.9	2.0	3.1	4.9	4.1	2.4	2.8
		December	1.1	1.2	2.4	1.5	1.7	2.7	1.5	2.2	0.8	3.4	1.3	3.5	1.8	0.7	1.8	5.0	3.1	2.1	2.4
	2009	January	0.9	0.8	1.4	0.8	1.7	2.1	1.2	2.0	0.1	2.5	1.1	2.7	1.4	0.0	0.9	3.1	3.0	2.0	1.7
		February	1.0	1.0	1.5	0.7	1.9	1.9	1.4	1.8	0.1	2.7	0.1	2.4	2.1	0.7	0.6	3.5	3.1	2.2	1.7
		March	0.4	0.4	1.1	-0.1	1.8	0.6	0.6	1.5	-0.6	2.0	-0.7	1.8	1.6	-0.3	0.9	3.9	2.9	1.9	1.6
		April	0.8	0.1	1.2	-0.2	1.8	0.7	0.5	1.1	-0.6	2.1	-0.7	1.4	1.1	-0.3	0.6	4.0	2.3	1.8	1.1
		May	0.2	-0.2	1.1	-0.8	1.6	0.0	0.4	1.0	-0.8	1.6	-0.9	1.3	0.9	-1.2	0.1	3.9	2.1	1.5	1.0
		June	0.1	-0.4	0.9	-1.2	1.5	-0.5	0.2	1.0	-1.2	1.4	-1.0	1.3	0.4	-1.9	-0.4	3.7	1.7	1.4	0.7
		July	-0.1	-0.3	0.9	-1.4	1.3	-0.7	0.3	1.0	-1.1	1.4	-0.9	1.4	0.6	-2.3	-0.6	2.3	1.5	1.5	0.6
		August	0.3	0.0	1.0	-1.0	1.4	-0.4	0.4	1.0	-0.9	1.3	-0.7	1.5	1.2	-1.3	-0.5	2.2	1.3	1.4	0.4
		September	0.4	0.2	1.2	-0.8	1.5	-0.8	0.3	1.1	-0.9	1.2	-0.7	1.5	1.3	-1.3	-0.4	2.4	1.0	1.3	0.5
		October	0.8	0.4	1.4	-0.4	1.6	-0.7	0.7	1.3	-0.7	1.3	-0.5	1.4	1.5	-0.6	-0.4	1.9	1.4	1.7	0.8
		November	1.4	1.0	1.9	0.3	1.8	-0.4	1.0	1.6	-0.1	1.7	-0.1	1.5	2.4	0.6	0.4	2.1	1.5	2.2	1.1
		December	2.0	1.5	2.2	1.0	2.0	-0.3	1.4	1.9	0.2	1.9	0.3	1.7	3.1	1.5	0.9	2.0	2.1	2.3	1.5
		January	1.9	1.8	2.5	1.3	2.0	0.0	1.5	2.0	0.6	1.7	0.5	1.6	3.3	2.0	1.3	2.8	2.2	2.4	1.7
		February	1.8	1.8	2.5	1.3	1.9	0.0	1.4	2.0	0.6	1.6	1.0	1.8	3.0	1.2	1.4	2.6	1.9	2.3	1.4
		March	2.1	2.0	2.5	1.6	1.8	0.4	1.8	2.1	0.8	1.7	1.6	2.0	3.1	1.7	1.3	2.3	2.1	2.4	1.6
		April	2.0	2.0	2.6	1.7	1.9	0.5	1.8	2.2	0.9	1.8	1.7	2.1	3.5	1.5	1.4	2.5	2.3	2.5	1.9
		May	2.1	2.0	2.5	1.8	1.9	0.6	1.9	2.3	0.9	1.8	1.8	2.1	3.5	1.5	1.8	2.5	2.3	2.6	1.9
		June	2.0	1.8	2.4	1.8	1.9	0.7	2.0	2.3	0.9	1.8	1.9	2.0	3.5	1.6	2.2	2.5	2.3	2.7	1.9
		July	2.0	1.8	2.4	1.9	1.9	0.8	1.9	2.3	0.9	1.8	1.9	2.1	3.5	1.7	2.3	2.5	2.3	2.7	1.9
		August	2.0	1.7	2.3	1.8	1.9	0.8	1.9	2.3	0.9	1.8	1.8	2.2	3.5	1.5	2.3	2.5	2.3	2.7	1.9
		September	2.0	1.7	2.3	1.8	1.9	0.9	1.9	2.3	0.9	1.8	1.7	2.2	3.5	1.5	2.2	2.5	2.3	2.7	1.9
		October	2.1	1.7	2.3	1.8	1.9	0.9	1.7	2.2	0.9	1.8	1.6	2.2	3.5	1.4	2.3	2.5	2.3	2.6	1.9
		November	2.1	1.7	2.3	1.8	1.9	0.9	1.6	2.1	0.9	1.8	1.4	2.2	3.5	1.1	1.9	2.5	2.3	2.3	1.9
		December	2.1	1.7	2.3	1.8	1.9	0.9	1.4	2.0	0.9	1.8	1.2	2.3	3.5	0.8	1.8	2.5	2.3	2.2	1.9

The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: May 15, 2009



Table II.1.4.5

HICP MONTHLY GROWTH BY COUNTRY IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK																					
		Euro Area																			
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovakia	Slovenia	Luxembourg	Cyprus	Malta				
		Weights 2009 %	26.1	20.6	18.5	12.8	5.1	3.4	3.0	3.5	2.2	1.7	1.6	0.7	0.4	0.3	0.3	0.1	United Kingdom	Sweden	Denmark
MONTHLY RATES (Growth of the month over the previous month)	January	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	-0.5	-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	1.2	0.1	-0.4	-1.4	-0.4	-0.7	0.0	0.3
		2009	-0.6	-0.4	-1.7	-1.3	0.0	-1.9	-0.6	-0.5	-0.9	0.3	-0.8	0.3	-0.3	-1.1	-2.3	-2.2	-0.7	-0.1	-0.4
		2010	-0.6	-0.1	-1.4	-0.9	0.1	-1.7	-0.4	-0.5	-0.5	0.1	-0.6	0.3	-0.1	-0.7	-1.9	-1.4	-0.7	0.0	-0.1
	February	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	-0.1	1.0	-0.3	0.2	0.5	0.5	0.8
		2008	0.6	0.2	0.1	0.1	0.9	2.5	0.3	-1.0	0.0	0.5	1.2	0.3	-0.1	1.0	0.3	0.4	0.8	0.4	1.0
		2009	0.7	0.4	0.2	0.0	1.0	2.3	0.5	-1.1	0.0	0.7	0.2	0.0	0.6	1.8	0.0	0.8	0.8	0.6	1.0
		2010	0.5	0.4	0.2	0.0	0.8	2.3	0.4	-1.1	-0.1	0.6	0.7	0.1	0.3	1.0	0.1	0.6	0.6	0.5	0.7
	March	2007	0.2	0.5	1.2	0.8	1.3	0.0	0.5	2.5	1.3	0.7	0.7	0.1	1.1	0.7	1.3	0.8	0.5	0.6	0.5
		2008	0.5	0.8	1.6	0.9	1.2	0.7	0.9	2.3	1.5	1.0	0.9	0.3	1.3	0.9	1.1	1.1	0.4	0.9	0.5
		2009	-0.2	0.2	1.2	0.2	1.2	-0.6	0.2	2.0	0.8	0.4	0.1	-0.3	0.8	-0.1	1.4	1.5	0.2	0.5	0.4
		2010	0.1	0.4	1.3	0.5	1.1	-0.1	0.5	2.1	1.0	0.5	0.6	-0.1	1.0	0.3	1.2	1.2	0.3	0.7	0.5
	April	2007	0.4	0.5	0.6	1.4	0.6	0.5	0.4	0.8	0.9	0.5	0.5	0.3	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	0.3	0.7	0.5	1.2	2.3	0.8	0.4	0.4
		2009	0.1	0.1	0.6	1.0	0.3	0.3	0.2	0.4	0.4	0.2	0.1	-0.1	0.2	0.5	0.9	2.3	0.3	0.3	-0.1
		2010	0.0	0.2	0.7	1.0	0.4	0.3	0.2	0.6	0.5	0.3	0.2	0.0	0.6	0.3	1.1	2.6	0.5	0.3	0.3
	May	2007	0.2	0.3	0.4	0.3	0.0	-0.1	0.2	0.2	0.2	-0.3	0.3	0.0	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	0.5	0.7	0.5	0.5	0.6	0.4	1.2	1.0	0.8	0.7	0.7	0.4	0.4
		2009	0.1	0.3	0.5	0.1	0.2	0.2	0.4	0.5	0.2	0.1	0.5	0.3	1.0	0.0	0.3	0.7	0.4	0.1	0.2
		2010	0.2	0.2	0.4	0.2	0.2	0.3	0.5	0.6	0.2	0.1	0.6	0.2	1.0	0.1	0.7	0.7	0.4	0.3	0.2
	June	2007	0.1	0.1	0.2	0.2	-0.5	0.1	0.0	0.0	0.0	0.1	0.3	0.1	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	0.4	0.9	0.7	0.5	0.5	0.6	0.4	0.4
		2009	0.2	0.2	0.3	0.1	-0.4	0.2	0.1	0.0	0.1	0.1	0.3	0.3	0.4	0.0	0.0	0.3	0.3	0.2	0.1
		2010	0.1	0.1	0.3	0.1	-0.4	0.3	0.2	0.0	0.1	0.1	0.4	0.3	0.4	0.1	0.3	0.3	0.3	0.3	0.1
	July	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	-0.1	-0.8	-0.7	0.7	-0.6	-0.3	-0.5
		2008	0.7	-0.3	-0.6	-0.5	-0.1	-0.9	-0.3	-0.8	-0.5	-0.3	-0.5	0.0	0.0	-0.4	-0.6	1.9	0.0	-0.5	-0.3
		2009	0.4	-0.2	-0.6	-0.7	-0.3	-1.2	-0.2	-0.8	-0.4	-0.3	-0.4	0.1	0.2	-0.7	-0.8	0.5	-0.2	-0.4	-0.4
		2010	0.4	-0.3	-0.7	-0.6	-0.3	-1.1	-0.2	-0.8	-0.4	-0.3	-0.4	0.2	0.2	-0.7	-0.6	0.5	-0.2	-0.4	-0.4
	August	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	0.1	0.9	0.5	0.5	0.3	-0.1	-0.2
		2008	-0.4	-0.1	0.0	-0.2	0.1	1.1	-0.2	-1.1	-0.4	0.3	0.0	-0.1	-0.7	0.0	0.3	0.3	0.6	0.1	0.2
		2009	0.1	0.3	0.1	0.2	0.2	1.4	-0.1	-1.1	-0.2	0.2	0.2	0.1	-0.1	1.0	0.3	0.3	0.4	0.0	0.0
		2010	0.1	0.3	0.1	0.2	0.2	1.4	-0.1	-1.1	-0.2	0.2	0.1	0.1	-0.1	0.8	0.3	0.3	0.4	0.0	0.0
	September	2007	0.2	0.1	0.8	0.3	0.7	-0.2	0.2	2.3	0.4	0.4	0.3	0.3	0.4	0.1	1.3	0.5	0.1	0.8	0.7
		2008	-0.1	0.0	0.5	0.0	0.5	-0.1	0.4	2.1	0.5	0.6	0.3	0.4	0.0	0.1	1.2	0.0	0.5	1.0	0.5
		2009	0.0	0.1	0.7	0.1	0.6	-0.5	0.3	2.2	0.5	0.5	0.3	0.3	0.2	0.1	1.3	0.2	0.3	0.9	0.6
		2010	0.0	0.1	0.7	0.1	0.6	-0.4	0.3	2.2	0.5	0.5	0.3	0.3	0.2	0.1	1.2	0.2	0.3	0.9	0.6
	October	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	0.7	0.5	0.9	0.1	0.5	0.5	0.5
		2008	-0.3	-0.1	0.5	0.3	-0.2	-0.2	0.0	0.0	-0.2	0.0	-0.4	0.3	0.0	-0.4	0.7	0.9	-0.3	-0.2	-0.2
		2009	0.1	0.1	0.6	0.8	-0.1	0.0	0.3	0.3	0.1	0.1	-0.1	0.3	0.1	0.3	0.8	0.5	0.1	0.2	0.1
		2010	0.2	0.1	0.6	0.8	-0.1	0.0	0.1	0.2	0.1	0.1	-0.3	0.3	0.1	0.1	0.8	0.5	0.1	0.0	0.1
	November	2007	0.5	0.6	0.4	0.7	0.2	0.9	0.5	0.8	0.3	0.3	0.5	0.4	0.9	0.5	0.4	-2.2	0.3	0.5	0.8
		2008	-0.6	-0.5	-0.5	-0.4	-0.4	-0.7	-0.3	-0.2	-0.7	-0.5	-0.1	0.1	-0.9	-1.3	-1.3	-3.0	-0.1	-0.5	-0.3
		2009	0.0	0.1	0.1	0.3	-0.2	-0.4	0.1	0.1	-0.1	-0.2	0.2	0.2	0.1	-0.1	-0.5	-2.9	0.1	0.0	0.0
		2010	0.1	0.1	0.1	0.3	-0.2	-0.4	-0.1	0.0	-0.1	-0.2	0.0	0.2	0.1	-0.4	-0.8	-2.9	0.1	-0.2	0.0
	December	2007	0.7	0.4	0.3	0.4	-0.5	0.4	0.6	0.5	0.1	-0.2	0.1	0.3	0.4	0.4	0.3	0.1	0.6	0.1	-0.1
		2008	0.4	-0.3	-0.1	-0.5	-0.8	-0.1	-0.2	-0.3	-0.5	-0.3	-0.7	-0.1	-0.7	-0.9	-1.0	0.2	-0.4	-0.2	-0.5
		2009	0.9	0.2	0.2	0.1	-0.6	0.0	0.2	0.0	-0.1	-0.1	-0.3	0.1	-0.1	0.0	-0.5	0.2	0.2	0.0	-0.1
		2010	1.0	0.2	0.2	0.1	-0.6	0.0	0.0	-0.1	-0.1	-0.1	-0.5	0.2	-0.1	-0.2	-0.7	0.2	0.2	-0.1	-0.1

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: May 15, 2009



II.2. ECONOMIC GROWTH, INFLATION AND MONETARY POLICY

II.2.1 ECONOMIC GROWTH

In the first quarter of 2009, according to the advanced GDP for the first quarter published by Eurostat, the euro area economy intensified the recession it has been suffering since the second quarter of last year. According to this information, the euro area GDP fell by 2.5% relative to the previous quarter in the first quarter of this year, equivalent to a year-on-year growth rate of -4.6%, after falling by 1.4% in the previous quarter. The weakness of the euro area economy was largely due to the poor German economic figures, as the country registered a quarter-on-quarter decrease of 3.8% and a year-on-year 6.9%, contrasting with the falls of 2.2% and 1.7%, respectively, observed in the previous quarter. This was due to the country's exports and business investments.

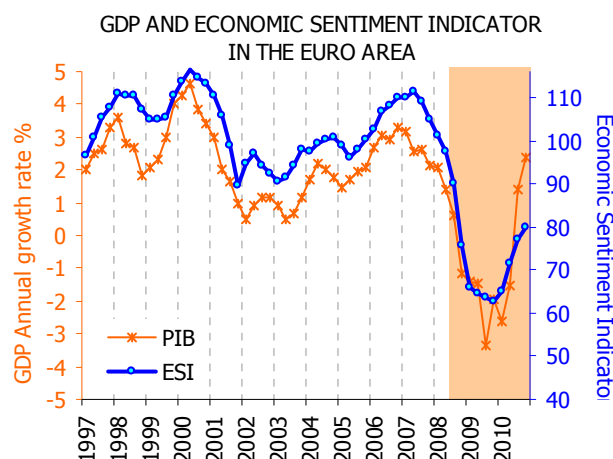
The first quarter for the euro area overall registered a considerable downwards innovation relative to our forecasts, which expected a year-on-year decrease of 3%. The revision of our euro area growth forecasts made with the new information shows a decline in growth expectations for 2009, and we are now forecasting an average annual reduction of 4% for this year, instead of the previous forecast of -3.4%. For 2010, however, the change is small and favourable, due to the positive evolution of leading activity indicators in April. Indeed, the previous forecast for the average growth rate was already positive (0.1%) and it has now improved slightly to 0.2%.

The GDP reduction in 2009 is therefore greater than shown in our previous forecasts, but the leading indicators published in April and May show that this decline is becoming more moderate and that recovery could be sooner and faster than expected. The economy could reach its lowest point in the third quarter of this year and start to recover thanks to private consumption, and aggregate that will start to register positive year-on-year growth rates at the beginning of next year.

The April Economic Sentiment Indicator (ESI) showed an increase of 2.5 point to 67.2. This was better than expected, as our forecast showed a slight reduction. It is now back to the January level and the persistent decline which started in May last year has ceased. The forecasts estimated with the new figure show that the ESI could remain at its present levels or just below them, reaching its lowest point in the third quarter and starting to recover in the last. This recovery would become consolidated in 2010. By sector, the April ESI was

unequal, with advances in confidence in industry, services and consumption, and backwards movements in construction and the retail trade.

Graph II.2.1.1



Source: EUROSTAT & IFL (UC3M)
Date: May 18, 2009

The Industrial Production Index (IPI) for the euro area in March registered a year-on-year decrease of 20.2%, corrected for calendar effect, after a 18.4% fall in February. This was slightly worse than the forecast decrease of 19.4%, but the month-on-month variation was significantly smaller in absolute values than those observed in the previous six months.

Industrial production in the euro area has therefore reached its lowest point for the second consecutive month, although there was a slight improvement in the monthly rate. As mentioned previously, this industrial sector crisis is unprecedented since World War II. Industrial expectations for April, however, have improved and the confidence index grew for the first time since November 2007, to -35 points, three above the previous month figure. Our forecasts show that industrial confidence will continue to decline until the third quarter, albeit less intensely, subsequently starting the recovery that will become consolidated in 2010.

Our IPI forecasts revised with the new information show that the average annual growth rate of this indicator in the euro area will be -17.1% in 2009 and -4.9% in 2010, a slight improvement on our previous forecasts. These estimates show falls until the middle of this year, followed by recovery that will become consolidated in 2010. From a sectoral perspective, all sectors will deteriorate in 2009,



although with considerable differences, and the energy sector will grow in 2010. The least negative sectors will be energy and non-durable goods, which are precisely the less cyclical components. Capital, durable and intermediate goods will perform worse, with average growth rates of over -20% in 2009 and around -10% in 2010.

Table II.2.1.1

IPI IN THE EURO AREA				
year-on-year rates				
	2007	2008	2009	2010
Consumer goods				
Durable	1.2	-5.4	-20.7	-9.5
Non-durable	2.7	-0.9	-5.7	-2.1
Capital	6.4	-0.4	-23.2	-10.9
Intermediate	3.7	-3.4	-24.2	-10.2
Energy	-1.1	-0.6	-0.2	2.7
Total	3.7	-1.8	-17.1	-4.9
	3.6	-1.1	-12.5	-1.5

* IPI data is calendar adjusted and excludes the construction sector.

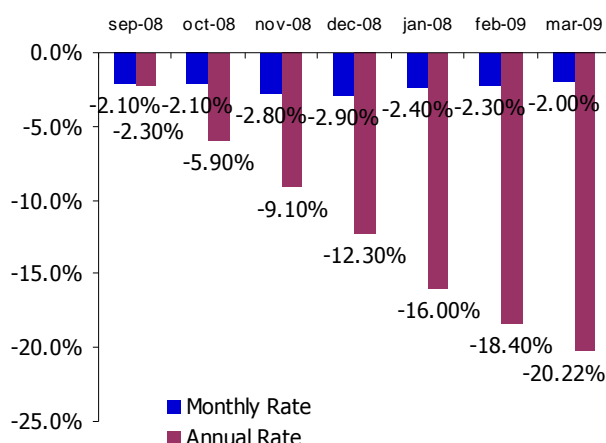
Source: EUROSTAT & IFL (UC3M)

Date: May 13, 2009

The euro area labour market remained practically immune to the economic crisis for most of last year. The effects started to be seen, however, in the last quarter of the year, and the unemployment rate in December was 8% of the active population, having increased by three tenths of a point in one quarter, the same increase it registered in the three previous quarters overall. In turn, employment in that quarter fell by 0.3% relative to the previous three months. The economic crisis is having less impact on the labour market in the euro area than in Spain, where its impact was evident as early as the beginning of 2008.

The effects of the economic crisis on the euro area labour market were more intense in the first quarter of this year, with the March unemployment rate being 8.9%, nearly one point more than at the end of 2008. The forecasts show that this rate will continue to increase in the next few months. In turn, different indicators show that employment remained weak in the first quarter, and the April surveys on new job expectations show a panorama of weak employment.

Graph II.2.1.2



* Month-on-Month growth rate. IPI data is calendar and seasonally adjusted and excludes the construction sector.

Source: EUROSTAT & IFL (UC3M)

Date: May 13, 2009



II.2.2 INFLATION

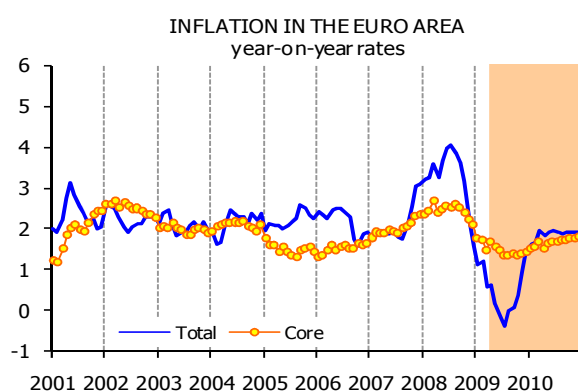
In April, headline inflation was 0.6%, the same as the previous month. Core inflation rose by two tenths of a point to the same level as February, at 1.7%. In spite of the downwards innovations in energy and unprocessed food, prices were largely in line with our forecasts in April. The downwards revision in some sectors are compensated by a slight rise in the expected evolution of service prices, so our headline and core inflation forecasts remain practically unaltered.

Headline inflation is expected to be 0.5%(±0.29) in 2009 versus the previously forecast 0.6%. For 2010, the forecasts remain unaltered at 1.9%(±0.80). For core inflation, we continue to predict an average annual rate of 1.5%(±0.17) for this year and 1.7%(±0.52) for the next.

In view of this information, consumer prices in the euro area are relatively stable, even though the economy is experiencing the worst economic crisis for the last 60 years¹. Among the most important countries, Italy and Germany suffered the greatest declines, whereas the French economy appears to be withstanding the current crisis better.

There are also large differences between countries in the evolution of prices. Although some euro area members have positive inflation rates (Finland, Slovak Republic, Holland and Greece, among others), others (largely Ireland and Portugal) are registering considerable negative inflation rates.

Graph II.2.2.1



Source: EUROSTAT & IFL(UC3M)

Date: May 15, 2009

The differences between the euro area economies have not been a major problem during the long growth phase experienced in the last ten year. In the process of adapting to and overcoming such a large crisis, however, the extent to which such differences could generate conflicts, prevent

¹ The advanced figure for GDP evolution published on 15/05/2009 points to a fall of 4.6% in year-on-year terms in the first quarter of 2009. This is unprecedented and much greater than the drop expected by analysts and our forecasts.

economic support policy coordination and limit the efficacy of monetary policy is not clear. Euro area prices on average continue to remain somewhat stable, but some countries are in situations which are potentially harmful for the euro area's stability.

The main innovations relative to our forecasts have been found this month in energy and unprocessed food.

With regards to energy goods, the downwards innovation resulted from a cut in gas prices in leading euro area economies. In the historic series, it is not usual to find such countries contemporaneously adjusting gas prices to such an extent. Having made the necessary adjustment due to the change in prices on the international markets, in the next few months these prices are likely to evolve normally. Considering this, and the recent rise in the current and expected price of crude oil on the international markets, the forecast for 2009 has been revised downwards, rising slightly for 2010. Prices are expected to register an average negative rate of 8.1% this year and a 3.5% growth in the next.

The fall observed in the inflation rate of unprocessed food does not have an equally clear explanation. Although the largest drops in inflation were found in fruit, price evolution was unusually moderate in all the items in the special group. Another important factor is that a similar downwards innovation (0.5pp) was also observed in March, so this is nothing new and has been consolidated with the April figure.

Table II.2.2.1

ANNUAL RATES OF GROWTH IN THE EURO AREA *						
HICP	Observed		2009 Apr ⁽¹⁾	Forecasts		
	Aver 2007 ⁽²⁾	Aver 2008 ⁽²⁾		2009 May ⁽¹⁾	Aver 2009 ⁽²⁾	Aver 2010 ⁽²⁾
CORE						
82,6%	2.0	2.4	1.7	1.5	1.5	1.7
				(±0.13)	(±0.17)	(±0.52)
TOTAL						
100%	2.1	3.3	0.6	0.1	0.5	1.9
				(±0.11)	(±0.29)	(±0.80)

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

Source: EUROSTAT & IFL (UC3M)

⁽¹⁾ Year-on-year rate

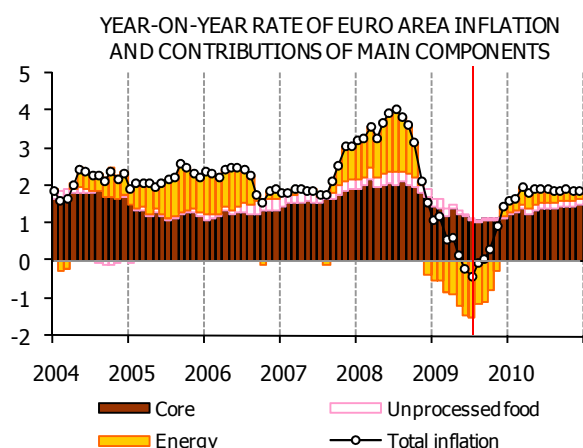
Date: May 15, 2009

Unprocessed food is usually not very exposed to international competition and, relative to other goods, shows low elasticity relative to disposable income. The speed and intensity of the drop in inflation, therefore, which was much greater than that observed in manufactured goods, for instance, is difficult to explain. In Spain, a decisive factor appears to be the current price war among leading supermarket chains. Something similar may be occurring elsewhere in the euro area, but this hypothesis cannot yet be empirically tested.



In the meantime, we have again revised our forecasts for 2009 and 2010 downwards, and now expected average rates of 1.1% and 1.9%, respectively, instead of the previously forecast 2.7% and 2.1%.

Graph II.2.2.2



Source: EUROSTAT & IFL(UC3M)

Date: May 15, 2009

The weight of goods and services with a negative annual variation has risen again this month, largely due to fruit and motor vehicles, which have

registered a negative annual rate again. It is now 18.5%.

With regards to monetary policy, the ECB cut rates in the last meeting again, and considered the possibility of exceeding the lower limit of 1.0% which was self-imposed in previous statements. It also announced a programme to buy debt issued by non-financial firms in order to provide financing to the private sector, which depends much more on banks in Europe than in the US. The details of this plan are not yet known, and neither is the amount of funds to be used or the distribution criteria.

Table II.2.2.2

GOODS AND SERVICES IN THE EURO AREA WITH NEGATIVE ANNUAL RATES IN HICP GROWTH											
Weights x 1000											
Special Group*	COICOP code	Weights 2009	Description	April 2009	March 2009	February 2009	January 2009	QIV-08	QIII-08	Average 2008	
PROCESSED FOOD 28.05	cp0114	22,67	Milk, cheese and eggs	-2,38	-1,82	-1,14	-0,07				
	cp0115	5,38	Oils and fats	-3,47	-2,25	-1,28					
NON-ENERGY INDUSTRIAL GOODS 21.71	cp0311	0,17	Clothing materials	-2,58	-1,33	-0,30	-0,93				
	cp0312	50,18	Garments			-0,42	-1,12				
	cp0531_532	9,38	Major household appliances whether electric or not and small electric household appliances				-0,03	-0,385	-0,72	-0,69	
	cp0711	42,67	Motor cars	-0,26		-0,17					
	cp082	1,81	Telephone and telefax equipment	-12,60	-14,21	-12,32	-14,19	-16,045	-18,73	-16,81	
	cp0911	4,82	Equipment for the reception, recording and reproduction of sound and pictures	-13,37	-13,36	-13,62	-13,10	-12,087	-10,58	-10,76	
	cp0912	1,66	Photographic and cinematographic equipment and optical instruments	-14,65	-15,17	-15,99	-15,84	-15,561	-14,65	-14,19	
	cp0913	4,83	Information processing equipment	-12,09	-12,43	-12,81	-13,70	-15,084	-14,61	-14,62	
	cp0914	3,07	Recording media	-2,03	-3,62	-4,09	-3,09	-3,458	-3,36	-3,06	
	cp0931	5,35	Games, toys and hobbies		-0,23		-0,69	-0,566	-1,17	-0,72	
	cp0933	6,45	Gardens, plants and flowers						-0,19		
	cp0951	6,16	Books						-0,24	-0,09	
SERVICES 51.11	cp0733	6,01	Passenger transport by air		-2,17						
	cp083	27,88	Telephone and telefax services	-1,16	-1,26	-0,81	-1,25	-1,229	-1,24	-1,13	
	cp112	17,22	Accommodation services		-1,15						
NON-PROCESSED FOOD 11.07	CP0113	11,07	Fish and seafood	-0,72	-0,63						
			Fruits	-0,08							
ENERGY 47.41	cp0453	7,47	Liquid fuels	-0,08	-34,78	-25,64	-21,74	-2,61			
	cp0722	39,94	Fuels and lubricants for personal transport equipment	-33,93	-19,00	-15,04	-17,16	-6,383			
Total weight of COICOP classes with negative YoY price variations				185,03	159,35	212,55	179,23	106,21	71,41	64,96	

*Between parenthesis the sum of the weights of the sub-groups with negative YoY price variations

Source: EUROSTAT & IFL(UC3M)

Date: May 15, 2009



II.2.3 MONETARY POLICY

The ECB cut the interest rate to 1.0% as expected. The tremendous fall in GDP growth registered in the first quarter forced the Bank to apply a more flexible monetary policy. In his usual speech, the Governor of the European Central Bank clearly said that this is by no means a bottom limit, thus creating expectations for a further 25 pb cut before the summer.

This puts an end to the lower limit self-imposed by the ECB in previous statements by the governor and other board members. He also announced that the ECB could start to buy debt issued by European firms in order to help with their financing difficulties.

Banks have always been the main source of financing for European businesses. Although the euribor rate is now at its lowest level, the interbank market is still in crisis and that financing channel has narrowed considerably. It is interesting to note that corporate debt issues in the euro area have increased sharply in the last few months and, in spite of the crisis and the uncertainty regarding the economy's future, they were all relatively successful. Firms, abandoned by the banks, are looking to the market for the liquidity and capital they need to cope with the crisis, following a typically American business model.

From the ECB's viewpoint, this situation represents a failure. The unlimited and extremely cheap liquidity that it has provided was not sufficient to reactivate credit for the private sector. Therefore, among the unorthodox measures announced at

the last meeting, the main novelty is the Central Bank's willingness to buy European corporate debt in the next few months. In other words, the ECB will be injecting liquidity directly into the real economy, without using banks as intermediaries. The details and amount of funds involved are still being defined.

With regards to monetary masses, this month has seen the publication of the March 2009 report. As was to be expected, all the rates continued to fall. Annual M3 growth went from 5.8% to 5.1%. There was less deceleration in M1 with the annual rate falling by 0.4pp to 5.9%. Deceleration in credits to the private sector was very intense, with a year-on-year growth rate of 3.2%, compared with the previous month's 4.3%.

The cut in private sector credit growth has affected all sectors, but its effect has been dramatic for non-financial firms. The annual rate in this case went from 7.8% to 3.6%. As for households, the rates are already close to zero, showing that household deleverage is starting to be clearly seen. Total household credit growth went from 0.7% to 0.4%. The growth rate of mortgage loans fell to 0.1% from the previous month's 0.4%.

In sum, the private sector, because of the crisis and the credit restrictions applied by banks, is starting to adjust its balance sheets. The ECB, in view of the significance of the economic crisis, especially in Germany, has not closed the door to new cuts and it has started to study how to directly inject liquidity into leading euro area businesses.



I.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>
	RESIDUAL INFLATION 17.417% 5 + 6 RESIDUAL INFLATION (IT IS CALCULATED ON THE RESIDUAL INDEX)		(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>
HICP = 0.09643 AE + 0.02263 TOBACCO + 0.29773 MAN + 0.40904 SER + 0.07604 ANE + 0.09812 ENE			

(a) Our definition of AE, processed food, does not include tobacco prices.

Source: EUROSTAT & IFL (UC3M)
2009 weights

OBSERVED VALUES AND FORECASTS FOR THE EURO AREA HICP Monthly rates, April 2009				
Harmonised Index of Consumer Price (HICP)	Weights 2009	Observed rates	Forecast*	Confidence intervals **
(1) Processed Food	118.8	-0.03	0.04	± 0.38
(2) Tobacco	22.6	0.36	0.54	
(3) Processed Food excluding tobacco [1-2]	96.2	-0.12	-0.07	
(4) Non Energy Industrial Goods	297.2	0.65	0.67	± 0.22
(5) Services	413.7	0.38	0.26	± 0.14
CORE INFLATION [1+4+5]	829.7	0.41	0.37	± 0.13
(6) Unprocessed Food	74.6	-0.08	0.52	± 0.72
(7) Energy	95.7	0.24	1.58	± 0.86
RESIDUAL INFLATION [6+7]	170.3	0.11	1.11	± 0.57
HEADLINE INFLATION [1+4+5+6+7]	1000	0.36	0.50	± 0.11

* Forecasts published in the previous bulletin

** 80% Confidence intervals

Source: EUROSTAT & IFL(UC3M)
Date: May 15, 2009



OBSERVED VALUES AND FORECASTS FOR THE EURO AREA HICP Year-on-year rates, April 2009				
Harmonised Index of Consumer Price (HICP)	Weights 2009	Observed rates	Forecast*	Confidence intervals (*)
(1) Processed Food	118.77	1.22	1.29	± 0.38
(2) Tobacco	22.61	3.38	3.56	
(3) Processed Food excluding tobacco [1-2]	96.16	0.71	0.76	
(4) Non Energy Industrial Goods	297.24	0.81	0.83	± 0.22
(5) Services	413.73	2.46	2.35	± 0.14
CORE INFLATION [1+4+5]	829.74	1.69	1.65	± 0.13
(6) Unprocessed Food	74.55	1.60	2.21	± 0.72
(7) Energy	95.71	-8.80	-7.58	± 0.86
RESIDUAL INFLATION [6+7]	170.26	-4.35	-3.39	± 0.57
HEADLINE INFLATION [1+4+5+6+7]	1000	0.61	0.75	± 0.11

* Forecasts published in the previous bulletin

** 80% Confidence intervals

Source: EUROSTAT & IFL(UC3M)

Date: May 15, 2009

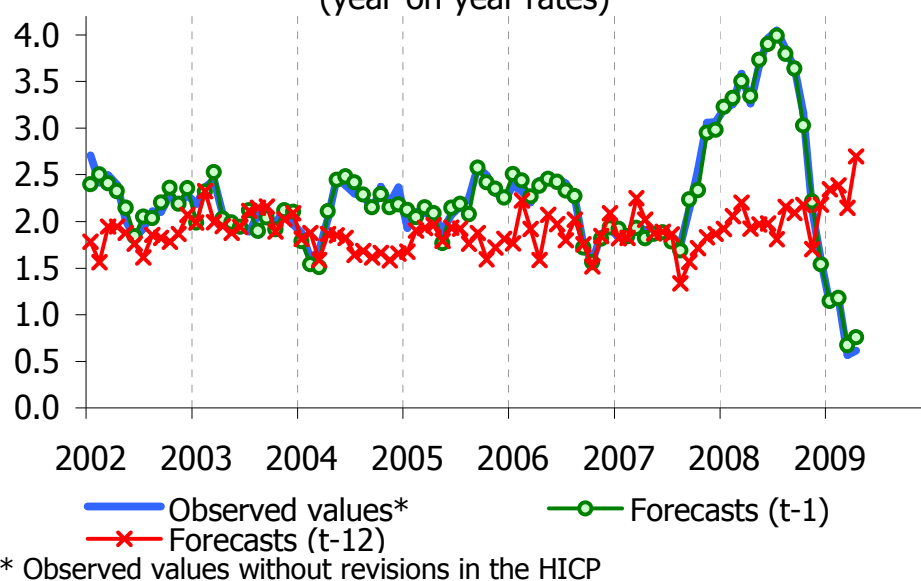
OBSERVED VALUES AND FORECASTS OF THE HICP BY COUNTRIES IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK Monthly rates, April 2009				
	Weights 2009 Euro area	Observed Monthly Rate	Forecast	Confidence Intervals at 80%
Germany	260.74	0.1	0.0	± 0.29
France	205.97	0.1	0.4	± 0.20
Italy	184.97	0.6	0.5	± 0.23
Spain	127.92	1.0	1.0	± 0.15
Netherlands	50.94	0.3	0.4	± 0.33
Belgium	33.85	0.3	0.4	± 0.32
Austria	30.23	0.2	0.3	± 0.37
Greece	34.55	0.4	0.8	± 0.78
Portugal	21.99	0.4	0.5	± 0.66
Finland	16.81	0.2	0.3	± 0.37
Ireland	15.64	0.1	0.1	± 0.30
Slovakia	6.77	-0.1	0.2	
Slovenia	3.71	0.2	0.4	± 0.24
Luxembourg	2.60	0.5	0.2	± 0.32
Cyprus	2.50	0.9	1.1	
Malta	0.81	2.3	2.8	
United Kingdom		0.3	0.5	± 0.33
Sweden		0.3	0.4	± 0.50
Denmark		-0.1	0.3	± 0.27

Source: EUROSTAT & IFL(UC3M)

Date: May 15, 2009

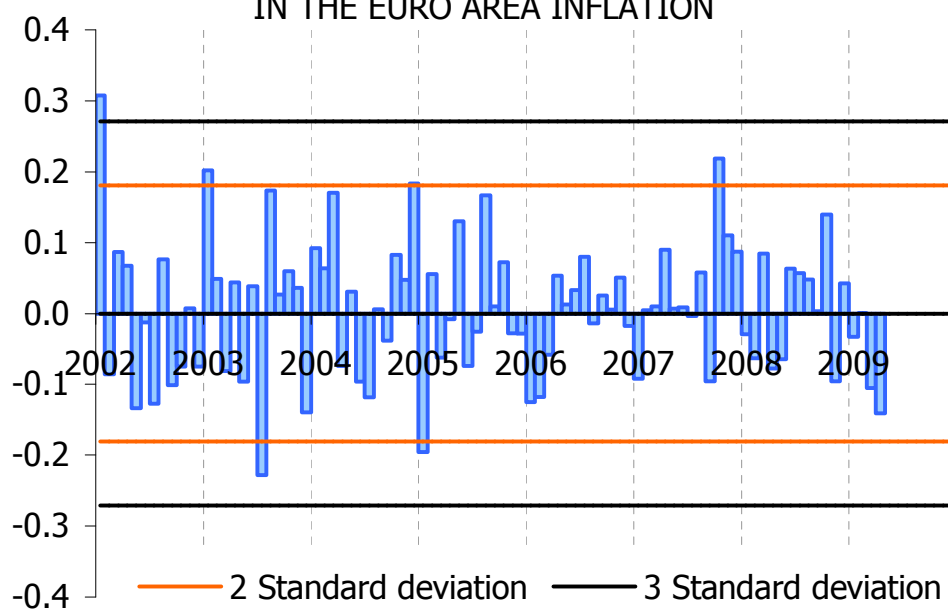


ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS FOR THE EURO AREA HICP (year-on-year rates)



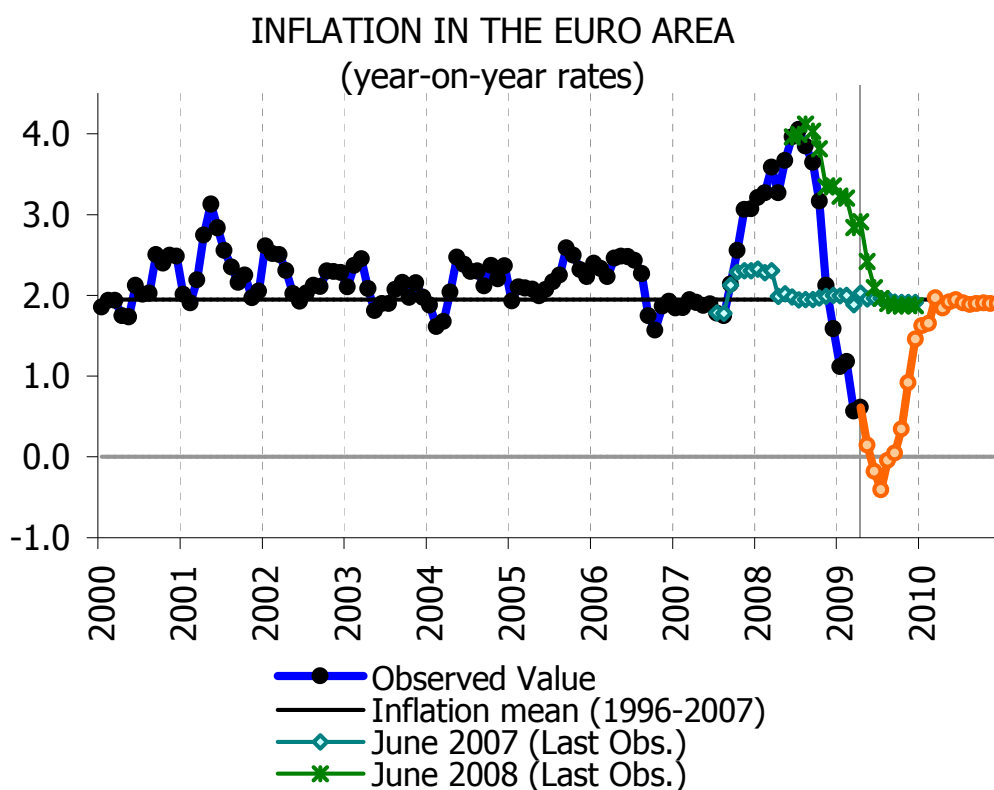
Source : EUROSTAT & IFL(UC3M)
Date: May 15, 2009

ONE MONTH AHEAD FORECAST ERRORS IN THE EURO AREA INFLATION

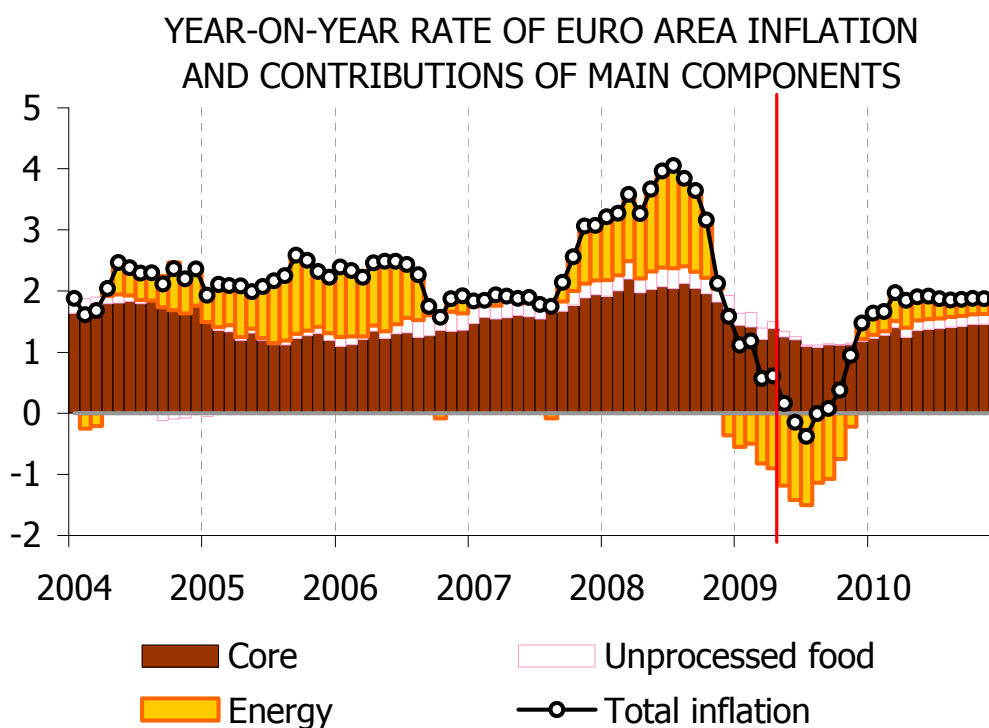


Source : EUROSTAT & IFL(UC3M)
Date: May 15, 2009



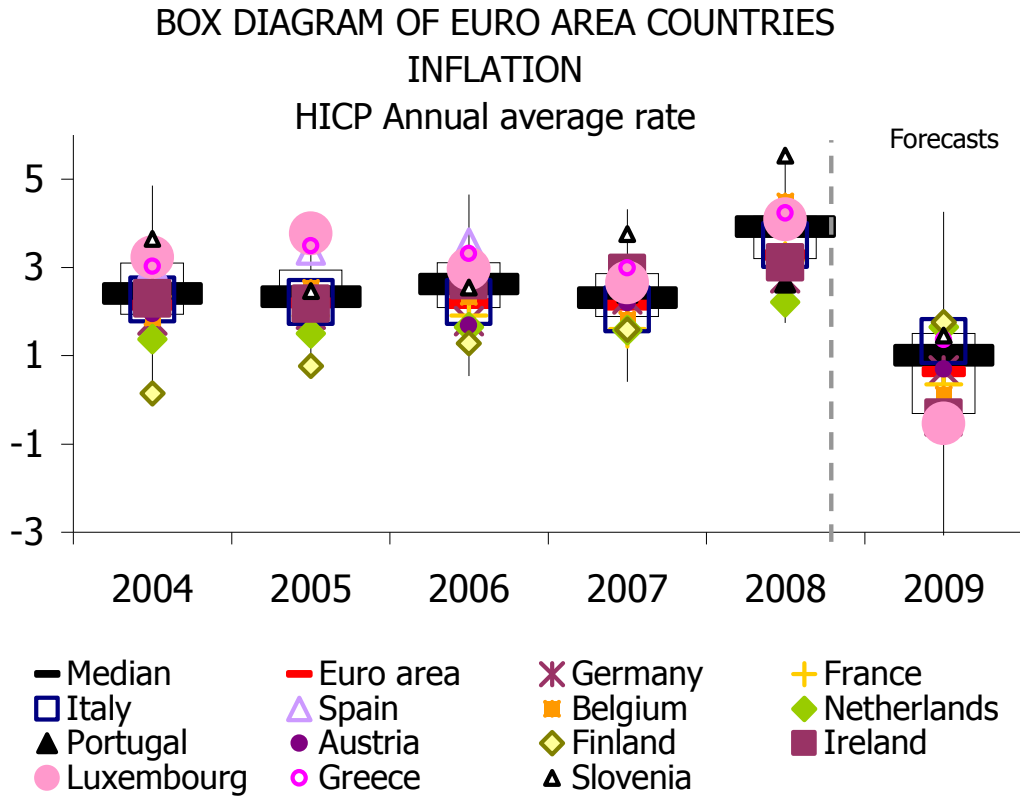


Source: EUROSTAT & IFL(UC3M)
Date: May 15, 2009

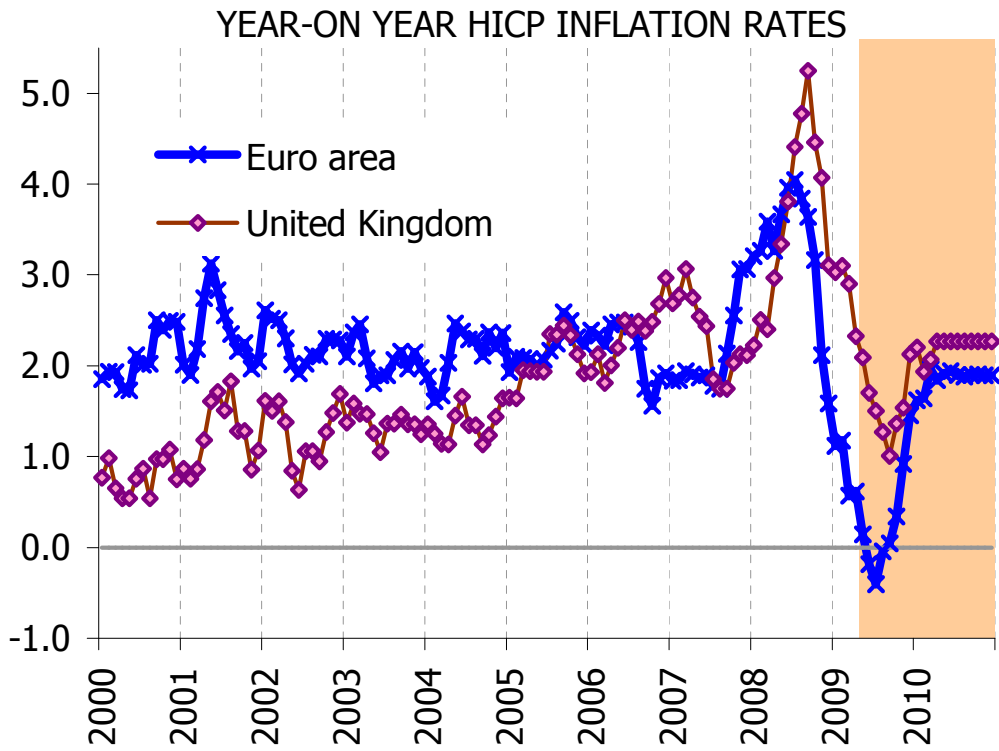


Source: EUROSTAT & IFL(UC3M)
Date: May 15, 2009





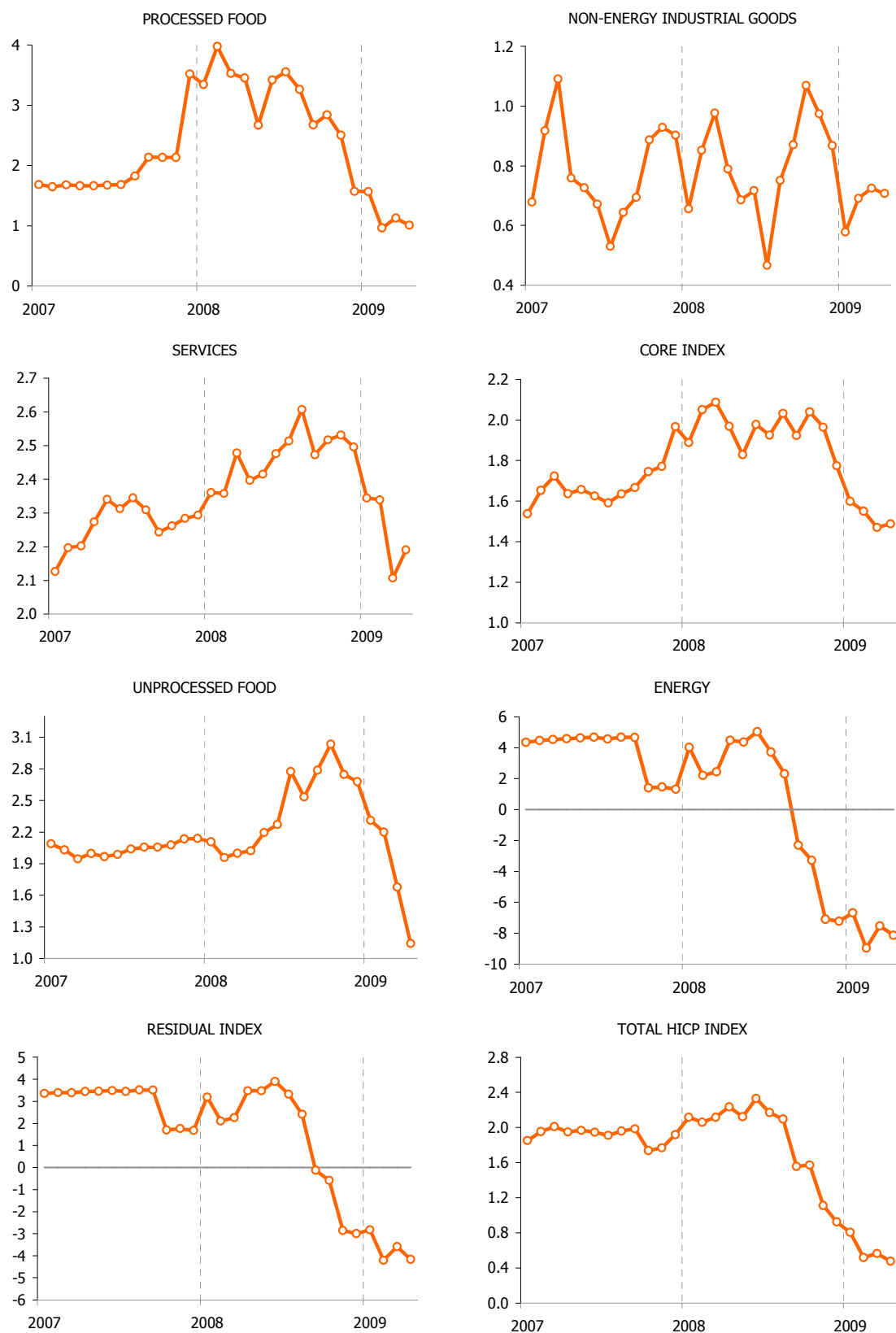
Source: EUROSTAT & IFL(UC3M)
Date: May 15, 20098



Source: EUROSTAT & IFL(UC3M)
Date: May 15, 2009



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: May 15, 2009



III. UNITED STATES.

III.1 MACROECONOMIC FORECASTS.

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

Table III.1.1.1

ANNUAL GROWTH RATES IN THE IPI AND SECTORS IN U.S.							
		Consumer Goods		Capital Goods	Intermediate Goods	TOTAL	
		Durable	Non Durable				
ANNUAL AVERAGE RATES	2005	0.5	3.4	5.4	2.4	3.3	
	2006	-1.0	0.9	4.2	2.4	2.3	
	2007	0.4	1.1	1.5	2.0	1.5	
	2008	-9.9	-0.5	-2.4	-1.9	-2.2	
	2009	-23.6	-2.9	-14.5	-14.8	-13.2	
	2010	-10.9	-0.9	-8.0	-7.2	-6.3	
ANNUAL RATES*	2008	TI	-3.4	-0.1	1.6	2.5	0.1
		TII	-8.6	0.4	-0.1	0.8	1.3
		TIII	-10.9	-1.8	-3.3	-2.8	1.7
		TIV	-16.8	-0.3	-7.6	-7.8	3.2
	2009	TI	-25.1	-2.3	-12.3	-13.4	3.1
		TII	-23.2	-3.8	-14.4	-16.0	1.7
		TIII	-24.4	-2.9	-16.3	-15.9	0.9
		TIV	-21.7	-2.7	-15.0	-13.8	-0.6
	2010	TI	-18.7	-1.6	-12.4	-10.9	0.6
		TII	-14.5	-0.7	-9.3	-7.8	1.0
		TIII	-4.0	-0.6	-6.1	-6.0	1.5
		TIV	-4.9	-0.8	-3.7	-3.7	1.7

Source: Federal Reserve & IFL(UC3M)

Date: May 14, 2009

Table III.1.1.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN U.S.							
	2004	2005	2006	2007	2008	2009	2010
January	1.5	3.8	2.1	1.2	2.3	-10.4	-11.4
February	2.0	3.1	1.7	1.7	0.9	-11.4	-10.3
March	1.3	3.4	2.6	1.0	0.5	-12.6	-9.3
April	2.5	4.3	1.3	1.9	0.5	-13.7	-7.7
May	3.4	3.0	2.4	1.5	-0.4	-14.0	-6.9
June	2.5	4.2	2.4	1.2	-0.8	-14.3	-6.2
July	3.6	3.9	3.1	1.3	-0.6	-14.7	-4.5
August	2.7	3.7	2.7	1.1	-2.4	-14.6	-4.7
September	2.0	2.0	3.9	1.8	-6.5	-14.1	-4.2
October	3.0	1.9	2.6	1.4	-5.0	-13.5	-3.7
November	2.4	2.8	1.3	2.3	-6.6	-12.9	-2.8
December	3.4	3.1	1.3	1.7	-8.4	-12.2	-2.3

Source: Federal Reserve & IFL(UC3M)

Date: May 14, 2009



III.1.2 INFLATION.

Table III.1.2.1

AVERAGE ANNUAL RATE OF GROWTH IN U.S.						
Consumer Price Index	2005	2006	2007	2008	2009	2010
TOTAL INFLATION	3.4	3.2	2.9	3.8	-0.4	2.2
less Owner's equivalent rent of primary residence	3.7	3.1	2.7	4.3	-1.3	2.2
CORE INFLATION	2.2	2.5	2.3	2.3	1.8	1.9
less Owner's equivalent rent of primary residence	2.1	2.1	1.9	2.2	1.6	1.6
Non-food and non-energy goods	0.5	0.3	-0.4	0.1	0.7	0.4
Less tobacco	0.3	0.1	-0.7	-0.1	-0.1	-0.1
- Durable goods	0.4	-0.7	-1.7	-1.4	-1.9	-1.1
- Non-durable goods	0.6	1.2	1.0	1.7	3.3	1.7
Non-energy services	2.8	3.4	3.4	3.1	2.2	2.5
- Services less Owner's equivalent rent of primary residence	3.1	3.3	3.4	3.6	2.3	2.5
- Owner's equivalent rent of primary residence	2.3	3.5	3.4	2.5	2.2	2.4
RESIDUAL INFLATION	7.6	5.8	5.1	9.0	-7.4	3.4
Food	2.4	2.3	4.0	5.5	2.1	0.9
Energy	16.9	11.2	5.5	13.9	-20.4	7.6

Source: BLS & IFL (UC3M)

Date: May 15, 2009



Table III.1.2.2

CPI ANNUAL GROWTH BY COMPONENTS IN USA															
		Consumer Price Index													
		Core							Residual			TOTAL 100% Confidence Intervals at 80% level			
		Non-energy commodities less food			Non-energy services										
		Durables	Non durables	All	Owner's equivalent rent of primary residence	Other services	All	TOTAL	Confidence Intervals at 80% level	Food	Energy			TOTAL	
RI December 08	###	11.0%	###	24.4%	###	###	77.7%		14.6%	7.6%	22.3%				
	2001	-0.6	1.0	0.3	3.8	3.6	3.7	2.7		3.1	3.8	3.3	2.8		
	2002	-2.6	0.4	-1.1	4.1	3.5	3.8	2.3		1.8	-5.9	-0.8	1.6		
	2003	-3.2	-0.7	-2.0	2.4	3.3	2.9	1.5		2.1	12.2	5.3	2.3		
	2004	-2.3	0.4	-0.9	2.3	3.6	2.9	1.8		3.4	10.9	6.0	2.7		
	2005	0.4	0.6	0.5	2.3	3.1	2.8	2.2		2.4	16.9	7.6	3.4		
	2006	-0.7	1.2	0.3	3.5	3.3	3.4	2.5		2.3	11.2	5.8	3.2		
	2007	-1.7	1.0	-0.4	3.4	3.4	3.4	2.3		4.0	5.5	5.1	2.9		
	2008	-1.4	1.7	0.1	2.5	3.6	3.1	2.3		5.5	13.9	9.0	3.8		
	2009	-1.9	3.3	0.7	2.2	2.3	2.2	1.8	± 0.18	2.1	-20.4	-7.4	-0.4	± 0.65	
	2010	-1.1	1.7	0.4	2.4	2.5	2.5	1.9	± 0.39	0.9	7.6	3.4	2.2	± 1.28	
ANNUAL RATES (growth of the month over the same month of the previous year)	2008	January	-0.9	1.2	0.2	2.8	3.8	3.4	2.5		4.9	19.6	10.7	4.3	
		February	-1.0	1.0	0.0	2.6	3.5	3.2	2.3		4.6	18.9	10.2	4.0	
		March	-1.0	1.0	0.0	2.6	3.8	3.3	2.4		4.5	17.0	9.6	4.0	
		April	-1.2	1.4	0.1	2.6	3.5	3.1	2.3		5.1	15.9	9.6	3.9	
		May	-1.1	1.4	0.1	2.6	3.6	3.2	2.3		5.1	17.4	10.4	4.2	
		June	-1.0	1.5	0.2	2.6	3.8	3.3	2.4		5.3	24.7	13.7	5.0	
		July	-0.8	2.0	0.6	2.6	3.8	3.3	2.5		6.0	29.3	15.8	5.6	
		August	-1.1	2.5	0.6	2.5	3.9	3.3	2.5		6.1	27.2	14.7	5.4	
		September	-1.5	2.5	0.5	2.4	3.9	3.2	2.5		6.2	23.1	13.0	4.9	
		October	-2.0	2.2	0.1	2.3	3.6	3.0	2.2		6.3	11.5	8.3	3.7	
		November	-2.6	2.1	-0.2	2.3	3.3	2.9	2.0		6.0	-13.3	-1.9	1.1	
		December	-2.9	1.8	-0.6	2.1	3.1	2.7	1.8		5.9	-21.3	-5.3	0.1	
	2009	January	-2.9	1.9	-0.5	2.2	2.8	2.5	1.7		5.3	-20.4	-5.3	0.0	
		February	-2.6	2.5	0.0	2.1	2.8	2.5	1.8		4.8	-18.5	-4.8	0.2	
		March	-2.5	3.3	0.4	2.1	2.4	2.3	1.8		4.4	-23.0	-7.2	-0.4	
		April	-2.0	3.9	0.9	2.1	2.4	2.3	1.9		3.3	-25.2	-9.0	-0.7	
		May	-2.1	4.0	1.0	2.1	2.3	2.2	1.9	± 0.13	2.8	-27.4	-10.7	-1.3	± 0.13
		June	-2.0	3.9	1.0	2.1	2.0	2.0	1.7	± 0.20	2.2	-29.1	-12.3	-1.8	± 0.43
		July	-2.1	3.5	0.7	2.2	1.9	2.0	1.7	± 0.27	1.4	-29.5	-13.0	-2.1	± 0.81
		August	-1.9	3.3	0.7	2.2	1.9	2.1	1.7	± 0.33	0.9	-25.5	-11.0	-1.5	± 1.16
		September	-1.6	3.2	0.8	2.2	1.9	2.1	1.7	± 0.37	0.3	-23.5	-10.2	-1.3	± 1.45
		October	-1.3	3.3	1.1	2.3	2.1	2.2	1.9	± 0.41	-0.1	-17.1	-7.1	-0.3	± 1.69
		November	-0.9	3.2	1.2	2.3	2.2	2.2	2.0	± 0.44	-0.1	1.1	0.4	1.6	± 1.85
		December	-0.7	3.3	1.3	2.4	2.3	2.3	2.1	± 0.47	0.0	11.5	4.0	2.5	± 1.95
	2010	January	-0.8	3.2	1.2	2.4	2.3	2.3	2.0	± 0.50	0.2	9.8	3.5	2.3	± 1.99
		February	-1.1	2.8	0.9	2.4	2.3	2.4	2.0	± 0.52	0.5	7.7	3.0	2.2	± 1.99
		March	-1.2	2.1	0.5	2.4	2.4	2.4	1.9	± 0.55	0.6	11.1	4.3	2.4	± 1.96
		April	-1.4	1.5	0.1	2.4	2.5	2.5	1.8	± 0.57	0.9	11.5	4.6	2.4	± 1.93
		May	-1.1	1.4	0.2	2.4	2.5	2.5	1.8	± 0.57	0.9	10.0	4.2	2.4	± 2.00
		June	-1.1	1.4	0.2	2.3	2.6	2.5	1.9	± 0.57	0.9	7.9	3.5	2.2	± 2.02
		July	-1.1	1.4	0.2	2.4	2.5	2.5	1.8	± 0.57	1.0	6.8	3.2	2.2	± 2.07
		August	-1.1	1.4	0.2	2.4	2.5	2.5	1.8	± 0.57	1.0	5.6	2.8	2.1	± 2.08
		September	-1.0	1.4	0.3	2.4	2.5	2.5	1.9	± 0.57	1.1	6.7	3.2	2.2	± 2.09
		October	-1.0	1.4	0.3	2.4	2.6	2.5	1.9	± 0.57	1.2	5.9	2.9	2.1	± 2.12
		November	-1.0	1.4	0.3	2.4	2.6	2.5	1.9	± 0.57	1.3	4.4	2.4	2.0	± 2.16
		December	-1.1	1.4	0.2	2.5	2.6	2.6	1.9	± 0.57	1.4	4.9	2.7	2.1	± 2.21

Confidence intervals are calculated with historical errors. The figures in the shaded area are forecasts.

Source: BLS & IFL (UC3M)

Date: May 15, 2009



Table III.1.2.3

CPI MONTHLY GROWTH BY COMPONENTS IN USA													
		Consumer Price Index											
		Core						TOTAL	Residual			TOTAL 100%	
		Non-energy commodities less food			Non-energy services				Food	Energy	TOTAL		
		Durables	Non durables	All	Owner's equivalent rent of primary residence	Other services	All						
RI December 08		10.5%	11.0%	21.5%	24.4%	31.9%	56.3%	77.7%	14.6%	7.6%	22.3%		
MONTHLY RATES (Growth of the month over the previous month)	January	2007	0.0	-0.4	-0.2	0.2	0.8	0.5	0.3	0.9	-0.9	0.2	0.3
		2008	0.2	-0.4	-0.1	0.2	0.8	0.6	0.4	0.9	0.9	0.9	0.5
		2009	0.2	-0.4	-0.1	0.2	0.6	0.4	0.3	0.4	2.0	1.0	0.4
		2010	0.1	-0.5	-0.2	0.2	0.5	0.4	0.2	0.6	0.4	0.5	0.3
	February	2007	0.0	1.0	0.5	0.3	0.7	0.5	0.5	0.6	0.5	0.6	0.5
		2008	-0.2	0.9	0.3	0.1	0.5	0.3	0.3	0.3	-0.1	0.1	0.3
		2009	0.2	1.5	0.8	0.1	0.4	0.3	0.4	-0.2	2.4	0.7	0.5
		2010	-0.1	1.1	0.5	0.2	0.5	0.3	0.4	0.0	0.4	0.2	0.3
	March	2007	0.0	1.1	0.5	0.2	0.4	0.3	0.4	0.2	6.8	2.7	0.9
		2008	0.0	1.1	0.5	0.2	0.6	0.4	0.5	0.1	5.1	2.2	0.9
		2009	0.0	1.9	1.0	0.2	0.2	0.2	0.4	-0.3	-0.7	-0.4	0.2
		2010	-0.1	1.3	0.6	0.2	0.4	0.3	0.4	-0.2	2.4	0.8	0.5
	April	2007	-0.2	0.1	0.0	0.2	0.4	0.3	0.2	0.2	5.2	2.2	0.6
		2008	-0.3	0.5	0.1	0.2	0.0	0.1	0.1	0.8	4.2	2.3	0.6
		2009	0.1	1.0	0.6	0.1	0.1	0.1	0.2	-0.2	1.3	0.3	0.2
		2010	-0.1	0.3	0.2	0.1	0.2	0.1	0.2	0.1	1.6	0.6	0.3
	May	2007	-0.3	-0.4	-0.3	0.1	0.2	0.1	0.0	0.5	5.7	2.5	0.6
		2008	-0.3	-0.4	-0.3	0.1	0.3	0.2	0.1	0.5	7.0	3.3	0.8
		2009	-0.3	-0.3	-0.3	0.1	0.2	0.1	0.0	0.0	3.9	1.4	0.3
		2010	0.0	-0.3	-0.2	0.1	0.1	0.1	0.0	0.0	2.5	0.9	0.2
	June	2007	-0.2	-1.1	-0.7	0.2	0.5	0.4	0.1	0.3	0.9	0.6	0.2
		2008	-0.1	-0.9	-0.5	0.2	0.6	0.4	0.2	0.6	7.2	3.5	1.0
		2009	0.0	-1.0	-0.5	0.2	0.3	0.3	0.1	-0.1	4.7	1.7	0.4
		2010	0.0	-1.0	-0.5	0.2	0.4	0.3	0.1	0.0	2.7	1.0	0.3
	July	2007	-0.2	-1.0	-0.6	0.2	0.6	0.4	0.1	0.3	-1.7	-0.5	0.0
		2008	0.0	-0.6	-0.3	0.1	0.6	0.4	0.2	1.0	1.9	1.4	0.5
		2009	-0.1	-1.0	-0.5	0.2	0.6	0.4	0.2	0.1	1.2	0.5	0.2
		2010	-0.1	-1.0	-0.5	0.2	0.6	0.4	0.2	0.2	0.3	0.2	0.2
	August	2007	-0.1	0.3	0.1	0.3	0.1	0.2	0.2	0.4	-3.7	-1.2	-0.2
		2008	-0.4	0.8	0.2	0.2	0.2	0.2	0.2	0.5	-5.2	-2.1	-0.4
		2009	-0.3	0.6	0.1	0.2	0.2	0.2	0.2	0.0	0.3	0.1	0.2
		2010	-0.3	0.6	0.2	0.2	0.2	0.2	0.2	0.1	-0.9	-0.3	0.1
	September	2007	-0.3	1.6	0.7	0.3	-0.1	0.1	0.2	0.5	0.2	0.4	0.3
		2008	-0.6	1.7	0.5	0.2	-0.1	0.0	0.2	0.6	-3.1	-1.1	-0.1
		2009	-0.3	1.6	0.7	0.2	-0.1	0.1	0.2	0.0	-0.6	-0.2	0.1
		2010	-0.3	1.7	0.7	0.2	-0.1	0.1	0.2	0.1	0.4	0.2	0.2
	October	2007	0.1	0.8	0.5	0.2	0.3	0.3	0.3	0.4	-1.0	-0.1	0.2
		2008	-0.4	0.5	0.1	0.2	0.0	0.1	0.1	0.5	-10.3	-4.3	-1.0
		2009	0.0	0.6	0.3	0.3	0.1	0.2	0.2	0.1	-2.8	-1.0	0.0
		2010	0.0	0.6	0.4	0.3	0.2	0.2	0.3	0.2	-3.5	-1.2	-0.1
	November	2007	0.2	-0.1	0.0	0.3	-0.1	0.1	0.1	0.2	5.5	2.3	0.6
		2008	-0.4	-0.2	-0.3	0.3	-0.4	-0.1	-0.2	0.0	-18.0	-7.4	-1.9
		2009	-0.1	-0.3	-0.2	0.3	-0.3	0.0	-0.1	0.0	0.1	0.0	-0.1
		2010	-0.1	-0.3	-0.2	0.3	-0.2	0.0	0.0	0.0	-1.3	-0.5	-0.1
	December	2007	0.0	-0.8	-0.4	0.3	0.0	0.1	0.0	0.2	-0.7	-0.1	-0.1
		2008	-0.3	-1.1	-0.7	0.1	-0.2	-0.1	-0.3	0.0	-9.9	-3.6	-1.0
		2009	-0.1	-1.0	-0.6	0.2	-0.2	0.0	-0.2	0.1	-0.7	-0.2	-0.2
		2010	-0.2	-1.0	-0.6	0.2	-0.2	0.0	-0.2	0.2	-0.1	0.1	-0.1

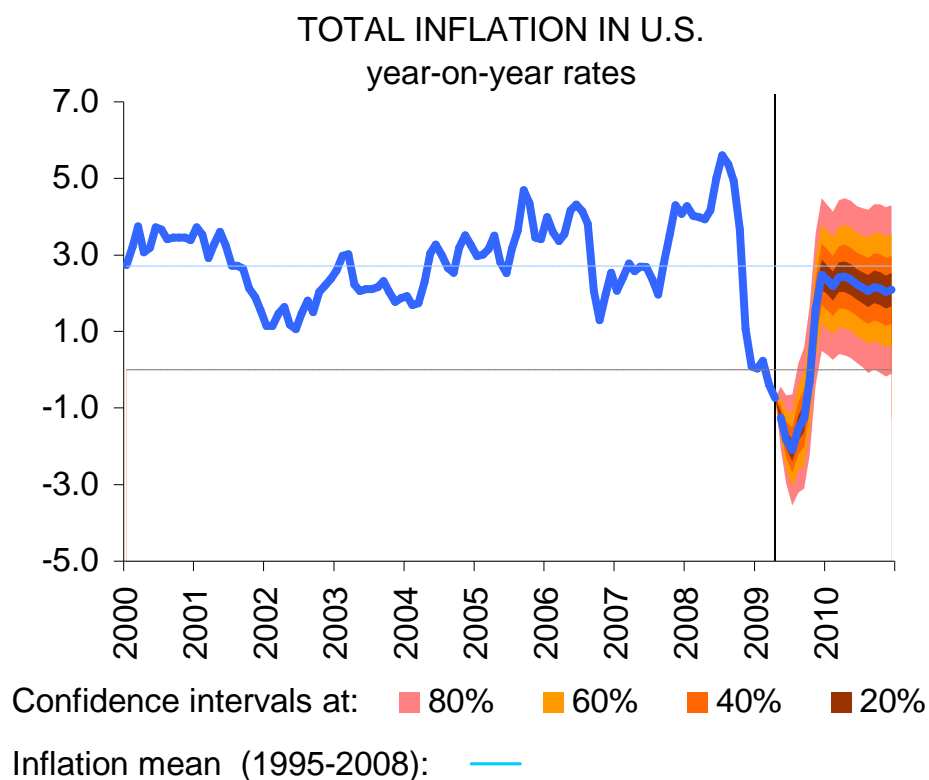
The figures in the shaded area are forecasts

Source: BLS & IFL (UC3M)

Date: May 15, 2009

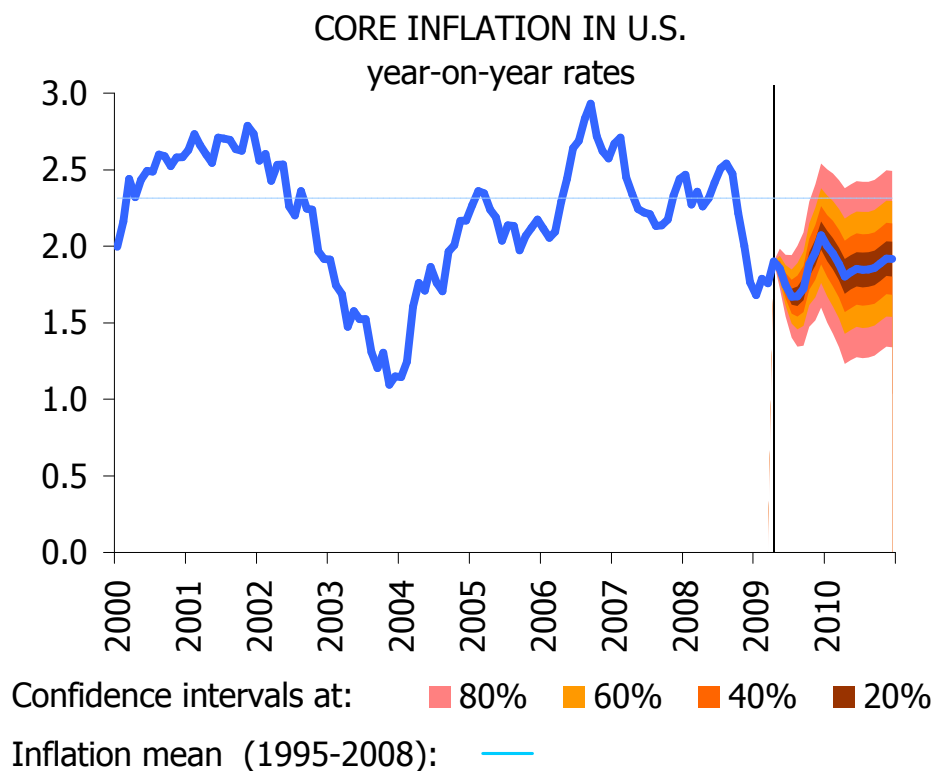


Graph III.1.2.1



Source :BLS & IFL (UC3M)
Date: May 15, 2009

Graph III.1.2.2



Source :BLS & IFL (UC3M)
Date: May 15, 2009



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

- The general CPI was much as expected.
- Core inflation, however, was higher than expected, for the second consecutive month, due to tobacco and durable goods prices.
- Core inflation expectations have been corrected upwards.
- The crude oil price scenario is somewhat worse than last month.
- Deflation has been ruled out and the core PCE forecasts are above the FED's central tendency (28-29 April).
- The relative weight of goods and services with a negative annual rate has risen slightly to 24.3%.

In the US in April, consumer prices rose by a monthly 0.25%², similar to the forecast 0.16%. The annual rate fell from -0.38% to -0.74%.

In total aggregate terms, the prices of both durable and non-durable (tobacco) non-energy industrial goods registered higher than the expected values; this was only partly compensated by the downwards evolution of some food and gas prices.

Indeed, core index prices rose by a monthly 0.23% instead of the forecast 0.05%. The annual rate rose from 1.76% to 1.90%.

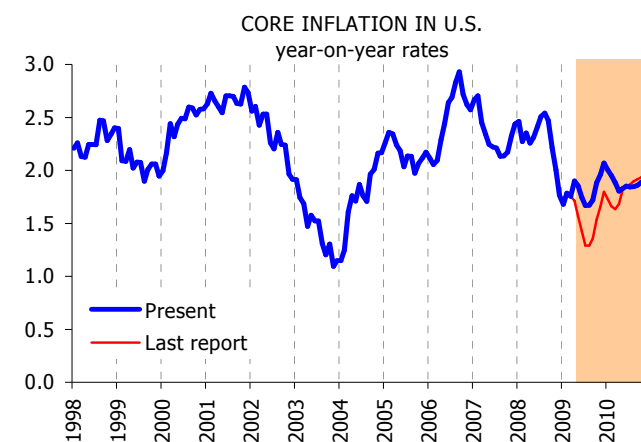
Service prices, however, were as forecast, with a 0.10% increase instead of the expected 0.09%, and with the annual rate remaining at 2.3%. However, home rental prices registered smaller than expected variations which were compensated by higher rises in transport and communications.

In the last few months, durable goods and tobacco prices have been particularly significant within core inflation. Tobacco prices rose due to taxes by 11.04% in March and 9.33% in April, so the annual rate went from 6.31% in February to 28.82% in April (see Graph III.2.2). With regards to durable goods, car prices have registered an important rise in their annual rate in the last few months, going from a negative rate of 3.19% in December last year to a still negative 0.23% in April. In other words, while the demand for

durable goods in general and cars in particular is so low, car prices have added three points to their annual rate. A small part of this is due to the slightly negative impact of import prices (with a weak dollar), as production prices evolved as expected. This permanent upwards deviation has led us to rectify the forecasting model, and to make a change in the intervention analysis, thus leading to an upwards change in our forecasts.

As a result of the above, our core inflation expectations have been revised upwards (see Graph III.2.1).

Graph III.2.1



Source: BLS & IFL

Date: May 25, 2009

With regards to the prices not included in the core index, food prices registered a variation much as expected, with a heavy deceleration in the annual rate, which went from 4.40% to 3.34%. As considered by our models, this was due to the fall in food prices on the international markets in the previous months.

As for energy, gas prices were better than expected, while other items evolved much as forecast.

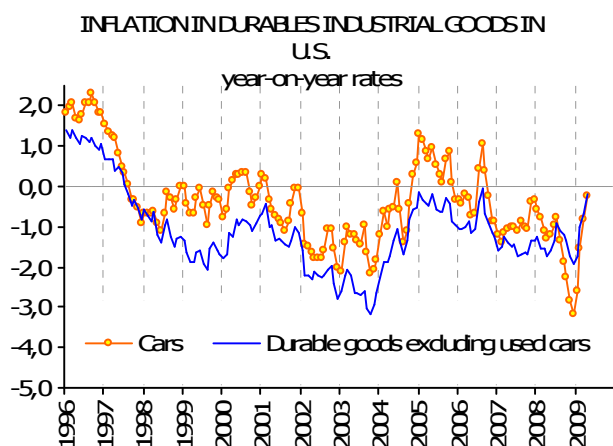
Crude oil prices on the international markets in May showed an average of around 58\$ per barrel of West Texas, representing an 8\$ increase relative to last month. Future prices maintain this difference throughout the period of analysis (see Graph A4).

As usual in our last reports, Table III.2.2, using the maximum disaggregation, shows all the sub-classes of goods and services with prices showing negative annual variations. The relative importance of this group relative to the total CPI has increased slightly this month to more than 24%.

² In our reports, unless differently specified, only non-seasonally adjusted data are used.



Graph III.2.2

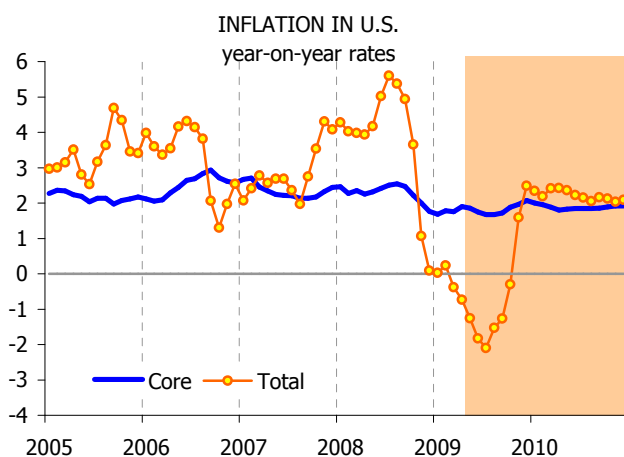


Source: BLS & IFL

Date: May 25, 2009

Expectations for the general CPI in the next few months have changed upwards, and the forecast profile of year on year rates shows intense deceleration until the lowest point of -2.1% is reached in July this year, subsequently stabilising at around 2.5% in December (see Graph III.2.3).

Graph III.2.3



Source: BLS & IFL

Date: May 25, 2009

For the general CPI, a monthly increase of 0.31% (± 0.13) is expected for May, with the annual rate falling to -1.26%.

The forecast for core inflation is a monthly increase of 0.01% (± 0.13), with the annual rate falling from today's 1.90% to 1.85%.

For **2009 and 2010**, we are forecasting average annual core inflation rates of 1.81% (± 0.18)³ and 1.88% (± 0.39), respectively, 0.24% and 0.05% higher than last month's forecasts (Table III.2.1 and Graph III.2.1).

³ Considering an 80% confidence interval for all indices

On the other hand, average annual headline inflation is expected to be -0.44% (± 0.65) in 2009 and 2.22% (± 1.28) in 2010, four and three tenths of a point, respectively, higher than last month's forecasts (see Table III.2.1).

Table III.2.1

DIFFERENT ANNUAL INFLATION RATE MEASURES IN THE U.S.						
		Total	Core			
		CPI	CPI	PCE	MB-PCE	
Annual Average Rates	2007	2.9	2.3	2.2	1.8	
	2008	3.8	2.3	2.2	1.9	
	2009	-0.4	1.8	1.8	1.7	
	2010	2.2	1.9	1.8	1.5	
YEAR-ON-YEAR RATES	2009	January	0.0	1.7	1.7	1.6
		February	0.2	1.8	1.8	1.7
		March	-0.4	1.8	1.8	1.8
		April	-0.7	1.9	1.9	1.9
		May	-1.3	1.9	1.8	1.8
		June	-1.8	1.7	1.7	1.8
		July	-2.1	1.7	1.7	1.7
		August	-1.5	1.7	1.7	1.6
		September	-1.3	1.7	1.7	1.6
		October	-0.3	1.9	1.8	1.7
		November	1.6	2.0	1.9	1.7
		December	2.5	2.1	2.0	1.8

The shaded values are forecasts

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

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

Source: BLS, BEA & IFL

Date: May 25, 2009

In conclusion, for the second consecutive month, April registered a heavy increase in tobacco prices (9.3%) due to taxes, which was not contemplated in the models. Likewise, for the third consecutive month there was an upwards deviation in the prices of durable goods, especially new cars, to the degree that prices have registered a three point increase in their annual rate in the last four months, while raw material prices and a depressed economic context pointed in the other direction.

In any event, the deceleration of the general CPI to negative rates has been expected for months. The behaviour of tobacco and durable goods prices, however, rules out the possibility of sustained deflation in the US economy.

Finally, in April the Fed increased its central tendency for the last quarter of this year, consistent with our forecasts, which have always been higher. Indeed, in January, the central tendency was 0.9%-1.1% (with most FOMC members in the 0.9%-1.0% range), while it is now 1.0%-1.5%, with great dispersion among FOMC members. However, our forecast annual core PCE rate for the last quarter of this year is 1.9%, two tenths of a point higher than the highest forecast by a FOMC member.



Table III.2.2

GOODS AND SERVICES WITH NEGATIVE ANNUAL RATES IN U.S. INFLATION									
Group*	Weights 2007	Item	April 2009	March 2009	February 2009	January 2009	QIV-08	QIII-08	Average 2008
Food and beverages (1.246)	0,192	Uncooked beef steaks		-0,80		-0,04			
	0,118	Bacon, breakfast sausage, and related products						-0,50	
	0,067	Ham	-2,37						
	0,12	Eggs	-14,59	-17,67	-12,99	-9,51	-2,532		
	0,323	Milk	-13,56	-12,08	-10,04	-4,45	-2,515		
	0,269	Cheese and related products	-1,23						
	0,157	Other dairy and related products	-2,44	-0,25					
	0,078	Apples	-9,89	-7,92	-5,61	-0,57			
	0,064	Bananas	-0,61						
	0,08	Citrus fruits	-8,84	-9,67	-6,73	-3,98	-1,42		-2,92
	0,243	Other fresh fruits	-5,09	-1,50	-5,93	-12,99	-4,97		
	0,092	Tomatoes	-7,19	-14,27	-9,90	-16,33	-4,70		
0,115	Coffee	-2,01							
Housing (7.344)	2,416	Other lodging away from home including hotels and motels	-6,54	-8,55	-6,36	-5,28	-2,73	-0,72	
	0,239	Fuel oil	-41,24	-39,52	-29,17	-26,88	-2,67		
	0,113	Propane, kerosene, and firewood	-14,67	-9,68	-4,95	-3,93			
	1,098	Utility (pipel) gas service	-20,96	-11,44	-3,25				
	0,112	Window coverings	-1,30	-2,31	-2,60	-1,01		-0,96	-0,35
	1,036	Other linens	-5,95	-5,44	-6,35	-7,61	-7,30	-4,01	-5,35
	0,338	Bedroom furniture				-1,03		-0,46	-0,71
	0,505	Living room, kitchen, and dining room furniture	-0,23	-1,90			-0,515	-0,60	-1,26
	0,186	Other furniture						-0,78	-0,86
	0,133	Other appliances					-0,059	-2,96	-1,89
	0,349	Clocks, lamps, and decorator items	-3,22	-1,71	-3,58	-3,99	-4,308	-3,65	-5,09
	0,104	Indoor plants and flowers		-0,20					
	0,074	Dishes and flatware	-0,03			-1,25	-1,145	-0,43	-0,48
	0,211	Tools, hardware and supplies		-0,02				-0,82	-0,76
	0,35	Outdoor equipment and supplies					-0,381	-0,73	-1,44
	0,08	Moving, storage, freight expense	-2,73	-2,08	-3,02	-3,40	-0,579		
	Apparel (2.878)	0,148	Men's suits, sport coats, and outerwear	-5,91	-4,18	-2,14	-3,77	-2,815	
0,224		Men's shirts and sweaters	-0,24			-1,21	-2,004	-2,39	-2,53
0,175		Men's pants and shorts					-1,000		
0,196		Boys' apparel	-0,38			-0,86	-1,528		
0,122		Women's outerwear			-5,32	-5,94			-0,50
0,105		Women's dresses	-0,81			-1,21	-2,001		-0,04
0,739		Women's suits and separates		-2,25	-3,76	-5,25	-4,026	-0,24	-3,65
0,349		Women's underwear, nightwear, sportswear and accessories				-0,21	-0,388	-0,35	-1,55
0,271		Girls' apparel	-2,58			-3,32	-0,238		-2,58
0,319		Women's footwear	-0,29	-0,25	-0,34	-2,85	-0,648		
0,185		Infants' and toddlers' apparel		-0,42	-1,91	-1,35	-1,014	-0,10	-0,16
0,045		Watches							-0,03
Transportation (12.776)	4,632	New vehicles	-0,23	-0,82	-1,54	-2,60	-2,677	-1,32	-1,49
	1,773	Used cars and trucks	-11,39	-11,78	-10,50	-8,99	-6,827	-1,50	-1,32
	5,215	Gasoline (all types)	-39,47	-39,30	-35,57	-40,43	-21,022		
	0,268	Other motor fuels	-45,22	-44,76	-32,61	-29,20	-7,020		
	0,721	Airline fare	-9,15	-7,72	-3,52	-0,94			
	0,167	Other intercity transportation	-3,27	-4,20	-2,70	-2,72			
Medical care (0.893)	0,113	Nonprescription medical equipment and supplies						-0,18	
	0,243	Eyeglasses and eye care	-0,94	-0,87					
	0,537	Health insurance	-3,39	-3,60	-3,53	-3,68	-3,185	-1,72	
Recreation (1.036)	0,167	Televisions	-21,30	-20,86	-21,03	-20,78	-18,797	-15,58	-17,44
	0,035	Other video equipment	-10,70	-13,40	-13,43	-14,38	-13,551	-13,43	-13,30
	0,109	Audio equipment	-3,99	-4,72	-5,99	-5,03	-3,475	-4,63	-4,73
	0,082	Audio discs, tapes and other media	-3,93	-5,75	-4,07	-1,17	-2,787	-2,61	-1,87
	0,321	Sports vehicles including bicycles				-0,12			
	0,077	Photographic equipment and supplies	-3,45	-5,30	-6,57	-5,84	-6,131	-6,44	-6,20
	0,245	Toys	-4,64	-5,34	-5,76	-5,99	-5,733	-4,77	-5,27
	0,555	Club dues and fees for participant sports and group exercises	-0,68						
Education and communication (1.4)	0,01	Delivery services	-4,93	-3,18	-5,43	-1,58			
	1,047	Wireless telephone services						-0,10	-0,22
	0,242	Personal computers and peripheral equipment	-13,29	-14,10	-12,78	-12,35	-12,148	-12,94	-12,42
	0,04	Computer software and accessories	-0,46	-0,71	-1,13	-0,84	-1,548	-2,50	-3,56
Other goods and services (0.192)	0,061	Telephone hardware, calculators, and other consumer information items	-4,64	-5,15	-3,28	-2,30	-2,883	-2,52	-4,27
	0,192	Financial services	-7,35	-6,90	-5,89	-5,29	-1,904		
Total weights in goods and services with negative annual rates			24,26	23,76	22,47	23,44	22,43	16,49	13,92

* With total item weights of each group.

Source: BLS, BEA & IFL

Date: May 25, 2009



III.3. PROPERTY SECTOR

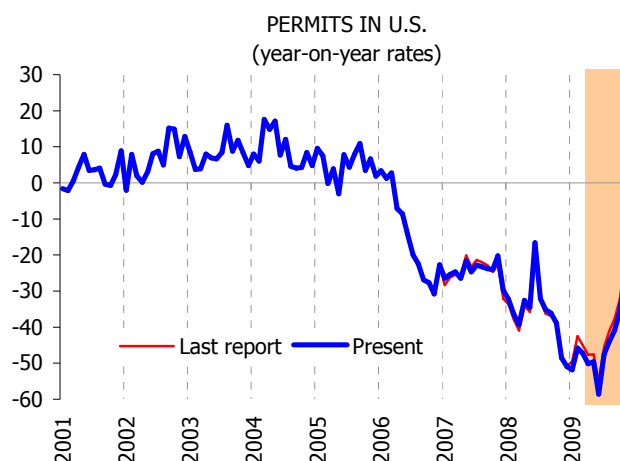
This month, the U.S. Census Bureau has revised the following series, corrected for seasonality: building permits, housing starts and new home sales since January 2007.

The April figures for building permits and housing starts were slightly worse than expected. Indeed, permits totalled 494000 (adjusted for seasonality and annualised) instead of the forecast 514000, whereas housing starts totalled 458000 instead of 497000. As a result of this, their annual rates continued to fall to -50.2% and -54.2%, respectively. Next month the figures are expected to remain stable, with 513000 and 497000 for permits and housing starts, respectively (see graphs III.3.1, III.3.1b, III.3.2 and III.3.2b).

New home sales totalled 352000 (corrected for seasonality and annualised), similar to the forecast 349000, with the annual rate falling from -31.0% in March to -34.0% in April. The annual rate of new home prices fell again after the March increase, to -14.9% (see graphs III.3.3, III.3.3b, III.3.4 and III.3.4b). These figures, therefore, show no change which could indicate a change of trend in the property market. Housing stocks, on the other hand, are very slowly falling.

The most significant differences in relation to our forecasts was found in used homes. Sales were somewhat better than expected, but at the cost of greater than expected price cuts. In the next few months we are expecting the number of sales to recovery gradually (see graphs III.3.5, III.3.5b, III.3.6 and 6b).

Graph III.3.1

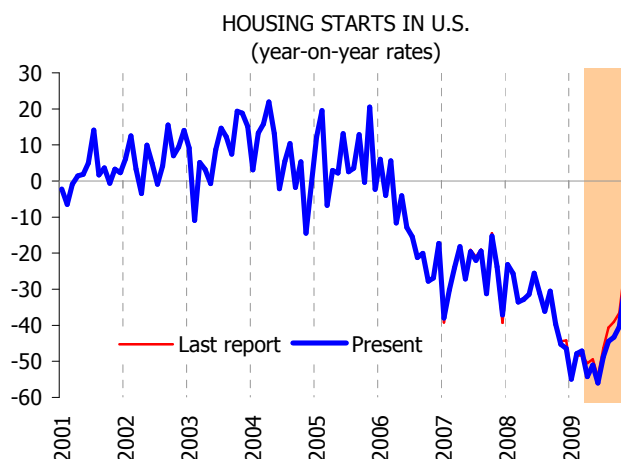


Source: U.S. Census Bureau & IFL (UC3M)

Date: May 28, 2009

*graph in annualized levels is published at page 41

Graph III.3.2



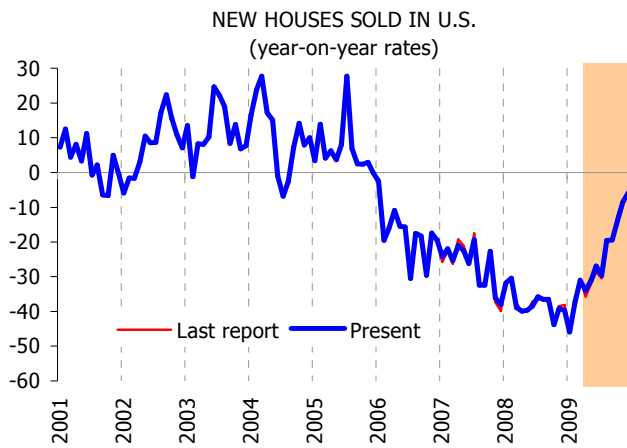
Source: U.S. Census Bureau & IFL (UC3M)

Date: May 28, 2009

*graph in annualized levels is published at page 41

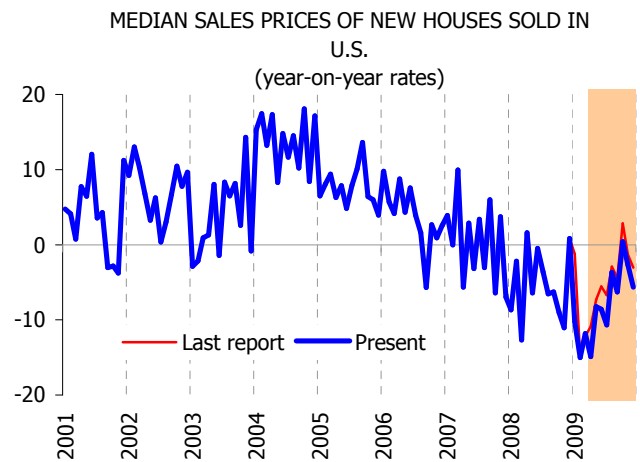


Graph III.3.3



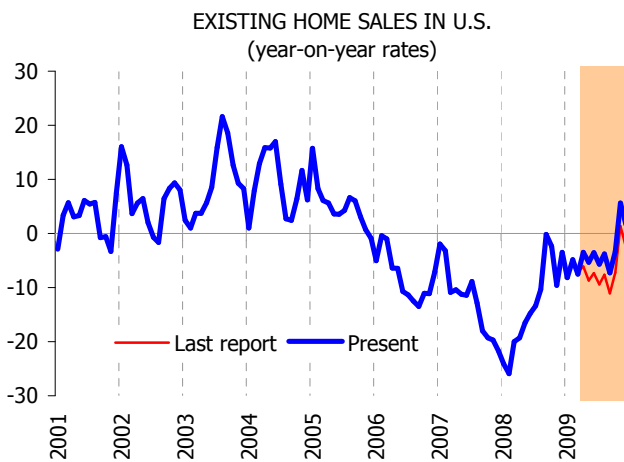
Source: U.S. Census Bureau & IFL (UC3M)
Date: May 28, 2009
*graph in annualized levels is published at page 41

Graph III.3.4



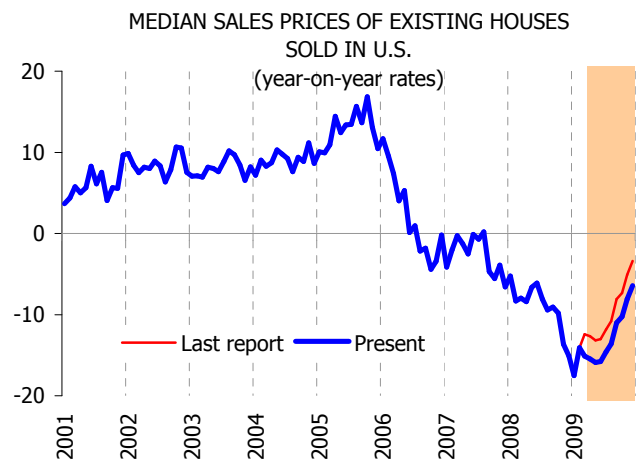
Source: U.S. Census Bureau & IFL (UC3M)
Date: May 28, 2009

Graph III.3.5



Source: National association of REALTORS & IFL (UC3M)
Date: May 28, 2009
*graph in annualized levels is published at page 41

Graph III.3.6

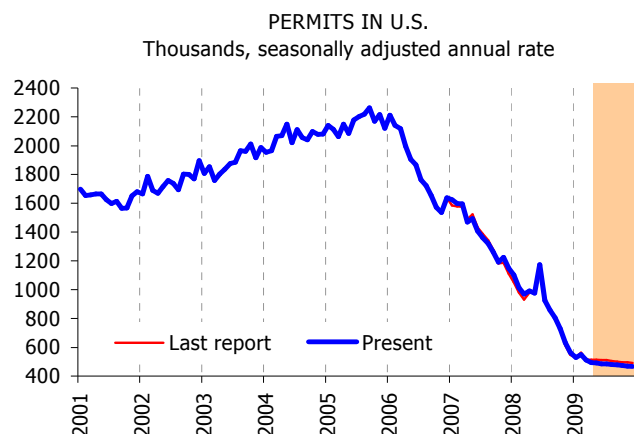


Source: National association of REALTORS & IFL (UC3M)
Date: May 28, 2009



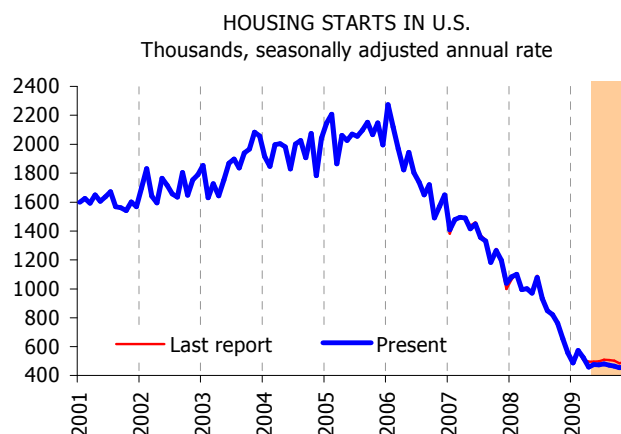
Graphs of data in levels, seasonally adjusted and annualized

Graph III.3.1b



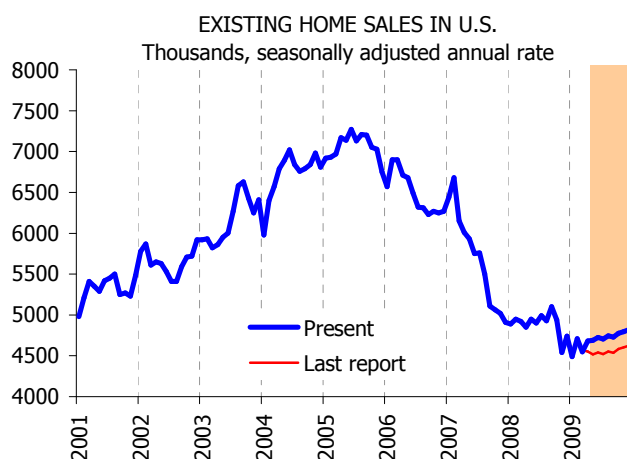
Source: U.S. Census Bureau & IFL (UC3M)
Date: May 28, 2009

Graph III.3.2b



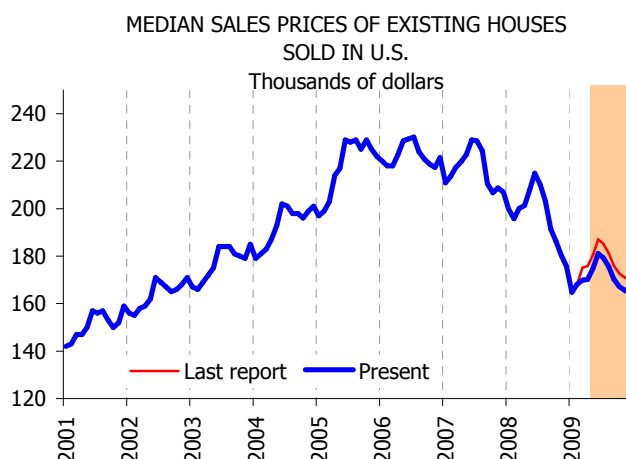
Source: U.S. Census Bureau & IFL (UC3M)
Date: May 28, 2009

Graph III.3.3b



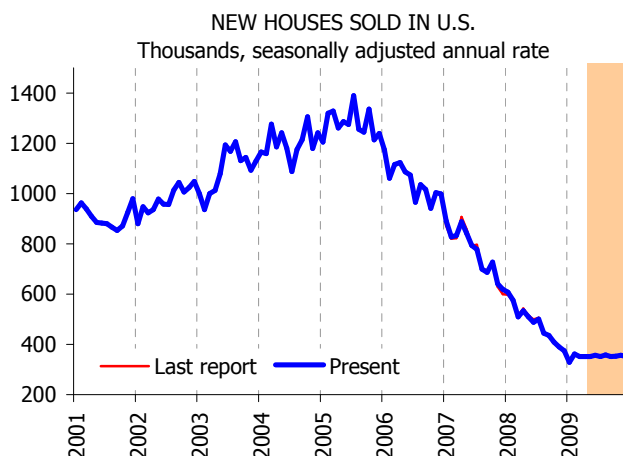
Source: National association of REALTORS & IFL (UC3M)
Date: May 28, 2009

Graph III.3.4b



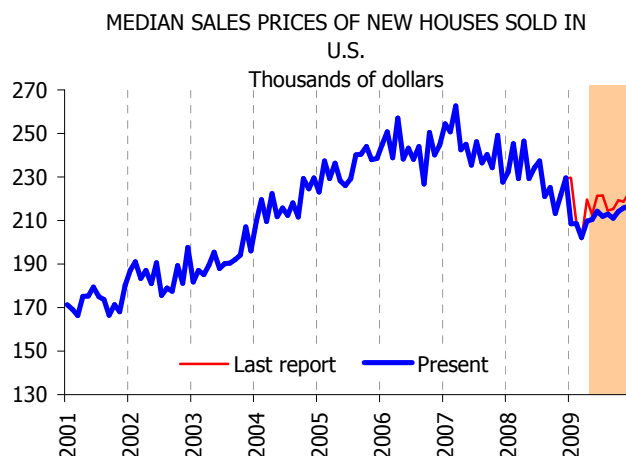
Source: National association of REALTORS & IFL (UC3M)
Date: May 28, 2009

Graph III.3.5b



Source: National association of REALTORS & IFL (UC3M)
Date: May 28, 2009

Graph III.3.6b



Source: National association of REALTORS & IFL (UC3M)
Date: May 28, 2009



III.4. OTHER TABLES AND PLOTS.

Tables:

- CPI observed values and forecasts in the US.

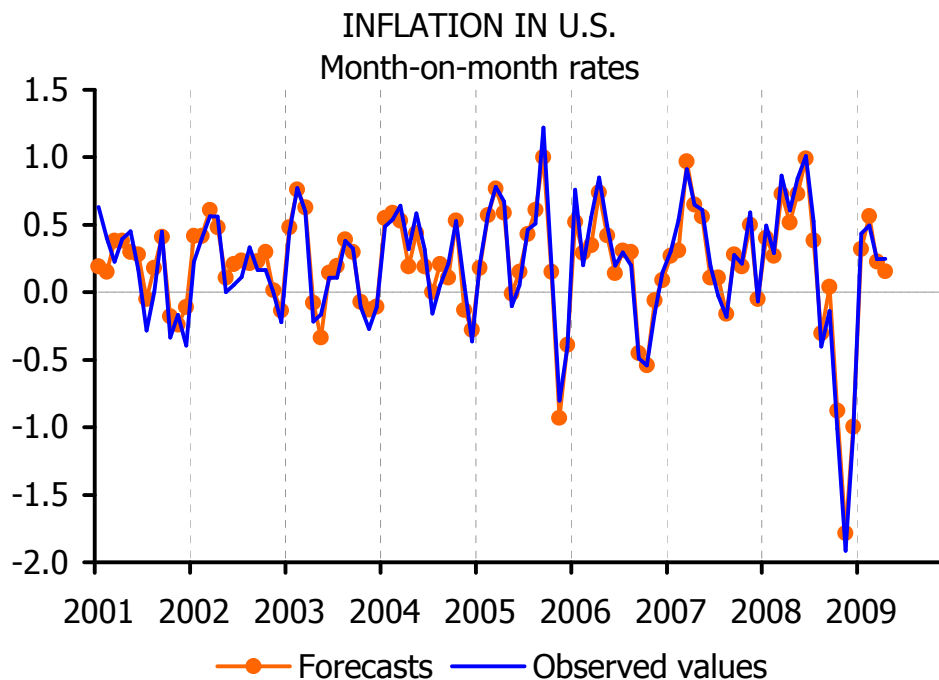
Plots:

- 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 U.S. Monthly rates April, 2009				
	Relative Imp. Dec. 2008	Observed	Forecasts	Confidence Intervals*
TOTAL INFLATION	100.0	0.25	0.16	0.13
less Owner's equivalent rent of primary residence	75.6	0.29	0.13	0.17
CORE INFLATION	77.7	0.23	0.05	0.13
less Owner's equivalent rent of primary residence	53.3	0.28	-0.04	0.17
Non-food and non-energy goods	21.5	0.58	-0.06	0.28
Less tobacco	20.7	0.22	-0.08	0.23
- Durable goods	10.5	0.13	-0.13	0.30
- Non-durable goods	11.0	1.01	0.00	0.41
Non-energy services	56.3	0.10	0.09	0.14
- Services less Owner's equivalent rent of primary residence	31.9	0.08	-0.02	0.28
- Owner's equivalent rent of primary residence	24.4	0.12	0.23	0.13
RESIDUAL INFLATION	22.3	0.31	0.54	0.50
Food	14.6	-0.20	-0.10	0.31
Energy	7.6	1.27	1.72	1.22

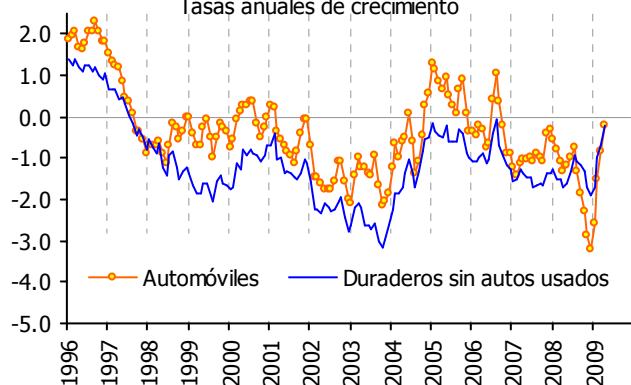
Source: BLS & IFL (UC3M)
Date: May 15, 2009



Source :BLS & IFL (UC3M)
Date: May 15, 2009

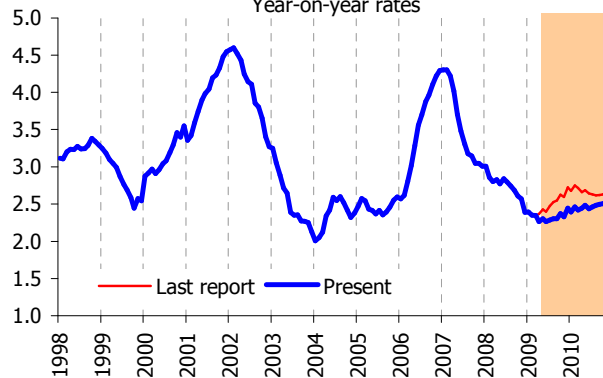


INFLACIÓN EN BIENES INDUSTRIALES
DURADEROS EN EE.UU.
Tasas anuales de crecimiento



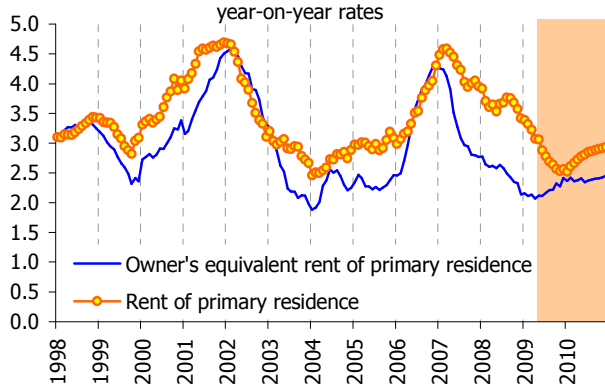
Source: BLS & IFL (UC3M)
Date: May 15, 2009

INFLATION IN RENT OF PRIMARY RESIDENCE AND
OWNER'S EQUIVALENT IN U.S.
Year-on-year rates



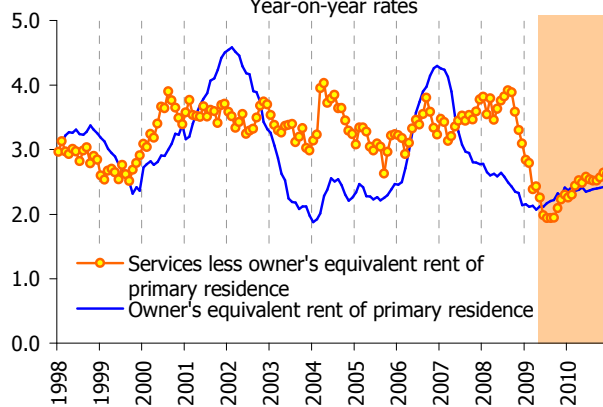
Source: BLS & IFL (UC3M)
Date: May 15, 2009

INFLATION IN RENT OF PRIMARY RESIDENCE AND
OWNER'S EQUIVALENT IN U.S.
year-on-year rates



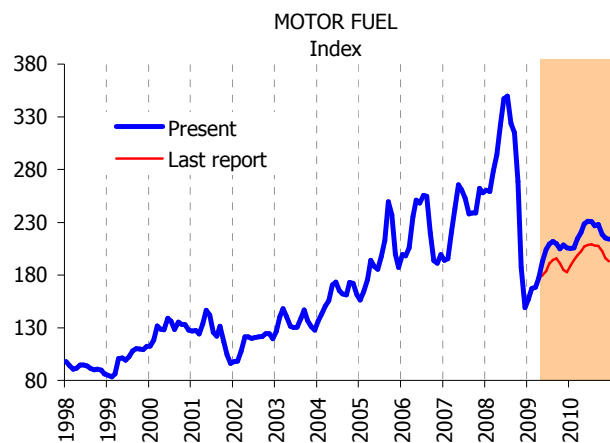
Source: BLS & IFL (UC3M)
Date: May 15, 2009

INFLATION IN SERVICES IN U.S.
Year-on-year rates

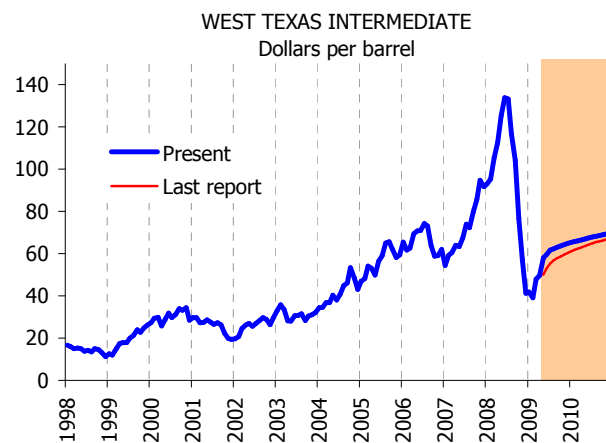


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Date: May 15, 2009

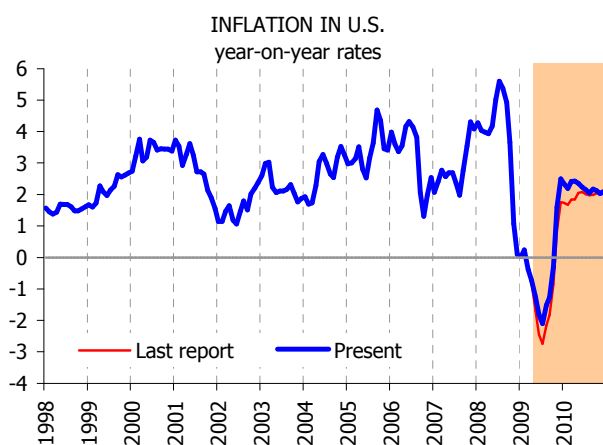




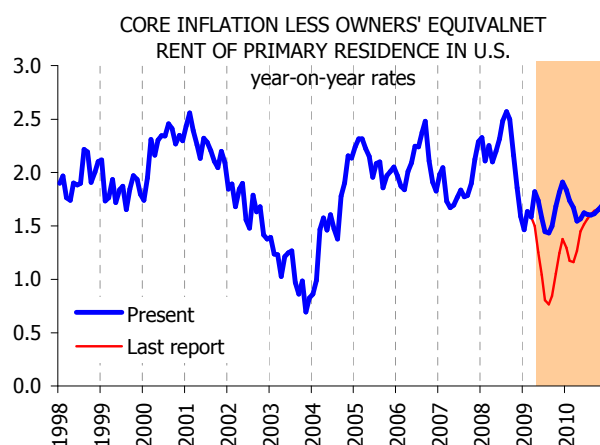
Source: BLS & IFL (UC3M)
Date: May 15, 2009



Source: BLS & IFL (UC3M)
Date: May 15, 2009



Source: BLS & IFL (UC3M)
Date: May 15, 2009



Source: BLS & IFL (UC3M)
Date: May 15, 2009



IV. THE SPANISH ECONOMY.

IV.1 MACROECONOMIC FORECASTS.

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

ANNUAL RATES OF GROWTH						
	2005	2006	2007	2008	Forecasts	
					2009	2010
GDP mp. (1)	3.6	3.9	3.7	1.1	-4.3	-2.3
Demand						
Private final consumption	4.2	3.9	3.4	0.1	-4.1	-0.9
Public final consumption	5.5	4.6	4.9	5.3	5.5	5.6
Gross fixed capital formation	7.0	7.1	5.3	-3.0	-14.2	-11.8
Equipment	9.2	10.2	10.0	-1.1	-22.3	-20.9
Construction	6.1	5.9	3.8	-5.3	-12.2	-11.2
Other products	7.1	7.1	3.9	1.9	-8.6	0.6
Contribution domestic demand*	5.2	5.3	4.4	0.1	-5.4	-2.8
Exports of goods and services	2.5	6.7	4.9	0.7	-16.5	-7.9
Imports of goods and services	7.7	10.3	6.2	-2.5	-17.0	-7.9
Contribution foreign demand*	-1.7	-1.5	-0.8	1.0	1.1	0.5
Supply						
GVA total	3.3	3.9	4.0	1.3	-4.6	-2.5
GVA agriculture	-8.2	2.5	3.0	-0.6	-3.4	-0.9
GVA energy	1.2	-0.1	0.8	1.9	-6.0	-1.9
GVA industry	1.1	1.9	2.8	-2.7	-12.9	-8.2
GVA construction	5.2	5.0	3.5	-3.3	-13.8	-9.8
GVA trade services	4.3	4.5	4.6	2.6	-2.4	-1.0
VAB non-trade services	3.9	4.0	4.4	4.8	2.7	3.1
Tax	6.1	3.7	0.7	0.0	-1.8	-1.0
Prices (2)						
CPI annual average rate	3.4	3.5	2.8	4.1	-0.3	1.7
CPI dec / dec	3.7	2.7	4.2	1.4	0.9	1.8
Labour market (3)						
Active population (% change)		3.3	2.8	3.0	2.1	1.5
Employment EPA (Aver. year-on year)		4.1	3.1	-0.5	-4.9	-1.5
Unemployment rate		8.5	8.3	11.3	17.4	19.8
Basic Balances (1)						
Foreign sector						
Current Account (m. €)	-67772	-88779	-106154	-104251	-68979	-60022
Net lending or borrowing (% of GDP)**	-6.6	-8.3	-9.6	-9.0	-6.0	-5.1
Public Administration						
Net lending or borrowing (% of GDP)**	1.0	1.9	2.2	-3.6	-6.8	-6.1
Other economic indicators (4)						
Industrial production index (excluding construction)	0.2	3.7	2.4	-7.1	-19.2	-11.9

* Contribution to GDP growth.

** In terms of National Accounts.

Source: INE & IFL (UC3M).

Date: 1) May 20, 2009

2) May 13, 2009

3) April 24, 2009

4) May 6, 2009



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

Table IV.1.2.1

GDIC 14712121

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN SPAIN													
		Final		Gross Capital Formation				Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP	
		Consumption		Total	Equipment	Building	Other products						
		Private	Public										
ANNUAL AVERAGE	2004	4.2	6.3	5.1	5.1	5.4	3.8	4.9	4.2	9.6	-1.7	3.3	
	2005	4.2	5.5	7.0	9.2	6.1	7.1	5.2	2.5	7.7	-1.7	3.6	
	2006	3.9	4.6	7.1	10.2	5.9	7.1	5.3	6.7	10.3	-1.5	3.9	
	2007	3.4	4.9	5.3	10.0	3.8	3.9	4.4	4.9	6.2	-0.8	3.7	
	2008	0.1	5.3	-0.6	-1.1	-5.3	1.9	0.1	0.7	-2.5	1.0	1.2	
	2009	-4.1	5.5	-14.2	-22.3	-12.2	-8.6	-5.4	-16.5	-17.0	1.1	-4.3	
	2010	-0.9	5.6	-11.8	-20.9	-11.2	0.6	-2.8	-7.9	-7.9	0.5	-2.3	
ANNUAL RATES*	2008	QI	2.0	3.7	2.4	5.2	0.2	5.9	2.6	4.8	3.6	0.1	2.7
		QII	0.8	5.0	-0.8	1.8	-3.1	3.2	1.2	4.4	1.8	0.6	1.8
		QIII	-0.2	6.1	-4.1	-1.3	-7.3	2.5	-0.2	1.5	-2.0	1.1	0.9
		QIV	-2.3	6.3	-9.3	-9.7	-10.9	-3.7	-3.1	-7.9	-13.2	2.3	-0.7
	2009	QI	-4.1	5.4	-13.1	-18.6	-12.4	-7.4	-5.2	-19.0	-22.3	2.2	-3.0
		QII	-4.4	5.5	-13.9	-21.0	-12.3	-9.0	-5.5	-16.9	-17.8	1.3	-4.3
		QIII	-4.3	5.6	-14.9	-24.1	-12.1	-10.3	-5.7	-15.4	-14.9	0.7	-5.0
		QIV	-3.7	5.6	-14.9	-25.9	-11.9	-7.9	-5.2	-14.4	-12.4	0.2	-5.1
	2010	QI	-2.7	5.7	-13.8	-24.3	-11.6	-4.7	-4.4	-12.8	-10.3	-0.1	-4.5
		QII	-1.7	5.7	-12.7	-22.8	-11.4	-1.1	-3.5	-8.5	-8.6	0.5	-3.0
		QIII	-0.2	5.6	-11.3	-20.7	-11.2	2.9	-2.3	-5.6	-7.1	0.8	-1.5
		QIV	1.1	5.6	-9.0	-15.0	-10.5	5.3	-0.9	-4.7	-5.8	0.6	-0.3

The figures in the shaded area are forecasts.

(*) Year-on-year rates.

(1) Contribution to GDP growth

Source: INE & IFL (UC3M)

Date: May 20, 2009

Table IV.1.2.2

QUARTERLY RATES OF GROWTH IN GDP AND COMPONENTS IN SPAIN													
		Final Consumption		Gross Capital Formation				Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP	
		Private	Public	Total	Equipment	Building	Other products						
ANNUAL AVERAGE	2004	4.2	6.3	5.1	5.1	5.4	3.8	4.9	4.2	9.6	-1.7	3.3	
	2005	4.2	5.5	7.0	9.2	6.1	7.1	5.2	2.5	7.7	-1.7	3.6	
	2006	3.9	4.6	7.1	10.2	5.9	7.1	5.3	6.7	10.3	-1.5	3.9	
	2007	3.4	4.9	5.3	10.0	3.8	3.9	4.4	4.9	6.2	-0.8	3.7	
	2008	0.1	5.3	-0.6	-1.1	-5.3	1.9	0.1	0.7	-2.5	1.0	1.2	
	2009	-4.1	5.5	-14.2	-22.3	-12.2	-8.6	-5.4	-16.5	-17.0	1.1	-4.3	
	2010	-0.9	5.6	-11.8	-20.9	-11.2	0.6	-2.8	-7.9	-7.9	0.5	-2.3	
QUARTERLY RATES*	2008	QI	0.1	0.7	-0.1	0.6	-0.5	0.3	0.2	0.2	-0.5	0.2	0.4
		QII	0.0	2.1	-2.1	-1.2	-3.0	-0.8	-0.3	1.7	0.1	0.4	0.1
		QIII	-1.0	2.2	-2.2	-1.8	-3.7	2.1	-0.8	0.6	-1.1	0.5	-0.3
		QIV	-1.4	1.2	-5.2	-7.5	-4.1	-5.3	-2.2	-10.1	-11.9	1.3	-1.0
	2009	QI	-1.7	-0.1	-4.2	-9.3	-2.2	-3.5	-2.3	-11.9	-10.9	0.5	-1.9
		QII	-0.3	2.2	-3.1	-4.1	-2.8	-2.5	-0.7	4.3	5.9	-0.8	-1.4
		QIII	-0.9	2.2	-3.3	-5.7	-3.5	0.7	-1.1	2.4	2.4	-0.2	-1.1
		QIV	-0.8	1.2	-5.2	-9.6	-3.9	-2.8	-1.8	-9.0	-9.3	0.7	-1.1
	2010	QI	-0.7	-0.1	-3.0	-7.4	-2.0	-0.2	-1.4	-10.2	-8.8	0.2	-1.2
		QII	0.7	2.2	-1.8	-2.2	-2.6	1.3	0.3	9.3	7.9	-0.2	0.2
		QIII	0.6	2.2	-1.8	-3.1	-3.2	4.8	0.2	5.7	4.1	0.2	0.5
		QIV	0.5	1.2	-2.7	-3.1	-3.2	-0.5	-0.3	-8.2	-8.1	0.5	0.2

The figures in the shaded area are forecasts.

(*) Year-on-year rates.

(1) Contribution to GDP growth

Source: INE & IFL (UC3M)

Date: May 20, 2009.



Table IV.1.2.3

Table IV.1.2.3

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN SPAIN											
		GVA							Tax	Real GDP	
		Agriculture	Energy	Industry	Construction	Market services	Non-market services	Total			
ANNUAL AVERAGE	2004	-2.3	1.9	0.7	5.1	3.9	3.7	3.1	4.4	3.3	
	2005	-8.2	1.2	1.1	5.2	4.3	3.9	3.3	6.1	3.6	
	2006	2.5	-0.1	1.9	5.0	4.5	4.0	3.9	3.7	3.9	
	2007	3.0	0.8	2.8	3.5	4.6	4.4	4.0	0.7	3.7	
	2008	-0.6	1.9	-2.7	-3.3	2.6	4.8	1.9	0.0	1.2	
	2009	-3.4	-6.0	-12.9	-13.8	-2.4	2.7	0.0	-1.8	-4.3	
	2010	-0.9	-1.9	-8.2	-9.8	-1.0	3.1	0.0	-1.0	-2.3	
ANNUAL RATES*	2008	QI	1.1	1.6	0.0	1.5	4.0	4.1	3.0	0.5	2.7
		QII	-0.1	3.5	-2.2	-2.0	3.4	4.7	2.0	0.3	1.8
		QIII	-0.5	2.5	-2.9	-4.6	2.3	5.1	1.0	-0.1	0.9
		QIV	-2.7	0.0	-5.5	-8.0	0.7	5.5	-0.7	-0.9	-0.7
	2009	QIV	-0.7	-5.7	-11.0	-8.0	-1.7	3.5	-3.2	-1.4	-3.0
		QIV	-4.0	-6.4	-12.9	-13.2	-2.4	2.8	-4.7	-1.8	-4.3
		QIV	-4.9	-6.5	-13.9	-17.4	-2.6	2.6	-5.5	-1.8	-5.0
		QIV	-4.0	-5.3	-13.7	-16.9	-2.7	1.9	-5.6	-2.0	-5.1
	2010	QIV	-3.3	-4.2	-11.3	-15.4	-2.5	2.0	-4.8	-1.8	-4.5
		QIV	-1.0	-2.8	-8.4	-11.3	-1.6	2.5	-3.3	-1.0	-3.0
		QIV	0.2	-1.1	-6.9	-7.1	-0.4	3.4	-1.7	-0.7	-1.5
		QIV	0.6	0.5	-5.9	-4.0	0.6	4.5	-0.4	-0.3	-0.3

The figures in the shaded area are forecasts.

(*) Year-on-year rates

Source: INE & IFL (UC3M)

Date: May 20, 2009

Table IV.1.2.4

2010 IV.1.2.1

QUARTERLY RATES OF GROWTH IN GDP AND COMPONENTS IN SPAIN											
		GVA							Tax	Real GDP	
		Agriculture	Energy	Industry	Construction	Market services	Non-market services	Total			
ANNUAL AVERAGE	2004	-2.3	1.9	0.7	5.1	3.9	3.7	3.1	4.4	3.3	
	2005	-8.2	1.2	1.1	5.2	4.3	3.9	3.3	6.1	3.6	
	2006	2.5	-0.1	1.9	5.0	4.5	4.0	3.9	3.7	3.9	
	2007	3.0	0.8	2.8	3.5	4.6	4.4	4.0	0.7	3.7	
	2008	-0.6	1.9	-2.7	-3.3	2.6	4.8	1.3	0.0	1.2	
	2009	-3.4	-6.0	-12.9	-13.8	-2.4	2.7	-4.6	-1.8	-4.3	
	2010	-0.9	-1.9	-8.2	-9.8	-1.0	3.1	-2.5	-1.0	-2.3	
QUARTERLY RATES*	2008	QI	-0.5	0.7	0.0	-0.1	0.9	0.1	0.5	-0.1	0.4
		QII	-1.7	1.9	-1.7	-2.1	0.7	2.1	0.1	-0.1	0.1
		QIII	-0.9	-1.2	-0.3	-2.5	-0.1	1.1	-0.3	-0.2	-0.3
		QIV	0.4	-1.3	-3.5	-3.4	-0.8	2.1	-1.1	-0.5	-1.0
	2009	QI	1.5	-5.0	-5.8	-0.2	-1.5	-1.8	-2.0	-0.6	-1.9
		QII	-4.9	1.0	-3.9	-7.7	-0.1	1.4	-1.5	-0.5	-1.4
		QIII	-1.8	-1.3	-1.5	-7.3	-0.3	0.9	-1.2	-0.2	-1.1
		QIV	1.3	0.0	-3.3	-2.8	-0.9	1.4	-1.1	-0.7	-1.1
	2010	QI	2.2	-3.9	-3.1	1.7	-1.3	-1.7	-1.2	-0.4	-1.2
		QII	-2.7	2.5	-0.8	-3.2	0.8	1.9	0.2	0.3	0.2
		QIII	-0.6	0.5	0.2	-2.8	0.9	1.9	0.4	0.1	0.5
		QIV	1.8	1.6	-2.3	0.5	0.1	2.5	0.2	-0.3	0.2

The figures in the shaded area are forecasts.

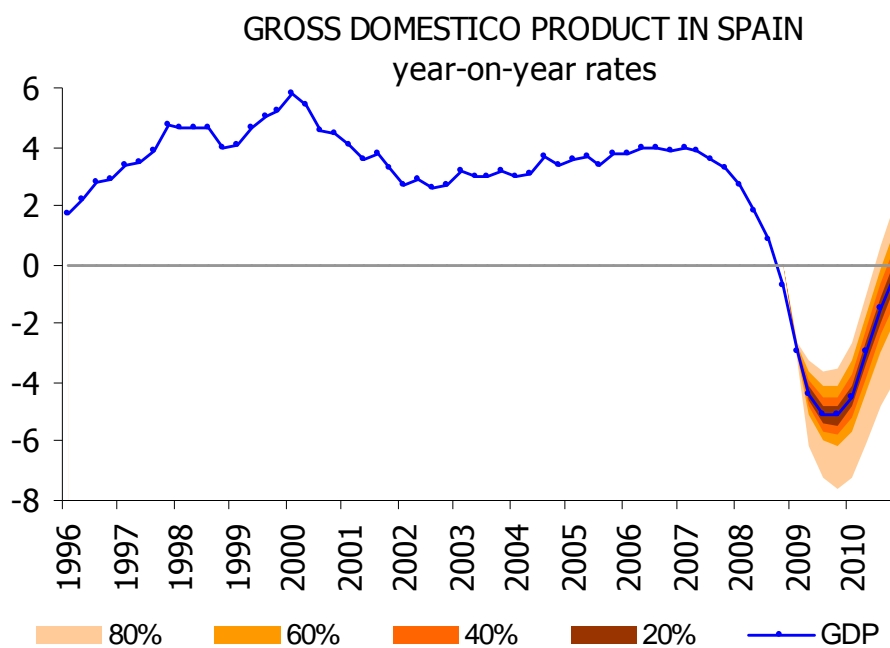
(*) Year-on-year rates

Source: INE & IFL (UC3M)

Date: May 20, 2009

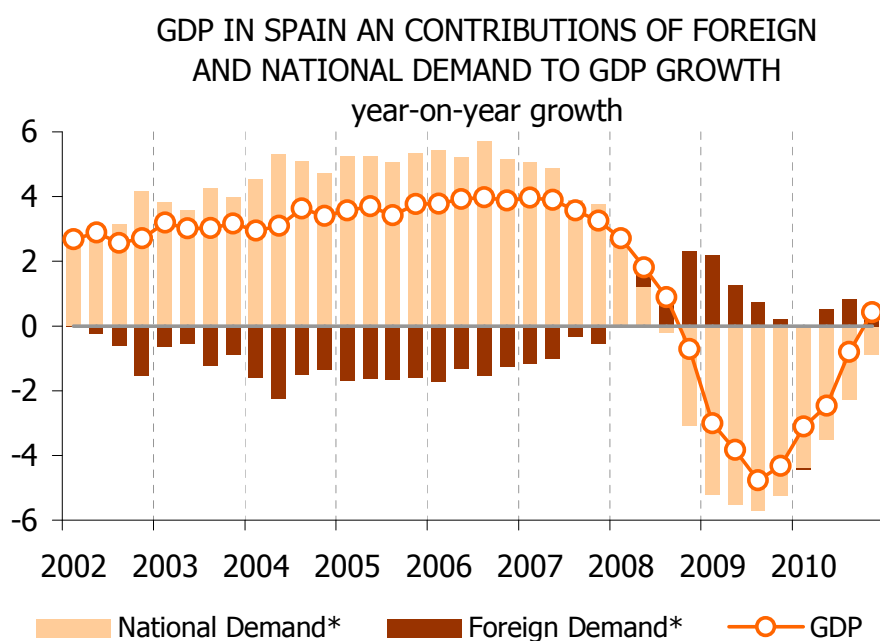


Graph IV.1.2.1



Source INE & IFL (UC3M)
Date: May 20, 2009

Graph IV.1.2.2



Source INE & IFL (UC3M)
Date: May 20, 2009.



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

Table IV.1.3.1

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	-0,8	0,1	-0,1	2,2	1,8	6,2	2,0	
	2005	-1,6	0,3	0,1	-1,1	-0,3	3,1	0,2	
	2006	8,3	0,9	2,1	7,7	3,6	0,9	3,7	
	2007	3,4	2,0	2,2	5,0	1,6	0,8	2,4	
	2008	-16,5	-2,2	-4,4	-8,7	-11,0	1,6	-7,1	
	2009	-28,0	-6,3	-9,2	-25,6	-30,9	-12,5	-20,8	
	2010	-7,0	0,3	-0,5	-21,2	-30,7	-7,8	-15,0	
ANNUAL RATES*	2007	QI	9,1	2,9	3,8	6,6	4,1	-4,2	3,5
		QII	4,9	1,5	2,1	5,5	1,3	3,4	2,7
		QIII	2,1	1,8	1,8	5,6	0,6	-0,7	1,8
		QIV	-2,2	2,0	1,2	2,4	0,2	5,4	1,6
	2008	QI	-14,1	-1,7	-3,7	-4,9	-7,8	4,7	-4,5
		QII	-10,1	-0,4	-2,1	-3,3	-5,3	2,0	-3,1
		QIII	-16,8	-1,1	-3,5	-6,8	-8,6	1,6	-5,4
		QIV	-25,1	-5,6	-8,6	-19,7	-22,7	-1,7	-15,4
	2009	QI	-30,2	-8,5	-11,5	-28,6	-28,9	-8,2	-21,2
		QII	-33,8	-9,4	-13,0	-26,9	-32,1	-14,3	-23,4
		QIII	-25,3	-4,4	-7,0	-23,5	-31,3	-13,3	-19,8
		QIV	-20,9	-2,5	-4,8	-22,7	-31,4	-14,3	-18,6
	2010	QI	-9,9	-0,1	-1,2	-22,6	-31,3	-10,1	-16,2
		QII	-4,8	1,2	0,6	-20,4	-30,2	-6,8	-14,9
		QIII	-7,1	-0,1	-0,8	-21,1	-30,7	-7,2	-14,7
		QIV	-6,3	0,3	-0,4	-21,0	-30,6	-6,6	-13,9

The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: INE & IFL (UC3M)

Date: May 6, 2009

Table IV.1.3.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN SPAIN							
	2004	2005	2006	2007	2008	2009	2010
January	-3,0	0,9	7,2	6,6	-0,8	-24,5	-17,4
February	1,9	-1,0	4,1	3,0	3,8	-24,4	-16,2
March	7,3	-6,6	12,4	1,0	-15,3	-14,0	-15,1
April	1,0	7,3	-9,4	5,1	12,0	-27,3	-14,5
May	2,8	0,3	6,7	3,3	-8,4	-23,3	-15,9
June	5,9	-0,1	4,8	0,1	-10,9	-19,1	-14,3
July	0,2	-3,4	3,7	4,5	-1,9	-20,5	-16,9
August	5,8	4,1	3,0	2,4	-11,5	-19,2	-11,9
September	4,2	0,3	0,6	-1,3	-4,7	-19,3	-14,3
October	-6,9	0,0	6,6	5,3	-12,2	-21,5	-16,5
November	4,7	1,0	3,6	-0,8	-18,3	-17,3	-12,1
December	1,4	1,5	0,8	0,2	-16,0	-16,5	-12,7

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: May 6, 2009



Table IV.1.3.3

AVERAGE YEAR ON YEAR GROWTH RATE OF THE SPANISH INDUSTRIAL PRODUCTION INDEX NACE Rev.2 STATISTICAL CLASSIFICATION OF ECONOMIC ACTIVITIES										
			Weights 2009	2004	2005	2006	2007	2008	2009	2010
IPI Total	B Mining and quarrying	05 Mining of coal and lignite	0,4	-4,7	-9,6	2,8	-4,0	-3,7	-12,6	-11,1
		08 Other mining and quarrying	1,4	-2,2	1,7	4,3	2,6	-15,4	-32,2	-10,2
			1,8	-4,5	-3,8	3,0	1,0	-13,3	-27,9	-10,4
	C Manufacturing	10 Manufacture of food products	10,7	2,9	1,8	0,6	2,1	-0,8	-11,7	-8,8
		11 Manufacture of beverages	3,3	0,8	0,8	1,6	0,6	1,4	-12,7	-8,6
		12 Manufacture of tobacco products	0,4	-16,0	-2,1	-14,8	5,4	-2,4	-13,7	-11,2
		13 Manufacture of textiles	1,7	-5,4	-10,9	-2,4	-4,4	-17,7	-38,9	-37,2
		14 Manufacture of wearing apparel	1,8	-3,1	-9,8	-2,9	-1,2	-9,1	-24,1	-20,4
		15 Manufacture of leather and related products	0,9	-13,5	-12,9	-6,1	-8,2	-7,9	-23,3	-19,5
		16 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	2,1	2,2	-0,8	1,3	-2,4	-22,0	-42,9	-47,2
		17 Manufacture of paper and paper products	2,6	2,4	-0,3	1,2	1,7	-1,8	-19,9	-11,2
		18 Printing and reproduction of recorded media	2,3	8,5	8,8	0,6	5,4	-10,8	-21,6	-19,0
		19 Manufacture of coke and refined petroleum products	3,5	6,7	2,8	2,2	-1,7	4,2	-14,2	-8,0
		20 Manufacture of chemicals and chemical products	5,8	1,1	0,8	1,4	2,3	-5,4	-16,4	-8,1
		21 Manufacture of basic pharmaceutical products and pharmaceutical preparations	2,4	-5,5	0,5	10,1	7,6	8,0	-7,6	-4,5
		22 Manufacture of rubber and plastic products	3,4	3,0	1,0	2,2	2,0	-10,9	-33,4	-30,5
		23 Manufacture of other non-metallic mineral products	8,0	1,0	2,0	3,9	-1,2	-21,3	-41,4	-36,9
		24 Manufacture of basic metals	4,3	6,2	-1,8	6,3	0,7	-6,6	-17,2	1,6
		25 Manufacture of fabricated metal products, except machinery and equipment	10,7	1,2	5,7	4,5	4,5	-9,5	-26,5	-10,8
		26 Manufacture of computer, electronic and optical products	1,6	0,0	-8,1	3,4	7,5	4,2	-23,5	-6,4
		27 Manufacture of electrical equipment	3,7	4,6	-0,5	11,5	3,0	-6,2	-35,8	-36,8
		28 Manufacture of machinery and equipment n.e.c.	5,4	4,6	-0,6	15,4	9,4	-8,4	-26,6	-21,6
		29 Manufacture of motor vehicles, trailers and semi-trailers	7,4	2,1	-5,0	5,7	4,2	-16,1	-28,1	-8,1
		30 Manufacture of other transport equipment	2,1	-2,3	0,4	0,6	7,7	6,6	-12,1	-9,5
		31 Manufacture of furniture	2,8	-1,2	0,8	8,9	4,8	-19,6	-39,5	-16,4
		32 Other manufacturing	1,8	-2,5	-4,5	3,9	0,5	-8,1	-32,9	-27,5
		33 Repair and installation of machinery and equipment	0,3	46,0	-9,0	55,6	-4,2	12,8	-19,3	-4,8
			89,0	1,7	-0,1	4,0	2,6	-7,8	-21,4	-15,6
	D Electricity, gas, steam and air conditioning supply		9,2	7,1	4,0	0,6	2,3	1,2	-14,7	-9,9
			100,0	2,1	0,4	3,7	2,5	-7,0	-20,8	-15,0

The figures in the shaded area are forecasts.

Fuente: INE & IFL(UC3M)

Fecha: May 6, 2009



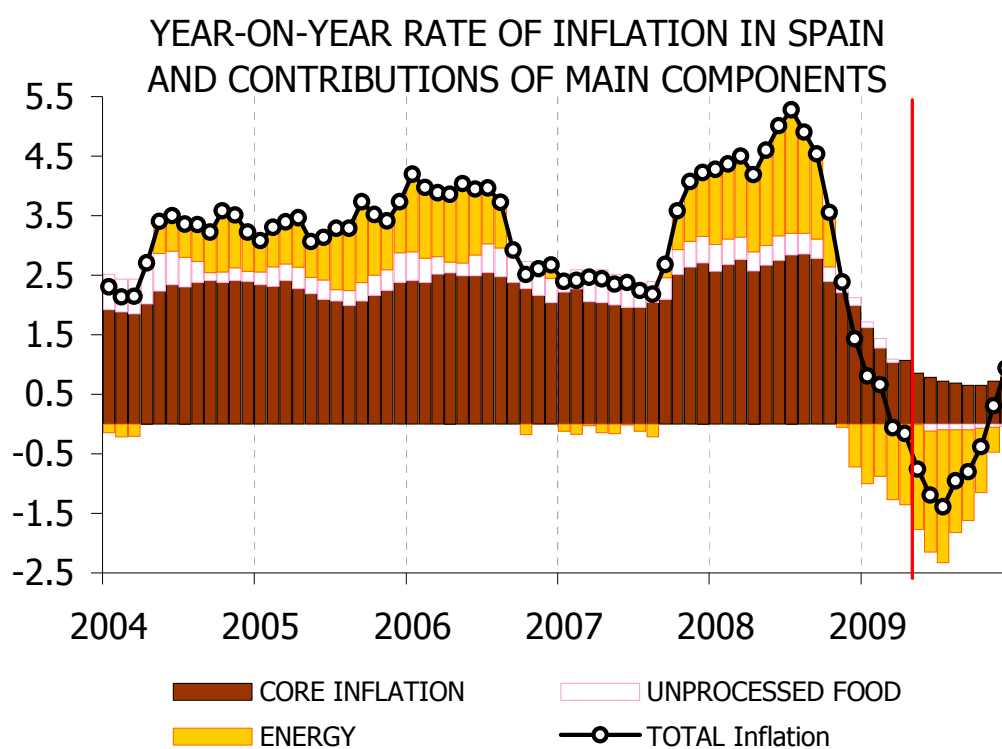
IV.1.4 INFLATION.

Table IV.1.4.1

CPI ANNUAL AVERAGE RATE IN SPAIN							
Consumer Price Index (CPI)	Weights	2005	2006	2007	2008	Forecasts	
						2009	2010
TOTAL INFLATION	99.8	3.4	3.5	2.8	4.1	-0.3	1.7
CORE INFLATION	82.3	2.7	2.9	2.7	3.2	1.1	1.5
Processed food	13.4	3.4	3.6	3.7	6.5	0.7	2.0
Non-energy industrial goods	29.9	0.9	1.4	0.7	0.3	-0.7	-0.6
Services	38.9	3.8	3.9	3.9	3.9	2.7	2.8
RESIDUAL INFLATION	17.5	6.5	6.3	3.2	8.5	-6.7	2.7
Non processed food	7.2	3.3	4.4	4.7	4.0	-0.3	1.1
Energy	10.3	9.6	8.0	1.7	11.9	-11.5	3.8

Source: INE & IFL (UC3M)
Date: May 13, 2009

Graph IV.1.4.1



Source: INE & IFL (UC3M)
Date: May 13, 2009



Table IV.1.4.2

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 2009		13.4%	29.9%	38.9%	82.3%			7.2%	10.3%	17.5%		
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	6.5	0.3	3.9	3.2			4.0	11.9	8.5	4.1	
	2009	0.7	-0.7	2.7	1.1	± 0.16		-0.3	-11.5	-6.7	-0.3	± 0.42
	2010	2.0	-0.6	2.8	1.5	± 0.46		1.1	3.8	2.7	1.7	± 1.07
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			5.1	19.2	13.1	5.0	
	July	7.8	0.3	4.0	3.5			4.4	21.4	14.0	5.3	
	August	7.6	0.5	4.0	3.5			4.2	17.6	11.7	4.9	
	September	6.9	0.5	4.1	3.4			3.9	14.8	10.0	4.5	
	October	4.5	0.5	4.1	2.9			3.0	9.3	6.5	3.6	
	November	3.6	0.6	4.0	2.7			2.5	-0.5	0.8	2.4	
	December	3.0	0.4	3.8	2.4			1.6	-7.2	-3.4	1.4	
2009	January	2.5	-0.3	3.6	2.0			1.3	-9.3	-4.8	0.8	
	February	1.7	-0.7	3.3	1.6			2.2	-8.1	-3.7	0.7	
	March	1.2	-0.6	2.7	1.3			0.8	-11.6	-6.4	-0.1	
	April	0.7	-0.7	3.1	1.3			0.0	-12.4	-7.1	-0.2	
	May	0.4	-0.7	2.7	1.1	± 0.18		-0.1	-15.5	-9.1	-0.8	± 0.17
	June	0.2	-0.7	2.5	1.0	± 0.28		-1.6	-17.6	-11.0	-1.2	± 0.34
	July	0.1	-0.7	2.4	0.9	± 0.37		-1.3	-18.7	-11.7	-1.4	± 0.56
	August	0.0	-0.7	2.4	0.9	± 0.43		-1.3	-15.0	-9.3	-1.0	± 0.77
	September	0.0	-0.9	2.4	0.8	± 0.47		-1.4	-13.4	-8.3	-0.8	± 0.95
	October	0.1	-1.0	2.4	0.8	± 0.48		-1.0	-10.0	-6.1	-0.4	± 1.09
	November	0.4	-0.9	2.5	0.9	± 0.52		-0.7	-4.2	-2.5	0.3	± 1.20
	December	0.6	-0.9	2.6	1.0	± 0.54		-0.5	1.8	0.8	0.9	± 1.28
2010	January	0.7	-0.8	2.7	1.1	± 0.57		-0.5	3.2	1.7	1.2	± 1.32
	February	0.8	-0.7	2.8	1.2	± 0.58		-0.7	2.3	1.1	1.2	± 1.34
	March	1.2	-0.8	3.1	1.4	± 0.61		0.3	4.1	2.5	1.6	± 1.32
	April	1.7	-0.7	2.7	1.3	± 0.61		1.2	5.1	3.5	1.7	± 1.31
	May	2.0	-0.6	2.9	1.5	± 0.62		1.4	5.0	3.5	1.8	± 1.32
	June	2.2	-0.6	2.9	1.5	± 0.63		1.4	4.4	3.2	1.8	± 1.33
	July	2.4	-0.5	2.8	1.6	± 0.63		1.6	4.3	3.2	1.8	± 1.35
	August	2.5	-0.4	2.8	1.6	± 0.64		1.7	3.7	2.9	1.8	± 1.35
	September	2.6	-0.5	2.8	1.6	± 0.64		1.6	3.3	2.6	1.8	± 1.35
	October	2.7	-0.5	2.8	1.6	± 0.66		1.7	3.5	2.8	1.8	± 1.35
	November	2.8	-0.4	2.8	1.6	± 0.69		1.9	3.3	2.7	1.8	± 1.35
	December	2.9	-0.5	2.8	1.6	± 0.72		2.1	3.0	2.6	1.8	± 1.35

* Confidence intervals calculated with historical errors.

The figures in the shaded areas are forecasts

Source: INE & IFL (UC3M)

Date: May 13, 2009



Table IV.1.4.3

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 2009			13.4%	29.9%	38.9%	82.3%	7.2%	10.3%	17.5%	
MONTHLY RATES (Growth of the month over the previous month)	January	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	0.2	-4.4	0.3	-1.4	0.3	-0.8	-0.4	-1.2
		2010	0.3	-4.3	0.5	-1.3	0.3	0.6	0.5	-1.0
	February	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	0.0	-0.6	0.2	-0.1	-0.7	1.3	0.5	0.0
		2010	0.1	-0.5	0.4	0.0	-0.9	0.5	-0.1	0.0
	March	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	-0.2	1.0	0.3	0.4	-1.3	-1.1	-1.2	0.2
		2010	0.2	0.9	0.5	0.6	-0.3	0.7	0.3	0.5
	April	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	-0.2	2.7	0.6	1.2	-0.4	0.3	0.0	1.0
		2010	0.2	2.8	0.2	1.1	0.5	1.2	0.9	1.1
	May	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	-0.1	0.4	-0.2	0.0	0.0	0.7	0.4	0.1
		2010	0.2	0.5	0.0	0.2	0.2	0.6	0.4	0.2
	June	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	2.4	0.6
		2009	0.1	-0.2	0.3	0.1	-0.1	0.5	0.3	0.1
		2010	0.3	-0.2	0.3	0.1	-0.1	-0.1	-0.1	0.1
	July	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	-0.1	2.3	1.4	-0.5
		2009	0.0	-3.5	0.6	-1.0	0.2	0.9	0.6	-0.7
		2010	0.2	-3.4	0.6	-0.9	0.3	0.8	0.6	-0.6
	August	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	0.0	-3.9	-2.4	-0.2
		2009	0.1	-0.2	0.6	0.2	0.1	0.4	0.3	0.2
		2010	0.2	-0.2	0.5	0.2	0.2	-0.1	0.0	0.2
	September	2007	0.9	1.0	-0.6	0.3	0.7	0.6	0.6	0.3
		2008	0.2	1.1	-0.5	0.2	0.4	-1.8	-0.9	0.0
		2009	0.1	1.0	-0.5	0.1	0.3	0.0	0.1	0.1
		2010	0.2	0.9	-0.5	0.1	0.2	-0.3	-0.1	0.1
	October	2007	2.3	2.7	0.1	1.4	0.5	1.0	0.7	1.3
		2008	0.1	2.7	0.0	0.9	-0.4	-3.9	-2.4	0.3
		2009	0.2	2.6	0.0	0.9	-0.1	0.0	0.0	0.8
		2010	0.3	2.6	0.0	1.0	0.1	0.1	0.1	0.8
	November	2007	0.9	1.0	-0.1	0.5	0.6	2.7	1.7	0.7
		2008	0.0	1.0	-0.2	0.3	0.1	-6.6	-3.8	-0.4
		2009	0.2	1.1	-0.1	0.4	0.4	-0.5	-0.2	0.3
		2010	0.3	1.2	-0.1	0.4	0.5	-0.8	-0.2	0.3
	December	2007	0.4	-0.3	0.5	0.2	1.5	1.1	1.3	0.4
		2008	-0.1	-0.5	0.3	0.0	0.6	-5.8	-3.0	-0.5
		2009	0.2	-0.5	0.4	0.1	0.8	0.1	0.4	0.1
		2010	0.3	-0.6	0.4	0.0	1.0	-0.2	0.3	0.1

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: May 13, 2009



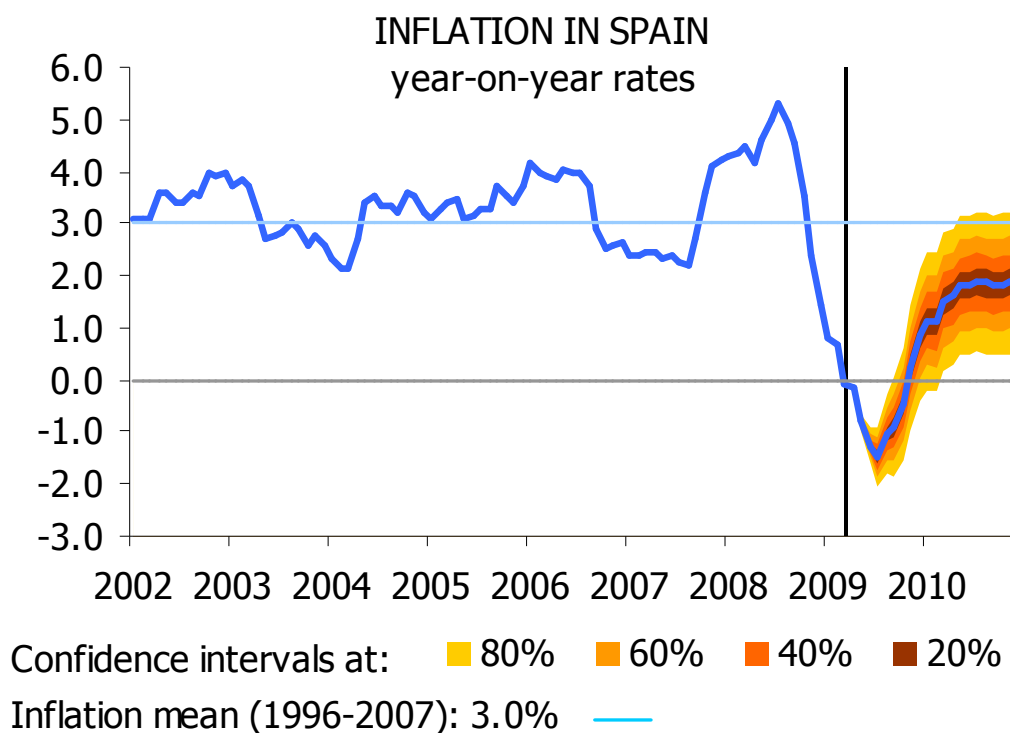
Table IV.1.4.4

CPI ANNUAL AVERAGE GROWTH RATES BY COMPONENTS IN SPAIN WITH FORECASTS FOR 2009 AND 2010											
					Weights 2009	2005	2006	2007	2008	2009	2010
CPI Total	Core Inflation	Processed food	AE less tobacco & fats	11.0	2.5	2.8	4.5	7.4	0.8	2.3	
			Oils & Fats	0.6	10.5	23.4	-16.8	2.2	-13.1	-1.8	
			Tobacco	1.8	6.6	1.5	8.8	3.5	5.0	1.6	
			Processed food	13.4	3.4	3.6	3.7	6.5	0.7	2.0	
		Non energy industrial goods	Vehicles	6.2	1.8	2.3	1.4	-0.5	-2.1	-1.8	
			Footwear	1.9	2.2	1.6	1.3	1.4	-0.3	0.3	
			Clothing	6.9	1.1	1.1	0.9	0.4	-2.2	-1.8	
			Rest	14.9	0.5	1.2	0.3	0.3	0.4	0.4	
			Non energy industrial goods	29.9	0.9	1.4	0.7	0.3	-0.7	-0.6	
		Services	Postal services	0.0	2.7	5.7	3.6	2.8	2.8	2.0	
			Cultural services	1.9	2.7	2.4	3.1	2.8	2.5	2.9	
			Education	0.9	4.1	3.5	4.1	3.4	2.8	2.9	
			Hotels	0.8	2.3	3.6	5.5	4.2	-0.6	4.8	
			Health	2.4	4.0	4.1	4.2	4.1	4.1	4.0	
			Household equipment	1.9	4.5	4.4	4.2	4.4	3.7	4.0	
			Restaurants	11.6	4.3	4.5	4.8	4.7	2.4	2.4	
			Telephone	3.6	-1.6	-1.4	0.3	0.6	0.1	0.2	
			Transports	5.5	4.4	4.2	3.1	4.1	3.2	2.9	
			Package holidays	1.4	2.2	3.1	0.6	4.5	5.4	6.6	
			University	0.4	4.6	5.0	5.3	5.2	5.5	4.0	
			Housing	5.3	4.8	4.7	4.6	4.1	3.4	3.8	
			Rest	3.3	3.8	4.3	3.9	3.8	2.3	2.0	
			Services	38.9	3.8	3.9	3.9	3.9	2.7	2.8	
		Core Inflation			82.3	2.7	2.9	2.7	3.2	1.1	1.5
	Residual Inflation	Non processed foods	Meat	2.7	3.8	6.0	5.2	3.9	1.1	2.1	
			Fruits	1.3	2.7	0.1	4.5	9.4	3.0	3.5	
			Eggs	0.2	-3.2	2.8	4.3	10.7	1.5	0.3	
			Vegetables	0.9	5.4	-0.8	6.4	2.4	3.8	4.2	
			Mollusc	0.6	5.4	2.3	0.1	-0.2	-1.9	2.0	
			Potatoes	0.3	-8.2	17.6	8.4	-1.7	-9.3	0.2	
			Fish	1.3	3.8	5.7	2.5	1.2	-6.5	-5.5	
			Non processed foods	7.2	3.3	4.4	4.7	4.0	-0.3	1.1	
		Energy	Heat energy	6.0	12.3	6.6	1.4	13.0	-18.8	4.8	
			Fuels	0.5	26.8	11.8	-0.8	23.5	-34.9	6.0	
			Electricity and gas	3.8	4.0	9.6	2.1	8.7	2.1	1.8	
			Energy	10.3	9.6	8.0	1.7	11.9	-11.5	3.8	
		Residual Inflation			17.5	6.5	6.3	3.2	8.5	-6.7	2.7
		CPI Total			99.8	3.4	3.5	2.8	4.1	-0.3	1.7

Bold figures are forecasts
Source: INE & IFL (UC3M)
Date: May 13, 2009

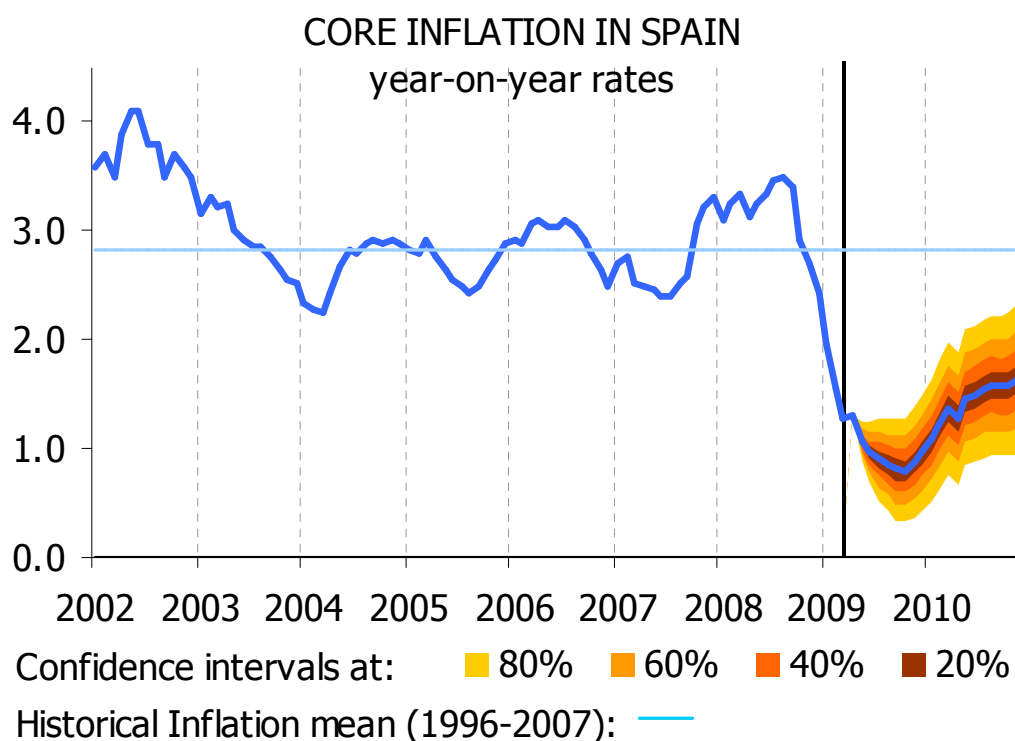


Graph IV.1.4.2



Source: INE & IFL (UC3M)
Date: May 13, 2009

Graph IV.1.4.3



Source: INE & IFL (UC3M)
Date: May 13, 2009



IV.2 ANALYSIS OF THE SPANISH ECONOMY.

IV.2.1 RECENT EVOLUTION OF THE SPANISH ECONOMY.

The most significant macroeconomic information published in the last month is found in the National Accounts for the first quarter of 2009, which have confirmed the significance of the economic recession. Also, most of the leading indicators published in the first three months of the year have been discussed in previous issues of the Bulletin.

In the first quarter of this year, the Spanish economy registered a year-on-year fall of 3% in real terms, compared with 0.7% in the previous quarter, according to the Quarterly National Accounts corrected for seasonality and calendar effect. In turn, the quarter-on-quarter rate fell by 1.9%, significantly more than the previous quarter (1%). The Spanish GDP then, as expected, has intensified its rate of decrease, even if the rate of decline was more intense than anticipated by our forecasts.

The first quarter's GDP represented a heavy downwards innovation relative to our forecasts estimated with the National Accounts for the previous quarter (end of February), and it affected most GDP components. The forecast anticipated a year-on-year decrease of 1.6% for the first three months, instead of the observed 3%. However, some April and March indicators showed that those forecasts were obsolete.

The intense adjustment of the Spanish economy in the first quarter of 2009 continued to depend on domestic demand, which subtracted 5.3 pp from GDP growth compared with the significantly lower 3 pp in the last quarter of last year. Foreign demand, however, made a positive contribution to GDP growth (2.3 pp), for the second consecutive quarter. After these results, the composition of GDP growth presents the typical structure found in the Spanish economy in economic crises, as occurred in the nineties. Domestic demand reduced GDP growth and foreign demand makes a positive contribution which is nonetheless not sufficient to compensate for the detracting of domestic demand.

The heavy fall in domestic demand depended on both consumption expenditure and gross fixed capital formation (GFCF), due to all the major components. Private consumption registered a considerable year-on-year decline in the first quarter of 2009 (-4.1%), nearly 2 pp less than in the previous quarter. This decline is in line with that registered by the labour market in the same

period, with unemployment rising to 4 million people. High household indebtedness is another factor which is hindering private consumption, even though inflation and interest rates have fallen in the last few months.

The economic crisis and the subsequent loss of confidence in the economy, besides hitting private consumption hard, are also affecting gross fixed capital formation (GFCF). This aggregate continued to fall heavily in the first quarter of 2009 with a year-on-year growth rate of -13.1%, some 4 pp less than in the previous quarter, due to investment in both capital goods and construction, although mostly to the former. Capital investment fell by a year-on-year 18.6%, after falling significantly less (9.7%) in the previous quarter. Construction, on the other hand, registered a year-on-year fall of 12.4%, 1.5 pp less than in the previous quarter, although the housing sector continued to decline by 23.8%, nearly 4 points less than in the previous three months. The other constructions segment, however, recovered slightly with a year-on-year decline of 0.6%, 0.8 pp better than the previous quarter.

Foreign trade flows also intensified their rate of decline in the first quarter of this year, due to weak international trade derived from the international economic crisis. Imports fell more than exports, so foreign demand continued to make a positive contribution to GDP growth for the fifth consecutive quarter. In the first quarter, imports registered a year-on-year fall of 22.3%, 9 pp less than the previous three months, in line with domestic demand. Real exports of goods and services reduced their year-on-year rate of variation by around 11 pp, to -19.%, a negative evolution largely due to the growing economic crisis in the European Union.

With the new National Accounts information, we have updated our forecasts for the Spanish macroeconomic table for 2009-2010. It is once again a downwards revision, as has systematically been the case since the end of 2007, but this time it is more intense. For 2009, we expect the GDP to fall by an average of 4.3% and 2.3% for 2010, instead of the previously forecast -2.5% and -0.5%, respectively. The year-on-year rates are expected to continue to fall in the three following quarters, ending the year at -5.1%, which could be the lowest point. For 2010, these year-on-year rates will continue to be negative, but improving during the year. The rate of decrease expected for



the first quarter is -4.5% and for the fourth it is nearly stable (0.3%).

On the demand side, all components are expected to contribute to the fall of the GDP, except for public consumption, which will continue to grow at more than 5% per year. Domestic demand will continue to hinder GDP growth, by 5.4pp in 2009 and 2.8pp in 2010. Foreign demand, however, as usual in economic crises (see the figures for the early nineties), will make positive contributions throughout these two years, with 1.1 pp and 0.5 pp, respectively, partly compensating for the negative contribution by domestic demand.

Private consumption was worse than expected in the first quarter. The forecasting error was just over one percentage point, and the new forecast shows that the weakness found since the second half of 2007 will continue. The year-on-year fall expected for the second quarter of this year is -4.4% and high negative rates will be registered throughout the year, although slightly less in the fourth quarter, so the year will register an average annual growth rate of -4.1%. For 2010, the rates are expected to continue to be negative in the first three quarters, although less than the previous year, and we could see a positive rate in the last quarter, with an average annual rate of -0.9%. The weak labour market shown by the Active Population Survey for the first quarter of 2009 and the recent Social Security contributor and unemployment figures for April show that household consumption continues to weaken. Indeed, our latest forecasts for the labour market, estimated at the end of April, anticipate an average annual 7% growth rate for unemployment in 2009, taking the unemployment rate up to 19% (see Bulletin BIAM 175). However, this negative performance by the labour market may be partly counteracted by drops in interest rates and inflation.

GFCF was also significantly worse than expected, largely due to capital investment, as the deviation in the construction forecast was small, although greater than expected. For 2009, we are expecting an average annual growth rate for capital investment of -22.3%, much less than our previous forecast (-16%), with a slightly smaller fall (-20.9%) expected for 2010. In construction for this year, we expect an average annual growth rate of -11.7%, less than our previous forecast (7.5%), and next year the average annual rate of decrease is estimated at 1 pp less. This is largely due to the property segment, as other constructions are expected to continue to grow, albeit modestly.

With regards to foreign trade flow, the intense deceleration seen in the last few quarters is expected to continue both this and next year, although more moderately than in the first quarter. The import forecast has been revised downwards for 2009, estimating an average annual growth rate of -17.8%, 3 pp less than the previous forecast, in line with the fall in domestic demand expected for this year. For 2010, this variable is expected to continue to register negative year-on-year rates, with an average annual figure of -7.9%, 3 pp better than the previous forecast. The export forecast has also been revised downwards. For this year, we are estimating an average annual growth rate of -16.5%, 6 pp less than in the previous forecast, with a slight improvement in 2010 with a considerably smaller decrease (-7.9%). This is consistent with the decline in the world economy, particularly the euro area. As a result of this, the contribution of foreign demand to the GDP will be positive, although insufficient for compensating the detracting of domestic demand.

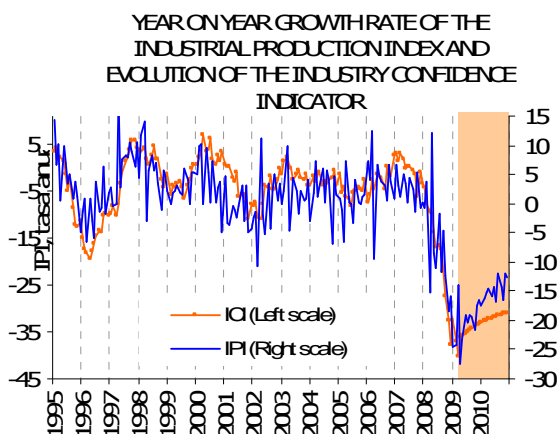
With regards to productive sectors, most of them can expect lower growth than was previously forecast, except for agriculture and non-market services. All of them, with the exception of the latter, will register a year-on-year decline in both 2009 and 2010. Construction will continue to be the weakest sector, with a fall of 13.8% expected for 2009 and somewhat less (9.8%) for 2010. Non-energy industry is expected to register greater decline this year, increasing up to the third quarter and ending with an average annual rate of -12.9%, 10 pp less than in 2008; this decline will not be as intense in 2010 although the final average annual growth rate will be -8.2%. With regards to energy, the average annual growth rate expected for 2009 is -6%, followed by -1.9% in 2010. Services will contract during the forecasting period, although it will be relatively the least negative sector. This year, market services are expected to register an average annual growth rate of -2.4%, considerably less than the previous forecast, and non-market services are expected to grow by 2.7%. For 2010, these rates are forecast at -1% and 3.1%, respectively.

Besides the National Accounts for the first quarter, other indicators were published in May providing information pertaining to April and March. The March IPI continues to decline and the April ESI, Social Security contributors and registered unemployment figures show that the former has improved and the decline in the latter is slowing down.



The March Industrial Production Index (*IPI*) showed a year-on-year fall of 14%, representing a downwards innovation relative to the previous month's forecasts which estimated a figure of 11.3%. If this IPI figure is corrected for the calendar effect, the decline is even greater (24.7%). When the observed and forecast IPI figures are compared, according to the economic destination of the goods, there were downwards innovations in all sectors except for a small upwards change in intermediate goods.

Graph IV.2.1.1



Source: EUROPEAN COMMISSION, INE & IFL (UC3M)
Date: May 6, 2009.

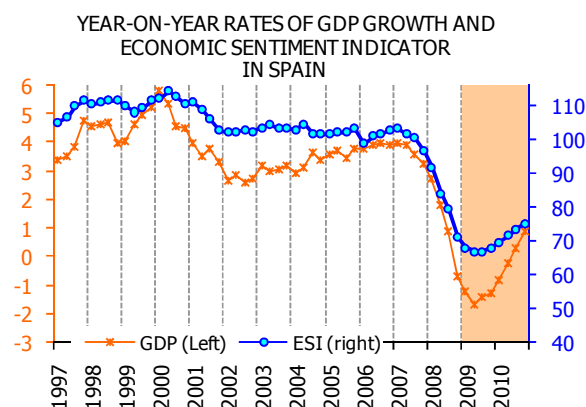
In turn, the industrial confidence indicator (*ICI*) for April improved relative to December. There was an improvement of around 4 points from the March figure, to a total of -36.2. It is expected to continue to register negative values throughout the forecasting period, although not as negative as we have seen in the last few months.

Considering this information about the industrial sector, the forecast average annual IPI growth figures for 2009 and 2010 have been revised downwards very slightly. The fall in the average annual IPI growth rate expected for 2009 is 1.6 pp to -20.8%, primarily due to durable consumer and intermediate goods. For 2010, the rate of decline is expected to be more moderate, with an average rate of -15%.

The Spanish Economic Sentiment Indicator (*ESI*) grew again in April for the second consecutive month, to 71.9 points, nearly 4 more than the previous month. Confidence fell in construction and the retail trade and grew in industry, services and consumers. Forecasts have been estimated for this indicator for 2009 and 2010 with the April ESI figure. In spite of the slight improvement in April the ESI is expected to continue to decline until the

last few months of this year, subsequently starting a slow recovery process which will become visible at the end of next year, with a profile similar to that of the previously discussed GDP.

Graph IV.2.1.2



Source: EUROPEAN COMMISSION, INE & IFL (UC3M)
Date: April 29, 2009

With regards to the labour market, the April figures have been published for Social Security Contributors and registered unemployment. They show that the rate at which the labour market was declining has slowed down. This could be influenced by a positive effect of Holy Week, which fell in April this year and in March last year, and also because of the Local Investment Plan (Plan E) which came into force in March.

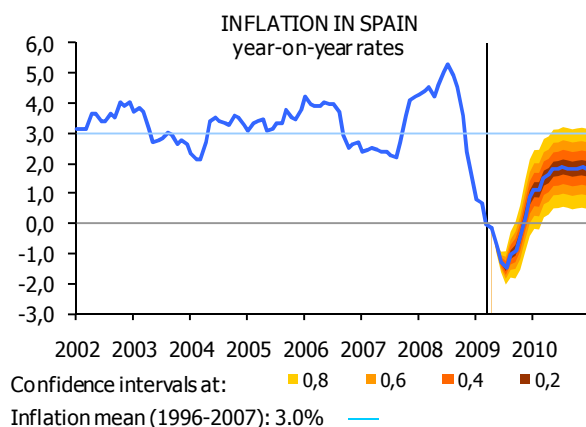
In April, Social Security Contributors registered a year-on-year fall of 6.8% compared with 6.5% in March, showing that jobs are being lost at a slower pace. In turn, the month-on-month rate of variation calculated with data corrected for seasonality showed a decrease of 0.5%, less than the March figure (0.7%). By sector, construction performed the worst, with a fall of 26.6% relative to a year earlier. In April, 39,500 people joined the unemployment queue. When corrected for seasonality, this figure increased to 120 thousand. After this, registered unemployment registered 3,644,900 people, a 66.9% increase in twelve months. The construction sector, consistent with the evolution of Social Security contributors described above, presents the greatest decline. Note that the effects of Plan E will have a predetermined duration, the term of the projects, around six months. Once they are completed, these jobs will also disappear.



IV.2.2 INFLATION.

The prices of manufactured goods and food have again registered a downwards innovation, and our forecasts have been adjusted accordingly. Service prices evolved as expected, but the forecasts are revised downwards due to restaurant prices and their relative importance.

Graph IV.2.2.1



Source: INE & IFL(UC3M)
Date: May 13, 2009

The causes of the moderation found in consumer prices are evident and their effects have been felt for several months. On the one hand, the fall in aggregate demand, especially household consumption, is pushing prices down. On the other, the fall in demand is pushing producers and distributors towards a price war which is gaining in intensity, especially among major supermarket chains.

A third factor that can be expected to affect the situation in the next few months, is the government's direct intervention in the car market with direct purchase price grants. These grants will be jointly financed by the government, the autonomous regions and car producers, although the details are not yet final. This measure can reasonably be expected to push the car price index down, although we are unable to estimate the extent of its impact.

Like in other countries, the Spanish economy has shown some signs of improvement in the last month, and this could indicate that the worst is nearly over. However, recovery is expected to be slow and the GDP will continue to fall in 2010. Unemployment is also expected to rise throughout 2009, although the latest figures appear to show that the rate of decline is slowing down. In sum, the weakness of the Spanish economy will last until at least the second half of 2010. During this time, we will continue to see unusually low

inflation, characterised by negative growth in some food prices, goods with more exposure to competition and goods for which the credit supply limits the demand. Moderation of service prices is expected to be more intense in restaurants, as inflation in this sector is highly dependent on the fluctuations in the economic cycle. In 2009 and part of 2010, the inflation differential relative to the euro area will be favourable to Spain, largely due to industrial goods, unprocessed food and energy prices, while the service differential will continue to be negative, although significantly smaller.

Table IV.2.2.1

ANNUAL RATES OF GROWTH IN THE SPAIN*						
HICP	Observed			Forecasts		
	Aver ⁽¹⁾ 2007	Aver ⁽²⁾ 2008	2008 Apr	2009 May(1)	Aver ⁽²⁾ 2009	Aver ⁽²⁾ 2010
CORE (82,9%)	2,7	3,2	1,3	1.1 (±0,18)	1.1 (±0,16)	1.5 (±0,46)
TOTAL (100%)	2,8	4,1	-0,2	-0,8 (±0,17)	-0,3 (±0,42)	1,7 (±1,07)

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

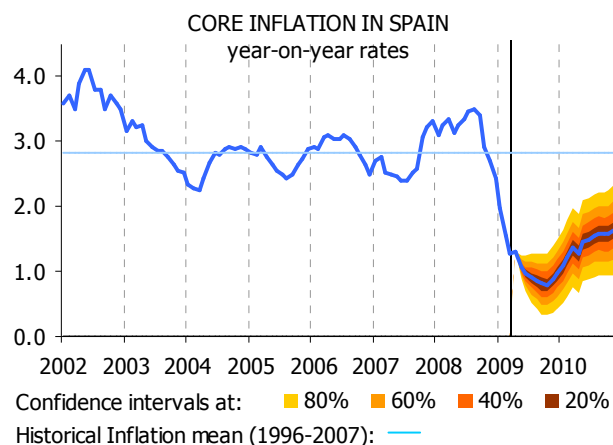
Source: INE & IFL (UC3M)

Date: May 13, 2009

⁽¹⁾ Year-on-year rate

⁽²⁾ Annual average rate

Graph IV.2.2.2



Source: INE & IFL(UC3M)
Date: May 13, 2009

In view of the latest information available, the forecast for 2009 is an average annual rate of -0.3% (±0.42), followed by 1.7% (±1.07) in 2010. Core inflation is expected to be more moderate, at 1.1%(±0.16) in 2009 and 1.5%(±0.46) in 2010; both these values are 0.2pp lower than our previous forecasts.



Unprocessed food is the group which is more affected by the downwards revision. A rate of -0.3% is expected for 2009, followed by a 1.1% growth rate in 2010. The processed food forecast was also revised downwards by three tenths of a point to 0.7% for this year and 2.0% for the next.

The prices expected for non-energy industrial goods were revised downwards, although not so intensely. These prices are expected to fall by an average of 0.7% and 0.6% in 2009 and 2010, respectively. Both these values are lower than the previous forecasts and 1.5pp less than the values expected for the euro area.

The services situation is somewhat more complicated. The prices for the special group, which includes 38 sub-classes and represents 38.9% of the CPI, evolved as expected, but restaurant prices, which represent more than 30% of the service sector in Spain, registered a significant downwards innovation. The correlation between restaurant inflation and the cyclical growth fluctuations in the Spanish economy has always been very high compared to other goods and services, and it is not surprising to find that this item is one of the most affected by the economic crisis. Considering these factors, our modelling has generated a new downwards revision in the service sector. We are now expecting prices to grow by an average 2.7% in 2009 and 2.8% in 2010. In the euro area, the

service inflation forecast is 2.1% and 2.2% in 2009 and 2010, respectively. The differential in this case will continue to be unfavourable, but much less so than in the last ten years on average.

The relative weight of goods and services with negative rates has risen again in April. It is now 33.1% and, as table IV.2.2.2 shows, most items have been at negative rates for at least 4 months (highlighted in grey on table IV.2.2.2).

Finally, a rise in present and expected oil prices has led to an upwards revision in domestic energy prices, which partly compensates for the previously discussed downwards innovations. A negative variation of 11.9% is expected for the energy CPI, versus 12.8% estimated previously. In the last few weeks not only have oil prices risen, but also the prices of numerous raw materials. Although there is probably considerable speculation behind these increases, the fact is that the markets see current raw material costs as crisis prices. The shortage of energy and natural resources in a much more industrialised world is a problem yet to be solved, and it will push these prices up again when there are concrete signs of recovery. At the same time, the enormous liquidity in the system, if not withdrawn in time, could push inflation up considerably. In sum, the inflation forecasts for 2009 and 2010 are very moderate, or even negative, but the 2010 values are subject to considerable uncertainty.



Table IV.2.2.2

COICOP SUBCLASSES IN SPAIN WITH NEGATIVE VALUES IN YEAR-ON-YEAR INFLATION RATES									
Special Group*	Weights 2009	Subclasse COICOP	April 2009	March 2009	February 2009	January 2009	QIV-08	QIII-08	Average 2008
PROCESSED FOOD 42.916	15.613	Bread	-0.12						
	1.136	Farinaceous-based products	-2.98	-1.89					
	10.184	Milk	-6.53	-6.59	-6.66	-6.40	-3.909		
	7.416	Other dairy products	-0.19						
	1.154	Sugar	-7.06	-5.74	-3.96	-2.10	-0.319		
	5.84	Oils	-13.23	-11.18	-9.12	-5.24	-0.165		
	0.836	Fresh pulses and vegetables	-0.68	-0.88					
NON-ENERGY INDUSTRIAL GOODS 175.718	0.737	Baby food	-2.23	-2.43	-1.45				
	22.808	Men's outerwear	-2.40	-2.65	-2.47	-2.34			
	1.438	Men's underwear			-1.86	-0.42			
	29.552	Women's outerwear	-2.58	-2.62	-2.54	-2.50		-0.07	
	2.508	Women's underwear			-1.72	-0.74			
	10.452	Children's and infants' garments	-1.68	-1.88	-1.84	-1.46			
	1.714	Clothing accessories of garments		-0.54	-1.90	-0.84			
	6.757	Men's footwear	-0.04	-0.10					
	8.849	Women's footwear	-0.80	-0.44	-0.18	-0.57			
	3.402	Children's and infants' footwear	-0.21	-0.41	-0.24	-0.21			
	54.075	Motor vehicles	-2.57	-2.02	-2.18	-0.23	-0.031	-0.37	-0.50
	2.323	Other vehicles		-1.51	-1.53		-2.695	-3.13	-2.41
	1.494	Spare parts and maintenance accessories	-0.34						
	5.005	Refrigerators, washing machines and dishwashers	-0.86	-1.22	-1.33	-1.46	-1.598	-2.20	-1.86
	1.645	Cookers and ovens			-0.09	-0.13	-1.241	-1.32	-0.81
	2.939	Heating and air conditioning					-0.716	-0.85	-0.52
	1.286	Other household appliances		-0.17	-0.15	-0.06	-0.127	-0.44	-0.16
	9.525	Medicines and other pharmaceutical products	-2.30	-2.32	-5.78	-5.85	-5.856	-6.50	-6.50
	4.909	Equip. for the reception, recording and reproduction	-14.41	-14.81	-14.75	-14.25	-12.509	-12.28	-12.73
	1.365	Photographic and cinematographic equipments	-19.76	-21.44	-20.79	-19.39	-19.339	-19.01	-18.02
	4.241	Information processing equipments	-16.95	-16.84	-17.16	-18.24	-19.894	-20.68	-21.46
	2.624	Recording media	-0.73	-0.32	-0.54	-1.14	-1.364	-1.02	-0.91
	6.223	Games and toys	-0.82		-0.59	-1.24	-0.408	-0.47	-0.40
	0.868	Large sports equipment						-0.19	
	0.825	Other recreational and sporting articles	-1.09	-0.41	-0.26				
	2.771	Other articles for personal use	-0.39	-0.68	-0.46	-0.02			
	0.841	Telephone equipments	-24.09	-23.03	-21.57	-24.12	-16.738	-23.79	-25.73
SERVICES 1.167	7.651	Hotels and other lodgings		-5.00					
	14.223	Package holidays		-1.55					
	1.167	Obligatory education	-2.13	-2.13	-2.14	-2.15			
NON-PROCESSED FOOD 33.561	5.937	Pork	-3.09	-2.40	-1.40	-0.17			
	7.324	Poultry	-1.28				-1.268		
	1.436	Other meats, viscera and other non-meat edibles	-1.24						
	10.852	Fresh fish	-6.53	-7.40	-4.64	-6.56	-1.935		
	2.283	Frozen fish	-0.74	-0.25					
	5.729	Crustaceans and molluscs	-2.90	-3.03	-1.43	-1.89	-1.347	-0.07	-0.16
ENERGY 78.073	3.027	Potatoes and processed potato products							-1.71
	13.077	Gas	-10.78						
	4.836	Other fuels	-38.84	-35.99	-26.80	-28.77	-7.003		
	60.16	Fuels and lubricants	-20.42	-22.37	-17.94	-19.55	-6.466		
Total weight in COICOP subclasses with negative year-on-year rates			331.44	306.05	285.81	281.09	203.08	133.15	105.76

Source: INE & IFL(UC3M)

Date: May 13, 2009



IV.2.3 ANALYSIS OF THE CURRENT ACCOUNT DEFICIT IN THE SPANISH ECONOMY

Nicolás Carrasco

The long and intense period of growth undergone by the Spanish economy, which ended in 2007, involved considerable foreign sector disequilibrium, leading to a current account deficit representing an unprecedented 10.1% of the GDP. With the change of cycle, and basically due to a weak domestic demand, this deficit has started to correct itself. Indeed, it fell by more than half a point last year and will probably fall by another four points, to 4% of the GDP, in 2009-2010, nearly back to 2003 levels. The current account deficit is largely determined by the trade deficit which, up to 2006, was systematically greater. However, the fact that, in the last few years, the tourist balance has compensated the negative trade balance less than usual, coupled with the growing income deficit, has turned the tables, and the latter was nearly 2 points higher than the former in 2008. Irrespective of this cyclical correction of the current account deficit, it has a high structural factor which responds to the low degree of competitiveness in the Spanish economy and greater labour cost growth than our primary competitors. A solution to these problems is urgently needed.

IV.2.3.1. Introduction

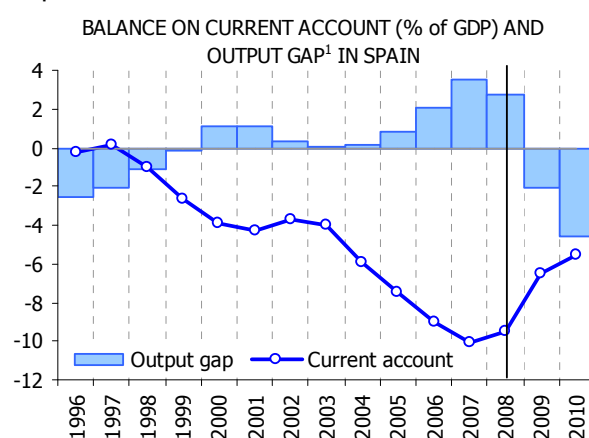
In its last, long period of growth, which lasted from the mid-90s to 2007, the Spanish economy accumulated a high and persistent foreign trade deficit which led to an unprecedented current account (C/A) deficit. In the last year of that period, the figure was 10.1% of the GDP, the second highest in the world, after the US. Throughout the period of growth, elevated GDP growth was due to domestic demand, and the foreign sector made a negative contribution to it every year. This negative contribution grew throughout the growth period.

The accumulation of high foreign trade deficits is not a new problem in the Spanish economy and depends on our always negative trade balance. The reasons for the persistence of the trade deficit are well known and were discussed in previous issues of the Bulletin (see the June 2006 issue); they generically respond to the inability of Spanish firms to export and compete on foreign markets. Regardless of transient factors such as rising oil or raw material prices, this disequilibrium found in the Spanish economy is derived from other structural problems such as a low productivity growth rate, persistent unit labour cost (ULC) growth and a high inflation differential with euro area countries,

even though this differential has been favourable to Spain for the last few months for the first time ever.

However, with the change of cycle which started in the first half of 2007, the foreign trade imbalance started to correct itself and in 2008 the sector made a positive contribution of 1.1 pp to GDP growth, after a 0.7 pp negative contribution in the previous year. Indeed, it had been systematically hindering growth for over a decade. That year, the C/A deficit fell by just over half a point to -9.5% of the GDP, and this reduction continued in the first few months of this year. This correction is due to the weak domestic market, which leads to a greater fall in imports than in exports. This is because our foreign markets are not diminishing as much as the domestic market. Indeed, in the fourth quarter of 2008 both exports and imports registered heavy year-on-year reductions, the former at a rate of 7.9% and the latter at 13.2%; in the first quarter of 2009 these figures rose to 19% and 22.3%, respectively.

Graph IV.2.3.1.1



1 Deviation of GDP respect the trend using the HP filter.

Source: INE & IFL

From one perspective, the current account deficit results from excess domestic demand relative to national production. As graph IV.2.3.1.1 shows, this is usually a procyclical process. This is because, in periods of growth, domestic demand cannot be satisfied by national production. Coupled with our firms' low exporting capacity, this pushes up the goods and services account and therefore the current account deficit. In contractive phases, imports are moderated and the deficit starts to correct itself. From another viewpoint, this C/A deficit can be seen as a shortage of domestic savings for financing investment. Irrespective of the causes, since we joined the euro area, the

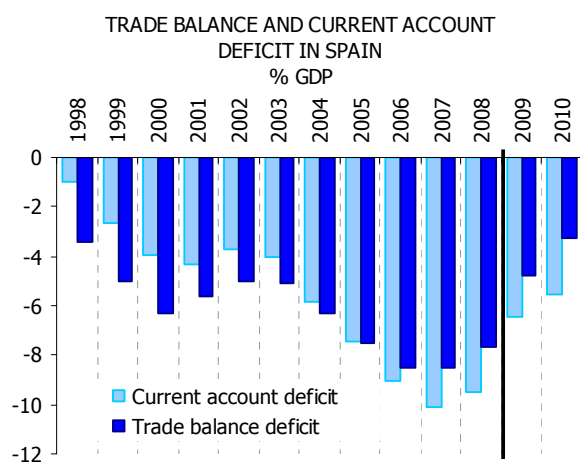


growing foreign trade deficit in the Spanish economy has been due to other more structural causes, such as less strict monetary conditions and a considerable increase in financing facilities.

IV.2.3.2. Analysis of the current account balance and its components

According to the balance of payments, the current account balance in 2008 totalled -104251 million euros, representing -9.5% of the GDP. This ratio has improved by six tenths of a point relative to 2007, interrupting the growing trend found uninterruptedly since 1997, when it registered a small surplus (0.1%) relative to the GDP. The information available for the first two months of 2009, according to the Bank of Spain's balance of payments, and for the first quarter according to the National Accounts (NA), shows that the correction process continues, and the perspectives for 2009-2010 anticipate that it will indeed continue with some intensity. Our forecasts for those years show a ratio of 6.5% and 5.6%, respectively (see graph IV.2.3.2.1).

Graph IV.2.3.2.1

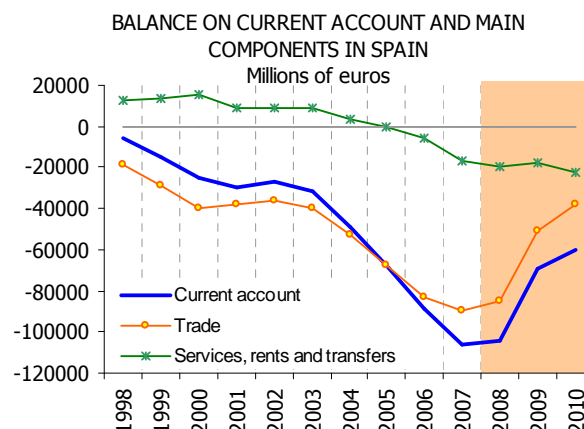


Source: INE & IFL

Following is an analysis of the recent evolution of the different C/A sub-balances, showing that the balance of trade continues to determine the C/A balance, but less than a few years ago (see graph IV.2.3.2.1). Items such as tourism and, to a lesser extent, current transfers and primary rents, which in the last century registered a surplus and compensated the trade deficit, have deteriorated in the last few years, as has their compensatory effect, so the current account and trade deficits have grown closer. Indeed, they were the same in 2005 and the C/A deficit was greater than the trade deficit in 2006, continuing this growing trend in the following years, until the C/A deficit was

nearly two points higher than the trade deficit in 2008 (see graphs IV.2.3.2.1 and IV.2.3.2.2).

Graph IV.2.3.2.2



Source: INE & IFL

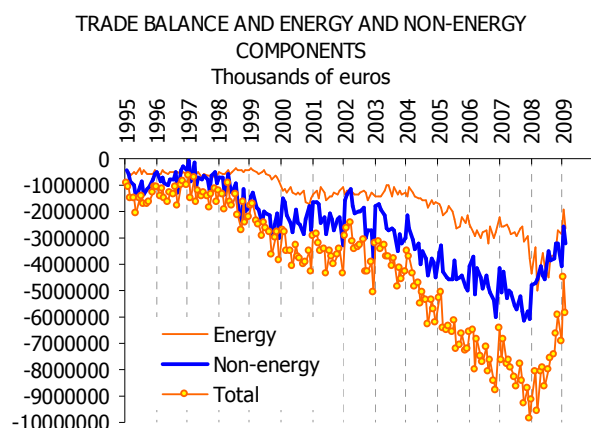
Unlike its primary competitors, the Spanish economy has traditionally registered a high and persistent trade deficit. In 2008, this negative balance fell for the first time after five consecutive years of heavy growth and an all-time record in 2007, according to both the NA and the balance of payments edited by the Bank of Spain. That year, the deficit totalled -89622 million euros, -8.5% of the GDP. However, the trade deficit started to correct itself in 2008 and fell by 5.6% to -84629 million euros, -7.7% of the GDP.

This correction of the trade deficit was largely due to the evolution of imports, which decreased considerably last year as a result of the weaker domestic demand, registering negative year-on-year rates in the fourth quarter of 2008. Imports fell more than exports, which also decreased as a result of the international crisis, registering negative rates of variation in the fourth quarter, thus explaining the correction of the trade deficit in 2008. This was also partly due, of course, especially in the last four months of the year, to the heavy drop in oil prices, which partially compensated for the opposite trend in the first seven months of the year.

Distinguishing between the energy and non-energy component of the deficit, we see that the non-energy deficit started to correct itself in the first half of 2007, when the economy started to slow down (see graph IV.2.3.2.3), whereas the energy deficit continued to grow until July 2008 as a result of rising oil prices from mid-2007 to mid-2008. When oil prices started to fall, it joined the correction process. The correction of the overall deficit in 2008 was more due to the non-energy component and energy only joined the process towards the end of the year.



Graph IV.2.3.2.3



This correction has been intense in the first quarter of this year when, according to the NA, the cumulative deficit was 12840 million euros, 52.7% less than in the same period of 2008, and this trend is expected to continue in the next few quarters. Our forecasts for 2009-2010 show that the trade deficit will continue to correct itself, consistent with the expected continued drop in domestic demand and relatively dynamic exports. For 2009, it is expected to be -4.8% of the GDP and -3.3% in 2010, back to 2003 and 1998 levels. The cause of this high trade deficit, as mentioned earlier, is in the persistent loss of competitiveness in our products, coupled with oil shocks, although the latter have a limited duration and are transient.

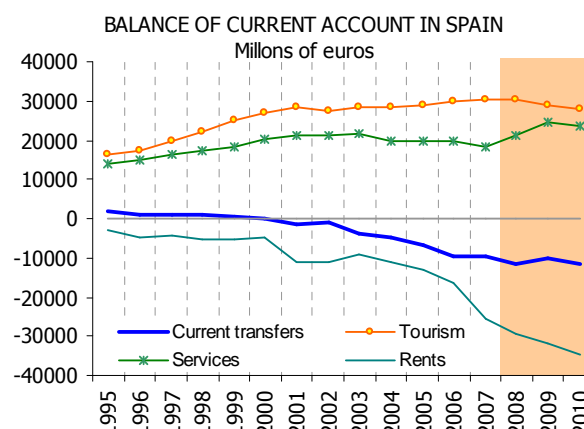
In 2008, the tourist balance continued to present a surplus and continued to be an important counterweight to the trade deficit. In the last few years, however, this surplus has been representing less and less of the GDP, so its traditional compensatory effect has been smaller. Last year, this sub-balance presented a positive 30397 million euros, similar to the previous year. This surplus represented 2.8% of the GDP, one tenth less than in the previous year and one point less than in 2002. Last year, both income and payments in this item fell at rates of -0.7% and -3.7%, respectively. In the first two months of this year, income from tourism was very weak, showing a 13% drop from last year in the same period. The perspectives show that the tourist surplus as a percentage of the GDP will continue to follow the slightly falling trend found since the start of this century.

In any event, the last few years have seen a loss of weight of the tourist surplus relative to the GDP and a small compensatory effect on the trade deficit. Indeed, in 2002 the tourist balance compensated for more than three quarters (76%) of the trade deficit, followed by 70.5% in 2003. Since 2004, however, the fall has increased with compensation ratios of 42.3% that year, 37% in

2006, 34% in 2007 and a 36% recovery in 2008. On the one hand, this is due to the heavy increase of the trade deficit in the last few years and, on the other, to less growth of tourist expenditure (income) and more payments. In the last few years there has been heavy growth in tourist payments, due to the fact that Spaniards have increasingly tended to holiday abroad, but this trend ceased last year, largely due to the economic crisis.

The reduction in the rate of growth of tourist income in the last few years, especially since 2004, coincided with record tourist arrivals; this apparent paradox is explained from a drop in per capita tourist spending due to a considerable fall in the number of average stays per tourist. In 2008, the contraction of tourist income was 0.4%, largely because the leading tourist-producing economies, such as the United Kingdom, Germany, France and Italy entered a technical recession. This situation continues in 2009 and the first two months registered a year-on-year decrease of 15.4%, although the decrease in payment in the same period is even greater (18.4%).

Graph IV.2.3.2.4



Source: INE & IFL

The balance of other services is traditionally negative and usually of less significance than tourism. In 2008, this deficit totalled -9393 million euros, representing a significant correction relative to the previous year (-2663 million euros). Last year this deficit represented -0.9% of the GDP, compared with -1.1% in 2007, and since the start of the century the ratio has remained stable at around -1%. These non-tourist services include services related with communications, transport, information, insurance and business services in general. Since 2006, income from other services is higher than tourist income, as the former then totalled 44046 million euros and the latter 40715 million. This difference has increased and in 2008



income from other services totalled 55646 million euros, 13749 more than income from tourism.

In the last few years, the balance of rents has presented a growing negative figure. In 2007 the deficit totalled 29245 million euros, 14.6% more than a year earlier, representing -2.7% of the GDP, nearly a point more than in 2006. The decline in this balance is growing and highly significant, as in 2003 the deficit was just over -1% of the GDP. This deficit is largely from the rents of foreign firm investments: dividends, interest, etc. Given that Spain depends on foreign financing, this item will continue to grow. As for the earnings of transborder workers remaining for less than a year, they are less important in view of the low international mobility of European hand labour.

In 2008, the current transfers balance presented a deficit of -11381 million euros, after being -9428 million in the previous year, -1.0% of the GDP, one tenth of a point more than in 2007. This balance shows a slightly growing deterioration and started to be negative at the beginning of this decade, after previously registering a surplus and helping tourism to compensate for the trade deficit. This change is due, on the one hand, to the fact that current transfers to the Spanish authorities from the European Social Fund and European Agricultural Guidance and Guarantee Fund (EAGGF) have fallen in the last few years, due to our income increasing relative to the EU average and, on the other, to the growing evolution of immigrant remittances, as Spain became a country receiving immigration. The growth of the latter may be more moderate due to the effect of the economic crisis on the labour market, thus discouraging immigration and possibly reducing the figures due to repatriation processes.

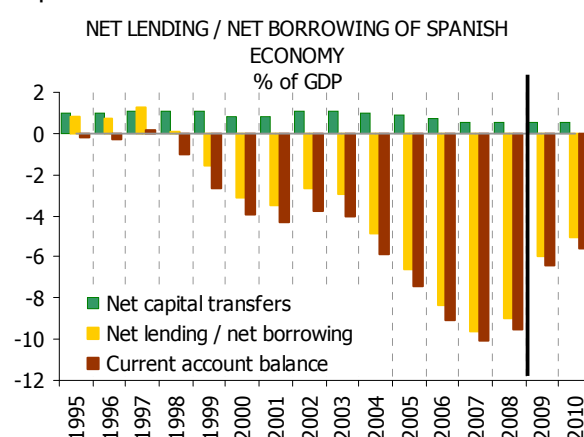
IV.2.3.3. The Spanish economy's financing capacity (+) requirements (-)

The capital transfer balance is usually positive but small. In 2008, it totalled 5058 million euros, 0.5% of the GDP, and has decreased in the last few years due to reduced capital transfers from the EU. Our country previously benefited from structural and cohesion funds, but when we attained given income levels, these funds were considerably reduced. If we add the C/A balance to the capital account balance we obtain our financing capacity (+) or requirements (-).

Graph IV.2.3.3.1 shows this aggregate from 1995 to 2008 and we can see the close relationship

between the C/A balance and financing capacity or requirements, and how they practically explain each other. Except for 1995-1998 (just before the introduction of the euro), when the Spanish economy showed financing capacity, probably due to the delayed effect of the devaluations of the mid-90s and the efforts made to meet the Maastricht conditions, it otherwise showed a need for financing. In 1999, the financing requirements were -1.6% and the deficit continued to grow to -8.4% in 2006, -9.7% in 2007 and -9.1% in 2008. In 2008, the financing required by our economy totalled 99193 million euros, 2.2% less than the previous year. However, before 1996 it was common to find the Spanish economy in need of foreign financing.

Graph IV.2.3.3.1



Source: INE & IFL

The forecasts show that in 2009 and 2010 the Spanish economy will continue to owe, but with a clearly falling evolution. Indeed, in the first quarter, the NA show an -8.5% financing requirement and our forecast shows a need of 6% of the GDP for 2009 and 5.1% for 2010.

In spite of the reduction of the C/A deficit and the Spanish economy's financing requirements in 2008, 2009 and 2010, the problem of maintaining high deficits remains unaltered. This is because of the persistent drop in competitiveness derived from our low productivity rates and growing unit labour costs, far above our principal competitors. If the structural reforms required to solve these problems are not forthcoming, borrowers will start to apply stricter financing conditions because they will see that the problems are not being corrected and they could start to increase risk premiums and limit credit. We therefore have to reduce our costs and make the necessary structural reforms in order to correct the problems currently affecting the Spanish economy.



IV.3. TABLES AND PLOTS.

Tables:

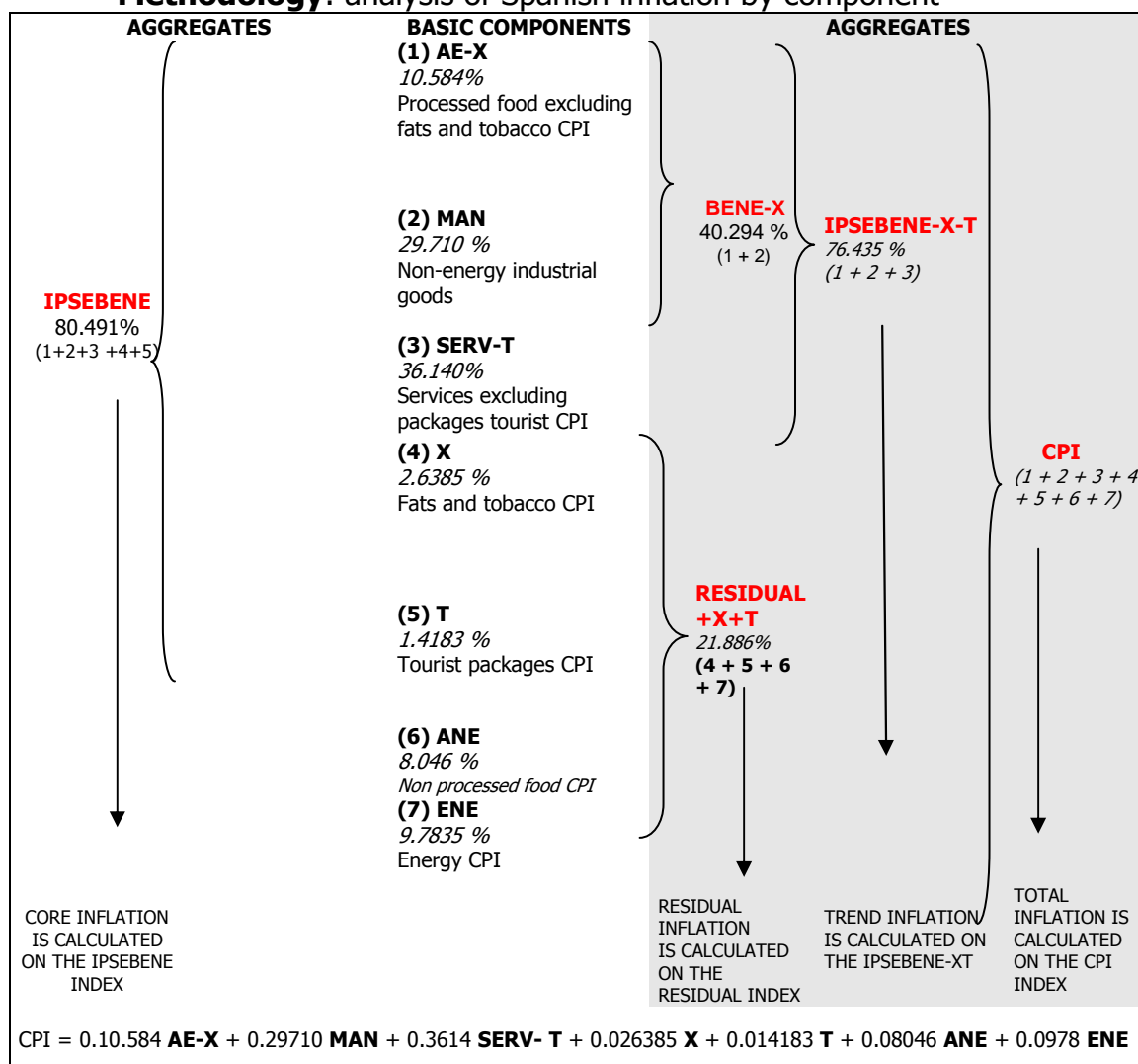
- Methodology: analysis of Spanish inflation by component
- Observed values and forecasts for the Spanish CPI.

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.

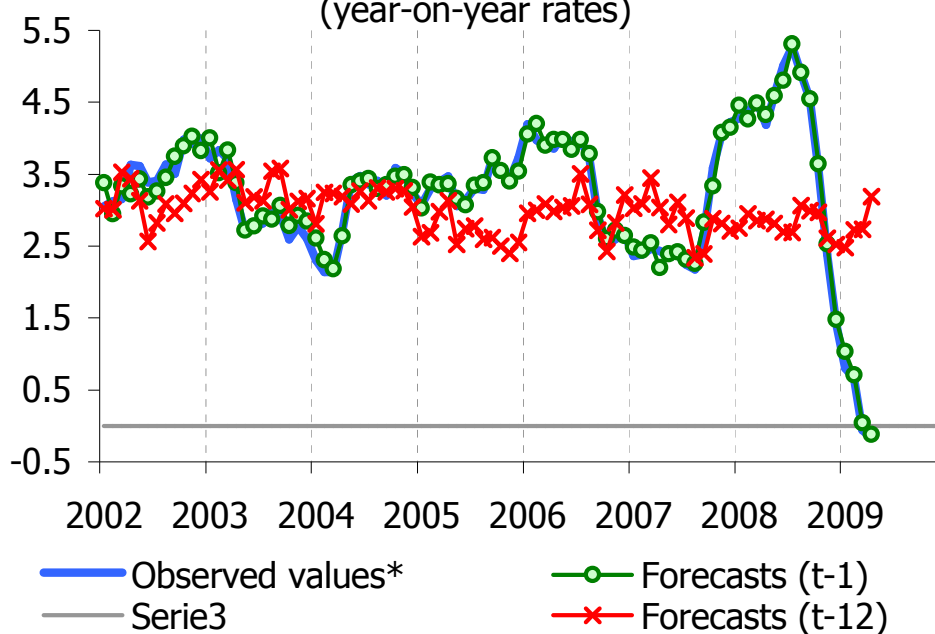
OBSERVED VALUES AND FORECASTS FOR THE SPANISH CPI				
Monthly rates, April 2009				
Consumer Price Index (CPI)	Weights 2009	Observed values	Forecast*	Confidence intervals **
(1) Processed food	14.04	-0.23	-0.02	± 0.50
(2) Non energy industrial goods	30.01	2.69	2.92	± 0.32
(3) Services	39.09	0.55	0.57	± 0.16
CORE INFLATION [1+2+3]	83.14	1.17	1.30	± 0.18
(4) Non-Processed food	6.57	-0.37	0.60	± 1.04
(5) Energy	10.29	0.29	-1.16	± 0.69
RESIDUAL INFLATION [4+5]	16.86	0.03	-0.44	± 0.82
TOTAL INFLATION [1+2+3+4+5]	100.00	0.98	1.00	± 0.17

Source INE & IFL (UC3M)

Date: May 13, 2009

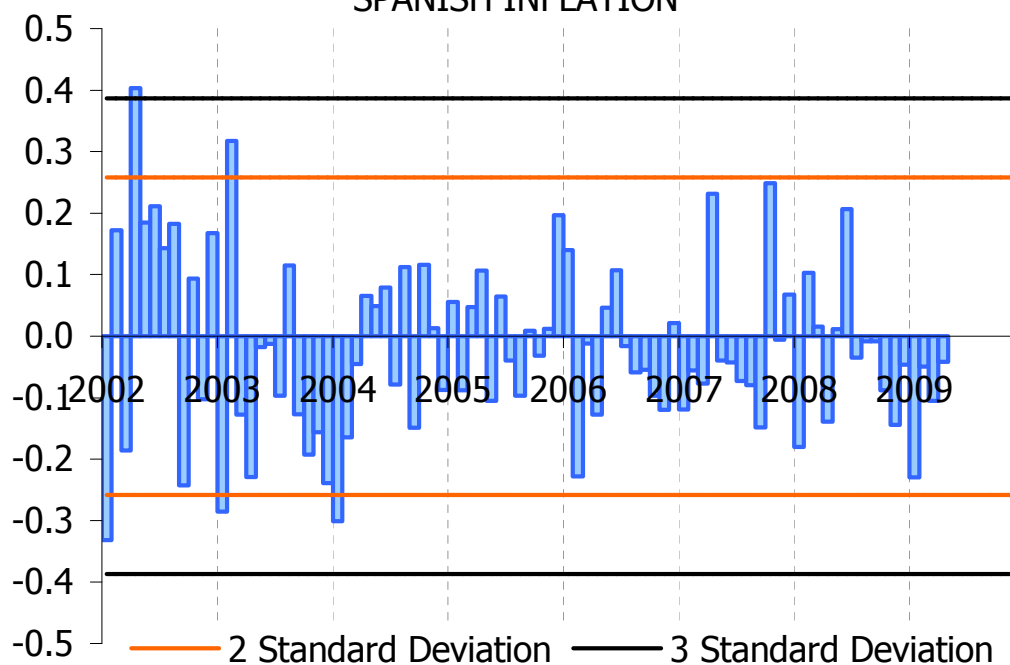


ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS FOR THE SPANISH CPI (year-on-year rates)



Source: INE & IFL (UC3M)
Date: May 13, 2009

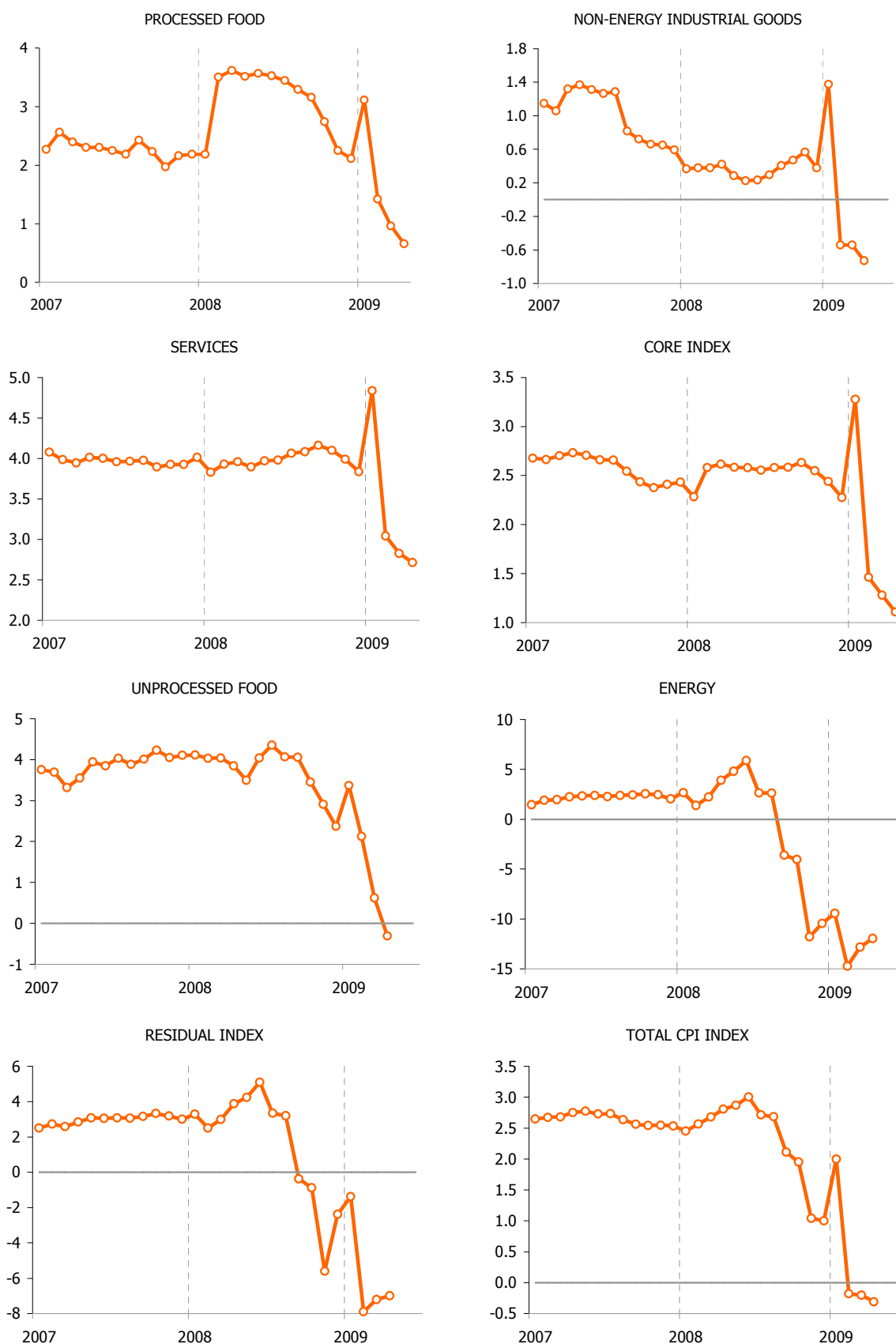
ONE MONTH AHEAD FORECAST ERRORS IN SPANISH INFLATION



Source: INE & IFL (UC3M)
Date: May 13, 2009



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: May 13, 2009



V. SUMMARY OF FORECASTS FOR DIFFERENT AREAS.

V.1 EURO AREA AND USA

INFLATION IN THE EURO AREA AND U.S.										
	Weights 2008	2002	2003	2004	2005	2006	2007	2008	Forecasts 2009 2010	
TOTAL										
Euro area	100.0	2.2	2.1	2.1	2.2	2.2	2.1	3.3	0.5	1.8
U.S. ⁽¹⁾	75.6	0.9	2.2	2.8	3.7	3.1	2.7	4.3	-1.3	2.2
A HOMOGENOUS MEASURE OF CORE INFLATION ⁽²⁾										
Services and Non-energy industrial goods excluding food and tobacco										
Euro area	71.1	2.4	1.8	1.8	1.4	1.4	1.9	1.8	1.6	1.6
U.S. ⁽¹⁾	53.3	1.7	1.1	1.6	2.1	2.1	1.9	2.2	1.6	1.6
COMPONENTS OF THE HOMOGENOUS MEASURE OF CORE INFLATION										
(1) Services										
Euro area	41.4	3.1	2.5	2.6	2.3	2.0	2.5	2.6	2.2	2.3
U.S. ⁽¹⁾	31.9	3.5	3.3	3.6	3.1	3.3	3.4	3.6	2.3	2.5
(2) Non-energy industrial goods excluding food and tobacco										
Euro area	29.7	1.5	0.8	0.8	0.3	0.6	1.0	0.8	0.7	0.7
U.S. ⁽¹⁾	21.5	-1.1	-2.0	-0.9	0.5	0.3	-0.4	0.1	0.7	0.4
INFLATION IN THE EXCLUDED COMPONENTS FROM THE HOMOGENOUS MEASURE OF CORE INFLATION										
(1) Food										
Euro area	19.3	3.1	2.8	2.3	1.5	2.4	2.8	5.1	1.1	1.9
U.S. ⁽¹⁾	14.6	1.8	2.1	3.4	2.4	2.3	4.0	5.5	2.1	0.9
Energy										
Euro area	9.6	-0.6	3.0	4.5	10.1	7.7	2.6	10.3	-8.0	3.4
U.S. ⁽¹⁾	7.6	-5.9	12.2	10.9	16.9	11.2	5.5	13.9	-20.4	7.6

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

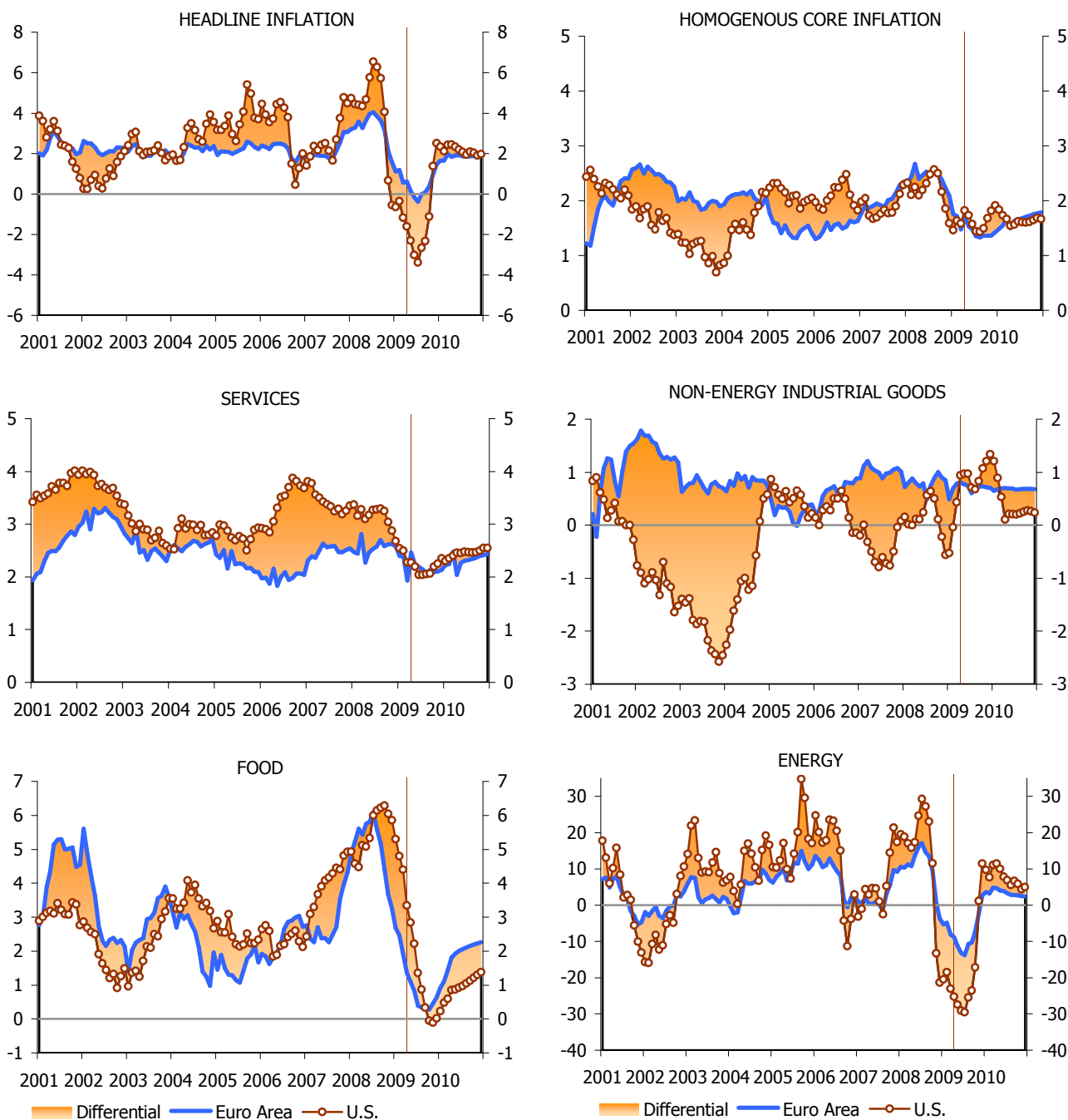
⁽²⁾ This homogeneous measure of core inflation does not coincide with the usual measure of core inflation for the euro area nor for the USA. It has been constructed in order to compare the data in the euro area and in the USA.

Source: EUROSTAT, BLS & IFL (UC3M)

Date: May 15, 2009



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



Source: EUROSTAT, BLS & IFL (UC3M)

Date: May 15, 2009

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

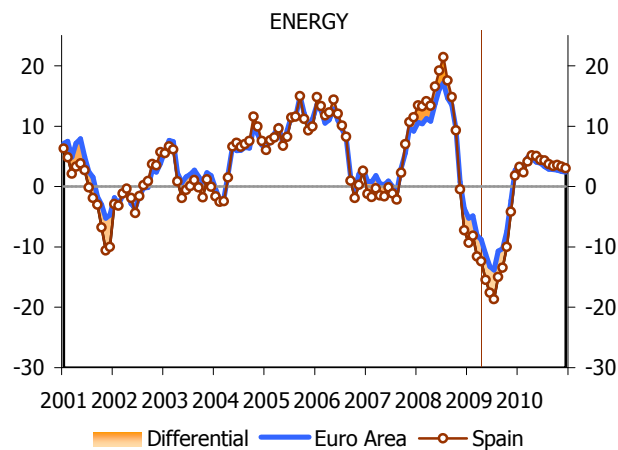
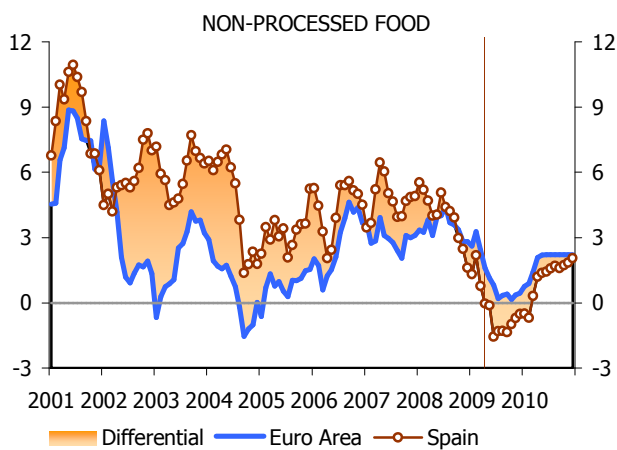
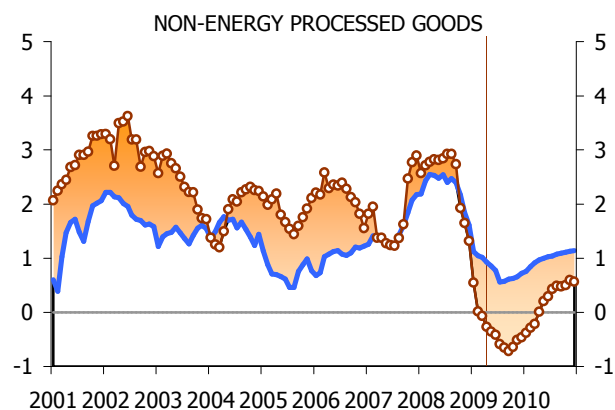
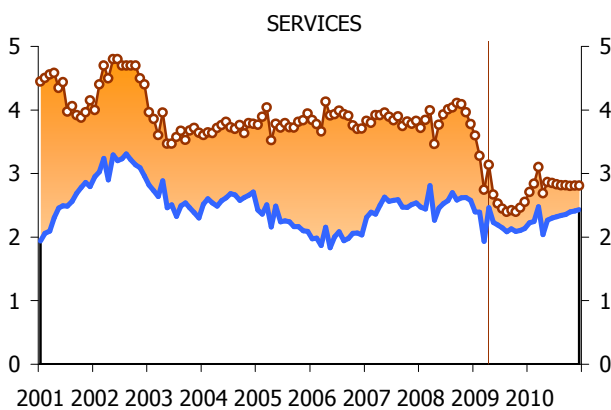
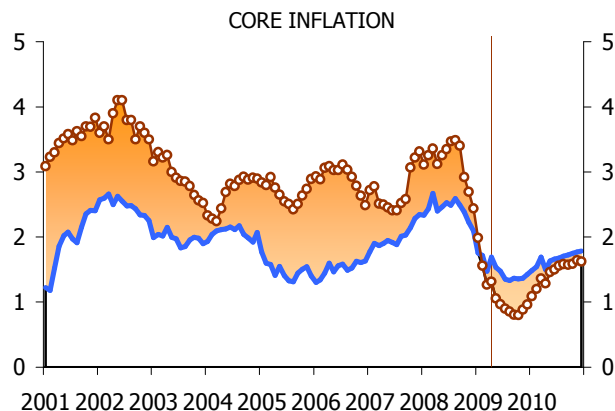
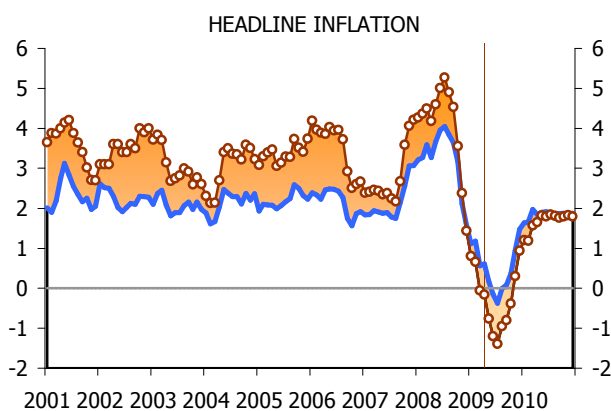
INFLATION IN SPAIN AND THE EURO AREA										
	Weights 2008	2002	2003	2004	2005	2006	2007	2008	Forecasts 2009 2010	
TOTAL										
Spain	100.0	3.5	3.0	3.0	3.4	3.5	2.8	4.1	-0.3	1.7
Euro area	100.0	2.2	2.1	2.1	2.2	2.2	2.1	3.3	0.5	1.8
CORE INFLATION										
Services and Non-energy industrial goods										
Spain	82.3	3.7	2.9	2.7	2.7	2.9	2.7	3.2	1.1	1.5
Euro area	83.0	2.5	2.0	2.1	1.5	1.5	2.0	2.4	1.5	1.7
COMPONENTS OF CORE INFLATION										
(1) Processed food										
Spain	13.4	4.3	3.0	3.6	3.4	3.6	3.7	6.5	0.7	2.0
Euro area	11.9	3.1	3.3	3.4	2.0	2.1	2.8	6.1	1.0	1.8
(2) Non-energy industrial goods										
Spain	29.9	2.5	2.0	0.9	0.9	1.4	0.7	0.3	-0.7	-0.6
Euro area	29.7	1.5	0.8	0.8	0.3	0.6	1.0	0.8	0.7	0.7
(3) Services										
Spain	38.9	4.6	3.7	3.7	3.8	3.9	3.9	3.9	2.7	2.8
Euro area	41.4	3.1	2.5	2.6	2.3	2.0	2.5	2.6	2.2	2.3
COMPONENTS OF RESIDUAL INFLATION										
(1) Non-processed food										
Spain	7.2	5.8	6.0	4.6	3.3	4.4	4.7	4.0	-0.3	1.1
Euro area	7.5	3.1	2.1	0.6	0.8	2.8	3.0	3.5	1.1	1.9
(2) Energy										
Spain	10.3	-0.2	1.4	4.8	9.6	8.0	1.7	11.9	-11.5	3.8
Euro area	9.6	-0.6	3.0	4.5	10.1	7.7	2.6	10.3	-8.0	3.4

Source: EUROSTAT, INE & IFL

Date: May 15, 2009



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



Source: EUROSTAT, INE & IFL (UC3M)
Date: May 15, 2009



VI. FORECASTS FOR DIFFERENT INSTITUTIONS

FORECASTS FOR DIFFERENT INSTITUTIONS																		
Annual average rates																		
		UNITED STATES					SPAIN					EURO AREA						
		Economist Poll ¹	Consensus Forecasts ²	BIAM ³	IMF ⁴	OCDE ⁵	Economist Poll	Consensus Forecasts	BIAM	IMF	OCDE	Economist Poll	Consensus Forecasts	BIAM	IMF	ECB SPF ⁶	ECB Staff ⁷	OCDE
GDP	2009	-2.9	-2.9		-2.8	-4.0	-3.3	-3.1	-4.3	-3.0	-0.9	-3.7	-3.7	-4.0	-4.2	-3.4	-2.7	-4.1
	2010	1.4	1.8		0.0	0.0	-0.5	-0.5	-2.3	-0.7	0.0	0.3	0.3	0.2	-0.4	0.2	0.0	-0.3
CPI	2009	-0.8	-0.8	-0.4	-0.9	-0.4	-0.1	-0.1	-0.3	0.0	1.8	0.4	0.4	0.5	0.4	0.5	0.4	0.6
	2010	1.2	1.6	2.2	-0.1	0.5	1.4	0.5	1.7	0.9	1.5	0.4	1.2	1.8	0.6	1.3	1.0	0.7

1 The Economist. Economist Poll, March, 2009.

2 Consensus Forecasts, May 2009.

3 BIAM. Bulletin of EU & US Inflation and Macroeconomic Analysis, May 2009.

4 IMF. World Economic Outlook. April, 2009.

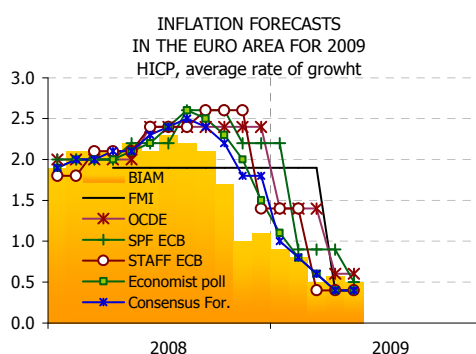
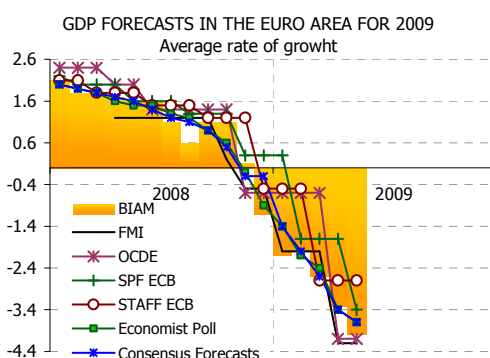
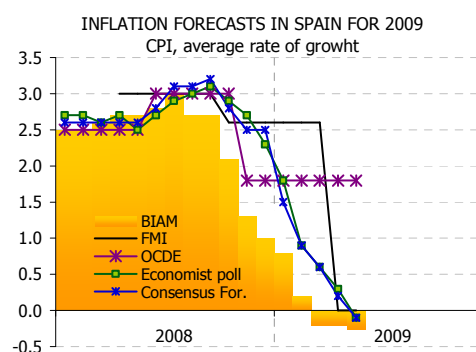
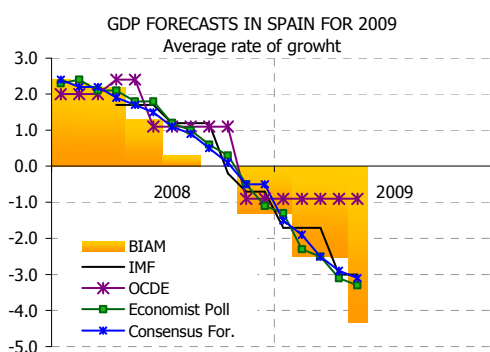
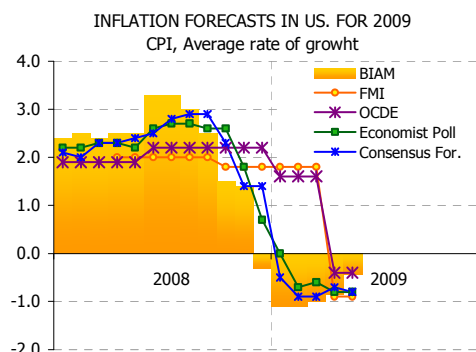
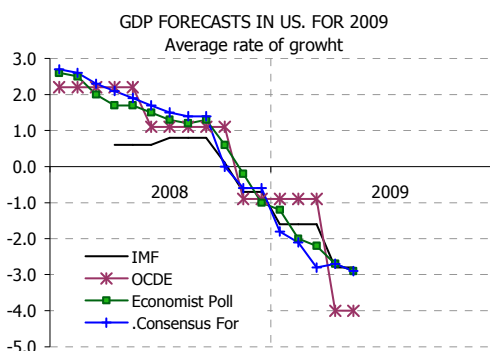
5 ECB SPF. Survey of Professional Forecasters, February, 2009.

6 ECB STAFF. Staff macroeconomic projection for the Euro area. March, 2009. Point forecast for interval.

7 OCDE. Euro area and U.S. Interim Economic Outlook 84. March 2009. Spain: Economic Outlook March, 2009

EVOLUTION OF FORECASTS FOR 2009

Annual average rates



INTERVIEW WITH DAVID F. HENDRY Juan J. Dolado (Economics Department, UC3M)

1.- *How would you judge the current state of time series econometrics? Isn't the case that this field of econometrics seems to be losing ground relative to other areas (like say panel data, time series of cross-sections, quantile regressions, evaluation techniques, etc. ?).*

I would rather say that other areas are catching up, by drawing heavily on past advances in time series, such as unit roots and cointegration, factorization of likelihoods (where some areas have a long way to go, claiming that "randomization" is somehow sufficient), and distributional theory. Partly, relative advances depend on data availability, and here panels, repeated cross-sections etc., have all benefited. However, very long runs of historical time series are now in existence and may stimulate new techniques and methods of analysis. I see the greater problem as one in which economists fit models to time series without sufficiently careful investigation of the dynamics and non-stationarities involved, and produce unreliable findings thereby. In particular, structural breaks, especially location shifts in levels and growth rates, are seriously under-researched, and not at all well understood, yet occur quite often-witness the present credit crisis and the ensuing recession.

2.- *Have standard and more sophisticated forecasting methods failed in warning policy makers about the timing and depth of the current global financial crisis? If so, what is behind this global failure? Did your own methodological approaches helped to forecast the ongoing slump?*

It has been essentially impossible to get funding for research into forecasting location shifts, so unsurprisingly, we are often unable to do so. Of course, some shifts may be unpredictable, but others have causes that take time to work through, so could be forecast in part. With Jennifer Castle and Nicholas Fawcett, we have examined forecasting during breaks but found that it is difficult to outperform robust devices even when the timing and form of break is known, so that is not overly encouraging-but does argue for wider use of the robust devices we have proposed in earlier research. To answer the third part next, although these methods almost surely cannot anticipate breaks, they can mitigate systematic forecast failure. Indeed, the widespread adoption

of cointegration and equilibrium- correction models has made forecasts more susceptible to location shift induced failures.

The present global slump has its roots in US sub-prime mortgage lending, heavily leveraged by modern financial methods like COOs and SIVs, and with the huge moral hazard problem that mortgagors in the US can simply walk away from their obligations if they get into negative equity. This creates a leveraged investment for them! which

can be profitable, yet holds little downside risk for the individual, albeit a huge risk for society-as we have seen. The "sophistication" of the financial system then created mountains of interlinked debt from that, supposedly "spreading risk", yet actually exacerbating it. But policy makers did not design the system well (e.g., I think Basel II and notions like Value at Risk are suspect as not allowing for location shifts), nor have they reacted well: when Northern Rock first reported its difficulties in raising replacement loans on the world market in the summer of 2007, the UK authorities failed to see this was the tip of a Titanic sized iceberg, and talked about "poor management", "moral hazard" etc., rather than initiating a world-wide rescue of the financial system. By the time of the major error in letting Lehman Brothers go bankrupt (shades of Creditanstalt in May 1931!) the situation was almost out of control.

3. *Do you favour the use of small or large models to forecast? Are "black-box" forecasts useful without laying out the relevant economic-decision mechanisms?*

I and my co-authors have never been able to prove that parsimony is any great help in forecasting, yet we know that more relevant information helps predictability. There is a confounding of simplicity with robustness, in that many successful small models happen to be robust forecasting devices. Our robustification approach is independent of the size of the model. The second part depends on the purpose of the forecasting exercise, but I have always been sceptical of "black-box" devices without theoretical support.

4.- *The last revolution in time series econometrics, i.e. modelling non-stationary stochastic variables,*



seems to be fading away. Which are in your opinion the pending issues to be solved in the next great leap forward?

Let me first correct a claim in your question: The last revolution in time series econometrics was not modelling non-stationary stochastic variables, merely modelling integrated stochastic variables. I see this as fundamental: non-stationarity refers to a non-constant underlying distribution, and we have not begun to tackle shifts in distributions. Economics pays almost no attention to means, and even less to shifts in means, although they are the real challenge for a viable econometrics, both modelling and forecasting. The next great leap forward will be developing the same level of generality for modelling location shifts as multivariate cointegration provides for stochastic trends. There are models of regime switches, but these require repeated draws on the underlying set of factors, yet all too often we see completely new forces appear, precisely because we are a social science in which innovation and adaptation interact to change what is being modelled—this financial crisis is unlike any previous one in important ways.

The other major leap forward is not specific to time series, but is probably more relevant there, and concerns the quality of empirical work. This remains 1920s, attempting to force existing theory onto data with astonishingly little evaluation of the outcome, often barely claiming more than signs and significances of what was expected. Such corroboratorist strategies are fundamentally flawed: as I argue in my Handbook of Econometrics, volume II, assume $1=2$, then clearly $2=1$, so adding both sides, $3=3$, which is true and so obviously proves $1=2$. Science proceeds by stringent attempts at refutation, and on that basis, many extant claims are easily rebutted.

5.- The old intellectual battle between calibration against estimation ("progress, don't regress" in Ed Prescott's words) seems to have been won by the latter, at least in the US. Are there grounds for cohabitation or will we see a Darwinian outcome?

No way! How could anyone remark that, when real business cycle models are totally at odds with reality as we enter the most serious finance-driven recession since the Great Depression—which was also finance driven. This is their Waterloo, just as they claimed the failure to forecast the 1970's Oil Crisis was the death-knell for Keynesian models. Some of the policy errors have been due to using completely the wrong model class, namely dynamic stochastic general equilibrium models (DSGEs) with so-called New-Keynesian Phillips

Curves (NKPCs) for inflation, which totally misrepresent persistence as they are so badly misspecified. A Darwinian outcome would now eliminate all attempts to represent high-dimensional, complex and wide-sense non-stationary systems with naive single-agent optimization as if the reality were constant and non-heterogeneous.

However, we should not repeat the mistakes of the past and discard all extant developments. Rather, in research with James Reade, we have tried to develop methods for embedding theory models (such as DSGEs) within more general dynamic systems, such that if the former are useful, they will be retained, and if not, a viable model will still emerge. Indeed much of what passes for progress in DSGE research over the last 30 years has been adding imperfections of a Keynesian kind to allow for inertia, mis-pricing, capacity under-utilization and so on, so a hybrid that is of some use may yet emerge.

6. - Are econometricians good enough economic theorists, and conversely? The respective disciplines are becoming so broad that narrow specialization pays off and it is difficult to imagine cross-field complementarities. Do you agree?

Specialization is essential in all disciplines as their knowledge base expands, and since Adam Smith, has been known to be a driver of growth in efficiency. A "silo" mentality is nevertheless unhelpful, and teams are becoming increasingly necessary. Economics' graduate training still correctly insists on a general coverage of micro, macro and econometrics at most top Universities, although the last has been downgraded in some on the mistaken belief that it remains what appears in basic textbooks, a tendency my latest book with Bent Nielsen attempts to offset (*Econometric Modeling: A Likelihood Approach*, Princeton University Press, 2007). When one looks at other areas, such as say climate change research, dozens of disciplines are needed to make real progress, and there too specialization can be a problem, hindering communication because of different "languages": see 'A new kind of scientist' by Gavin Schmidt & Elisabeth Moyer who argue in in *Nature* that "Climate researchers must begin to bridge disciplinary divides".
<http://www.nature.com/climate/2008/0808/full/climate.2008.76.html>

7.- What is your advice to improve research excellence in a rather mediocre university system as the Spanish one? Has the Research Assessment Exercise helped at all in the UK? Is Europe improving its perennial lag with the US in



attracting top researchers? What sort of institutions are needed to close the gap? Is the EC helpful or detrimental to this development.?

Your question is rather leading, but I take its intent to be 'how does one improve research excellence? Surprisingly little research has been carried out by economists on the theory and practice of the allocation of research resources in academia, other than issues like patent races. I believe that properly designed Research Assessment Exercises (RAEs) can help that allocation, and have done so to some extent in the UK, by focusing attention on research quality, and trying to concentrate resources on more productive areas-I have even written on that issue, and made proposals relevant to Spain.

I am not in a position to answer how far Europe as a whole lags the US, nor whether institutional change alone will help bridge whatever gap there is. Nothing can compensate for chronic underfunding and a lack of incentives to undertake research. For example, US investment in nanotechnology exceeds the entire UK university science research budget. However, recent years have seen substantive increases in research funding at a number of major European Universities. Greater competition in the future will come from India and China, so I strongly favour a much larger research budget, and some focus on niche areas where EC may have comparative advantages, As an illustration, core UK University research funding could be almost doubled at a cost equivalent to a bottle of beer per household per week



VIII. INDICATORS CALENDAR.

MAY

				1	2	3
4	5	6 Spain IPI (march)	7	8	9	10
11	12	13 Spain HICP (april) Euro Area IPI (march)	14 Spain QNA (A.D. 2º Quarter)	15 Euro Area HICP (april) USA IPC (april)	16	17
18	19	20 Spain QNA (2º Quarter)	21	22	23	24
25	26	27	28 Spain HICP (A.D. may) Spain ESI Euro Area ESI (april)	29 Euro Area HICP (A.D. may)	30	31

JUNE

1 USA PCE (may)	2	3	4	5 Spain IPI (april)	6	7
8	9	10 Spain HICP (may)	11	12 Euro Area IPI (april)	13	14
15	16 Euro Area HICP (may)	17 USA IPC (may)	18	19	20	21
22	23	24	25	26 USA PCE (june)	27	28
29 Spain HICP (A.D. june) Spain ESI Euro Area ESI (may)	30 Euro Area HICP (A.D. june)					

- * 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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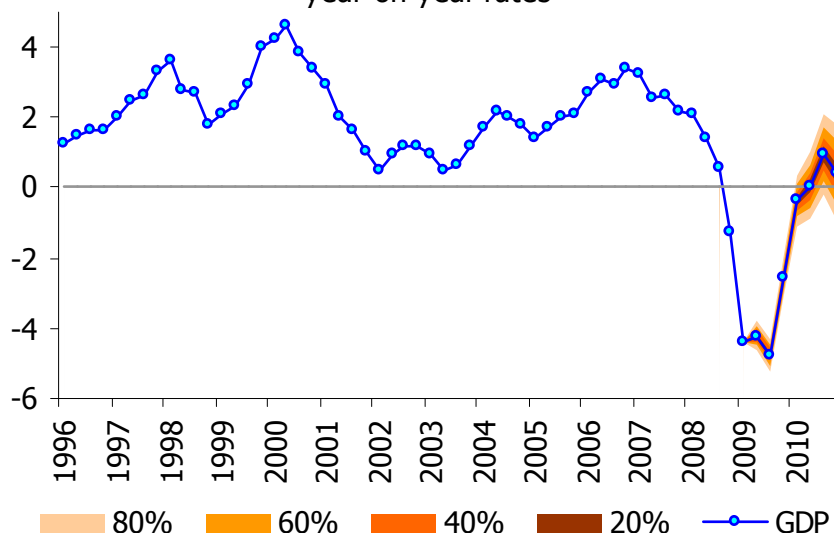
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