



OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS

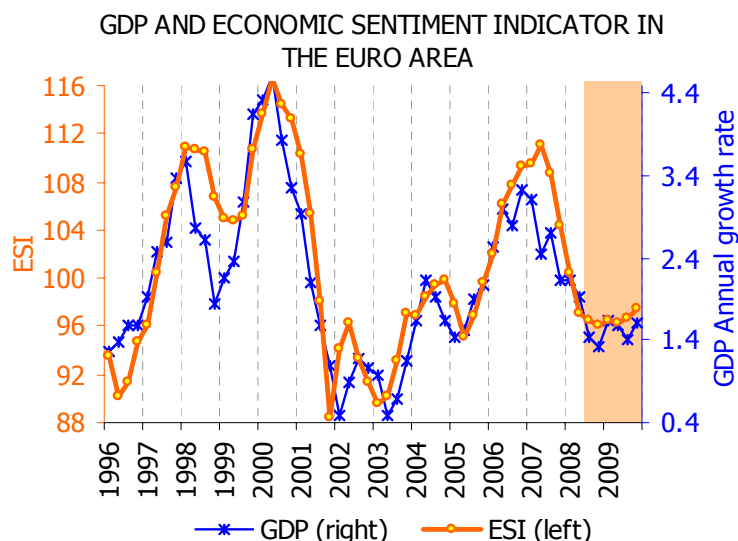


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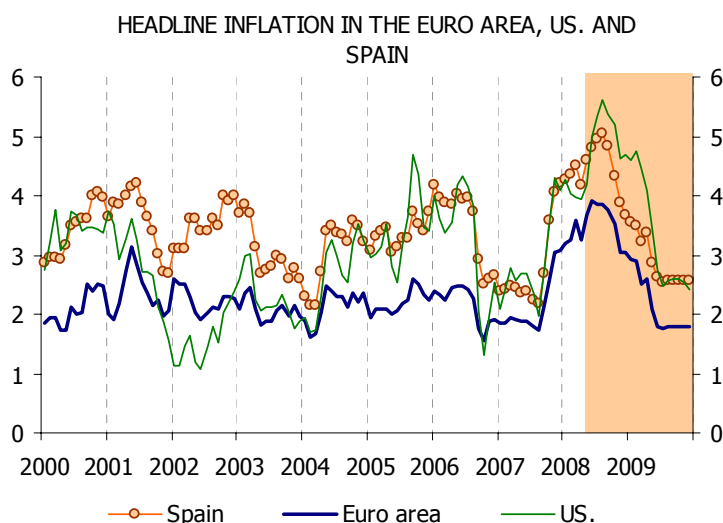
Second Phase

THE ECONOMIC CYCLE IN THE EURO AREA CAN REACH ITS MINIMUM AT GROWTH RATES CLOSE TO 1.5%



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

INFLATION IN THE EURO AREA WILL REMAIN WELL ABOVE ECB TARGET RATE DURING 2008 AND THE FIRST PART OF 2009.



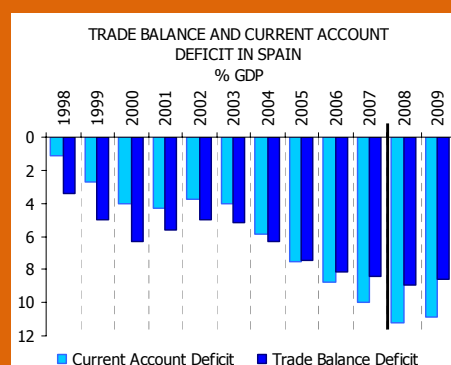
Source: INE & IFL(UC3M)
Date: June 25, 2008

N. 165
June, 2008

MACROECONOMIC COMMENTARY Michele Boldrin, p.65

"Three days ago the office of the Prime Minister released a nice little volume titled Informe Económico del Presidente del Gobierno 2008 ("Informe", from now on), which was officially presented by the Prime Minister himself on Tuesday, June 24th, at of the Consejo Económico Social in front of the economic and political elites of the country. The Informe is the product of the Oficina Económica del Presidente del Gobierno and it is now in its second year."

THE EVOLUTION OF THE FOREIGN SECTOR IN SPAIN ACCORDING TO THE CURRENT ACCOUNT BALANCE Nicolás Carrasco, p.53



N. 165



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OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS



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TERMINOLOGY USED:

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

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

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

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

I. ECONOMIC OUTLOOK

The key elements that econometric forecasts can provide for interpreting the current situation are focused on three basic questions. When will the economic cycle reach its lowest point and with what values? Is inflation a risk for medium and long-term growth? How long will the liquidity crisis in the interbank sector last?

Before considering these three points, we must remember that (1) so far, no important country has registered negative growth rates, (2) the unemployment rate in the euro area is at an all time low and in the U.S. it is 5.5%, the same level as in 2004 and lower than in 2003 and 2002, (3) the real interest rate is negative in the U.S. and close to zero in the euro area, (4) most of the direct losses generated by subprime mortgages have been declared and absorbed with the full backing of the central banks, and (5) emerging countries in South America and Asia continue to grow at a high rate, sustaining world demand and exports, which also continue to increase.

In view of the available information and our forecasts, there are as yet no quantitative arguments for diagnosing with a reasonable chance of success that the Spanish economy is about to enter a profound and long period of recession. Those who are making such claims based on probabilities do not appear to be basing them on econometric results, but on subjective opinions, the value of which depends on the professional authority of the people who express them and their success rate in the past on similar occasions. In the present context it is more important than ever before for those who estimate forecasts related to the Spanish economy to also provide the different confidence intervals quantifying the likelihood of the future observation being within a given range. In this report, those forecasting intervals are provided in graph I.5 for the Spanish GDP. It is also important for forecasters to specify the forecasting method used, so that users can evaluate them before they make corporate or individual economic decisions based on the forecasts in question. In this Bulletin, all the forecasts are always purely econometric and include no subjective opinions. In the case of the Spanish GDP, our forecasts are obtained from three different types of econometric model which are subsequently combined to obtain a single forecast, to which we adapt the forecasts of the different GDP supply and demand components. The econometric models used are: 1)

uniequational models with indicators for each GDP supply component; 2) uniequational models with indicators for each GDP demand component and 3) "bridge" models between the GDP and different indicators.

Table I.1

GDP, ANNUAL RATES OF GROWTH: FORECASTS FOR 2009						
	2008			2009		
	Spain	Euro area	US.	Spain	Euro area	US.
IFL	1.9	1.8	-	1.3	1.6	-
IMF	1.8	1.4	0.6	1.7	1.2	0.6
OCDE	1.6	1.4	1.2	1.1	1.4	1.1

Source: INE, BEA, EUROSTAT & IFL(UC3M)

Date: June 25, 2008

With regards to the first question, and focusing on the cycle of growth represented by the annual growth rates of one quarter relative to the same quarter in the previous year –there are other preferable ways of representing the growth cycle but they are more difficult to present¹–, the peak of the cycle is found in the first quarter of 2007, with a rate of 4.1%. Our forecast is that there will be a drastic drop in this rate which will reach a minimum value of 0.9% in the fourth quarter of this year, remaining at low levels of just over 1% in the following two quarters. The likelihood of growth being negative in one of these two quarters is 12%. This percentage can also be seen as an approximation to the likelihood of the Spanish economy entering a recession. In the second half of 2009, recovery will be slow, with an annual rate of 1.7% registered in the last quarter. The average annual rates forecast for 2008 and 2009 are therefore 1.9% (1.6%-2.1%)² and 1.3% (0.6%-2.0%), respectively.

The quarterly growth rates for one quarter relative to the immediately previous quarter usually show high volatility, even when calculated on figures corrected for seasonality and calendar effects. The quarterly rates in the second and third quarters of 2008 are expected to remain at around 0.3%, falling to a negative 0.1% in the fourth. The average quarterly rate in 2009 is forecast at 0.4%.

The forecasts for the average annual rates for the euro area for the same two years are 1.8% and 1.6%, respectively. The cyclic fall is less accused

¹ This way to represent GDP growth can date maximums and minimums of the economic cycle with two quarters delay.

² 80% confidence intervals



than in the Spanish economy, as the quarterly evolution of growth is expected to fall by 1.8pp from the 3.3% registered in the first quarter of 2007. For the second quarter of 2008, we are expecting a rate of around 1.9%, fluctuating in the rest of 2008 and in 2009 at around 1.6%. The likelihood of negative annual growth rates in the euro area during this period is very small and therefore no cause for concern.

Although we have no forecasts of our own related to growth in the United States, the forecasts estimated by the IMF and OECD for both years are around 0.6% and 1.1%, respectively. Many other analysts are forecasting similar growth rates as those estimated by the OECD for 2008, and a few tenths of a point higher for 2009.

The above expectations regarding the three economies show that the growth registered in the first quarter of 2008 will be declining during the year. Another aspect of interest for evaluating the current situation is the decline in our own growth expectations for 2008 and 2009 in the last few months. In this respect, one new aspect registered in June is that the decline was interrupted and there were even upwards surprises in GDP growth in the euro area. The forecasts estimated in the Bulletin, together with other institutions, are detailed on table I.2 and confirm, for all the analysed countries, an important reduction in growth, particularly for Spain, but for all three areas, far from the technical definition of recession.

Table I.2

	TOTAL			CORE		
	Spain	Euro area	US.	Spain	Euro area	US.
May 2008	4.6	3.7	4.2	3.3	2.5	2.3
June 2008	4.8	3.9	5.0	3.3	2.5	2.3
Average 2008	4.5	3.5	4.7	3.2	2.3	2.3
Average 2009	2.9	2.1	3.3	2.6	1.8	2.3

Source: INE, BEA, EUROSTAT & IFL(UC3M)

Date: June 19, 2008

Estimating the future evolution of prices, and answering the second question, requires us to make some assumptions. With unprecedented increases in raw material prices in the last 12 months, core inflation has only grown by half a percentage point in the euro area and one tenth of a point in the U.S. Also note that the current rise in inflation is estimated to be essentially transient. Although short term forecasts have been revised upwards many times, the values expected for the end of 2009 have remained practically unaltered for the last 6 months. Most of the uncertainty regarding the evolution of inflation is due to

energy prices and current forecasts for 2008 and 2009 are largely based on forecasts of the evolution of oil prices and the dollar/euro exchange rate. All the Bulletin's inflation forecasts for Spain, the euro area and the U.S. are based on an average estimated price of 122 \$/barrel for 2008 and 137\$ for 2009 with an exchange rate of 1.53 and 1.45 dollars per euro.

With these assumptions, year-on-year inflation is expected to peak in July and August with values of 5.0% in Spain, 3.9% in the euro area and 5.7% in the U.S. Subsequently, it is expected to gradually fall until inflation converges, in 2009, to the average levels observed in the last ten years. In this context, inflation is expected to return to historically low levels in 6/12 months both in Europe and the United States. If these expectations are fulfilled, without extreme measured by the monetary authorities, there is no reason to see inflation as a serious threat for medium-term growth perspectives.

Among the possible risks, however, it has been suggested that China and India could start to reflect their high domestic inflation rates in the price of exports, or that the instability caused in some countries by high food prices could cause cuts in production and distribution and push prices up. As yet there is not sufficient evidence to support these arguments.

The last question refers to the liquidity crisis and higher credit costs on the interbank market. The most evident measure of the crisis is the risk premium found on the market. It is now at a historic high and it is fundamentally based on two factors. On the one hand, we have the lack of confidence of banks regarding the financial solvency of other banks, due to a lack of transparency and the fact that some financial institutions may continue to hide enormous losses. On the other, we have the uncertainty regarding the evolution of the economic situation, both inflation and monetary policy, which directly affects the cost of money, and growth, which could affect banks' ability to obtain profits, recover loans and ultimately remain solvent. At the same time, the enormous injections of liquidity implemented by the central banks have been seen to have a temporary effect. The resolution of this crisis therefore requires the uncertainty regarding the economic cycle to be resolved. According to our forecasts, inflation will start to fall after autumn, whereas it will take another quarter or two to reverse the trend in growth. It is reasonable to expect that the liquidity crisis will at least partly be resolved according to the same time pattern.



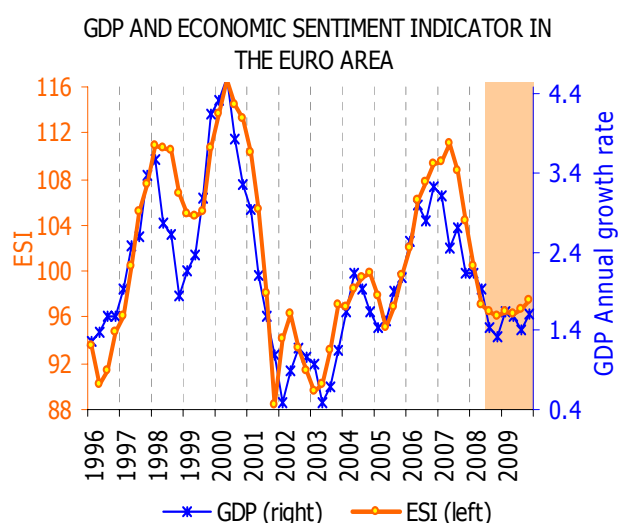
Following is a more detailed analysis of the economic situation in Spain, the U.S. and the euro area.

Euro Area

As we mentioned in the last Bulletin, the figures in the macroeconomic accounts for the first quarter of 2008 represented a surprise. GDP growth was 0.8% relative to the previous quarter and an annual 2.2%, three tenths of a point more than expected. This innovation was due to the good performance of the German economy, partly due to the favourable evolution of the climate in the country. These figures, published on May 3, 2008, caused a small upwards revision in our forecast GDP growth for the euro area in 2008, which is now around 1.8%.

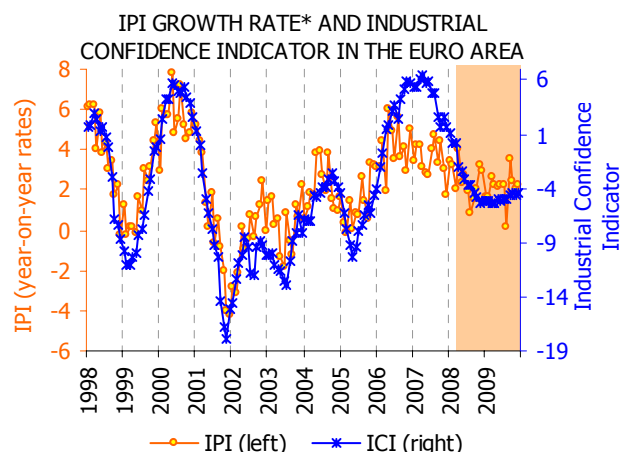
At the end of May, it was found that the euro area's Economic Sentiment Indicator (ESI) had remained stable, interrupting the series of 11 consecutive decreases (see graph I.1). On this occasion, the loss of confidence of economic agents in the evolution of consumption was compensated by more confidence in the service, retail trade and construction sectors. During the last month, this substantially positive news was limited by a slight decline in some indicators related to May such as the Industrial Production Index (IPI) and the Industrial Confidence Index. The year-on-year IPI growth rate was 3.9%, two tenths of point less than expected, whereas the ICI continued to decline. In view of this, our forecast average annual growth rate for industrial production in the euro area was revised downwards slightly by 0.2 pp for 2008 and 0.1 pp for 2009, to 2.3% and 2%, respectively.

Graph I.1



Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)
Date: May 29, 2008

Graph I.2



Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)
Date: June 12, 2008

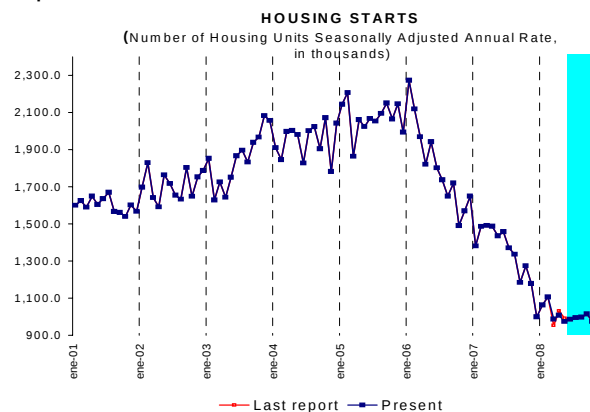
In May, inflation beat its historic record at a rate of 3.7%. This figure, which is exceptionally high but much as expected, reflects heavy growth in energy and processed food prices. With these expectations, the ECB has insinuated that it will increase its interest rate by 25bp in July.

U.S.

With regards to the real economy, the month's most outstanding figure was the increase in the unemployment rate, which goes from 5 to 5.5%. This increase is partly due to an increase in the active population, which grew by 1.2% instead of the forecast 0.9%. The annual rate of creation of employment also fell by three tenths of a point, going from April's 0.4% to 0.1% in May.

As for the construction sector, the latest information about housing starts shows that the constant decline observed since early 2006 appears to have come to an end. Some recovery is also expected in the sale of new and existing homes.

Graph I.3

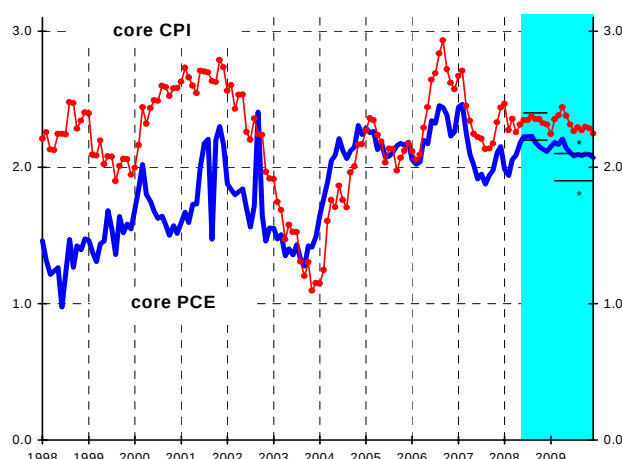


Source: U.S. Census Bureau & IFL (UC3M)
Date: June 18, 2008



Graph I.4.

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US



(1) Central tendency established by the Fed.

Source: BLS, BEA & IFL (UC3M)

Date: June 13, 2008

Although the core CPI and PCE show a substantially stable profile, showing even a trend of gradual reduction during the forecasting period, the components performed very differently. A more detailed analysis shows that core inflation is subject to upwards pressure generated by transport prices and resulting from raw material costs and downwards pressure derived from home rental prices. These two trends are currently compensating for each other.

As mentioned earlier, total inflation, pushed by oil prices, is expected to peak in August at 5.7%, with average values in 2008 and 2009 of 4.7% and 3.3%, respectively.

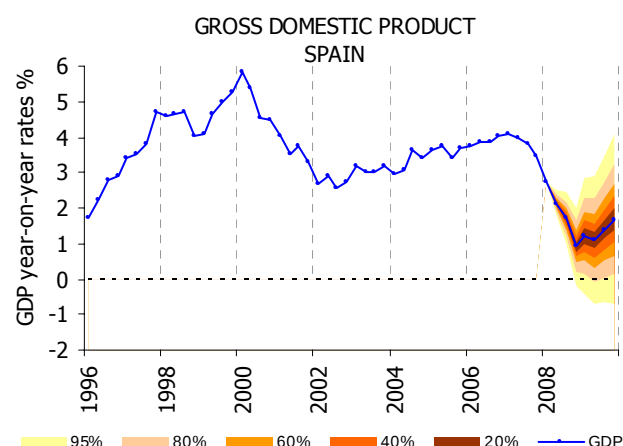
The growing concern for this acceleration in price dynamics has led the FED to rule out a cut in interest rates and insinuate the possibility of a rate rise in 2008.

Spain

Growth will decline much more in Spain than in the euro area. The Spanish economy will grow by 1.9% (1.6%-2.1%) this year and 1.3% (0.6%-2.0%) in the next, whereas it grew by 3.8% last year. This situation is essentially due to the negative growth forecast for construction and industry in both 2008 and 2009.

In these two years, the industrial sector is expected to register negative growth rates of 0.3%, whereas construction will fall by over 0.8% and 1.0%. In this period, GDP growth will essentially depend on services, a sector in which Spain will continue to obtain higher growth rates than the European average.

Graph I.5



Source: INE & EUROSTAT & IFL

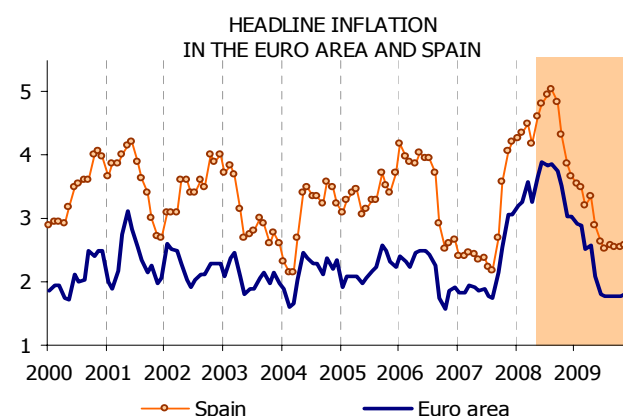
Date: June 25, 2008

The difficult situation of the Spanish economy has also been reflected in the expectations of economic agents and both the Economic Sentiment Indicator and expectations concerning the evolution of the industrial sector have weakened further during the last month.

With regards to the construction sector, figures have been published regarding building permits in March. There has been a 67.3% fall relative to the same month of the previous year, compared to 38.6% in February, confirming acceleration of the crisis affecting the sector.

Besides the difficulties in the real economy, another cause for concern is the evolution of inflation which, according to our forecasts, will reach 5.0% in July and August, 2008. Like the other countries analysed, the high inflation levels depend on energy and food prices. However, the inflation differential between Spain and the euro area continues to be due to the service sector, according to an as yet unaltered historic pattern.

Graph I.6



Source: INE & EUROSTAT & IFL

Date: June 25, 2008



As expected, both production and price tension is reflected in the labour market. The unemployment rate will continue to grow in 2008 and 2009 to 9.9% and 11.4%, respectively.

With regards to labour costs, the Quarterly Labour Cost Survey for the first quarter of 2008 was recently published. The estimates show a year-on-year increase of 5.1%, largely due to the safeguard clauses applicable as a result of inflation being above target last year. This is 1.8 pp higher than the average rate in the euro area.

With regards to an analysis of the Spanish economy by autonomous region, note that the ***Bulletin on Autonomous Regions*** published on July 1 analyses the economic situation in Madrid, Valencia and Asturias in relation to Spain as a whole and the euro area. The main conclusions are

that services are helping to reduce the crisis in the Madrid region. The economy of Asturias will tend to recover more rapidly than Spain thanks to the industrial sector. The economic crisis in Valencia will be similar to the country as a whole, but with a lower unemployment rate.

Finally, this issue contains a contribution by Professor **Michele Boldrin** analyzing the recent Economic Report of the Spanish Prime Minister. Professor Boldrin argues that the economic debate is focused on demand side policies that will not help Spain to escape from recession or to foster economic growth in the medium run. He also argues that the main shocks, internal and external, that are affecting the Spanish economic system are supply side shocks that deserve appropriate supply side policies.



II. THE ECONOMY IN THE EURO AREA.

II.1 MACROECONOMIC FORECASTS.

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

	Annual Rates				
	2005	2006	2007	Forecasts	
				2008	2009
GDP mp (1)	1.8	2.9	2.6	1.8	1.6
Demand					
Private Final Consumption	1.7	1.9	1.6	0.9	0.8
Public Final Consumption	1.5	2.0	2.3	1.6	1.8
Gross Capital Formation	3.1	5.7	4.4	3.1	2.6
Contribution Domestic Demand	1.9	2.7	2.3	1.5	1.4
Exports of Goods and Services	5.0	8.0	6.0	4.3	4.4
Imports of Goods and Services	5.8	7.9	5.3	3.6	4.0
Contribution Foreign Demand	-0.2	0.2	0.3	0.3	0.2
Supply					
Gross Value Added Total (market prices)	1.8	2.9	2.6	1.8	1.6
Gross Value Added Total (basic prices)	1.7	2.9	2.8	1.9	1.7
Gross Value Added Agriculture	-6.0	-0.7	0.7	0.3	-0.6
Gross Value Added Industry	1.4	3.7	3.3	2.3	1.9
Gross Value Added Construction	1.6	4.9	3.1	0.9	0.7
Gross Value Added Trade Services	1.7	2.9	3.0	2.2	1.8
Gross Value Added Financial Services	3.1	3.7	3.2	2.3	2.1
Gross Value Added Public Services	1.3	1.2	1.7	1.2	1.2
Prices (2)					
HICP, annual average rate	2.2	2.2	2.1	3.5	2.1
HICP, dec. / dec.	2.2	1.9	3.1	3.0	1.8
Labour market (3)					
Unemployment rate	8.9	8.3	7.4	7.2	7.1
Other Economic Indicators (4)					
Industrial Production Index (excluding construction)	1.3	4.0	3.4	2.3	2.0

The figures in the shaded area are forecasts.

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

Source: EUROSTAT & IFL (UC3M)

Date: (1) June 3, 2008.

(2) June 19, 2008

(3) May 30, 2008.

(4) June 12, 2008.



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

Table II.1.2.1

Table 11.2.2.1

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA										
		Final Consumption Expenditure		Gross Capital Formation	Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP	
		Private	Public							
ANNUAL AVERAGE	2004	1.4	1.4	2.8	1.7	6.6	6.6	0.2	1.8	
	2005	1.7	1.5	3.1	1.9	5.0	5.8	-0.2	1.8	
	2006	1.9	2.0	5.7	2.7	8.0	7.9	0.2	2.9	
	2007	1.6	2.3	4.4	2.3	6.0	5.3	0.3	2.6	
	2008	0.9	1.6	3.1	1.5	4.3	3.6	0.3	1.8	
	2009	0.8	1.8	2.6	1.4	4.4	4.0	0.2	1.6	
ANNUAL RATES*	2007	QI	1.6	2.3	7.5	3.0	6.6	6.1	0.3	3.3
		QII	1.8	2.4	3.3	2.2	5.8	5.2	0.3	2.6
		QIII	1.7	2.7	2.9	2.2	7.2	6.2	0.5	2.6
		QIV	1.2	2.0	3.9	1.9	4.3	3.9	0.2	2.1
	2008	QI	1.2	1.4	3.0	1.6	5.5	4.3	0.6	2.2
		QII	1.1	1.7	3.7	1.8	3.9	3.8	0.1	1.9
		QIII	0.6	1.4	2.4	1.1	4.5	3.5	0.5	1.6
		QIV	0.9	1.8	3.2	1.6	3.2	3.0	0.1	1.7
	2009	QI	0.9	1.8	2.4	1.4	4.2	3.3	0.4	1.8
		QII	0.5	1.8	2.9	1.3	4.4	3.9	0.3	1.5
		QIII	0.7	1.7	2.5	1.3	4.7	4.3	0.2	1.5
		QIV	1.2	1.8	2.8	1.7	4.4	4.5	0.0	1.7

Data adjusted for seasonality and working days effect.

The figures in the shaded area are forecasts.

(1) Contribution to GDP growth.

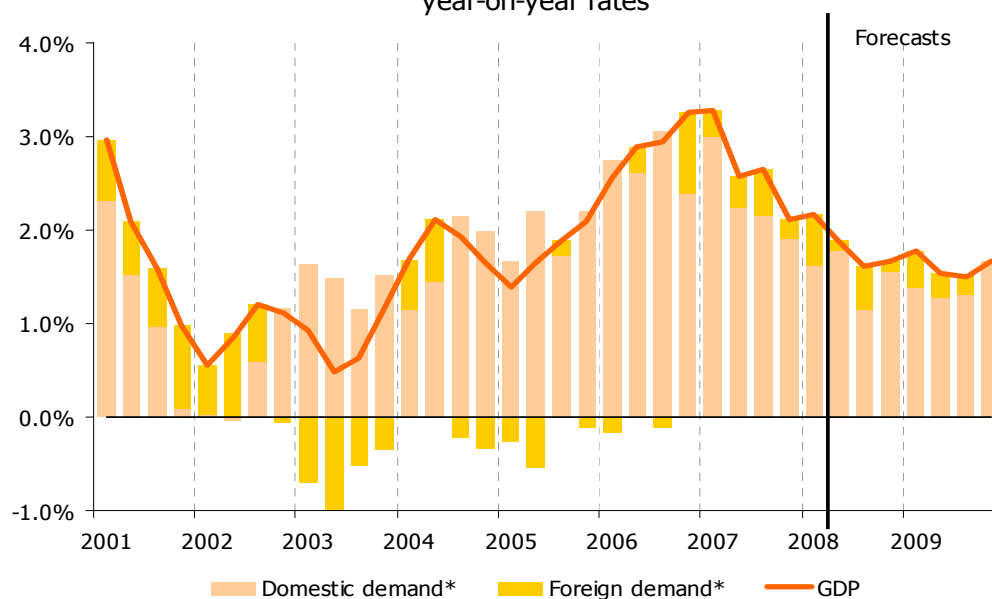
* Year-on-year rates.

Source: EUROSTAT & IFL (UC3M).

Date: June 3, 2008.

Graph II.1.2.1

CONTRIBUTION* TO GDP GROWTH IN THE EURO AREA year-on-year rates



Data adjusted for seasonality and working days effect.

Source: EUROSTAT & IFL (UC3M).

Date: June 3, 2008.



Table II.1.2.2

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN THE EURO AREA									
		GVA					TOTAL	Real GDP	
		Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services		
ANNUAL AVERAGE	2004	10.8	2.0	0.8	2.1	1.7	1.6	2.0	1.8
	2005	-6.0	1.4	1.6	1.7	3.1	1.3	1.7	1.8
	2006	-0.7	3.7	4.9	2.9	3.7	1.2	2.9	2.9
	2007	0.7	3.3	3.1	3.0	3.2	1.7	2.8	2.6
	2008	0.3	2.3	0.9	2.2	2.3	1.2	1.9	1.8
	2009	-0.6	1.9	0.7	1.8	2.1	1.2	1.7	1.6
ANNUAL RATES*	2007	QI	2.0	3.4	7.5	3.6	1.6	3.3	3.3
		QII	0.4	3.1	2.6	3.1	1.9	2.7	2.6
		QIII	0.0	3.6	1.9	3.1	1.7	2.7	2.6
		QIV	0.2	3.3	0.8	2.3	1.7	2.4	2.1
	2008	QI	1.8	2.9	1.3	2.8	1.3	2.3	2.2
		QII	1.0	2.5	0.9	2.2	1.0	1.9	1.9
		QIII	-0.1	1.5	0.7	1.9	1.3	1.6	1.6
		QIV	-1.3	2.4	0.6	1.7	1.3	1.7	1.7
	2009	QI	-0.7	2.0	1.0	2.0	1.4	1.8	1.8
		QII	-0.7	1.8	0.6	1.7	1.1	1.5	1.5
		QIII	-0.6	1.8	0.5	1.6	1.2	1.6	1.5
		QIV	-0.3	1.9	0.8	1.8	1.3	1.7	1.7

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: June 3, 2008.



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

Table II.1.3.1

ANNUAL RATES OF GROWTH IN IPI AND SECTORS IN THE EURO AREA*								
		Consumer Goods		Capital Goods	Intermediat e Goods	Energy	TOTAL	
		Durable	Non durable					
ANNUAL AVERAGE RATE	2004	0.1	0.6	3.4	2.3	2.2	2.1	
	2005	-0.9	0.7	2.9	0.8	1.4	1.3	
	2006	4.2	2.2	5.9	4.9	0.8	4.0	
	2007	1.1	2.5	5.9	3.8	-0.3	3.4	
	2008	-1.3	0.6	5.1	1.5	1.7	2.3	
	2009	0.2	0.9	3.4	1.8	1.7	2.0	
ANNUAL RATES**	2007	QI	4.5	3.6	7.1	6.7	-7.5	4.0
		QII	1.3	2.1	4.9	3.2	-0.2	2.8
		QIII	2.0	3.2	6.6	3.6	1.4	4.0
		QIV	-2.7	1.3	5.2	1.9	5.9	3.1
	2008	QI	-1.5	0.8	5.7	1.6	4.4	2.8
		QII	-1.3	0.3	6.2	1.7	2.7	2.7
		QIII	-3.6	0.0	3.3	0.7	0.6	1.1
		QIV	1.0	1.3	5.1	2.0	-0.7	2.4
	2009	QI	0.1	0.7	3.1	1.1	2.7	1.8
		QII	0.1	0.9	3.6	2.1	1.4	2.2
		QIII	0.4	0.8	3.3	1.8	1.4	1.9
		QIV	0.1	1.0	3.7	2.1	1.4	2.2

The figures in the shaded area are forecasts.

* Adjusted by working days.

** Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: June 12, 2008

Table II.1.3.2

OBSERVED VALUES AND FORECASTS IN THE IPI* ANNUAL RATES IN THE EURO AREA							
	2003	2004	2005	2006	2007	2008	2009
January	1.44	0.60	1.70	3.13	3.44	3.51	1.28
February	1.69	1.20	0.32	3.18	4.28	3.31	1.27
March	0.28	1.88	-0.15	4.46	4.18	1.57	2.62
April	0.53	1.78	1.49	1.92	3.05	3.87	2.09
May	-1.34	3.78	0.06	5.98	2.77	2.06	2.10
June	-1.79	3.96	0.78	4.93	2.72	2.29	2.32
July	0.81	2.74	0.77	3.52	3.98	1.59	2.16
August	-0.55	1.98	2.61	5.58	4.72	0.54	-0.36
September	-1.20	3.84	1.43	3.63	3.35	1.14	3.54
October	1.26	1.59	0.50	4.15	4.40	1.71	2.37
November	0.69	1.11	3.29	2.92	3.00	2.88	1.97
December	2.20	0.91	3.23	5.02	1.73	2.62	2.17

* Adjusted by working days.

The figures in the shaded area are forecasts.

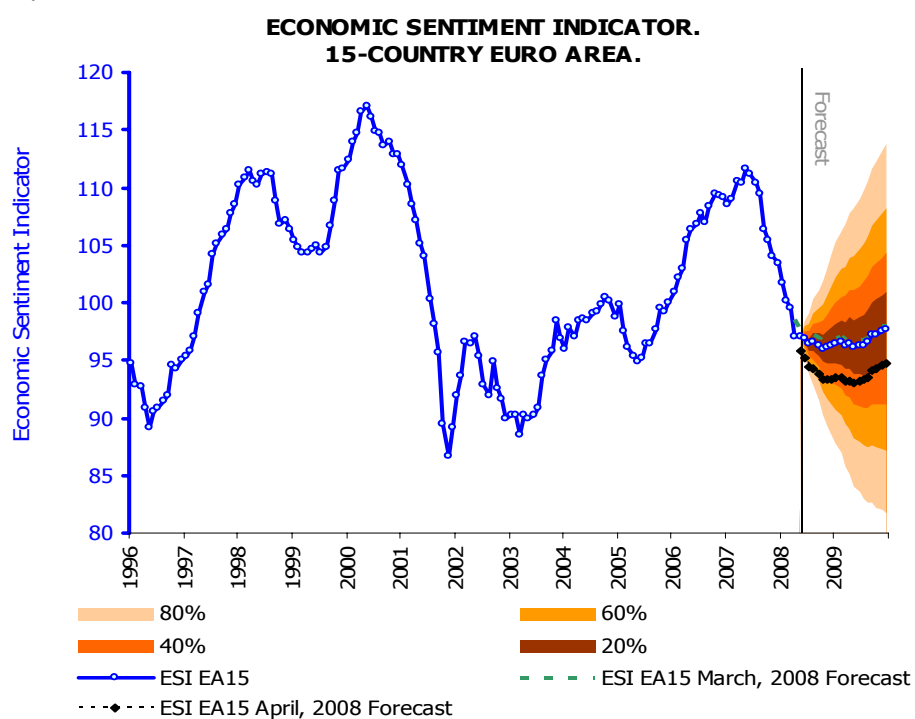
Source: EUROSTAT & IFL (UC3M)

Date: June 12, 2008



II.1.4 ECONOMIC SENTIMENT INDICATOR.

Graph II.1.4.1



Source: EUROPEAN COMMISSION & IFL (UC3M)

Source: May 29, 2008



II.1.5 INFLATION.

Table II.1.5.1

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

Harmonized Index of Consumer Price (HICP)	2005	2006	2007	Forecast	
				2008	2009
TOTAL (100%)	2.2	2.2	2.1	3.5	2.1
CORE (82.8%)	1.5	1.5	2.0	2.3	1.8
Processed food without tobacco (9.4%)	0.5	1.6	2.3	6.6	1.9
Processed food with tobacco (11.9%)	2.0	2.1	2.8	5.9	2.7
Non-energy industrial goods (30.0%)	0.3	0.6	1.0	0.7	0.7
Services (40.8%)	2.3	2.0	2.5	2.5	2.4
RESIDUAL (17.2%)	5.7	5.5	2.8	9.0	3.5
Non-Processed food (7.6%)	0.8	2.8	3.0	3.1	2.2
Energy (9.6%)	10.1	7.7	2.6	13.7	4.4

Source: EUROSTAT & IFL (UC3M)

Date: June 19, 2008



Table II.1.5.2

HICP ANNUAL GROWTH BY COMPONENTS IN THE EURO AREA													
		Harmonized Index of Consumer Prices									TOTAL80 % Confidence Intervals*		
		Core				Residual							
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL	80 % Confidence Intervals*	Non processed food	Energy	TOTAL			
Weights 2008		9.6%	2.3%	29.8%	40.9%	82.6%		7.6%	9.8%	17.4%	100%		
ANNUAL AVERAGE RATE	1999	0.5	3.1	0.7	1.5	1.1		0.0	2.4	1.2	1.1		
	2000	0.7	3.4	0.5	1.5	1.0		1.8	13.0	7.4	2.1		
	2001	2.7	3.8	0.9	2.5	1.9		7.0	2.2	4.4	2.3		
	2002	2.4	5.9	1.5	3.1	2.5		3.1	-0.6	1.2	2.2		
	2003	2.1	8.4	0.8	2.5	2.0		2.1	3.0	2.6	2.1		
	2004	1.3	12.2	0.8	2.6	2.1		0.6	4.5	2.6	2.1		
	2005	0.5	7.8	0.3	2.3	1.5		0.8	10.1	5.7	2.2		
	2006	1.6	3.9	0.6	2.0	1.5		2.8	7.7	5.5	2.2		
	2007	2.3	4.5	1.0	2.5	2.0		3.0	2.6	2.8	2.1		
	2008	6.6	3.4	0.7	2.5	2.3	± 0.14	3.1	13.7	9.0	3.5	± 0.19	
	2009	1.9	6.1	0.7	2.4	1.8	± 0.40	2.2	4.4	3.5	2.1	± 0.49	
ANNUAL RATES (year-on-year rates)	2007	January	1.4	5.1	0.9	2.3	1.8		3.7	0.9	2.1	1.8	
		February	1.2	5.6	1.1	2.4	1.9		2.8	0.8	1.6	1.8	
		March	1.1	4.9	1.2	2.4	1.9		2.9	1.8	2.3	1.9	
		April	1.1	5.0	1.1	2.5	1.9		3.9	0.4	1.9	1.9	
		May	1.1	4.9	1.0	2.6	1.9		3.1	0.3	1.5	1.9	
		June	1.3	4.8	1.0	2.6	1.9		3.0	0.9	1.8	1.9	
		July	1.3	4.3	0.9	2.6	1.9		2.8	0.0	1.2	1.8	
		August	1.8	5.2	1.0	2.6	2.0		2.4	-0.9	0.5	1.7	
		September	2.6	5.2	1.0	2.5	2.0		2.1	3.0	2.6	2.1	
		October	4.0	3.1	1.1	2.5	2.1		3.1	5.5	4.5	2.6	
		November	4.9	3.3	1.1	2.5	2.3		3.0	9.7	6.8	3.1	
		December	5.6	3.1	1.0	2.5	2.3		3.1	9.2	6.5	3.1	
	2008	January	6.6	3.0	0.7	2.5	2.3		3.3	10.6	7.4	3.2	
		February	7.4	3.2	0.8	2.4	2.4		3.2	10.4	7.2	3.3	
		March	7.7	3.3	0.9	2.8	2.7		3.8	11.2	8.0	3.6	
		April	7.9	3.2	0.8	2.3	2.4		3.1	10.8	7.4	3.3	
		May	7.9	3.3	0.7	2.5	2.5		3.9	13.7	9.4	3.7	
		June	7.8	3.4	0.7	2.5	2.5	± 0.14	3.8	16.3	10.8	3.9	± 0.12
		July	7.7	3.5	0.7	2.4	2.4	± 0.19	3.4	16.3	10.6	3.9	± 0.23
		August	7.2	2.9	0.7	2.5	2.4	± 0.24	3.0	17.1	10.9	3.9	± 0.32
		September	6.5	3.1	0.7	2.5	2.3	± 0.27	2.9	16.5	10.5	3.8	± 0.40
		October	5.1	3.6	0.7	2.5	2.2	± 0.31	2.4	16.0	10.0	3.5	± 0.47
		November	4.2	3.8	0.6	2.5	2.0	± 0.35	2.0	12.1	7.7	3.0	± 0.53
		December	3.6	4.4	0.6	2.5	2.0	± 0.39	1.9	12.6	7.9	3.0	± 0.57
	2009	January	2.9	5.2	0.7	2.4	1.9	± 0.43	2.1	11.7	7.5	2.9	± 0.63
		February	2.3	5.1	0.7	2.4	1.9	± 0.45	2.6	11.6	7.7	2.9	± 0.66
		March	1.9	5.8	0.7	2.2	1.7	± 0.48	2.6	9.1	6.3	2.5	± 0.70
		April	1.7	6.2	0.7	2.6	1.9	± 0.49	2.5	8.1	5.7	2.6	± 0.70
		May	1.7	6.2	0.7	2.4	1.8	± 0.50	2.1	4.3	3.4	2.1	± 0.72
		June	1.7	6.2	0.7	2.4	1.8	± 0.51	2.1	1.5	1.8	1.8	± 0.74
		July	1.7	6.2	0.7	2.4	1.8	± 0.51	2.1	1.2	1.6	1.8	± 0.74
		August	1.7	6.2	0.7	2.4	1.8	± 0.53	2.1	1.4	1.7	1.8	± 0.76
		September	1.7	6.3	0.7	2.4	1.8	± 0.53	2.1	1.4	1.7	1.8	± 0.76
		October	1.7	6.3	0.7	2.4	1.8	± 0.53	2.1	1.3	1.6	1.8	± 0.76
		November	1.8	6.3	0.7	2.4	1.8	± 0.52	2.1	1.4	1.7	1.8	± 0.76
		December	1.8	6.4	0.7	2.4	1.8	± 0.52	2.1	1.4	1.7	1.8	± 0.76

* Confidence intervals calculated with historical errors.

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: June 19, 2008



Table II.1.5.3

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

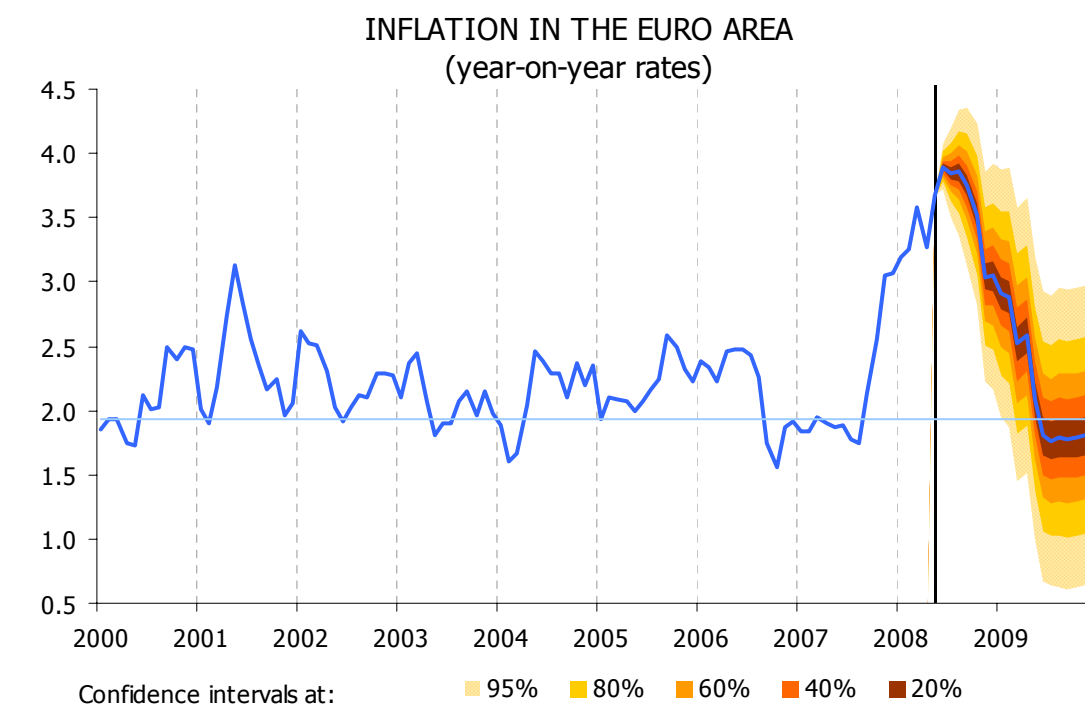
The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: June 19, 2008



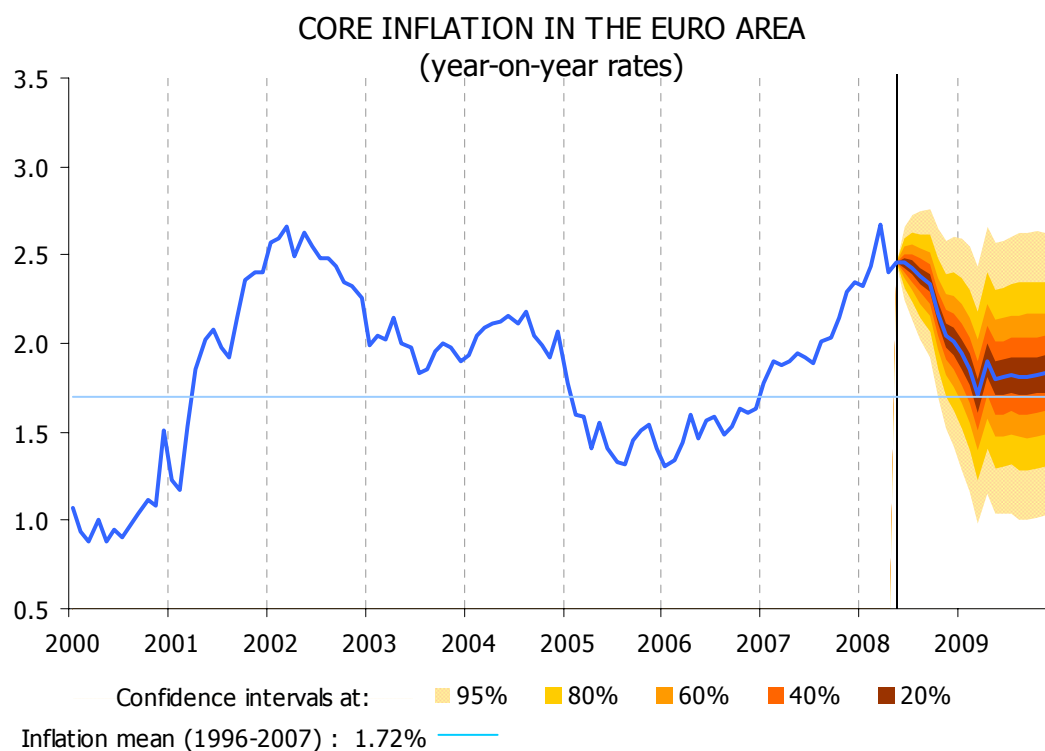
Graph II.1.5.1



Source: EUROSTAT & IFL (UC3M)

Date: June 19, 2008

Graph II.1.5.2

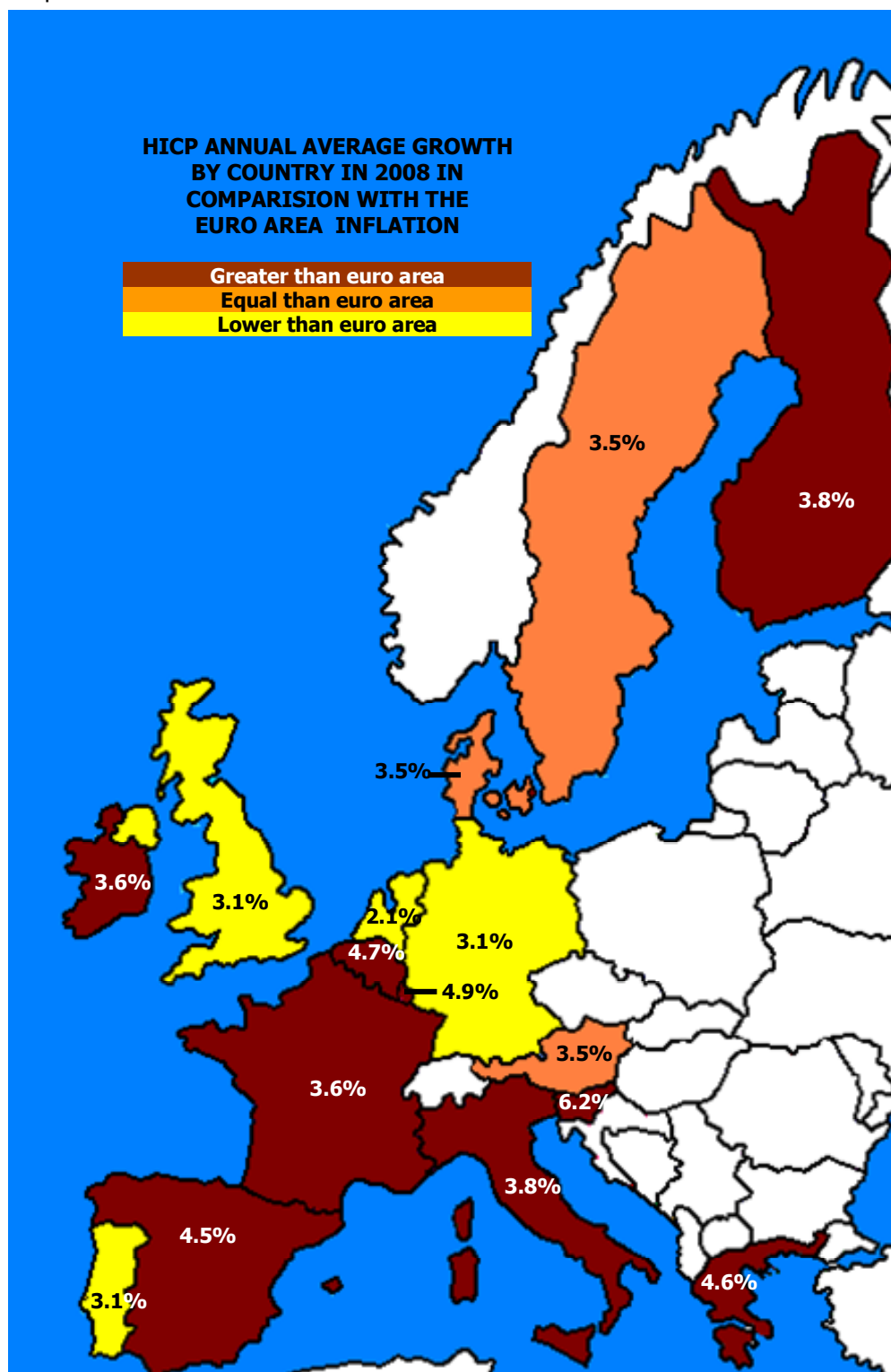


Source: EUROSTAT & IFL (UC3M)

Date: June 19, 2008



Graph II.1.5.3



Source: EUROSTAT & IFL (UC3M)
Date: June 19, 2008



Table II.1.5.4

Table 11.15.1

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

The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: June 19, 2008



Table II.1.5.5

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

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: June 19, 2008



II.2. ECONOMIC GROWTH, INFLATION AND MONETARY POLICY

II.2.1 Economic growth

The most important macroeconomic information for the euro area published in the last month includes the macroeconomic accounts for the first quarter of this year. The area's Gross Domestic product (GDP), in real terms and according to data corrected for seasonality and the calendar effect, showed a quarter-on-quarter growth rate of 0.8%, one decimal point more than the advance rate published the previous month and four tenths more than the previous quarter. In turn, the year-on-year GDP growth rate was 2.2%, one decimal point more than the previous quarter.

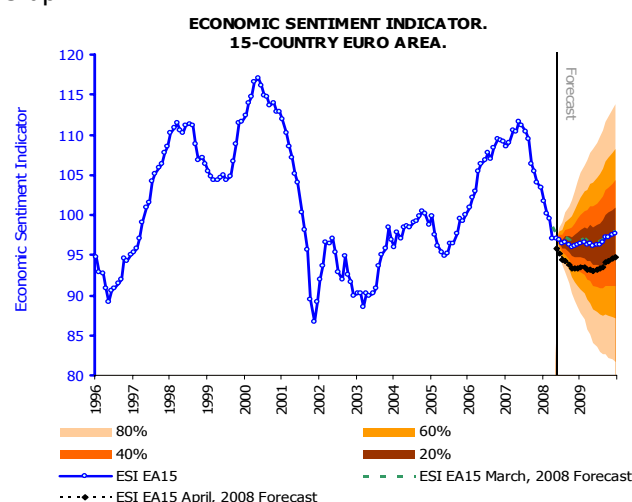
Analysing GDP growth on the demand side, we find that private consumption recovered slightly, with 0.2% quarter-on-quarter growth, whereas it remained stagnant the previous month. Public consumption, after the decline in the previous quarter (-0.1%), recovered slightly and grew by 0.4%. In view of these weak consumption figures, gross capital formation was behind the growth, with strong quarter-on-quarter growth (2.6%), representing significant acceleration. This positive performance was largely due to the construction sector, which was favoured by a good climate in the first quarter, especially in Germany. With regards to the foreign sector, both imports and exports accelerated, with quarter-on-quarter growth rates of 1.8% and 1.9%, respectively, with the sector contributing one tenth of a percentage point to GDP growth.

GDP growth in the euro area significantly exceeded our forecast (1.8%) and can be seen as a positive surprise. When identifying this innovation, it appears to originate in the good performance of the German economy, largely favoured by the country's favourable climate.

Besides the GDP advance for the first quarter, more updated information has been published, largely referring to April and May, pointing to the continuity of the decline in economic activity in the second quarter of this year. In May, the economic sentiment indicator was somewhat better than expected, changing the falling pathway of the previous eleven months, but not changing the falling profile found in previous forecasts. The Industrial Production Index, however, which is an important indicator, continued to moderate its rate of growth in April, falling beneath the forecast figure. The same occurred to the industrial confidence indicator in May.

The *Economic Sentiment Indicator (ESI)* for the euro economy in May remained at the previous month's 97.1 points, thus interrupting the history of consecutive falls registered in the previous eleven months. This result was better than expected, in a 80% confidence interval (see graph II.2.1.1), and it was due to the loss of confidence of economic agents in the evolution of consumption, which was compensated by more confidence in the evolution of the service, retail trade and construction sectors. Confidence levels remained unaltered in the industrial sector.

Graph II.2.1.1



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: May 29, 2008

The updated ESI forecasts, considering the new information, show an upwards revision in the confidence of economic agents in the evolution of the euro area economy (see graph II.2.1.1). In spite of this small upwards revision, the profile continues to fall as found in previous months, although less intensely, and this decline is expected to cease at the end of this year. Subsequently, the ESI is expected to remain stable in the first half of 2009, starting to recover in the second half of the year to levels slightly higher than those registered in the second quarter of 2005, when the economy had a growth rate of around 1.5%.

The euro area Industrial Production Index (IPI) in April registered 3.9% year-on-year growth, just beneath the forecast figure (4.1%). This discrepancy between the observed value and the forecast was due to the downwards innovation registered in the intermediate goods sector, which was not fully compensated by the upwards innovations in the durable consumer goods and



energy sectors, while non-durable consumer and capital goods performed as expected.

We also have the result of the euro area's industrial confidence indicator for May, which fell again from the previous month's figure. It fell by two tenths of a percentage point, continuing the progressive decline found in the indicator for the last year. The IFL forecast was consistent with this figure, so our new forecasts do not change previous results and continue to point to a gradual fall in the confidence of economic agents in the evolution of the industrial sector throughout 2008, remaining at the modest levels reached at the end of the year in the first half of 2009 and improving slightly in the second half.

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

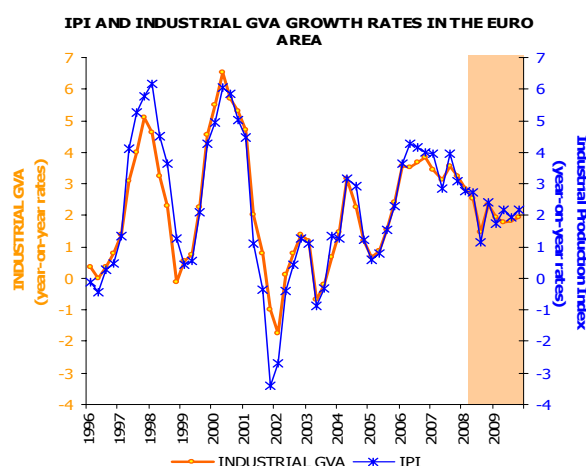
	2006	2007	2008	2009
Consumer goods				
Durable	4.2	1.1	-1.3	0.2
Non Durable	2.2	2.5	0.6	0.9
Capital	5.9	5.9	5.1	3.4
Intermediate	4.9	3.8	1.5	1.8
Energy	0.8	-0.3	1.7	1.7
Total	4.0	3.4	2.3	2.0
Annual Gross Value Added Growth (industrial sector)	3.7	3.3	2.3	1.9

* Working days adjusted data and construction sector excluded.

Source: EUROSTAT & IFL (UC3M)

Date: June 12, 2008

Graph II.2.1.2



Note: The last available GVA data corresponds to the first quarter of 2008. For IPI, we have information until April 2008.

Source: EUROSTAT & IFL (UC3M)

Date: June 12, 2008

In view of the hard and soft data for the industrial sector, our forecast average annual IPI growth rate in the euro area has fallen by 0.2 pp for 2008, to 2.3%, 1.1 points less than the previous year. For 2009, we are expecting another downwards revision of one decimal point, so the forecast

average annual growth rate for the indicator is 2.0%.

With the new national accounts information for the first quarter in the euro area, we have revised our forecasts for the area's macroeconomic figures. The average annual GDP growth rate for this year is increased by one tenth of a point to 1.8% (1.5-2.1%), based on foreign demand, whereas there is a downwards revision for 2009, two tenths of a point, to 1.6% (1.2-2%), based on domestic demand.

Analysing the GDP forecasts on the demand side, for private consumption we are expecting a four tenths of a point fall in the average annual rate, both in 2008 and 2009, to 0.9% and 0.8%, respectively. Inflationist pressure and increasing interest rates are behind this forecast. We find greater growth in gross fixed capital formation, largely due to the good result of housing investment in the first quarter in Germany, as a result of the favourable climate. The growth forecast for exports and imports has also increased for 2008, but more so for the former. After this expected evolution of the different components on the demand side, for 2008 we are expecting less contribution from domestic demand, 1.5 pp instead of 1.6 pp, and more from foreign demand, 0.3 pp instead of 0.1 pp.

Analysing the new euro area forecasts on the supply side, we now expect greater growth in both market and non-market services, although there is a downwards revision in financial services. For the former in 2008, we expect an average annual growth rate of 2.2%, 0.7 pp more than our previous forecast, and this acceleration also extends to 2009. We also estimate greater growth in construction in 2008, from the previous forecast's -0.1% to 0.9%, also due to the effect of the favourable climate in Germany. However, the average annual growth rate in industry has been revised downwards for 2008 from 2.7% to 2.3%, with the forecast for 2009 remaining unaltered (1.9%).

With regards to the *labour market* in the euro area, employment in the first quarter of this year is not yet significantly affected by lower growth, as anticipated by the qualitative surveys. In January-March this year, the quarter-on-quarter growth rate was 0.3%, the same as the previous quarter and equivalent to an annual growth rate of 1.6%, two tenths of a point less than in the previous quarter. Consistent with this favourable evolution of employment, the unemployment rate remained at



7.1% in April, for the fourth consecutive month. This figure is a historic low. During the last month were also published the labour costs for the first quarter, which have increased by 3.3% over last year and four decimal points more than the previous quarter. This rise in salaries is increasing the risk of a salary spiral, which would harm both creation of jobs and the evolution of unemployment.

II.2.2 Inflation

The May **HICP** in the euro area grew by 3.7%, exactly as expected. Nevertheless, using the latest information about fuel prices, with data up to June 18, we have revised slightly upwards our inflation forecasts. The inflation rate estimated for the months of June and July increases by one decimal point and goes from 3.8% to 3.9%. The inflation rates for the other months and the overall inflation rates estimated for 2008 and 2009 remain unchanged and we expect an average yearly inflation rate of 3.5% and 2.1% for 2008 and 2009 respectively.

Table II.2.2.1

ANNUAL RATES OF INFLATION IN THE EURO AREA *						
HICP	Observed			Forecasts		
	Med 2006 ⁽²⁾	Med 2007 ⁽²⁾	2008 May ⁽¹⁾	2008 Jun ⁽¹⁾	Med 2008 ⁽²⁾	Med 2009 ⁽²⁾
CORE (82,6%)	1.5	2.0	2.5	2.5 (±0.14)	2.3 (±0.14)	1.8 (±0.40)
TOTAL (100%)	2.2	2.1	3.7	3.9 (±0.12)	3.5 (±0.19)	2.1 (±0.49)

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

Source: EUROSTAT & IFL (UC3M)

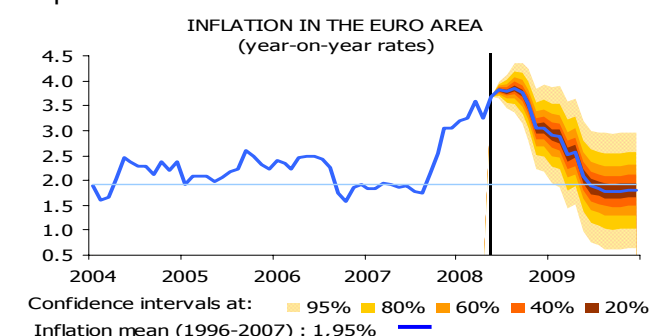
Date: June 16, 2008

(1) Year-on-year rate

(2) Annual average rate

Even if we did not change our figures for total inflation there was a change in the inflation profile implied by our forecasts. On one side, core inflation forecasts decreased by 0.1 and 0.2pp for 2008 and 2009 respectively. On the other side this decrease was exactly offset by an opposite variation of energy and unprocessed food prices.

Graph II.2.2.1



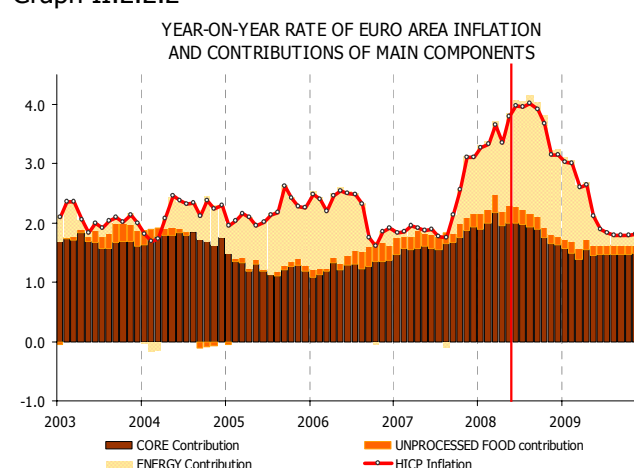
Source: EUROSTAT & IFL(UC3M)

Date: June 16, 2008

The downward revision in core inflation forecasts was mainly driven by the processed food sector where inflation exhibited a considerable slowdown. Monthly price growth went back to the same levels observed before the sharp price increases registered at the end of 2007. Within the core component also the prices of non-energy industrial goods performed well. The forecasted inflation for this sector was revised one decimal point downward for both 2008 and 2009, when we expect a value of 0.7%.

On the contrary, inflation rates for energy products and unprocessed food continued to increase. The year on year growth of energy prices is expected to reach its maximum in August with a value of 17.1%, driving the headline inflation up to 3.9%. At the same time unprocessed food prices grew this month 4 decimal points more than expected with the average forecasted inflation rate being revised upwards up to the record level of 3.1% for 2008 and 2.2% for 2009.

Graph II.2.2.2



Source: EUROSTAT & IFL(UC3M)

Date: June 16, 2008

Therefore the medium run forecasts for headline and core inflation in the euro area lie well above ECB goals. Convergence toward the 2% inflation rate is not expected before the end of 2009 and is basically conditional to oil price stabilization. In this situation ECB has announced a moderate rise in the official interest rate that will take place at the beginning of July. We must argue that ECB is worried by the fact that the continuous rise in the oil and food price can induce higher inflation expectations which can lead to a dangerous salary/price inflationary spiral; a detrimental situation that Europe already experienced during the last oil crisis.



II.2.3 Monetary Policy

In June, the ECB announced more than once that it will increase interest rates by 25pb in July. This decision was due to the rising trends in consumer prices and labour costs. In May, the year-on-year inflation rate was 3.7%, the highest in the history of the European common currency. The labour costs for the first quarter were also published, showing a 3.3% increase relative to a year earlier and four tenths of a point more than the previous quarter. At the same time, in this last month, the economic situation figures were slightly better than expected and, both in the euro area and the US, a recession appears to be less likely. Particularly positive were the figures concerning the labour market in the euro area, which has not yet been affected by the negative context, and the employment rate continues at an all time low (7.1%). In this situation, the European Central Bank's decision is not surprising. The ECB considers economic growth in its decisions only when inflation expectations in the mean term are under control. The tensions related to oil, raw material and food prices mean that the

risk of inflation is too high, thus requiring the ECB, according to its mandate, to apply a more restrictive monetary policy. The ECB is perfectly aware that an interest rate increase will not affect oil prices but it is attempting to ensure that the inflation derived from energy prices is not transmitted to wages.

Finally, the Euribor rate continues to discount a high risk premium. In view of the possibility of an increase in the official interest rate, the Euribor rate at 12 months has peaked this month at 5.4%. The huge injections of liquidity provided by the central banks and their clear intention to help financial institutions experiencing difficulties have been seen to have a temporary or null effect on the rate spread on the interbank market. It is very likely, then, that the solution to this crisis will involve solving the uncertainty regarding the economic cycle. According to our forecasts, inflation will start to fall from autumn on, whereas growth will take one or two more quarters to reverse its falling trend. We can reasonably expect the liquidity crisis to be at least partly solved according to this same profile.



II.3. TABLES AND PLOTS.

Tables:

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

Plots:

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

FORECAST ERRORS IN THE MONTHLY INFLATION RATE BY COUNTRIES IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK IN MAY				
	Weights 2008 euro area	Observed Monthly Rate	Forecast	Confidence Intervals at 80%
Germany	270.45	0.7	0.56	± 0.29
France	205.45	0.6	0.56	± 0.20
Italy	185.71	0.6	0.92	± 0.23
Spain	126.83	0.7	0.67	± 0.15
Netherlands	50.24	0.4	0.01	± 0.33
Belgium	33.60	0.9	0.02	± 0.32
Austria	30.97	0.6	0.09	± 0.37
Greece	33.73	0.7	0.17	± 0.78
Portugal	22.32	0.5	0.26	± 0.66
Finland	16.25	0.5	-0.14	± 0.37
Ireland	15.07	0.6	0.31	± 0.30
Slovenia	3.43	1.2	0.54	± 0.24
Luxembourg	2.72	1.0	0.44	± 0.32
Cyprus	2.46	0.8	0.46	
Malta	0.77	0.7	0.64	
United Kingdom		0.7	0.33	± 0.33
Sweden		0.5	0.02	± 0.5
Denmark		0.4	0.20	± 0.27

Source: EUROSTAT & IFL(UC3M)
Date: June 19, 2008



METHODOLOGY: ANALYSIS OF EURO AREA INFLATION BY COMPONENT

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

Source: EUROSTAT & IFL (UC3M)
2008 weights

OBSERVED VALUES AND FORECASTS FOR THE EURO AREA HICP MONTHLY RATES				
Harmonised Index of Consumer Price (HICP)	Weights 2008	Observed May, 2008	Forecast (**)	Confidence intervals (*)
(1) Processed Food	119.06	0.08	0.30	± 0.40
(2) Tobacco	22.63	0.14	0.19	
(3) Processed Food excluding tobacco [1-2]	96.43	0.07	0.33	
(4) Non Energy Industrial Goods	297.73	0.07	0.15	± 0.22
(5) Services	409.04	0.39	0.37	± 0.14
CORE INFLATION [1+4+5]	825.83	0.24	0.28	± 0.14
(6) Unprocessed Food	76.04	0.91	0.53	± 0.75
(7) Energy	98.12	3.56	4.14	± 0.84
RESIDUAL INFLATION [6+7]	174.17	2.43	2.59	± 0.56
HEADLINE INFLATION [1+4+5+6+7]	1000.00	0.63	0.69	± 0.12

(*) 80% Confidence intervals

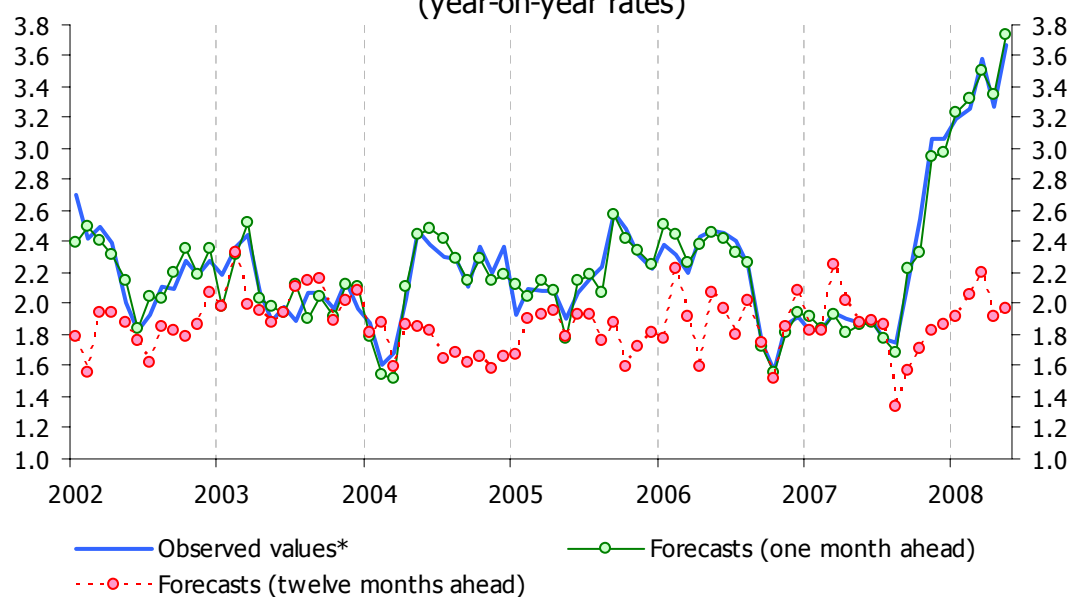
(**) Forecasts published in the previous bulletin

Source: EUROSTAT & IFL(UC3M)

Date: June 19, 2008



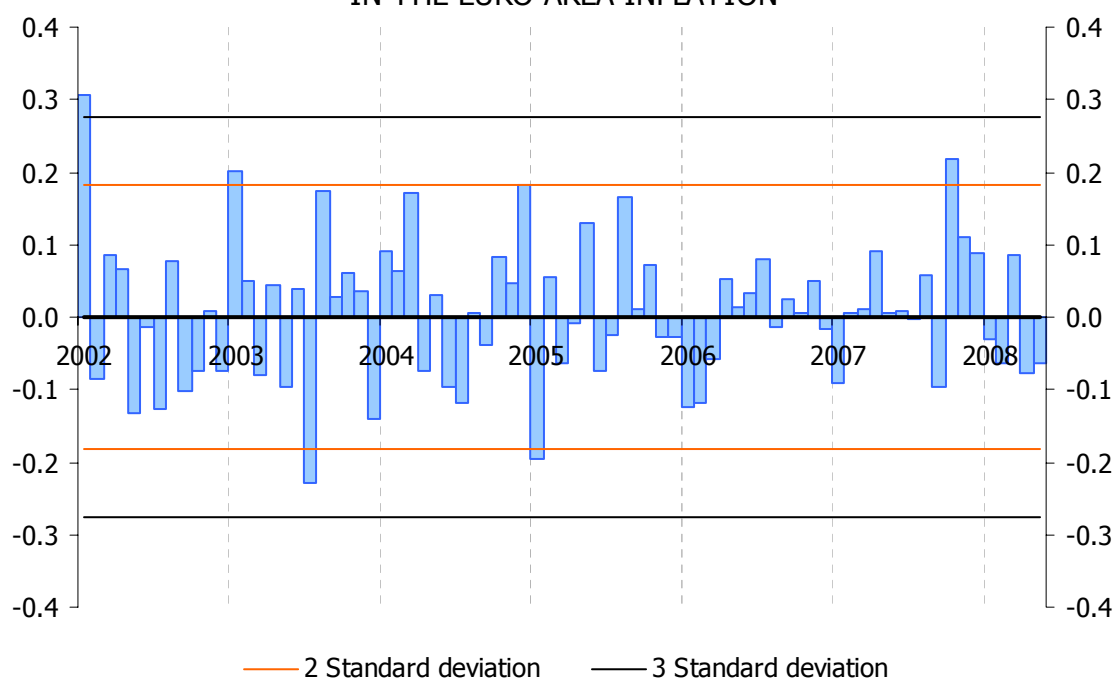
ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS FOR THE EURO AREA HICP (year-on-year rates)



* Observed values without revisions in the HICP

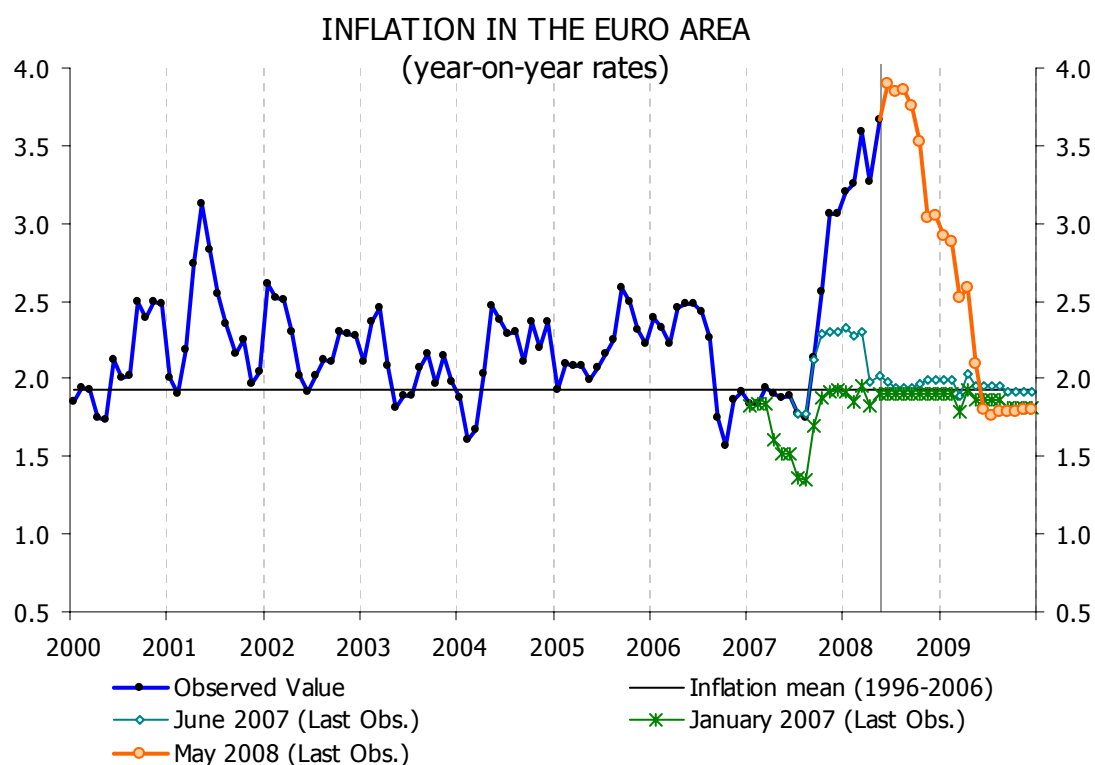
Source : EUROSTAT & IFL(UC3M)
Date: June 19, 2008

ONE MONTH AHEAD FORECAST ERRORS IN THE EURO AREA INFLATION

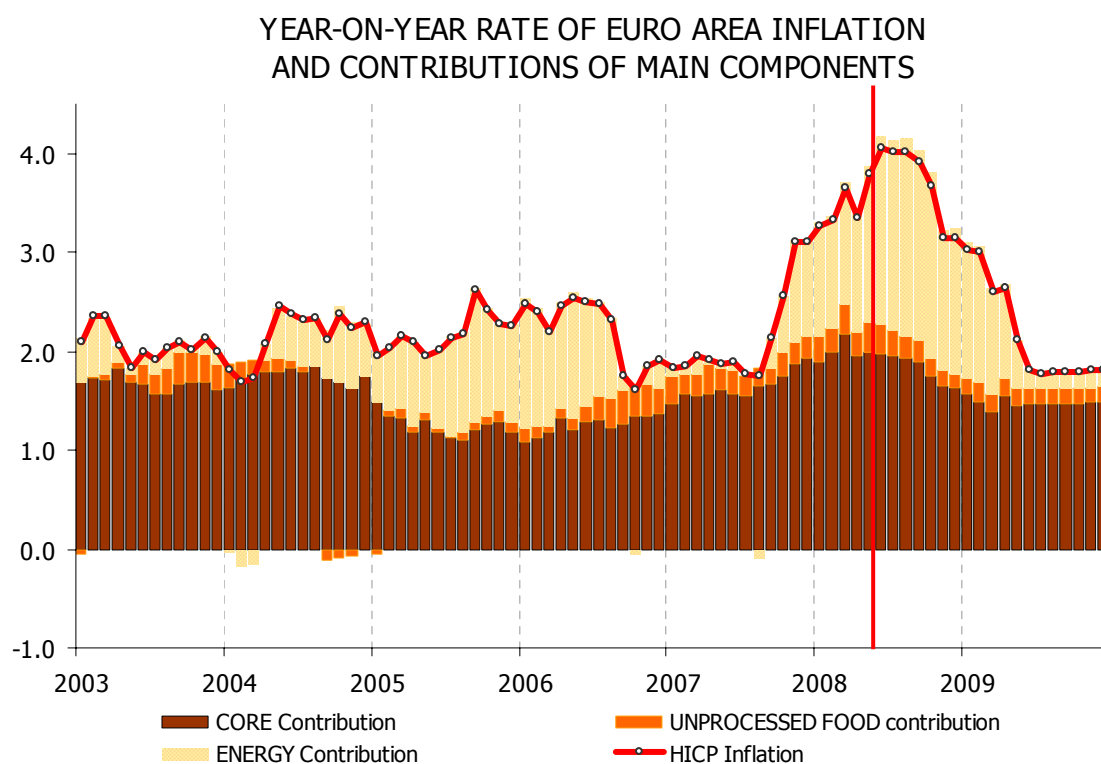


Source : EUROSTAT & IFL(UC3M)
Date: June 19, 2008





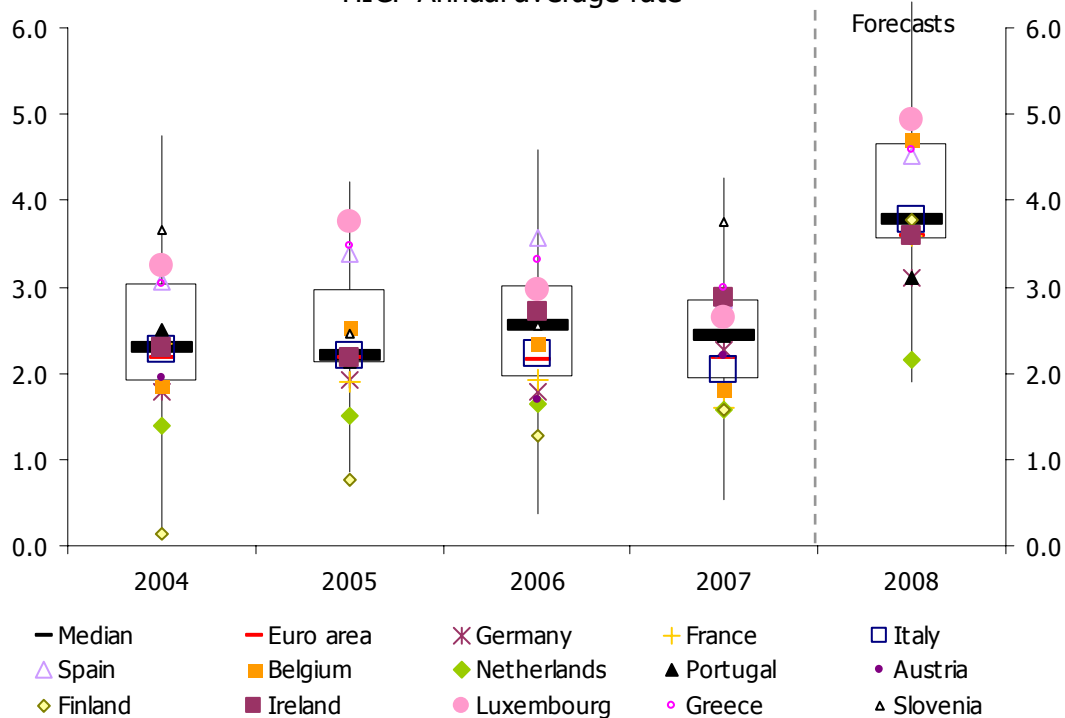
Source: EUROSTAT & IFL(UC3M)
Date: June 19, 2008



Source: EUROSTAT & IFL(UC3M)
Date: June 19, 2008

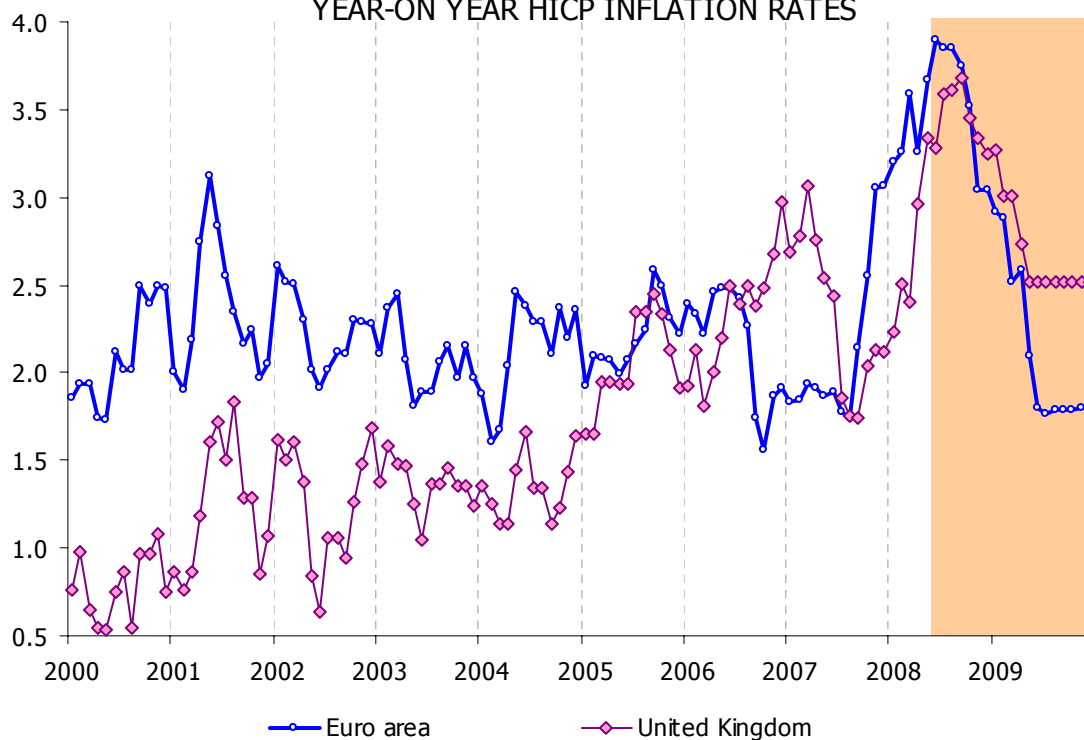


BOX DIAGRAM OF EURO AREA COUNTRIES INFLATION
HICP Annual average rate



Source: EUROSTAT & IFL(UC3M)
Date: June 19, 2008

YEAR-ON-YEAR HICP INFLATION RATES



Source: EUROSTAT & IFL(UC3M)
Date: June 19, 2008



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



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

Source: EUROSTAT & IFL (UC3M)

Date: June 19, 2008



III. UNITED STATES.

III.1. MACROECONOMIC FORECASTS.

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

Table III.1.1.1

ANNUAL GROWTH RATE IN THE IPI SECTORS IN THE US							
		Consumer Goods		Equipment	Materials	TOTAL	
		Durable	Non durable	& Supplies			
AVERAGE ANNUAL RATE	2004	1.1	1.4	2.7	3.0	2.5	
	2005	0.5	3.6	4.6	2.3	3.3	
	2006	-1.3	0.8	2.6	2.2	2.2	
	2007	-0.3	2.3	1.9	1.9	1.7	
	2008	-5.9	1.0	0.0	1.1	0.0	
	2009	2.2	1.4	2.4	2.7	1.8	
ANNUAL RATES*	2007	QI	-3.4	3.5	1.8	1.0	1.3
		QII	0.0	2.2	1.9	1.6	1.5
		QIII	2.4	2.0	2.1	1.8	1.7
		QIV	0.9	1.2	1.7	3.2	2.1
	2008	QI	-2.7	0.3	0.8	2.6	1.4
		QII	-8.5	1.1	-0.4	1.2	-0.1
		QIII	-8.2	1.1	-0.9	-0.3	-1.3
		QIV	-4.3	1.6	0.5	0.8	0.1
	2009	QI	-0.6	1.4	1.5	1.8	0.8
		QII	3.8	1.2	2.5	2.6	2.0
		QIII	3.2	1.6	2.8	3.2	2.4
		QIV	2.7	1.5	2.8	3.0	2.1

The figures in the shaded area are forecasts.
Year-on-year rates.

Source: FEDERAL RESERVE & IFL (UC3M)
Date: June 17, 2008.

Table III.1.1.2

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

	2003	2004	2005	2006	2007	2008	2009
January	2.78	1.42	3.89	1.96	1.19	2.53	-0.06
February	3.45	1.91	3.15	1.62	1.64	0.87	1.34
March	2.73	1.20	3.39	2.54	1.03	0.82	1.26
April	0.39	2.44	4.35	1.23	1.85	0.70	1.80
May	0.44	3.31	3.09	2.40	1.30	-0.14	2.25
June	-0.51	2.45	4.31	2.33	1.23	-0.85	2.00
July	0.09	3.56	3.95	2.93	1.60	-2.56	3.67
August	0.26	2.67	3.82	2.55	1.51	-0.83	1.54
September	0.54	1.97	2.08	3.77	2.19	-0.59	1.90
October	0.97	3.02	1.97	2.46	1.83	0.42	1.95
November	1.76	2.49	2.83	1.31	2.56	0.06	2.23
December	2.18	3.47	3.06	1.32	2.04	-0.34	2.09

The figures in the shaded area are forecast.
Source: FEDERAL RESERVE & IFL (UC3M)
Date: June 17, 2008.



III.1.2 INFLATION.

Table III.1.2.1

AVERAGE ANNUAL RATE OF GROWTH IN US

CONSUMER PRICES INDEX (CPI)	2004	2005	2006	2007	2008 (forecasts)	2009 (forecasts)
Food (1)	3.4	2.4	2.3	4.0	4.9	4.3
Energy (2)	10.9	16.9	11.2	5.5	23.6	8.4
Residual Inflation (3=2+1)	6.0	7.6	5.7	4.6	12.5	6.1
Non-food and non-energy goods (4)	-0.9	0.5	0.3	-0.4	0.2	0.2
-Durable goods	-2.3	0.4	-0.7	-1.7	-1.1	-1.4
-Nondurable goods	0.5	0.6	1.3	1.0	1.4	1.8
Non-energy services (5)	2.9	2.8	3.4	3.4	3.2	3.1
-Services less owner's equivalent rent of primary residence (5-a)	3.3	3.1	3.4	3.5	3.7	3.5
-Owner's equivalent rent of primary residence (a)	2.3	2.3	3.5	3.4	2.5	2.7
Core Inflation (6=4+5)	1.8	2.2	2.5	2.3	2.3	2.3
[Confidence intervals at 80% level]					± 0.15	± 0.42
Core inflation less owner's equivalent rent of primary residence (6-a)	1.6	2.1	2.1	1.9	2.3	2.1
Headline Inflation (7=6+3)	2.7	3.4	3.2	2.9	4.7	3.3
[Confidence intervals at 80% level]					± 0.35	± 1.15
All items less owner's equivalent rent of primary residence (7-a)	2.8	3.7	3.1	2.7	5.4	3.4

Source: BLS & IFL (UC3M)

Date: June 13, 2008



Table III.1.2.2

USA ANNUAL RATES OF GROWTH ON CPI AND ITS COMPONENTS															
		CONSUMER PRICE INDEX													
		CORE INFLATION						ALL	Confidence Intervals at 80% level	RESIDUAL INFLATION			ALL	Confidence Intervals at 80% level	
		Non energy commodities less food			Non energy services							ALL			
		durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL			Food	Energy				
Ft December 2007		10.8%	10.8%	21.6%	23.9%	30.9%	54.9%	76.5%		13.8%	9.7%	23.5%	100.0%		
AVERAGE ANNUAL	2002	-2.6	0.4	-1.1	4.1	3.6	3.8	2.3		1.8	-5.9	-0.8	1.6		
	2003	-3.2	-0.7	-2.0	2.4	3.2	2.9	1.5		2.1	12.2	5.3	2.3		
	2004	-2.3	0.5	-0.9	2.3	3.3	2.9	1.8		3.4	10.9	6.0	2.7		
	2005	0.4	0.6	0.5	2.3	3.1	2.8	2.2		2.4	16.9	7.6	3.4		
	2006	-0.7	1.3	0.3	3.5	3.4	3.4	2.5		2.3	11.2	5.7	3.2		
	2007	-1.7	1.0	-0.4	3.4	3.5	3.4	2.3		4.0	5.5	4.6	2.9		
	2008	-1.1	1.4	0.2	2.5	3.7	3.2	2.3	± 0.15	4.9	23.6	12.5	4.7	± 0.35	
	2009	-1.4	1.8	0.2	2.7	3.5	3.1	2.3	± 0.42	4.3	8.4	6.1	3.3	± 1.15	
ANNUAL RATES (growth over the same month of the previous year)	2007	January	-1.8	1.5	-0.2	4.3	3.5	3.8	2.7		2.4	-3.1	0.2	2.1	
		February	-1.8	1.9	0.0	4.2	3.4	3.8	2.7		3.1	-1.0	1.5	2.4	
		March	-1.7	1.2	-0.3	4.1	3.1	3.6	2.5		3.3	4.4	3.7	2.8	
		April	-1.8	0.9	-0.5	3.9	3.2	3.5	2.3		3.7	2.9	3.4	2.6	
		May	-2.0	0.7	-0.7	3.5	3.4	3.4	2.2		3.9	4.7	4.2	2.7	
		June	-1.9	0.4	-0.8	3.3	3.4	3.4	2.2		4.1	4.6	4.3	2.7	
		July	-2.1	0.9	-0.6	3.1	3.5	3.3	2.2		4.2	1.0	2.8	2.4	
		August	-2.0	0.5	-0.7	3.0	3.4	3.2	2.1		4.3	-2.5	1.4	2.0	
		September	-1.8	0.4	-0.8	2.9	3.5	3.3	2.1		4.5	5.3	4.8	2.8	
		October	-1.7	0.7	-0.5	2.8	3.5	3.2	2.2		4.4	14.5	8.2	3.5	
		November	-1.2	1.2	0.0	2.8	3.6	3.3	2.3		4.8	21.4	11.1	4.3	
		December	-1.1	1.3	0.1	2.8	3.8	3.3	2.4		4.9	17.4	9.8	4.1	
	2008	January	-0.9	1.2	0.2	2.8	3.8	3.4	2.5		4.9	19.6	10.5	4.3	
		February	-1.0	1.1	0.0	2.6	3.6	3.2	2.3		4.6	18.9	10.0	4.0	
		March	-1.0	1.0	0.0	2.6	3.8	3.3	2.4		4.5	17.0	9.5	4.0	
		April	-1.2	1.4	0.1	2.6	3.5	3.1	2.3		5.1	15.9	9.5	3.9	
		May	-1.1	1.4	0.1	2.6	3.6	3.2	2.3		5.1	17.4	10.2	4.2	
		June	-1.1	1.6	0.2	2.5	3.7	3.2	2.3	± 0.13	5.0	25.2	13.5	5.0	± 0.13
		July	-1.1	1.6	0.2	2.6	3.7	3.2	2.3	± 0.19	5.1	29.4	15.2	5.4	± 0.41
		August	-1.2	1.7	0.2	2.5	3.8	3.2	2.4	± 0.25	5.0	32.9	16.4	5.6	± 0.68
		September	-1.2	1.7	0.2	2.4	3.8	3.2	2.4	± 0.30	4.9	30.7	15.3	5.4	± 0.85
		October	-1.2	1.6	0.2	2.4	3.8	3.2	2.4	± 0.34	4.9	29.2	14.7	5.2	± 0.98
		November	-1.2	1.5	0.1	2.4	3.8	3.2	2.3	± 0.38	4.8	22.3	12.1	4.6	± 1.07
		December	-1.2	1.4	0.1	2.4	3.8	3.2	2.3	± 0.41	4.9	23.2	12.5	4.7	± 1.13
	2009	January	-1.4	1.5	0.0	2.4	3.7	3.1	2.2	± 0.45	4.7	22.8	12.2	4.6	± 1.17
		February	-1.4	1.7	0.1	2.5	3.8	3.2	2.4	± 0.48	4.7	23.7	12.5	4.8	± 1.24
		March	-1.5	2.0	0.3	2.5	3.7	3.2	2.4	± 0.51	4.8	19.5	11.0	4.4	± 1.32
		April	-1.3	1.9	0.3	2.5	3.9	3.3	2.4	± 0.53	4.3	15.7	9.2	4.1	± 1.38
		May	-1.3	2.0	0.4	2.6	3.6	3.2	2.4	± 0.56	4.3	9.7	6.7	3.5	± 1.48
		June	-1.4	2.0	0.3	2.7	3.4	3.1	2.3	± 0.56	4.2	3.7	4.0	2.7	± 1.59
		July	-1.4	1.8	0.2	2.7	3.3	3.1	2.3	± 0.56	4.2	2.0	3.1	2.5	± 1.58
		August	-1.4	1.8	0.2	2.8	3.3	3.1	2.3	± 0.56	4.1	2.5	3.4	2.6	± 1.68
		September	-1.4	1.8	0.2	2.9	3.2	3.1	2.3	± 0.56	4.1	3.1	3.6	2.6	± 1.75
		October	-1.4	1.8	0.2	2.9	3.3	3.1	2.3	± 0.56	4.0	2.9	3.5	2.6	± 1.78
		November	-1.4	1.7	0.2	2.9	3.3	3.1	2.3	± 0.56	4.0	2.4	3.3	2.5	± 1.82
		December	-1.5	1.7	0.1	2.9	3.2	3.1	2.2	± 0.56	3.9	1.8	3.0	2.4	± 1.86

Confidence intervals are calculated with historical errors.

The figures in the shaded area are forecasts.

Source: BLS & IFL (UC3M)

Date: June 13, 2008



Table III.1.2.3

Table III.1.2.3

USA MONTHLY RATES OF GROWTH ON CPI AND ITS COMPONENTS													
RI December 2007		CONSUMER PRICE INDEX											
		CORE INFLATION							RESIDUAL INFLATION			ALL	
		Non energy commodities less food			Non energy services			ALL	Food		ALL		
		durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL		Energy				
		10.8%	10.8%	21.6%	23.9%	30.9%	54.9%	76.5%	13.8%	9.7%	23.5%	100.0%	
MONTHLY RATES (growth over the previous month)	January	2006	0.3	-0.5	-0.1	0.3	0.5	0.4	0.2	0.6	5.3	2.4	0.8
		2007	0.0	-0.3	-0.2	0.2	0.8	0.5	0.3	0.9	-0.9	0.2	0.3
		2008	0.2	-0.4	-0.1	0.2	0.8	0.6	0.4	0.9	0.9	0.9	0.5
		2009	-0.1	-0.3	-0.2	0.2	0.7	0.5	0.3	0.8	0.6	0.7	0.4
	February	2006	0.0	0.6	0.3	0.3	0.8	0.6	0.5	-0.1	-1.6	-0.7	0.2
		2007	0.0	1.0	0.5	0.3	0.7	0.5	0.5	0.6	0.5	0.6	0.5
		2008	-0.2	0.9	0.3	0.1	0.5	0.3	0.3	0.3	-0.1	0.1	0.3
		2009	-0.1	1.0	0.5	0.2	0.6	0.4	0.4	0.2	0.7	0.4	0.4
	March	2006	-0.2	1.8	0.9	0.3	0.7	0.5	0.6	0.0	1.2	0.5	0.6
		2007	0.0	1.1	0.5	0.2	0.4	0.3	0.4	0.2	6.8	2.7	0.9
		2008	0.0	1.1	0.5	0.2	0.6	0.4	0.5	0.1	5.1	2.2	0.9
		2009	-0.1	1.4	0.7	0.2	0.6	0.4	0.5	0.2	1.5	0.8	0.6
	April	2006	0.0	0.4	0.1	0.4	0.3	0.3	0.3	-0.2	6.8	2.6	0.9
		2007	-0.2	0.1	0.0	0.2	0.4	0.3	0.2	0.2	5.2	2.2	0.6
		2008	-0.3	0.5	0.1	0.2	0.0	0.1	0.1	0.8	4.2	2.3	0.6
		2009	-0.1	0.3	0.1	0.2	0.1	0.2	0.1	0.3	0.9	0.6	0.3
	May	2006	-0.2	-0.2	-0.1	0.5	0.0	0.2	0.1	0.3	3.9	1.8	0.5
		2007	-0.3	-0.4	-0.3	0.1	0.2	0.1	0.0	0.5	5.7	2.6	0.6
		2008	-0.3	-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	0.2	0.1	0.1	0.0	0.4	1.5	0.9	0.2
	June	2006	-0.3	-0.8	-0.6	0.4	0.4	0.4	0.1	0.2	1.0	0.5	0.2
		2007	-0.2	-1.1	-0.7	0.2	0.5	0.4	0.1	0.3	0.9	0.6	0.2
		2008	-0.2	-0.9	-0.5	0.1	0.5	0.4	0.1	0.3	7.7	3.6	1.0
		2009	-0.2	-0.9	-0.6	0.2	0.3	0.3	0.0	0.2	1.7	0.9	0.3
	July	2006	0.0	-1.5	-0.8	0.4	0.5	0.4	0.1	0.3	1.8	0.9	0.3
		2007	-0.2	-1.0	-0.6	0.2	0.6	0.4	0.1	0.3	-1.7	-0.5	0.0
		2008	-0.2	-1.0	-0.6	0.2	0.6	0.4	0.1	0.3	1.5	0.9	0.3
		2009	-0.2	-1.2	-0.7	0.3	0.5	0.4	0.1	0.3	-0.2	0.1	0.1
	August	2006	-0.3	0.7	0.2	0.4	0.2	0.3	0.2	0.3	-0.2	0.1	0.2
		2007	-0.1	0.3	0.1	0.3	0.1	0.2	0.2	0.4	-3.7	-1.3	-0.2
		2008	-0.2	0.4	0.1	0.2	0.3	0.2	0.2	0.3	-1.0	-0.3	0.1
		2009	-0.2	0.4	0.1	0.3	0.3	0.3	0.2	0.3	-0.5	-0.1	0.1
	September	2006	-0.4	1.8	0.7	0.3	-0.1	0.0	0.2	0.4	-7.3	-2.9	-0.5
		2007	-0.3	1.6	0.7	0.3	-0.1	0.1	0.2	0.5	0.2	0.4	0.3
		2008	-0.3	1.6	0.7	0.2	-0.1	0.1	0.2	0.4	-1.5	-0.5	0.0
		2009	-0.3	1.6	0.7	0.3	-0.1	0.0	0.2	0.3	-1.0	-0.3	0.1
	October	2006	0.0	0.5	0.2	0.4	0.4	0.4	0.3	0.5	-8.9	-3.3	-0.5
		2007	0.1	0.8	0.5	0.2	0.3	0.3	0.3	0.4	-1.0	-0.1	0.2
		2008	0.2	0.8	0.5	0.3	0.3	0.3	0.3	0.5	-2.1	-0.7	0.1
		2009	0.1	0.8	0.5	0.3	0.3	0.3	0.3	0.4	-2.2	-0.8	0.1
	November	2006	-0.3	-0.7	-0.4	0.3	-0.2	0.0	-0.1	-0.2	-0.5	-0.3	-0.1
		2007	0.2	-0.1	0.0	0.3	-0.1	0.1	0.1	0.2	5.5	2.4	0.6
		2008	0.1	-0.3	-0.1	0.3	-0.1	0.1	0.0	0.2	-0.1	0.0	0.0
		2009	0.1	-0.3	-0.1	0.3	-0.1	0.1	0.0	0.1	-0.6	-0.2	0.0
	December	2006	-0.2	-0.9	-0.5	0.3	-0.2	0.0	-0.1	0.1	2.7	1.1	0.1
		2007	0.0	-0.8	-0.4	0.3	0.0	0.1	0.0	0.2	-0.7	-0.2	-0.1
		2008	0.0	-0.8	-0.4	0.3	0.0	0.1	0.0	0.3	0.0	0.2	0.0
		2009	0.0	-0.8	-0.4	0.3	-0.1	0.0	-0.1	0.3	-0.6	-0.1	-0.1

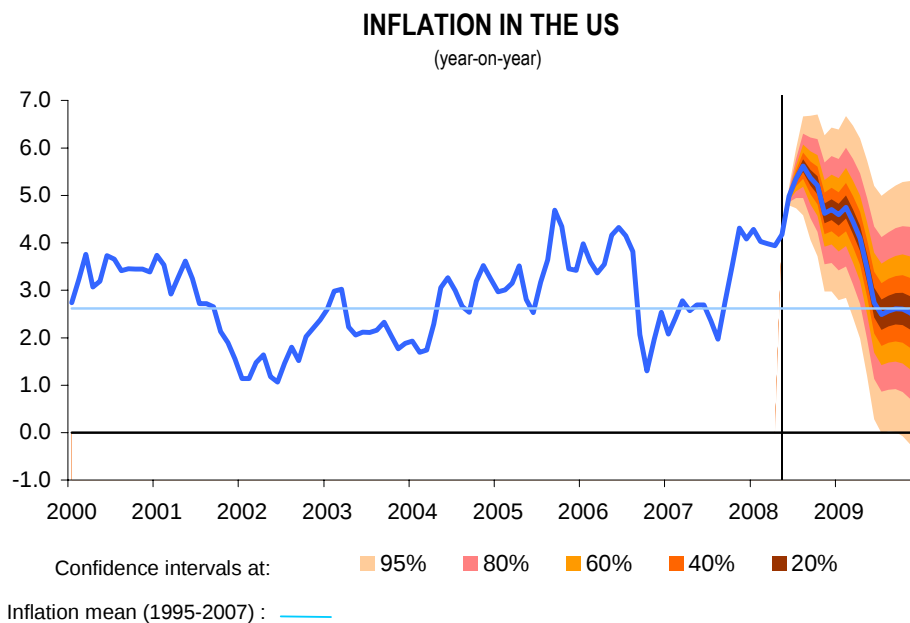
The figures in the shaded area are forecasts

Source: BLS & IFL (UC3M)

Date: June 13, 2008

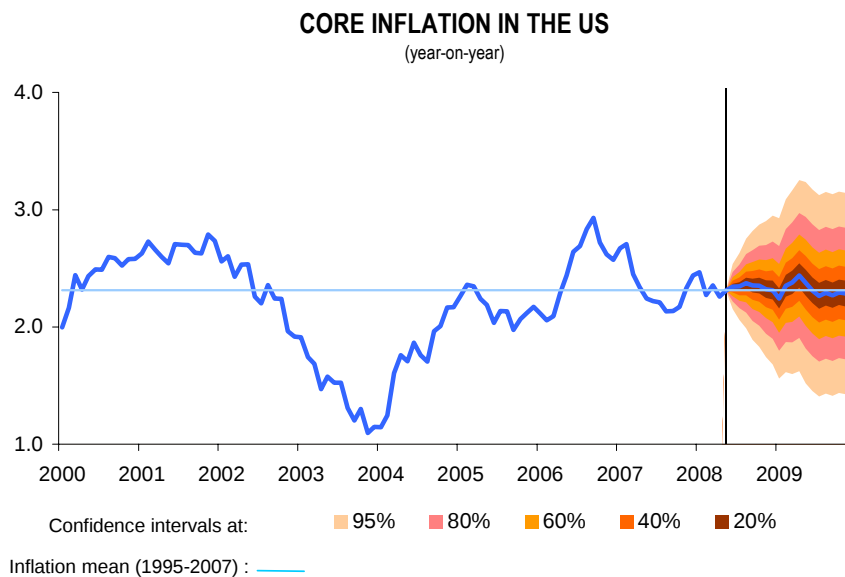


Graph III.1.2.1



Source :BLS & IFL (UC3M)
Date: June 13, 2008

Graph III.1.2.2



Source :BLS & IFL (UC3M)
Date: June 13, 2008



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

- *The general CPI in May was somewhat worse than expected, due to food and energy.*
- *Core inflation, however, was as forecast, with:*
 - o *Upwards innovations in transport*
 - o *Downwards innovations in non-energy industrial goods and home rentals*
- *For the next few months, we expect a rise in the annual general CPI, which could peak at 5.6% in August.*

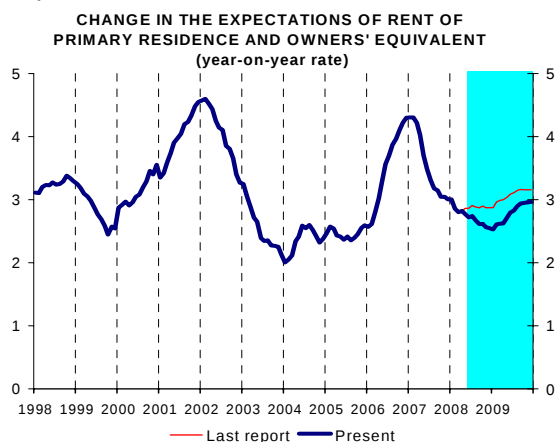
In the U.S. in **May**, the monthly rate of consumer prices rose by 0.84%², more than the forecast 0.73%. The annual rate rose from 3.94% to 4.18%.

On the other hand, core index prices rose by 0.06% relative to the previous month, similar to the forecast 0.03%. The annual rate has risen from 2.26% to 2.31%.

Although the **core index** figure was good in general, its components registered differing trends.

On the positive side, the prices of both durable and non-durable non-energy industrial goods evolved better than expected, even though import prices are still pushing them up. In the service field, the prices of both house rentals and owner's equivalent rent of primary residence grew less than forecast (see Graph III.2.1).

Graph III.2.1



Source: BLS & IFL (UC3M)

Date: June 13, 2008

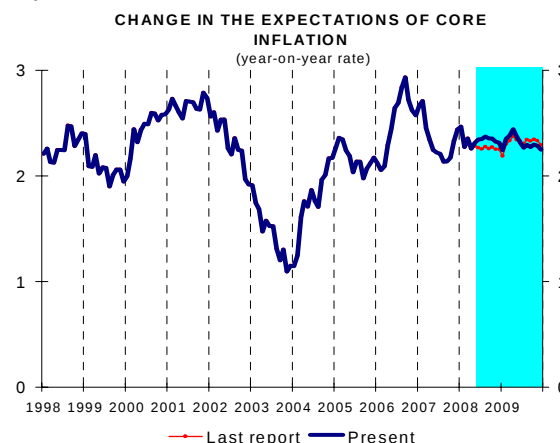
² Unless otherwise specified, our US reports use non-seasonally adjusted data.

On the negative side, transport services, resulting from growing oil prices, increased from an annual rate of 3.42% to 4.56%. To a lesser extent, there was also an upwards innovation in telephone services, specifically long distance calls.

With regards to the latest information published about **import prices**, they were clearly worse than expected in both durable and non-durable goods.

Core inflation is subject to upwards pressure due to transport prices, derived from raw material costs, and downwards pressure from home rental prices. These two factors compensate for one another (see Graph III.2.2).

Graph III.2.2



Source: BLS & IFL (UC3M)

Date: June 13, 2008

In relation to the prices not included in the core index, **food** prices grew more than expected, due to cereals and derivatives, the annual rate of which continued to rise to 10.52%. This rise, together with international raw material prices, shows no sign of ending (see Graphs in III.3).

With regards to **energy**, prices were worse than expected due to an evolution in crude oil which was, once again, even more negative than forecast. Especially significant was the monthly increase in gas prices: 5.52% instead of the forecast 1.45%.

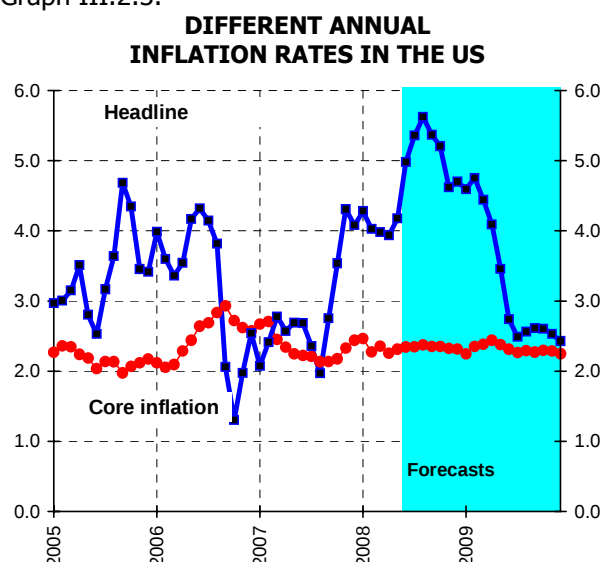
With regards to our forecasts, there have been new increase in crude oil prices on the international markets. On the 13th of this month, it exceeded 136 \$ barrel WTI, with future prices growing in the same proportion. **In other words,**



our scenario assumed 12 \$ barrel more than in last month's report.

The profile expected for the next few months is heavy acceleration in prices which could peak at 5.6% in August, starting to fall to 4.7% in December this year, and continuing down to 2.5% in July, 2009 (see Graph III.2.3).

Graph III.2.3.



Source: BLS & IFL (UC3M)
Date: June 13, 2008

For **June**, a monthly increase of 0.97% (± 0.13) is expected for the general CPI, so the annual rate would rise from 4.18% to **4.98%**. This important increase in the annual rate, 8 tenths of a point, would largely be explained by energy prices, for which we expect a monthly increase of 7.66% compared to last June's 0.92%. For core inflation, the forecast is a monthly rise of 0.11% (± 0.13), with the annual rate climbing slightly from 2.31% to **2.34%**.

For **2008 and 2009** we are forecasting **average annual core inflation rates** of 2.34% (± 0.15)³ and 2.31% (± 0.42), respectively, similar to our forecasts in last month's report.

On the other hand, **headline inflation** is expected to be 4.69% (± 0.35) in 2008 and 3.26% (± 115) in 2009, **representing four tenths of a point more for both years than last month** (see Table III.2.1).

³ The values in brackets correspond to 80% confidence intervals.

Table III.2.1.

DIFFERENT ANNUAL INFLATION RATE MEASURES IN THE US

	CPI		PCE ¹	MB-PCE ²
	Headline	Core	Core	Core
	% annual	% annual	% annual	% annual
2008 January	4.3	2.5	2.0	1.8
February	4.0	2.3	1.9	1.7
March	4.0	2.4	2.1	1.8
April	3.9	2.3	2.1	1.8
May	4.2	2.3	2.2	1.9
June	5.0	2.3	2.2	2.0
July	5.4	2.3	2.2	2.0
August	5.6	2.4	2.2	2.0
September	5.4	2.4	2.2	2.0
October	5.2	2.4	2.2	1.9
November	4.6	2.3	2.1	1.9
December	4.7	2.3	2.1	1.8
average annual				
2007	2.9	2.3	2.1	1.9
2008	4.7	2.3	2.1	1.9
2009	3.3	2.3	2.1	1.8

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

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

Source: BLS, BEA & IFL (UC3M)

Date: June 13, 2008

In terms of the core personal consumption expenditure index – **core PCE**⁴–, which is the inflation indicator most closely monitored by the Fed, with the May CPI figure, our forecasts have worsened slightly, expecting the annual PCE rate in May – to be published at the end of the month – to be 2.18%. For 2008 and 2009, the forecasts are for an average annual rate of 2.13% and 2.12%, with 2008 beneath the new central tendency established by the FED⁵ (see Graph III.2.4).

With regards to the real economy, the most outstanding aspect was the increase in the **unemployment rate** from 5.0% to 5.5% (rates corrected for seasonality). This important increase in the unemployment rate resulted from growth in the active population, which evolved from 0.9% to 1.2%, and deceleration in employment, with the annual rate falling from 0.4% to 0.1%.

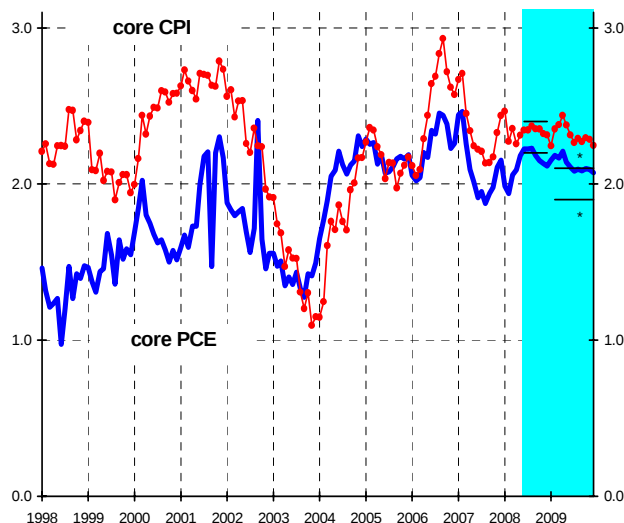
⁴ The PCE (Personal Consumption Expenditure) is a price index which has the advantage over the consumer price index (CPI) that, instead of using a fixed shopping basket, it adapts to real expenditure, reflecting changes in the composition of the basket between the periods compared.

⁵ These forecasting intervals determine the so-called central tendencies. They are constructed by excluding the three lowest and highest projections from the forecasting distribution given by the Federal Open Market Committee (FOMC) participants, given their own assumptions about the factors that are likely to affect the economy. In particular, each participant assumption about future monetary policy is consistent with his own perspective of the policy actions that are more suitable to meet the Federal Reserve's dual objectives of maximum employment and price stability.



Graph III.2.4.

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US



(1) Central tendency established by the Fed.

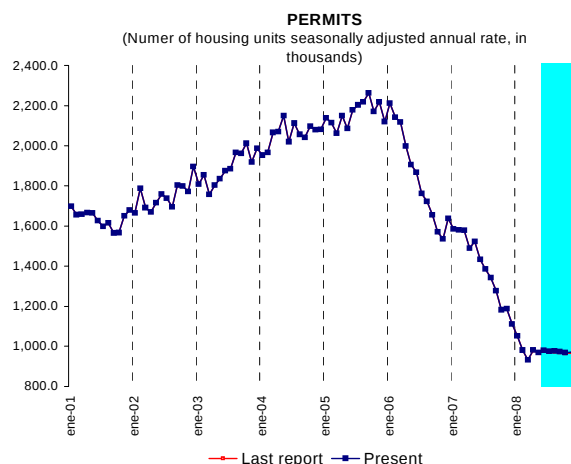
Source: BLS, BEA & IFL (UC3M)

Date: June 13, 2008

The **industrial production** and used capacity figures were negative and are expected to be even more so in the next few months.

With regards to the **housing sector**, it performed as expected both in housing starts and permits. Indeed, the monthly rate for building permits has fallen by 1.3%, exactly as forecast. Likewise, housing starts registered a cut of 3.3%, similar to the forecast 3.9%. The expectations for the next few months are a degree of stabilisation at the current low levels (see Graphs III.2.5 and III.2.6).

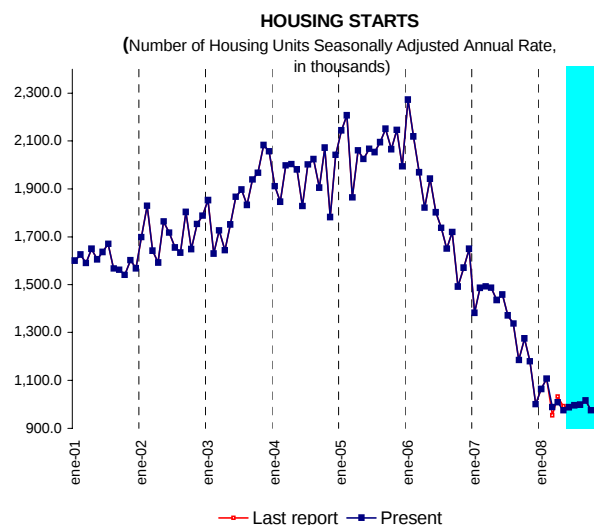
Graph III.2.5



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

Date: June 18, 2008

Graph III.2.6



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

Date: June 18, 2008

At the date of closure of this Bulletin, there is no information regarding new and existing home sales in May.

The figures for April related to **new house sales** were somewhat better than expected, with a monthly increase of 3.3% instead of the forecast 0.5%. In spite of this, the annual rate continues to fall from a negative 38.2% to 42.0%. With regards to prices, we expected a seasonal monthly increase of 7.3%, similar to the observed 9.1%, with the annual rate rising to positive values of 1.5%.

The **existing house** component was slightly worse than expected. The monthly rate of existing houses sold in April falls by 1.0% compared to a forecast increase of 0.4%. However, the figures were much as expected, with the annual rate remaining at negative values of close to 8% for the third consecutive month.

To conclude:

With regards to prices, and specifically to the CPI, we see two clearly defined trends. On the one hand, food, energy and transport prices are clearly rising due to increasing raw material costs. And on the other, other goods and services are finding it difficult to transfer their higher costs to end prices.

In the real field, the housing sector could be reaching a minimum, whereas the industrial sector and employment figures have registered a further decline.



III.3. OTHER TABLES AND PLOTS.

Tables:

- CPI observed values and forecasts in the US.

Plots:

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

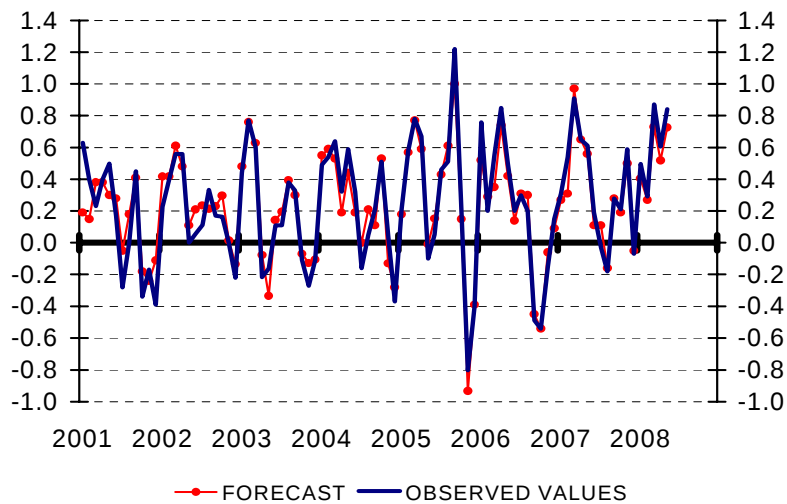


OBSERVED VALUES AND FORECAST ON CPI IN US
(May 2008)

CONSUMER PRICES INDEX (CPI)	Relative importance Dec. 2007	Annual Growth (T ¹ ₁₂) observed	Monthly Growth (T ¹ ₁)		Confidence Intervals at 80% level (+ -)
			observed (a)	forecasts (b)	
Food (1)	13.8	5.09	0.45	0.34	0.31
Energy (2)	9.7	17.36	7.04	6.29	1.23
Residual Inflation (3=2+1)	23.5	10.24	3.29	2.91	0.50
Non-food and non-energy goods (4)	21.6	0.11	-0.34	-0.19	0.24
Less tobacco	20.9	-0.08	-0.38	-0.19	0.22
-Durable goods	10.8	-1.13	-0.28	-0.22	0.27
-Nondurable goods	10.8	1.37	-0.40	-0.16	0.36
Non-energy services (5)	54.9	3.17	0.21	0.11	0.15
-Services less owner's equivalent rent of primary residence (5-a)	30.9	3.64	0.32	0.08	0.22
-Owner's equivalent rent of primary residence (a)	23.9	2.59	0.06	0.15	0.11
Core Inflation (6=4+5)	76.5	2.31	0.06	0.03	0.13
Core inflation less owner's equivalent rent of primary residence (6-a)	52.5	2.20	0.05	-0.03	0.16
Core inflation less owner's equivalent rent of primary residence and tobacco	51.8	2.15	0.04	-0.03	0.16
Headline Inflation (7=6+3)	100.0	4.18	0.84	0.73	0.13
All items less owner's equivalent rent of primary residence (7-a)	76.1	4.68	1.08	0.90	0.17

Source: BLS & IFL (UC3M)
Date: June 13, 2008

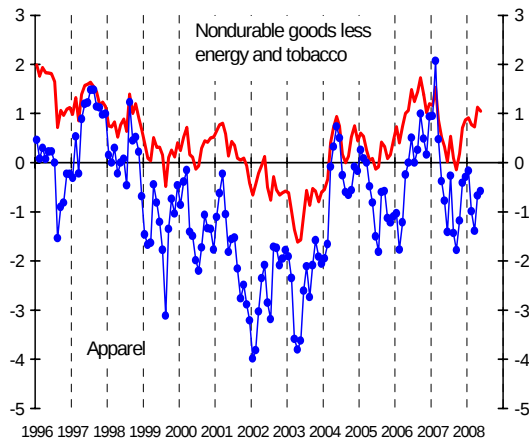
CPI MONTHLY GROWTH RATES IN USA



Source :BLS & IFL (UC3M)
Date: June 13, 2008

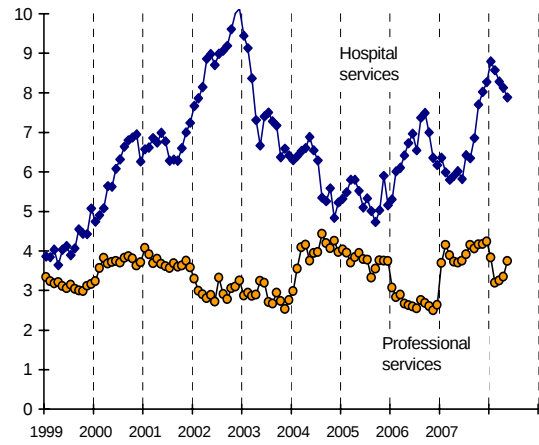


COMMODITIES LESS FOOD AND ENERGY
(YEAR ON YEAR RATES)



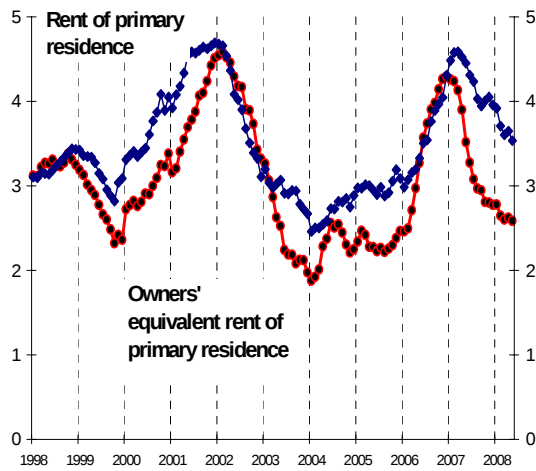
Source: BLS & IFL (UC3M)
Date: June 13, 2008

SOME MEDICAL CARE SERVICES
(YEAR ON YEAR RATES)



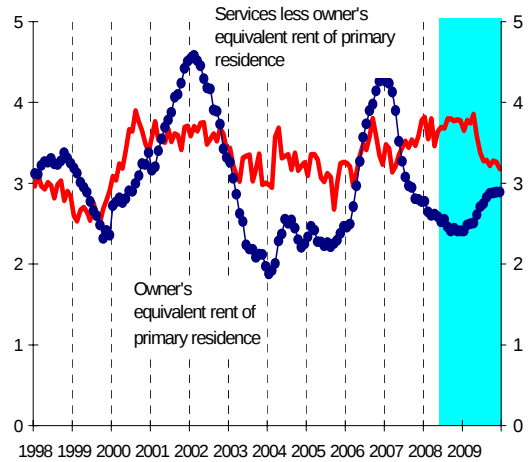
Source: BLS & IFL (UC3M)
Date: June 13, 2008

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



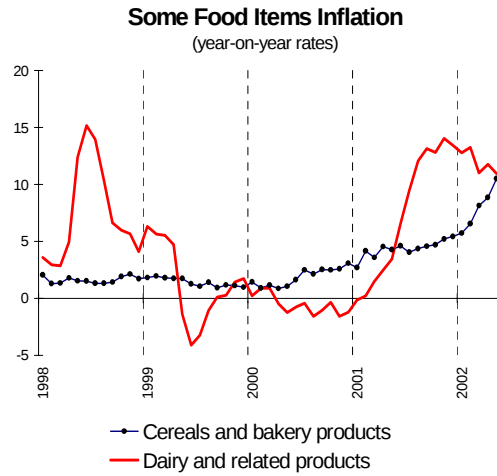
Source: BLS & IFL (UC3M)
Date: June 13, 2008

SERVICES
(year-on-year rates)

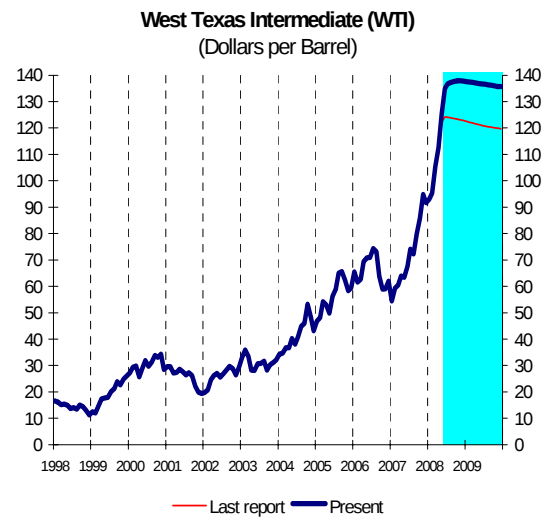


Source: BLS & IFL (UC3M)
Date: June 13, 2008

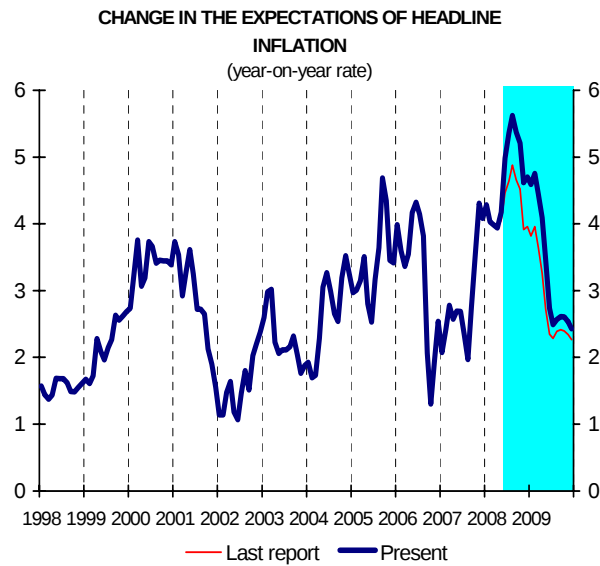




Source: BLS & IFL (UC3M)
Date: June 13, 2008

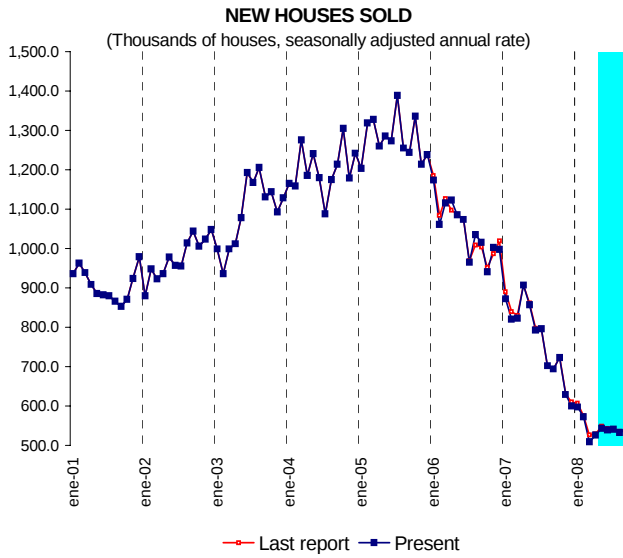


Source: BLS & IFL (UC3M)
Date: June 13, 2008

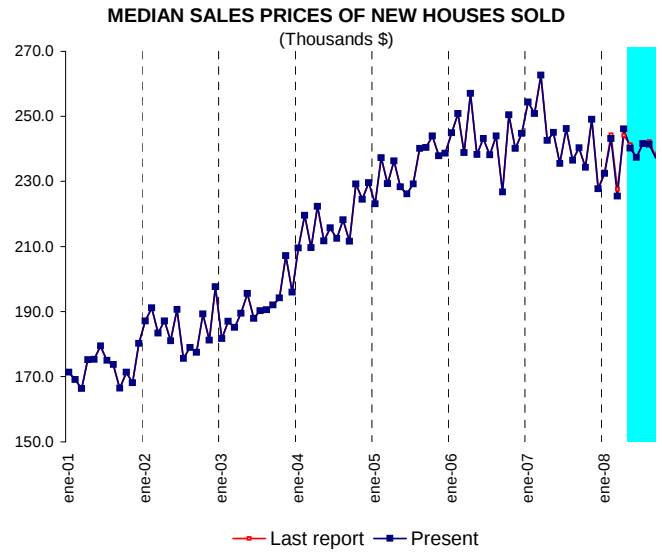


Source: BLS & IFL (UC3M)
Date: June 13, 2008

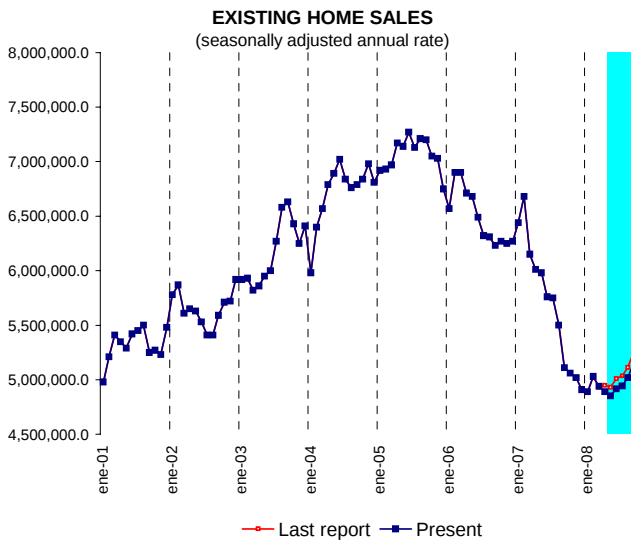




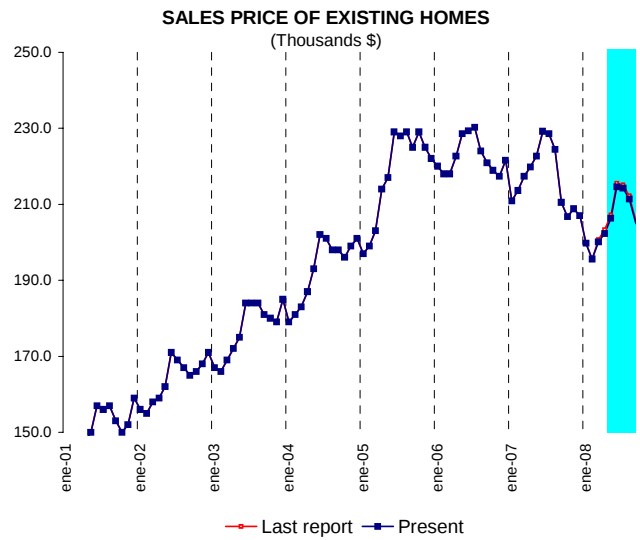
Source: U.S. Census Bureau & IFL (UC3M)
Date: May 27, 2008



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



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



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



IV. THE SPANISH ECONOMY.

IV.1 MACROECONOMIC FORECASTS.

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

MACROECONOMIC TABLE AND INDICATORS				
	Annual rates			
	2006	2007	Forecasts	
			2008	2009
Private Final Consumption Expenditure	3.8	3.2	1.4	1.2
Public Final Consumption Expenditure	4.8	5.2	4.5	4.6
Gross Fixed Capital Formation	6.8	5.9	2.0	0.4
Equipment	10.3	11.6	6.7	4.6
Building	6.0	4.0	-0.7	-1.5
Other products	4.6	4.2	3.9	0.6
National Demand (1)	5.1	4.6	2.4	1.7
Exports of Goods and Services	5.1	5.3	2.5	2.7
Imports of Goods and Services	8.3	6.6	3.7	3.6
Foreign Demand (1)	-1.3	-0.7	-0.5	-0.4
GDP (a)	3.9	3.8	1.9	1.3
GDP, current prices	8.0	7.0	6.4	5.7
Prices and Costs (b)				
CPI, annual average rate	3.5	2.8	4.5	2.9
CPI, dec./dec.	2.7	4.2	3.7	2.6
Compensation per employee	3.0	3.6	4.2	3.9
Unit labour cost	2.3	2.7	3.2	3.0
Labour Market (Data poll labour force) (c)				
Active population (% change)	3.3	2.8	2.7	1.9
Employment (EPA) Average year-on-year	4.1	3.1	0.9	0.2
Unemployment rate	8.5	8.3	9.9	11.4
Basic Balances (a)				
Foreign sector				
Current Account (m. €)	-86.324	-104.951	-110.587	-115.709
Net lending or borrowing (% GDP) (2)	-8.1	-9.5	-9.4	-9.3
Public Administration				
Net lending or borrowing (% GDP) (2)	1.8	2.2	0.5	0.2
Other Economic Indicators (d)				
Industrial Production Index	3.7	2.3	-0.7	-0.5
(1) Contribution to GDP growth.				
(2) In terms of National Accounts.				
Source: INE & IFL (UC3M).				
Date: (a) May 21, 2008				
(b) June 11, 2008				
(c) April 25, 2008				
(d) June 5, 2008				



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

Table IV.1.2.1

Table IV.1.2.1

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN													
		Final Consumption		Gross Fixed Capital Formation				National Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP	
		Private	Public	Total	Equipment	Building	Other products						
ANNUAL AVERAGE	2004	4.2	6.3	5.1	5.1	5.4	3.8	4.9	4.2	9.7	-1.7	3.3	
	2005	4.2	5.5	6.9	9.2	6.1	6.4	5.3	2.6	7.7	-1.6	3.6	
	2006	3.8	4.8	6.8	10.3	6.0	4.6	5.1	5.1	8.3	-1.3	3.9	
	2007	3.2	5.2	5.9	11.6	4.0	4.2	4.6	5.3	6.6	-0.7	3.8	
	2008	1.4	4.5	2.0	6.7	-0.7	3.9	2.4	2.5	3.7	-0.5	1.9	
	2009	1.2	4.6	0.4	4.6	-1.5	0.6	1.7	2.7	3.6	-0.4	1.3	
ANNUAL RATES*	2007	QI	3.5	6.1	6.4	13.1	4.9	1.9	5.1	3.6	6.0	-1.0	4.1
		QII	3.4	5.0	6.7	13.0	4.6	4.7	4.9	4.8	6.7	-0.9	4.0
		QIII	3.1	5.1	5.8	11.7	3.8	4.3	4.5	7.7	8.4	-0.7	3.8
		QIV	2.7	4.4	4.8	8.6	2.9	6.1	3.9	5.1	5.4	-0.4	3.5
	2008	QI	1.8	4.7	3.3	6.3	1.3	5.2	3.1	5.0	5.0	-0.3	2.7
		QII	1.3	4.0	2.2	7.6	-0.9	4.2	2.4	3.6	3.7	-0.3	2.1
		QIII	1.1	4.6	1.8	6.6	-1.0	4.0	2.2	0.3	1.8	-0.5	1.7
		QIV	1.2	4.5	0.8	6.1	-2.1	2.3	1.9	1.3	4.3	-1.1	0.9
	2009	QI	1.3	4.7	0.7	6.4	-2.3	2.0	1.9	2.9	4.6	-0.7	1.2
		QII	1.1	4.6	-0.2	3.3	-1.9	-0.2	1.5	1.9	2.9	-0.5	1.1
		QIII	1.1	4.3	0.4	5.2	-1.6	-0.2	1.6	2.7	3.1	-0.3	1.4
		QIV	1.2	4.7	0.8	3.6	-0.4	0.7	1.9	3.4	3.9	-0.3	1.7

The figures in the shaded area are forecasts.

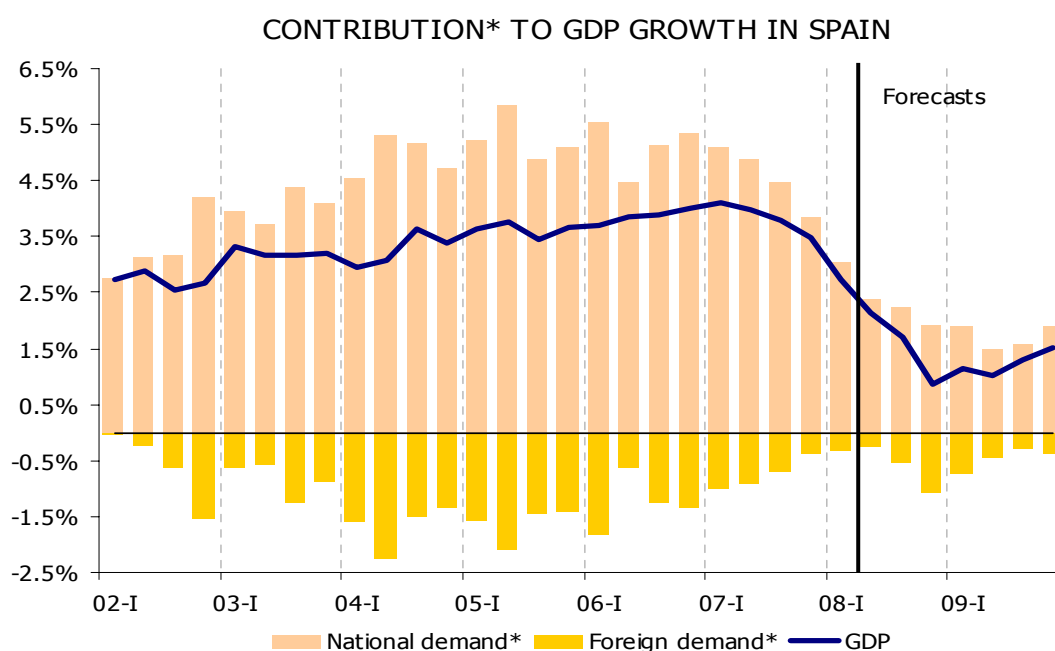
(*) Year-on-year rates.

(1) Contribution to GDP growth

Source: INE & IFL (UC3M)

Date: May 21, 2008

Graph IV.1.2.1



Source INE & IFL (UC3M)

Date: May 21, 2008



Table IV.1.2.2

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN											
		GVA									
		Agriculture	Energy	Industry	Construction	Market Services	Non-market Services	TOTAL	Tax	Real GDP	
ANNUAL AVERAGE	2004	-2.3	3.2	0.6	5.1	3.8	3.7	3.1	4.4	3.3	
	2005	-8.6	5.2	1.0	5.6	4.1	3.9	3.3	6.1	3.6	
	2006	2.4	1.4	2.9	5.0	4.1	4.3	3.8	3.5	3.9	
	2007	3.8	1.0	3.1	3.8	4.0	5.0	3.8	3.4	3.8	
	2008	4.3	1.8	-0.3	-0.8	2.9	2.6	1.9	1.4	1.9	
	2009	2.6	2.1	-0.3	-1.0	1.8	2.4	1.2	1.7	1.3	
ANNUAL RATES*	2007	QI	6.8	-3.5	5.0	4.4	4.1	4.3	4.1	3.2	4.1
		QII	2.8	3.4	3.6	4.2	3.9	5.2	3.9	3.5	4.0
		QIII	2.8	0.0	2.5	3.8	4.0	5.3	3.7	4.1	3.8
		QIV	2.9	4.5	1.4	2.8	3.9	5.0	3.5	2.9	3.5
	2008	QI	3.0	4.0	-0.3	1.4	3.5	4.2	2.7	2.0	2.7
		QII	4.3	0.5	0.1	-0.6	3.3	2.7	2.2	1.7	2.1
		QIII	7.3	2.5	-0.9	-1.9	2.4	2.8	1.6	2.3	1.7
		QIV	2.7	0.3	-0.2	-1.9	2.2	0.7	1.1	-0.3	0.9
	2009	QI	2.6	2.6	-0.7	-2.0	1.6	3.2	1.0	2.2	1.2
		QII	2.5	1.9	-0.4	-1.1	1.5	1.4	0.9	2.2	1.1
		QIII	2.7	2.1	0.0	0.4	1.8	2.2	1.4	0.5	1.4
		QIV	2.5	1.9	0.1	-1.2	2.5	2.6	1.6	1.9	1.7

The figures in the shaded area are forecasts.

(*) Year-on-year rates

Source: INE & IFL (UC3M)

Date: May 21, 2008

Table IV.1.2.3

QUARTERLY GROWTH RATES IN GDP AND COMPONENTS IN SPAIN													
		Final		Gross Fixed Capital Formation				National 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	9,7	-1,7	3,3	
	2005	4,2	5,5	6,9	9,2	6,1	6,4	5,3	2,6	7,7	-1,6	3,6	
	2006	3,8	4,8	6,8	10,3	6,0	4,6	5,1	5,1	8,3	-1,3	3,9	
	2007	3,2	5,2	5,9	11,6	4,0	4,2	4,6	5,3	6,6	-0,7	3,8	
	2008	1,4	4,5	2,0	6,7	-0,7	3,9	2,4	2,5	3,7	-0,5	1,9	
	2009	1,2	4,6	0,4	4,6	-1,5	0,6	1,7	2,7	3,6	-0,4	1,3	
QUARTERLY RATES*	2007	QI	1,1	1,5	1,7	2,6	1,5	0,8	1,4	-0,1	1,0	-0,3	1,0
		QII	0,8	-0,1	1,6	3,4	0,7	2,3	0,9	2,2	1,7	0,0	0,9
		QIII	0,5	1,7	0,6	1,3	0,4	-0,1	0,8	3,8	3,3	-0,1	0,7
		QIV	0,3	1,3	0,9	1,2	0,2	2,9	0,7	-0,7	-0,6	0,0	0,7
	2008	QI	0,2	1,7	0,1	0,3	0,0	0,0	0,5	-0,2	0,6	-0,3	0,3
		QII	0,3	-0,7	0,5	4,6	-1,5	1,3	0,3	0,8	0,3	0,1	0,3
		QIII	0,2	2,3	0,2	0,4	0,3	-0,2	0,7	0,5	1,5	-0,4	0,3
		QIV	0,5	1,1	-0,1	0,7	-0,9	1,2	0,4	0,3	1,8	-0,5	-0,1
	2009	QI	0,3	1,9	0,0	0,6	-0,2	-0,3	0,5	1,4	0,9	0,1	0,6
		QII	0,2	-0,8	-0,3	1,7	-1,0	-0,8	-0,1	-0,3	-1,3	0,3	0,2
		QIII	0,2	2,1	0,8	2,1	0,6	-0,2	0,8	1,3	1,6	-0,2	0,6
		QIV	0,6	1,4	0,4	-0,8	0,3	2,0	0,8	1,0	2,5	-0,6	0,2

The figures in the shaded area are forecasts.

(*) Year-on-year rates

Source: INE & IFL (UC3M)

Date: May 21, 2008



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									
		Durable Consumer Goods	Non durable Consumer goods	Consumer Goods	Capital Goods	Intermediat e Goods	Energy	TOTAL	
ANNUAL AVERAGE RATE	2004	0.1	0.0	0.0	1.9	1.9	4.9	1.8	
	2005	-1.0	0.3	0.2	-0.7	-0.6	2.9	0.1	
	2006	10.6	0.8	2.1	8.2	3.8	0.9	3.7	
	2007	5.4	1.1	1.7	6.3	1.3	0.7	2.3	
	2008	-4.8	0.1	-0.6	2.6	-4.1	3.6	-0.7	
	2009	-3.3	-0.4	-0.8	2.6	-3.0	2.1	-0.5	
ANNUAL RATES*	2007	TI	16.9	2.9	4.8	8.9	4.9	-4.4	4.2
		TII	5.7	1.5	2.1	5.3	1.0	2.8	2.4
		TIII	3.3	0.8	1.1	6.5	0.0	-1.0	1.4
		TIV	-2.8	-0.7	-1.0	4.7	-0.6	5.7	1.2
	2008	TI	-10.8	-3.1	-4.3	-2.2	-7.3	4.6	-3.8
		TII	-1.6	2.4	1.8	5.8	-2.0	3.7	1.4
		TIII	-3.6	1.0	0.3	4.2	-3.2	4.2	0.4
		TIV	-3.1	0.3	-0.2	2.8	-3.9	2.0	-0.6
	2009	TI	-0.1	1.2	1.0	4.9	-2.7	2.6	0.7
		TII	-6.9	-2.7	-3.3	-0.2	-4.9	0.9	-2.7
		TIII	-2.2	0.2	-0.1	3.5	-2.1	2.8	0.3
		TIV	-3.3	-0.3	-0.7	2.8	-2.1	2.1	0.0

The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: INE & IFL (UC3M)

Date: June 5, 2008

Table IV.1.3.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN SPAIN							
	2003	2004	2005	2006	2007	2008	2009
January	-0.1	-2.9	0.8	5.4	7.5	-0.7	-2.8
February	1.7	1.8	-1.0	2.7	3.6	4.0	-4.4
March	9.7	7.2	-6.7	11.0	2.1	-13.8	9.7
April	-4.5	0.7	7.4	-9.8	6.3	11.3	-7.6
May	-1.2	2.7	0.1	8.1	2.1	-3.8	-2.5
June	4.5	5.7	-0.2	5.2	-0.5	-2.0	2.1
July	1.9	0.0	-3.5	4.2	3.7	2.4	-0.1
August	-1.4	5.3	3.7	5.0	1.6	-5.7	-0.2
September	2.5	3.8	0.2	1.1	-1.3	2.8	1.1
October	0.8	-7.0	-0.1	7.3	4.7	-0.5	-2.4
November	1.4	4.3	0.9	4.1	-1.0	-4.6	1.6
December	4.2	1.2	1.4	0.6	-0.2	3.9	1.0

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: June 5, 2008



IV.1.4 INFLATION.

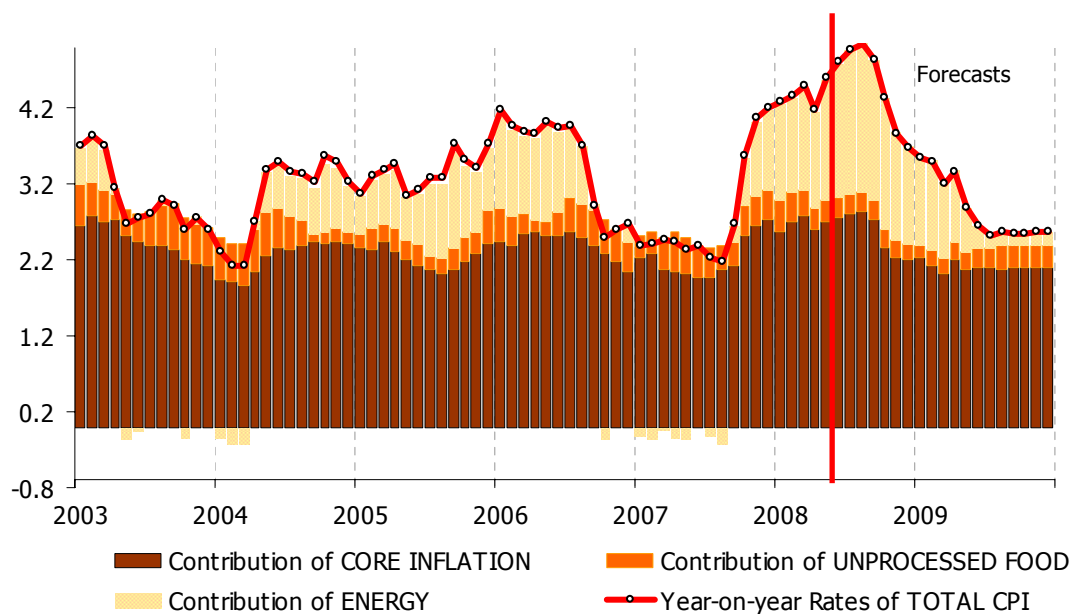
Table IV.1.4.1

FORECASTS IN THE ANNUAL AVERAGE RATE IN INFLATION IN SPAIN					
Consumer Price Index (CPI)	2005	2006	2007	Forecast	
				2008	2009
TOTAL (100%)	3.4	3.5	2.8	4.5	2.9
CORE (82.9%)	2.7	2.9	2.7	3.2	2.6
Processed food (15,6%)	3.4	3.6	3.7	6.7	3.6
Non-energy industrial goods (29.6%)	0.9	1.4	0.7	0.3	0.3
Services (37,7%)	3.8	3.9	3.9	3.8	4.0
RESIDUAL (17,1%)	6.5	6.3	3.2	10.7	4.2
Non-Processed food (7,4%)	3.3	4.4	4.7	3.8	3.5
Energy (9,8%)	9.6	8.0	1.7	16.1	4.8

Source: INE & IFL (UC3M)

Date: June 11, 2008

Graph IV.1.4.1

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

Source: INE & IFL (UC3M)

Date: June 11, 2008



Table IV.1.4.2

CPI ANNUAL GROWTH BY COMPONENTS IN SPAIN												
		Consumer Prices Index										
		Core			TOTAL Confidence intervals at 80% *		Residual		TOTAL 100% Confidence intervals at 80% *			
		Processed food	Non energy industrial goods	Services			Non processed food	Energy			TOTAL	
Weights 2008		15.6%	29.6%	37.7%	82.9%		7.4%	9.8%	17.1%			
ANNUAL AVERAGE RATE	2000	0.9	2.1	3.7	2.5		4.2	13.3	8.8	3.4		
	2001	3.4	2.4	4.2	3.5		8.7	-1.0	3.6	3.6		
	2002	4.3	2.5	4.6	3.7		5.8	-0.2	2.6	3.5		
	2003	3.0	2.0	3.7	2.9		6.0	1.4	3.6	3.0		
	2004	3.6	0.9	3.7	2.7		4.6	4.8	4.7	3.0		
	2005	3.4	0.9	3.8	2.7		3.3	9.6	6.5	3.4		
	2006	3.6	1.4	3.9	2.9		4.4	8.0	6.3	3.5		
	2007	3.7	0.7	3.9	2.7		4.7	1.7	3.2	2.8		
	2008	6.7	0.3	3.8	3.2	± 0.13	3.8	16.1	10.7	4.5	± 0.28	
	2009	3.6	0.3	4.0	2.6	± 0.43	3.5	4.8	4.2	2.9	± 0.78	
ANNUAL RATES (growth of the month over the same month of the previous year)	2007	January	2.9	1.2	3.8	2.7		3.5	-1.3	0.9	2.4	
		February	3.5	1.0	3.8	2.8		3.7	-1.8	0.8	2.4	
		March	2.3	0.8	3.9	2.5		5.2	-0.3	2.3	2.5	
		April	2.2	0.9	3.9	2.5		6.4	-1.5	2.2	2.4	
		May	2.3	0.7	4.0	2.5		6.0	-1.7	1.9	2.3	
		June	2.2	0.7	3.9	2.4		5.0	-0.2	2.3	2.4	
		July	2.2	0.6	3.8	2.4		4.7	-1.2	1.5	2.2	
		August	2.8	0.5	3.9	2.5		4.0	-2.2	0.7	2.2	
		September	3.7	0.4	3.7	2.6		4.0	2.3	3.1	2.7	
		October	6.1	0.4	3.8	3.1		4.7	7.0	6.0	3.6	
		November	7.0	0.3	3.8	3.2		4.9	10.7	8.1	4.1	
		December	7.4	0.3	3.8	3.3		4.9	11.5	8.5	4.2	
	2008	January	7.0	0.1	3.7	3.1		5.5	13.4	9.8	4.3	
		February	7.4	0.2	3.8	3.3		5.2	13.3	9.6	4.4	
		March	7.4	0.3	4.0	3.4		4.7	14.1	9.9	4.5	
		April	7.4	0.2	3.5	3.1		4.0	13.3	9.2	4.2	
		May	7.5	0.2	3.8	3.3		4.1	16.5	11.1	4.6	
		June	7.7	0.2	3.8	3.3	± 0.17	3.5	18.4	11.9	4.8	± 0.17
		July	7.8	0.4	3.9	3.4	± 0.25	3.3	19.4	12.4	5.0	± 0.31
		August	7.8	0.4	3.9	3.4	± 0.32	3.6	20.0	12.9	5.0	± 0.46
		September	7.1	0.4	4.0	3.3	± 0.35	3.4	19.1	12.2	4.8	± 0.57
		October	5.0	0.3	3.9	2.8	± 0.38	3.2	18.0	11.5	4.3	± 0.67
		November	4.4	0.3	3.9	2.7	± 0.38	3.1	14.3	9.5	3.9	± 0.73
		December	4.2	0.3	3.9	2.7	± 0.42	2.6	12.9	8.4	3.7	± 0.81
	2009	January	3.9	0.4	4.1	2.7	± 0.45	2.2	11.5	7.5	3.5	± 0.88
		February	3.4	0.4	4.0	2.6	± 0.48	2.8	11.8	7.9	3.5	± 0.92
		March	3.4	0.3	3.8	2.5	± 0.50	3.0	9.7	6.8	3.2	± 0.94
		April	3.5	0.3	4.2	2.7	± 0.53	3.2	9.1	6.6	3.4	± 0.95
		May	3.5	0.3	3.9	2.5	± 0.54	3.3	5.4	4.5	2.9	± 0.98
		June	3.6	0.3	3.9	2.6	± 0.56	3.5	2.7	3.0	2.6	± 1.03
		July	3.6	0.3	3.9	2.6	± 0.57	3.8	1.6	2.5	2.5	± 1.05
		August	3.6	0.3	3.9	2.6	± 0.59	4.0	1.7	2.6	2.6	± 1.08
		September	3.6	0.3	4.0	2.6	± 0.59	4.0	1.6	2.6	2.6	± 1.08
		October	3.6	0.3	4.0	2.6	± 0.59	3.9	1.5	2.5	2.6	± 1.08
		November	3.6	0.2	4.0	2.6	± 0.59	4.0	1.5	2.6	2.6	± 1.08
		December	3.6	0.2	4.0	2.6	± 0.60	4.1	1.5	2.6	2.6	± 1.08

* Confidence intervals calculated with historical errors.

The figures in the shaded areas are forecasts

Source: INE & IFL (UC3M)

Date: June 11, 2008



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 2008		15.6%	29.6%	37.7%	82.9%	7.4%	9.8%	17.1%		
MONTHLY RATES (Growth of the month over the previous month)	January	2006	0.3	-3.6	0.5	-1.0	1.0	3.5	2.4	-0.4
		2007	1.0	-3.6	0.6	-0.8	0.0	-0.3	-0.2	-0.7
		2008	0.7	-3.8	0.5	-1.0	0.6	1.4	1.1	-0.6
		2009	0.4	-3.7	0.6	-1.0	0.3	0.2	0.2	-0.8
	February	2006	-0.1	-0.1	0.5	0.1	-1.5	0.7	-0.3	0.0
		2007	0.4	-0.3	0.4	0.2	-1.3	0.2	-0.5	0.1
		2008	0.7	-0.2	0.5	0.3	-1.6	0.0	-0.7	0.2
		2009	0.3	-0.2	0.5	0.2	-1.0	0.3	-0.3	0.1
	March	2006	1.4	1.0	0.5	0.9	-0.9	0.6	-0.1	0.7
		2007	0.3	0.8	0.6	0.6	0.6	2.0	1.4	0.8
		2008	0.3	0.9	0.8	0.7	0.1	2.8	1.7	0.9
		2009	0.3	0.8	0.5	0.6	0.4	0.9	0.6	0.6
	April	2006	0.3	2.8	0.7	1.4	-0.1	3.1	1.6	1.4
		2007	0.2	2.9	0.7	1.3	1.1	1.9	1.5	1.4
		2008	0.2	2.9	0.2	1.1	0.4	1.2	0.9	1.1
		2009	0.3	2.8	0.6	1.3	0.6	0.7	0.6	1.2
	May	2006	0.1	0.6	-0.1	0.2	0.4	1.7	1.1	0.4
		2007	0.2	0.4	-0.1	0.2	0.0	1.5	0.8	0.3
		2008	0.2	0.3	0.2	0.3	0.1	4.3	2.6	0.7
		2009	0.3	0.4	-0.1	0.1	0.2	0.8	0.6	0.2
	June	2006	0.1	-0.1	0.4	0.1	1.3	-0.7	0.2	0.2
		2007	0.1	-0.2	0.3	0.1	0.4	0.7	0.6	0.2
		2008	0.2	-0.1	0.4	0.2	-0.2	2.4	1.3	0.4
		2009	0.3	-0.2	0.4	0.2	0.0	-0.2	-0.1	0.1
	July	2006	0.1	-3.7	0.7	-1.0	0.9	1.5	1.2	-0.6
		2007	0.1	-3.8	0.6	-1.0	0.5	0.5	0.5	-0.7
		2008	0.2	-3.6	0.7	-0.9	0.4	1.3	1.0	-0.6
		2009	0.2	-3.6	0.7	-0.9	0.7	0.3	0.4	-0.7
	August	2006	-0.3	-0.1	0.5	0.1	0.9	0.2	0.5	0.2
		2007	0.3	-0.3	0.6	0.2	0.2	-0.8	-0.3	0.1
		2008	0.3	-0.2	0.6	0.3	0.5	-0.3	0.0	0.2
		2009	0.3	-0.2	0.6	0.2	0.7	-0.2	0.2	0.2
	September	2006	0.1	1.1	-0.4	0.2	0.6	-3.8	-1.8	-0.2
		2007	0.9	1.0	-0.6	0.3	0.7	0.6	0.6	0.3
		2008	0.3	1.0	-0.5	0.2	0.4	-0.2	0.0	0.1
		2009	0.2	1.0	-0.5	0.2	0.4	-0.4	-0.1	0.1
	October	2006	0.0	2.7	0.0	0.9	-0.2	-3.5	-2.0	0.4
		2007	2.3	2.7	0.1	1.4	0.5	1.0	0.7	1.3
		2008	0.3	2.6	0.0	1.0	0.3	0.0	0.1	0.8
		2009	0.3	2.6	0.0	1.0	0.2	-0.1	0.1	0.8
	November	2006	0.0	1.0	0.0	0.3	0.4	-0.7	-0.2	0.2
		2007	0.9	1.0	-0.1	0.5	0.6	2.7	1.7	0.7
		2008	0.3	1.0	-0.1	0.4	0.5	-0.5	-0.1	0.3
		2009	0.3	1.0	-0.1	0.4	0.5	-0.6	-0.1	0.3
	December	2006	0.1	-0.2	0.5	0.1	1.4	0.4	0.9	0.3
		2007	0.4	-0.3	0.5	0.2	1.5	1.1	1.3	0.4
		2008	0.3	-0.2	0.5	0.2	1.0	-0.1	0.3	0.2
		2009	0.3	-0.2	0.5	0.2	1.1	-0.1	0.4	0.2

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: June 11, 2008



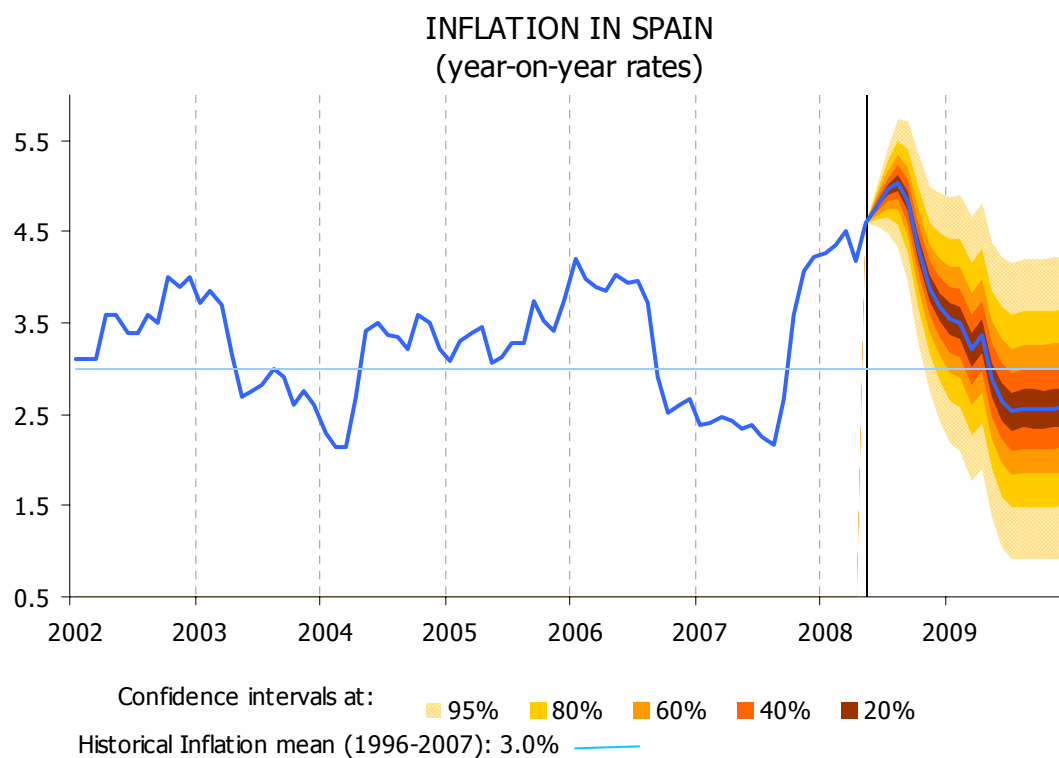
Table IV.1.4.4

CPI ANNUAL AVERAGE GROWTH RATES BY COMPONENTS IN SPAIN WITH FORECASTS FOR 2008 AND 2009											
					Weights 2008	2004	2005	2006	2007	2008	2009
CPI Total	Core Inflation	Processed food	AE less tobacco & fats	12.8	2.9	2.5	2.8	4.5	7.7	4.0	
			Oils & Fats	0.8	9.4	10.5	23.4	-16.8	2.6	1.7	
			Tobacco	2.0	0.4	6.6	1.5	8.8	3.5	1.3	
			Processed food	15.6	3.6	3.4	3.6	3.7	6.7	3.6	
		Non energy industrial goods	Vehicles	6.2	1.6	1.8	2.3	1.4	-0.7	-0.2	
			Footwear	1.9	1.9	2.2	1.6	1.3	1.6	1.6	
			Clothing	6.8	1.8	1.1	1.1	0.9	0.5	0.4	
			Rest	14.7	0.3	0.5	1.2	0.3	0.2	0.3	
			Non energy industrial goods	29.6	0.9	0.9	1.4	0.7	0.3	0.3	
		Services	Postal services	0.0	3.1	2.7	5.7	3.6	2.8	3.0	
			Cultural services	1.8	3.0	2.7	2.4	3.1	2.7	2.9	
			Education	1.0	3.6	4.1	3.5	4.1	3.3	3.5	
			Hotels	0.7	3.0	2.3	3.6	5.5	5.1	5.8	
			Health	2.3	3.2	4.0	4.1	4.2	4.0	4.0	
			Household equipment	1.8	4.4	4.5	4.4	4.2	4.5	4.7	
			Restaurants	11.2	4.1	4.3	4.5	4.8	4.8	4.7	
			Telephone	3.6	-1.1	-1.6	-1.4	0.3	0.6	0.0	
			Transports	5.3	4.4	4.4	4.2	3.1	3.4	3.9	
			Package holidays	1.4	1.4	2.2	3.1	0.6	4.6	6.8	
			University	0.5	4.9	4.6	5.0	5.3	4.6	4.0	
			Housing	5.2	4.5	4.8	4.7	4.7	4.1	4.4	
			Rest	3.0	4.2	3.8	4.3	3.9	3.7	3.8	
			Services	37.7	3.7	3.8	3.9	3.9	3.8	4.0	
		Core Inflation			82.9	2.7	2.7	2.9	2.7	3.2	2.6
	Residual Inflation	Non processed foods	Meat	2.7	7.4	3.8	6.0	5.2	3.9	3.5	
			Fruits	1.3	1.1	2.7	0.1	4.5	8.9	4.6	
			Eggs	0.2	3.7	-3.2	2.8	4.3	9.7	2.5	
			Vegetables	0.9	-1.5	5.4	-0.8	6.4	1.4	2.6	
			Mollusc	0.6	1.1	5.4	2.3	0.1	0.3	2.1	
			Potatoes	0.3	24.2	-8.2	17.6	8.4	-6.1	5.2	
			Fish	1.4	4.4	3.8	5.7	2.5	2.8	3.2	
			Non processed foods	7.4	4.6	3.3	4.4	4.7	3.8	3.5	
		Energy	Heat energy	5.7	7.1	12.3	6.6	1.4	19.6	5.0	
			Fuels	0.4	12.0	26.8	11.8	-0.8	36.6	10.0	
			Electricity and gas	3.6	0.8	4.0	9.6	2.1	8.2	3.7	
			Energy	9.8	4.8	9.6	8.0	1.7	16.1	4.8	
		Residual Inflation			17.1	4.7	6.5	6.3	3.2	10.7	4.2
		CPI Total			100.0	3.0	3.4	3.5	2.8	4.5	2.9

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

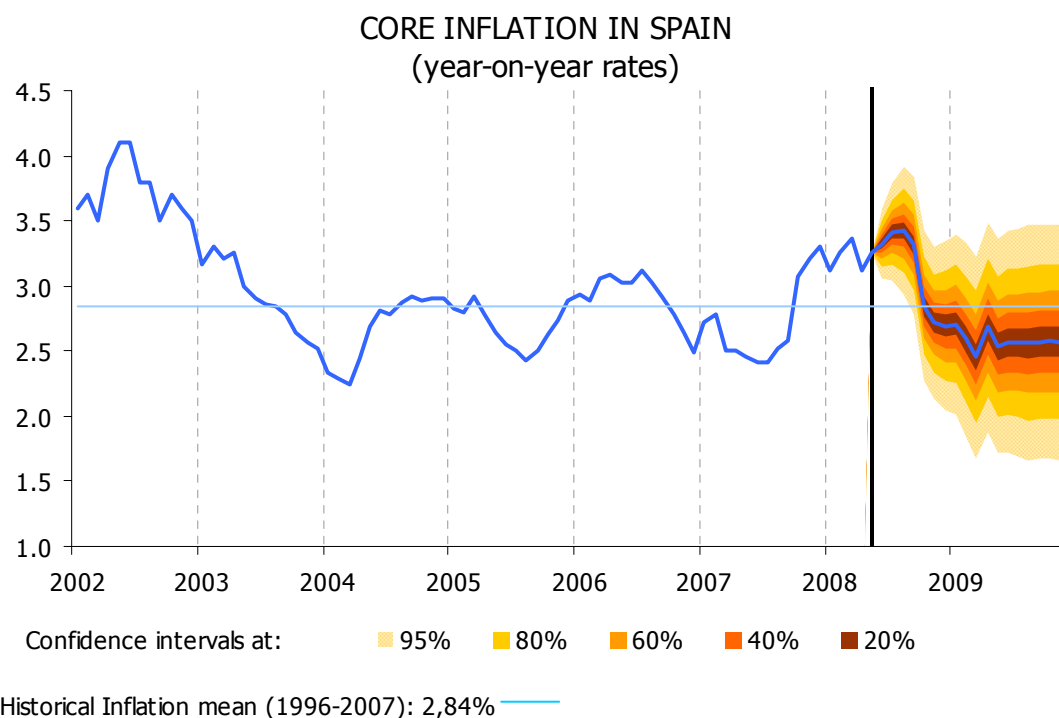


Graph IV.1.4.2



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

Graph IV.1.4.3



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



IV.2 ANALYSIS OF THE SPANISH ECONOMY.

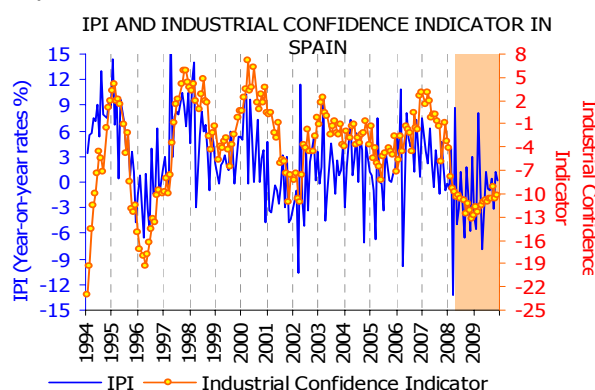
IV.2.1 RECENT EVOLUTION OF THE SPANISH ECONOMY.

The indicators published in the last few months confirm that the Spanish economy is weakening and that deceleration is greater than expected, so successive growth forecast revisions are usually in a downwards direction. This fall in the growth rate is largely due to the heavy adjustment in the construction sector, especially the property segment which has been registering a year-on-year decrease for months. Other sectors are also affected by deceleration, although slightly later than construction.

This weak economic panorama is supported by the recent results of the following significant indicators. They include the April Industrial Production Index (IPI), the May economic sentiment indicator (ISE), different leading construction indicators in March and some labour market indicators such as Social Security contributors and registered employment, and the first quarter's Quarterly Labour Cost Survey.

In April, the *Industrial Production Index (IPI)* registered a year-on-year growth rate of 11.3%, considerably higher than the IFL forecast (8.8%). This expansionary tone, however, is more apparent than real as it is largely due to the effect of Easter week, which fell in April last year and this year in March; when correcting the Easter and calendar effects, the year-on-year IPI rate shows a decline of 0.2% which is, nevertheless, better than the previous month (-3.2%). By economic destination of goods, there were upwards innovations in most sector, durable and non-durable consumer goods, capital and intermediate goods, while energy performed as expected.

Graph IV.2.1.1



Source: EUROPEAN COMMISSION, INE & IFL (UC3M)
Date: June 11, 2008

We also learned the expectations of economic agents regarding the evolution of the industrial sector in May. They have again fallen by 3.9 points

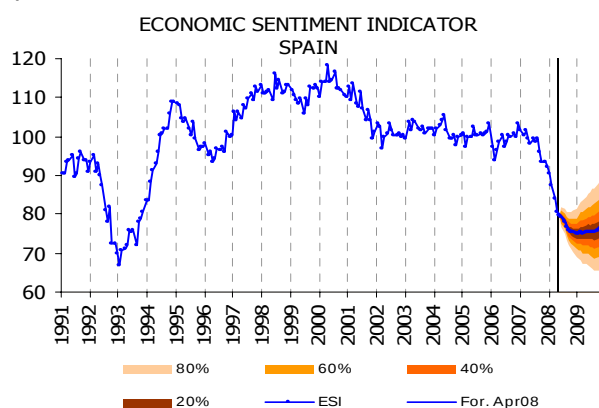
from the previous month, continuing the decline that has been registered during the last year, although this decline has been more intense since the end of 2007. Using the new information to update the forecasts, we find that the fall in confidence of economic agents will last at least until the first quarter of next year.

With this new hard and soft data for the industrial sector, we have updated our forecasts for the IPI, which have risen for both 2008 and 2009. This year, the IPI is expected to register an average annual decrease of 0.7%, less than the previous month, compared with last year's 2.3% increase. For 2009, it is expected to recover slightly, especially in the second half, although the rates will still be negative (-0.5%). This is also an improvement on our previous forecast.

The Spanish Economic Sentiment Indicator (ESI) in May fell by nearly a point to 79.8, the ninth consecutive decrease. This result was much as forecast by the IFL in a 20% confidence interval. The decline was largely due to the loss of confidence in the industrial and consumption sectors, which were not compensated by more confidence in other sectors: services, retail trade and construction.

When we update the ESI forecast with this new information, the estimate for this year remain more or less the same as last month. We still expect this indicator to decline in 2008, although with gradually less intensity. In the first quarter of 2009, the ESI is expected to remain practically stable at the values with which it will end this year, with a slight improvement in the second half of the year, although with values which have not been registered since the third quarter of 1993.

Graph IV.2.1.2



Source: INE EUROPEAN COMMISSION & IFL (UC3M)
Date: June 11, 2008



With regards to construction, the most recently published leading indicators clearly show that construction will continue to weaken, but more intensely than in previous months. In March, building permits registered a year-on-year decrease of 67.3% compared with the previous month's 38.6%, continuing the consecutive decreases seen since May, 2007. In the first quarter overall, building permits registered a year-on-year reduction of 52.9%, representing intense deceleration relative to the last quarter of last year, although it continues to be more intense in the residential than in the non-residential segment. However, official calls for tender in March significantly increases with a year-on-year rate of variation of 73%, at current prices, much higher than the previous month's 12.6%. In the first quarter overall, civil work also grew by 27.5%, a favourable contrast with the falls registered last year.

The labour market is suffering the heavy fall in economic growth, as shown in slower creation of employment and a considerable rise in unemployment. The latest labour indicators are the Social Security contributors and registered employment for May. The year-on-year rate of variation of the former was 0.6%, half a point less than the previous month. By sector, construction was the most negative with a year-on-year fall of -7.5%, nearly two points less than the previous month. Consistent with less contributors, registered unemployment continued along its path of growth which started in mid-2007, significantly increasing its annual rate from April's 15.6% to 19.3%.

From the SS contributor figures for April and May, and assuming that June is similar to the two

previous months, we can see that SS contributors in the second quarter may vary nothing at all from the previous quarter or even register a negative rate. This situation will probably be reflected in the Active Population Survey (EPA) employment figures to be published at the end of July.

With regards to the labour market, the Quarterly Labour Cost Survey for the first quarter of this year was recently published. According to these estimates, average labour cost per worker and month registered year-on-year growth of 5.1%, one pp higher than the previous quarter. This acceleration initially responded to the activation of safeguard clauses resulting from the inflation rate last year being higher than the target. The acceleration of this salary indicator in the first quarter of the year, together with the other salary indicators discussed in the May Bulletin, have reinforced the salary increases found since mid-2007, interrupting the moderate tone characteristic of the last ten years and that was one of the main factors behind such high rates of employment creation .

The salary growth found in the last few months is reflecting a possible transfer of the inflationist tone derived from external shocks such as oil and food, to salaries. In a situation like this, transient shocks such as these must be prevented at all costs from being transferred to salaries which, given their resistance to reduction, are highly likely to become permanent. These salary increases, together with a small increase in productivity, are taking Unit Labour Costs (ULC) above those of our main competitors, making us lose competitiveness.

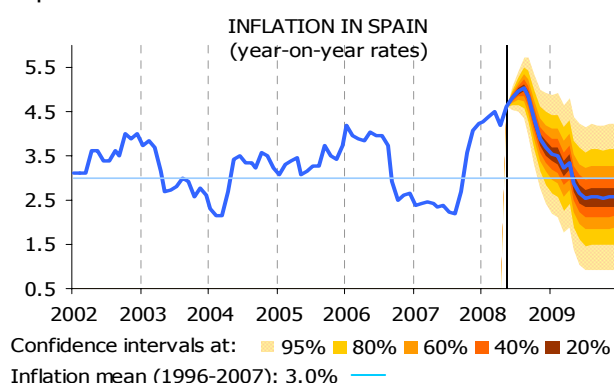


IV.2.2 INFLATION.

Headline inflation performed as forecast, with a rate of 4.6%. Core inflation, at 3.25%, was also close to our 3.21% estimate. The information provided by the different price indices, however, has given rise to an upwards revision of our forecasts for 2008 and 2009.

In both years, the average annual inflation rate forecast has risen by one tenth of a point to 4.5% (± 0.27) for 2008 and 2.9% (± 0.75) for 2009. The year-on-year growth rate is expected to peak in July and August, 2008 at 5%. These forecasts consider a 5% domestic electric rate increase in July, 2008.

Graph IV.2.2.1



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

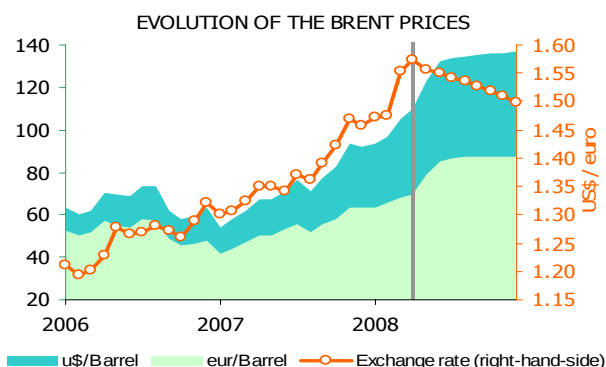
Our forecast for June (4.8%) may also be downwards biased as it does not consider the effect of the transport strike on prices. The shorter the strike, the more transient the effect will be, and it will be compensated by other factors in July.

The growth observed in inflation expectations is solely based on services, energy and processed food, whereas the practically zero inflation registered in non-energy industrial goods and the lower than expected figure in food are insufficient to reverse the growing inflationist trend found in the last few months.

Core inflation expectations for 2008 have worsened by 0.1 pp and are now around 3.2%. There are no changes in the 2009 forecast (2.6%). Within this segment, the prices of processed foods continue to grow at a considerable rate, in line with our forecasts (7.5%), whereas non-energy industrial goods confirm their extraordinary performance. In this component, the expected average annual rate of inflation has gone from 0.4% to 0.3%, with a 0.1 pp fall for both 2008 and 2009. This is particularly positive considering that the euro area, according to our latest forecasts, is expected to register 0.8%. These figures also confirm that the weak point in

Spanish inflation continues to be the service sector, where inflation is estimated at 3.8% for 2008 and 4% for 2009, 1.3% and 1.6% more than the euro area forecasts, respectively.

Graph IV.2.2.2



Source: EIA, Consensus Forecasts, ECOWIN
Date: June 18, 2008

The core inflation forecasts for 2009 could also be affected by the evolution of processed food prices, subject to heavy pressure on the international markets. Constant attention is therefore paid to these prices and alternative forecasting models are being considered in order to better capture the evolution of this component.

Residual inflation, obtained from the CPI components not included in core inflation, continues to suffer the effects of increasing oil prices, while there is a downwards innovation in unprocessed food. The forecasts for energy, considering the 5% rise in domestic electricity prices in July, 2008, have been revised upwards. With the new figures, we are expecting a rate of 16.1% in 2008 and 4.8% in 2009. These forecasts are, respectively, 0.8 and 0.9 pp higher than those published on May 21. Unprocessed food has surprised with a downwards innovation to an inflation rate of 4.1%, two tenths of a percentage point less than expected. These forecasts were therefore also revised downwards to 3.8% for 2008 and 3.5% for 2009.

Table IV.2.2.1

ANNUAL CPI GROWTH RATES IN SPAIN*						
CPI	Observed			Forecasts		
	Aver ⁽²⁾ 2006	Aver ⁽²⁾ 2007	2008 May ⁽¹⁾	2008 Jun ⁽¹⁾	Aver ⁽²⁾ 2008	Aver ⁽²⁾ 2009
CORE (82.9%)	2,9	2,7	3,3	3,3 ($\pm 0,17$)	3,2 ($\pm 0,13$)	2,6 ($\pm 0,43$)
TOTAL (100%)	3,5	2,8	4,6	4,8 ($\pm 0,17$)	4,5 ($\pm 0,28$)	2,9 ($\pm 0,78$)

* 80% confidence intervals calculated with historical errors.

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

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



IV.3 THE EVOLUTION OF THE FOREIGN SECTOR ACCORDING TO THE CURRENT ACCOUNT BALANCE

The continuing rise of oil prices has continued to increase the Spanish economy's trade deficit in the first few months of this year, although the growth rate is somewhat lower than in the last part of last year, maintaining the deficit in the first quarter at 9.2% of the GDP. This evolution of the balance of trade and the lower rate of compensation observed in the first part of the year between the tourist balance and current transfers is making the current account balance deficit continue to grow. Indeed, the forecast is for 11.2% of the GDP in 2008, 1.2 pp higher than the figure registered in 2007.

Introduction

The high and growing foreign trade deficit of the Spanish economy in the last few years has become one of its weak points and a cause for concern, given the increasing degree of vulnerability of the economy when there are crises on the international financial markets. Spanish economic growth has traditionally been based on domestic demand, whereas the foreign sector, with few exceptions, has had a negative contribution to GDP growth, although this negative contribution has gradually been reduced over the last few years. One example showing this lack of balanced growth in the Spanish economy is the fact that of the 3.6% average annual growth rate registered by the GDP in 2005, domestic demand represented 5.3 pp and foreign demand subtracted 1.6 pp. Since then, the Spanish economy has gradually been re-balancing its growth, and the average annual GDP growth rate in 2007, 3.8%, comprised 4.6 pp from domestic demand and a negative 0.7 pp from foreign demand. The actual situation points to this process continuing in the next few years, with a zero or slightly positive contribution from foreign demand and less contribution from domestic demand. To a large extent, this is a feedback process, as less growth of domestic demand induces less net imports, largely resulting from less expected growth in this sector.

The long period of economic growth in Spain over the last ten years, together with this pattern of unbalanced growth, gave rise to a larger than ever current account deficit last year, 10% of the GDP and more than six points higher than that registered five years ago.

This systematic imbalance of the Spanish economy is due to the inability of Spanish firms to export

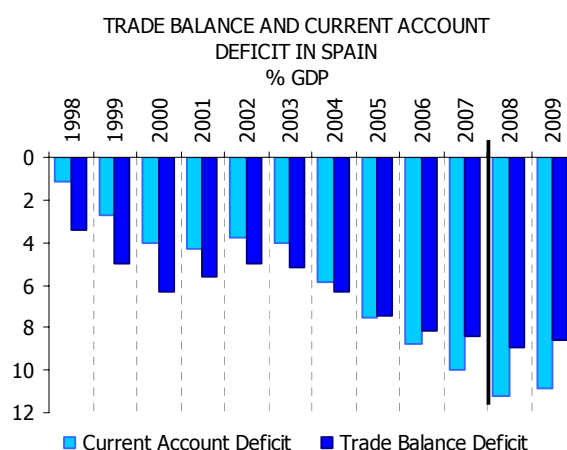
and compete on foreign markets. The reasons for this low level of competitiveness have been analysed in previous issues of the Bulletin, especially in February and March, 2006. Among the principal factors determining low competitiveness are the poor growth of productivity, persistent growth of unit labour costs (ULC) which are higher than those of our competitors and, above all, the persistence of a high inflation differential with euro area countries.

Analysis of the current account balance and its components

The current account balance shows a heavy decline in the last few years. Indeed, the deficit in 2007 was 104,951 million euros, representing 10% of the GDP. This ratio was 1.2 points higher than the previous year and growth has been registered for a decade, as there has not been a superavit (0.1%) since 1997.

In the first quarter of 2008, the current account deficit relative to the GDP increased to -12.1% from the previous quarter's -10.7%. The perspectives show that in 2008 this deficit will increase slightly, to 11.2% of the GDP, 1.2 points more than a year earlier. It is expected to fall slightly next year to 10.9% (see graph IV.3.1). These forecasts represent a small decline since the last forecasts estimated three months ago.

Graph IV.3.1



Source: INE & IFL (UC3M)

Date: June 24, 2008

Irrespective of transient factors such as the heavy increase in oil and other raw material prices, this high degree of imbalance in the Spanish economy is due to some structural factors such as the systematic slow growth in productivity and growth of

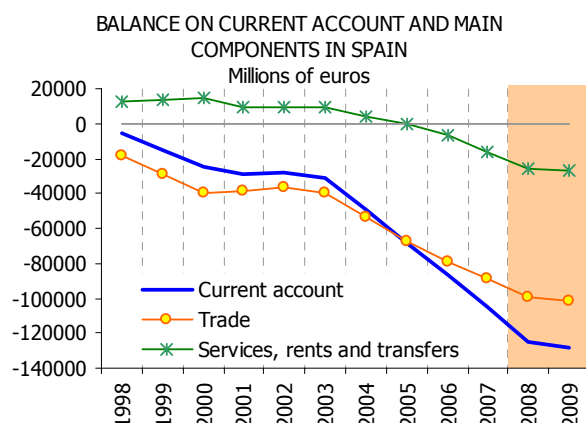


our ULCs to levels higher than those of our competitors, leading to less competitiveness in our economy.

From one perspective, the current account deficit can be seen as the result of excess domestic demand relative to national production, but from an alternative viewpoint, it can be seen as insufficient national savings to finance investment. This growing foreign trade deficit found in the last few years, especially since the introduction of the euro, has largely been fostered by the loose monetary conditions and greater financing possibilities found in the Spanish economy.

Analysing the different sub-balances of the current account balance, we find that the balance of trade continues to be decisive for the evolution of the current account (C/A) balance, so the significant decline registered in the last few years has been reflected in the C/A balance (see graph IV.3.2). However, there has been a change in the C/A balance structure in the last few years, because the trade deficit has lost some weight in the determination of this balance, to the detriment of other items. Balances such as tourism and, to a lesser extent, current transfers, which have traditionally registered a superavit and thus compensated the trade balance, have also declined so the compensatory effect is much smaller. The trade deficit, which was far in excess of the C/A balance prior to 1994, came gradually closer until the C/A balance slightly exceeded the trade deficit in 2005 (see graphs 1 and 2), a trend which continued in 2006 and 2007. The perspectives show that this trend will continue for at least the next two years.

Graph IV.3.2



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

According to the information provided by the National Accounts, the trade deficit last year was 88,708 million euros, representing an 11.3%

increase from the previous year. In terms of percentage of GDP, in 2007 it was -8.4%, 3 tenths of a point more than the previous year and 3.4 points more than 5 years earlier. The most recent figures for the first quarter, according to the National Accounts, show stabilisation of the trade deficit as a percentage of the GDP at 9.2%. In turn, the Bank of Spain's Balance of Payments figures for the first three months show a year-on-year increase of 16.3% in the trade deficit, representing deceleration relative to the year-on-year growth rate registered in the last quarter of last year. Nevertheless, the growth of the trade deficit this year is due to oil prices, as when these prices are eliminated, the deficit falls in year-on-year terms.

As mentioned earlier, the causes of this high trade deficit are found in the persistent loss of competitiveness of our products, together with oil and other raw material price increases. Rising oil prices have exceeded the most pessimistic forecasts made at the end of last year and the current Brent price is 135 dollars per barrel, whereas it was around 90 dollars just six months ago.

The forecasts for 2008-2009 show that the trade deficit will fall slightly, which is consistent with the expected deceleration of domestic demand and reduced loss of dynamism in exports. However, as a percentage of the GDP, it is expected to 8.9% this year and 8.6% in 2009, 0.3 points higher per year than our previous forecasts. In any event, these forecasts may be exceeded if oil prices continue to rise for several months.

The tourist balance has traditionally registered a superavit, significantly compensating the trade deficit. This positive balance, however, has been losing weight in relation to the GDP in the last few years, so its compensating effect is smaller. Last year, this sub-balance registered a positive balance of 30,473 million euros, 1.9% more than the previous year. This deficit represented 2.9% of the GDP, one tenth of a point less than the previous year and nearly one point less than in 2002. In the first quarter of this year, net income from tourism grew by 5.1% relative to the same quarter in the previous year, continuing the expansionary tone found in the third quarter of last year.

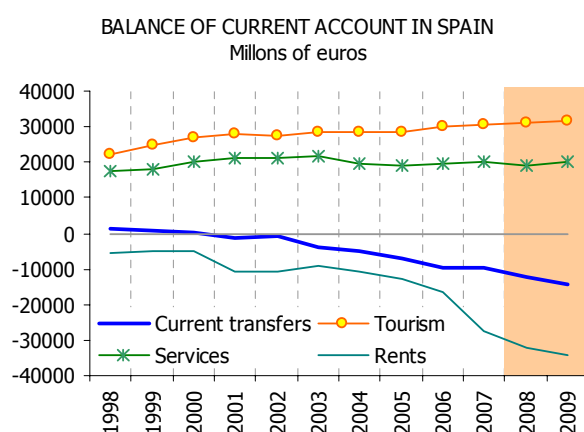
The perspectives show that the superavit of services as % of the GDP will continue the falling trend found since the start of the century. It is forecast at 2.8% for 2008, one tenth of a point less than the previous year, and 2.7% is expected for 2009.

The loss of weight of the compensating effect of the tourist balance superavit on the trade deficit is due,



on the one hand, to the heavy increase in the trade deficit in the last few years and, on the other, to slower growth of income from tourism. The heavy growth in tourist payments is due to the increase in the likelihood of Spanish nationals spending holidays abroad, although this trend has fallen in the last year, probably due to the economic crisis.

Graph IV.3.3



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

The balance of other services has traditionally registered a negative balance, and is of little significance relative to tourism. In 2007, the deficit totalled -10,418 million euros, 1% of the GDP. This ratio has been stable at around this level from the start of this century. These non-tourist services include services related to communications, transport, information and all kinds of business services. For 2008, the ratio is expected to fall to 0.9%, where it will remain during 2009.

The balance of income in the last few years has been negative and growing, largely explained by the evolution of investment income from

investments by foreign firms. In 2007, it registered a deficit of 26,958 million euros, 61.3% more than a year earlier and -2.6% of the GDP. Indeed, it practically cancelled out the positive tourist balance. In the first quarter of this year, the year-on-year rate of decline of the deficit has fallen, but it will be difficult to reverse the trend found in the last few years. The decline in this period has been very significant, as the deficit is nearly double what it was five years ago and this largely depends on investments by foreign firms in Spain: dividends, interest, etc. Given the dependence of Spanish financing on foreign sources, this item can be expected to continue to grow more or less intensely. On the other hand, the income of transborder workers remaining for less than a year, which is included in this balance, is less important than in other years given the low rate of international mobility of European hand labour.

In 2007, the current transfers balance registered a deficit of -9,340 million euros, slightly less than the previous year, representing -0.9% compared with the -1% of 2006. This balance shows a growing decline and started to register negative figures at the start of this century. It has previously shown a superavit, helping tourism to compensate for the trade deficit. The change of sign of this sub-balance is due, on the one hand, to the fact that the income received by current transfer by the Spanish authorities from the European Social Fund and the European Agricultural Guidance and Guarantee Fund (FEOGA) have decreased in the last few years, due to our income increasing relative to the mean value in the EU and, on the other, to the transfers made by immigrants as Spain as become a country of immigration. The latter may see their growth altered by tougher employment conditions. The perspectives for 2008 and 2009 point to this decline increasing, estimating a deficit of -1.1% of the GDP this year and -1.2% next year.



IV.4. TABLES AND PLOTS.

Tables:

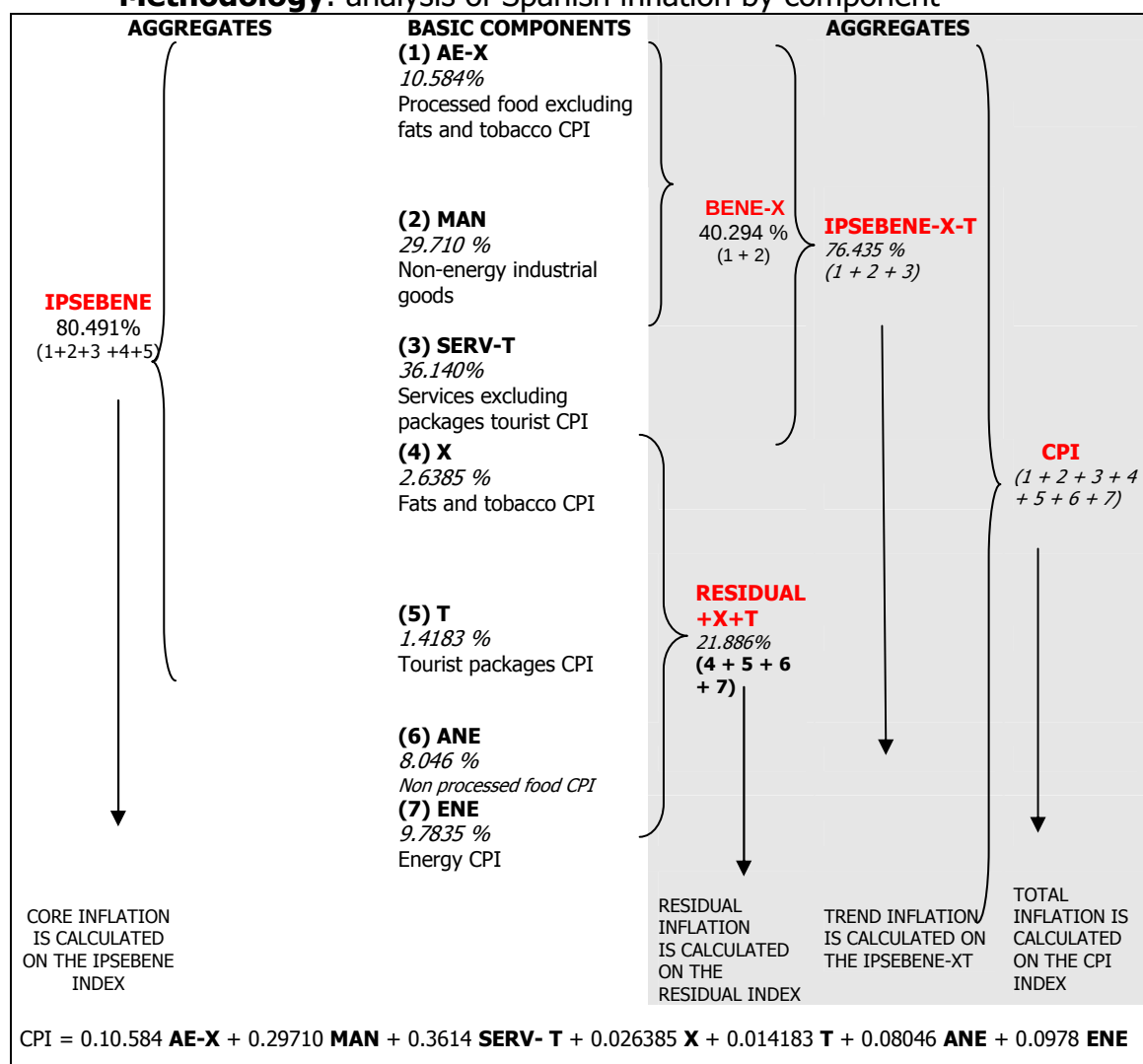
- Methodology: analysis of Spanish inflation by component
- Observed values and forecasts for the Spanish CPI.

Plots:

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



Methodology: analysis of Spanish inflation by component



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

OBSERVED VALUES AND FORECASTS FOR THE SPANISH CPI. MONTHLY RATES				
Consumer Price Index (CPI)	Weights 2008	Observed values May, 2008	Forecasts	Confidence intervals (*)
(1) Processed food	15.57	0.23	0.17	± 0.53
(2) Non energy industrial goods	29.58	0.35	0.52	± 0.31
(3) Services	37.72	0.24	0.04	± 0.15
CORE INFLATION [1+2+3]	82.87	0.28	0.23	± 0.17
(4) Non-Processed food	7.37	0.07	0.29	± 1.01
(5) Energy	9.75	4.34	4.45	± 0.63
RESIDUAL INFLATION [4+5]	17.13	2.56	2.71	± 0.57
TOTAL INFLATION [1+2+3+4+5]	100.00	0.67	0.66	± 0.17

(*) Confidence intervals at 80%

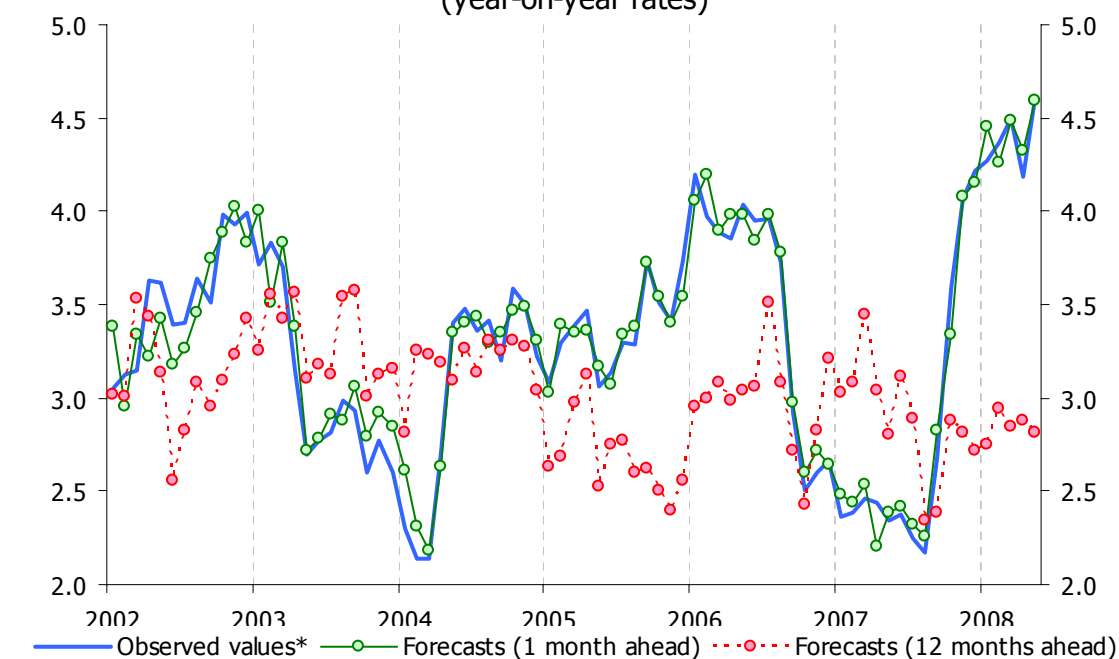
(**) Forecasts published in the previous bulletin

Source INE & IFL (UC3M)

Date: June 11, 2008

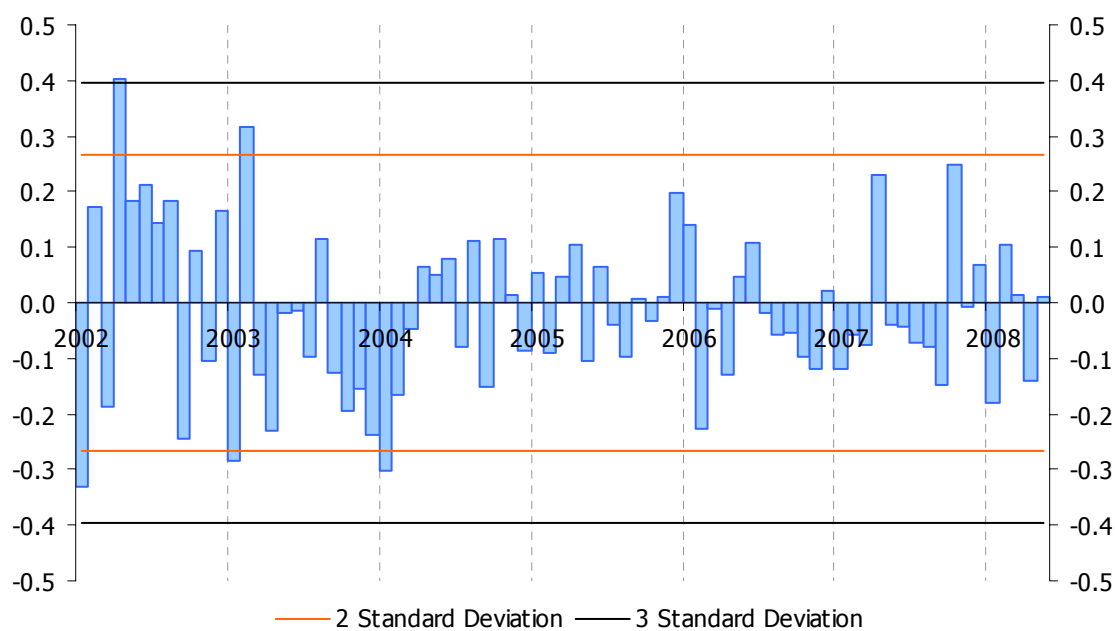


ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS FOR THE SPANISH CPI (year-on-year rates)



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

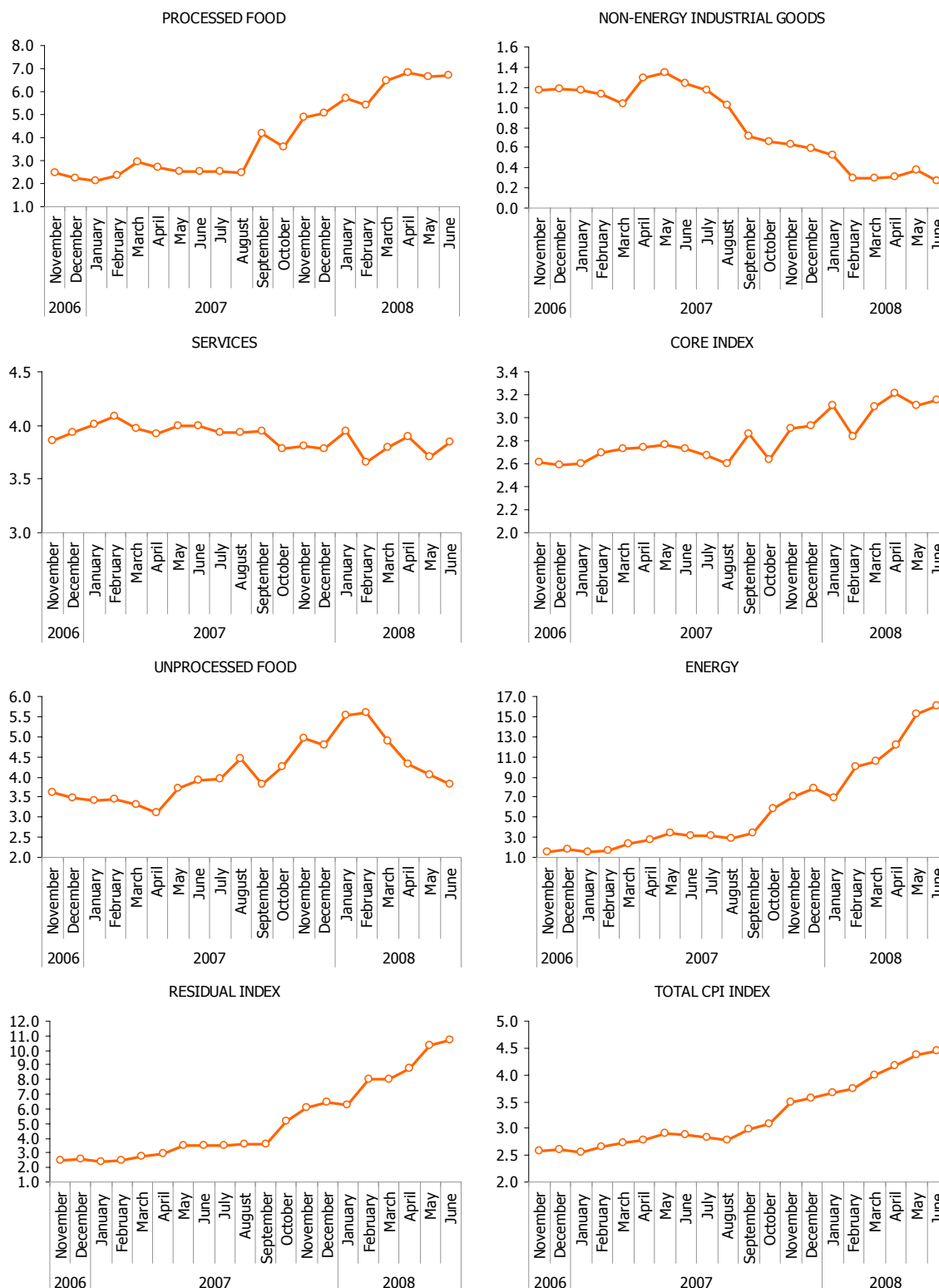
ONE MONTH AHEAD FORECAST ERRORS IN SPANISH INFLATION



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



FORECASTS FOR 2008 ANNUAL AVERAGE CPI GROWTH RATE BY COMPONENT



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

Source: INE & IFL(UC3M)

Date: June 11, 2008



V. SUMMARY OF FORECASTS FOR DIFFERENT AREAS.

V.1 EURO AREA AND USA

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND US								
	2002	2003	2004	2005	2006	2007	Forecast	
							2008	2009
HEADLINE INFLATION								
Euro-area (100%).	2.2	2.1	2.1	2.2	2.2	2.1	3.5	2.1
US (76.2%). ⁽¹⁾	0.9	2.2	2.8	3.7	3.1	2.7	5.4	3.4
A HOMOGENEOUS MEASURE OF CORE INFLATION ⁽²⁾								
Services and Non-energy industrial goods excluding food and tobacco.								
Euro- area (70.68%).	2.4	1.8	1.8	1.4	1.4	1.9	1.7	1.7
US (52.9%). ⁽¹⁾	1.6	1.1	1.6	2.1	2.1	1.8	2.2	2.1
DIFFERENT COMPONENTS OF THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Services.								
Euro- area (40.90%).	3.1	2.5	2.6	2.3	2.0	2.5	2.5	2.4
US (31.8%). ⁽¹⁾	3.6	3.2	3.3	3.1	3.4	3.5	3.7	3.5
(2) Non-energy industrial goods excluding food and tobacco.								
Euro- area (29.8%).	1.5	0.8	0.8	0.3	0.6	1.0	0.7	0.7
US (21.0%).	-1.1	-2.0	-0.9	0.5	0.3	-0.4	0.2	0.2
INFLATION IN EXCLUDED COMPONENTS FROM THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Food.								
Euro- area (19.51%).	3.1	2.8	2.3	1.5	2.4	2.8	4.8	2.5
US (13.9%).	1.8	2.1	3.4	2.4	2.3	4.0	4.9	4.3
(2) Energy.								
Euro- area (9.81%).	-0.6	3.0	4.5	10.1	7.7	2.6	13.7	4.4
US (8.70%).	-5.9	12.2	10.9	16.9	11.2	5.5	23.6	8.4

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

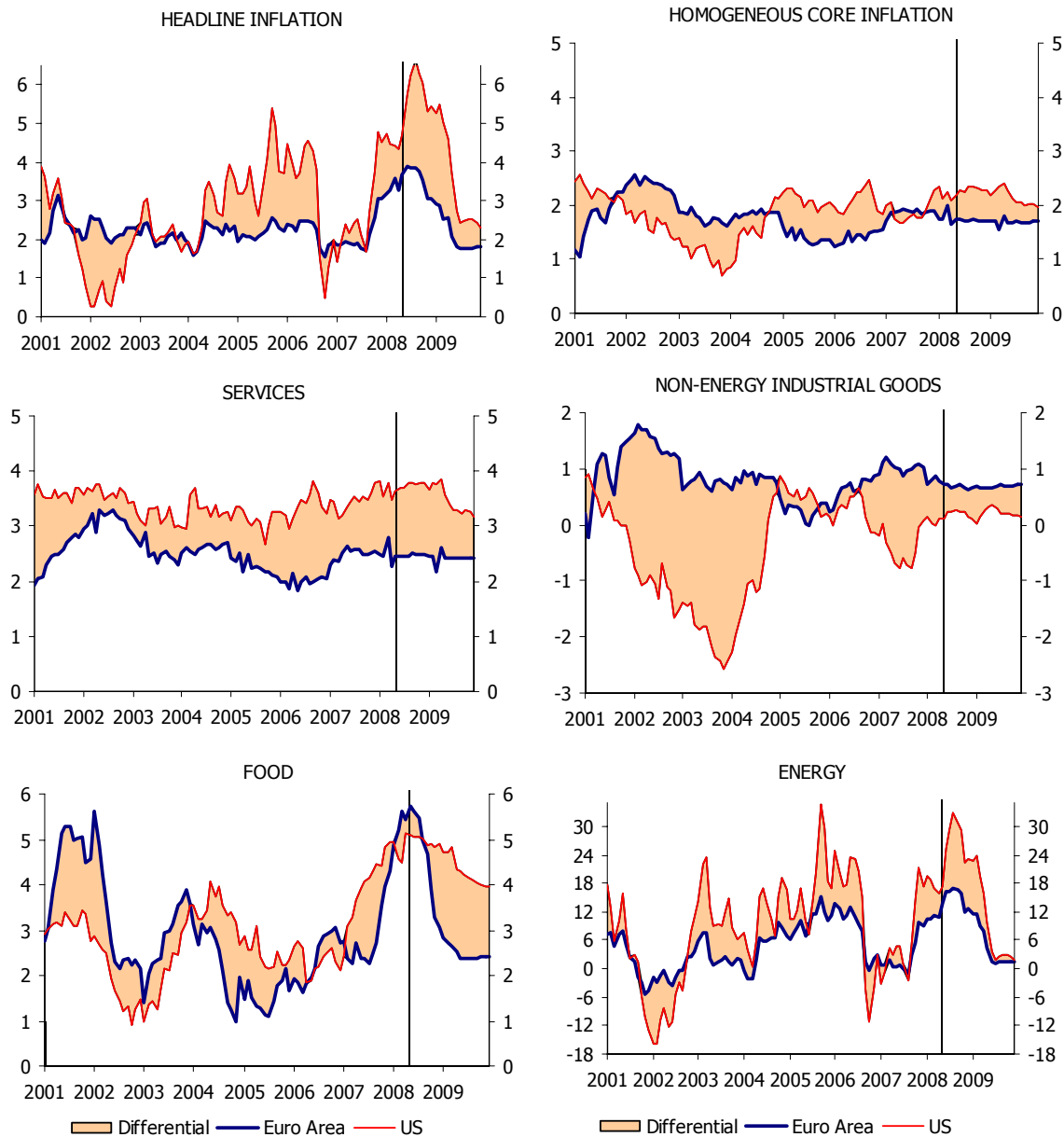
⁽²⁾ This homogeneous measure of core inflation does not coincide with the usual measure of core inflation for the euro area nor for the USA. It has been constructed in order to compare the data in the euro area and in the USA.

Source: EUROSTAT, BLS & IFL (UC3M)

Date: June 19, 2008



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



Source: EUROSTAT, BLS & IFL (UC3M)

Date: June 19, 2008

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

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



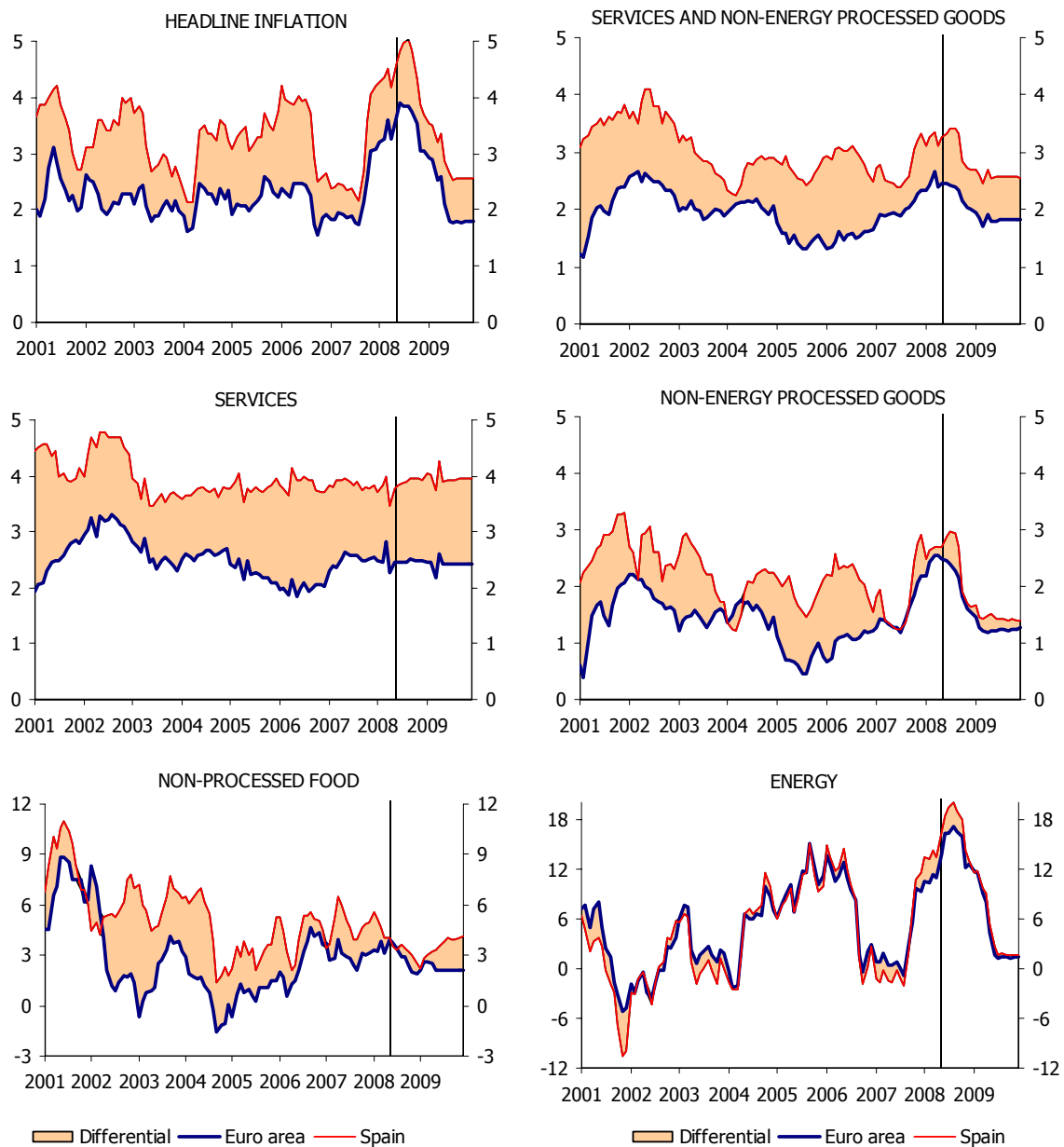
V.2 EURO AREA AND SPAIN

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND SPAIN								
	2002	2003	2004	2005	2006	2007	Forecasts	
							2008	2009
HEADLINE INFLATION								
Spain (100%).	3.5	3.0	3.0	3.4	3.5	2.8	4.5	2.9
Euro-area (100%).	2.2	2.1	2.1	2.2	2.2	2.1	3.5	2.1
CORE INFLATION								
Services and Non-energy processed goods.								
Spain (82.87%).	3.7	2.9	2.7	2.7	2.9	2.7	3.2	2.6
Euro-area (82.58%).	2.5	2.0	2.1	1.5	1.5	2.0	2.3	1.8
COMPONENTS OF CORE INFLATION								
(1) Processed food (including tobacco)								
Spain (15.57%)	3.7	3.0	3.6	3.4	3.6	3.7	6.7	3.6
Euro-area (11.91%)	3.1	3.3	3.4	2.0	2.1	2.8	5.9	2.7
(2) Non-energy industrial goods.								
Spain (29.59%).	3.7	2.0	0.9	0.9	1.4	0.7	0.3	0.3
Euro- area (29.77%).	1.5	0.8	0.8	0.3	0.6	1.0	0.7	0.7
(3) Services.								
Spain (37.72%).	4.6	3.7	3.7	3.8	3.9	3.9	3.8	4.0
Euro- area (40.90%)	3.1	2.5	2.6	2.3	2.0	2.5	2.5	2.4
RESIDUAL INFLATION								
1) Non-processed food.								
Spain (7.37%).	5.8	6.0	4.6	3.3	4.4	4.7	3.8	3.5
Euro- area (7.60%).	3.1	2.1	0.6	0.8	2.8	3.0	3.1	2.2
(2) Energy.								
Spain (9.75%).	-0.2	1.4	4.8	9.6	8.0	1.7	16.1	4.8
Euro- area (9.81%).	-0.6	3.0	4.5	10.1	7.7	2.6	13.7	4.4

Source: EUROSTAT, INE & IFL
Date: June 19, 2008



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



Source: EUROSTAT, INE & IFL (UC3M)
Date: June 19, 2008



VI. FORECASTS FROM DIFFERENT INSTITUTIONS

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

REAL GDP (Percentage change from previous year)												
	BIAM ²		CONSENSUS FORECASTS ³		IMF ⁴		ECB ⁵		ECB ⁶		OECD ⁷	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
EURO AREA	1,8	1,6	1,7	1,4	1,4	1,2	1,6	1,6	1,8	1,5	1,7	1,4
USA	-	-	1,5	1,7	0,5	0,6	-	-	-	-	1,2	1,1
SPAIN	1,9	1,3	1,9	1,5	1,8	1,7	-	-	-	-	1,6	1,1

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

During this month the Bulletin, the ECB, the Consensus Forecasts and the OECD updated their estimations. As expected, all the inflation estimates have been updated upwards while the opposite holds true for GDP growth estimates. The most relevant exception was the forecast of the GDP growth rate in the Euro Area which was revised upwards by both the Consensus Forecast and the ECB. The two institutions now estimate for 2008 a growth of 1.7% and 1.8% respectively.

The Bulletin didn't change its growth estimates during this month and revised upward most of the inflation forecasts with the only exception of the inflation rate estimated for the Euro Area in 2009 that was reduced by one decimal point. The forecasted inflation rate for USA undertook the biggest revision, showing an

upward variation of 4 and 5 decimal point for 2008 and 2009 respectively. With regards to inflation the BIAM forecasts are, in this moment, among the most pessimistic, especially for what concerns 2008.

With regards to the GDP growth forecasts, the OECD carried on the biggest revisions decreasing the expected growth rate for Spain and USA by more than one percentage point. In the Euro Area, the ECB and the Consensus Forecast revised upwards the GDP growth for 2008 and downwards for 2009. This may indicate that analysts are moving forward in time the expected lowest point of the euro area economic cycle. From a general point of view the growth estimates of the different institutions appear to be quite similar, excluding the IMF that did not update its forecasts during the last month.



VII. MACROECONOMIC COMMENTARY BY MICHELE BOLDRIN

"El Informe Económico del Presidente del Gobierno 2008": A macroeconomic assessment

Three days ago the office of the Prime Minister released a nice little volume, titled *Informe Económico del Presidente del Gobierno. 2008* ("Informe", from now on), which was officially presented by the Prime Minister himself on Tuesday, June 24th, at of the Consejo Económico Social in front of the economic and political elites of the country. The Informe is the product of the Oficina Económica del Presidente del Gobierno and it is now in its second year.

The Informe is a very interesting book, the reading of which I recommend to everyone; its interest comes both from what it says, and what it does not. It is short (111 pages, including the Prologo by the Prime Minister) with lots of figures, tables and graphs. It is composed of five chapters: 1. La evolución económica reciente; 2. El sector de la construcción en España; 3. Capital humano y tecnológico; 4. Sostenibilidad ambiental; 5. La política de gasto social en España. The model behind the Informe is, obviously, the much longer and better established Economic Report of the President of the USA, which is also released yearly by the Council of Economic Advisors of the White House.

The Informe portrays a fairly complete and fair picture of the current economic situation in Spain, as well as of its recent evolution and of some of its future endeavours. I believe this is a valuable initiative, which should be praised and supported. If anything, one would like to see the Informe getting larger and statistically richer. Every applied economist, or simply every educated and curious person, greatly appreciates the very rich final statistical appendix of the Economic Report of the President, something I hope to see appearing soon also on the Spanish Informe. Mr. Zapatero, please invest a little bit more in the Oficina Económica: it is a very socially valuable entity and there are plenty of less useful government offices and publications you can save money from.

To get to the main point of this comment, I should briefly summarize the content of the Informe. The summary will not be complete as this would take too long, and it will be biased

toward the main issue we are addressing these days: how deep will the Spanish recession be and which policies, if any, could get us out of it in a virtuous way? What this means is that I will dedicate much more time to chapters 1-3 (and 1 in particular) of the Informe than to the rest.

Chapter one, by far the most important, begins by providing a fair, if somewhat optimistically worded, description of the current state of affairs. The potential seriousness of the incoming recession is recognized (even if, in keeping up with the meaningless and "oh, so american" choice of the Government to ban it from official language, the word "recession" is never used ...) and its relations with both the international financial situation and the internal evolution of costs, demand and investments is analyzed. Of particular relevance is Recuadro 1. on pages 20-21, where it is correctly pointed out that the nature of the Spanish current account deficit (the source of so many worries) is substantially different from that of the United States. The latter is due to a large and persistent excess of consumption in relation to net income, with a consequent, persistent and dramatic reduction in national saving. On the basis of the available statistical evidence, the Spanish current account deficit, instead, cannot be attributed to any reduction in national saving rates, which remains relatively constant in spite of the arrival of almost 5 millions of immigrants, suggesting that either the latter save roughly like the natives or that the natives have in fact increased their saving propensity during the latter expansion. As the Informe makes clear, the current account deficit of Spain is in large part explained by the substantial increase of the private sector investment that, as a percentage of GNP, is 16 points higher in Spain than it is in the USA. This is a key element of the current Spanish situation, and a fundamental differential factor between the USA and Spain.

A second fundamental difference, noted also in Recuadro 1 and in various other instances in the Informe, is that the Spanish banking sector appears to be in much better financial conditions than the one of the United States. The record profits reported, for fiscal year



2007, by some of the largest Spanish banks are known to everyone. What is less known - and that the authors of the Informe should have paid much more attention to - is that the balance sheets of almost all Spanish banks look a lot better than those of their North American counterparts and that their exposure to real-estate related default risk is contained within very reasonable bounds. These facts, should we not discover they are a figment of poor data and therefore only a temporary illusion, must be properly taken into account when evaluating the "Spanish credit risk". Somewhat surprisingly, international financial markets appear not to be doing so: across risk classes, almost all kinds of Spanish financial securities (from public debt to corporate bonds) have been paying a sizable and increasing risk premium since turbulence began affecting international financial market almost a year ago. This, I must admit, is hard to comprehend in the light of officially available data: while we all understand that, in times of high uncertainty "fly to safety" takes hold of financial markets and countries that are not at the very core of the world financial system get penalized, the current situation is hard to attribute purely to it. Risk premia on most Spanish securities are equal or higher than those on their Italian counterparts, and this is hard to accept. Unless the markets know something that the large public does not know and, apparently, the Oficina Economica del Presidente (OEdP) does not know either. Whichever is the case, I would expect the people at the OEdP to make it their main goal to figure out soon, and then let the public know.

Let us continue on. The first chapter contains also a second relevant section, in which the authors advance, albeit timidly, another substantive claim: that productivity is on the raising in Spain. I hope they are right, but if I were them I would not have come to the same conclusion on the basis of the available data. The data they report to substantiate their claim is, indeed, flimsy: productivity grew of an anemic 0.8% in 2007, after three years of negative changes that cumulated to about -1.4%. Had they used the same methodology in 2002 or 2003, when measured productivity also grew of about 0.5%, they would have also made optimistic predictions for 2004-2006, exactly the opposite of what happened. To put it plainly: the Informe bypasses the most important issue, which is not analyzed with the depth and care it deserves. To compensate for this lack of substantive attention, it tries to

spread around some good feelings which are not backed by any economic reasoning or statistical evidence, let alone a careful analysis of the sectoral evolution of labor productivity in Spain. Spreading good feelings is a mildly useful job, which becomes much more effective when supported by hard evidence and careful economic reasoning. As the hard and supportive evidence may well be there, together with the expertise to produce good economic reasoning, I would recommend the latter approach next time.

From a methodological point of view things get markedly worse in the next section, section 1.3, the content of which is apparently based on a mysterious Modelo de Equilibrio Dinamico de la Economia Espanola. The Informe gives zero information about what the model does and how it is built, still it takes its implications quite seriously. So seriously that it uses it to produce a couple of impressive graphs in which Spanish economic growth is attributed to this or that "cause". The list of causes includes things such as "fiscal and monetary policy" and "labor supply" or "consumption". To me, this looks like witch-crafting and I would be extremely curious to learn how the experts working at the OEdP have managed to figure out the chain of causal relationships through which the ECB monetary policy has "caused" growth in, say, Andalusia from 1995 onward. Consider another example: according to the model used by the OEdP the year 2001 is when the structural break occurs. Before that date productivity contributes negatively to Spanish growth, while after that it contributes positively. We are not told what the rationale is for this conclusion, nor are we provided with any indication of what the structural break amounted too. We are just told it took place. As this does not provide the reader with any useful information, I recommend scrapping sections of this type from the future issues of the Informe or, at least, explain us the economic foundations of the underlying model.

The same recommendation applies to section 1.4, which contains another confused effort to argue that productivity growth is resuming and will improve, in Spain, without the need for any structural intervention. Well, the Informe does not really say the latter but this is only inference one can reach from the fact that there is absolutely no mention, either here or in other parts of the Informe, of any future structural reform. The argument advanced in Section 1.4 is the following: because Spain is



below the USA in terms of Total Factor Productivity and because the "scientific literature" shows that there is international catch-up in productivity, then productivity should be growing faster in Spain than in the USA during the next 20 years or so. This is supported by a neat graph (p. 42) where Spanish productivity growth is predicted to outpace the one of the US starting next year and until 2030! Is there any theoretical or empirical basis for arguing this? As far as I can tell from the text of the Informe, the logic is the following: TFP increases in a country as "knowledge" spreads, whatever that means. As knowledge is increasing in Spain, because school attendance and, in particular, tertiary education is on the raising, so will TFP. End of the argument. Even assuming, only for the sake of the argument, that the causal connection the authors have in mind were correct (plenty of evidence to the contrary notwithstanding) the conclusion does not follow. The current levels of school attendance in Spain are still remarkably lower than in the US, and have stopped growing during the last five years or so; this is particularly true for tertiary education. More importantly, there is no sign whatsoever that more years of education "per se" increase TFP: the quality of education, the field of specialization and the overall entrepreneurial and economic environments are key elements in the alleged causation process. The Informe ignores these aspects altogether, equally ignoring plentiful evidence available on the relative poor international performances of the Spanish high education system and the plain fact that the ability of the Spanish economic system to innovate at the frontier of modern technology is still rather poor. These are the key issues Spain will have to square with in the forthcoming months and, I am afraid, the analysis contained in these two sections of the Informe is substantially below what is needed. I recommend the friends and colleagues working at the OEdP to focus their effort on these matters.

Which leads me to the first and important conclusion. The first chapter of the Informe reveals two things: that the experts working at Moncloa are quite aware of what the problem is and that, at the same time, they have little to say about how it should be addressed. That is to say: they are aware that the problem is the restructuring of the Spanish economic system in search for substantial and sustainable productivity growth. As we have argued in a number of previous "Comentarios", they are

aware that the 1994-2007 growth cycle is over: it was useful and it should have happened, but it could not last forever. They are also aware that the construction and manufacturing sectors, which have been the engines of growth for 14 years, have now exhausted their potentials as "locomotives" for the "growth train", and that high growth should come, if it has to come, from somewhere else. In parallel, and even if this is a topic that the Informe avoids to touch upon, they seem to be aware that the dramatically large supply shock that immigration provided the Spanish economy with cannot continue on and, in fact, may even become detrimental should immigration continue at the current, extremely high, pace. Unemployment rates are rising fast among immigrants, while the latter keep pouring in. This awareness is patently clear from the space the Informe dedicates to these matters, from what it says and also from what it does not say. The Informe makes a, politically very understandable, effort to portray a rosy horizon insisting that productivity is on the rising. This is wishful thinking: productivity should be on the rising, we hope it will rise, but we have no evidence it is. More importantly: we (us and them) are keenly aware that nothing has been done during the last eight years of "fat cows" to prepare for this recession and for stimulating the productivity growth that should get us out of it quickly. Further, we (us and them) are keenly aware that the measures that should be taken to enhance productivity growth are of a structural nature, are temporarily painful and politically hard to digest, and will take quite some time to produce visible effects. Let me insist: they should have been taken four or even six years ago and the time so wasted will now come back to hunt us. Fingers should be pointed, which I will do at the end.

This awareness of what the problems are and of the need to hope for the best while preparing for the worst becomes transparent in the second chapter, which describes (in the rosiest possible colours) the situation of the construction sector. The Informe recognizes its low labor productivity on the one hand, and high profit rates on the other implying, without saying it explicitly, that the sector is anything but competitive and that a number of structural bottlenecks have made it profitable for the insiders without creating the incentives for efficiency gains and productivity growth. The latter is my inference, as the Informe is mute on this issue, which again I attribute to political considerations. The same political



considerations that lead the authors to dedicate the last section of this chapter to describing a set of measures the government is taking, or planning to take, to "support" the Spanish construction sector. When one cuts through the fog that jargon creates the substance is simple: public spending in the areas of "Viviendas Protegidas" and public infrastructures will be used to keep the sector floating the way it is. As far as I can tell, there is nothing else there. Back to the drawing board, and quickly, please.

From a substantive point of view, the most interesting sections of chapter 2 are those in the middle. One documents that Spanish families are not severely indebted, that their net worth has substantially increased during the last decade and that all indicators suggest they should be able to keep paying their mortgages even during a recession and in the face of higher nominal and real interest rates. I agree with this conclusion. The other section shows that, if we forecast on the basis of past experience, the recession in the construction sector will be deep but not catastrophic and it will probably last for another couple of years or so. Housing prices will do likewise: the end of the world is not coming to Spain. This conclusion is reinforced by a simple, but overall well done and conservative, estimate of the "real imbalances" plaguing the real estate sector. How many houses are there that are not needed or, better, for which there will be no realistic demand during the next 2-3 years? The Informe does not say it clearly, but my estimate (based solely on the data reported on pages 59-61) is of a number between 400- and 600-thousands. That is about a year and a half of peak-time output and a relatively small percentage (about 2%-3%) of the total stock of residential units. The end is not near, but the way out is not clear either. What the Informe, again, does not even attempt to do is to provide us with some sense of the size of the employment reduction that the scaling down of the construction and real estate sector will bring about, of its regional distribution and, last but not least, of its impact on the demand for immigrant workers versus native ones. To put it plainly: how many firms will have to shut down and how many workers, and of which tipe, will need to find employment somewhere else?

The third, and last among the core chapters, addresses human capital and innovation. This is a crucial topic and, again, while the Informe does a relatively good job at describing the enormous progresses made by Spain in these

areas it fails short of addressing its shortcomings. In a nutshell: education has improved greatly from a quantitative point of view, but little information is provided about its quality, especially at the upper end and in the areas of applied scientific research. Education pays off, in the sense that Spain is, among the core European countries, only second to the United Kingdom in the measured skill premium in wages. Note: there is no effort to understand if this skill premium is to be attributed to a shortage in the supply of highly qualified workers or to a high quality of the demand for skilled workers by Spanish firms; this is not a secondary issue and it deserves further attention. Still, the recent evidence of a dramatic slowdown (better, a complete halt) in the growth rate of university enrollment is not even mentioned, let alone discussed. These are serious omissions. On the positive side: a major puzzle in the Spanish R&D activity is clearly and squarely addressed. Spain is, among European countries, the one with the most generous fiscal incentives for private R&D investment: as the graphs reported on pages 81-83 prove, Spain is an outlier when it comes to fiscal generosity toward R&D. In spite of such generosity, the quantity and quality of R&D expenditure by the Spanish private sector is only marginally higher than that of Italy, and about half that of Germany and France. The Informe attributes this to a "distortion" the nature of which escapes me; the conclusion being that large firms do not invest in R&D activity in Spain. What causes what is completely unclear, but I am happy to learn that this distortion has been addressed by a reform that took place in 2006. As the latter is also not explained, one is left completely in the dark: why is Spanish R&D activity so low in spite of the enormous subsidies it is entitled to? What are the causes of such backwardness and what is the relation between this backwardness and the lack of productivity growth? The Informe does not dare to say.

The last two chapters belong to the "politically necessary" class, and they contains very little useful information. In particular, they contain almost no statistical information or analytical insight that could not be found by carefully reading the economic sections of the best Spanish newspaper. Chapter 4 tells us that we should do something for the environment, that CO2 emissions should be reduced and that new modes of transportation should be developed and adopted. Granted these are all good ideas, would it be too impolite to ask: how? Especially



in the face of the tremors caused by the raising price of oil, and of energy sources more generally, one would have expected a deeper and more substantive analysis. While I understand there is no reason to expect that the OEdP should be capable to produce rigorous research on every important policy issue, it would be a good editorial policy to focus on those issues one has something substantive to say and leave the rest out of the Informe. Similar considerations apply to Chapter 5, the short and the long of which is that public expenditure on social protection items in Spain is, as a percentage of GNP, below that of the European countries of reference and is likely to grow. I have no idea what to do with this conclusion. Anyone who is aware of the structural deficiencies of the Spanish Social Security system (the skeleton in the closet of Spanish political-economic debate) and of the poor incentives the unemployment insurance program provides to labor mobility, knows that the issue in the area of social protection is not how much should be spent but how, and for what purposes. Once again, this is a fundamental area for policy intervention, even more so when entering a potentially serious recession in which lots of workers will have to change job and find incentives to acquire new skills. The economic and political debate on social protection should focus on these issues, and avoid self-serving graphs showing that, given the level of income per capita it has reached, Spain is spending too little on social protection programs. These are not times in which "more of the same" can be an acceptable policy.

Which brings me to my final considerations. The analytical framework underlying the Informe is somewhat "passe" and could certainly do with some technical and substantive improvements. But this would not be a relevant topic if it were not the case that the analytical framework adopted appears to be fundamentally insufficient to understand the nature of the ongoing crisis. The Informe seems to interpret the latter in fundamentally "keynesian" terms: the recession is coming because aggregate demand in general, and demand for housing in particular, has suddenly become weak. Coherently with this point of view, the new government has already adopted and is planning to adopt a long series of interventions that have a common denominator: boosting aggregate demand and providing temporary relief to the sectors facing serious difficulties. Supply side policies are not

even in the picture and are never discussed, either in the Informe or in the public pronouncements of government officials. Does this make sense? I submit it does not. Where is the temporary negative demand shock we are supposed to counterbalance, and which were its sources?

On the international side I see dramatic changes in the relative prices of commodities (energy sources and food in particular) accompanied by even more dramatic changes in the productivity of Asian firms relative to those of the "Western" world. I call these supply shocks. I also see a, temporary but serious, change in the perception of risk (and of the price charged to assume it) by financial markets worldwide, the consequence of which is a substantial increase in the price of credit. This is a supply shock: the factor of production we call capital has become more expensive. Parallel to this, I see a rising tide of immigrant labor, cheap and scarcely qualified labor, flowing into Europe at an unprecedented pace while, at the same time, highly qualified and skilled labor appears to be scarce and flowing only to some European countries and the USA, but not to other. Again, this is a supply shock as it changes the composition and world distribution of the other factors of production, labor and human capital. Internally to Spain I see the relative price of the output of the construction sector dropping and profitable opportunities for investment in this sector evaporating while new profitable opportunities for investment do not seem to be clearly appearing in other sectors. Simultaneously, I see the price of credit to Spanish firms rising dramatically, be it for irrational fear or for fundamental reasons, leading, again, to a supply shock.

All these facts seem to escape the current Spanish economic debate. As a matter of fact, one can read in between the lines of the Informe, especially those of the first three chapters, to realize that the authors of those chapters are somewhat aware that these are the issues to be addressed. Nevertheless, probably because of the political constraints they are asked to work under, those issues are not explicitly addressed and policies capable of meeting the challenge are not even mentioned. This needs not be the fault of the Informe's authors, it is probably not. It is my conjecture that this is due to a stubborn resistance in Spanish policy circles to recognize that a phase of development is over and that more of the



same will not be coming. That this is the attitude has been abundantly clear during the eight years of the previous two governments: no structural reform of any kind has been undertaken in Spain since about the year 2000. Precious time was wasted, and fingers should be pointed in those directions. The fiscal system was left as it was, as were the social security and unemployment protection systems. The reform of the educational system, and of public universities in particular, stopped in the previous century and nothing has been done for almost two decades. Which is a pity, because Spanish universities were on the rise and improving in the early nineties while now that momentum seems to be almost completely gone. Ditto for the labor market and, last but absolutely not the least, for the immigration policies that amount to not much more than "let anyone who likes to come in to come in." The list could continue with the end to the liberalization process in the service sectors, the lack of coherent policies to foster R&D and the attraction of high tech firms, and so on. Political expediency (things are going well, no need to do anything) won over political wisdom (things are going well, let's take advantage of the opportunity to foster further change).

Such neglect of the need for further reforms has been common to both PSOE and PP: it is not by chance that, in front of a PSOE in

complete denial of the economic crisis, we find a PP that is incapable of proposing any alternative policy of substance. While the Prime Minister has been in denial for about a year and is now scrambling for emergency actions (please, do not: do not repeat the mistakes of the 1970s) the leaders of the opposition have been screaming loud that the end is near without telling us what to do to save our souls.

The Informe honestly and clearly reflects this situation and, in its complete silence over structural reforms, points to the need for an explicit national debate about them. We live in a world where continuous socio-economic reform is not a matter of choice, but of necessity: change is coming continuously, both from outside our countries and from inside them. Such changes need to be properly understood to be managed and understanding novelty is never easy, which is why politicians tend to reassure their voters by claiming that nothing is happening and things are going to be just the way they were anytime soon. Which is clearly not the case, as the partial list of facts I gave above should convince anyone with an open mind. It is time to go back to the drawing board to debate which structural changes we should undertake to manage the structural changes coming from outside. The sooner such debate begins, and the more professional economists join it, the better it will be.



VIII. INDICATORS CALENDAR.

JUNE

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

JULY

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

* 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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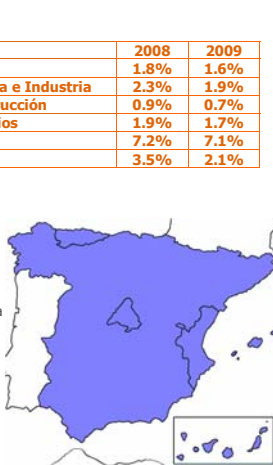


Universidad Carlos III de
Nº 18, Junio 2008.

Análisis macroeconómicos integrados: desde Comunidades Autónomas a Euro Área

Euro Área	2008	2009
PIB	1.8%	1.6%
Energía e Industria	2.3%	1.9%
Construcción	0.9%	0.7%
Servicios	1.9%	1.7%
Paro	7.2%	7.1%
IPC	3.5%	2.1%

La crisis económica española será más aguda y duradera que en la euro área



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España	2008	2009
PIB	1.9%	1.3%
Energía e Industria	0.0%	0.1%
Construcción	-0.8%	-1.0%
Servicios	2.8%	2.0%
Paro	9.9%	11.4%
IPC	4.5%	2.9%

P. de Asturias	2008	2009
PIB	1.2%	1.4%
Energía e Industria	-1.1%	1.1%
Construcción	-0.7%	-0.5%
Servicios	2.5%	2.1%
Paro	8.5%	8.6%
IPC	4.6%	2.7%

Gracias a la industria, la economía asturiana tenderá a recuperarse más rápidamente que la española



Los servicios aminoran la crisis económica en la Comunidad de Madrid



C. Valenciana	2008	2009
PIB	1.8%	1.2%
Energía e Industria	1.4%	1.5%
Construcción	-2.8%	-2.4%
Servicios	2.9%	1.8%
Paro	9.7%	10.6%
IPC	4.4%	3.0%



C. de Madrid	2008	2009
PIB	1.7%	1.6%
Energía e Industria	1.5%	1.1%
Construcción	-7.5%	-5.6%
Servicios	3.1%	2.7%
Paro	7.3%	8.2%
IPC	4.3%	2.9%

El perfil de la crisis económica en la C. Valenciana resulta similar al de España pero con una tasa de paro inferior.

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