



OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS



Universidad Carlos III de Madrid

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FORECASTS FOR ECONOMIC GROWTH IN THE EURO AREA ARE REVISED UPWARDS

to 2.6% in 2007 and 2.5% in 2008

ANNUAL GROWTH RATES IN THE EURO AREA*						
	Observed		2006 Q IV ⁽¹⁾	Forecasts		
	Aver ⁽²⁾ 2005	Aver ⁽²⁾ 2006		2007 Q I ⁽¹⁾	Aver ⁽²⁾ 2007	Aver ⁽²⁾ 2008
Domestic Demand**	1.7	2.4	2.2	2.5	2.3	2.4
Foreign Demand**	-0.2	0.3	1.1	0.4	0.3	0.1
GDP	1.5	2.7	3.3	2.9	2.6	2.5

* Adjusted for seasonality and working days effect.

** Contribution to GDP growth.

Source: EUROSTAT & IFL (UC3M)

Date: March 6, 2007

(1) Year-on-year rate

(2) Annual average rate

Stock market volatility and systemic crisis.

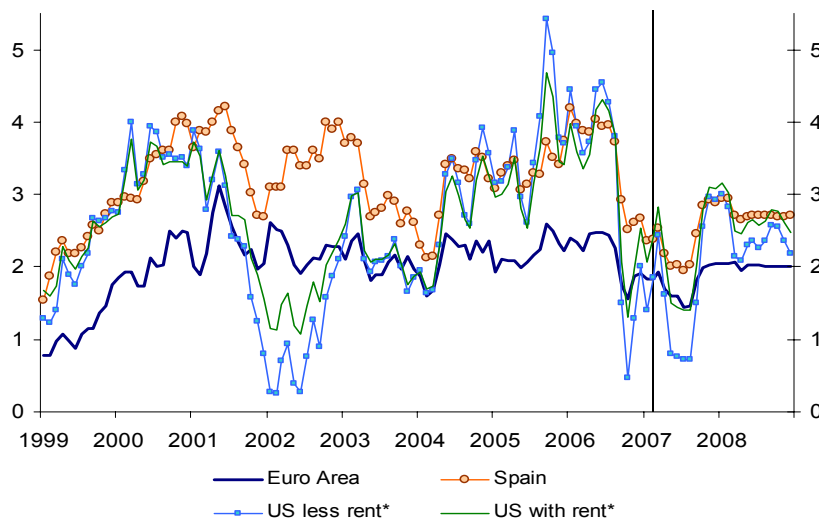
By MICHELE BOLDRIN p.58

"Some Chinese firms go into bankruptcy and China's growth rate sometimes falls, but China is facing at least another two decades of record growth. US growth is not going to last for ever; there will be a recession and a recovery. The same will happen, sooner or later, in Spain and other countries. The US property sector is stagnant and prices will fall two, three or up to five percentage points. Then growth will be back. One of these days, the same will happen in Spain. Each of these negative facts leads to fluctuations, even large fluctuations, in some stock indices, especially in those related to the directly affected sectors. But the panic we see appear and disappear again about once a fortnight is not justified. What causes this panic if there is no systemic crisis waiting around the corner? Too many "experts" believe in a systemic crisis. That's the problem".

INTERNATIONAL FUEL PRICES MAY INDUCE A FALL IN INFLATION IN THE NEXT FEW MONTHS

followed by recovery at the end of 2007.

HEADLINE INFLATION IN THE EURO AREA, US AND SPAIN



* rent: owner's equivalent rent of primary residence

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

Date: March 21, 2007

MONTHLY DEBATE:

Defending Competition:

modernisation by removing obstacles

By AMADEO PETITBÓ JUAN p.61

[...] the new Competition Bill is currently being debated by the Spanish Parliament [...]. The text being discussed is a considerable improvement in the present defence of competition legislation, especially due to the ability to appeal against the administrative acts of public administrations, the application of Competition Law by judges – with evident fragile aspects – , clemency programmes and public grant controls. The text lacks, however, more reference to economic analysis [...]. Particularly complicated is the maintenance of reports on the impact on competition of new major retail outlets [...] and reconsideration is due to the present system of merger control [...]. In sum, a step forward has been taken, and that is important, but the step is too small."

Nº150



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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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I. ECONOMIC OUTLOOK

This section includes a summary of the principal features of the recent evolution and future perspectives of the principal macroeconomic variables in the euro area and Spain, of inflation in these economies and the US, and of monetary policy in the US and the euro area.

	GDP				INFLATION				
	2005	2006	2007	2008	2006	Feb07	Mar07	2007	2008
EURO AREA	1.5	2.7	2.6	2.5	2.2	1.8	1.9	1.8	2.0
US			-	-	3.2	2.4	2.8	2.2	2.7
SPAIN	3.5	3.9	3.8	3.5	3.5	2.4	2.5	2.4	2.7

Note: US inflation figures are not comparable with the euro area and Spanish ones as they include owner's equivalent rent of primary residence whereas the latter do not. Euro area GDP figures are adjusted for seasonality and working days effect.

The figures in the shaded area are forecasts.

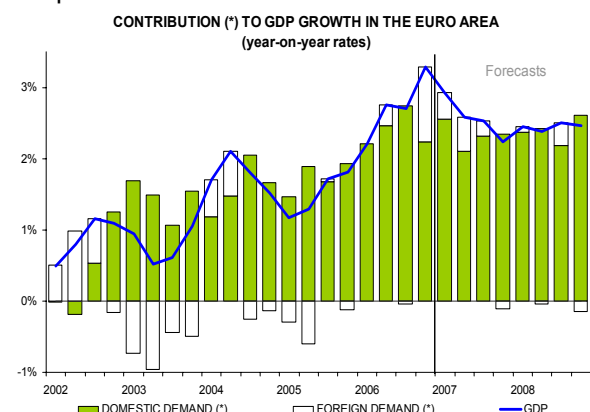
Source: EUROSTAT, BLS, INE, IFL (UC3M)

Date: March 23, 2007

EURO AREA

- In the fourth quarter of 2006, the euro area economy accelerated more than expected and its **GDP** grew by 3.3%. This is fundamentally explained by the performance of gross fixed capital formation and exports. In the latter, note that there might be a slight upward bias as a result of a delay in the foreign trade declarations in Germany, which according to the German Federal Statistical Office would have increased the figure for the fourth quarter of 2006.
- In 2006 overall, the euro area economy showed firm growth, with an increase in the GDP of 2.7%, versus the 1.5% of 2005.
- The greater than expected growth in the last quarter of 2006 gave rise to an upwards revision of the forecasts for 2007 and 2008 to 2.6% and 2.5%, respectively.
- A decline in the quarter-on-quarter growth rate of the GDP is expected in the first quarter of 2007, stabilising from the second quarter on at rates similar to these registered before the acceleration of the last quarter of 2006.

Graph I.1



Source: EUROSTAT & IFL (UC3M)

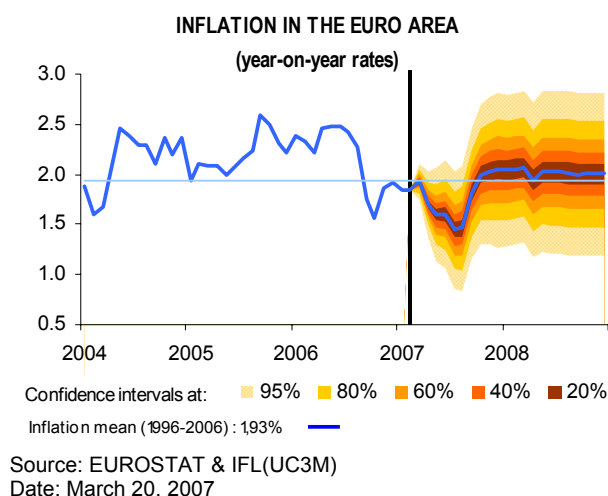
Date: March 6, 2007

- In line with the upwards revision of the perspectives for GDP growth, with the latest **Economic Sentiment Indicator** (ISE) figures for February, 2007, we are forecasting a slight improvement in the confidence of economic agents in the evolution of the area's economy in the next few months, stabilising from the fourth quarter of 2007 on.
- On the other hand, in view of the latest information about the **Industrial Production Index** (IPI) and the respective soft data (Industrial Confidence Indicator), we have revised upwards slightly the forecasts for IPI growth from 2.6% to 2.9% for 2007 and by 0.1 pp for 2008 to 2.1%. This indicator appears to have reached its peak in the present cycle and is tending to stabilise at rates above those registered in the 2001-2005 period.
- In this context, with perspectives of maintaining a good rate of economic growth in the area, the **inflation** forecasts for 2007 are 1.8% ($\pm 0.25\%$), 0.4 pp below the rates of 2005 and 2006. This expected reduction is largely based on moderation in energy prices, as in terms of core inflation, we are forecasting a rate for 2007 which is 0.3 pp higher than those observed in 2005 and 2006. The materialisation of these forecasts for the energy component, however, will depend on the outcome of the present context of international tension. Our assumption is that this tension will continue to have the same effects on euro area inflation as they have in the recent past.
- A slight increase in inflation is expected in March, 2007, to 1.9%, followed by a progressive decline in annual rates up to the summer, subsequently increasing to end the year at around 2%.
- In view of all the above, and given that the probability of meeting the ECB target in 2008 is



just under 50%, we confirm our previous opinion that **interest rate** increases can be expected in 2007, to 4-4.25%.

Graph I.2

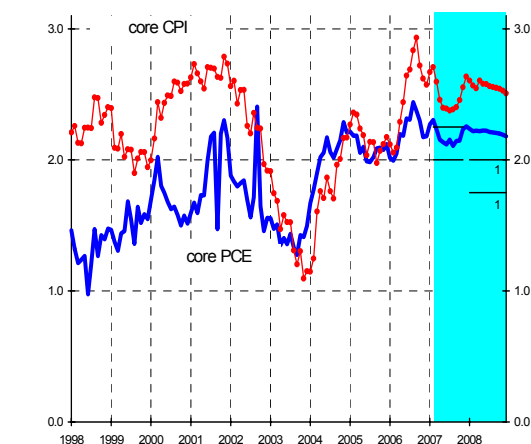


UNITED STATES

- Average annual **inflation** in the US is forecast at 2.2% ($\pm 0.5\%$) in 2007 and 2.7% ($\pm 1.7\%$) in 2008. These values are 0.2pp higher than those forecast in last month's report.
- This upwards revision responds to a worse than expected inflation figure in February both in the core component and in the other groups. This, together with assumptions that the real effective exchange rate will remain constant at their present levels and slightly worse crude oil prices than last month, leads to higher inflation forecasts.
- For March, we are expecting a rise in inflation (greater than expected in the euro area) to 2.8%, and the same profile observed in the euro area of progressive falls in the annual rate up to the summer, subsequently rising and ending the year at rates higher than those observed at the beginning.
- In terms of the inflation indicator most closely monitored by the FED, the PCE (Personal Consumption Expenditure), we continue to expect it to remain within the central tendency established by the monetary authority for 2007 (2.00-2.25%), although the forecast now is for 2.19%, half a tenth more than in the last Bulletin. For 2008, the forecast continues to be 2.2%, much higher than the central tendency established for the year (1.75%-2.00) so, in our opinion, the FED will not be cutting **interest rates** until it has some guarantee of meeting its inflation targets.

Graph I.3

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US

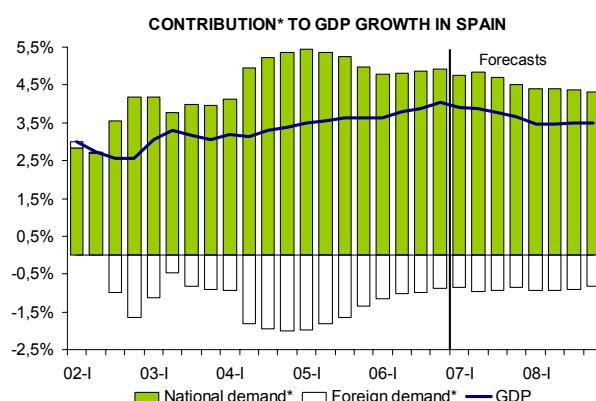


(1) Central tendency established by the FED.
Source: BLS & IFL (UC3M)
Date: March 16, 2007

SPAIN

- Last month we learned that the Spanish **GDP** grew by 3.9% in 2006, 0.4pp more than in 2005 and 1.2 pp more than the euro area.
- With this information we updated our forecasts and, as we informed in the previous Bulletin, the economy is expected to grow by 3.8% in 2007 and 3.5% in 2008.
- As a result of the moderation expected in private consumption and gross fixed capital formation, the contribution of internal demand would fall to 4.7 pp in 2007 and 4.4pp in 2008, versus the 4.9 pp of 2006. On the other hand, the contribution of foreign demand would improve slightly, going from a negative 1.0 pp to a negative 0.9 pp. Both exports and imports are expected to cut their growth rate by around 2 pp in 2007-2008.

Graph I.4

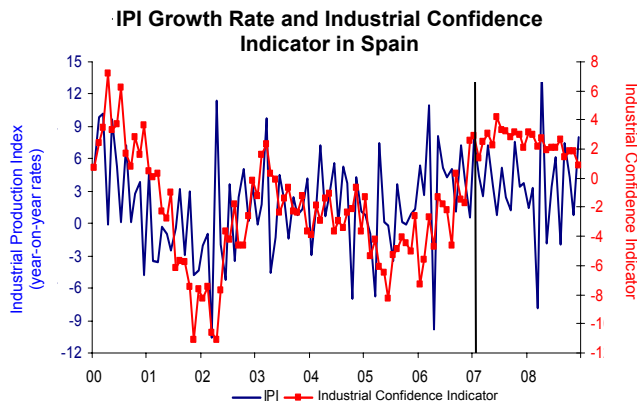


Source: INE & IFL (UC3M)
Date: February 21, 2007



- With the February Industrial Confidence Indicator figure, we expect the confidence of economic agents in the evolution of this sector to continue to improve in the next few months and stabilise at the end of 2007, subsequently deteriorating in 2008. Therefore, according to this and with the information relating to the Industrial Production Index up to January, we have revised upwards the perspectives for growth of the IPI in 2007 to 4.1%.

Graph I.5

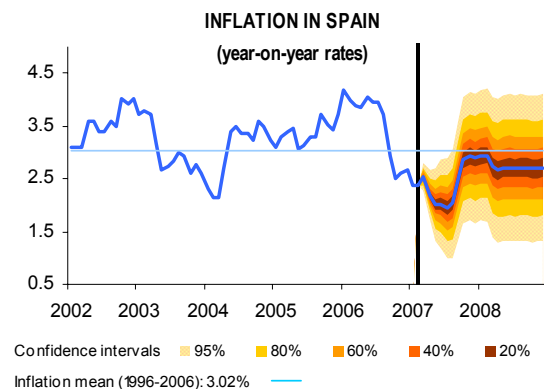


Source: EUROPEAN COMMISSION, INE & IFL (UC3M)
Date: March 6, 2007

- Other indicators published recently with information for January and/or February, such as the General Retail Trade Index, tourist entries, air passenger traffic or wage earners, show that the Spanish economy continues the expansionary trend of last year.
- From the latest figures for the leading wage indicators, we can say that in 2006 the moderation registered since the early nineties with some interruptions, has ceased. In view of the first indicators available for 2007 from Collective Bargaining Statistics, this upwards evolution is expected to be temporary, with wage growth in 2007 lower than in 2006.

- In this context, in which the rate of economic growth is expected to continue in 2007, we are expecting a significant fall in **inflation** in 2007-2008. From the 3.5% of 2006, it is expected to fall to 2.4% for 2007 and 2.7% for 2008. This would be the result of some moderation in core inflation and unprocessed food prices, together with perspectives of cuts or small increases in energy prices.
- In relation to the previous Bulletin, we have revised the headline inflation forecast for 2007 upwards slightly by 0.1pp, as we expect greater increases in processed food prices and smaller cuts in energy prices.
- For March, we are forecasting a slight rise in inflation to 2.5%, as in the other two areas analysed, and the same profile of progressive decline in annual rates up to the summer, subsequently increasing to end the year at around 2.9%, figure that will be used to update pensions and CPI-indexed contracts and work agreements.

Graph I.6



Source: INE & IFL (UC3M)
Date: March 21, 2007



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 Average Rate				
	2004	2005	2006	Forecasts	
				2007	2008
GDP mp (1)	1.8	1.5	2.7	2.6	2.5
Demand					
Private Final Consumption	1.3	1.5	1.8	1.8	2.1
Public Final Consumption	1.3	1.5	2.3	2.1	2.3
Gross Capital Formation	2.7	2.9	4.4	4.1	3.5
Contribution Domestic Demand	1.6	1.7	2.4	2.3	2.4
Exports of Goods and Services	6.5	4.5	8.1	6.4	6.0
Imports of Goods and Services	6.3	5.4	7.5	6.0	6.0
Contribution Foreign Demand	0.2	-0.2	0.3	0.3	0.1
Supply					
Gross Value Added Total (market prices)	1.8	1.5	2.7	2.6	2.5
Gross Value Added Total (basic prices)	1.9	1.5	2.7	2.5	2.4
Gross Value Added Agriculture	11.9	-5.6	-0.9	-1.0	-0.5
Gross Value Added Industry	1.5	1.7	4.0	2.9	2.1
Gross Value Added Construction	1.5	1.1	3.7	3.0	2.5
Gross Value Added Trade Services	2.3	1.6	3.1	3.0	2.9
Gross Value Added Financial Services	1.6	2.4	2.8	2.8	2.9
Gross Value Added Public Services	1.3	0.9	1.2	1.5	1.6
Prices (2)					
CPI harmonized, annual average	2.1	2.2	2.2	1.8	2.0
CPI harmonized, dec./dec.	2.4	2.2	1.9	2.0	2.0
Employment (3)					
Unemployment rate	8.9	8.6	7.9	7.8	7.4
Others Economic Indicators (4)					
Industrial Production Index (excluding construction)	2.0	1.3	3.8	2.9	2.1

The figures in the shaded area are forecasts.

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

Source: EUROSTAT & IFL (UC3M)

Date: (1) March 6, 2007.

(2) March 20, 2007

(3) February 28, 2007

(4) March 14, 2007



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

Table II.1.2.1

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA										
		Final Consumption Expenditure		Gross Capital Formation	Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP	
		Private	Public							
ANNUAL AVERAGE RATES	2003	1,2	1,8	2,0	1,5	1,1	3,2	-0,7	0,8	
	2004	1,3	1,3	2,7	1,6	6,5	6,3	0,2	1,8	
	2005	1,5	1,5	2,9	1,7	4,5	5,4	-0,2	1,5	
	2006	1,8	2,3	4,4	2,4	8,1	7,5	0,3	2,7	
	2007	1,8	2,1	4,1	2,3	6,4	6,0	0,3	2,6	
	2008	2,1	2,3	3,5	2,4	6,0	6,0	0,1	2,5	
ANNUAL RATES (*)	2006	QI	1,8	2,5	3,2	2,2	8,4	8,8	0,0	2,2
		QII	1,7	1,9	5,3	2,5	7,4	6,9	0,3	2,8
		QIII	1,7	2,1	6,5	2,7	6,7	7,0	0,0	2,7
		QIV	2,1	2,6	2,4	2,2	9,8	7,3	1,1	3,3
	2007	QI	1,6	2,0	5,7	2,5	6,5	5,8	0,4	2,9
		QII	1,9	2,0	2,8	2,1	7,6	6,6	0,5	2,6
		QIII	1,8	2,4	3,7	2,3	6,3	6,0	0,2	2,5
		QIV	1,8	2,2	4,2	2,3	5,2	5,6	-0,1	2,2
	2008	QI	2,1	2,1	3,4	2,4	6,3	6,2	0,1	2,5
		QII	2,1	2,5	3,3	2,4	5,8	6,0	0,0	2,4
		QIII	2,0	2,1	2,9	2,2	6,6	6,0	0,3	2,5
		QIV	2,1	2,3	4,4	2,6	5,4	5,9	-0,1	2,5

Data adjusted for seasonality and working days effect.

The figures in the shaded area are forecasts

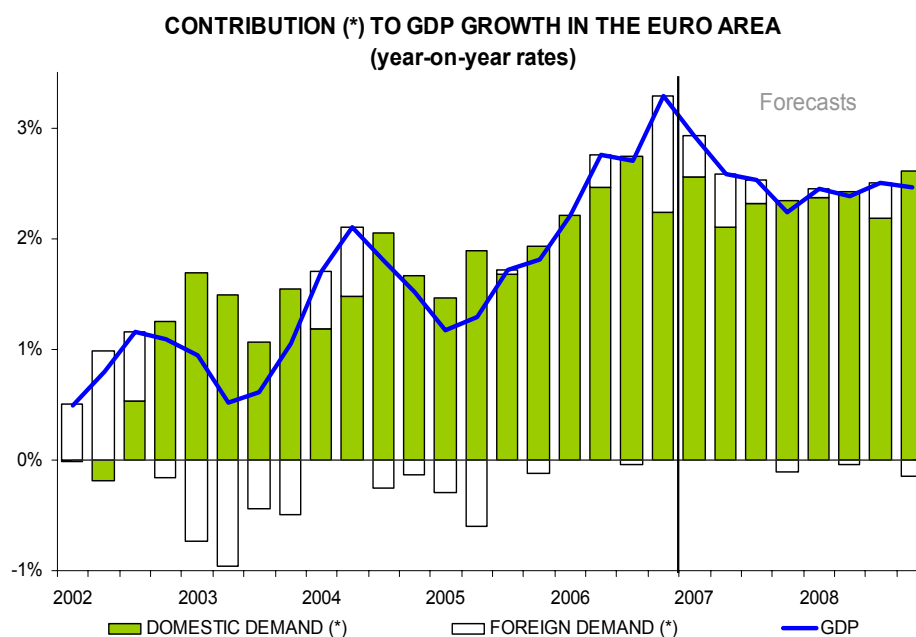
(1) Contribution to GDP growth

(*) Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: March 6, 2007

Graph II.1.2.1



Data adjusted for seasonality and working day effect.

Source: EUROSTAT & IFL (UC3M)

Date: March 6, 2007



Table II.1.2.2

Table 11.1.2.2

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA										
		GVA								
		Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services	TOTAL	Real GDP	
ANNUAL AVERAGE RATES	2003	-5,8	0,0	0,6	0,2	1,8	1,3	0,7	0,8	
	2004	11,9	1,5	1,5	2,3	1,6	1,3	1,9	1,8	
	2005	-5,6	1,7	1,1	1,6	2,4	0,9	1,5	1,5	
	2006	-0,9	4,0	3,7	3,1	2,8	1,2	2,7	2,7	
	2007	-1,0	2,9	3,0	3,0	2,8	1,5	2,5	2,6	
	2008	-0,5	2,1	2,5	2,9	2,9	1,6	2,4	2,5	
ANNUAL RATES (*)	2006	QI	-3,5	3,5	2,4	2,5	2,0	0,9	2,1	2,2
		QII	-0,5	4,1	3,5	3,2	3,0	1,2	2,8	2,8
		QIII	-0,7	4,3	4,2	3,1	2,8	1,3	2,8	2,7
		QIV	1,3	4,2	4,8	3,5	3,4	1,5	3,2	3,3
	2007	QI	1,2	3,9	5,2	3,5	3,0	1,3	3,0	2,9
		QII	-1,0	2,9	3,2	2,8	2,6	1,4	2,4	2,6
		QIII	-1,0	2,4	2,4	2,9	2,8	1,6	2,4	2,5
		QIV	-3,3	2,5	1,3	2,7	2,8	1,6	2,2	2,2
	2008	QI	-1,9	2,1	2,6	3,0	2,9	1,7	2,4	2,5
		QII	-0,3	2,1	2,5	2,9	2,9	1,6	2,4	2,4
		QIII	-0,4	2,2	2,5	2,9	3,0	1,6	2,4	2,5
		QIV	0,7	2,2	2,5	2,9	3,0	1,6	2,4	2,5

Data adjusted for seasonality and working days effect

The figures in the shaded area are forecasts

(*) Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: March 6, 2007



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	Intermediate	Energy	TOTAL	
		Durable	Non Durable	Equipment	Goods			
ANNUAL AVERAGE RATE	2003	-4.4	0.4	-0.1	0.3	2.8	0.3	
	2004	0.1	0.6	3.3	2.2	2.0	2.0	
	2005	-0.9	0.7	2.8	0.9	1.2	1.3	
	2006	4.2	1.9	5.5	4.9	0.7	3.8	
	2007	1.5	1.5	4.5	4.6	-2.9	2.9	
	2008	0.4	0.9	3.3	2.2	1.2	2.1	
ANNUAL RATES (**)	2006	QI	2.4	2.2	5.0	3.0	3.8	3.4
		QII	3.7	2.3	5.3	5.6	0.9	4.2
		QIII	5.0	1.2	5.5	5.7	1.6	4.1
		QIV	5.6	2.0	6.2	5.3	-3.2	3.6
	2007	QI	4.4	2.3	6.0	6.7	-6.1	3.7
		QII	1.7	0.8	4.6	4.6	-2.3	3.0
		QIII	-0.2	1.2	3.2	3.7	-3.1	2.1
		QIV	0.3	1.7	4.2	3.4	0.4	2.8
	2008	QI	0.5	1.0	3.2	2.2	1.4	2.1
		QII	0.3	0.9	3.3	2.2	1.1	2.1
		QIII	0.3	0.9	3.3	2.2	1.1	2.1
		QIV	0.3	1.0	3.3	2.2	1.1	2.1

The figures in the shaded area are forecasts.

(*) Adjusted by working days

(**) Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: March 14, 2007

Table II.1.3.2

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

	2002	2003	2004	2005	2006	2007	2008
January	-2.87	1.31	0.42	1.78	3.00	3.74	1.66
February	-3.27	1.63	1.08	0.35	3.02	3.71	2.44
March	-2.23	0.23	1.72	-0.08	4.20	3.60	2.15
April	0.08	0.59	1.72	1.43	1.90	4.47	1.84
May	-0.87	-1.52	3.77	0.13	5.85	2.12	2.17
June	-0.51	-1.80	3.89	0.79	4.94	2.36	2.16
July	0.69	0.84	2.63	0.72	3.53	2.63	2.03
August	-0.40	-0.56	1.92	2.62	5.53	1.85	2.02
September	0.62	-1.23	3.78	1.37	3.45	1.80	2.11
October	1.15	1.33	1.42	0.48	3.76	3.43	2.07
November	2.32	0.86	0.81	3.20	2.74	3.21	2.06
December	0.16	2.19	1.26	2.95	4.45	1.63	2.08

* Adjusted by working days

The figures in the shaded area are forecasts.

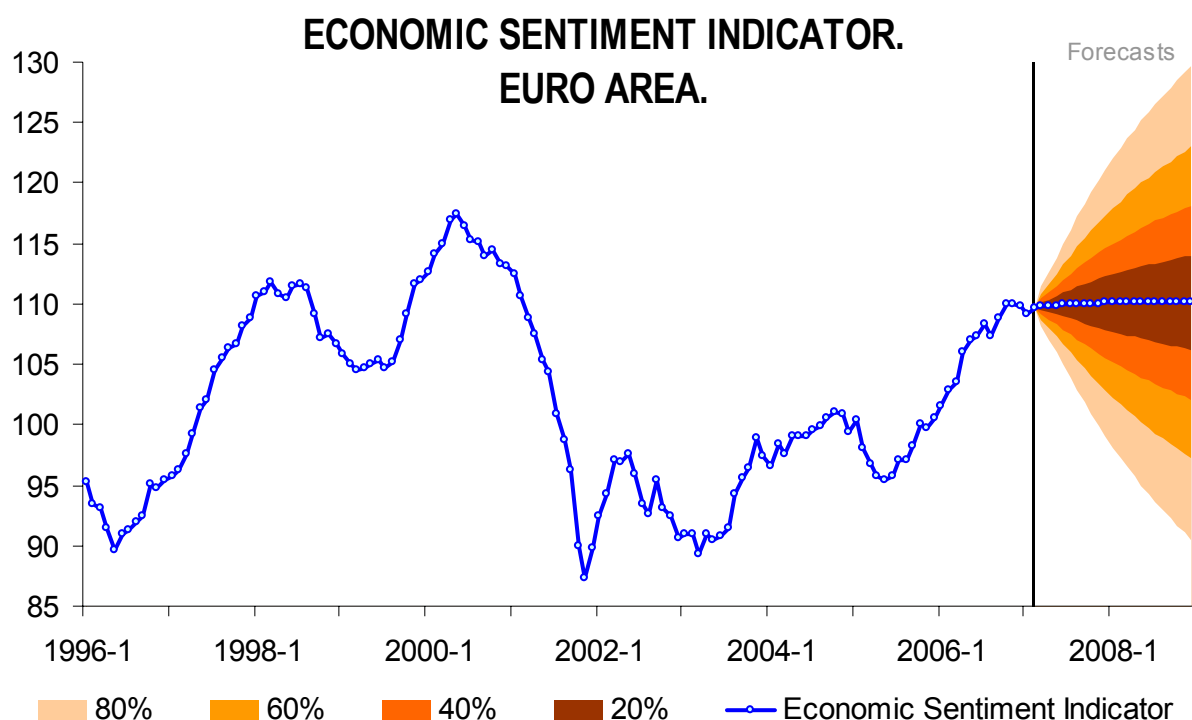
Source: EUROSTAT & IFL (UC3M)

Date: March 14, 2007



II.1.4 ECONOMIC SENTIMENT INDICATOR.

Graph II.1.4.1



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: February 28, 2007

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)	2004	2005	2006	Forecast	
				2007	2008
TOTAL (100%)	2.1	2.2	2.2	1.8	2.0
CORE (82.8%)	2.1	1.5	1.5	1.8	1.7
Processed food without tobacco (9.4%)	1.3	0.5	1.6	1.1	1.6
Processed food with tobacco (11.9%)	3.4	2.0	2.1	1.8	2.0
Non-energy industrial goods (30.0%)	0.8	0.3	0.6	1.1	0.9
Services (40.8%)	2.6	2.3	2.0	2.4	2.2
RESIDUAL (17.2%)	2.6	5.7	5.5	1.5	3.5
Non-Processed food (7.6%)	0.6	0.8	2.8	2.3	2.0
Energy (9.6%)	4.5	10.1	7.7	0.8	4.6

Source: EUROSTAT & IFL (UC3M)
Date: March 20, 2007



HICP ANNUAL GROWTH BY COMPONENTS IN THE EURO AREA													
		Harmonized Index of Consumer Prices										TOTAL 80 % Confidence Intervals*	
		Core				TOTAL 80 % Confidence Intervals*		Residual					
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services			Non processed food	Energy	TOTAL			
Weights 2007		9.4%	2.5%	30.0%	40.8%	82.8%		7.6%	9.6%	17.2%	100%		
ANNUAL AVERAGE RATE	1998	0.9	4.0	0.9	1.9	1.4		2.0	-2.6	-0.3	1.1		
	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	1.1	4.5	1.1	2.4	1.8	± 0.21	2.3	0.8	1.5	1.8	± 0.25	
	2008	1.6	3.9	0.9	2.2	1.7	± 0.51	2.0	4.6	3.5	2.0	± 0.58	
ANNUAL RATES (year-on-year rates)	2006	January	1.3	4.0	0.2	2.0	1.3		2.0	13.6	8.2	2.4	
		February	1.5	3.7	0.3	2.0	1.3		1.7	12.5	7.5	2.3	
		March	1.6	4.6	0.6	1.9	1.4		0.6	10.5	5.9	2.2	
		April	1.6	4.1	0.7	2.2	1.6		1.2	11.0	6.5	2.5	
		May	1.7	4.2	0.7	1.8	1.5		1.5	12.9	7.6	2.5	
		June	1.6	4.2	0.7	2.0	1.6		2.1	11.0	6.9	2.5	
		July	1.8	4.1	0.6	2.1	1.6		3.2	9.5	6.7	2.4	
		August	1.7	4.0	0.6	1.9	1.5		3.9	8.1	6.3	2.3	
		September	1.8	2.0	0.8	2.0	1.5		4.6	1.5	2.9	1.7	
		October	1.8	4.0	0.8	2.1	1.6		4.2	-0.5	1.5	1.6	
		November	1.7	4.0	0.8	2.1	1.6		4.4	2.1	3.1	1.9	
		December	1.5	4.3	0.9	2.0	1.6		3.7	2.9	3.3	1.9	
	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	1.0	4.8	1.1	2.4	1.8	± 0.14	3.4	1.7	2.5	1.9	± 0.12
		April	1.0	4.7	1.1	2.4	1.8	± 0.19	3.6	-0.8	1.1	1.7	± 0.21
		May	1.0	4.5	1.0	2.4	1.8	± 0.23	3.3	-1.6	0.5	1.6	± 0.30
		June	1.1	4.3	1.1	2.4	1.8	± 0.25	2.9	-1.2	0.6	1.6	± 0.35
		July	1.1	3.8	1.1	2.4	1.8	± 0.27	2.3	-2.2	-0.2	1.4	± 0.38
		August	1.2	3.8	1.2	2.4	1.9	± 0.29	1.4	-2.0	-0.5	1.5	± 0.41
		September	1.2	6.1	1.1	2.4	1.9	± 0.32	1.0	1.6	1.4	1.8	± 0.43
		October	1.2	4.0	1.1	2.4	1.8	± 0.35	1.6	3.8	2.8	2.0	± 0.46
		November	1.2	4.0	1.1	2.4	1.8	± 0.38	1.0	4.7	3.1	2.0	± 0.48
		December	1.2	3.7	1.1	2.4	1.8	± 0.40	1.0	4.9	3.1	2.0	± 0.50
	2008	January	1.3	3.0	1.0	2.2	1.7	± 0.42	1.4	5.6	3.7	2.0	± 0.50
		February	1.4	2.5	0.9	2.2	1.7	± 0.42	1.9	5.5	3.9	2.1	± 0.50
		March	1.5	4.3	0.9	2.4	1.8	± 0.43	2.0	4.4	3.3	2.1	± 0.49
		April	1.6	4.3	0.9	2.0	1.6	± 0.43	2.0	4.4	3.4	1.9	± 0.51
		May	1.6	4.3	0.9	2.2	1.7	± 0.44	2.0	4.5	3.4	2.0	± 0.52
		June	1.6	4.3	0.9	2.2	1.7	± 0.44	2.0	4.5	3.4	2.0	± 0.53
		July	1.6	4.3	0.9	2.2	1.7	± 0.46	2.0	4.5	3.4	2.0	± 0.53
		August	1.6	4.3	0.9	2.2	1.7	± 0.47	2.0	4.5	3.4	2.0	± 0.53
		September	1.6	3.7	0.9	2.2	1.7	± 0.49	2.0	4.5	3.4	2.0	± 0.53
		October	1.6	3.7	0.9	2.2	1.7	± 0.50	2.0	4.5	3.4	2.0	± 0.53
		November	1.6	3.7	0.9	2.2	1.7	± 0.50	2.0	4.5	3.4	2.0	± 0.53
		December	1.7	3.7	0.9	2.2	1.7	± 0.50	2.0	4.5	3.4	2.0	± 0.53

* Confidence intervals calculated with historical errors.

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: March 20, 2007



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 2007		9.4%	2.5%	30.0%	40.8%	82.8%	7.6%	9.6%	17.2%	100%	
MONTHLY RATES (Growth of the month over the previous month)	January	2005	0.1	0.2	-1.8	-0.3	-0.8	0.4	0.3	0.4	-0.6
		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	0.2	0.0	-2.1	-0.3	-0.9	1.3	1.0	1.2	-0.5
	February	2005	0.1	0.2	-0.1	0.4	0.2	0.7	1.4	1.1	0.3
		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	0.2	0.0	0.2	0.5	0.3	0.0	0.3	0.2	0.3
	March	2005	0.1	0.0	1.3	0.2	0.6	0.9	2.3	1.7	0.7
		2006	0.2	0.8	1.6	0.1	0.7	-0.2	0.5	0.2	0.6
		2007	0.0	0.0	1.5	0.1	0.6	0.5	1.4	1.0	0.7
		2008	0.1	1.8	1.5	0.2	0.7	0.6	0.3	0.4	0.7
	April	2005	0.1	0.5	0.7	0.0	0.3	-0.2	2.3	1.1	0.4
		2006	0.1	0.1	0.8	0.2	0.4	0.4	2.8	1.7	0.7
		2007	0.1	0.0	0.8	0.3	0.4	0.6	0.3	0.4	0.4
		2008	0.2	0.0	0.8	-0.1	0.3	0.6	0.3	0.4	0.3
	May	2005	0.1	0.1	0.1	0.4	0.3	0.6	-0.6	-0.1	0.3
		2006	0.1	0.2	0.2	0.1	0.1	0.9	1.0	1.0	0.3
		2007	0.1	0.0	0.2	0.1	0.1	0.5	0.3	0.4	0.2
		2008	0.2	0.0	0.2	0.3	0.2	0.5	0.3	0.4	0.3
	June	2005	0.1	0.2	-0.2	0.1	0.0	-0.4	1.6	0.7	0.1
		2006	0.0	0.3	-0.2	0.3	0.1	0.2	-0.1	0.1	0.1
		2007	0.1	0.0	-0.2	0.3	0.1	-0.2	0.3	0.1	0.1
		2008	0.1	0.0	-0.2	0.3	0.1	-0.2	0.3	0.1	0.1
	July	2005	0.0	0.6	-1.8	0.7	-0.3	-1.3	2.7	0.9	-0.1
		2006	0.1	0.5	-2.0	0.8	-0.3	-0.2	1.4	0.7	-0.1
		2007	0.1	0.0	-2.0	0.8	-0.3	-0.8	0.3	-0.2	-0.3
		2008	0.1	0.0	-1.9	0.8	-0.3	-0.8	0.3	-0.2	-0.3
	August	2005	0.1	0.1	0.1	0.3	0.2	-0.6	1.3	0.5	0.2
		2006	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.0	0.1
		2007	0.1	0.0	0.2	0.2	0.2	-0.8	0.3	-0.2	0.1
		2008	0.1	0.0	0.1	0.2	0.2	-0.8	0.3	-0.2	0.1
	September	2005	0.0	2.2	1.3	-0.5	0.3	-0.1	3.0	1.6	0.5
		2006	0.1	0.2	1.5	-0.4	0.3	0.6	-3.2	-1.6	0.0
		2007	0.1	2.4	1.4	-0.4	0.4	0.2	0.3	0.2	0.3
		2008	0.1	1.8	1.4	-0.4	0.4	0.2	0.3	0.2	0.3
	October	2005	0.1	0.1	0.7	-0.1	0.2	0.1	0.2	0.2	0.3
		2006	0.1	2.0	0.7	0.0	0.4	-0.4	-1.8	-1.2	0.1
		2007	0.1	0.0	0.7	0.0	0.3	0.2	0.3	0.2	0.3
		2008	0.1	0.0	0.7	0.0	0.3	0.2	0.3	0.2	0.3
	November	2005	0.2	0.0	0.3	-0.1	0.1	0.4	-3.0	-1.5	-0.3
		2006	0.1	0.1	0.3	-0.1	0.0	0.6	-0.5	0.0	0.0
		2007	0.1	0.0	0.3	-0.1	0.0	0.0	0.3	0.2	0.1
		2008	0.1	0.0	0.3	-0.1	0.0	0.0	0.3	0.2	0.1
	December	2005	0.2	0.0	-0.1	0.9	0.4	1.1	-0.7	0.1	0.3
		2006	0.0	0.3	0.0	0.9	0.4	0.4	0.1	0.2	0.4
		2007	0.1	0.0	-0.1	0.9	0.4	0.4	0.3	0.3	0.4
		2008	0.1	0.0	-0.1	0.9	0.4	0.4	0.3	0.3	0.4

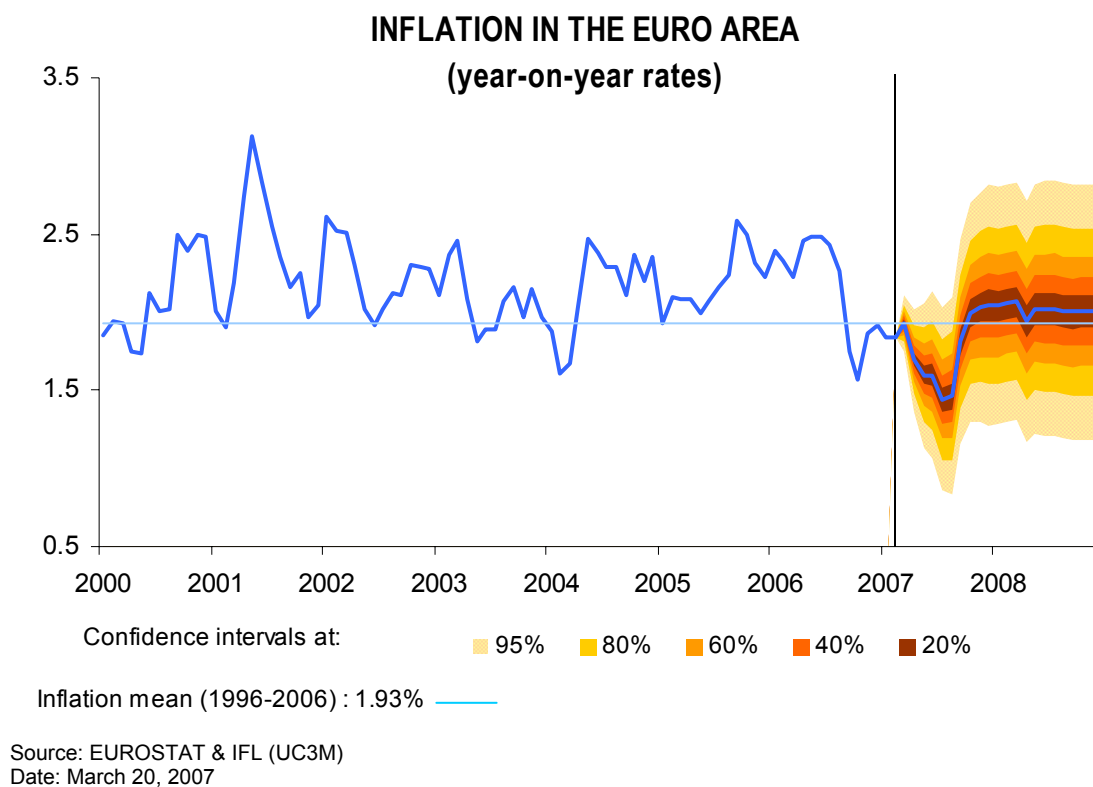
The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

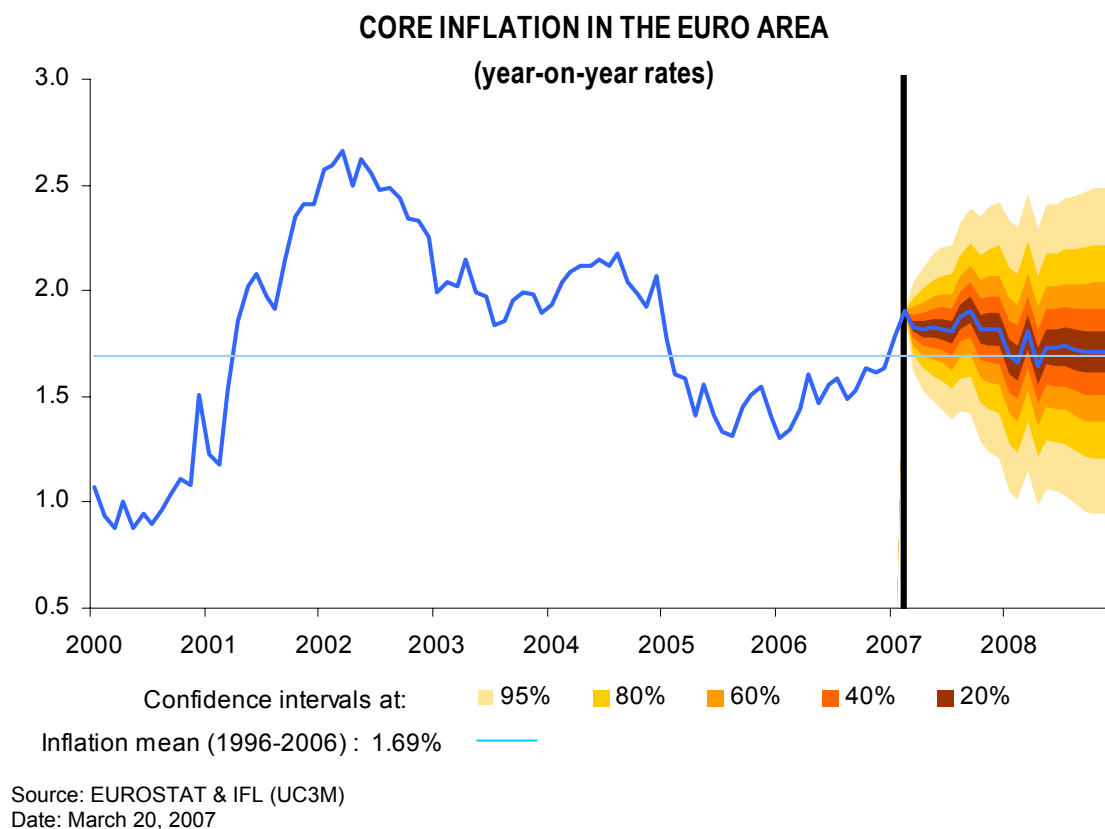
Date: March 20, 2007



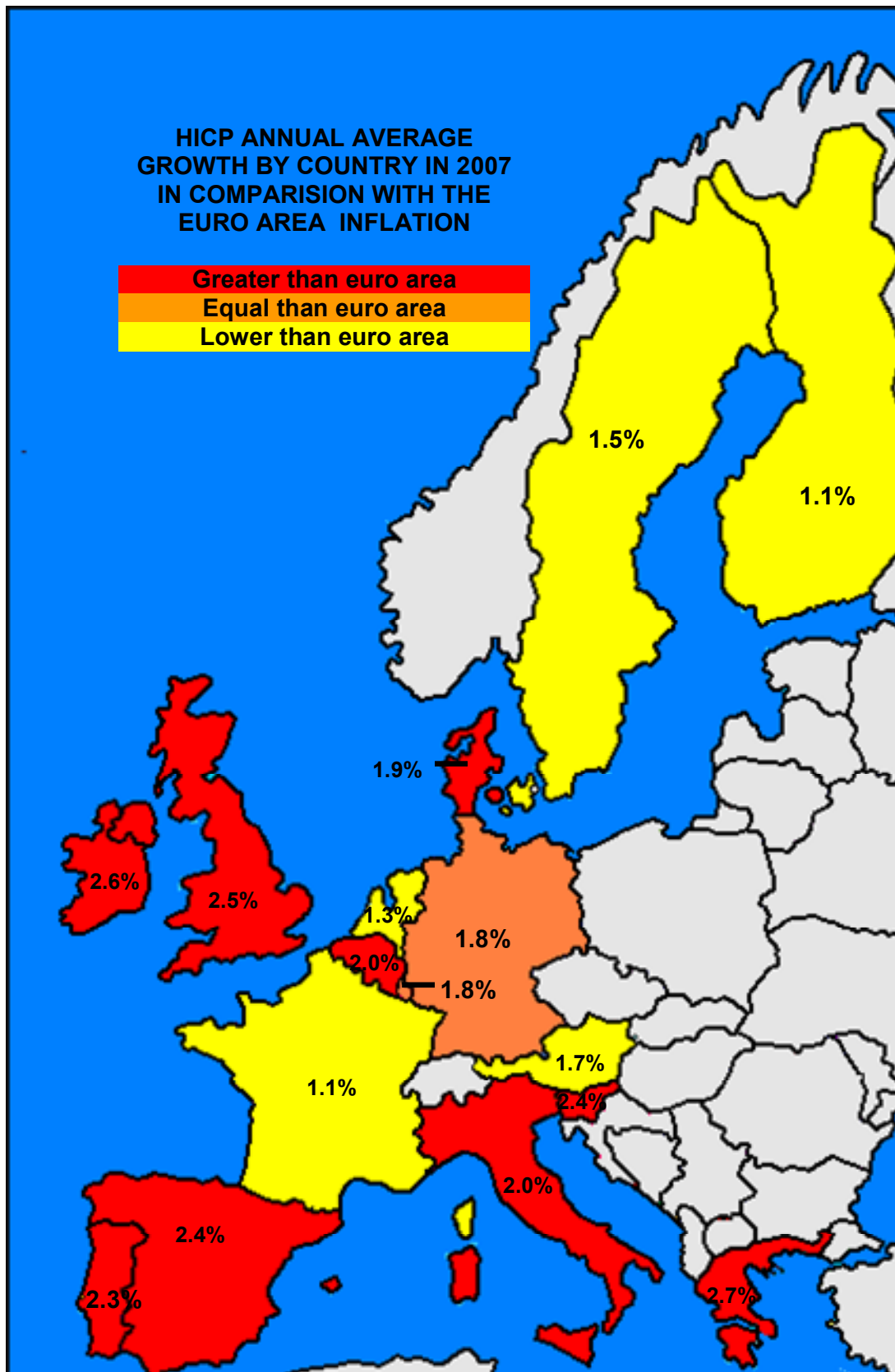
Graph II.1.5.1



Graph II.1.5.2



Graph II.1.5.3



Source: EUROSTAT & IFL (UC3M)
Date: March 20, 2007



HICP ANNUAL GROWTH BY COUNTRY IN THE EURO AREA AND THE EU																		
		European Union																
		Euro Area																
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovenia	Luxembourg				
Weights 2007		28.2%	20.7%	18.3%	12.3%	5.3%	3.4%	3.1%	3.1%	2.1%	1.6%	1.4%	0.3%	0.2%	United Kingdom	Sweden	Denmark	
ANNUAL AVERAGE RATE	1999	0.6	0.6	1.7	2.2	2.0	1.1	0.5	2.1	2.2	1.3	2.5	6.1	1.0	1.3	0.5	2.1	
	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	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	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	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	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	1.3	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	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	2.3	1.5	1.9	
	2007	1.8	1.1	2.0	2.4	1.3	2.0	1.7	2.7	2.3	1.1	2.6	2.4	1.8	2.5	1.5	1.9	
	2008	1.6	1.3	2.1	2.8	1.9	2.2	1.7	2.4	2.6	1.1	2.6	3.0	2.2	2.2	1.5	1.9	
ANNUAL RATES (year-on-year rates)	2006	January	2.1	2.3	2.2	4.2	1.8	2.8	1.5	3.0	2.7	1.2	2.5	2.6	4.1	1.9	1.1	2.0
		February	2.1	2.0	2.2	4.1	1.4	2.8	1.5	3.1	3.0	1.3	2.7	2.3	3.9	2.1	1.1	2.1
		March	1.9	1.7	2.2	3.9	1.4	2.2	1.3	3.3	3.8	1.2	2.8	2.0	3.7	1.8	1.5	1.8
		April	2.3	2.0	2.3	3.9	1.8	2.6	2.1	3.5	3.7	1.5	2.7	2.8	3.5	2.0	1.8	1.8
		May	2.1	2.4	2.3	4.1	1.8	2.8	2.1	3.3	3.7	1.7	3.0	3.4	3.6	2.2	1.9	2.1
		June	2.0	2.2	2.4	4.0	1.8	2.5	1.9	3.4	3.5	1.5	2.9	3.0	3.9	2.5	1.9	2.1
		July	2.1	2.2	2.3	4.0	1.7	2.4	2.0	3.9	3.0	1.4	2.9	1.9	3.4	2.4	1.8	2.0
		August	1.8	2.1	2.3	3.8	1.9	2.3	2.1	3.4	2.7	1.3	3.2	3.1	3.1	2.5	1.6	1.9
		September	1.0	1.5	2.4	2.9	1.5	1.9	1.3	3.1	3.0	0.8	2.2	2.5	2.0	2.4	1.2	1.5
		October	1.1	1.2	1.9	2.6	1.3	1.7	1.3	3.1	2.6	0.9	2.2	1.5	0.6	2.5	1.2	1.4
		November	1.5	1.6	2.0	2.7	1.6	2.0	1.6	3.2	2.4	1.3	2.4	2.4	1.8	2.7	1.5	1.8
		December	1.4	1.7	2.1	2.7	1.7	2.1	1.6	3.2	2.5	1.2	3.0	3.0	2.3	3.0	1.4	1.7
	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	2.7	1.6	1.8
		February	1.9	1.2	2.1	2.5	1.4	1.8	1.8	3.0	2.3	1.2	2.6	2.3	1.8	2.8	1.7	1.9
		March	2.1	1.3	2.1	2.6	1.4	2.2	1.8	2.7	1.8	1.1	2.6	2.3	1.8	2.9	1.5	2.0
		April	1.6	1.0	2.0	2.2	1.3	2.1	1.6	2.6	1.9	0.9	2.6	2.1	1.6	2.8	1.3	1.9
		May	1.6	0.9	2.0	2.0	1.3	1.9	1.6	2.6	2.0	0.9	2.4	1.9	1.3	2.7	1.3	1.9
		June	1.6	0.9	2.0	2.0	1.3	1.9	1.7	2.6	2.3	1.0	2.5	2.2	1.4	2.5	1.3	1.8
		July	1.5	0.9	1.9	1.9	1.3	1.9	1.6	2.7	2.3	1.1	2.4	2.9	1.9	2.4	1.4	1.7
		August	1.6	0.8	1.8	2.0	1.2	1.9	1.6	2.8	2.4	1.1	2.3	2.3	1.2	2.4	1.5	1.7
		September	2.0	1.1	2.0	2.5	1.4	2.3	1.8	2.6	2.2	1.2	2.7	2.2	1.5	2.5	1.5	1.9
		October	2.1	1.4	2.2	2.9	1.6	2.3	1.8	2.5	2.4	1.2	2.7	2.7	1.9	2.4	1.5	2.1
		November	2.1	1.4	2.2	3.0	1.4	2.2	1.8	2.5	2.6	1.1	2.7	2.8	2.2	2.3	1.4	2.0
		December	2.2	1.4	2.2	2.9	1.3	2.2	1.8	2.5	2.5	1.1	2.5	2.5	2.3	2.2	1.5	1.9
	2008	January	1.8	1.3	2.2	3.0	1.9	2.5	1.7	2.5	2.6	1.2	2.5	2.7	2.7	2.3	1.6	2.1
		February	1.7	1.4	2.2	3.0	1.9	2.3	1.7	2.7	2.6	1.1	2.6	3.0	2.0	2.2	1.5	1.9
		March	1.5	1.3	2.1	2.8	1.9	2.2	1.7	2.4	2.6	1.1	2.6	3.1	2.1	2.2	1.5	1.9
		April	1.6	1.3	2.2	2.7	1.9	2.2	1.7	2.3	2.6	1.1	2.6	3.0	2.0	2.2	1.4	1.9
		May	1.6	1.3	2.1	2.7	1.9	2.2	1.7	2.3	2.6	1.1	2.6	3.0	1.9	2.2	1.4	1.9
		June	1.6	1.3	2.1	2.7	1.9	2.2	1.7	2.3	2.6	1.1	2.6	3.0	1.7	2.2	1.4	1.9
		July	1.6	1.3	2.1	2.7	1.9	2.2	1.7	2.4	2.6	1.2	2.6	3.0	2.0	2.1	1.5	1.9
		August	1.6	1.3	2.1	2.7	1.9	2.2	1.7	2.5	2.6	1.2	2.6	3.0	1.8	2.1	1.5	1.9
		September	1.6	1.3	2.1	2.7	1.9	2.2	1.7	2.3	2.6	1.1	2.6	3.0	2.2	2.1	1.4	1.9
		October	1.6	1.3	2.1	2.7	1.9	2.2	1.7	2.3	2.6	1.1	2.6	3.0	2.6	2.1	1.4	1.9
		November	1.6	1.3	2.1	2.7	1.9	2.2	1.7	2.3	2.6	1.2	2.6	3.0	2.4	2.1	1.5	1.9
		December	1.6	1.3	2.1	2.7	1.9	2.2	1.7	2.2	2.6	1.2	2.6	3.0	2.4	2.1	1.5	1.9

The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: March 20, 2007



HICP MONTHLY GROWTH BY COUNTRY IN THE EURO AREA AND THE EU																		
		European Union																
		Euro Area																
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovenia	Luxembourg				
Weights 2007		28.2%	20.7%	18.3%	12.3%	5.3%	3.4%	3.1%	3.1%	2.1%	1.6%	1.4%	0.3%	0.2%	United Kingdom	Sweden	Denmark	
MONTHLY RATES (Growth of the month over the previous month)	January	2005	-0.6	-0.6	-1.0	-1.0	0.5	-1.3	0.0	0.2	-0.6	-0.5	-1.0	-0.5	-1.0	-0.5	-0.5	-0.2
		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	-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	-0.8	-0.5	-0.3
		2008	-0.6	-0.5	-1.0	-0.6	0.4	-1.4	0.0	-0.3	-0.3	-0.2	-0.6	-0.3	0.0	-0.6	-0.4	-0.1
	February	2005	0.4	0.7	-0.1	0.2	0.8	2.2	0.4	-1.7	-0.1	0.6	0.9	0.7	1.7	0.2	0.4	0.6
		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	0.4	0.4	0.7
		2007	0.5	0.2	0.1	0.1	0.7	2.4	0.4	-1.6	0.0	0.6	0.9	-0.1	1.0	0.5	0.5	0.8
		2008	0.4	0.3	0.1	0.0	0.6	2.2	0.4	-1.4	0.0	0.5	1.0	0.2	0.4	0.4	0.3	0.6
	March	2005	0.3	0.7	1.2	0.9	0.8	0.6	0.4	2.5	0.4	0.4	0.2	1.0	0.3	0.5	0.3	0.8
		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	0.2	0.7	0.5
		2007	0.3	0.5	1.2	0.8	0.8	0.3	0.3	2.4	0.7	0.2	0.3	0.7	0.1	0.3	0.5	0.6
		2008	0.1	0.4	1.1	0.6	0.9	0.3	0.3	2.2	0.7	0.2	0.3	0.8	0.2	0.3	0.4	0.6
	April	2005	0.0	0.2	0.8	1.4	0.2	0.2	-0.2	0.8	0.7	0.3	0.6	0.1	0.7	0.4	0.2	0.5
		2006	0.4	0.4	0.9	1.4	0.5	0.6	0.6	1.0	0.6	0.6	0.5	0.9	0.5	0.6	0.5	0.5
		2007	0.0	0.2	0.8	1.0	0.4	0.4	0.4	0.9	0.7	0.3	0.5	0.7	0.3	0.5	0.3	0.3
		2008	0.0	0.2	0.8	1.0	0.4	0.4	0.4	0.8	0.7	0.3	0.5	0.7	0.2	0.5	0.3	0.3
	May	2005	0.4	0.0	0.3	0.2	-0.1	0.2	0.0	0.4	0.6	-0.3	0.2	0.3	0.5	0.3	0.1	-0.1
		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	0.5	0.2	0.2
		2007	0.2	0.2	0.3	0.2	0.0	0.2	0.0	0.1	0.6	-0.1	0.4	0.7	0.4	0.4	0.2	0.2
		2008	0.2	0.2	0.3	0.2	0.0	0.2	0.0	0.1	0.6	0.0	0.4	0.7	0.2	0.4	0.2	0.2
	June	2005	0.2	0.2	0.0	0.3	-0.3	0.3	0.3	-0.2	0.1	0.3	0.3	0.1	-0.1	0.0	0.1	0.2
		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	0.3	0.0	0.2
		2007	0.1	0.1	0.1	0.2	-0.4	0.1	0.1	-0.1	0.2	0.1	0.3	0.0	0.3	0.1	0.0	0.1
		2008	0.1	0.1	0.1	0.2	-0.4	0.1	0.1	0.0	0.2	0.1	0.3	0.0	0.2	0.1	0.0	0.1
	July	2005	0.4	-0.2	-0.2	-0.6	-0.3	-1.0	-0.3	-1.3	0.4	-0.3	-0.1	0.8	-0.1	0.1	-0.3	-0.2
		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	0.0	-0.3	-0.3
		2007	0.3	-0.3	-0.4	-0.6	-0.3	-1.0	-0.2	-0.8	-0.1	-0.3	-0.2	0.4	-0.1	-0.1	-0.2	-0.3
		2008	0.3	-0.3	-0.4	-0.6	-0.3	-1.0	-0.2	-0.7	-0.1	-0.3	-0.2	0.4	0.2	-0.1	-0.1	-0.3
	August	2005	0.2	0.4	-0.2	0.5	0.3	1.8	0.2	-0.6	0.2	0.4	0.5	-0.5	1.4	0.3	0.3	0.1
		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	0.4	0.0	0.0
		2007	0.0	0.3	-0.2	0.3	0.3	1.7	0.3	-0.9	0.0	0.3	0.7	0.1	0.4	0.3	0.1	0.0
		2008	0.0	0.3	-0.2	0.3	0.3	1.7	0.3	-0.8	0.0	0.2	0.7	0.1	0.2	0.3	0.1	0.0
	September	2005	0.3	0.4	0.6	0.6	0.9	0.0	0.6	2.4	0.2	0.6	0.7	1.0	0.6	0.2	0.8	0.8
		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	0.1	0.5	0.4
		2007	0.0	0.1	0.8	0.3	0.7	-0.1	0.0	1.8	0.2	0.3	0.0	0.2	-0.2	0.2	0.5	0.6
		2008	-0.1	0.1	0.8	0.3	0.7	-0.1	0.0	1.6	0.2	0.2	0.0	0.2	0.2	0.2	0.4	0.6
	October	2005	0.0	0.0	0.7	0.8	0.0	-0.2	0.0	0.7	0.4	0.0	0.0	0.2	0.8	0.1	0.3	0.0
		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	0.2	0.2	-0.1
		2007	0.2	0.0	0.4	0.8	0.0	-0.2	0.0	0.6	0.2	0.1	0.0	-0.3	-0.2	0.1	0.2	0.1
		2008	0.2	0.0	0.4	0.8	0.0	-0.2	0.0	0.5	0.2	0.1	0.0	-0.3	0.2	0.1	0.2	0.1
	November	2005	-0.5	-0.3	0.0	0.2	-0.3	-0.1	-0.2	-0.2	0.2	-0.3	-0.2	-0.6	-1.0	0.0	-0.3	-0.4
		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	0.2	0.0	0.0
		2007	-0.1	0.1	0.1	0.3	-0.2	0.1	0.1	-0.1	0.2	-0.1	0.0	0.4	0.4	0.1	-0.1	-0.1
		2008	-0.1	0.1	0.1	0.3	-0.2	0.1	0.1	-0.1	0.2	-0.1	0.0	0.4	0.2	0.1	0.0	-0.1
	December	2005	1.0	0.2	0.0	0.2	-0.4	0.1	0.3	0.6	0.1	0.1	-0.2	-0.1	-0.4	0.3	0.1	0.1
		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	0.6	0.0	0.0
		2007	1.0	0.3	0.1	0.3	-0.4	0.1	0.4	0.5	0.1	0.1	0.2	0.2	0.2	0.4	0.0	-0.1
		2008	1.0	0.3	0.1	0.3	-0.4	0.0	0.4	0.5	0.1	0.1	0.2	0.2	0.2	0.4	0.1	-0.1

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: March 20, 2007



II.2. ECONOMIC GROWTH, INFLATION AND MONETARY POLICY

II.2.1. Economic growth

In the last quarter of 2006, the real GDP of the euro area registered a year-on-year growth rate of 3.3%, six tenths more than in the previous quarter, according to figures corrected for seasonality and calendar effect. In terms of the quarter-on-quarter rate, growth was 0.6%, versus 0.3% in the previous quarter.

After this result, the euro area economy ended last year with an average annual growth rate of 2.7%, versus the previous year's 1.5%, continuing the expansive phase which started in mid-2003. Eurostat has also published the average annual growth rate not adjusted for seasonality and calendar effect, which was 2.6%. When it comes to evaluating our forecasts, remember that they are estimated with data adjusted for seasonality and calendar. GDP growth in the euro area last year was as forecast by the IFL when the Macroeconomic Accounts figures corresponding to the third quarter were published.

Average annual growth continued to rest on domestic demand, which provided 2.4 pp, with foreign demand providing the remaining three tenths, versus a negative contribution (-0.2 pp) in 2005. However, the acceleration observed last year was due to both domestic and foreign demand, as the former increased its contribution to growth by 0.7 pp and the latter by 0.5pp.

Table II.2.1.1

ANNUAL GROWTH RATES IN THE EURO AREA*						
	Observed			Forecasts		
	Aver ⁽²⁾ 2005	Aver ⁽²⁾ 2006	2006 Q IV ⁽¹⁾	2007 Q I ⁽¹⁾	Aver ⁽²⁾ 2007	Aver ⁽²⁾ 2008
Domestic Demand**	1.7	2.4	2.2	2.5	2.3	2.4
Foreign Demand**	-0.2	0.3	1.1	0.4	0.3	0.1
GDP	1.5	2.7	3.3	2.9	2.6	2.5

* Adjusted for seasonality and working days effect.

** Contribution to GDP growth.

Source: EUROSTAT & IFL (UC3M)

Date: March 6, 2007

(1) Year –on-year rate

(2) Annual average rate

The improvement in domestic demand, without considering change in inventories, came basically from greater investment, which registered an average annual growth rate of 4.2%. On the other hand, household consumption registered more moderate growth than investment, with an increase

of 1.8% (annual average rate), around three tenths more than in 2005.

Analysing the composition of growth, we see that in the fourth quarter of 2006, private consumption showed some recovery, increasing its annual growth rate from the 1.7% of the third quarter to 2.1%, versus practical stability in the three previous quarters. Gross fixed capital formation continues strong and accelerated, reaching a year-on-year rate of 4.8% in the fourth quarter, nearly one point more than the previous quarter. However, change in inventories had a negative contribution to growth of 0.5 pp.

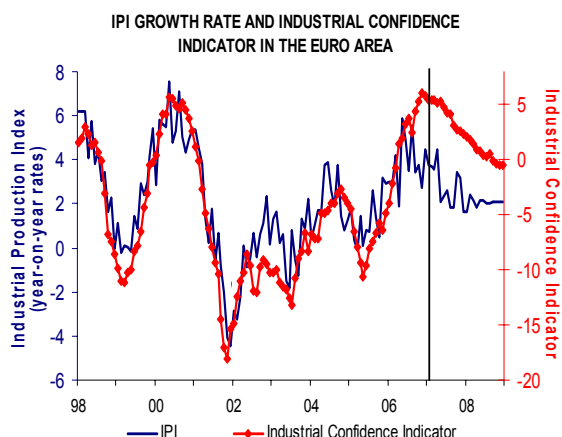
On the other hand, external demand performed well, with a contribution of 1.1 pp to GDP growth, versus the zero contribution of the three previous quarters. This good performance of foreign demand was due to the expansion of exports, which registered a year-on-year growth rate of 9.8%, three points higher than the previous quarter. These foreign trade flows were especially strong in Germany, France and Italy. Although a good export figure was expected, there may be an upwards bias due the effect that a delay in the receipt of foreign trade declarations in Germany had on the country's export figures, as specified in the press release issued by the German Federal Statistical Office on February 22.

The Industrial Production Index (IPI) in the euro area in January performed better than expected, with an annual growth rate of 3.7%, instead of the forecast 3.2%. This discrepancy was due to the upwards innovations registered largely in the capital equipment sector and, to a lesser extent, in the intermediate goods and non-durable consumer sectors. The forecasts for this indicator have been revised upwards slightly for 2007 and 2008, by three tenths and one, providing rates of 2.9% and 2.1%, respectively.

The Industrial Confidence Indicator for the euro area in February has also been recently published. In January, there was a fall in agents' confidence and it remained on the same level in February, slightly lower than was registered in December. The forecasts estimated in the IFL point to a gradual fall in the confidence of economic agents in the evolution of the industrial sector in 2007 and 2008, although at a higher level than was observed in the years in which the sector experienced low growth.



Graph II.2.1.1



* Year-on-year rates.

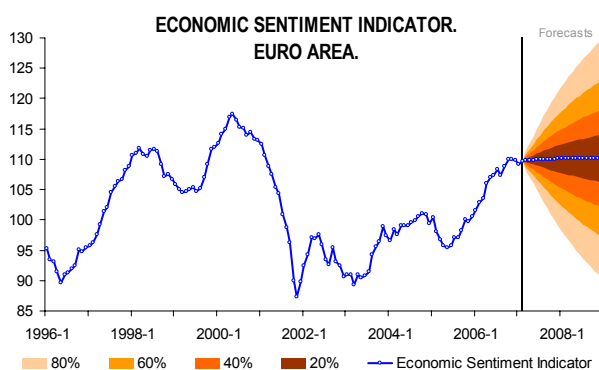
IPI figures have been adjusted by working days and exclude the construction sector.

Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)

Date: March 14, 2007

Regarding the Economic Sentiment Indicator, new information has still not been published as we close this Bulletin. According to our latest forecasts, and in view of the February figure (latest figure available), everything seems to point to the fall registered in the indicator in January being transient, largely responding to the impact of increased VAT rates in Germany on agents' expectations related to the evolution of the euro area economy. Therefore, after a decline in agents' confidence in the first quarter, we expect a slight improvement in the next few months, subsequently stabilising from the fourth quarter of 2007 on.

Graph II.2.1.2



Source: EUROSTAT & IFL (UC3M)

Date: February 28, 2007

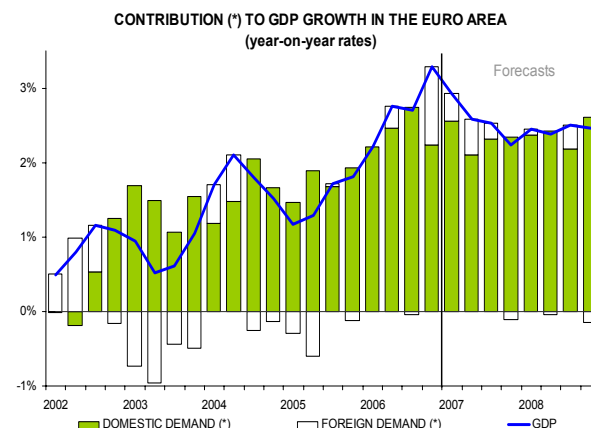
With the new National Accounts figures for the fourth quarter in the euro area and the partial information available concerning some indicators in the first quarter of this year, the forecasts for real GDP growth in the euro area have again been revised for 2007 - 2008.

The new estimates represent an upwards revision of GDP growth in the euro area in the forecasting period, 0.3 pp for 2007 and 0.1 pp for 2008, leading to growth rates of 2.6% and 2.5%, respectively.

The expected GDP growth profile shows deceleration during the year, more so in the second half of the year. After the heavy acceleration in the fourth quarter of 2006, we expect some deceleration in the first quarter, with a year-on-year rate of 2.9%, four tenths less than in the previous period, stabilising in the following quarters, in terms of the quarter-on-quarter rate, at levels prior to the heavy acceleration of the fourth quarter of 2006. In the second and third quarters of 2007, the forecast growth rate is 2.6% in the second and 2.5% in the third, subsequently falling to 2.2%, due to the rise registered a year earlier. After this evolution, the average annual growth rate will be near to the previous year's figure (2.6%). For 2008, the quarterly profile will stabilise at around 2.5%.

As for the composition of growth in both 2007 and 2008, we expect domestic demand to continue to be the principal driving force behind growth in the euro area economy, contributing 2.3 pp and 2.4 pp, respectively. The rest will come from external demand, 0.3 pp in 2007 and 0.1 pp in 2008. Private consumption will have a stable average annual growth rate, 1.8%, recovering in 2008. On the other hand, gross capital formation will decrease its annual growth rate by three tenths in 2007, continuing in 2008. Foreign trade flows will lose force in 2007 and, although import growth will remain stable in 2008, export growth will be slower.

Graph II.2.1.3



Source: EUROSTAT & IFL (UC3M)

Date: March 6, 2007



II.2.2. Inflation

Headline inflation in the euro area in February was a monthly 0.3% and an annual 1.8%, as expected.

By component, however, there was an upwards innovation in core inflation which compensated the downwards innovation in the other components. The upwards innovation in core inflation was due to greater than expected growth in the prices of non-energy industrial goods. This greater growth does not appear to be due to the materialisation of the effect of the VAT increase in Germany this month, in view of our estimates. Indeed, the effect of VAT on this component in the euro area in February would not have exceeded 0.05pp and would not have been significant. In the headline inflation aggregate, it is estimated that the VAT effect in February was less than 0.01 pp and not significant.

Outside core inflation, there were downwards innovations in both unprocessed food and energy prices.

Table II.2.2.1

ANNUAL HICP GROWTH RATES IN THE EURO AREA *						
HICP	Observed			Forecasts		
	Aver 2005 ⁽²⁾	Aver 2006 ⁽²⁾	2007 Feb ⁽¹⁾	2007 Mar ⁽¹⁾	Aver 2007 ⁽²⁾	Aver 2008 ⁽²⁾
CORE (82.8%)	1.5	1.5	1.9	1.8 (±0.14)	1.8 (±0.21)	1.7 (±0.51)
TOTAL (100%)	2.2	2.2	1.8	1.9 (±0.12)	1.8 (±0.25)	2.0 (±0.58)

* 80% confidence intervals calculated with historical errors.

Source: EUROSTAT & IFL(UC3M)

Date: March 20, 2007

⁽¹⁾ Year-on-year rate

⁽²⁾ Annual average rate

With the February inflation figure and information about fuel products up to March 20, the forecasts of total inflation in 2007 for the euro area have been revised upwards by 0.08 pp to 1.8% (±0.25), and one tenth of a percentage point higher for 2008, leading to an average annual rate of 2.0% (±0.58) for the year.

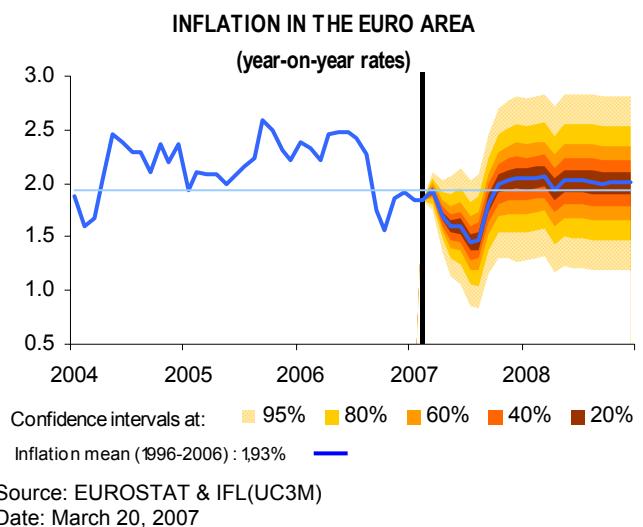
This upwards revision responds to the fact that, on the one hand, greater price increases are expected in the core component, especially non-energy industrial goods, for which there was a significant upwards innovation in February which, as we mentioned earlier, does not appear to be due to the higher VAT rate in Germany.

We are now forecasting a core inflation rate of 1.8% in 2007 and 1.7% in 2008, both rates being one tenth of a percentage point higher than our previous forecasts.

Energy price increases are also greater than previously expected, compensating for the effect of lower than previously expected unprocessed food prices, thus leading to an upwards revision of the headline inflation rate.

For March, 2007 we are expecting a slight increase in inflation with an annual rate of 1.9% (±0.12) compared with the 1.8% of January and February. From then on, there will be a progressive decline in annual rates up to the summer, with a minimum of around 1.4% in July. The year will end, however, with rates of around 2.0%, stabilising on this level in 2008.

Graph II.2.2.2



By country, the fact that euro area inflation in February remained at the same levels as in January (annual rate) is due to different country performance values: on the one hand, Portugal, Finland, Ireland, Slovenia, Luxembourg and France registered lower inflation in February than in January, whereas Germany, Spain, Belgium and Austria registered a slight increase and Italy and Netherlands a larger increase.

For 2007, for most euro area countries, we are forecasting moderation of the average annual rate of inflation relative to 2006. The most discreet cases will be found in Italy, Finland, Ireland and Slovenia. For Germany and Austria, the inflation forecast for 2007 will be no lower than in 2006.

Outside the euro area, for the other European Union countries, inflation is either expected to remain at the 2006 level (Sweden and Denmark) or to rise (United Kingdom). In the United Kingdom, its annual rates rose considerably in 2006, inverting the country's inflation differential with the euro area in the last few years. In 2007, the differential



resulting from higher inflation in the UK than in the euro area is expected to gradually shrink.

Graph II.1.5.3 shows the inflation differentials with the euro area in 2007, reflected in the interest rate differentials shown in table II.2.2.2.

Table II.2.2.2

	EXPECTED INFLATION		REAL INTEREST RATE	
	Three Months	One Year	Three Months	One Year
Slovenia	2.60	3.02	1.29	1.07
Greece	2.58	2.37	1.31	1.72
Spain	2.56	2.75	1.32	1.34
Ireland	2.54	2.58	1.35	1.51
Portugal	2.42	2.61	1.46	1.48
Belgium	2.14	2.20	1.74	1.89
Italy	2.09	2.13	1.80	1.96
Luxembourg	1.87	2.16	2.01	1.93
Austria	1.71	1.72	2.17	2.37
Germany	1.69	1.29	2.19	2.80
Netherlands	1.54	1.92	2.35	2.17
France	1.18	1.31	2.71	2.78
Finland	1.12	1.14	2.77	2.95

Source: EUROSTAT & IFL(UC3M)

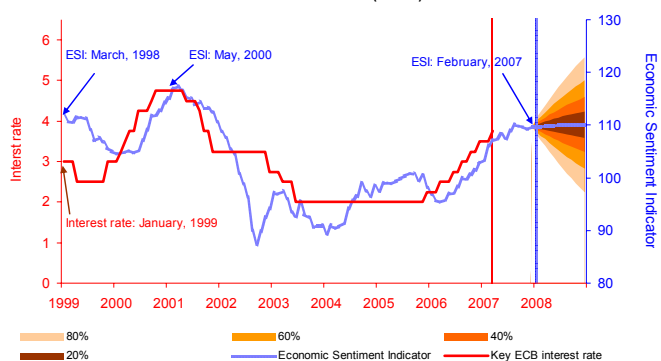
Date: March 20, 2006

II.2.3 Monetary policy

With regards to the implications of these new forecasts for monetary policy, the probability of meeting the ECB inflation target in 2008 is now slightly less than 50%. The forecasts of the annual rates for the different months of 2008 are 2% practically all year long, with 2.1% in a couple of months and only one month slightly beneath 2%. In view of these forecasts and the expected evolution of the euro area economy and the Economic Sentiment Indicator, the ECB can be expected to raise interest rates again to 4-4.25% throughout 2007.

Graph II.2.3.1

KEY ECB INTEREST RATE AND ECONOMIC SENTIMENT INDICATOR
IN THE EURO AREA ($r=0.85$)



Note: The Economic Sentiment Indicator values have been carried backwards ten periods in the future. The last values are forecasts together with the confidence intervals.

Source: EUROPEAN COMMISSION, ECB & IFL (UC3M)

Date: March 8, 2007



II.3. TABLES AND PLOTS.

Tables:

- Methodology: analysis of euro area inflation by component.
- Forecast errors in the monthly inflation rate by component in the euro area in February.
- Forecast errors in the monthly inflation rate in the euro area and the European Union in February.

Plots:

- Year-on-year rates in the HICP of the euro area (observed values and forecasts).
- 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).



METHODOLOGY: ANALYSIS OF EURO AREA INFLATION BY COMPONENT

AGGREGATES		BASIC COMPONENTS	
HICP TOTAL	<div>IPSEBENE</div> <div>82.775%</div> <div>1 + 2 + 3 + 4</div>	<div>BENE</div> <div>41.932%</div> <div>1 + 2 + 3</div>	<div>(1) AE (a)</div> <div>9.449 %</div> <div>HICP Processed Food excluding tobacco</div>
	<div>CORE INFLATION</div> <div>(IT IS CALCULATED ON THE IPSEBENE INDEX)</div>		<div>(2) TOBACCO</div> <div>2.479 %</div> <div>HICP Tobacco</div>
	<div>RESIDUAL INFLATION</div> <div>17.245%</div> <div>5 + 6</div>		<div>(3) MAN</div> <div>30.004 %</div> <div>HICP Non Energy Industrial Goods</div>
			<div>RESIDUAL INFLATION</div> <div>(IT IS CALCULATED ON THE RESIDUAL INDEX)</div>
			<div>(5) ANE</div> <div>7.63 %</div> <div>HICP Non processed Food</div>
			<div>(6) ENE</div> <div>9.615 %</div> <div>HICP Energy</div>
HICP = 0.09449 AE + 0.02479 TOBACCO + 0.30004 MAN + 0.40823 SER + 0.0763 ANE + 0.09615 ENE			

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

Source: EUROSTAT & IFL (UC3M)

2007 weights

FORECAST ERRORS IN THE MONTHLY INFLATION BY COMPONENTS IN THE EURO AREA IN FEBRUARY					
	Weights 2007	Observed Annual Growth	Observed Monthly Growth	Forecast Monthly Growth	Confidence interval at 80%
HICP Processed Food	119.28	2.12	0.17	0.17	± 0.14
HICP Processed Food excluding tobacco	94.49	1.20	0.10	0.21	± 0.09
HICP Tobacco	24.79	5.62	0.45	0.01	± 0.13
HICP Non Energy Industrial Goods	300.04	1.12	0.22	0.01	± 0.10
HICP Non Energy Processed Goods	419.32	1.41	0.21	0.05	± 0.09
HICP Services	408.23	2.39	0.52	0.52	± 0.14
CORE INFLATION	827.55	1.90	0.36	0.28	± 0.08
HICP Unprocessed Food	76.30	2.75	-0.50	0.00	± 0.46
HICP Energy (2)	96.15	0.76	0.32	0.67	± 0.60
RESIDUAL INFLATION	172.45	1.64	-0.05	0.37	± 0.39
GLOBAL INFLATION	1000	1.84	0.29	0.30	± 0.09

Source: EUROSTAT & IFL(UC3M)

Date: March 15, 2007

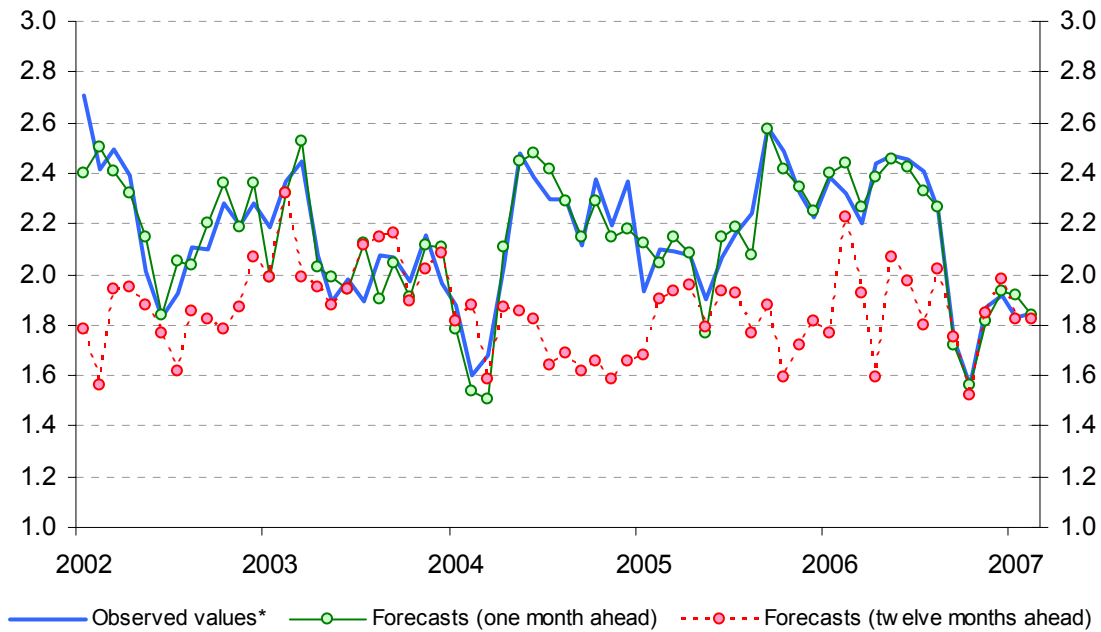


FORECAST ERRORS IN THE MONTHLY INFLATION RATE IN THE EURO AREA AND EUROPEAN UNION IN FEBRUARY						
	Weights 2007 euro area	Weights 2006 EU	Observed Monthly Rate	Forecast	Confidence Intervals at 80%	Observed Annual Rate
Spain	122.91		0.08	0.08	± 0.15	2.45
Germany	281.62		0.49	0.58	± 0.29	1.88
Austria	31.20		0.39	0.37	± 0.37	1.80
Belgium	33.83		2.37	1.89	± 0.32	1.78
Finland	16.16		0.63	0.56	± 0.37	1.17
France	207.44		0.21	0.50	± 0.20	1.21
Greece	30.60		-1.58	-1.45	± 0.78	3.04
Netherlands	52.85		0.65	0.63	± 0.33	1.37
Ireland	14.08		0.87	1.10	± 0.30	2.56
Italy	182.75		0.10	-0.19	± 0.23	2.10
Luxembourg	2.41		1.05	0.55	± 0.32	1.84
Portugal	20.79		-0.04	0.01	± 0.66	2.34
Slovenia	3.35		-0.12	0.24	± 0.24	2.28
Denmark		11.73	0.78	0.55	± 0.27	1.88
United Kingdom		186.86	0.48	0.25	± 0.33	2.78
Sweden		18.74	0.46	0.29	± 0.50	1.73

Source: EUROSTAT & IFL(UC3M)
Date: March 15, 2007



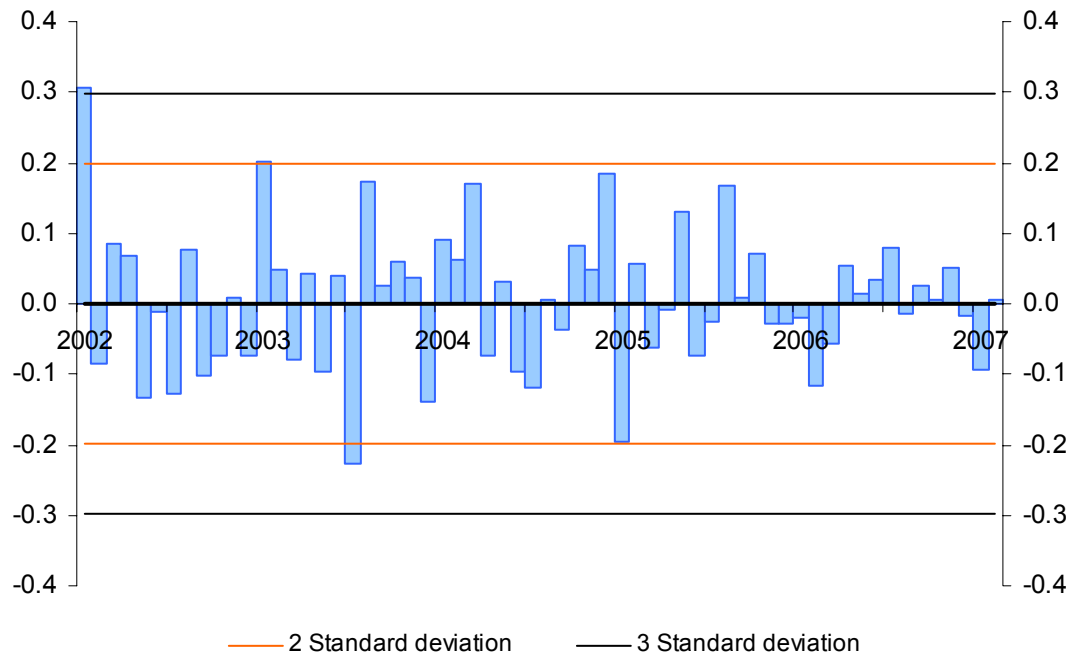
YEAR-ON-YEAR RATES IN THE HICP OF THE EURO AREA



* Observed values without revisions in the HICP

Source : EUROSTAT & IFL(UC3M)
Date: March 20, 2007

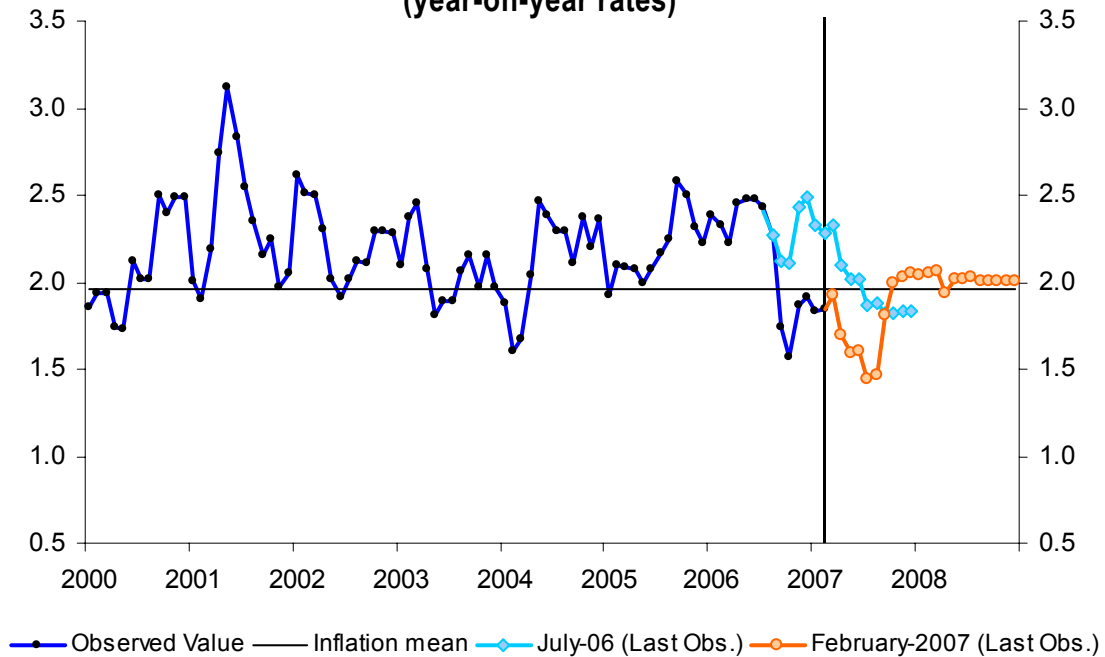
ONE MONTH AHEAD FORECAST ERRORS IN THE EURO AREA INFLATION



Source : EUROSTAT & IFL(UC3M)
Date: March 20, 2007

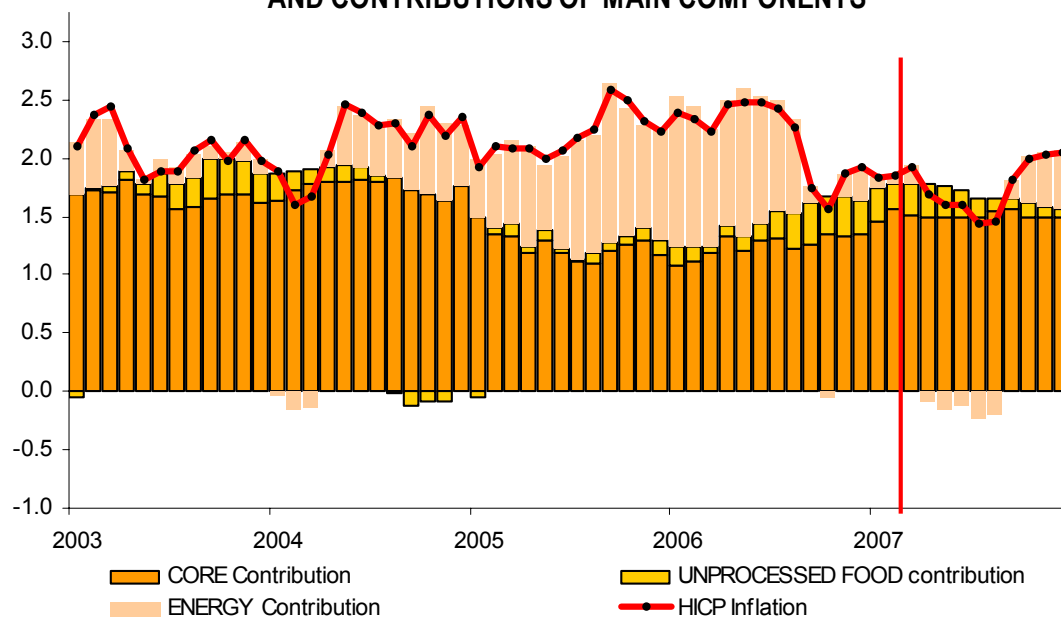


INFLATION IN THE EURO AREA (year-on-year rates)



Source: EUROSTAT & IFL(UC3M)
Date: March 20, 2007

YEAR-ON-YEAR RATE OF EURO AREA INFLATION AND CONTRIBUTIONS OF MAIN COMPONENTS

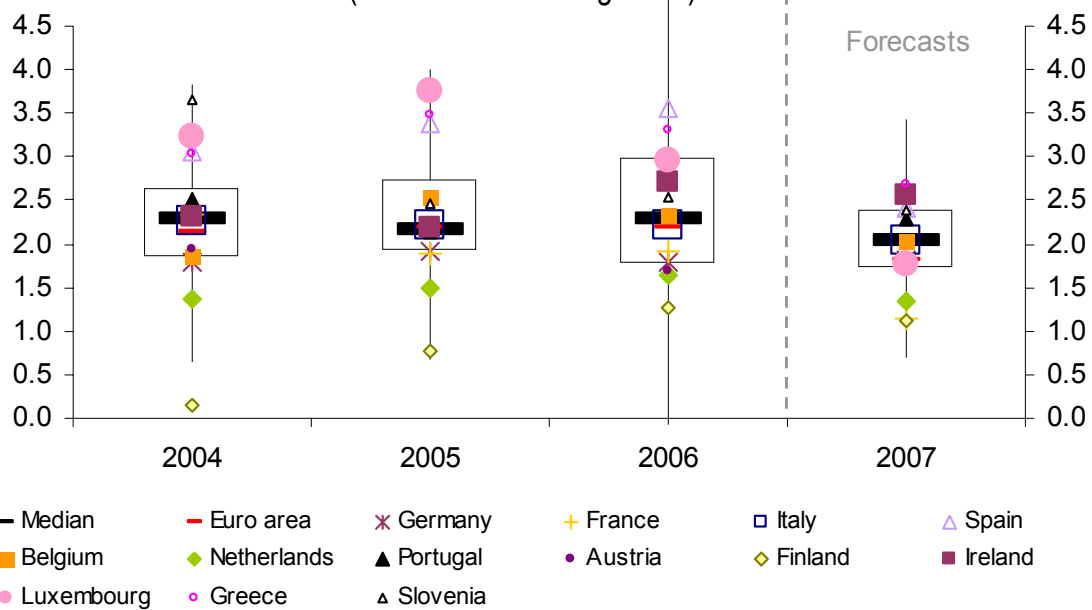


Source: EUROSTAT & IFL(UC3M)
Date: March 20, 2007



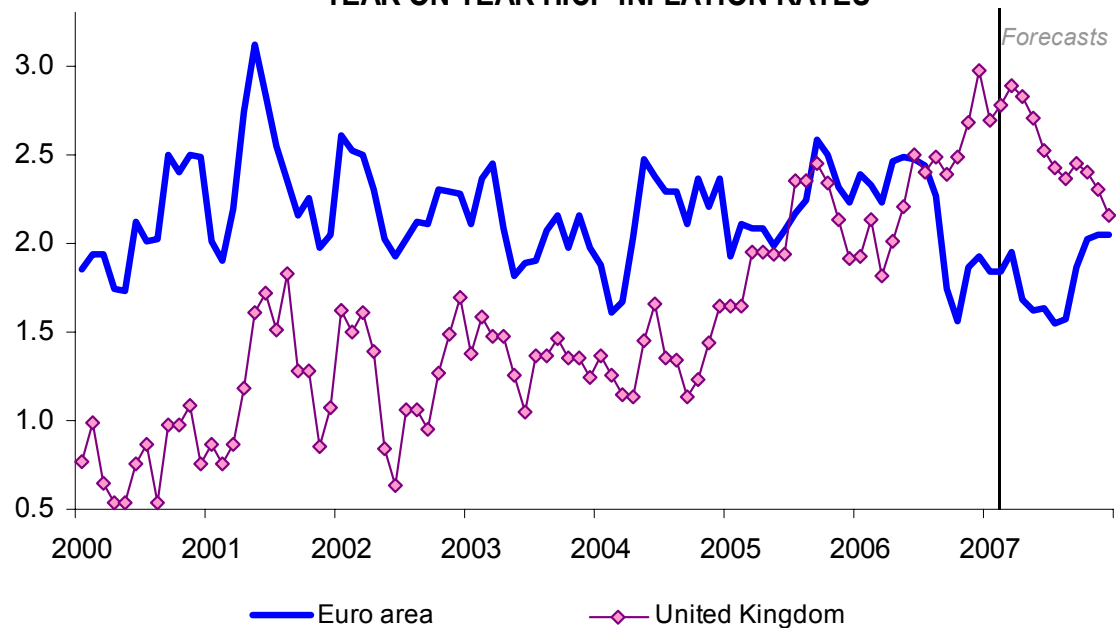
BOX DIAGRAM OF EURO AREA COUNTRIES INFLATION

(HICP Annual average rate)



Source: EUROSTAT & IFL(UC3M)
Date: March 20, 2007

YEAR-ON-YEAR HICP INFLATION RATES



Source: EUROSTAT & IFL(UC3M)
Date: March 20, 2007



III. UNITED STATES.

III.1. MACROECONOMIC FORECASTS.

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

Table III.1.1.1

ANNUAL GROWTH RATE IN THE IPI SECTORS IN THE US						
		Consumer Goods		Equipment & Supplies	Materials	TOTAL
		Durable	Non durable			
ANNUAL AVERAGE RATE	2003	3.4	0.5	1.6	0.9	1.1
	2004	1.4	1.4	2.6	3.1	2.5
	2005	1.0	3.5	4.6	2.2	3.2
	2006	-0.3	1.7	4.0	4.5	3.9
	2007	0.2	2.8	2.4	1.9	1.6
	2008	3.5	1.5	2.8	3.0	2.8
ANNUAL RATES*	2006	QI	1.4	0.8	4.1	3.3
		QII	0.6	1.3	4.1	3.8
		QIII	-0.6	2.4	4.8	5.2
		QIV	-2.5	2.2	2.8	3.5
	2007	QI	-2.0	4.2	3.3	3.0
		QII	-0.4	2.4	2.1	1.0
		QIII	-0.2	2.0	1.3	0.3
		QIV	3.3	2.3	2.7	2.0
	2008	QI	3.2	1.0	2.3	2.2
		QII	3.7	1.6	2.8	2.9
		QIII	3.5	1.7	3.0	3.0
		QIV	3.5	1.6	3.0	3.1

The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: FEDERAL RESERVE & IFL (UC3M)

Date: March 16, 2007.

Table III.1.1.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN THE US							
	2002	2003	2004	2005	2006	2007	2008
January	-4.51	2.91	1.17	3.64	2.83	3.05	2.44
February	-3.84	3.44	1.91	2.73	2.82	3.43	2.13
March	-3.06	2.63	1.31	2.77	4.16	2.38	2.10
April	-0.32	0.27	2.43	3.86	2.94	1.81	2.79
May	-0.65	0.31	3.40	2.70	4.18	0.83	2.84
June	0.88	-0.65	2.61	4.02	4.26	0.43	3.04
July	0.66	-0.10	3.69	3.72	4.96	-0.67	3.06
August	1.47	0.00	2.76	3.72	4.62	0.73	3.01
September	2.23	0.24	1.94	2.24	5.90	1.51	3.05
October	2.36	0.63	3.00	2.34	4.49	2.04	3.06
November	2.88	1.39	2.37	3.39	3.02	2.55	3.07
December	2.71	1.82	3.28	3.83	3.04	1.48	3.03

The figures in the shaded area are forecasts.

Source: FEDERAL RESERVE & IFL (UC3M)

Date: March 16, 2007.



III.1.2 INFLATION.

AVERAGE ANNUAL RATE OF GROWTH IN US

CONSUMER PRICES INDEX (CPI)	2003	2004	2005	2006	2007 (forecasts)	2008 (forecasts)
Food (1)	2.1	3.4	2.4	2.3	3.3	2.9
Energy (2)	12.2	10.9	16.9	11.2	-2.1	3.4
Residual Inflation (3=2+1)	5.3	6.0	7.6	5.7	1.1	3.1
Non-food and non-energy goods (4)	-2.0	-0.9	0.5	0.3	-0.2	0.2
-Durable goods	-3.2	-2.3	0.4	-0.7	-1.8	-1.1
-Nondurable goods	-0.7	0.5	0.6	1.3	1.4	1.6
Non-energy services (5)	2.9	2.9	2.8	3.4	3.6	3.4
-Services less owner's equivalent rent of primary residence (5-a)	3.2	3.3	3.1	3.4	3.4	3.4
-Owner's equivalent rent of primary residence (a)	2.4	2.3	2.3	3.5	3.8	3.5
Core Inflation (6=4+5)	1.5	1.8	2.2	2.5	2.5	2.6
[Confidence intervals at 80% level]					± 0.28	± 0.47
Core inflation less owner's equivalent rent of primary residence (6-a)	1.1	1.6	2.1	2.1	1.9	2.1
Headline Inflation (7=6+3)	2.3	2.7	3.4	3.2	2.2	2.7
[Confidence intervals at 80% level]					± 0.53	± 1.74
All items less owner's equivalent rent of primary residence (7-a)	2.2	2.8	3.7	3.1	1.7	2.4

Source: BLS & IFL (UC3M)
Date: March 16, 2007



USA ANNUAL RATES OF GROWTH ON CPI AND ITS COMPONENTS

		CONSUMER PRICE INDEX											ALL		Confidence Intervals at 80% level	
		CORE INFLATION							RESIDUAL INFLATION							
		Non energy commodities less food			Non energy services			ALL	Confidence Intervals at 80% level			ALL				
		durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL			Food	Energy					
RI December 2006		11.1%	10.6%	21.7%	23.8%	31.8%	55.7%	77.4%		13.9%	8.7%	22.6%	100.0%			
AVERAGE ANNUAL	2001	-0.6	1.1	0.3	3.8	3.6	3.7	2.7		3.1	3.8	3.3	2.8			
	2002	-2.6	0.4	-1.1	4.1	3.6	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	-1.8	1.4	-0.2	3.8	3.4	3.6	2.5	± 0.28	3.3	-2.1	1.1	2.2	± 0.53		
	2008	-1.1	1.6	0.2	3.5	3.4	3.4	2.6	± 0.47	2.9	3.4	3.1	2.7	± 1.74		
ANNUAL RATES (growth over the same month of the previous year)	2006	January	-0.6	1.0	0.1	2.5	3.3	2.9	2.1		2.6	24.8	10.5	4.0		
		February	-0.6	0.7	0.0	2.5	3.2	2.9	2.1		2.8	20.1	9.0	3.6		
		March	-0.5	1.0	0.3	2.7	3.0	2.8	2.1		2.6	17.3	8.0	3.4		
		April	-0.4	1.3	0.4	3.0	3.1	3.1	2.3		1.8	17.8	7.9	3.5		
		May	-0.7	1.3	0.3	3.3	3.3	3.3	2.4		1.9	23.6	10.0	4.2		
		June	-0.7	1.7	0.5	3.6	3.5	3.5	2.6		2.2	23.3	10.1	4.3		
		July	-0.3	1.4	0.5	3.7	3.4	3.5	2.7		2.2	20.5	9.2	4.1		
		August	-0.1	1.5	0.6	3.9	3.6	3.7	2.8		2.4	15.1	7.4	3.8		
		September	-0.7	1.8	0.5	4.0	3.8	3.9	2.9		2.5	-4.3	-0.4	2.1		
		October	-1.0	1.5	0.1	4.1	3.6	3.8	2.7		2.6	-11.3	-3.2	1.3		
		November	-1.2	1.1	-0.1	4.3	3.3	3.7	2.6		2.3	-3.8	-0.2	2.0		
		December	-1.4	1.3	-0.1	4.3	3.2	3.7	2.6		2.1	2.9	2.4	2.5		
	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	-1.8	1.5	-0.2	4.2	3.4	3.7	2.6	± 0.13	3.2	3.9	3.5	2.8	± 0.14	
		April	-1.8	1.1	-0.4	4.0	3.3	3.6	2.5	± 0.21	3.4	-1.9	1.2	2.2	± 0.39	
		May	-1.9	1.2	-0.4	3.8	3.3	3.5	2.4	± 0.27	3.5	-8.1	-1.4	1.5	± 0.65	
		June	-1.9	1.2	-0.4	3.7	3.3	3.4	2.4	± 0.34	3.5	-8.4	-1.5	1.4	± 0.80	
		July	-2.1	1.6	-0.3	3.6	3.3	3.4	2.4	± 0.38	3.5	-9.0	-1.8	1.4	± 0.93	
		August	-2.1	1.5	-0.3	3.6	3.3	3.4	2.4	± 0.42	3.5	-9.0	-1.8	1.4	± 1.04	
		September	-1.9	1.3	-0.4	3.6	3.4	3.5	2.4	± 0.46	3.3	-3.3	0.6	2.0	± 1.10	
		October	-1.8	1.4	-0.2	3.6	3.4	3.4	2.5	± 0.49	3.2	5.2	3.9	2.8	± 1.15	
		November	-1.4	1.6	0.1	3.6	3.5	3.5	2.6	± 0.53	3.4	7.5	5.0	3.1	± 1.22	
		December	-1.1	1.6	0.2	3.6	3.6	3.6	2.6	± 0.56	3.6	6.4	4.7	3.1	± 1.33	
	2008	January	-1.1	1.7	0.2	3.6	3.5	3.5	2.6	± 0.58	3.3	7.9	5.0	3.2	± 1.42	
		February	-1.2	1.5	0.1	3.6	3.4	3.5	2.6	± 0.62	2.9	7.4	4.6	3.0	± 1.52	
		March	-1.1	1.5	0.2	3.6	3.3	3.5	2.5	± 0.62	2.8	1.5	2.3	2.5	± 1.65	
		April	-1.3	1.9	0.3	3.6	3.4	3.5	2.6	± 0.62	3.0	0.4	2.0	2.5	± 1.69	
		May	-1.2	1.8	0.3	3.6	3.4	3.5	2.6	± 0.62	2.9	2.3	2.7	2.6	± 1.81	
		June	-1.1	1.8	0.3	3.6	3.4	3.5	2.6	± 0.62	2.9	2.9	2.9	2.7	± 1.89	
		July	-1.1	1.6	0.2	3.6	3.4	3.4	2.6	± 0.62	2.9	2.2	2.6	2.6	± 1.90	
		August	-1.1	1.6	0.2	3.5	3.4	3.4	2.6	± 0.62	2.9	2.9	2.9	2.6	± 1.91	
		September	-1.1	1.6	0.3	3.5	3.4	3.4	2.5	± 0.62	2.9	4.7	3.6	2.8	± 1.94	
		October	-1.1	1.6	0.3	3.5	3.4	3.4	2.5	± 0.62	2.9	4.7	3.6	2.8	± 1.94	
		November	-1.1	1.6	0.3	3.4	3.4	3.4	2.5	± 0.62	2.9	3.0	2.9	2.6	± 1.94	
		December	-1.0	1.5	0.2	3.4	3.4	3.4	2.5	± 0.62	2.9	1.6	2.4	2.5	± 1.94	

USA MONTHLY RATES OF GROWTH ON CPI AND ITS COMPONENTS

			CONSUMER PRICE INDEX										
			CORE INFLATION							RESIDUAL INFLATION			ALL
			Non energy commodities less food			Non energy services			ALL	FoodEnergy		ALL	
			durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL					
RI December 2006			11.1%	10.6%	21.7%	23.8%	31.8%	55.7%	77.4%	13.9%	8.7%	22.6%	100.0%
MONTHLY RATES (growth over the previous month)	January	2005	0.4	-0.6	-0.1	0.3	0.5	0.4	0.3	0.3	-1.2	-0.2	0.2
		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	-0.1	-0.3	-0.2	0.3	0.7	0.5	0.3	0.6	0.4	0.5	0.4
	February	2005	0.0	1.0	0.4	0.3	0.8	0.6	0.6	-0.2	2.2	0.7	0.6
		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	-0.1	0.9	0.4	0.3	0.7	0.5	0.5	0.2	0.1	0.2	0.4
	March	2005	-0.3	1.4	0.6	0.1	0.9	0.6	0.6	0.2	3.6	1.4	0.8
		2006	-0.2	1.8	0.9	0.3	0.7	0.5	0.6	0.0	1.2	0.5	0.6
		2007	-0.1	1.4	0.6	0.3	0.6	0.5	0.5	0.1	6.3	2.5	1.0
		2008	-0.1	1.4	0.7	0.3	0.6	0.4	0.5	0.1	0.4	0.2	0.4
	April	2005	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.6	6.3	2.7	0.7
		2006	0.0	0.4	0.1	0.4	0.3	0.3	0.3	-0.2	6.8	2.6	0.9
		2007	-0.1	0.0	0.0	0.2	0.2	0.2	0.2	0.0	0.8	0.3	0.2
		2008	-0.2	0.4	0.1	0.2	0.3	0.3	0.2	0.2	-0.4	0.0	0.2
	May	2005	0.1	-0.2	-0.1	0.2	-0.2	0.0	0.0	0.2	-0.9	-0.2	-0.1
		2006	-0.2	-0.2	-0.1	0.5	0.0	0.2	0.1	0.3	3.9	1.8	0.5
		2007	-0.2	-0.1	-0.2	0.3	0.0	0.1	0.0	0.3	-2.7	-0.8	-0.2
		2008	-0.1	-0.2	-0.2	0.2	0.0	0.1	0.0	0.2	-0.8	-0.1	0.0
	June	2005	-0.3	-1.2	-0.8	0.1	0.3	0.2	-0.1	-0.1	1.2	0.4	0.1
		2006	-0.3	-0.8	-0.6	0.4	0.4	0.4	0.1	0.2	1.0	0.5	0.2
		2007	-0.3	-0.8	-0.5	0.3	0.3	0.3	0.1	0.1	0.7	0.3	0.1
		2008	-0.2	-0.8	-0.5	0.3	0.3	0.3	0.1	0.2	1.2	0.6	0.2
	July	2005	-0.4	-1.2	-0.8	0.2	0.6	0.4	0.1	0.2	4.1	1.7	0.5
		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	-1.2	-0.7	0.3	0.5	0.4	0.1	0.3	1.2	0.6	0.2
		2008	-0.2	-1.3	-0.7	0.3	0.5	0.4	0.1	0.2	0.6	0.3	0.2
	August	2005	-0.4	0.6	0.1	0.2	0.1	0.1	0.1	0.1	4.5	1.8	0.5
		2006	-0.3	0.7	0.2	0.4	0.2	0.3	0.2	0.3	-0.2	0.1	0.2
		2007	-0.2	0.6	0.2	0.3	0.2	0.3	0.3	0.2	-0.3	0.0	0.2
		2008	-0.2	0.6	0.2	0.3	0.2	0.3	0.2	0.2	0.4	0.3	0.3
September	2005	0.2	1.6	0.9	0.2	-0.4	-0.1	0.1	0.3	11.5	4.8	1.2	
	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	1.7	0.7	0.3	-0.1	0.1	0.3	0.2	-1.5	-0.4	0.1	
	2008	-0.3	1.6	0.7	0.3	-0.1	0.1	0.3	0.2	0.2	0.2	0.2	
October	2005	0.3	0.8	0.6	0.2	0.6	0.4	0.5	0.4	-1.8	-0.5	0.2	
	2006	0.0	0.5	0.2	0.4	0.4	0.4	0.3	0.5	-8.9	-3.3	-0.5	
	2007	0.2	0.6	0.4	0.3	0.3	0.3	0.3	0.3	-0.9	-0.2	0.2	
	2008	0.2	0.7	0.4	0.3	0.3	0.3	0.3	0.3	-0.9	-0.2	0.2	
November	2005	0.0	-0.3	-0.1	0.2	0.0	0.1	0.0	0.2	-8.2	-3.4	-0.8	
	2006	-0.3	-0.7	-0.4	0.3	-0.2	0.0	-0.1	-0.2	-0.5	-0.3	-0.1	
	2007	0.1	-0.5	-0.2	0.3	-0.1	0.1	0.0	0.1	1.7	0.7	0.2	
	2008	0.1	-0.5	-0.2	0.3	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	
December	2005	0.0	-1.1	-0.5	0.3	-0.1	0.0	-0.1	0.3	-4.1	-1.5	-0.4	
	2006	-0.2	-0.9	-0.5	0.3	-0.2	0.0	-0.1	0.1	2.7	1.1	0.1	
	2007	0.1	-0.8	-0.4	0.3	-0.1	0.1	-0.1	0.3	1.7	0.8	0.1	
	2008	0.1	-0.9	-0.4	0.3	-0.1	0.0	-0.1	0.3	0.3	0.3	0.0	

The figures in the shaded area are forecasts

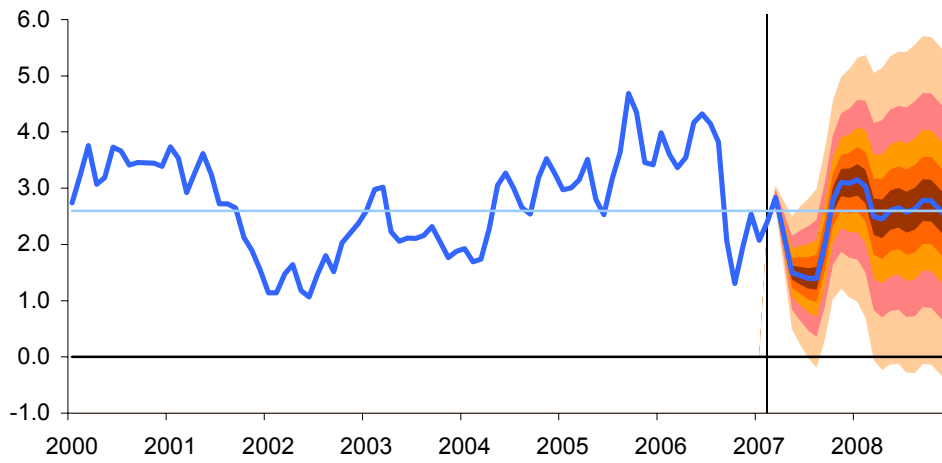
Source: BLS & IFL (UC3M)

Date: March 16, 2007



INFLATION IN THE US

(year-on-year)



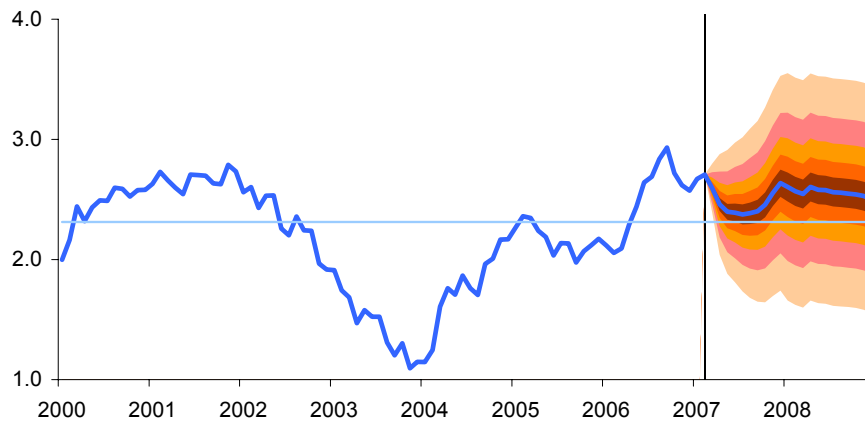
Confidence intervals at: 95% 80% 60% 40% 20%

Inflation mean (1995-2006) : —

Source :BLS & IFL (UC3M)
Date: March 16, 2007

CORE INFLATION IN THE US

(year-on-year)



Confidence intervals at: 95% 80% 60% 40% 20%

Inflation mean (1995-2006) : —

Source :BLS & IFL (UC3M)
Date: March 16, 2007



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

In the US in February, consumer prices were clearly higher than forecast. Indeed, the monthly general CPI rate rose by 0.54%¹ instead of the 0.31% expected. The annual rate rose from 2.08% to 2.42%.

Likewise, core inflation registered an increase one tenth higher than expected, 0.53% versus 0.43%. The annual rate rose slightly from 2.67% to 2.71%.

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
2006 August	3.8	2.8	2.4	2.1
September	2.1	2.9	2.4	2.1
October	1.3	2.7	2.3	2.0
November	2.0	2.6	2.2	1.9
December	2.5	2.6	2.2	1.9
2007 January	2.1	2.7	2.3	2.0
February	2.4	2.7	2.3	2.1
March	2.8	2.6	2.2	2.0
April	2.2	2.5	2.2	1.9
May	1.5	2.4	2.1	1.8
June	1.4	2.4	2.1	1.8
July	1.4	2.4	2.2	1.8
August	1.4	2.4	2.1	1.8
average annual				
2004	2.7	1.8	2.0	1.5
2005	3.4	2.2	2.1	1.7
2006	3.2	2.5	2.2	1.9
2007	2.2	2.5	2.2	1.9
2008	2.7	2.6	2.2	1.9

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

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

Source: BLS & IFL (UC3M)

Date: March 16, 2007

The deviation in the core inflation forecast is explained by the performance of medical service, telecommunications and non-durable, non-energy industrial goods. Specifically, the items most affected were professional medical services, women's apparel, local calls and tobacco.

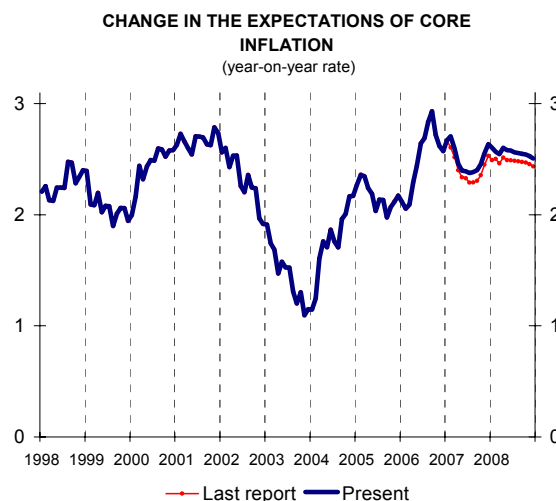
On the other hand, in February, housing rental figures were in line with our forecast.

As a result of all this, the expectations for core inflation have risen from last month's report. Specifically for 2007 and 2008 we are forecasting a average annual core inflation rates of 2.5% (± 0.3)² and 2.6% (± 0.5), respectively, one tenth higher than forecast in last month's Bulletin (see table III.2.1).

¹ Unless otherwise specified, our reports use non seasonally adjusted data.

² The values in brackets correspond to 80% confidence intervals.

Graph III.2.1.



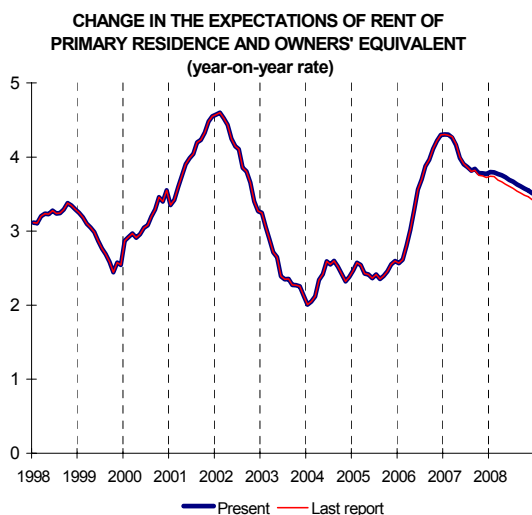
Source: BLS & IFL (UC3M)

Date: March 16, 2007

Outside core inflation, food and energy prices also registered greater than forecast growth. In food, the significantly worse performance was observed in fresh fruit and vegetables and cereals (the latter pushed up by their alternative use as fuel). In energy, the negative performance was found in all items.

In sum, the February figures were worse than expected in all groups.

Graph III.2.2.



Source: BLS & IFL (UC3M)

Date: March 16, 2007

Based on this information, considering a scenario with crude oil prices slightly worse than in last month's report, and a constant real effective exchange rate at the present levels, average annual inflation in the US is expected to be 2.2% (± 0.5) in 2007, rising to 2.7% (± 1.7) in 2008, values two



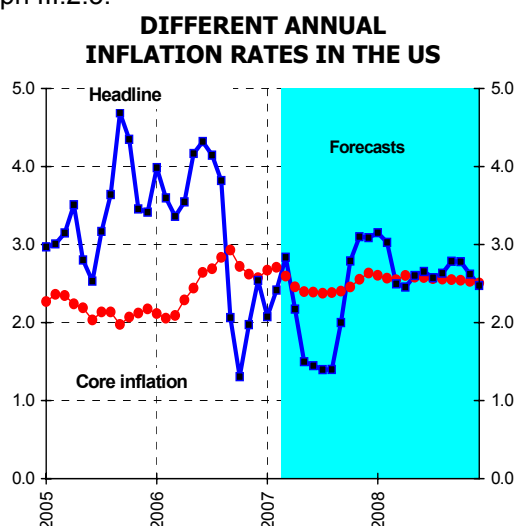
tenths higher than those forecast last month (see table III.2.1).

For March, we are forecasting a monthly rate of 0.97% (± 0.14), with the annual rate increasing from 2.42% to 2.84%, due to the heavy increase expected in motor fuel prices (12.58% relative to the February figure). For core inflation, the forecast is for a monthly increase of 0.53% (± 0.13), slightly reducing the annual rate from 2.71% to 2.60%.

However, after the rise forecast for March, the profile for 2007 initially shows heavy deceleration in the general CPI to 1.4% in June, returning to around 3.1% in December.

On the other hand, in the next few months core inflation is expected to decelerate slightly to 2.4%, returning at the end of the year to 2.6% and remaining at that level throughout 2008 (see graph III.2.3).

Graph III.2.3.

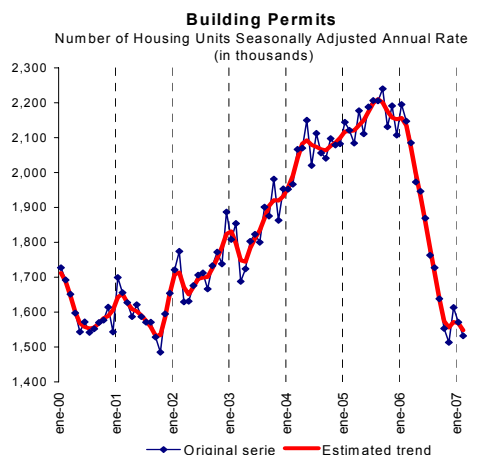


Source: BLS & IFL (UC3M)
Date: March 16, 2007

The unemployment rate in February fell from 4.6% to 4.5% (rate corrected for seasonality) and the rate of use of productive capacity remained at a high level, with a slight increase in the month. Both these indicators show the high position of the American economy in its cycle. This could be a cause of concern for the FED; although no significant second round effects have been observed.

The Federal Reserve, besides monitoring the CPI, also contemplates the evolution of the property market. The most relevant indicator in terms of activity is building permits, which are closely monitored in this Bulletin. The February figure was a little worse than expected, showing that the adjustment of the property sector has not yet ended (see graph III.2.4).

Graph III.2.4.

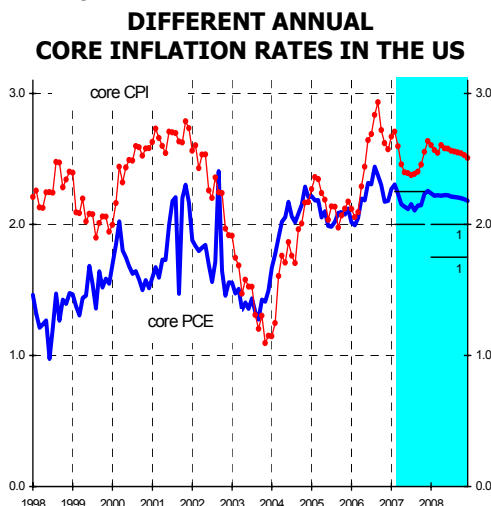


Source: The U.S. Census Bureau and the Department of Housing and Urban Development & IFL (UC3M)
Date: March 16, 2007

In terms of the core personal consumption expenditure index –core PCE³–, which is the inflation indicator most closely followed by the FED, this year it is expected to remain within the central tendency established by the monetary authority (2.00-2.25%), although the expectations are now for an annual average of 2.19%, half a tenth more than last month's report. For 2008, our forecasts continue to point to 2.2%, far above the central tendency established by the FED (1.75-2.00%).

Therefore, we confirm our previous reports in the sense that the FED will not be reducing interest rates until it has a guarantee that its inflation targets will be met.

Graph III.2.5.



(1) Central tendency established by the FED.

Source: BLS & IFL (UC3M)
Date: March 16, 2007

³ The PCE (Personal Consumption Expenditure) is a price index with the advantage over the consumer price index (CPI) that, instead of using a fixed consumer basket, it is adjusted to actual expenditure, revealing changes in the basket's composition in the periods being compared.



III.3. OTHER TABLES AND PLOTS.

Tables:

- CPI observed values and forecasts in the US (February 2007).

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).
- Motor fuel (index).
- West Texas Intermediate (dollars per barrel).
- Change in the expectations of headline inflation (year-on-year rates).

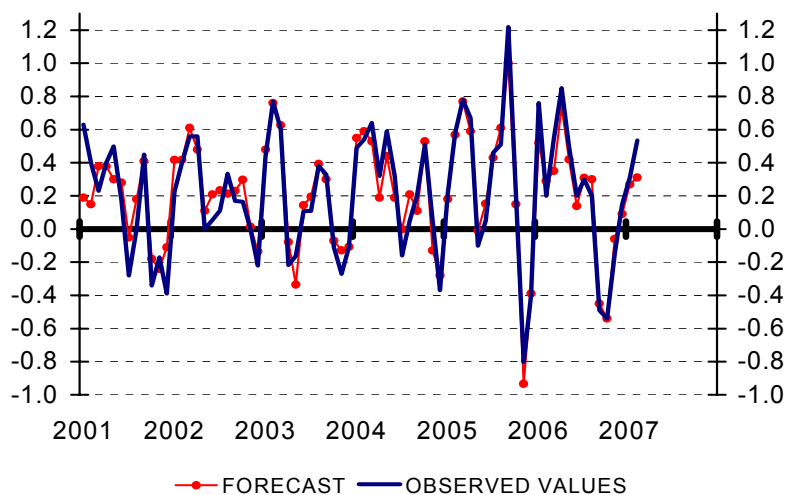


OBSERVED VALUES AND FORECAST ON CPI IN US
(February 2007)

CONSUMER PRICES INDEX (CPI)	Relative importance Dec. 2006	Annual Growth (T ¹ ₁₂) observed	Monthly Growth (T ¹ ₁)		Confidence Intervals at 80% level (+ -)
			observed (a)	forecasts (b)	
Food (1)	13.9	3.09	0.60	0.19	0.32
Energy (2)	8.7	-1.05	0.48	-0.58	1.31
Residual Inflation (3=2+1)	22.6	1.48	0.55	-0.10	0.52
Non-food and non-energy goods (4)	21.7	0.00	0.48	0.21	0.25
Less tobacco	21.0	-0.21	0.47	0.27	0.23
-Durable goods	11.1	-1.81	-0.05	-0.02	0.30
-Nondurable goods	10.6	1.86	1.04	0.44	0.37
Non-energy services (5)	55.7	3.77	0.55	0.52	0.15
-Services less owner's equivalent rent of primary residence (5-a)	31.8	3.43	0.75	0.70	0.22
-Owner's equivalent rent of primary residence (a)	23.8	4.24	0.28	0.27	0.12
Core Inflation (6=4+5)	77.4	2.71	0.53	0.43	0.13
Core inflation less owner's equivalent rent of primary residence (6-a)	53.6	2.04	0.64	0.50	0.17
Core inflation less owner's equivalent rent of primary residence and tobacco	52.9	1.99	0.64	0.53	0.17
Headline Inflation (7=6+3)	100.0	2.42	0.54	0.31	0.14
All items less owner's equivalent rent of primary residence (7-a)	76.2	1.86	0.62	0.32	0.18

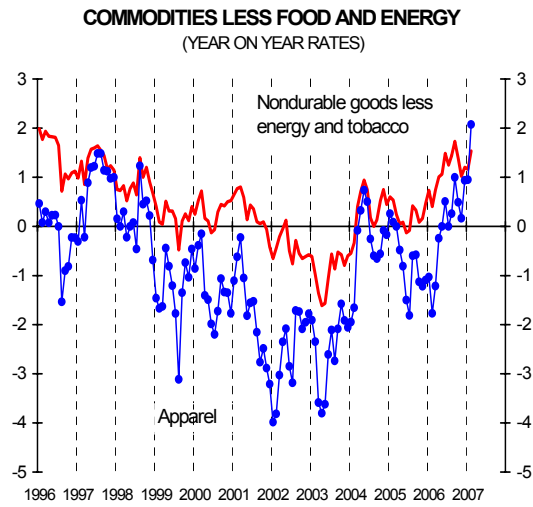
Source: BLS & IFL (UC3M)
Date: March 16, 2007

CPI MONTHLY GROWTH RATES IN USA

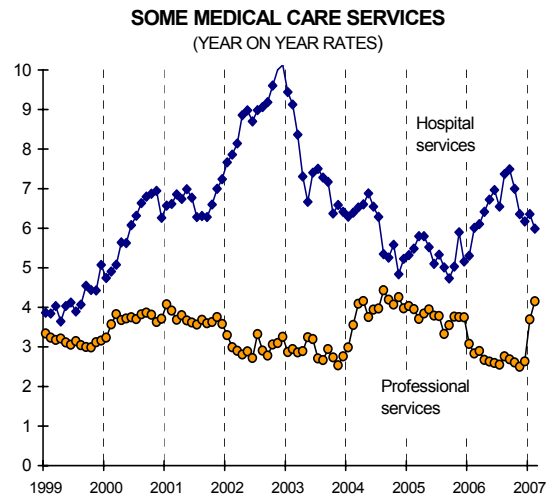


Source :BLS & IFL (UC3M)
Date: March 16, 2007

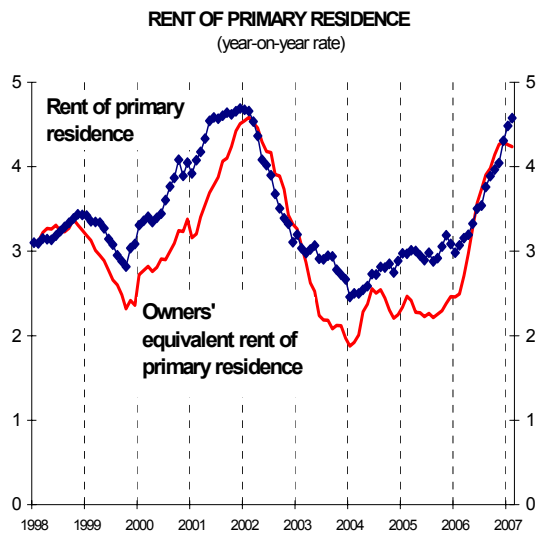




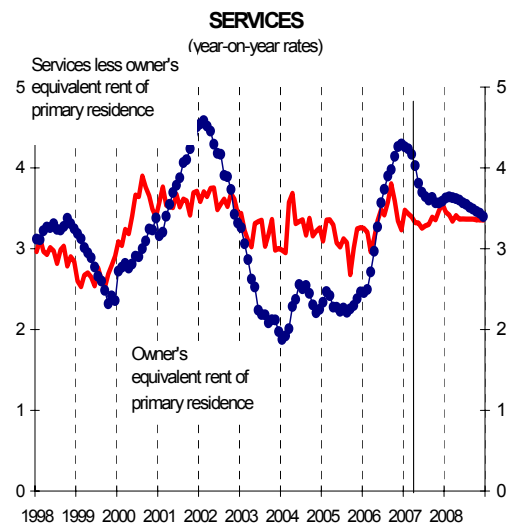
Source: BLS & IFL (UC3M)
Date: March 16, 2007



Source: BLS & IFL (UC3M)
Date: March 16, 2007

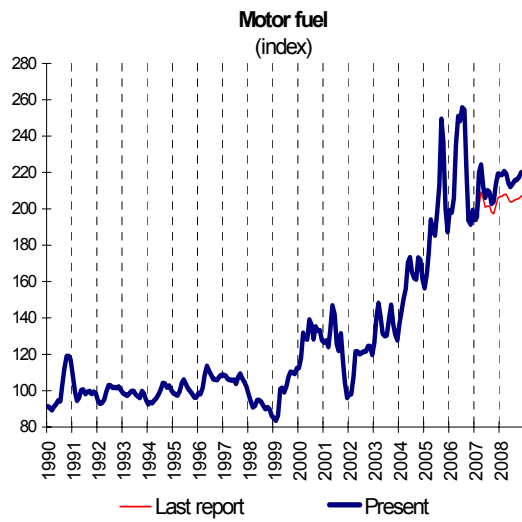


Source: BLS & IFL (UC3M)
Date: March 16, 2007

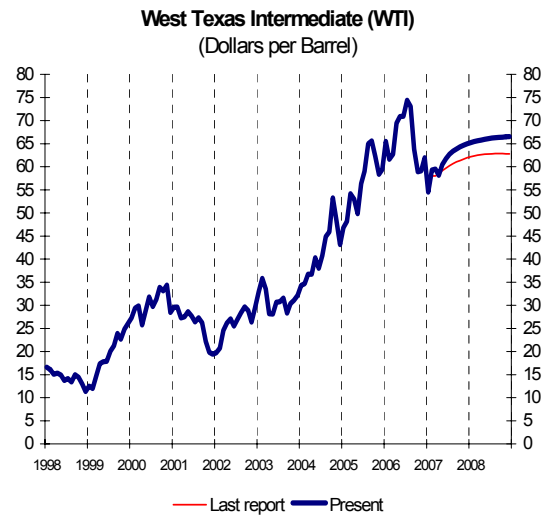


Source: BLS & IFL (UC3M)
Date: March 16, 2007

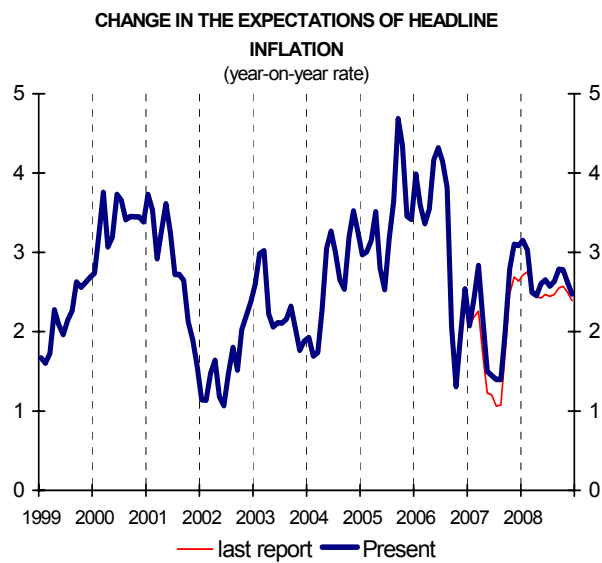




Source: BLS & IFL (UC3M)
Date: March 16, 2007



Source: BLS & IFL (UC3M)
Date: March 16, 2007



Source: BLS & IFL (UC3M)
Date: March 16, 2007



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			
	2005	2006	Forecasts	
			2007	2008
Private Final Consumption Expenditure	4.2	3.7	3.5	3.4
Public Final Consumption Expenditure	4.8	4.4	4.8	5.4
Gross Fixed Capital Formation	7.0	6.3	6.0	4.7
Equipment	9.0	9.7	10.2	5.7
Building	6.0	5.9	4.9	4.3
Other products	7.6	3.2	3.3	4.6
National Demand (1)	5.3	4.9	4.7	4.4
Exports of Goods and Services	1.5	6.2	5.6	4.2
Imports of Goods and Services	7.0	8.4	7.3	6.1
Foreign demand (1)	-1.7	-1.0	-0.9	-0.9
GDP (a)	3.5	3.9	3.8	3.5
GDP, current prices	7.8	7.8	7.0	6.8
Prices and Costs (b)				
CPI, annual average	3.4	3.5	2.4	2.7
CPI, dec./dec.	3.7	2.7	2.9	2.7
Average earning per worker	2.6	3.4	3.1	3.1
Unit labour cost	2.2	2.7	2.3	2.2
Labour Market (Data poll labour force) (2) (c)				
Labour Force (% change)	3.2 / 3.5	3.3	3.1	2.9
Employment (EAPS)				
Annual average change in %	4.8 / 5.6	4.1	3.5	3.2
Annual average change in thousands	870.3/1002.4	774.4	697.6	650.0
Unemployment rate	9.6 / 9.2	8.5	8.2	8.1
Basic balances (a)				
Foreign sector				
Current Account (m.€.)	-65.580	-82.944	-88.277	-90.315
Net lending or borrowing (% GDP) (3)	-6.5	-7.8	-8.2	-8.0
Public Administration				
Net lending or borrowing (% GDP) (3)	1.1	1.6	0.9	0.7
Other Economic Indicators (d)				
Industrial Production Index	0.1	3.7	4.1	3.0
(1) Contribution to the GDP growth				
(2) Annual Rate EAPS Testigo / Annual Rate EAPS 2005				
(3) In terms of National Accounts				

Source: INE & IFL

Date: (a) February 21, 2007

(b) March 21, 2007

(c) January 26, 2007

(d) March 6, 2007



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

Table IV.1.2.1

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN													
		Final Consumption Expenditure		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 RATES	2003	2.8	4.8	5.9	4.1	6.3	7.2	3.9	3.7	6.2	-0.8	3.0	
	2004	4.2	6.3	5.0	4.4	5.5	4.5	4.9	4.1	9.6	-1.7	3.3	
	2005	4.2	4.8	7.0	9.0	6.0	7.6	5.3	1.5	7.0	-1.7	3.5	
	2006	3.7	4.4	6.3	9.7	5.9	3.2	4.9	6.2	8.4	-1.0	3.9	
	2007	3.5	4.8	6.0	10.2	4.9	3.3	4.7	5.6	7.3	-0.9	3.8	
	2008	3.4	5.4	4.7	5.7	4.3	4.6	4.4	4.2	6.1	-0.9	3.5	
ANNUAL RATES *	2006	TI	3.7	4.3	6.3	8.6	5.8	4.8	4.8	9.5	11.6	-1.1	3.7
		TII	3.6	4.4	6.2	9.1	5.8	3.3	4.8	4.9	7.3	-1.0	3.8
		TIII	3.6	4.2	6.4	9.6	6.2	3.0	4.8	3.4	6.0	-1.0	3.8
		TIV	3.7	4.9	6.4	11.4	5.7	1.7	4.9	7.3	8.8	-0.9	4.0
	2007	TI	3.7	4.9	5.9	11.9	4.2	2.8	4.8	4.9	6.6	-0.9	3.9
		TII	3.6	5.0	6.2	13.5	4.0	3.1	4.9	7.2	8.9	-1.0	3.9
		TIII	3.5	4.9	6.0	9.7	5.4	2.6	4.7	6.4	8.1	-0.9	3.8
		TIV	3.2	4.3	5.9	6.3	6.1	4.6	4.5	3.9	5.7	-0.8	3.7
	2008	TI	3.3	5.5	4.8	6.9	4.0	4.7	4.4	4.2	6.3	-0.9	3.5
		TII	3.5	5.4	4.7	6.1	4.1	4.7	4.4	4.1	6.2	-0.9	3.5
		TIII	3.5	5.4	4.7	5.3	4.5	4.6	4.4	4.1	6.1	-0.9	3.5
		TIV	3.5	5.3	4.5	4.7	4.5	4.5	4.3	4.3	6.0	-0.8	3.5

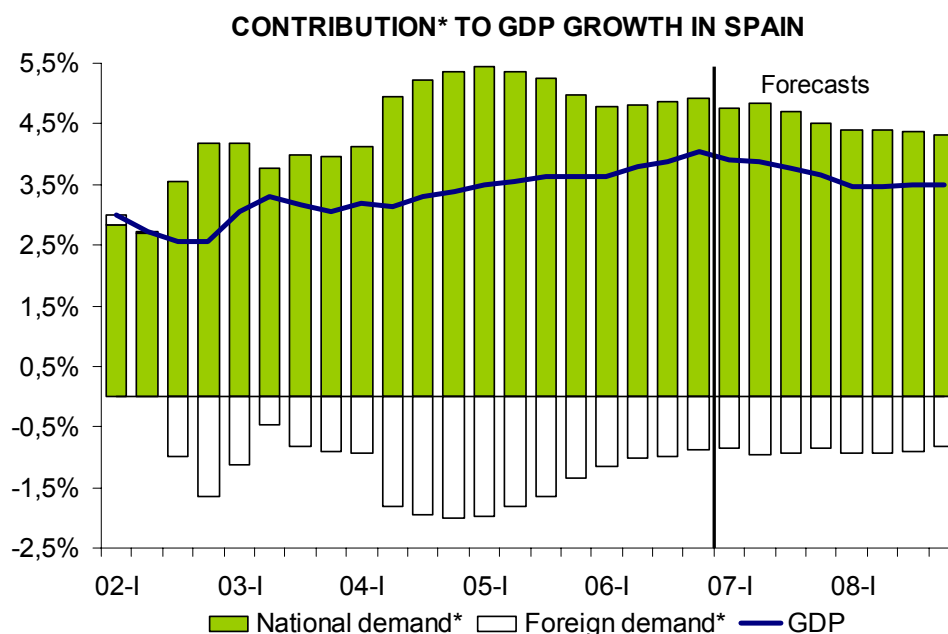
The figures in the shaded area are forecasts.

(*) Year-on-year rates.

Source: INE & IFL (UC3M)

Date: February 21, 2007

Graph IV.1.2.1



Source INE & IFL (UC3M)

Date: February 21, 2007



Table IV.1.2.2

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN											
GROSS VALUE ADDED											
		Agriculture	Energy	Industry	Construction	Market services	Non-market services	TOTAL	Tax	Real GDP	
ANNUAL AVERAGE RATES	2003	-0.7	4.5	0.9	5.1	2.6	4.2	2.6	6.6	3.0	
	2004	1.9	2.2	0.4	5.1	3.6	3.7	3.1	4.4	3.3	
	2005	-10.0	3.8	0.3	5.4	4.6	3.5	3.2	5.7	3.5	
	2006	0.2	2.0	3.3	5.3	3.5	4.0	3.5	6.3	3.9	
	2007	6.8	-2.4	3.8	4.9	3.0	4.4	3.5	5.5	3.8	
	2008	-1.1	1.1	3.6	4.5	3.1	4.7	3.3	4.7	3.5	
ANNUAL RATES *	2006	TI	-3.2	3.2	1.9	5.3	3.9	3.9	3.4	6.2	3.7
		TII	0.1	3.2	2.8	5.0	3.5	3.6	3.5	6.7	3.8
		TIII	-0.5	3.9	4.0	5.8	3.2	3.8	3.6	5.5	3.8
		TIV	4.3	-2.1	4.4	5.0	3.3	4.5	3.7	6.7	4.0
	2007	TI	15.5	-3.0	5.3	5.1	2.0	4.6	3.5	5.3	3.9
		TII	8.2	-3.2	4.5	4.8	2.9	4.1	3.5	6.4	3.9
		TIII	8.2	-4.3	2.7	4.8	3.3	4.9	3.5	5.7	3.8
		TIV	-3.1	1.1	2.7	4.9	3.7	4.0	3.4	4.8	3.7
	2008	TI	-1.6	1.1	3.7	4.5	3.1	4.9	3.3	4.8	3.5
		TII	-1.2	1.1	3.6	4.3	3.1	4.4	3.3	4.7	3.5
		TIII	-0.9	1.1	3.6	4.6	3.1	4.9	3.4	4.7	3.5
		TIV	-0.7	1.1	3.5	4.7	3.1	4.6	3.4	4.7	3.5

The figures in the shaded area are forecasts.

(*) Year-on-year rates

Source: INE & IFL (UC3M)

Date: February 21, 2007



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	Non Durable Consumer	Consumer Goods	Capital Equipment	Intermediate Goods	Energy	TOTAL
ANNUAL AVERAGE RATE	2003	-0.6	0.7	0.5	0.8	2.1	3.9	1.6
	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	5.2	2.3	2.7	9.5	4.0	0.3	4.1
	2008	0.9	1.4	1.3	6.6	2.8	2.0	3.0
ANNUAL RATES*	2006	QI	7.8	4.3	4.7	11.6	6.5	6.4
		QII	6.7	-1.9	-0.8	4.1	1.3	1.2
		QIII	13.9	-0.9	0.9	7.0	3.7	3.2
		QIV	14.3	2.0	3.7	10.5	-3.2	4.0
	2007	QI	14.9	3.1	4.7	10.5	4.8	4.8
		QII	4.1	1.6	1.9	8.5	3.4	3.7
		QIII	-0.4	1.6	1.3	8.7	2.9	3.0
		QIV	2.5	2.8	2.7	10.2	4.6	5.0
	2008	QI	-4.2	-3.3	-3.5	-0.2	1.1	-1.3
		QII	2.9	3.4	3.3	8.7	4.7	4.8
		QIII	3.8	2.9	3.0	9.6	3.9	4.4
		QIV	1.4	2.6	2.4	8.2	3.8	4.2

The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: INE & IFL (UC3M)

Date: March 6, 2007

Table IV.1.3.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN SPAIN							
	2002	2003	2004	2005	2006	2007	2008
January	-2.1	-0.1	-2.9	0.8	5.4	7.7	1.4
February	-0.9	1.7	1.8	-1.0	2.7	4.4	3.3
March	-10.6	9.7	7.2	-6.7	11.0	2.5	-7.9
April	11.4	-4.5	0.7	7.4	-9.8	7.2	14.1
May	-2.0	-1.2	2.7	0.1	8.1	3.6	-1.8
June	-5.2	4.5	5.7	-0.2	5.2	0.8	3.4
July	3.6	1.9	0.0	-3.5	4.2	5.2	6.1
August	-3.4	-1.4	5.3	3.7	5.0	2.3	-2.0
September	2.4	2.5	3.8	0.2	1.1	1.3	7.4
October	5.1	0.8	-7.0	-0.1	7.3	7.6	4.3
November	0.3	1.4	4.3	0.9	4.1	3.4	0.8
December	3.5	4.2	1.2	1.4	0.6	3.8	8.1

The figures in the shaded area are forecasts

Source: INE & IFL (UC3M)

Date: March 6, 2007



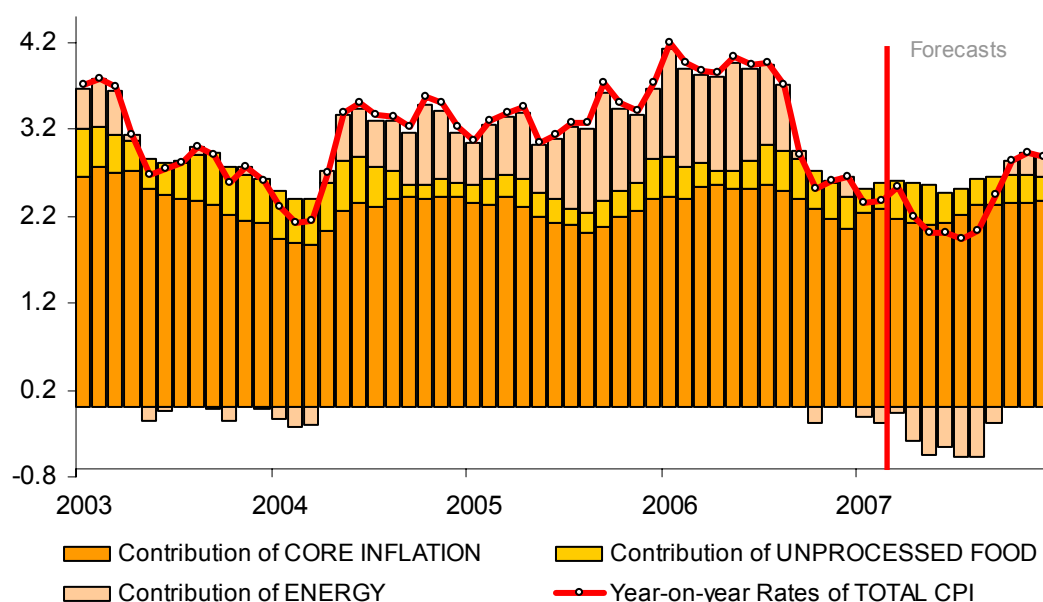
IV.1.4 INFLATION.

Table IV.1.4.1

FORECASTS IN THE ANNUAL AVERAGE RATE IN INFLATION IN SPAIN					
Consumer Price Index (CPI)	2004	2005	2006	Forecast	
				2007	2008
TOTAL (100%)	3.0	3.4	3.5	2.4	2.7
CORE (82.3%)	2.7	2.7	2.9	2.7	2.7
Processed food (16.8%)	3.6	3.4	3.6	3.0	3.0
Non-energy industrial goods (29.0%)	0.9	0.9	1.4	1.0	1.0
Services (36.5%)	3.7	3.8	3.9	3.9	4.0
RESIDUAL (17.7%)	4.7	6.5	6.3	0.8	2.8
Non-Processed food (8.1%)	4.6	3.3	4.4	4.2	3.3
Energy (9.6%)	4.8	9.6	8.0	-2.1	2.3

Source: INE & IFL (UC3M)
Date: March 21, 2007

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



Source INE & IFL (UC3M)
Date: March 21, 2007



CPI ANNUAL GROWTH BY COMPONENTS IN SPAIN												
		Consumer Prices Index										
		Core				Residual				TOTAL 100% Confidence intervals at 80% *		
		Processed food	Non energy industrial goods	Services	TOTAL	Confidence intervals at 80% *	Non processed food	Energy	TOTAL			
Weights 2007		16.8%	29.0%	36.5%	82.3%			8.1%	9.6%	17.7%		
ANNUAL AVERAGE RATE	1999	2.1	1.5	3.4	2.4			1.2	3.3	2.2	2.3	
	2000	0.9	2.1	3.7	2.5			4.2	13.2	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	3.0	1.0	3.9	2.7	± 0.25		4.2	-2.1	0.8	2.4 ± 0.38	
	2008	3.0	1.0	4.0	2.7	± 0.54		3.3	2.3	2.8	2.7 ± 0.70	
ANNUAL RATES (growth of the month over the same month of the previous year)	2006	January	3.7	1.4	3.8	2.9			5.3	14.8	10.1	4.2
		February	3.4	1.5	3.8	2.9			4.5	13.3	9.1	4.0
		March	4.5	1.5	3.7	3.1			3.3	11.8	7.7	3.9
		April	3.9	1.4	4.1	3.1			2.1	12.2	7.4	3.9
		May	3.9	1.5	3.9	3.0			2.4	14.4	8.7	4.0
		June	3.9	1.5	3.9	3.0			3.9	12.0	8.2	3.9
		July	4.0	1.5	4.0	3.1			5.4	10.1	7.9	4.0
		August	3.6	1.5	3.9	3.0			5.4	8.2	7.0	3.7
		September	3.5	1.3	3.9	2.9			5.6	0.9	3.0	2.9
		October	3.4	1.3	3.8	2.8			5.2	-1.9	1.3	2.5
		November	2.9	1.2	3.7	2.6			5.0	0.3	2.5	2.6
		December	2.2	1.2	3.7	2.5			4.5	2.6	3.5	2.7
	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	2.5	1.0	4.0	2.6	± 0.17		5.3	-0.7	2.1	2.5 ± 0.17
		April	2.6	0.9	3.9	2.6	± 0.25		5.9	-4.1	0.4	2.2 ± 0.31
		May	2.7	0.8	3.9	2.5	± 0.32		5.9	-5.5	-0.4	2.0 ± 0.45
		June	2.7	0.9	3.9	2.6	± 0.34		4.4	-4.7	-0.5	2.0 ± 0.55
		July	2.8	1.1	3.9	2.7	± 0.37		3.9	-5.8	-1.4	1.9 ± 0.63
		August	3.2	1.1	4.0	2.8	± 0.36		3.7	-5.8	-1.5	2.0 ± 0.67
		September	3.3	1.2	4.0	2.9	± 0.42		3.7	-1.9	0.7	2.5 ± 0.74
		October	3.3	1.1	4.0	2.8	± 0.44		3.9	1.9	2.9	2.8 ± 0.78
		November	3.4	1.1	4.0	2.8	± 0.48		3.9	2.8	3.3	2.9 ± 0.79
		December	3.5	1.1	4.0	2.9	± 0.50		3.3	2.5	2.9	2.9 ± 0.80
	2008	January	3.1	1.1	4.0	2.8	± 0.51		3.6	3.4	3.5	2.9 ± 0.80
		February	3.0	1.0	4.0	2.8	± 0.51		4.1	3.3	3.7	2.9 ± 0.82
		March	2.9	1.0	4.1	2.8	± 0.53		3.4	1.8	2.5	2.7 ± 0.87
		April	2.9	1.0	3.8	2.6	± 0.54		3.2	2.3	2.7	2.7 ± 0.89
		May	2.9	1.0	3.9	2.7	± 0.56		3.0	2.4	2.7	2.7 ± 0.91
		June	3.0	1.0	3.9	2.7	± 0.57		3.0	2.4	2.6	2.7 ± 0.91
		July	3.0	1.1	4.0	2.7	± 0.58		3.1	2.1	2.6	2.7 ± 0.91
		August	3.0	1.0	4.0	2.7	± 0.60		3.2	2.1	2.6	2.7 ± 0.91
		September	2.9	1.0	4.0	2.7	± 0.62		3.2	2.1	2.6	2.7 ± 0.91
		October	2.9	1.0	4.0	2.7	± 0.66		3.2	1.9	2.5	2.7 ± 0.91
		November	2.9	1.0	4.0	2.7	± 0.66		3.2	1.9	2.5	2.7 ± 0.91
		December	2.9	1.1	4.0	2.7	± 0.66		3.4	1.9	2.6	2.7 ± 0.91

* Confidence intervals calculated with historical errors.

Source: INE & IFL (UC3M)

Date: March 21, 2007

The figures in the shaded areas are forecasts



CPI MONTHLY GROWTH BY COMPONENTS IN SPAIN										
		Consumer Prices Index							TOTAL 100%	
		Core				Residual				
		Processed food	Non energy industrial goods	Services	TOTAL	Non processed food	Energy	TOTAL		
Weights 2007		16.8%	29.0%	36.5%	82.3%	8.1%	9.6%	17.7%		
MONTHLY RATES (Growth of the month over the previous month)	January	2005	0.4	-3.8	0.6	-1.0	1.0	-0.8	0.1	-0.8
		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	-3.6	0.6	-0.9	0.3	0.5	0.4	-0.6
	February	2005	0.1	-0.2	0.5	0.2	-0.7	2.0	0.7	0.3
		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	0.3	-0.3	0.4	0.2	-0.8	0.1	-0.3	0.1
	March	2005	0.4	1.0	0.6	0.7	0.3	1.9	1.1	0.8
		2006	1.4	1.0	0.5	0.9	-0.9	0.6	-0.1	0.7
		2007	0.4	1.0	0.7	0.8	0.7	1.6	1.2	0.9
		2008	0.4	1.0	0.7	0.8	0.1	0.1	0.1	0.6
	April	2005	0.9	3.0	0.2	1.3	1.1	2.6	1.9	1.4
		2006	0.3	2.8	0.7	1.4	-0.1	3.1	1.6	1.4
		2007	0.4	2.7	0.6	1.3	0.4	-0.4	0.0	1.1
		2008	0.4	2.7	0.4	1.2	0.2	0.1	0.2	1.0
	May	2005	0.1	0.5	0.1	0.3	0.0	-0.2	-0.1	0.2
		2006	0.1	0.6	-0.1	0.2	0.4	1.7	1.1	0.4
		2007	0.2	0.5	-0.1	0.2	0.5	0.1	0.3	0.2
		2008	0.2	0.5	0.0	0.2	0.3	0.1	0.2	0.2
	June	2005	0.1	-0.1	0.4	0.1	-0.1	1.3	0.6	0.2
		2006	0.1	-0.1	0.4	0.1	1.3	-0.7	0.2	0.2
		2007	0.2	-0.1	0.4	0.2	-0.1	0.2	0.1	0.2
		2008	0.3	-0.1	0.4	0.2	-0.1	0.2	0.0	0.2
	July	2005	0.0	-3.7	0.6	-1.1	-0.5	3.3	1.5	-0.6
		2006	0.1	-3.7	0.7	-1.0	0.9	1.5	1.2	-0.6
		2007	0.2	-3.5	0.7	-0.9	0.4	0.3	0.4	-0.7
		2008	0.1	-3.5	0.7	-0.9	0.6	0.1	0.3	-0.7
	August	2005	0.1	-0.1	0.6	0.2	0.9	1.9	1.4	0.4
		2006	-0.3	-0.1	0.5	0.1	0.9	0.2	0.5	0.2
		2007	0.2	-0.1	0.6	0.3	0.6	0.1	0.4	0.3
		2008	0.1	-0.1	0.6	0.3	0.8	0.1	0.4	0.3
	September	2005	0.2	1.3	-0.4	0.3	0.5	3.1	1.9	0.6
		2006	0.1	1.1	-0.4	0.2	0.6	-3.8	-1.8	-0.2
		2007	0.1	1.2	-0.4	0.2	0.7	0.1	0.4	0.3
		2008	0.1	1.2	-0.4	0.2	0.7	0.1	0.4	0.2
	October	2005	0.2	2.8	0.1	1.1	0.2	-0.7	-0.3	0.8
		2006	0.0	2.7	0.0	0.9	-0.2	-3.5	-2.0	0.4
		2007	0.1	2.6	0.1	0.9	0.0	0.3	0.2	0.8
		2008	0.0	2.6	0.1	0.9	0.0	0.1	0.1	0.8
	November	2005	0.5	1.1	0.0	0.5	0.6	-2.9	-1.3	0.2
		2006	0.0	1.0	0.0	0.3	0.4	-0.7	-0.2	0.2
		2007	0.1	1.0	-0.1	0.3	0.4	0.1	0.3	0.3
		2008	0.1	1.0	0.0	0.4	0.4	0.1	0.3	0.3
	December	2005	0.7	-0.2	0.5	0.3	1.9	-1.9	-0.1	0.2
		2006	0.1	-0.2	0.5	0.1	1.4	0.4	0.9	0.3
		2007	0.2	0.5	0.5	0.2	0.9	0.1	0.5	0.2
		2008	0.2	-0.2	0.5	0.2	1.0	0.1	0.5	0.2

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: March 21, 2007



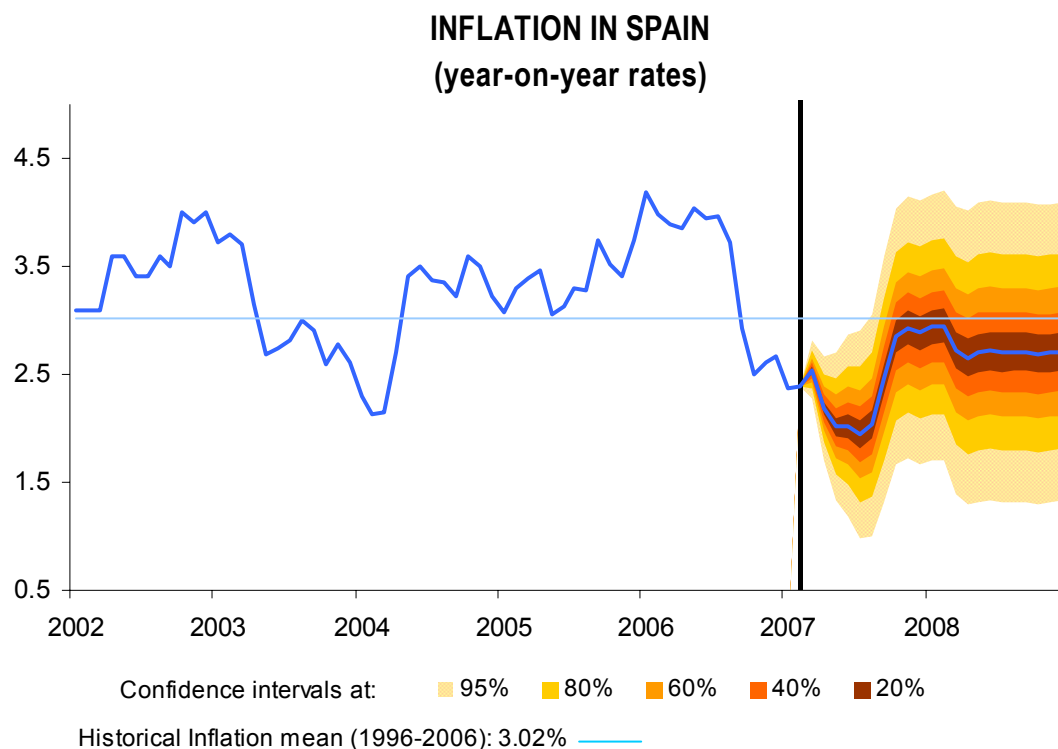
CPI ANNUAL AVERAGE GROWTH RATES BY COMPONENTS IN SPAIN WITH FORECASTS FOR 2007 AND 2008

Weights 2007					2003	2004	2005	2006	2007	2008	
CPI Total	Core Inflation	Processed food	AE less tobacco & fats	13.4	3.1	2.9	2.5	2.8	3.7	3.5	
			Oils & Fats	1.0	18.4	9.4	10.5	23.4	-16.8	0.5	
			Tobacco	2.4	0.2	0.4	6.6	1.5	8.6	1.1	
			Processed food	16.8	3.0	3.6	3.4	3.6	3.0	3.0	
		Non energy industrial goods	Vehicles	6.3	1.7	1.6	1.8	2.3	1.8	1.9	
			Footwear	1.9	3.6	1.9	2.2	1.6	1.5	2.6	
			Clothing	7.0	3.8	1.8	1.1	1.1	0.8	0.8	
			Rest	13.8	0.9	0.3	0.5	1.2	0.9	0.6	
			Non energy industrial goods	29.0	2.0	0.9	0.9	1.4	1.0	1.0	
		Services	Postal services	0.0	6.2	3.1	2.7	5.7	3.6	0.0	
			Cultural services	1.6	2.0	3.0	2.7	2.4	2.3	2.3	
			Education	1.1	3.3	3.6	4.1	3.5	4.3	4.2	
			Hotels	0.7	4.3	3.0	2.3	3.6	4.4	5.0	
			Health	2.1	4.1	3.2	4.0	4.1	4.4	4.3	
			Household equipment	1.6	4.6	4.4	4.5	4.4	4.9	5.3	
			Restaurants	10.9	4.4	4.1	4.3	4.5	4.7	4.6	
			Telephone	3.5	-1.3	-1.1	-1.6	-1.4	0.2	0.2	
			Transports	5.1	4.3	4.4	4.4	4.2	3.5	3.7	
			Package holidays	1.3	1.8	1.4	2.2	3.1	1.7	6.6	
			University	0.5	5.4	4.9	4.6	5.0	5.0	4.0	
			Housing	5.2	4.3	4.5	4.8	4.7	5.1	4.8	
			Rest	2.8	4.3	4.2	3.8	4.3	3.5	3.5	
			Services	36.5	3.7	3.7	3.8	3.9	3.9	4.0	
		Core Inflation			82.3	2.9	2.7	2.7	2.9	2.7	2.7
	Residual Inflation	Non processed foods	Meat	3.0	8.7	7.4	3.8	6.0	3.5	2.9	
			Fruits	1.5	1.1	1.1	2.7	0.1	2.6	3.2	
			Eggs	0.2	3.1	3.7	-3.2	2.8	2.6	0.7	
			Vegetables	1.0	-2.7	-1.5	5.4	-0.8	8.3	2.5	
			Mollusc	0.7	1.5	1.1	5.4	2.3	1.7	4.6	
			Potatoes	0.3	23.0	24.2	-8.2	17.6	14.3	8.4	
			Fish	1.5	3.7	4.4	3.8	5.7	3.0	3.5	
			Non processed foods	8.1	6.0	4.6	3.3	4.4	4.2	3.3	
		Energy	Heat energy	5.5	1.4	7.1	12.3	6.6	-4.5	2.5	
			Fuels	0.4	6.1	12.0	26.8	11.8	-6.5	6.2	
			Electricity and gas	3.6	0.8	0.8	4.0	9.6	2.0	1.5	
			Energy	9.6	1.4	4.8	9.6	8.0	-2.1	2.3	
		Residual Inflation			17.7	3.6	4.7	6.5	6.3	0.8	2.8
		CPI Total			100.0	3.0	3.0	3.4	3.5	2.4	2.7

Bold figures are forecasts
Source: INE & IFL (UC3M)
Date: March 21, 2007

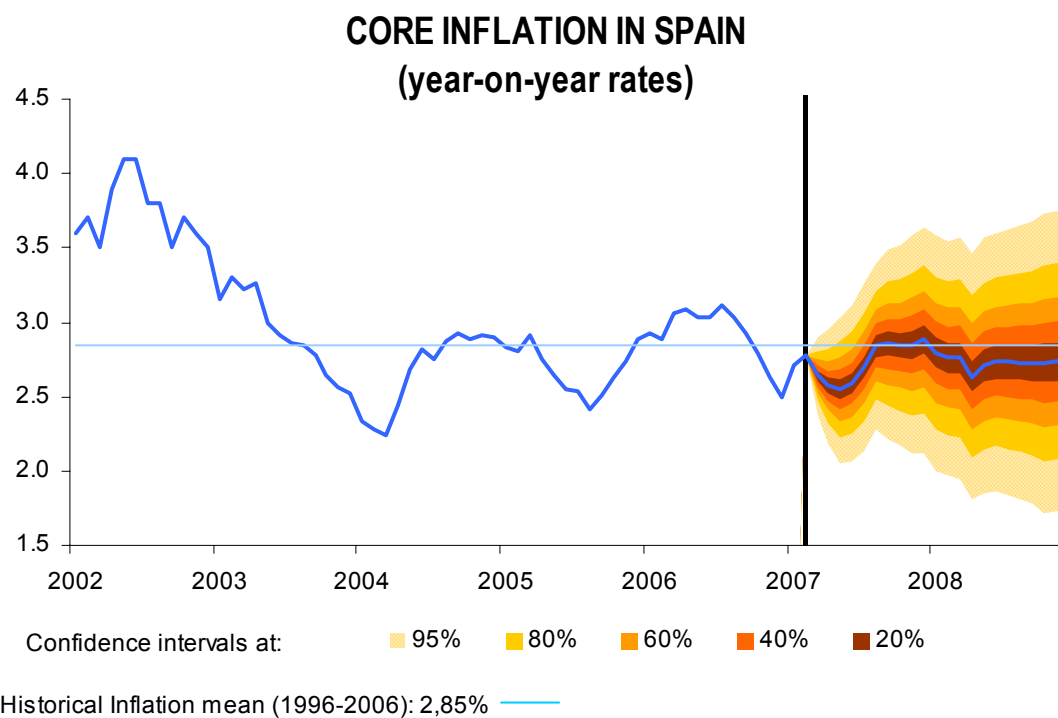


Graph IV.1.4.1



Source INE & IFL (UC3M)
Date: March 21, 2007

Graph IV.1.4.2



Source INE & IFL (UC3M)
Date: March 21, 2007



IV.2 ANALYSIS OF THE SPANISH ECONOMY.

IV.2.1 THE RECENT EVOLUTION OF THE SPANISH ECONOMY AND LABOUR COSTS.

IV.2.1.1 Recent evolution of the Spanish economy

The information available for the first quarter of this year is incomplete and partial and refers largely to January, and in some cases to February. A global analysis of this information shows that the Spanish economy continues to expand as it did last year, and no symptoms of exhaustion have appeared, in view of the indicators published for the first two months, so this quarter the Spanish economy is expected to register a year-on-year rate similar to that of the previous quarter.

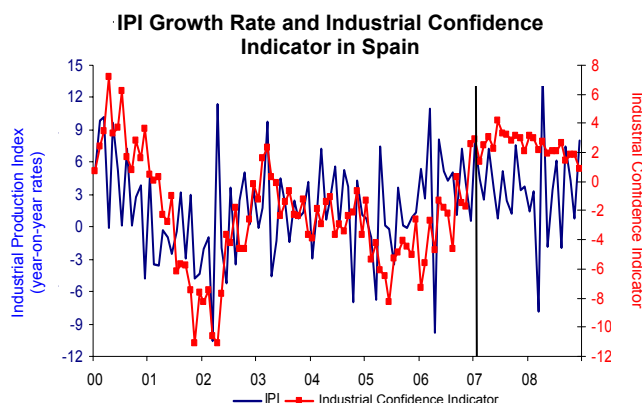
In January, the General Retail Trade Index registered a year-on-year rate of variation, at constant prices and corrected for the calendar effect, of 4.6%, continuing the recovery that the index started to show in the middle of last year, although its growth rate shows some moderation. The latest results of some indicators related to the tourist sector have also been published, showing the good health of the sector. In February, tourist entries registered a year-on-year growth rate of 4.4%, four tenths higher than the previous month and the highest in the last five months; air passenger traffic in February registered a year-on-year growth rate of 9.1%, 2.4 points higher than January. However, overnight stays in hotel establishments in February grew by a year-on-year rate of 3.2%, two tenths lower than the previous month.

The statistic on sales, employment and salaries in major corporations in January, edited by the Tax Agency based on monthly VAT returns and personal income tax withholdings, shows that total sales deflated and corrected for calendar effect registered a year-on-year growth rate of 4.8%, and domestic sales 5.7%. These rates represent a slight deceleration compared with the previous month. However, the employment estimated in this statistic showed 4.2% growth in January compared to a year earlier, half a point higher than the previous month and the highest rate since the middle of last year.

The Social Security contribution and employment data registered in February show that employment continues to be created at a good pace, as the year-on-year rate of variation of SS contribution in the first two months of the year was 3.5%, slightly higher than the last two months of last year. On the other hand, the first two months of 2007 showed a higher rate of reduction of unemployment (-4.2%) than in the previous two months (-3.7%).

With regards to production indicators, the Industrial Production Index (IPI), the latest figure for which refers to January, grew at a good year-on-year rate (7.7%). If the index is corrected for the working calendar effect, the growth rate falls to 5.1%, representing seven tenths more than the previous month. Furthermore, the year-on-year rate of growth of the January IPI was greater than forecast by the IFL. After this result, the recovery registered for the last few months has become more consolidated. Also, the expectations of economic agents relative to the evolution of the Spanish industrial sector, shown by the industrial confidence indicator, improved in February, continuing the recovery started in the second quarter of 2006. Our estimates show that the confidence of economic agents will continue to improve in the next few months, subsequently stabilising at the end of this year, and declining throughout 2008.

Graph IV.2.1.1.1



Source: EUROPEAN COMMISSION, INE & IFL (UC3M)
Date: March 6, 2007

The peak of this cycle is expected within a few months, and the consolidation in 2008 should be at rates higher than the years immediately before 2006. For 2007, we are forecasting an average annual IPI growth rate of 4.1%, versus last year's 3.7%, as a result of the consolidation of the recovery registered in 2006 by both the capital equipment and intermediate goods sectors. For 2008, the average annual IPI growth rate is expected to fall to 3%.

In mid-March, the INE published the Quarterly Labour Cost Survey (QLCS) for the fourth quarter of 2006, according to which the year-on-year



growth rate of the average labour cost per worker and month was 3.4%, nearly one point higher than a year earlier. This result, and those of the other wage indicators in the last quarter of 2006, enable us to evaluate wage performance last year and the future evolution of labour costs, presented in the following section.

IV.2.1.2 The evolution of labour costs in the last few years

In the last few years, the leading nominal wage indicators have been somewhat moderate in tone during a period with lower inflation. This containment of wage growth started well into the nineties and since then, with some exceptions such as 2006, growth has been steadily declining.

When it comes to identifying the factors behind this process, we have to remember that, besides lower inflation rates, other factors have an impact such as the successive labour reforms undertaken since 1994 and, above all, since the late nineties, the massive incorporation of immigrants on the labour market. The latter has enabled companies to moderate labour costs, with a labour supply more easily adapted to their requirements.

Another factor which might have helped to moderate the average wage per worker in the Spanish economy is the heavy increase of the rate at which women have joined the labour market in the last twenty years. As women are paid less than men because, among other things, they tend to work part time more than men, this could also have helped to lower the growth in average wages.

This wage moderation has helped to contain labour costs and improve the evolution of the business surplus, and it is one of the main factors explaining the high rate of job creation registered in the Spanish economy for more than a decade. The counterpart to this labour-intensive pattern, together with the large number of temporary jobs created, is the reduced growth in productivity, with negative effects on competitiveness. The pros and cons of this growth pattern have been discussed in previous bulletins.

Following is an analysis of the evolution of the leading wage indicators in the last few years, especially 2006 and the first few months of 2007. From the performance of these indicators, we can

see that wage moderation was interrupted last year, as growth of such indicators tended to increase, although probably temporarily, as it was due to the heavy impact of the wage revision clauses applicable to the year, which will probably not affect 2007 to the same extent.

Last year, and since the start of this decade, the collective bargaining process has taken place within the so-called framework of the Interconfederal Agreement for Collective Bargaining, with annual renewals. With regards to wages, last year, as in previous years, wage tariffs were established referenced to the Government's inflation target (2%), which is the level of inflation that the European Central Bank classifies as price stability, adding some productivity gains. In turn, most agreements include what are known as wage revision clauses, the purpose of which is to maintain the purchasing power of wages, adding to the initially settled wage the deviation of inflation at the end of the year, a difference which is usually paid out at the beginning of the following year.

The collective bargaining results included in the workers' collective agreement statistics that the Ministry of Labour and Social Affairs (MTAS) publishes on a monthly basis, show that in 2006 the average wage increase initially negotiated in collective agreements was 3.2%, the same as the previous year. However, including wage revision clauses versus inflation at the time they are paid out, for the deviation between CPI growth and initially settled wages, this initial growth rate rose to 4.1%, versus the previous year's 3.8% (see table IV.2.1.1.1 and graph IV.2.1.1.1). In 2006, the impact of wage revision clauses differed between sectors. In construction it was 1.6 pp, it was 1.1 pp in industry, 0.7 pp in services and half a point in agriculture.

This wage growth affected 9,594.9 thousand workers, approximately 91% of all wage-earners who agreed on their wages via collective bargaining. These figures are still provisional, as some agreements with economic effects in 2006 are still pending registration. When the 2006 Collective Bargaining process is over, the number of workers affected will probably exceed those of 2005, so over 70% of all workers establish their wages via the Collective Bargaining process. However, its real impact on wage growth could be much larger, as many companies who did not sign general agreements in fact increase wages with reference to other agreements signed in their respective sectors.



Table IV.2.1.1.1

EVOLUTION OF DIFFERENT WAGE INDICATORS										
(year-on-year rate)										
	2004	2005	2006	2005		2006				2007
				III	IV	I	II	III	IV	I
Wage settlement in collective bargaining agreements ⁽¹⁾	3.2	3.8	4.1	2.9	3.0	3.1	3.2	3.2	3.2	2.8
By branch of activity										
• Industry	3.2	3.7	3.9	3.0	3.0	3.2	3.2	3.3	3.3	2.8
• Construction	3.4	4.0	4.6	2.9	2.9	3.0	2.9	3.0	3.0	4.0
• Services	3.1	3.8	3.9	2.9	2.8	3.2	3.8	3.8	3.7	2.7
By level										
• Company-specific	2.9	3.5	3.6	2.6	2.9	2.8	2.9	2.8	2.6	2.8
• Sector-specific	3.3	3.8	4.2	2.9	3.2	3.1	3.2	3.2	3.3	2.9
Labour costs per person	3.0	2.9	3.5	2.4	2.6	3.4	3.5	3.6	3.4	—
• Wage Cost	2.8	2.6	3.4	1.9	2.5	3.0	3.1	4.0	3.7	—
• Other labour costs	3.6	3.6	3.6	3.7	3.1	4.4	4.9	2.6	2.6	—
• Per hour	3.6	3.2	4.2	2.8	2.9	0.0	7.1	4.4	5.0	—
Compensation per employee ⁽²⁾	3.1	2.6	3.4	2.2	2.7	2.9	3.4	3.6	3.9	—
• Industry	3.0	2.8	3.0	2.7	2.8	2.8	2.9	3.3	3.0	—
• Construction	4.0	5.0	3.7	5.0	4.5	4.0	3.5	3.5	3.8	—
• Services	2.9	2.1	3.2	1.7	2.5	2.8	3.5	3.6	4.0	—
Whole-economy unit labour cost ⁽²⁾	2.5	2.2	2.7	1.9	2.3	2.3	2.7	2.7	2.8	—

⁽¹⁾ Including wage revision clauses in annual figures

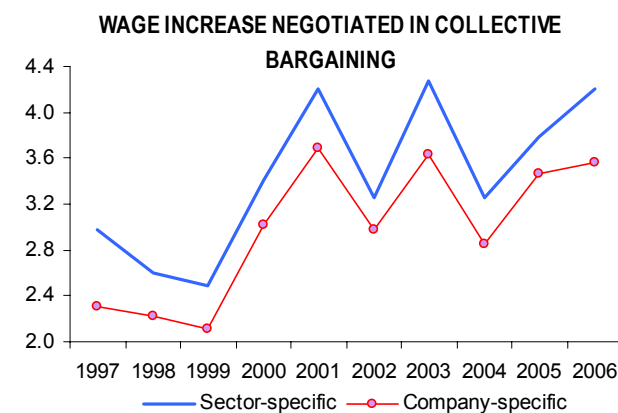
⁽²⁾ Calculated using QNA full-time equivalent employment and data adjusted for seasonality and calendar effect

Source: INE & MTAS

Date: March 15, 2007

Last year, as in previous years, it was seen that wages established on a sector-specific level are systematically higher than those established on a company-specific level (see table IV.2.1.1.1 and graph IV.2.1.1.2), which provides evidence of a negative feature of our collective bargaining system. Indeed, in 2006, the wage increases established on a sector-specific level, after including their wage revision clauses, were 4.2% with company-specific increases registered at 3.6%. Furthermore, most of the workers (over 80%) who agree on wages do so in sector-specific agreements. These agreements affect both companies with losses and prosperous undertakings, so the mentioned feature, attributable to the idea that negotiators in companies are closer to the firm's problems than those negotiating for a sector, diminishes the degree of flexibility of our labour relations system.

Graph IV.2.1.1.2



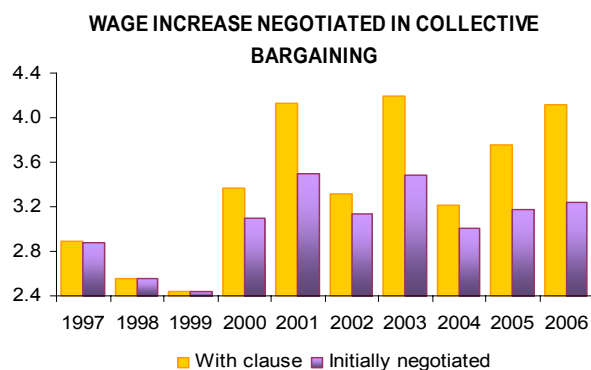
Source: MTAS

Date: March 15, 2007

For this year, we have information about wages in the first two months, according to the Collective Bargaining statistic and we have the January figure for the average wage per worker which is estimated from the advance data about major corporations and obtained from VAT returns and personal income tax withholdings, edited by the Tax Agency (AEAT). According to these two indicators, wage growth this year will be lower than in 2006.

For the first two months of this year, the collective bargaining results show an average wage increase of 2.8%, two tenths less than the wage

Graph IV.2.1.1.1



Source: MTAS

Date: March 15, 2007

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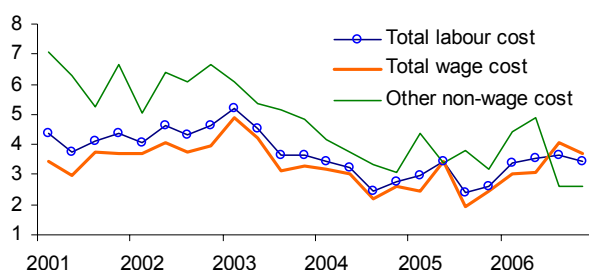


increase initially established at the same time last year, but also, the final effect of the wage revision clauses will be considerably less, around four tenths, less than half that of the previous year, precisely because the deviation of inflation (2.7%) in 2006 from its target, 0.7 pp, was significantly lower than in 2005. In turn, up to February 28, 2,370 agreements had been signed which affected 4,022.3 thousand workers, representing 42% of the total covered by Collective Bargaining in 2006. On the other hand, the average number of working hours is 1,756, the same as last year. From the perspective of major sectors of economic activity, we see that the greatest increases are occurring in construction (4.0%) and agriculture (3.6%), followed by industry (2.8%) and services (2.7%).

The Quarterly Labour Cost Survey (QLCS) also showed some acceleration in 2006 (see graph IV.2.1.1.3). This graph shows the greater systematic growth of other non-wage costs, including compulsory SS contributions, unemployment benefits, temporary disability payments, travelling costs, compensation for dismissal, etc.

Graph IV.2.1.1.3

**LABOUR COSTS ACCORDING TO THE
QUARTERLY LABOUR COST SURVEY**
(year-on-year rates)



Source: INE
Date: March 15, 2007

In 2006, the average labour cost per worker and month was 3.5%, versus the 2.9% of 2005. On the other hand, the wage component increased its year-on-year rate of variation by 0.8 pp to 3.4%. Other non-wage costs increased at a rate of 3.6%,

as in the previous year, maintaining a positive but small growth differential relative to previous years.

If we compare the wages settled in collective agreements with those effectively received by workers estimated in the QLCS, we can obtain an approximation of what is known as wage drift, which includes supplements such as productivity, promotions, seniority, etc. In 2006, as in previous years, the wage drift was again negative, explained by the low growth of productivity and, largely, by a composition effect resulting from the fact that, in 2006 and previous years, there were a large number of new immigrant workers who, in general, show less productivity and lower salaries than their pre-existing colleagues.

With regards to compensation per employee, estimated in the National Accounts by dividing total compensation of employees by full-time equivalent employment, 2006 saw a break in the moderate pathway registered since 2002. Indeed, the year-on-year rate of variation of this labour cost indicator accelerated significantly to 3.4%, 0.8 pp more than the previous year. On the other hand, the total compensation of employees increased its growth from the 6.1% of 2005 to 6.8%, due to the fact that the acceleration in compensation per employee was slightly compensated by a modest deceleration in full-time equivalent employment.

Note that compensation per employee is the labour cost indicator with a larger degree of coverage as, besides gross wages and salaries, it also considers non-wage labour costs, including employer contributions to the SS, compensation for dismissal and others and, unlike the former, it also covers the public sector.

As a result of this increase in compensation per employee and productivity per worker, which grew in 2006 by 0.8%, double the previous year's growth rate, the average annual rate of growth of **unit labour costs**, calculated in terms of full-time equivalent employment, rose to 2.7% in 2006, half a percentage point more than the previous year and interrupting the decreasing trend started in 2002.



IV.2.2 INFLATION.

In February, Spanish inflation performed as expected, 2.4%, but with different innovations among its components, both those included in core inflation and the rest.

In the former, the upwards innovations in processed food were nearly completely compensated by downwards innovations in non-energy industrial goods and services. The prices of processed food are recently influenced greatly by the fluctuations observed in oil and fats prices. These are determined by wholesale prices for olive oil and international prices of other oils, but the way in which the latter are transferred to the CPI of oils and fats is more difficult to forecast. Likewise, bread and cereal prices have grown abnormally in February. With these upwards innovations, consumer prices of processed registered an annual rate of 3.5% in February, versus the forecast 3.0%.

In the acceleration that this figure represents in relation to January (2.9%), besides the abnormally high growth of bread and cereal prices, tobacco plays a significant role, as it registered a very high annual rate in February, affected by the fact that there was a price cut in February last year.

With this, the increases in processed food prices get very close to those of service prices, the annual rate of which has been stable at around 3.8% for the last few months. Although a significantly lower rate than that of services is expected for processed food in March, this rate is expected to grow during the year until it returns to around 3.5% at the end of 2007. Therefore, the forecast average annual rate for processed food in 2007 has been revised upwards to 3.0%, so they will continue to be one of the most inflationist components in core inflation. Core inflation has been at 2.7% since January, 2007, two tenths higher than its December value, and this average level will tend to remain in this year's annual average rate.

The annual headline inflation rate has been falling since July, 2006 (4.0%) to its present level of 2.4%, partly determined by the reduction in core inflation over the same period from 3.1% to 2.7 but, particularly, by the reduction in energy prices, which have gone from an annual rate of 10.1% to a negative rate of 1.8%.

Updating our forecast with the February figures, we are expecting a progressive reduction in annual headline inflation rates until the middle of the year, after a slight increase in March. From July on, we expect the annual rates to recover and end the year at

close to 3%, stabilising at around 2.7% from the first quarter of 2008 on.

Table IV.2.2.1.

ANNUAL CPI GROWTH RATES IN SPAIN*						
CPI	Observed			Forecasts		
	Aver 2005 ⁽²⁾	Aver 2006 ⁽²⁾	2007 Feb ⁽¹⁾	2007 Mar ⁽¹⁾	Aver 2007 ⁽²⁾	Aver 2008 ⁽²⁾
CORE (82.3)	2.7	2.9	2.8	2.6 (±0.17)	2.7 (±0.25)	2.7 (±0.54)
TOTAL (100%)	3.4	3.5	2.4	2.5 (±0.17)	2.4 (±0.38)	2.7 (±0.70)

* 80% confidence intervals calculated with historical errors.

Source: INE & IFL(UC3M)

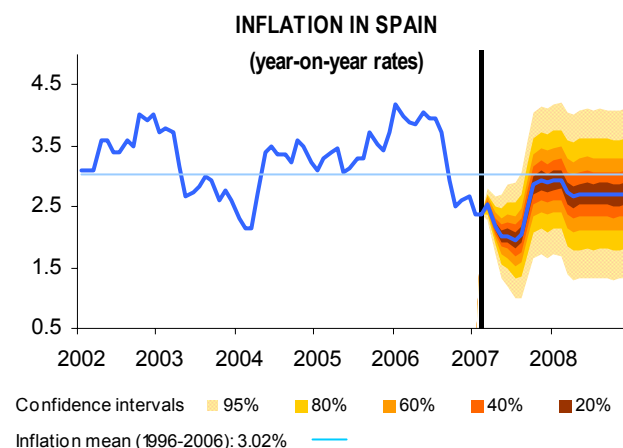
Date: March 21, 2007

⁽¹⁾ Year-on-year rate

⁽²⁾ Annual average rate

With the February figures, the forecast average annual rate of core inflation in 2007 is revised upwards by one tenth to 2.7%. On the other hand, we are expecting lower falls in energy prices for 2007 and this, together with the above, leaves headline inflation for 2007 at 2.4%, slightly higher than our previous forecast (2.3%). The forecast for 2008 remains at 2.7%, for both core and headline inflation.

Graph IV.2.2.1



Source: INE & IFL(UC3M)

Date: March 21, 2007



IV.3. TABLES AND PLOTS.

Tables:

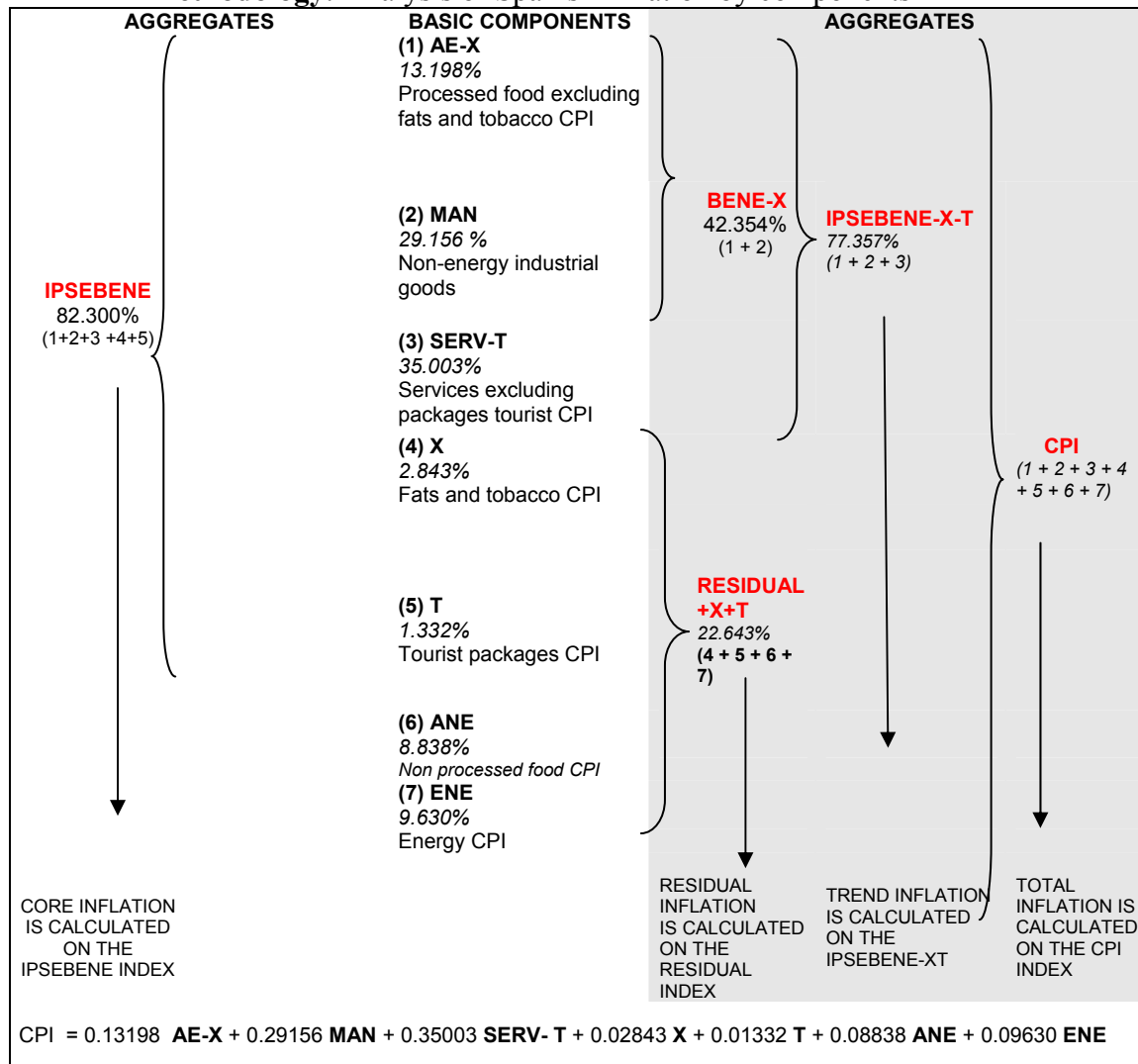
- Methodology: Analysis of Spanish inflation by component
- Forecast errors in the monthly inflation by component in Spain in February.

Plots:

- Year-on-year rates in the CPI of Spain.
- One month ahead forecast errors in Spanish inflation.



Methodology: Analysis of Spanish inflation by components



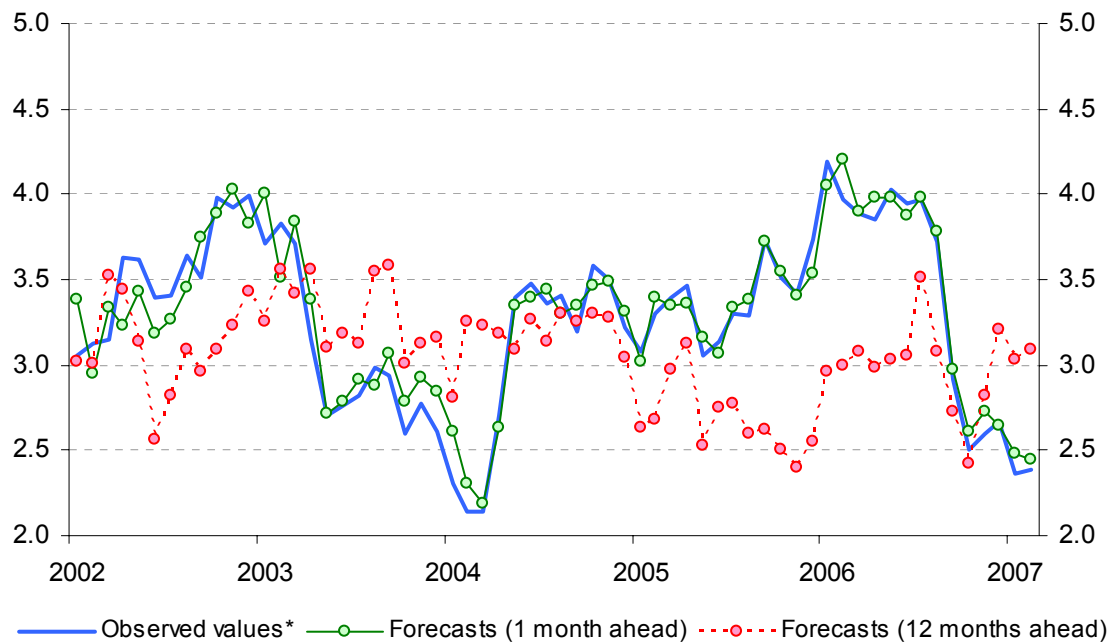
Source: INE & IFL (UC3M) Weights 2007

FORECAST ERRORS IN THE MONTHLY INFLATION BY COMPONENTS IN FEBRUARY IN SPAIN				
	Weights 2006	Observed Monthly Growth	Forecast	Confidence interval at 80%
Processed food	16.78	0.44	-0.04	0.19
Non energy industrial goods	29.04	-0.26	-0.18	0.18
Services	36.48	0.42	0.50	0.08
CORE	82.30	0.19	0.15	0.10
Non-processed food	8.10	-1.27	-0.50	0.68
Energy	9.60	0.16	0.10	0.45
RESIDUAL	17.70	-0.50	-0.18	0.38
TOTAL INFLATION	100.00	0.07	0.12	0.11

Source INE & IFL (UC3M)
Date: March 13, 2007



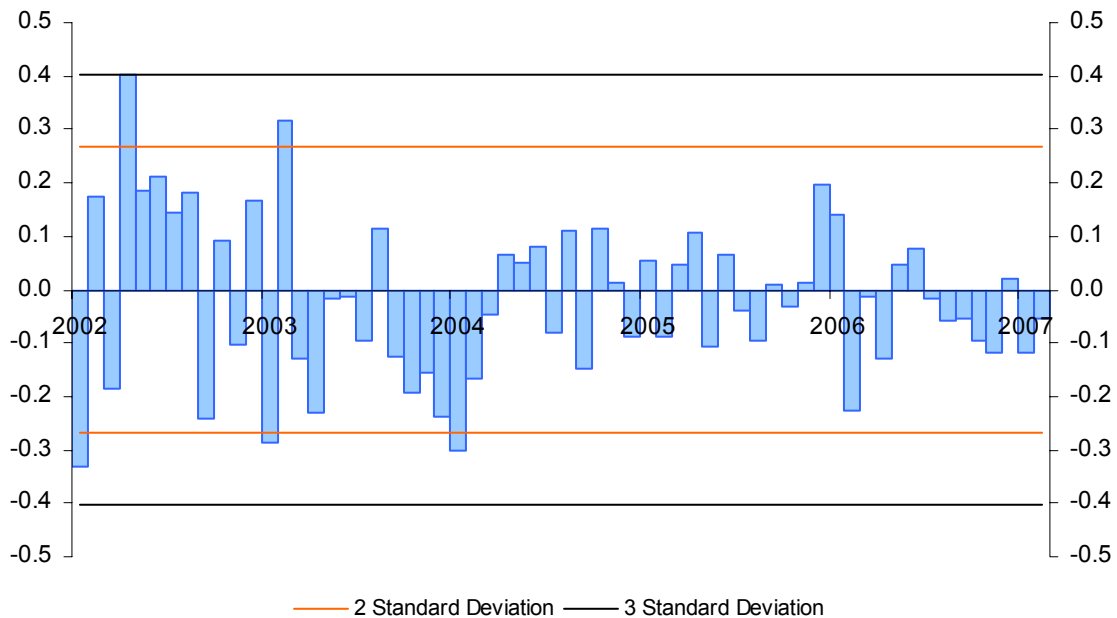
YEAR-ON-YEAR RATES IN THE CPI OF SPAIN



* Observed values without revisions in CPI

Source: INE & IFL (UC3M)
Date: March 13, 2007

ONE MONTH AHEAD FORECAST ERRORS IN SPANISH INFLATION



Source: INE & IFL (UC3M)
Date: March 13, 2007



V. SUMMARY OF FORECASTS FOR DIFFERENT AREAS.

V.1 EURO AREA AND USA

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND US								
	2001	2002	2003	2004	2005	2006	Forecast	
							2007	2008
TOTAL INFLATION								
Euro-area (100%).	2.3	2.2	2.1	2.1	2.2	2.2	1.8	2.0
US (76.2%). ⁽¹⁾	2.6	0.9	2.2	2.8	3.7	3.1	1.7	2.4
A HOMOGENEOUS MEASURE OF CORE INFLATION ⁽²⁾								
Services and Non-energy industrial goods excluding food and tobacco.								
Euro- area (70.83%).	1.8	2.4	1.8	1.8	1.4	1.4	1.8	1.7
US (52.9%). ⁽¹⁾	2.1	1.6	1.1	1.6	2.1	2.1	1.9	2.1
DIFFERENT COMPONENTS OF THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Services.								
Euro- area (40.82%).	2.5	3.1	2.5	2.6	2.3	2.0	2.4	2.2
US (31.8%). ⁽¹⁾	3.6	3.6	3.2	3.3	3.1	3.4	3.4	3.4
(2) Non-energy industrial goods excluding food and tobacco.								
Euro- area (30.00%).	0.9	1.5	0.8	0.8	0.3	0.6	1.1	0.9
US (21.0%).	0.3	-1.1	-2.0	-0.9	0.5	0.3	-0.2	0.2
INFLATION IN EXCLUDED COMPONENTS FROM THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Food.								
Euro- area (19.56%).	4.5	3.1	2.8	2.3	1.5	2.4	2.0	2.0
US (13.9%).	3.1	1.8	2.1	3.4	2.4	2.3	3.3	2.9
(2) Energy.								
Euro- area (9.62%).	2.2	-0.6	3.0	4.5	10.1	7.7	0.8	4.6
US (8.70%).	3.8	-5.9	12.2	10.9	16.9	11.2	-2.1	3.4

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

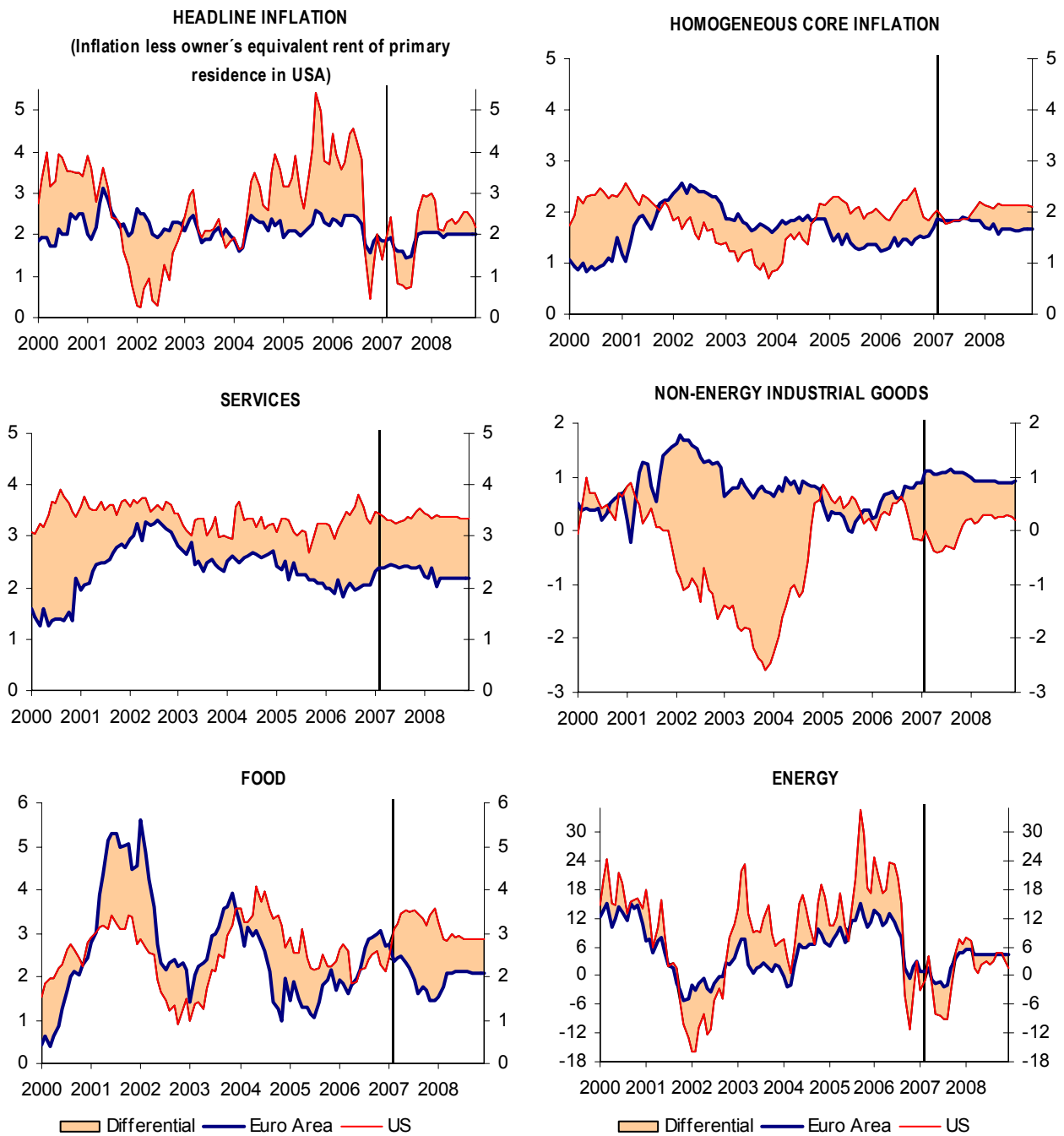
⁽²⁾ This homogeneous measure of core inflation does not coincide with the usual measure of core inflation for the euro area nor for the USA. It has been constructed in order to compare the data in the Euro area and in the USA.

Source: EUROSTAT, BLS & IFL (UC3M)

Date: March 20, 2007



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



Source: EUROSTAT, BLS & IFL (UC3M)

Date: March 20, 2007

Headline inflation does not include owner's equivalent rent of primary residence. The core inflation has been constructed in order to compare the data in the Euro area and in the US.



V.2 EURO AREA AND SPAIN

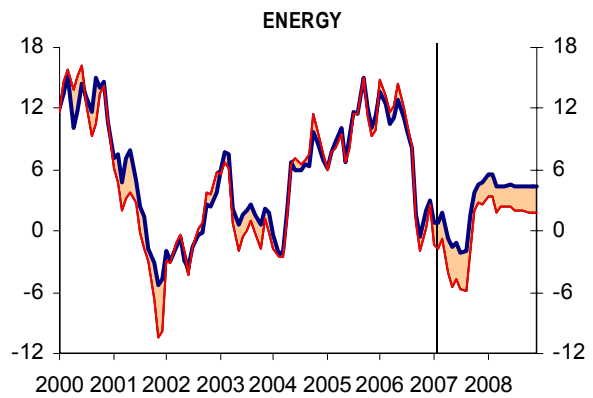
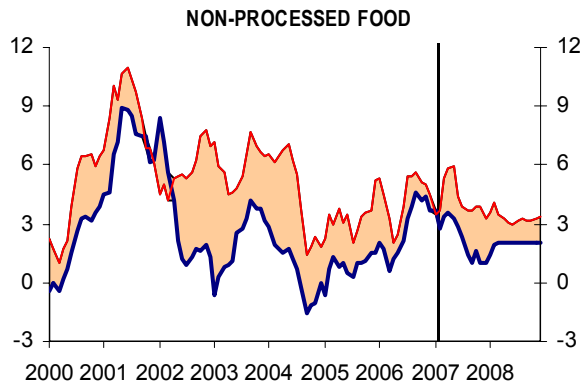
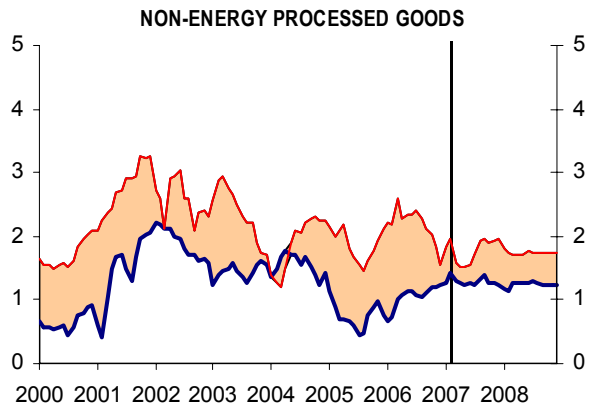
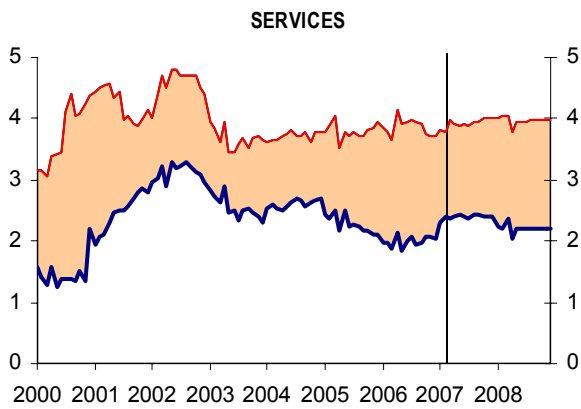
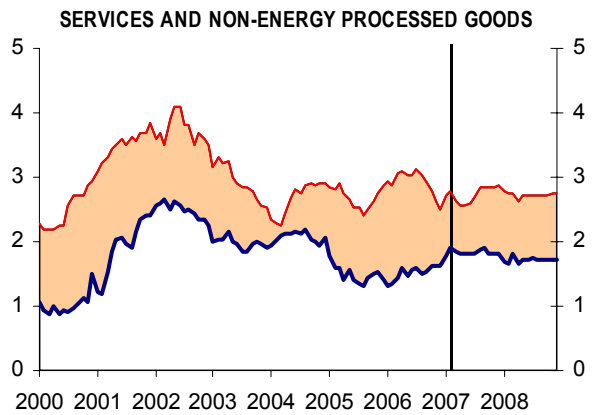
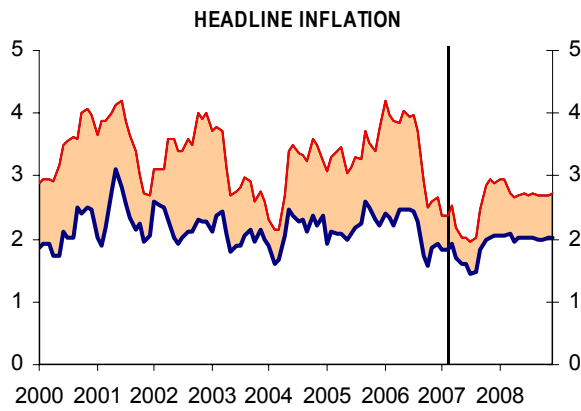
INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND SPAIN								
	2001	2002	2003	2004	2005	2006	Forecasts	
							2007	2008
TOTAL INFLATION								
Spain (100%).	3.6	3.5	3.0	3.0	3.4	3.5	2.4	2.7
Euro-area (100%).	2.3	2.2	2.1	2.1	2.2	2.2	1.8	2.0
CORE INFLATION								
Services and Non-energy processed goods.								
Spain (82.30%).	3.5	3.7	2.9	2.7	2.7	2.9	2.7	2.7
Euro-area (82.76%).	1.9	2.5	2.0	2.1	1.5	1.5	1.8	1.7
COMPONENTS OF CORE INFLATION								
(1) Services.								
Spain (36.48%).	4.2	4.6	3.7	3.7	3.8	3.9	3.9	4.0
Euro- area (40.82%).	2.5	3.1	2.5	2.6	2.3	2.0	2.4	2.2
(2) Non-energy processed goods.								
Spain (45.82%).	2.8	2.6	2.4	1.9	1.9	2.2	1.8	1.7
Euro- area (41.93%).	1.5	1.9	1.4	1.5	0.7	1.1	1.3	1.2
RESIDUAL INFLATION								
1) Non-processed food.								
Spain (8.10%).	8.7	5.8	6.0	4.6	3.3	4.4	4.2	3.3
Euro- area (7.63%).	7.0	3.1	2.1	0.6	0.8	2.8	2.3	2.0
(2) Energy.								
Spain (9.60%).	-1.0	-0.2	1.4	4.8	9.6	8.0	-2.1	2.3
Euro- area (9.61%).	2.2	-0.6	3.0	4.5	10.1	7.7	0.8	4.6

Source: EUROSTAT, INE & IFL

Date: March 21, 2007



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



Differential
 Euro area
 Spain

Differential
 Euro area
 Spain

Source: EUROSTAT, INE & IFL (UC3M)

Date: March 21, 2007



VI. FORECASTS FROM DIFFERENT INSTITUTIONS

FORECASTS OF DIFFERENT INSTITUTIONS ¹										
INFLATION										
	BIAM ²		CONSENSUS FORECASTS ³		IMF ⁴		ECB ⁵		OECD ⁶	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
EURO AREA	1,8	2,0	1,8	1,9	2,4	-	2,0	1,9	1,9	1,8
USA	2,2	2,7	1,9	2,3	2,9	-	-	-	2,3	2,3
SPAIN	2,4	2,7	2,4	2,6	3,4	-	-	-	2,7	3,2

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

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

2 Bulletin EU & US Inflation and Macroeconomic Analysis, March, 2007.

3 March, 2007.

4 IMF. World Economic Outlook. September, 2006.

5 Results of the ECB Survey of Professional Forecasters: ECB. Monthly Bulletin February 2007.

6 OECD Economic Outlook 80. November, 2006. For the Euro area and Spain the inflation forecasts are for the HICP.

Our forecasts for total inflation in the euro area and Spain are slightly superior than the previsions derived from other institutions because with the methodology applied in our Bulletin, total inflation is broken down into core and residual inflation. Residual inflation is composed of inflation in non-processed food and in energy prices.

The innovations in different components are transferred ahead through different multipliers. The innovations derived from residual inflation are less persistent.



Stock market volatility and systemic crisis

Some Chinese firms go into bankruptcy and China's growth rate sometimes falls, but China is facing at least another two decades of record growth. US growth is not going to last for ever; there will be a recession and a recovery. The same will happen, sooner or later, in Spain and other countries. The US property sector is stagnant and prices will fall two, three or up to five percentage points. Then growth will be back. One of these days, the same will happen in Spain. Each of these negative facts leads to fluctuations, even large fluctuations, in some stock indices, especially in those related to the directly affected sectors. But the panic we see appear and disappear again about once a fortnight is not justified. What causes this panic if there is no systemic crisis waiting around the corner? Too many "experts" believe in a systemic crisis. That's the problem.

I have no idea if any of you still recall (I hope so) but it was just a month ago that the Spanish stock market collapsed. It did not collapse alone; they all did, from Tokyo to New York, from Beijing to Frankfurt, and a few crashed more than the Spanish market did. I just looked at the indices, and it seems to me that they all "forgot" that specific crash, among other things because they are busy with other crashes, or rallies, due, apparently, to other sources of crisis.

A month after the start of this high volatility period, and while volatility persists in stock markets around the world, the dominant theory seems to be the forthcoming collapse of the US real estate bubble. This is a relatively new theory (it is about two weeks old) and other theories have been suggested during the last month to explain the facts. As I am slightly "cynic", my impression is that nothing is happening, but I may be wrong. Nevertheless, because I agreed to do something I seldom do, that is: write about stock markets movements, I better try to explain what I mean by saying that nothing happens as many people seem to believe that lots of things happened, are happening or will happen.

The first "theory" of the 2007 season was called "China": before the European and American markets collapsed the Shanghai stock market had dropped about nine percentage point the same day, giving everyone the impression that the Chinese economy was in dramatic "troubles". The troubles were not clearly identified, but they had to be serious. This created a number of scares around the world, more in the US than in the EU to tell the truth, and this led to crashes everywhere. Slightly less than a month after, precisely on March 21, various news sources observed that "The Shanghai composite index rose 25.19 points Wednesday, to 3,057.38, a record. The Shenzhen component index reached 8,400.30, also close to a record." China, before anyone else and the other countries right after, seemed to have forgotten the new Chinese syndrome. Was the original scare justified? Will the Chinese collapse come anytime soon?

I do not know how to answer the second question, but I can try my hand on the first: the great scare had no justification because we have already forgotten the big Chinese recession only a month later. It is that simple: if the Chinese recession comes, in six months or a year, that's another ballgame. Which allows me to go back to the second question, about the forthcoming Chinese collapse. Nothing is certain in this kind of "forecasting" exercises, which is why I hate them, in any case: I very much doubt that a generalized recession cum depression will come to China anytime soon, say within months or a few years. Most firms quoted in the Shanghai Stock Market are, for sure, high risk bets: this means that some will go broke while other will grow enriching their stockholders. Which will be which, no idea: if I had an idea I would be much richer than the poor I am. The same, I must say, can be asserted about firms in the Madrid, Paris, Milano, New York, etcetera markets. The Chinese companies are, for someone as "Atlantic-centric" as I am, a more mysterious mystery than those in Madrid or New York, because I cannot read mandarin and, as the majority of American and European investors I have no idea what they do and how they manage their accounts and budgets. On average, though, the indices of that market are neither more nor less risky than the American or European one, and that's what matters.

My economic analysis is simple: China discovered markets, economic growth and the welfare this brings about. All this stuff, the Chinese like very much. A few trips to China during the last fifteen years, paired with "common sense" random readings of the data, suggest that China still needs many years of economic growth, possibly twenty or more. Chinese growth will happen, maybe with ups and downs like all other growth experiences, but it will happen because the capitalist transformation of the country is not going to stop and the demand for income and consumption coming from the 800 millions Chinese still living in poverty is too strong. On top of it, the 500 other millions that have already experienced markets are not going to give them up



soon. So, it seems to me, it is an excellent idea to invest in the Shanghai stock market, forget about its daily or monthly vagaries, and make plans for leaving the returns of such a wise choice to our children.

More or less during the same days in which some “analysts” were talking about China, some other were talking about some lunch speech by Alan Greenspan. The “master” of world financial markets had, how original, warned his audience about the risk of a recession in the USA and recommended care with the stocks. Among academic economists there is an old joke, attributed to Paul Samuelson “circa 1975”, according to which the stock market has correctly forecasted nine of the last five recessions. Thirty years later, I have the impression the stock market (and its gurus) have forecasted about thirty of the last nine recessions – the latter being the number of actual recessions for the US economy since WWII. A month has gone by, and we see no recession yet, still: be patient, sooner or later one will come.

The US economy has been growing for about six years without much of a pause. Because, on average and since the end of WWII, expansions lasting more than six years have been rare (three out of ten) it is not a proof of genius to expect that this will not last much longer. On the other hand, the Spanish economy has been growing at rates always higher (often substantially higher) than 2% since 1995, hence: who knows? If the recession comes within six months, should we interpret it as a confirmation of the great foresight of Mr. Greenspan? What if it comes within a year? How about two years? Alternatively, should we conclude that financial markets are irrational and moved solely by the uncontrolled sentiments of investors prone to take huge risks, on the one hand, and scarcely studious of fundamentals on the other? In other words, should we conclude once again that JM Keynes – the worst among the twenty most famous economists of the XX century – was actually “right” and that financial markets are nothing more than a “beauty contest”?

Either conclusion seems unwarranted to me, better said: either is wrong. Were the crashes of a month ago due to irrational investors? Were they, instead, the alarm bells signaling a forthcoming recession and that we blindly ignored? Neither, as I will argue at the end and I am arguing all throughout. But before concluding, let me look at the more recent oscillations of the last two weeks.

The most recent theory I stumbled upon on five or six well reputed newspapers from around the financial world is that the new source of fear is

called “subprime”, that is the bonds financing riskier home mortgages. Matter of fact, the default rate on this kind of debt has been rising since a few months ago and is, since the last quarter of 2006, around 10% (the exact number depending on who is reporting and the sample adopted). At the time of our (US) last recession “The weighted average default rate on the riskier loans rose to 10.1 percent in November 2001 from about 7 percent in early 2000”, Bloomberg News wrote in early 2002. The analogy is obvious, but the implications are a lot less so. First of all because there is no sign of recession other than this - and in fact, the markets rallied today, March 29, because some data I did not know yesterday when I wrote the first draft of this said we are still growing fast. Second, because the mortgages financed via the subprime market are no more than 14% of the total, are smaller than the average, and the default rate on the “regular” mortgages is constant at roughly 4-5%. Thirdly, because I cannot find a shred of evidence showing the US banking system is over-exposed, or even “exposed”, to the risks coming from the subprime market. All I can see are a bunch of pretty healthy balance sheets, with the usual, few and irrelevant black sheep here and there.

Business as usual, I would say: some businesses do well, other less well, and other do poorly. What seems out of question is the “systemic” crisis, which is the only fact that would justify the kind of roller-coaster stock markets around the world have been playing with since a month ago. Still, from newspapers to analysts, too many people keep talking exactly about that: the bursting bubble, the major crisis, the systemic collapse, the unfolding of China, the unsustainable debt burden ...

Which gets me to the bottom line: each one of the “bad fundamentals” mentioned so far is true. Some Chinese companies will go broke, sometime in the near future the growth rate of that economy will go down, then up again, then down ... The first US expansion of the third millennium will not last forever and a recession will come: like all recession it will last 4 to 10 months, after which the US economy will start growing again at around 3% a year. Roughly the same will happen in Spain, in the UK, and in most other countries (exception made for Italy, because it cannot longer grow above 1.5% for more than a few months, but that's another story.) The real estate sector in the USA has slowed down and got stuck, house prices will decrease, on average, of two, three, maybe five percent and then will stabilize and start growing again because there are more people than houses, and because increasing wealth leads people to ask for larger and better dwellings. And the same will happen also in Europe, why not? *What will not happen is the systemic crisis.*



Each and every one of these facts justifies fluctuations, even large fluctuations, in some stock indices or in the values of other financial assets, especially of those related to the sectors that are slowing down! But none of them justifies the fears that seem to be popping out, blossoming and then disappearing every second week or so. Why are we experiencing all these “fear bubbles”?

In my humble opinion, all these “fear bubbles” are due to the fact that too many financial analysts and traders and, in particular, way too many journalists and economic pundits have read and even studied the “systemic risk” literature, while forgetting (or never finding the time to learn) basic and sound economic theories coupled with solid historical and statistical facts.

Quite unfortunately, there are tons of books, articles, pamphlets and so on that keep theorizing about the systemic crisis as if it were something that may happen any time soon. Such “theories” of systemic risk have no logical foundations, they are not based on any coherent (let alone realistic) model, nor are they predicted by any empirically supported model of anything. The vast majority of those writing about systemic risk are charlatans, and the few who are not are deeply confused economists that have been unable to convince the rest of the profession that such theories make any sense, among other reasons because they do not and their predictions are regularly and systematically falsified by the facts of history, as the latter keeps unfolding. The only ground such “theories” rest upon is a mixture of paleo-marxist prejudices about the “fall of capitalism” or the “collapse of the international financial system”, glued together by obscure and incoherent statements about the irrationality of financial markets, as uttered by Mr. J.M. Keynes and his followers. Rather unfortunately for all of us, Mr. JMK is still considered, incorrectly, as a great economist and small portions of his confused writings are still quoted, for lack of good reading, by a large fraction of the economic press. Small portions of his writings, and always the same, as no one is capable of reading his papers in their entirety, among other things because they are incomprehensible and boring.

Even more unfortunately, the stock market crash of 1929 and the Great Depression of 1929-39 took place, due to monetary and banking policy mistakes

followed by other economic policy blunders, in the USA. The latter is not only the largest economy in the world, but also the place where most economic research takes place, where “theories” are created and intensely debated and from where such “financial or economic fads” spread to the rest of the world. The merging of these two, completely unrelated, sets of facts (together with the lack of knowledge about, or the forgetfulness of, the true specific causes of the Great Depression) is the source of such enduring conclusion. In our collective imagination, old marxist prejudices and irrational (you see, I also believe in lack of rationality sometimes) fears about economic uncertainty are supported by the keynesian nonsense about animal spirits and beauty context, leading us to believe that the whole thing may well come apart at any point in time. This ideological cocktail, which has neither logical nor historical foundations, is served to us almost daily by the “pundits”, who earn their living, especially in periods of uncertainty such as the current one certainly is, by blowing such fears out of any reasonable proportion. Ironically enough, this particular cocktail is so abundantly produced and consumed that it generates widespread “beliefs” about the systemic instability and the forthcoming big crisis. Hence, any news about negative shocks a little bit larger than the usual ones, becomes a signal for pulling out the “systemic crisis beliefs” and start panicking because the end is near.

Such fears are not irrational, they are just plain wrong: they are the product of a still too poor economic education. Such fears cannot be eliminated by over-regulating financial markets or by restricting capital movements, either internally or internationally. Such fears can be wiped out, ever so slowly, only by forgetting Mr. Keynes and the paleo-marxist prejudices that go with it, by studying and understanding what truly caused the depression of 1929-39 in the USA, and by thinking hard about what “systemic crisis” really means. This should lead each and every one of us to realize that what such theories describe and forecast has absolutely nothing to do with the economic world we live in.

P.S. I almost forgot it: stock markets around the world also collapsed in March-April of 2006, with some of them crashing by a higher percentage value than during the recent episodes. Another systemic crisis that (un?)fortunately did not happen.



DEFENDING COMPETITION: MODERNISATION BY REMOVING OBSTACLES

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The social sensitivity of Spanish citizens and entrepreneurs has grown in the last few years. This has been fostered by the debate and consideration of the results of removing inefficient regulation and opening markets to competition.

In this context, the new Competition Bill is currently being debated by the Spanish Parliament. As usual, the text contains light, shadows and interests. Ignoring the latter, we can say that the light is bright but remains with the shadows derived from the past, a reflection of the difficulties involved in all attempts to flee from interventionist tradition.

The text being discussed is a considerable improvement in the present defence of competition legislation, especially due to the ability to appeal against the administrative acts of public administrations, the application of Competition Law by judges – with evident fragile aspects – , clemency programmes and public grant controls.

The text lacks, however, more reference to economic analysis and the consideration of the effects of conduct rather than its formal appearance. Particularly complicated is the maintenance of reports on the impact on competition of new major retail outlets – which is practically useless – and, in view of its effective results, reconsideration is due to the present system of merger control, with plenty of reports but few Cabinet decisions.

Additionally, it makes sense to supplement public aids control with entry barrier control. In any event, the efficiency gains derived from a new text disappear in a relevant measure due to the time spent on jurisdictional reviews. The complete process should never last more than three years.

In sum, a step forward has been taken, and that is important, but the step is too small.

INTRODUCTION

An analysis of the economic debate in the recent past in Spain reveals that competition and its defence have been in the forefront. The media have certainly provided ample coverage of these discussions. Regardless of the conservative reactions of those who defend the *status quo*, discussions concerning the pertinence of deregulating markets, eliminating inefficient regulation⁴ and promoting competition significantly helped to support the achievements of the Spanish economy in the nineties⁵.

In the last few years the circumstances have changed, so the way in which we see phenomena related to defending competition should also change. As Crandall and Winston (2003) emphasize, we need to promote an empirical

analysis aimed at identifying the real effects of antitrust policies. On the other hand, according to the work coordinated by Rey (2006), the approach of the defence of competition authorities should consist of considering the effect of conduct as a fundamental criterion of reference. In both cases, the reference lies in effects. A different conduct can have the same effects and an identical conduct can have different effects. Apparently anti-competitive conduct could even have no significant impact on the markets. Although relevant, forms are less important than effects. These questions suggest that it would be pertinent to reconsider competition policy from a new angle –simultaneously economic and legal– which differs from the traditional approach.

This debate has provided many entrepreneurs, politicians and citizens with a solid set of ideas and arguments which have helped to increase their confidence in the market as an instrument favouring the effective allocation of resources. Some real-life examples (banking, air passenger transport, funeral services, artificial maternal milk) have reinforced these ideas and citizens, particularly consumers, want more competition, as defended by political economy for centuries. Only a few continue to believe that pharmacies, book prices, the retail trade, land, MOT testing, energy, networking industries, the post office and so on, should operate independently from market mechanisms.

⁴ The weight and cost of regulation related to the business world is enormous. The OECD (OECD, 2001) estimated that the cost of the regulatory burden on small and medium-sized enterprises in its member states represented 4 per cent of their global GDP. In Spain, the cost was a by no means negligible 5.6%. It can therefore be assumed that the global regulatory framework includes a large number of regulations which are manifestly inefficient from an economic perspective

⁵ We can still remember the reports issued by the Tribunal for the Defence of Competition, which saw fit to promote social debate and persuade the government to embark upon an evidently necessary process of structural reforms and promotion of competition, especially in the services markets. For further insight, see Petitbò, A. (2000)



With these premises, this paper will be referring in general to the Defence of Competition Bill, currently being debated by the Spanish Parliament, with specific reference to merger control. We will also consider the need to modernise the regulations related to the defence of competition, as prescribed by economic analysis.

RELEVANT CHANGES

The increase in foreign trade and connections is unquestionably a fact of singular importance. Spanish entrepreneurs have rapidly and efficiently change the way in which they understand business dimension and management. If years ago foreign investment in Spain was a highlight of our economy, we now have to consider the importance of Spanish investment abroad. Spanish companies occupy leading positions in Latin American and operate in countries as varied as China, Switzerland, Ireland, Poland, Canada or the United States and, in many cases, most of their income comes from abroad. Over a thousand firms have invested their resources in other leading countries, helping Spain become one of the ten leading countries in relation to direct foreign investment⁶.

However, with the lively discussions concerning the need to remove inefficient regulation and for competition to become a memory, the social vibrations related to such issues are low key or hidden in discreet silence or timorous activity, depending on each specific case. Exceptionally, official voices in Spain, and more often in the European Commission, demand new deregulation. But after the failure of the principles defined in the 2000 Lisbon Agenda, the effervescence in favour of deregulation and competition has lost its strength.

As emphasised by the OECD (OECD, 2000), the Spanish experience in relation to increasing foreign trade and market deregulation has provided "clear evidence of the value of structural and regulatory reforms as support for economic growth". According to the OECD, these reforms, "started 15 years ago and faster since 1996, have also helped to make the economy more flexible and competitive, accelerating Spain's convergence in relation to Europe". But, also according to the OECD (s.f.), the reforms have been "timid" if we consider activities such as trade, networking industries, energy,

mobile telephony and the need to modernise the rules and institutions for the defence of competition. Opportunities have been lost, but what has been done, overall, has been significant⁷ not only in the field of ideas but also in that of facts.

As Jovellanos said about farming, but with words which can be applied to all markets, the most important principle of society "is that all legal protection... should consist of removing the obstacles to the free action of its agents' interests within the sphere defined by justice". The removal of obstacles to market regulation should be tackled while updating the regulation of competition.

THE COMPETITION BILL

After over four decades applying the right to competition, a new Competition Bill (PLDC) is now being discussed. It aims to optimise the industrial framework and order business conduct on our markets, considering the EU legislation, the responsibilities of the autonomous regions and the law on unfair competition. The project is based on past experience but certainly looks to the future.

As always, the texts submitted to parliament for discussion have light, shadow and interests. Leaving the latter on one side, the light of the legislative project is very bright, although it lives alongside the shadow of the past. All this shows how difficult it is to flee from interventionist tradition, worse in this case in the autonomous administrations.

As we have said, the elimination of the organisational duality configured by the Defence of Competition Service and the Tribunal and the creation of the National Commission for the Defence of Competition (CNC), the application of Competition Law by judges or future clemency programmes, are all significant issues. However, the brightest light is that which grants the new CNC the ability "to legally impugn acts by public administrations subject to Administrative Law and legal provisions ranked lower than Law, which lead to obstacles for the maintenance of effective competition on the markets", a faculty which also extends to sub-central authorities. This ability is powerful: it represents an innovation and, correctly exercised, could effectively help to eliminate inefficient regulations to benefit efficient economic operators. This faculty is appropriately supplementary to the CNC's consultancy function.

⁶ Guillén, M. F. (2005) described the Spanish firms' internationalisation process as "amazingly fast". His opinion of the internationalisation of Spanish businesses is clear: "The foreign expansion of Spanish service companies is among the greatest and best capitalised in Europe. For the first time in decades, a bunch of Spanish companies have become contenders on the European market. This is possibly the most important result of the extraordinarily rapid internationalisation process observed since the nineties."

⁷ This should not be surprising because, as Martínez Arévalo, J. (2006) says, "There were many deregulation processes because many sectors were regulated..."



Secondly, also important are the elimination of the extravagant “abuse of position of dependence”, the step from “authorisation” to “exemption” and the strengthening of the inspecting and reporting mission of the CNC in relation to public grants, a hellish instrument which first effect is to alter competitive conditions on goods and services markets.

Thirdly, the CNC is clearly intended to be an institution equipped with unequivocal independence, which will “perform functions in relation to all markets”, thus clarifying all doubts related to organisations which, without apparently being mercantile, act as economic operators.

Furthermore, although of lesser importance, we should also mention the improvement of the CNC’s ability to establish penalties, together with requiring evidence, opening dossiers, issue circulars, arbitrate, publish guidelines or negotiate the termination of conflicts.

However, there are also shadows which need light in order to modernise even more our defence of competition system. The first would be to reinforce the consideration of economic analysis and the effects of conduct as fundamental points of reference in line with the proposals formulated in the paper coordinated by Professor P. Rey (2006). The second would be to eliminate the control of

new major retail outlets, the utility of which is practically zero, and consider the pertinence of universal controls over mergers in excess of established thresholds, according to recent experience in a context of global economy which has altered the often ephemeral contours of the dominant position on relevant markets. The third would be the need to clearly establish the pre-eminence of the CNC in relation to regulatory agencies in issues related to the defence of competition. Finally, there is also a need to supplement controls of public aids with others related to entry barriers, especially of an administrative nature.

MERGER CONTROL

Merger control, mentioned in the above paragraph, deserves, however, a special mention, based on two arguments; firstly, the practical repercussion of the present system which combines a wide administrative structure with an actually small impact, although in some cases significant; secondly, in spite of the references contemplated by the PLDC to control concentration operations, the variables traditionally used in economic analysis have not yet been sufficiently considered.

Tables 1 and 2 illustrate the first question.

Table 1
Merger Control. Decisions. 1997-2006

General data	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Notifications	19	31	51	93	76	100	79	94	115	64
Not sent to TDC (Tribunal for the Defence of Competition)	9	19	34	81	65	83	72	86	103	58
Sent to TDC	7	7	14	11	7	9	5	5	6	4
Cabinet Agreement	7	6	14	11	7	9	4	5	6	2*
Archived	3	5	2	1	3	7	1	3	6	2

* Decision pending in Abacocine/Cinebox and Universal Music/Vale Music

Source: Sánchez Graells, A. (2006)



Table 2
Merger Control. Cabinet Decisions. 1999-2006*

Prohibiting operations that the TDC had recommended be subject to conditions	0
Subject operations that the TDC had recommended be authorised to conditions	3
Apply stricter conditions than those proposed by the TDC	5
Adopt the same decision proposed by the TDC	34
Apply laxer conditions than those proposed by the TDC	7
Subject operations that the TDC recommended should be prohibited to conditions	5
Authorise operations the prohibition of which was recommended by the TDC	0

-

* Decision pending in Abacocine/Cinebox and Universal Music/Vale Music

Source: Sánchez Graells, A. (2006)

The mere contemplation of these tables shows the small number of mergers which, in the opinion of the authorities responsible for controlling them, could have a negative impact on competitive conditions in the affected markets. The number of cases examined by the TDC in the last few years has been under 10 per year and, as a general rule, the authorities consider that the operations in question do not threaten the competitive operation of the markets⁸. On the other hand, in the case of mergers⁹, the defence of competition authorities have the instruments provided in articles 1, 2 and, when applicable, 3 of the PLDC. The simplification of the procedure contemplated in the Bill, although positive, does not solve the core of the problem because notification is still mandatory in excess of certain levels, although there are arguments to support that, instead of a universal examination of all operations exceeding such levels, it would be sensible to focus solely on those cases involving unequivocal problems for the sovereignty of competition on the affected markets. There are even arguments to support the elimination of the merger control¹⁰.

Accepting that the chosen criterion is control of concentration operations, we must remember that

⁸ Less than ten per cent of the concentration operations notified to the Defence of Competition Service entered the second phase of investigation and were examined by the TDC. Moreover, while notification was mandatory, the Cabinet did not object to the merger operation in forty-three per cent of the cases and it was prohibited only in seven per cent. The remaining forty per cent was subject to conditions

⁹ This is also valid for the control of new major retail outlets

¹⁰ In relation to the effects on effective competition of business concentration operations, it can be sustained that the risk of such operations often relate to entry barriers – administrative or not – rather than to the operation itself. The future CNC should therefore be able to require the government to remove such barriers, especially when they are of an administrative nature, in line with the faculties related to public aids.

the *ex ante* analysis of business concentration operations is based on present market conditions and, although they try to estimate the immediate future, it is uncertain when the decision is made and such decisions are often risky – especially in important cases – when based on uncertainty. The proposal, however, according to the Ministry of Economy and Finance's White Paper on the Reform of the Spanish Defence of Competition System, considered that "As it is generally accepted that certain business conduct should be prohibited as they are, *per se*, negative for competition, there is no unquestionable principle enabling the *ex ante* determination of which mergers should be prohibited and which should not". Dominance or substantial reduction of effective competition tests bring some light on the subject and support intervention, but they are unable to be absolutely certain about the future. The reference to a "possible" obstacle to the maintenance of "one" (*sic*) effective competition includes too much ambiguity, without a rigorous analysis of the effects, which is inexcusable in a modern analysis of competition based on dynamic considerations in rapidly changing markets¹¹.

In any event, considerations related to potential competition¹², efficiency and welfare should not be left out of the analysis. The case of networking industries is eloquent. It therefore seems appropriate to change the questionnaire presented by notifying firms, giving it more economic content and making it better able to interpret the possible effects of the operation¹³. In any case, a negotiated

¹¹ The question here is: in case of error, who is liable for compensation?

¹² See Hoesch-Krupp and Gespalets S.A., for instance.

¹³ Open court cases could be appropriate if the present procedure continues.



solution is always better than the imposition of conditions.

Given the impact of administrative intervention on the future of firms, all decisions should be fully argued and proven with the instruments provided by modern market analysis. Such arguments should be particularly solid in the case of intervention –extraordinary, in any event - by the Cabinet. Logically, the stakeholders should have access to the dossier at all times in order to exercise their right to argue and progress in the negotiated solution process. The prohibition of a merger – should they continue to be controlled – should always follow due negotiation of its conditions.

In relation to the application of economic analysis, due consideration should also be given to the measures of concentration, elasticities and possible reactions of rival firms. For example, following Utton (1995), it can be sustained, firstly, that the greater the elasticity of market demand, higher will be the value of the elasticity of demand of the dominant firm and less likely it will be that this firm can increase prices above marginal costs¹⁴; secondly, the market power of the dominant firm is also reduced if the supply increases as the result of an increased supply from the other firms, new firms joining the market¹⁵ or both at the same time. Finally, the larger the market share of the dominant firm, smaller is the elasticity of demand, thus increasing its market power.

These conclusions show that the competition authorities should consider more variables than they usually do. For instance, in the decisions related to concentration operations, the model is more complete than the one implicit in the usual approach. We must always remember that market share is a fragile indicator of market power and that market analysis requires a multidimensional approach.

CONCLUSION

Issues related to competition have increased in public presence during the last few years. The Competition Law passed in 1989 led to important changes, but changing market structures and business conduct demands it to be updated.

After a period of exchanging opinions about the White Paper, the text is now being discussed in the Spanish Parliament. It has advantages and

disadvantages but it is certainly a progress. It improves procedures and criteria. It eliminates unnecessary issues. Some, however, such as those related to entry barriers, are not even considered.

The Act, moreover, would be more powerful with larger doses of economic analysis. Likewise, the consideration of the evolution of merger control suggests a reinterpretation of the issue.

Ultimately, it is a step in the right direction and that is important. But it could have progressed further if more attention had been paid to economic analysis in the application of Competition Law.

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¹⁴ The presence on the market of substitutes close to the good or service supplied by the dominant firm helps to reduce its market power.

¹⁵ This implies a lack of significant entry barriers.



IX. INDICATORS CALENDAR.

MARCH

			1 PCE USA Euro area HICP (Flash. February)	2	3	4
5	6 Spanish IPI	7	8 ECB meeting	9	10	11
12	13 Spanish CPI (February) Euro Area IPI	14	15 Euro area HICP (February)	16 CPI USA (February) USA IPI	17	18
19	20	21	22	23	24	25
26	27	28	29 Spanish HICP (Flash March)	30 Euro area HICP (Flash March) ESI Euro Area	31	

APRIL

						1
2	3	4 Spanish IPI (February)	5	6	7	8
9	10	11	12 ECB meeting Euro area IPI	13 Spanish CPI (March)	14	15
16 Euro area HICP (March)	17 CPI USA (March) USA IPI	18	19	20	21	22
23	24	25	26	27 Advance US GDP Spanish HICP (Flash April) Spanish EAPS	28	29
30 Euro area HICP (Flash April) ESI Euro Area						

* 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





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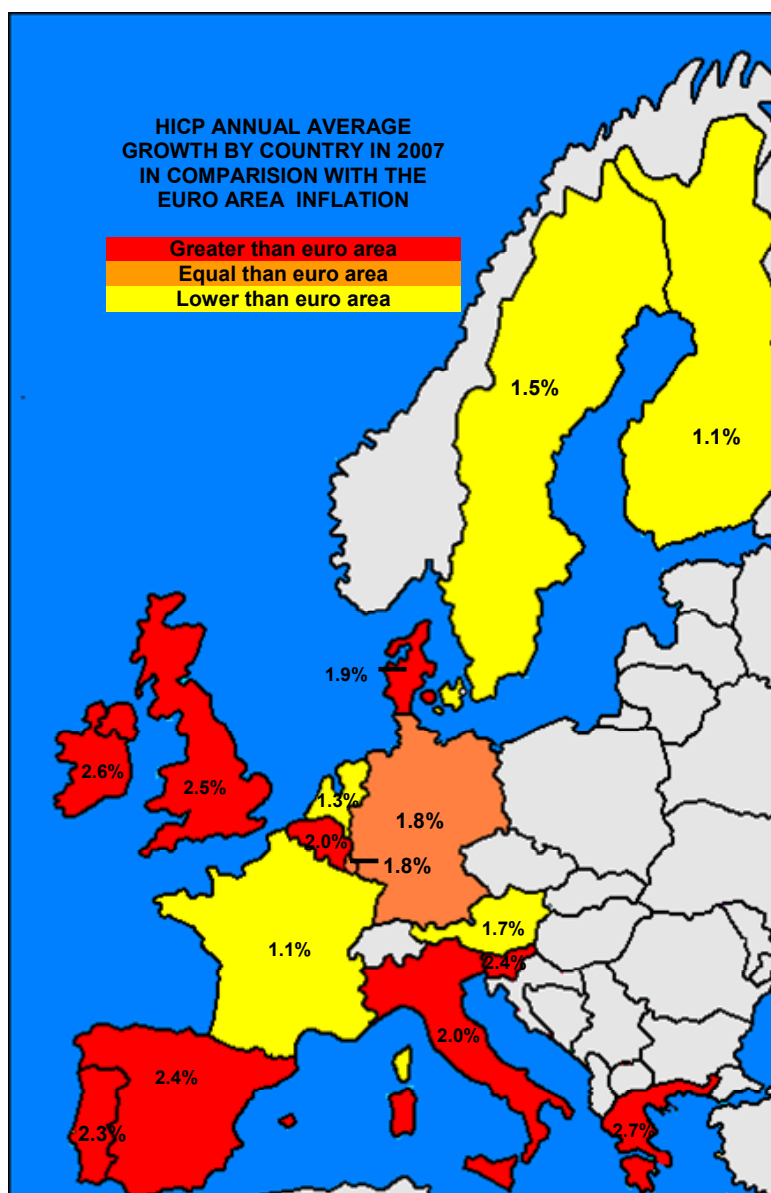
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