



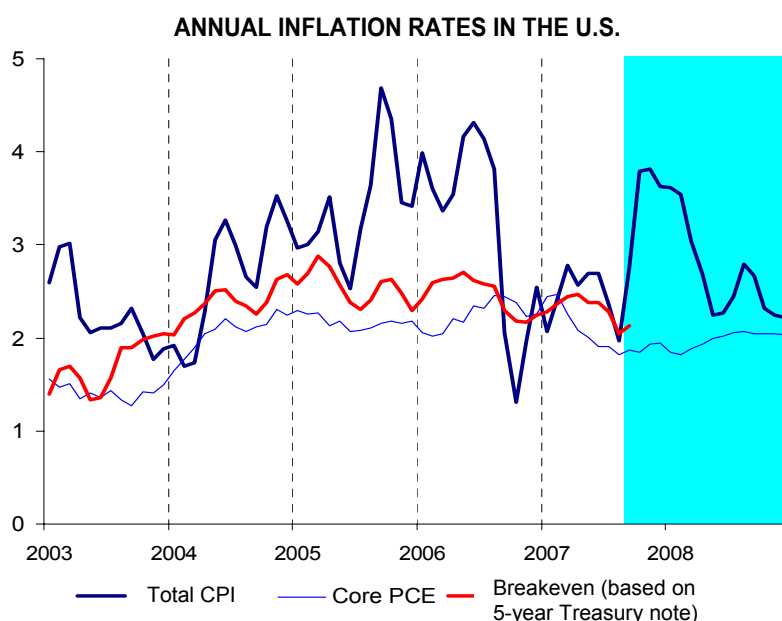
OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS



Universidad Carlos III de Madrid

*Instituto Flores de Lemus**Second Phase*

THE LARGE FLUCTUATIONS IN U.S. CPI INFLATION IN 2007 AND 2008 WILL CORRESPOND TO SMALL FLUCTUATIONS AROUND 2% IN THE CORE PCE



Source: BLS, BEA, FEDERAL RESERVE & IFL(UC3M)
Date: September 21, 2007

N. 156
September 2007

MACROECONOMIC COMMENTARY: "Alan Greenspan's Legacy: Two Global Financial Crises"

By MICHELE BOLDRIN

p.68

The property-mortgage bubble, which is at the bottom of the storm in the sub-prime mortgage market, was caused by the monetary policy of the U.S. Federal Reserve Bank from 2001 to 2005. Indeed, this bubble (more precisely, local and unsustainable inflation) is similar to the U.S. stock market bubble in 1998-2000, having arisen in nearly the same way and bursting for practically the same reasons. In both cases, most of the responsibility lies with the Federal Reserve and its once Chairman, Alan Greenspan who, going against all we have learnt since the sixties on good monetary policy, invented a role for himself as the master and wizard of the markets. Like all the previous wizards, he failed and now everyone is paying for his mistakes; one more reason not to buy his recently published autobiography.

MONTHLY DEBATE:

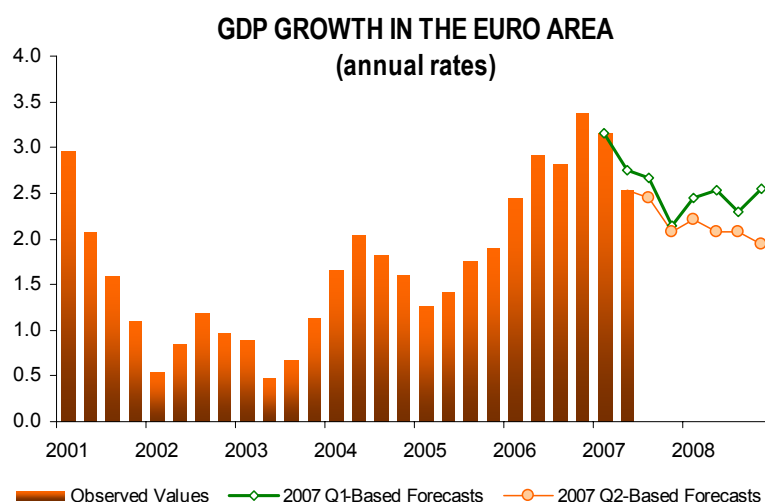
"Analysis of the financial crisis and the
Spanish economic situation" p.72

By IVÁN MAYO

The 2007 mortgage crisis, also known as the subprime mortgage crisis, started to spread through the financial markets on Thursday, August 9, 2007, although its origin goes back to previous years. The harm to economic growth will be in proportion to how long it takes to clarify the extent of the problem and this directly depends on how both institutions and economic agents manage the confidence crisis.

From August 16 to September 9, several members of the Advisory Board and the Bulletin's director published their opinions concerning the current financial crisis and the Spanish economic situation in the Spanish press. Iván Mayo summarises and structures those opinions in this article.

GDP GROWTH FORECASTS FOR THE EURO AREA HAVE BEEN REVISED DOWNWARDS TO 2.6% FOR 2007 AND MORE INTENSELY TO 2.1% FOR 2008



Source: EUROSTAT & IFL(UC3M)
Date: September 4, 2007

N. 156
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OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS



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TERMINOLOGY USED:

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

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

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

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*The cut-off date for the statistics included in this Bulletin was September 21, 2007.

I. ECONOMIC OUTLOOK

EURO AREA

- In terms of the GDP, the euro area economy grew by an annual 2.5% in the second quarter of 2007. Growth remained solid, therefore, but more moderate than in previous months, less than the forecast 2.8% and with deceleration largely due to gross capital formation. When updating our GDP growth forecasts with the macroeconomic accounts data for the second quarter of 2007, they have fallen slightly to 2.6% for 2007 and somewhat more for 2008 to 2.1%. The downwards revision is largely due to gross capital formation.
- With regards to the information available for the third quarter of 2007, the **Economic Sentiment Indicator** in August was worse than expected, as it was in July and June. The updated forecasts point to a gradual decline in the confidence of economic agents in the next few months, more than with the previous information, continuing to the second quarter of 2008 and subsequently stabilising at high levels, although lower than forecast last month (graph I.1).

Table I.1

		Real GDP	Some components of Domestic Demand		
			Final Private Consumption	Gross Capital Formation	
ANNUAL AVERAGE RATE	2003	0.8	1.2	1.8	
	2004	1.8	1.4	2.5	
	2005	1.6	1.5	3.0	
	2006	2.9	1.9	5.6	
	2007	2.6	1.5	4.3	
	2008	2.1	1.7	2.6	
ANNUAL RATES*	2006	QI	2.4	1.8	4.9
		QII	2.9	1.8	5.8
		QIII	2.8	1.7	7.7
		QIV	3.3	2.1	4.0
	2007	QI	3.2	1.4	7.4
		QII	2.5	1.5	3.7
		QIII	2.4	1.7	2.5
		QIV	2.1	1.6	3.6
	2008	QI	2.2	2.0	2.2
		QII	2.1	1.8	3.0
		QIII	2.1	1.5	2.9
		QIV	1.9	1.6	2.2

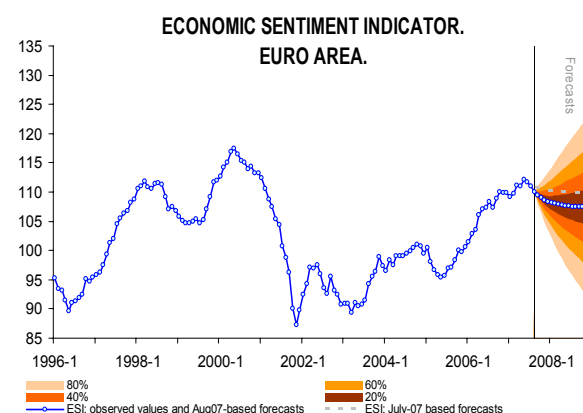
Data adjusted for seasonality and working days effect.
The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: September 4, 2007

Graph I.1

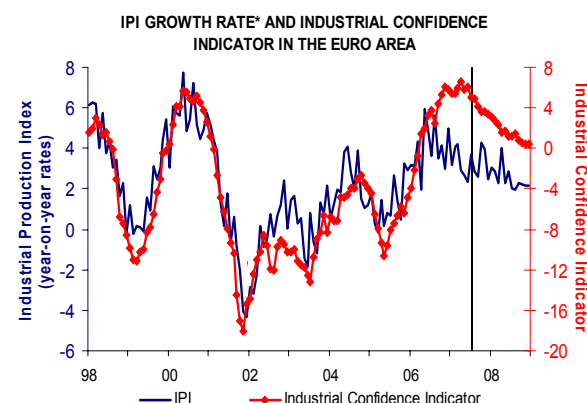


Source: EUROPEAN COMMISSION & IFL (UC3M)

Date: August 31, 2007

- With regards to the industrial sector, with the July **Industrial Production Index (IPI)** figure and in view of the latest **Industrial Confidence Indicator (ICI)**, the IPI growth forecasts have been revised upwards for 2007 and 2008 to 3.3% and 2.5%, respectively. The former performed better than expected in July due to upwards innovations in practically all productive sectors. The latter also performed better than expected, with a smaller than forecast decrease, so the forecasts have been revised upwards slightly, continuing to expect a gradual drop in the confidence of economic agents in this sector in 2007 and 2008, tending to stabilise in the last quarter of 2008 at values higher than those found in years where the sector registered a low growth rate (graph I.2).

Graph I.2



*Year-on-year rates.

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

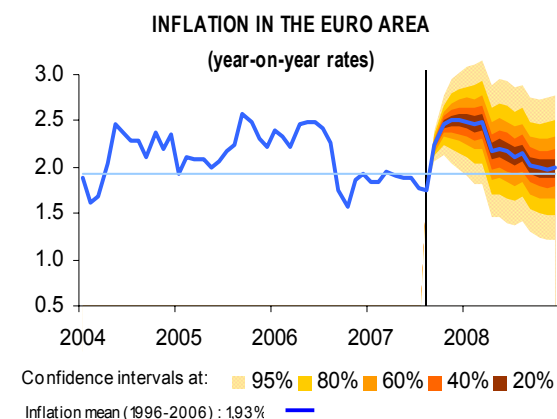
Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)

Date: September 12, 2007



- In this context, **inflation** fell slightly in August, as expected, with a rate of 1.7%, the lowest this year. By component, there were innovations, the most significant of which was an upwards movement in processed food, with an abnormally high monthly increase.
- The updated forecasts show an upwards revision of the average annual rates expected for all basic HICP components except services. In the case of non-energy industrial goods, this contrasts with the downwards revisions applied in the last four months. As a result of these revisions, for core inflation we are now forecasting values of 1.95% and 1.80% for 2007 and 2008, respectively, higher than our previous forecasts. On the other hand, for headline inflation the rates have been revised upwards by 0.09 and 0.22 pp relative to last month's Bulletin, to 2.0% and 2.2% for 2007 and 2008, respectively, both rates being higher than the ECB target.

Graph I.3

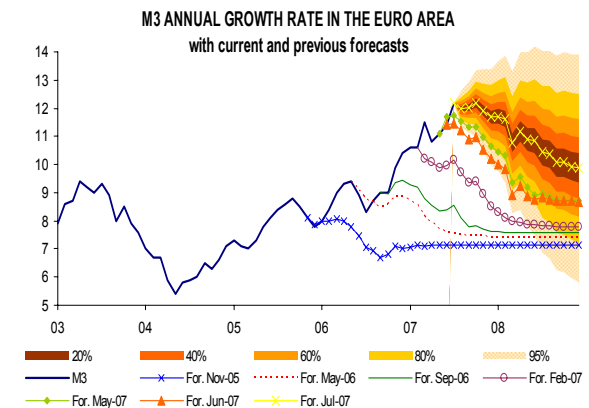


Source: EUROSTAT & IFL(UC3M)
Date: September 21, 2007

- The profile of annual HICP rates has been revised upwards by approximately 0.2 pp since the previous Bulletin and we are now expecting the rise in inflation in September to place the rate at 2.2%, followed by 2.5% at the end of the year and in the first quarter of 2008, and 2.0-2.2% in the rest of 2008. As graph I.3 shows, the forecasts are therefore for inflation above the average value of the last ten years throughout the forecasting horizon, especially during the next six months, when this rise is conditioned by the expected rates in the energy component of the HICP. This also implies that, according to these point forecasts, the ECB target will not be met in this period. In more precise terms, the probability of failing to meet the target in 2007 is very high and clearly over 50% for 2008.

- The **M3** grew by 11.7% in July, more than expected and the June rate. Our forecasts continue to expect a gradual fall in the annual M3 rate from the end of 2007 on, but this profile has been revised upwards since the last Bulletin, so that the rates forecast for the end of 2008 are now around 9.4%. On the M3 counterpart side, credit to the private sector continued to be strong. The main reason continued to be loans to the private sector, which grew by 10.9%, as forecast, more than the June rate because of the evolution of loans to non-financial corporations, as loans to households moderated their annual rate in July to 7.0% (slightly lower than expected). Our forecasts for loans to households have been revised downwards slightly and continue to be a factor which is not expected to add significant pressure to inflation.

Graph I.4



- In view of these forecasts, inflation and the monetary aggregates seem to be factors which would continue to bring pressure in favour of additional ECB rate increases, in a context of solid but more moderate growth in the real sector. There are upwards risks for price stability in the medium term, but given the great uncertainty affecting the financial markets and its unknown impact on the real sector, the ECB may well decide to "wait and see".

UNITED STATES

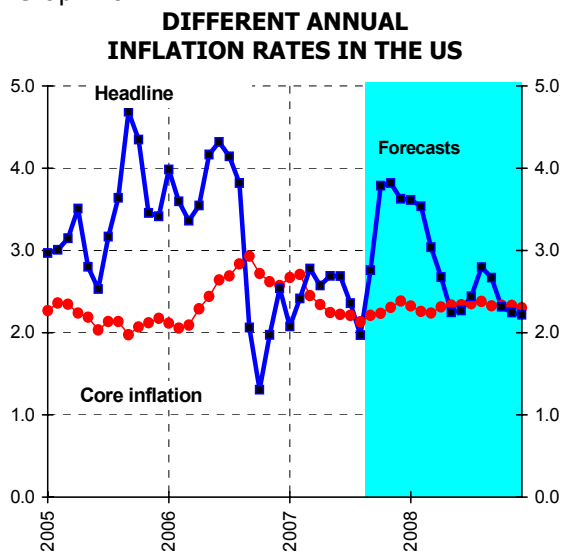
- In August, the U.S. **CPI** registered a small downwards innovation, with a monthly fall of 0.18%¹. This was helped by the core component, with slightly less growth than expected in the month.

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



- When updating the forecasts with the August CPI and the latest information available about import and production prices, and oil prices, the forecasts for core inflation are 2.34% for 2007 and 2.32% for 2008, very slightly lower than last month.
- On the other hand, the updated headline inflation forecasts are 2.8% for 2007 and 2.7% for 2008, one tenth more than estimated last month for 2007. This rise is basically due to the upwards revision in the energy forecast, affected by the depreciation of the dollar and the significant increase in the price of a barrel of West Texas Intermediate oil in all terms. The scenario expected for crude oil prices is now 9\$ higher than the prices in the previous report for October and 4\$ higher than the prices for the end of 2008.
- With regards to the evolution of the annual rate, after the lowest figure this year (2.0%) registered in August, we are expecting a heavy rise to 3.8% in the last few months of the year, returning to rates below 3% in the first quarter of 2008 (graph I.5).

Graph I.5



Source: BLS & IFL (UC3M)
Date: September 19, 2007

- As for the **core PCE²** (core personal consumption expenditure index), which is the inflation indicator most closely monitored by the FED, with the August CPI there is a very slight improvement in our forecasts, so that for the August PCE we are now expecting an annual rate of 1.82%. The annual average expected for

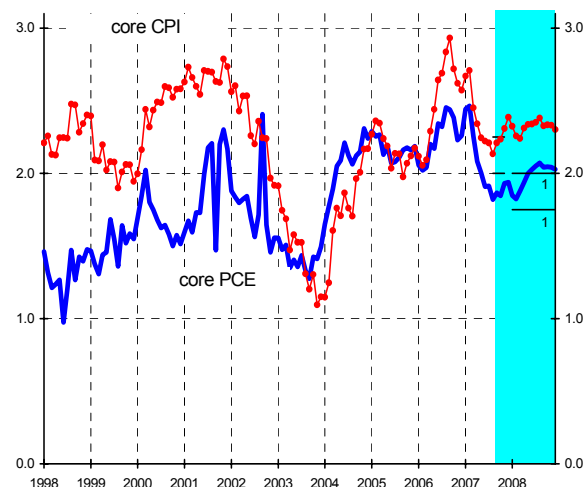
² The PCE (Personal Consumption Expenditure) is a price index which has the advantage over the consumer price index (CPI) that, instead of using a fixed shopping basket, it adapts to real expenditure, reflecting changes in the composition of the basket between the periods compared.

2007 is 2.04%, within the Fed's target range for the year (2.00-2.25%), with 1.98% expected for 2008, on the upper limit of the Fed's target for the year (1.75-2.00%).

- The great fluctuations in CPI inflation in 2007 and 2008 will correspond to small fluctuations around 2% in the core PCE. These small fluctuations are also shown by the measure of expected inflation estimated from five-year Treasury notes, for example, as shown on the cover.

Graph I.6

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US



(1) Central tendency established by the Fed.
Source: BLS, BEA & IFL (UC3M)
Date: September 19, 2007

- With regards to statistics relating to the **real sector**, the Industrial Production Index grew slightly more than expected and the degree of use of productive capacity also grew slightly to 82.2%. The unemployment rate remained at 4.6%. With regards to the housing market, the August housing starts and building permit figures were 2% and 4% lower than expected, respectively, representing tighter adjustment of the property sector.

SPAIN

- In the second quarter of 2007, the **GDP** of the Spanish economy grew by an annual 4.0%, representing one tenth's deceleration (measured through the quarter-on-quarter rate). This growth rate was slightly higher than expected, largely due to the upwards innovations in investment in equipment and public expenditure. With this data from the Quarterly National Accounts for the second quarter of 2007, we have updated our GDP



growth forecasts for Spain for 2007 and 2008, which remain at 3.8% for 2007 and fall by 0.4 pp to 3.0% for 2008. According to these forecasts, the lower growth in 2008 would come from less consumption and gross fixed capital formation growth, together with a more negative contribution of foreign demand. The Bulletin contains a detailed analysis of the recent evolution of the Spanish economy and updated perspectives for 2007 and 2008.

Table I.2

		Real GDP	Some components of National Demand			
			Private	Public	Gross Fixed	
			Consumption	Consumption	Capital Formation	
ANNUAL AVERAGE RATE		2003	3,1	2,9	4,8	5,9
		2004	3,3	4,2	6,3	5,1
		2005	3,6	4,2	5,5	6,9
		2006	3,9	3,8	4,8	6,8
		2007	3,8	3,3	5,1	6,6
		2008	3,0	3,0	4,2	5,4
ANNUAL RATES*	2006	QI	3,7	4,1	4,9	7,8
		QII	3,8	3,5	4,0	5,7
		QIII	3,9	3,8	4,8	6,8
		QIV	4,0	3,7	5,7	7,0
	2007	QI	4,1	3,4	5,7	6,6
		QII	4,0	3,3	5,5	6,6
		QIII	3,7	3,3	5,0	6,7
		QIV	3,3	3,3	4,5	6,1
	2008	QI	3,1	3,1	4,3	5,3
		QII	2,9	3,1	4,4	5,5
		QIII	3,0	3,0	4,2	5,4
		QIV	2,9	3,0	3,8	5,4

The figures in the shaded area are forecasts.

* Year-on-year rates.

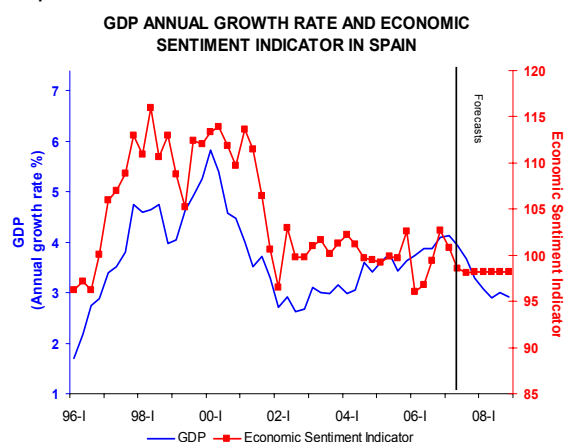
Source: INE & IFL (UC3M)

Date: August 29, 2007

- Full-time equivalent employment grew by 3.2% in the second quarter, one tenth less than in the previous quarter. This result, together with the GDP, meant that labour **productivity** remained stable at 0.8%.
- **Compensation per employee** increased its annual growth rate by one tenth in the second quarter, to 2.9%. Together with the stability found in productivity, this led to a slight increase in the annual growth rate of unit labour costs, to 2.1%.
- Together with the updated forecasts based on the National Accounts, indicators with information available for the third quarter of 2007 point to the Spanish economy continuing to lose strength in this quarter.
- In August, the **Economic Sentiment Indicator** was better than expected, leading to an upwards revision of the forecasts. However, we continue to expect it to decline in the next few months, stabilising from the second quarter of 2008 on at levels lower than those observed at the end of the second quarter of 2007 (graph I.7). These forecasts are in line with those based on the Quarterly National Accounts, according to which a gradual decline is to be

expected in the annual GDP growth rate up to the second quarter of 2008, followed by stabilisation at around 3.0%.

Graph I.7

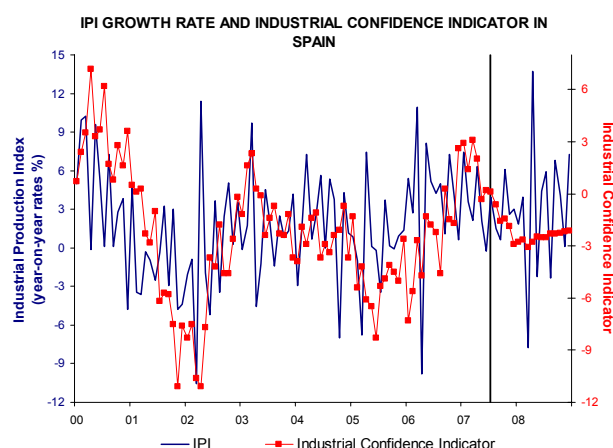


Source: EUROPEAN COMMISSION, INE & IFL(UC3M)

Date: August 31, 2007

- With regards to details of the industrial sector, the latest figures show that both the hard (**Industrial Production Index**) and soft (**Industrial Confidence Index**) data were worse than expected. The former grew less than forecast in July, with downwards innovations in the durable consumer goods, intermediate goods and energy sectors. The latter fell more than expected so its forecasts have been revised downwards slightly and we continue to expect confidence in the sector to decline during the rest of 2007 and the first quarter of 2008, subsequently improving somewhat during the rest of the year. In view of this information, the forecasts for IPI growth have been revised downwards for 2007 to 3.0%, remaining at 2.8% for 2008. The industrial GVA forecasts show perspectives of growth in the industrial sector of 4.3% in 2007 and 3.2% in 2008.

Graph I.8



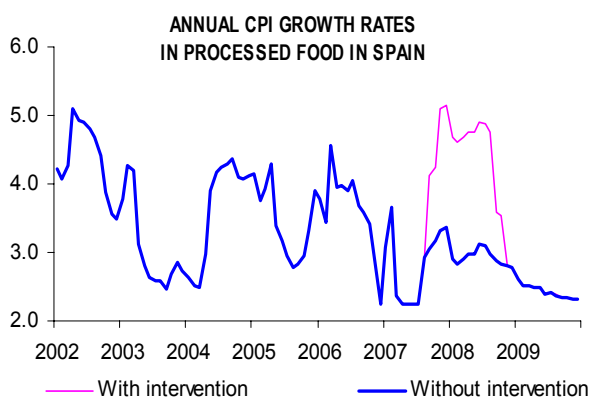
Source: EUROPEAN COMMISSION, INE & IFL(UC3M)

Date: September 7, 2007



- Other indicators, such as new car registrations or Social Security contributors and registered unemployment, show a decline compared to previous months.
- In this context, **inflation** remained in August on the same level as in July (2.2%), slightly less than forecast, largely due to downwards innovations in the prices of non-energy industrial goods and unprocessed food. Processed food was the only item registering an upwards innovation. This component includes products such as milk, with a significantly greater than expected increase in August.
- When updating the inflation forecasts for this Bulletin, we considered the news published in the last month in relation to price increases affecting basic products such as bread and milk in the last quarter of 2007. Accepting the limitations concerning this news, which is ambiguous in relation to the time of the price increase or its scope in terms of the market share of the companies applying such an increase, we have assumed price increases for bread and milk, giving rise to a possible increase in the annual CPI rate at the end of the year of a maximum of 0.25 pp. Graph I.9 shows the effect of these assumptions on the annual rates.

Graph I.9

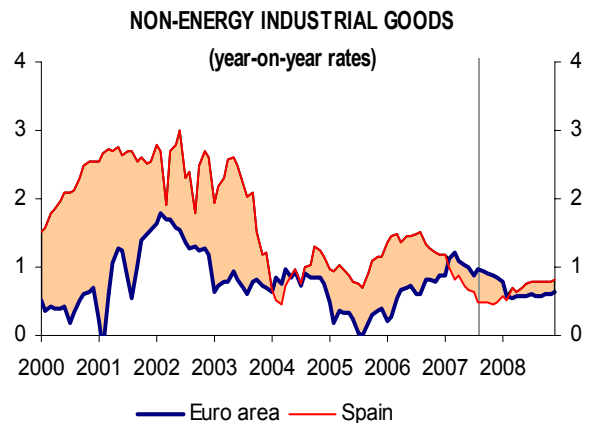


Source: INE & IFL(UC3M)
Date: September 13, 2007

- As a result of the upwards innovation in processed food in August and these assumptions, the inflation forecasts for this type of food have been revised upwards, leading to a similar revision in the core index. Non-energy industrial goods continued to register a downwards revision and maintain a negative differential with the euro area (Spain less

inflation than the euro area), compared with the historic positive differential (graph I.10), but this did not counteract the upwards effect in the core index produced by processed food.

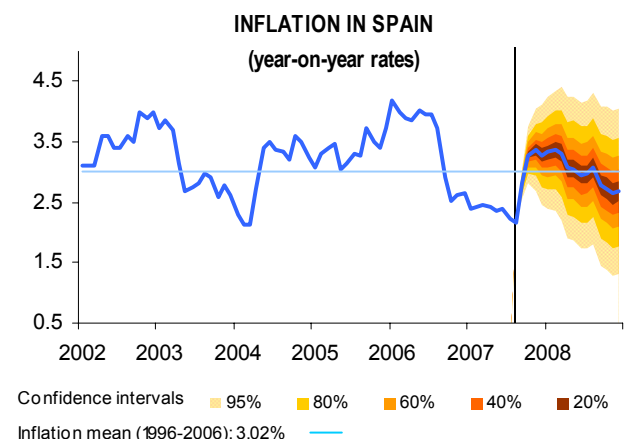
Graph I.10



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

- For headline inflation, the average annual rates expected remain at 2.6% for 2007 and rise to 3.0% for 2008, largely due to the expected evolution in processed food prices. In terms of the annual rate, we are expecting a first rise in total inflation to 2.8% in September, followed by 3.3-3.4% at the end of the year and in the first quarter of 2008, subsequently falling to 2.7% at the end of 2008.

Graph I.11



Source: INE & IFL(UC3M)
Date: September 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 Rates				
	2004	2005	2006	Forecasts	
				2007	2008
GDP mp (1)	1.8	1.6	2.9	2.6	2.1
Demand					
Private Final Consumption	1.4	1.5	1.9	1.5	1.7
Public Final Consumption	1.3	1.4	1.9	2.0	1.9
Gross Capital Formation	2.5	3.0	5.6	4.3	2.6
Contribution Domestic Demand	1.6	1.8	2.6	2.2	2.0
Exports of Goods and Services	6.4	4.6	8.2	5.6	5.2
Imports of Goods and Services	6.3	5.4	7.9	4.8	5.0
Contribution Foreign Demand.	0.2	-0.2	0.3	0.4	0.1
Supply					
Gross Value Added Total (market prices)	1.8	1.6	2.9	2.6	2.1
Gross Value Added Total (basic prices)	1.8	1.6	2.8	2.6	2.1
Gross Value Added Agriculture	10.4	-5.9	-1.5	1.8	0.7
Gross Value Added Industry	1.7	1.0	4.0	3.3	2.0
Gross Value Added Construction	0.7	1.3	4.7	3.0	0.5
Gross Value Added Trade Services	2.2	1.7	3.0	2.5	2.3
Gross Value Added Financial Services	1.4	2.7	3.1	3.2	3.0
Gross Value Added Public Services.	1.4	1.4	1.3	1.3	1.3
Prices (2)					
HICP, annual average rate	2.1	2.2	2.2	2.0	2.2
HICP, dec./dec.	2.4	2.2	1.9	2.5	2.0
Labour market (3)					
Unemployment rate	8.8	8.6	7.9	7.1	7.0
Other Economic Indicators (4)					
Industrial Production Index (excluding construction)	2.2	1.3	4.0	3.3	2.5

The figures in the shaded area are forecasts.

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

Source: EUROSTAT & IFL (UC3M)

Date: (1) September 4, 2007.

(2) September 21, 2007

(3) August 31, 2007

(4) September 12, 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 RATE		2003	1.2	1.8	1.8	1.4	1.2	3.1	-0.6	0.8
		2004	1.4	1.3	2.5	1.6	6.4	6.3	0.2	1.8
		2005	1.5	1.4	3.0	1.8	4.6	5.4	-0.2	1.6
		2006	1.9	1.9	5.6	2.6	8.2	7.9	0.3	2.9
		2007	1.5	2.0	4.3	2.2	5.6	4.8	0.4	2.6
		2008	1.7	1.9	2.6	2.0	5.2	5.0	0.1	2.1
ANNUAL RATES *	2006	QI	1.8	2.1	4.9	2.5	8.7	9.1	0.0	2.4
		QII	1.8	1.6	5.8	2.6	8.1	7.5	0.3	2.9
		QIII	1.7	1.8	7.7	3.0	6.9	7.6	-0.2	2.8
		QIV	2.1	2.2	4.0	2.5	9.2	7.1	0.9	3.3
	2007	QI	1.4	2.0	7.4	2.8	6.7	5.9	0.4	3.2
		QII	1.5	1.9	3.7	2.0	6.2	5.1	0.5	2.5
		QIII	1.7	2.0	2.5	1.9	5.8	4.5	0.5	2.4
		QIV	1.6	2.1	3.6	2.1	3.6	3.8	0.0	2.1
	2008	QI	2.0	1.8	2.2	2.0	4.4	4.0	0.2	2.2
		QII	1.8	2.1	3.0	2.1	4.8	5.0	0.0	2.1
		QIII	1.5	1.9	2.9	1.9	5.6	5.2	0.2	2.1
		QIV	1.6	1.9	2.2	1.8	6.0	5.8	0.1	1.9

Data adjusted for seasonality and working days effect.

The figures in the shaded area are forecasts.

(1) Contribution to GDP growth

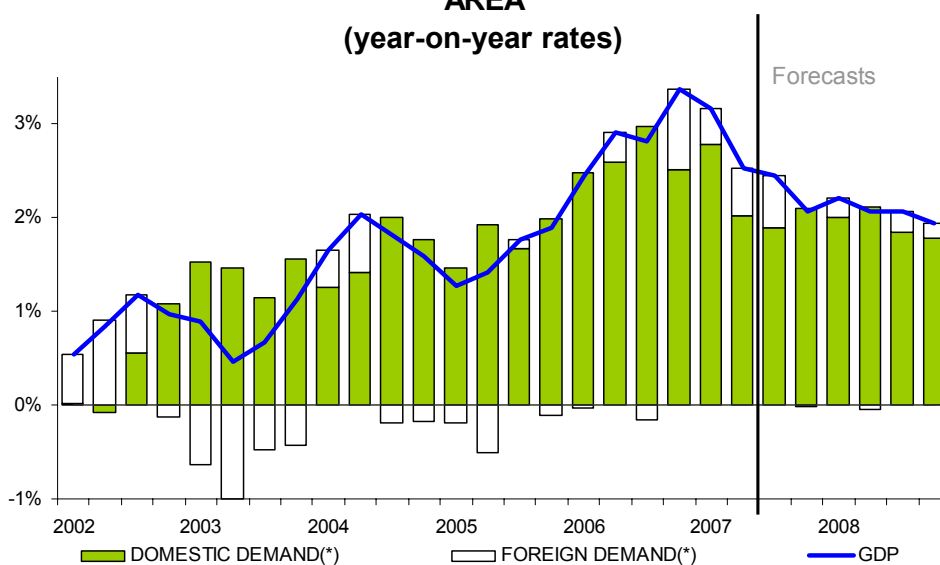
(*) Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: September 4, 2007

Graph II.1.2.1

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



Data adjusted for seasonality and working day effect.

Source: EUROSTAT & IFL (UC3M)

Date: September 4, 2007



Table II.1.2.2

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN

		GVA								
		Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services	TOTAL	Real GDP	
ANNUAL AVERAGE RATES	2003	-6.1	0.3	0.0	0.7	1.6	0.9	0.7	0.8	
	2004	10.4	1.7	0.7	2.2	1.4	1.4	1.8	1.8	
	2005	-5.9	1.0	1.3	1.7	2.7	1.4	1.6	1.6	
	2006	-1.5	4.0	4.7	3.0	3.1	1.3	2.8	2.9	
	2007	1.8	3.3	3.0	2.5	3.2	1.3	2.6	2.6	
	2008	0.7	2.0	0.5	2.3	3.0	1.3	2.1	2.1	
ANNUAL RATES *	2006	QI	-2.7	3.5	3.9	2.3	2.4	1.2	2.3	2.4
		QII	-1.4	3.7	4.6	2.9	3.3	1.3	2.8	2.9
		QIII	-2.4	4.1	4.8	3.0	3.1	1.2	2.9	2.8
		QIV	0.4	4.6	5.3	3.7	3.4	1.3	3.3	3.3
	2007	QI	2.3	4.0	7.3	3.2	3.5	1.3	3.2	3.2
		QII	1.7	3.6	2.6	2.6	3.1	1.3	2.6	2.5
		QIII	1.8	3.1	2.0	2.1	2.9	1.2	2.3	2.4
		QIV	1.3	2.6	0.5	1.9	3.2	1.2	2.1	2.1
	2008	QI	-0.3	2.0	-0.7	2.0	3.0	1.1	1.9	2.2
		QII	0.8	1.9	0.9	2.1	2.8	1.2	2.0	2.1
		QIII	1.3	2.0	0.8	2.5	3.1	1.5	2.2	2.1
		QIV	1.2	2.1	1.2	2.5	3.1	1.5	2.2	1.9

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: September 4, 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 Goods	Intermediate Goods	Energy	TOTAL
		Durable	Non durable				
ANNUAL AVERAGE RATE	2003	-4.4	0.3	-0.1	0.3	2.8	0.3
	2004	0.1	0.7	3.4	2.4	2.2	2.2
	2005	-1.0	0.7	2.8	0.9	1.3	1.3
	2006	4.2	2.2	5.8	5.0	0.8	4.0
	2007	2.1	2.7	5.5	3.6	-0.6	3.3
	2008	1.2	0.9	3.8	2.2	3.4	2.5
ANNUAL RATES**	2006	QI	2.4	2.3	5.4	3.0	3.6
		QII	3.7	2.4	5.6	5.7	4.3
		QIII	5.0	1.2	5.7	5.8	4.2
		QIV	5.5	2.9	6.6	5.4	-3.3
	2007	QI	4.3	3.9	7.1	6.4	-7.4
		QII	1.3	2.3	4.6	2.8	-0.3
		QIII	1.1	2.4	4.8	2.8	1.4
		QIV	1.6	2.2	5.5	2.6	4.9
	2008	QI	2.0	0.7	3.6	1.6	7.1
		QII	2.1	0.6	4.8	2.9	3.6
		QIII	0.4	1.1	3.4	2.1	1.4
		QIV	0.5	1.1	3.5	2.2	1.4

The figures in the shaded area are forecasts.

* Adjusted by working days.

** Year-on-year rates.

Source: EUROSTAT & IFL (UC3M)

Date: September 12, 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	-2.84	1.46	0.55	1.78	3.15	3.17	3.03
February	-3.17	1.66	1.25	0.32	3.13	4.08	2.85
March	-2.22	0.27	1.95	-0.14	4.33	4.22	2.29
April	0.17	0.53	1.86	1.45	1.95	2.91	4.04
May	-0.85	-1.44	3.85	0.18	5.94	2.66	2.30
June	-0.45	-1.83	4.06	0.82	4.91	2.36	2.83
July	0.75	0.83	2.78	0.65	3.64	3.68	2.04
August	-0.35	-0.59	2.05	2.66	5.65	2.84	1.96
September	0.69	-1.19	3.89	1.37	3.52	2.62	2.27
October	1.21	1.32	1.53	0.52	4.14	4.24	2.21
November	2.39	0.71	1.06	3.27	2.98	3.95	2.15
December	0.05	2.16	1.18	2.93	4.96	2.46	2.18

* Adjusted by working days.

The figures in the shaded area are forecasts.

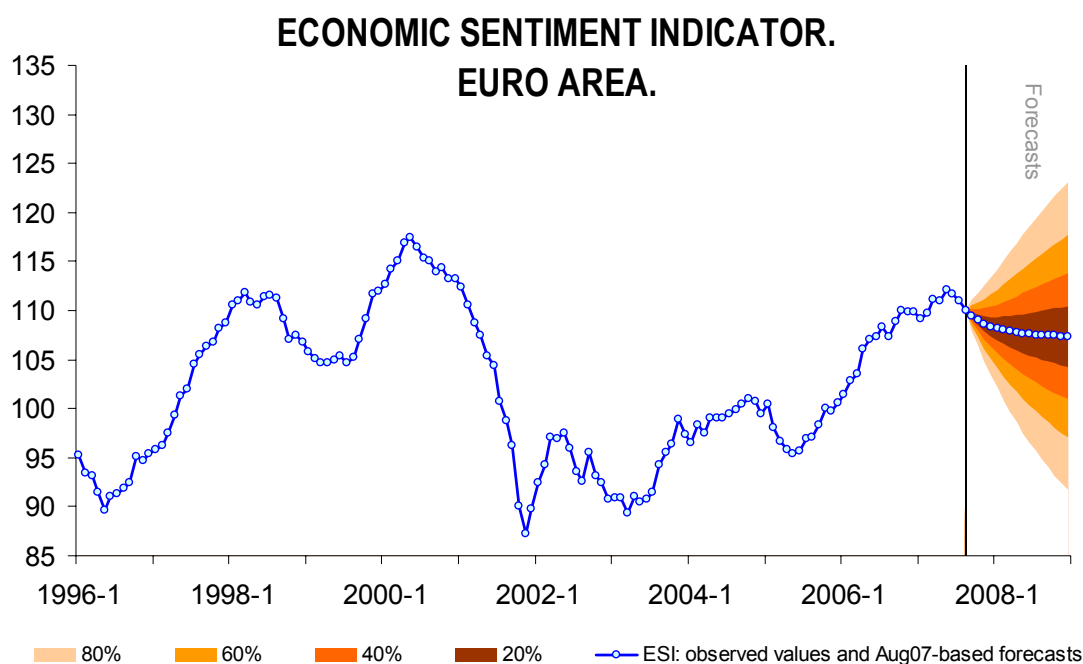
Source: EUROSTAT & IFL (UC3M)

Date: September 12, 2007



II.1.4 ECONOMIC SENTIMENT INDICATOR.

Graph II.1.4.1



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: August 31, 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	2.0	2.2
CORE (82.8%)	2.1	1.5	1.5	1.9	1.8
Processed food without tobacco (9.4%)	1.3	0.5	1.6	1.7	2.6
Processed food with tobacco (11.9%)	3.4	2.0	2.1	2.4	3.0
Non-energy industrial goods (30.0%)	0.8	0.3	0.6	1.0	0.6
Services (40.8%)	2.6	2.3	2.0	2.5	2.3
RESIDUAL (17.2%)	2.6	5.7	5.5	2.5	4.1
Non-Processed food (7.6%)	0.6	0.8	2.8	2.8	2.6
Energy (9.6%)	4.5	10.1	7.7	2.3	5.2

Source: EUROSTAT & IFL (UC3M)
Date: September 21, 2007



Table II.1.5.2

HICP ANNUAL GROWTH BY COMPONENTS IN THE EURO AREA													
		Harmonized Index of Consumer Prices									TOTAL 80 % Confidence Intervals*		
		Core				Residual							
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL	80 % Confidence Intervals*	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	1.7	5.3	1.0	2.5	1.9	± 0.06	2.8	2.3	2.5	2.0	± 0.07	
2008	2.6	4.5	0.6	2.3	1.8	± 0.33	2.6	5.2	4.1	2.2	± 0.40		
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	1.1	4.9	1.2	2.4	1.9		2.9	1.8	2.3	1.9	
		April	1.1	5.0	1.1	2.5	1.9		3.9	0.4	1.9	1.9	
		May	1.1	4.9	1.0	2.6	1.9		3.1	0.3	1.5	1.9	
		June	1.3	4.8	1.0	2.6	1.9		3.0	0.9	1.8	1.9	
		July	1.3	4.3	0.9	2.6	1.9		2.8	0.0	1.2	1.8	
		August	1.8	5.2	1.0	2.6	2.0		2.4	-0.9	0.5	1.7	
		September	2.1	7.6	0.9	2.6	2.1	± 0.13	2.1	3.6	3.0	2.2	± 0.11
		October	2.3	5.4	0.9	2.5	2.0	± 0.18	2.7	6.2	4.6	2.5	± 0.21
		November	2.4	5.4	0.9	2.6	2.0	± 0.22	2.1	7.0	4.9	2.5	± 0.30
		December	2.6	5.1	0.8	2.6	2.0	± 0.25	2.1	7.1	4.9	2.5	± 0.34
	2008	January	2.7	4.4	0.8	2.4	1.9	± 0.27	2.5	7.6	5.3	2.5	± 0.38
		February	2.8	3.9	0.6	2.4	1.8	± 0.29	3.0	7.6	5.6	2.5	± 0.42
		March	2.9	5.7	0.5	2.5	2.0	± 0.33	3.5	6.3	5.1	2.5	± 0.44
		April	2.9	5.4	0.6	2.2	1.8	± 0.36	2.7	5.2	4.1	2.2	± 0.47
		May	2.9	5.3	0.6	2.3	1.8	± 0.38	3.2	4.6	4.0	2.2	± 0.49
		June	2.9	5.2	0.6	2.3	1.8	± 0.40	2.9	4.4	3.7	2.2	± 0.50
		July	2.9	5.2	0.6	2.3	1.8	± 0.42	2.6	4.2	3.5	2.1	± 0.49
		August	2.5	4.3	0.6	2.3	1.8	± 0.42	2.1	5.5	4.0	2.2	± 0.48
		September	2.3	3.7	0.6	2.3	1.7	± 0.42	2.1	4.6	3.5	2.0	± 0.47
		October	2.1	3.7	0.6	2.3	1.7	± 0.42	2.1	4.3	3.3	2.0	± 0.48
		November	2.0	3.7	0.6	2.3	1.7	± 0.43	2.1	4.3	3.3	2.0	± 0.50
		December	2.0	3.7	0.6	2.3	1.7	± 0.43	2.1	4.4	3.4	2.0	± 0.51

* Confidence intervals calculated with historical errors.

The figures in the shaded area are forecasts

Source: EUROSTAT & IFL (UC3M)

Date: September 21, 2007



Table II.1.5.3

HICP MONTHLY GROWTH BY COMPONENTS IN THE EURO AREA											
		Harmonized Index of Consumer Prices									
		Core				TOTAL	Residual		TOTAL	TOTAL	
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services		Non processed food	Energy			
Weights 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	0.3	0.0	-2.1	-0.3	-0.9	1.3	0.9	1.1	-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	0.3	0.0	0.0	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	0.2	0.1	1.6	0.0	0.6	-0.1	1.5	0.8	0.7
		2008	0.2	1.8	1.6	0.2	0.8	0.5	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	0.3	0.7	0.4	0.5	1.4	1.4	1.4	0.6
		2008	0.2	0.0	0.7	0.0	0.3	0.7	0.3	0.5	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	0.1	0.1	0.2	0.2	0.1	0.9	0.6	0.2
		2008	0.2	0.0	0.1	0.4	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	0.1	-0.2	0.2	0.0	0.1	0.5	0.3	0.1
		2008	0.1	0.0	-0.2	0.2	0.0	-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	0.2	0.0	-2.1	0.8	-0.3	-0.4	0.5	0.1	-0.2
		2008	0.1	0.0	-2.0	0.8	-0.3	-0.7	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	0.6	0.8	0.2	0.1	0.2	-0.3	-0.9	-0.7	0.1
		2008	0.2	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	0.3	2.4	1.5	-0.4	0.4	0.2	1.2	0.8	0.5
		2008	0.1	1.8	1.4	-0.4	0.4	0.2	0.3	0.3	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	0.3	0.0	0.7	0.0	0.3	0.2	0.6	0.4	0.3
		2008	0.1	0.0	0.7	0.0	0.3	0.2	0.3	0.3	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	0.2	0.0	0.3	-0.1	0.1	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	0.2	0.0	-0.1	0.9	0.4	0.4	0.2	0.3	0.4
		2008	0.1	0.0	-0.1	0.9	0.4	0.4	0.3	0.3	0.4

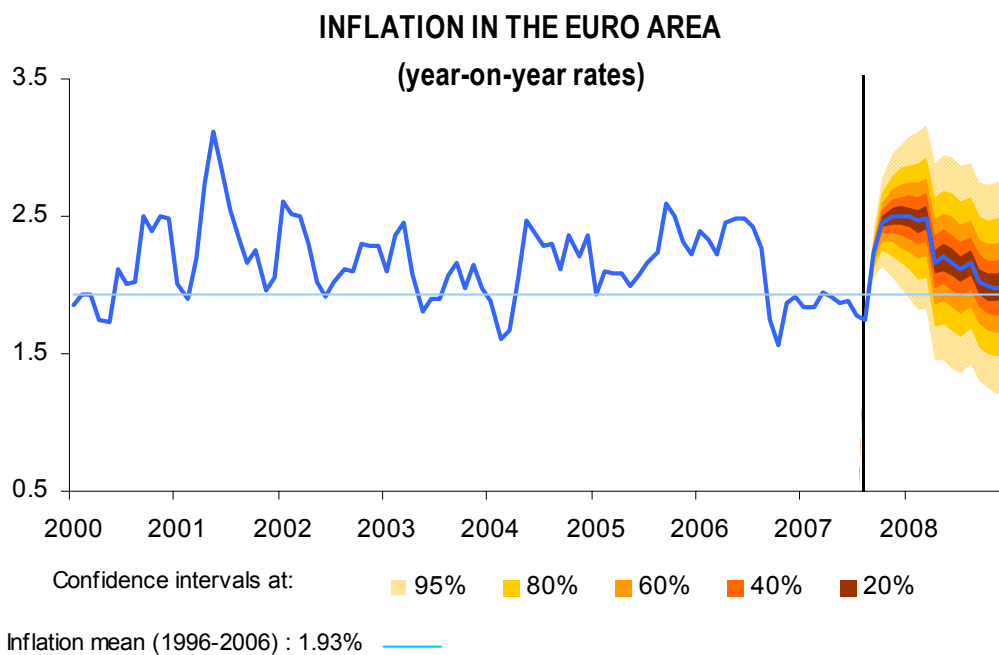
The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: September 21, 2007

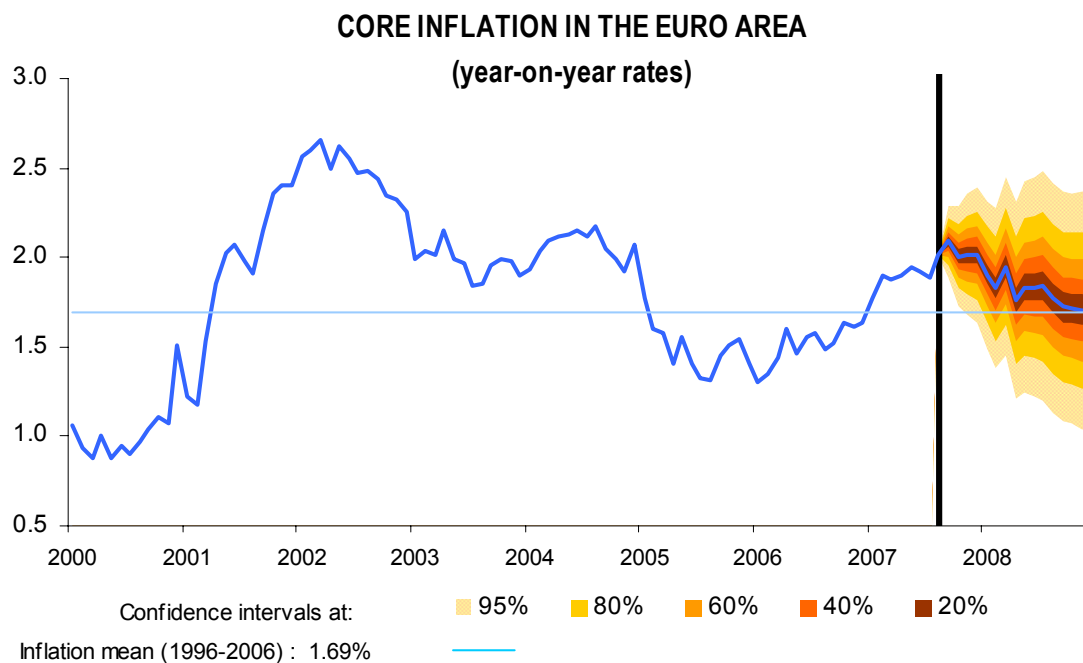


Graph II.1.5.1



Source: EUROSTAT & IFL (UC3M)
Date: September 21, 2007

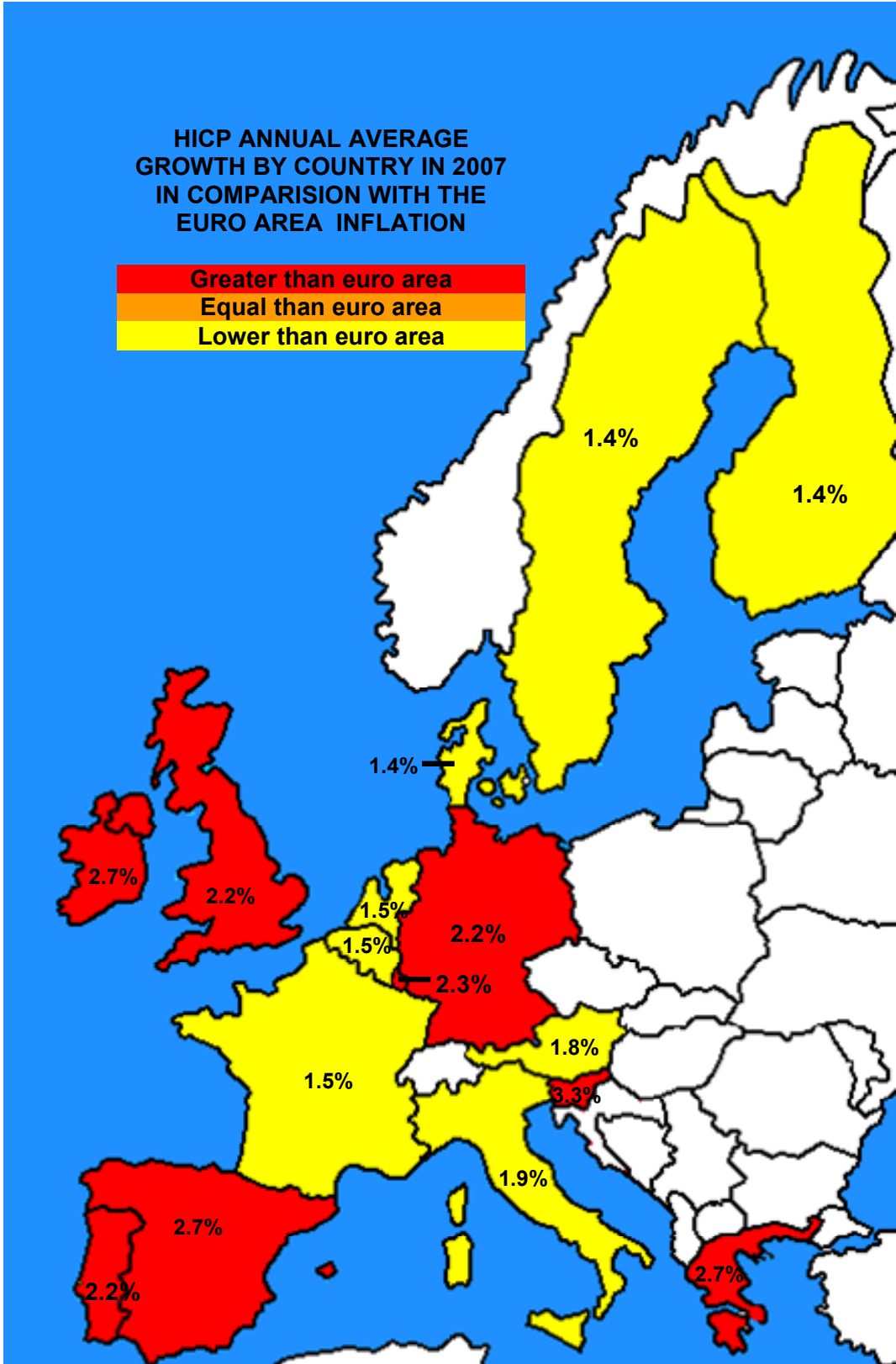
Graph II.1.5.2



Source: EUROSTAT & IFL (UC3M)
Date: September 21, 2007



Graph II.1.5.3



Source: EUROSTAT & IFL (UC3M)
Date: September 21, 2007



Table II.1.5.4

HICP ANNUAL GROWTH BY COUNTRY IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK																		
		Euro Area													United Kingdom	Sweden	Denmark	
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	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%				
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	2.2	1.5	1.9	2.7	1.5	1.5	1.8	2.7	2.2	1.4	2.7	3.3	2.3	2.2	1.4	1.4	
	2008	2.1	1.7	2.0	3.0	1.7	1.5	1.8	2.3	2.1	1.2	2.5	3.8	2.5	1.6	1.2	1.3	
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	1.7	3.0	2.3	1.2	2.6	2.3	1.8	2.8	1.7	1.9
		March	2.0	1.2	2.1	2.5	1.9	1.8	1.9	2.8	2.4	1.6	2.9	2.6	2.4	3.1	1.6	1.9
		April	2.0	1.3	1.8	2.5	1.9	1.8	1.8	2.6	2.8	1.5	2.9	2.9	2.5	2.8	1.6	1.7
		May	2.0	1.2	1.9	2.4	2.0	1.3	1.9	2.6	2.4	1.3	2.7	3.1	2.3	2.5	1.2	1.7
		June	2.0	1.3	1.9	2.5	1.8	1.3	1.9	2.6	2.4	1.4	2.8	3.8	2.3	2.4	1.3	1.3
		July	2.0	1.2	1.7	2.3	1.4	1.3	2.0	2.7	2.3	1.6	2.7	4.0	2.0	1.9	1.4	1.1
		August	2.0	1.3	1.7	2.2	1.1	1.2	1.7	2.7	1.9	1.3	2.3	3.4	1.9	1.7	1.2	0.9
		September	2.6	1.7	1.9	2.9	1.3	1.4	1.8	2.5	1.6	1.5	2.6	3.5	2.2	1.7	1.2	1.0
		October	2.7	2.0	2.0	3.3	1.4	1.4	1.9	2.4	1.9	1.5	2.6	3.9	2.5	1.7	1.2	1.2
		November	2.8	2.1	2.1	3.4	1.2	1.4	1.8	2.4	2.0	1.4	2.6	4.0	2.8	1.5	1.1	1.1
		December	2.9	2.1	2.1	3.3	1.1	1.2	1.8	2.4	2.0	1.4	2.4	3.7	3.0	1.4	1.2	1.0
	2008	January	2.5	1.9	2.1	3.4	1.8	1.5	1.8	2.4	2.0	1.5	2.4	4.0	3.3	1.5	1.3	1.1
		February	2.4	2.0	2.1	3.4	1.8	1.2	1.8	2.6	2.0	1.4	2.5	4.3	2.7	1.4	1.2	1.0
		March	2.3	2.0	2.1	3.4	1.5	1.4	1.8	2.3	1.7	1.1	2.3	4.1	2.4	1.3	1.1	1.0
		April	2.1	1.7	2.1	3.1	1.4	1.3	1.8	2.3	1.5	1.0	2.4	3.9	2.2	1.4	1.0	1.1
		May	2.1	1.7	2.0	3.1	1.4	1.5	1.7	2.2	1.8	1.2	2.4	3.6	2.0	1.5	1.2	1.1
		June	2.1	1.6	1.9	2.9	1.4	1.5	1.8	2.2	2.0	1.1	2.4	3.4	1.9	1.4	1.1	1.3
		July	2.0	1.7	1.9	2.9	1.7	1.5	1.7	2.3	2.1	1.2	2.4	3.7	2.6	1.7	1.2	1.4
		August	2.1	1.6	1.9	3.0	1.9	1.5	1.8	2.4	2.3	1.3	2.5	3.7	2.1	1.8	1.4	1.5
		September	1.9	1.5	1.9	2.8	1.9	1.6	1.8	2.2	2.4	1.3	2.5	3.6	2.6	1.8	1.3	1.6
		October	1.9	1.4	1.9	2.7	1.9	1.6	1.8	2.2	2.4	1.3	2.5	3.6	3.0	1.8	1.3	1.6
		November	1.9	1.4	1.9	2.7	1.9	1.6	1.8	2.2	2.4	1.3	2.5	3.6	2.8	1.8	1.3	1.6
		December	1.9	1.4	1.9	2.7	1.9	1.6	1.8	2.1	2.4	1.3	2.5	3.6	2.7	1.8	1.3	1.6

The figures in the shaded area are forecasts.

Source: EUROSTAT & IFL (UC3M)

Date: September 21, 2007



Table II.1.5.5

HICP ANNUAL GROWTH BY COUNTRY IN THE EURO AREA, UNITED KINGDOM, SWEDEN AND DENMARK																		
		Euro Area													United Kingdom	Sweden	Denmark	
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovenia	Luxembourg				
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%				
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	-0.5	-0.5	-1.0	-0.6	0.4	-1.4	0.1	-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	0.3	-1.6	0.0	0.6	0.9	-0.1	1.0	0.5	0.5	0.8
		2008	0.3	0.3	0.1	0.1	0.6	2.1	0.3	-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	0.2	0.5	1.2	0.8	1.3	0.0	0.5	2.5	1.3	0.7	0.7	1.1	0.7	0.5	0.6	0.5
		2008	0.2	0.4	1.1	0.7	1.0	0.1	0.4	2.2	0.9	0.4	0.5	0.9	0.4	0.4	0.5	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	0.4	0.5	0.6	1.4	0.6	0.5	0.4	0.8	0.9	0.5	0.5	1.1	0.6	0.3	0.5	0.3
		2008	0.2	0.3	0.6	1.1	0.4	0.4	0.4	0.7	0.8	0.4	0.5	0.9	0.3	0.4	0.4	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	0.3	0.4	0.3	0.0	-0.1	0.2	0.2	0.2	-0.3	0.3	1.1	0.4	0.3	-0.1	0.2
		2008	0.2	0.2	0.3	0.3	0.0	0.1	0.1	0.2	0.4	-0.1	0.3	0.9	0.2	0.3	0.0	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	0.2	0.2	-0.5	0.1	0.0	0.0	0.0	0.1	0.3	0.3	0.2	0.2	0.1	-0.2
		2008	0.1	0.1	0.1	0.1	-0.4	0.1	0.0	0.0	0.1	0.1	0.3	0.2	0.2	0.1	0.1	0.0
	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	0.5	-0.3	-0.6	-0.7	-0.8	-1.1	-0.1	-0.8	-0.2	-0.3	-0.2	-0.1	-0.8	-0.6	-0.3	-0.5
		2008	0.4	-0.3	-0.6	-0.7	-0.5	-1.0	-0.1	-0.7	-0.1	-0.2	-0.2	0.1	-0.1	-0.3	-0.2	-0.4
	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	-0.1	0.4	-0.2	0.2	0.1	1.6	0.0	-1.0	-0.4	0.0	0.4	0.1	0.9	0.3	-0.1	-0.2
		2008	0.0	0.4	-0.2	0.3	0.3	1.6	0.1	-0.9	-0.2	0.1	0.5	0.2	0.4	0.3	0.0	-0.1
	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	0.2	0.2	0.9	0.4	0.7	-0.2	0.0	1.8	0.1	0.3	0.0	0.4	-0.3	0.1	0.5	0.5
		2008	0.0	0.1	0.8	0.2	0.7	-0.2	0.0	1.6	0.2	0.2	0.0	0.3	0.2	0.1	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	0.1	0.4	0.8	0.0	-0.3	0.0	0.6	0.2	0.1	0.0	-0.3	-0.2	0.1	0.2	0.0
		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	0.0	-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	0.2	0.1	0.2	-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: September 21, 2007



II.2. ECONOMIC GROWTH, INFLATION AND MONETARY POLICY

II.2.1 Economic growth

In the second quarter of this year, the euro area economy continued the deceleration which started last quarter. According to the National Accounts for the second quarter of 2007 published by Eurostat at the beginning of September, the area's *Gross Domestic Product (GDP)*, in real terms and according to data adjusted for seasonality and working days effect, showed a year-on-year growth rate of 2.5%, representing solid growth which is nonetheless more moderate than in the previous quarters, specifically 0.7 points lower than the rate in the first quarter of 2007. In turn, in terms of the quarter-on-quarter rate, GDP growth was 0.3%, representing a deceleration of four tenths. These aggregate results confirm the data in the advance published by Eurostat in mid-August, which were discussed in the last Bulletin.

GDP growth was lower than forecast by the IFL, which estimated a year-on-year rate of variation of 2.8%. However, these forecasts were estimated before the start of the current crisis on the financial markets, the effects of which on the real economy are difficult to quantify at this time, in a context of growing uncertainty. The forecasts estimated with the new information for 2007-2008, the results of which are discussed below, represent a downwards revision of euro area growth.

The deceleration of the GDP in the euro area in the second quarter of 2007 was primarily due to the weak growth registered in the countries with most weight in the area, especially Germany, France and Italy, with reductions in their year-on-year rates of 1.1, 0.6 and 0.5 pp, respectively. On the other hand, the reduction in the growth of the Spanish economy in the second quarter (one tenth), mentioned in the pertaining section of the Bulletin, was significantly less than that found in these economies.

Analysing the deceleration of the GDP in the euro area in the second quarter by component on the demand side, we find that it was largely due to the weakness of gross capital formation, which fell by 0.2 % from the previous quarter, after two strong quarters, resulting from the decline in construction and the negative contribution of one tenth from inventory changes. On the other hand, private consumption registered a quarter-on-quarter rate of 0.5% after remaining unaltered in the first quarter, derived from the VAT increase in Germany. Imports showed a quarter-on-quarter rate of 0.6%, 0.3 pp less than in the previous quarter, whereas exports accelerated by 0.3 pp to 1.1%. As a result of all this, the contribution of domestic demand to annual GDP growth was 2 pp, with foreign demand providing the

remaining half a point, one tenth more than the previous quarter.

When updating our forecast for euro area growth with the latest information available, the forecasts for average annual GDP growth in the euro area for 2007 and 2008 are revised downwards by 0.1 pp and 0.4 pp to 2.6 and 2.1%, respectively. With regards to the composition of growth, although for both 2007 and 2008 domestic demand is expected to continue to drive the euro area economy, its contribution will fall to 2.2 pp and 2 pp, respectively, whereas foreign demand is expected to provide the remaining 0.4 pp in 2007 with its contribution falling to 0.1 pp in 2008.

In relation to the previous forecasts, the downwards revision in GDP growth for both 2007 and 2008 rests on gross capital formation, and particularly investment in construction. For this aggregate, we are now forecasting an annual average growth rate of 4.3% for 2007, just over one percentage point less than our previous forecast. Private consumption is revised downwards slightly, whereas public consumption moves upwards. As a result of these estimates, internal demand reduces its contribution to GDP growth in 2007 by 0.3 pp from the previous forecast, whereas foreign demand grows by 0.2 pp to 0.4 pp.

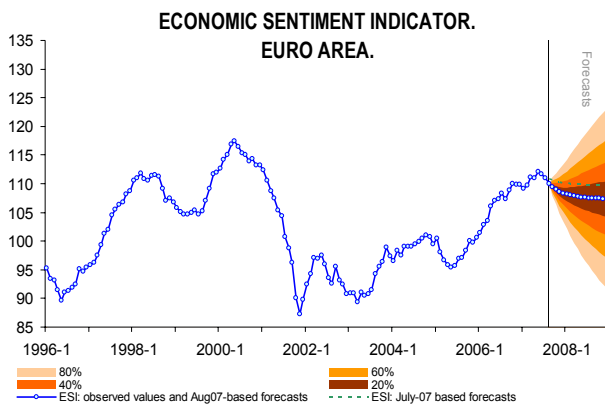
Other indicators of economic activity in the euro area providing recent information, including the Economic Sentiment Indicator for August, show that the evolution of the area's economy will continue in the third and following quarters with the deceleration registered in the first quarter of this year.

The euro area *Economic Sentiment Indicator* edited by the European Commission fell by one point in August to 110. This result was worse than expected according to the IFL forecast, although within the 60% confidence interval. The decline was basically due to less confidence of economic agents in the construction, services and consumer goods sectors, whereas their confidence remains unaltered in the evolution of the industrial sector and rises only in the retail trade.

With the new information, we have revised our forecasts for this indicator, resulting in a slight downwards movement in the expectations of economic agents in the evolution of the euro area economy. Unlike the forecasts estimated with information up to July, we now expect the confidence of economic agents in the economy's evolution to decline at a sharper rate, continuing until the second quarter of 2008 (see graph II.2.1.1).



Graph II.2.1.1

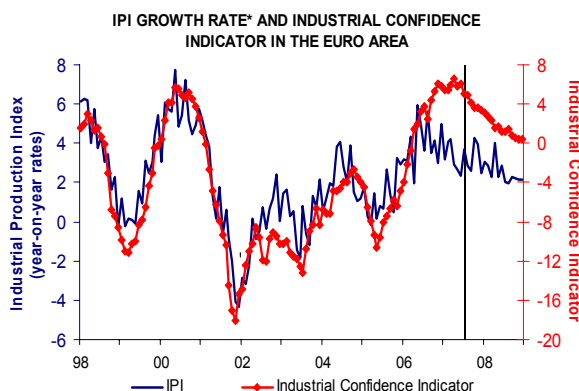


Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: August 31, 2007

With regards to the industrial sector, the euro area *Industrial Production Index (IPI)* for July registered year-on-year growth of 3.7%, more than the previous month (2.4%), more than exceeding the forecast estimated in the IFL (2.9%). This difference between the observed and forecast values was due to the upwards innovations found in nearly all productive sectors, except durable consumer goods which registered a downwards innovation.

The euro area *Industrial Confidence Index* for August has also been published, showing a slight decline since the previous month. Our forecasts also pointed to such a decline, but greater. With the new information, we have revised the forecasts for the indicator upwards slightly. We continue to expect a gradual decrease in the confidence of economic agents in the evolution of the industrial sector in 2007 and 2008, tending to stabilise in the last quarter of 2008.

Graph II.2.1.2



*Year-on-year rates.

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

Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)
Date : September 12, 2007

In view of both the hard and soft data, the forecast for average annual IPI growth has been revised upwards for both 2007 and 2008. We are now expecting an average annual IPI growth rate for this

year of 3.3%, four tenths more than the previous forecast. For 2008, we are forecasting a growth rate of 2.5%, three tenths more than our previous estimate.

II.2.2 Inflation

The euro area HICP registered an annual rate of 1.7% in August, as forecast, the lowest so far this year.

By component, however, there were some innovations, with the most significant in processed food prices. They grew at a monthly rate of 0.6%, significantly more than usual in the month of August.

Non-energy industrial prices also registered a slight upwards innovation. On the other hand, service prices grew slightly less than expected, partly counteracting the upwards innovations observed in the rest of the basic components of the core index.

Outside the core component, unprocessed food, in line with processed food, increased in price more than expected. This was compensated by the downwards innovation registered in energy prices.

When updating last month's Bulletin with the latest information available, there has been an upwards revision in the average annual HICP rates expected for all the basic components in the index except services.

Table II.2.2.1

ANNUAL HICP GROWTH RATES IN THE EURO AREA*						
HICP	Observed			Forecasts		
	Aver 2005 ⁽²⁾	Aver 2006 ⁽²⁾	2007 Aug ⁽¹⁾	2007 Sep ⁽¹⁾	Aver 2007 ⁽²⁾	Aver 2008 ⁽²⁾
Core (82.8%)	1.5	1.5	2.0	2.1 (±0.13)	1.9 (±0.06)	1.8 (±0.33)
Total (100%)	2.2	2.2	1.7	2.2 (±0.11)	2.0 (±0.07)	2.2 (±0.40)

* 80% confidence intervals calculated with historical errors.

Source: EUROSTAT & IFL (UC3M)

Date: September 21, 2007

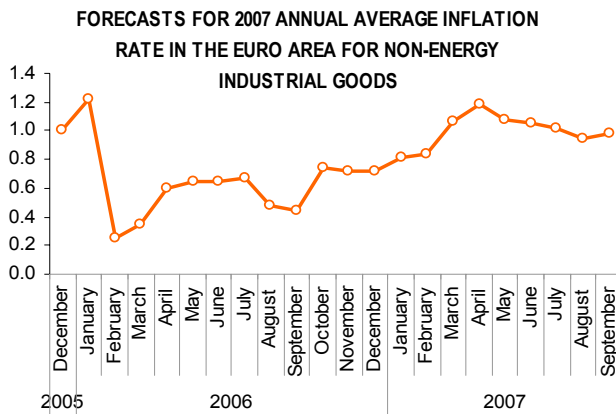
(1) Year-on-year rate

(2) Annual average rate

Within the core component, the most significant revision is in processed food. The expectations for non-energy industrial goods have also been revised upwards, to a greater extent for 2008. This contrasts with the downwards revisions of the last four months (graph II.2.2.1 and graphs at the end of section II.3). In the case of services, in line with the small downwards innovation registered in August, the forecasts have been revised downwards very slightly.



Graph II.2.2.1



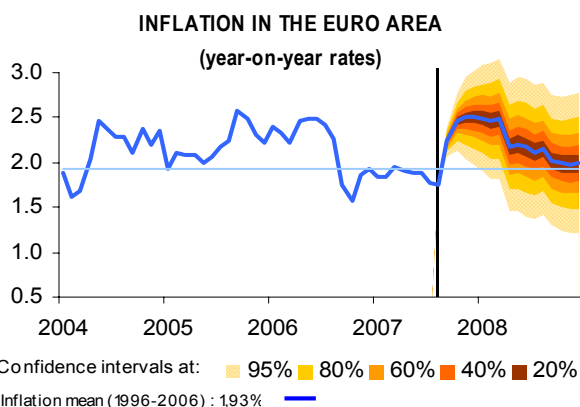
Source: EUROSTAT & IFL(UC3M)
Date: September 21, 2007

In all, for the core component we are now expecting average annual rates for 2007 and 2008 of 1.9% and 1.8%, respectively, 0.06 and 0.14 pp higher than in the previous Bulletin.

Outside core inflation, unprocessed food and energy also present higher average annual rates forecast for 2007 and 2008. In the former, the upwards revision is in line with the upwards innovation registered in August. In the case of energy, despite the downwards innovation in August, forecasts are revised upwards because of the latest information about fuel prices and oil prices on the futures market.

As a result of all the above, the headline inflation rate forecast for 2007 and 2008 is 2.0% and 2.2%, respectively, 0.09 and 0.22 pp more than in the last Bulletin and in both cases above the ECB target.

Graph II.2.2.2

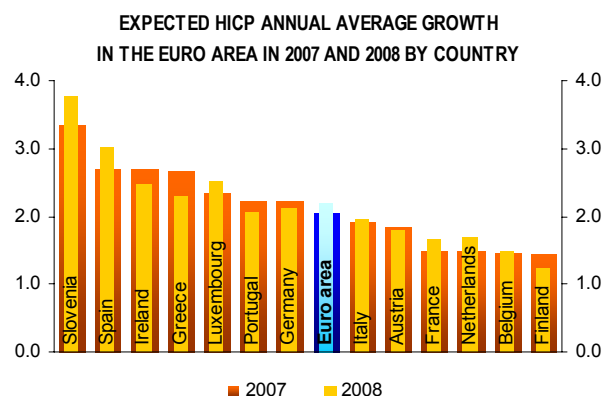


Source: EUROSTAT & IFL(UC3M)
Date: September 21, 2007

In terms of the annual rate, inflation is still expected to rise in the next few months, subsequently falling from the first quarter of 2008 on, although the profile has been revised upwards and we are now expecting 2.2% headline inflation for September, 2.5% for the end of the year and the first quarter of 2008 and 2.0-2.2% for the rest of 2008, approximately 0.2 pp higher than the last Bulletin's forecasts. As graph II.2.2.2 shows, the forecasts are therefore for inflation above the average value of the last ten years throughout the forecasting horizon, especially during the next six months, when this rise is conditioned by the expected rates in the energy component of the HICP. This also implies that, according to these point forecasts, the ECB target will not be met in this period. In more precise terms, the probability of failing to meet the target in 2007 is very high and clearly over 50% for 2008.

By country, euro area inflation ranged in August between Netherlands's 1.1% and Slovenia's 3.4%. Most countries registered downwards innovations, and so we have revised our forecasts for most of them. However, for the four countries with the most weight in the HICP (Germany, France, Italy and Spain), the movement was upwards from one to two tenths. The country for which the lowest inflation is expected is no longer France but Finland, for which we are forecasting rates of 1.4% and 1.2% for 2007 and 2008, respectively. Slovenia will continue to be the country with the highest expected inflation, 1.9 and 2.6 pp more than the rates expected for Finland in 2007 and 2008, respectively.

Graph II.2.2.3



Source: EUROSTAT & IFL(UC3M)
Date: September 21, 2007

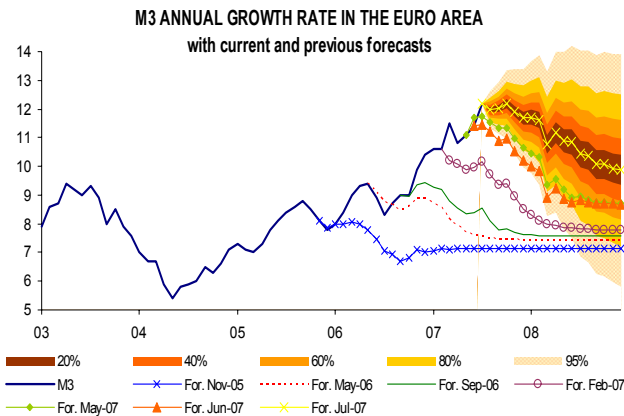
Outside the euro area, it is worth mentioning that the United Kingdom registered the same inflation as the euro area (1.7%) for the first time this year, after the high rates registered at the beginning of 2007. Its inflation is expected to be lower than that of the euro area in the next few months and 2008.



II.2.3 Monetary Policy

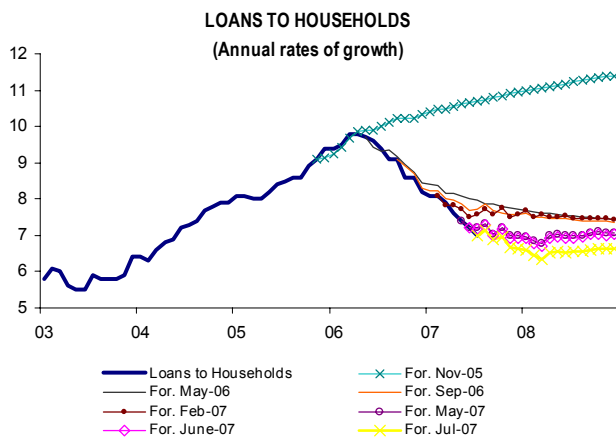
M3 grew in July by 11.7%, more than in June and more than expected. Our previous forecasts have therefore been revised upwards (see graph II.2.3.1), with a progressive fall in the annual rate from the end of 2007 on to around 9.4% at the end of 2008.

Graph II.2.3.1



Source: ECB & IFL(UC3M)
Date: August 28, 2007

Graph II.2.3.2



Source: ECB & IFL(UC3M)
Date: August 28, 2007

On the component side, the rise in July was reflected in M1 and the components of M2 which are not in M1 (M2-M1), whereas M3-M2 component maintained the same rate as in July. In spite of this rise, M1 continued to register much lower rates than M2-M1 and M3-M2. On the counterparts side, credit to euro area residents grew more than in June and more than in the first and second quarter of 2007.

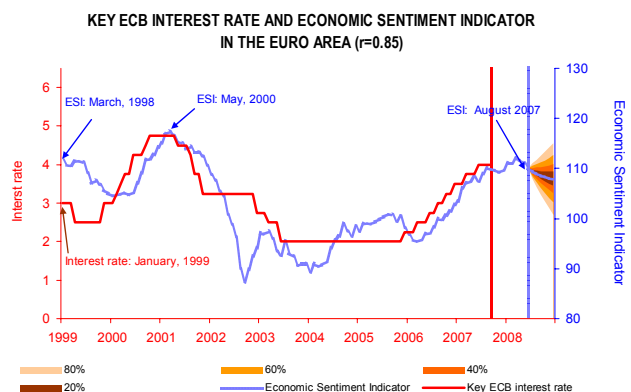
Within this, credit to the private sector continues to be strong, with 11.6% growth. The main contribution to the strong growth continued to be loans to the private sector. They grew by 10.9%, as forecast, above the June rate as the result of the evolution of loans to non-financial corporations, as loans to households moderated their annual rate in July to 7.0%, slightly less than the expected rate. Our forecasts for loans to households have therefore fallen slightly and they continue to be seen as a factor which is not expected to bring significant pressure to bear on inflation.

The ECB believes that, even considering that the strong growth of M3 is favoured by the flat yield curve and that the recent financial market developments may also have an impact the extent of which will be seen in the next few months, the latest monetary data show upside risks for price stability in the medium and long term.

In view of the forecasts shown in the euro area section, inflation and the monetary aggregates seem to be factors which would continue to bring pressure in favour of new ECB rate increases, in a context of solid but more moderate growth in the real sector. There are upwards risks for price stability in the medium term, but given the great uncertainty affecting the financial markets and its unknown impact on the real sector, the ECB may well decide to "wait and see".

Graph II.2.3.3 shows the evolution of the ECB reference rate over the last few years and its close relationship to the evolution of the Economic Sentiment Indicator.

Graph II.2.3.3



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: ECB, EUROPEAN COMMISSION & IFL(UC3M)
Date: September 6, 2007



II.3. TABLES AND PLOTS.

Tables:

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

Plots:

- One month ahead and twelve months ahead forecasts for the euro area HICP (year-on-year rates).
- One month ahead forecast errors in the euro area inflation.
- Inflation in the euro area (year-on-year rate).
- Year-on-year rate of euro area inflation and contributions of main components.
- Box diagram of the euro area countries inflation (HICP annual average rates).
- Euro area and United Kingdom inflation (year-on-year rate).
- Forecasts for 2007 annual average HICP growth rate in the euro area by component.
- Forecasts for 2008 annual average HICP growth rate in the euro area by component.



METHODOLOGY: ANALYSIS OF EURO AREA INFLATION BY COMPONENT

AGGREGATES		BASIC COMPONENTS	
HICP TOTAL	IPSEBENE 82.775% 1 + 2 + 3 + 4	BENE 41.932% 1 + 2 + 3	(1) AE (a) 9.449 % <i>HICP Processed Food excluding tobacco</i> (2) TOBACCO 2.479 % <i>HICP Tobacco</i> (3) MAN 30.004 % <i>HICP Non Energy Industrial Goods</i>
	CORE INFLATION (IT IS CALCULATED ON THE IPSEBENE INDEX)		(4) SER 40.823 % <i>HICP Services</i> (5) ANE 7.63 % <i>HICP Non processed Food</i>
	RESIDUAL INFLATION 17.245% 5 + 6 RESIDUAL INFLATION (IT IS CALCULATED ON THE RESIDUAL INDEX)		(6) ENE 9.615 % <i>HICP Energy</i>
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

OBSERVED VALUES AND FORECASTS FOR THE EURO AREA HICP MONTHLY RATES				
Harmonised Index of Consumer Price (HICP)	Weights 2007	Observed August, 2007	Forecasts	Confidence intervals (*)
(1) Processed Food	119.28	0.61	0.11	± 0.34
(2) Tobacco	24.79	0.82	0.01	
(3) Processed Food excluding tobacco [1-2]	94.49	0.56	0.14	
(4) Non Energy Industrial Goods	300.04	0.17	0.07	± 0.23
(5) Services	408.23	0.14	0.20	± 0.14
CORE INFLATION [1+4+5]	827.55	0.22	0.14	± 0.13
(6) Unprocessed Food	76.30	-0.35	-0.78	± 0.79
(7) Energy	96.15	-0.88	-0.55	± 0.87
RESIDUAL INFLATION [6+7]	172.45	-0.65	-0.65	± 0.57
HEADLINE INFLATION [1+4+5+6+7]	1000.00	0.06	0.00	± 0.11

(*) 80% Confidence intervals

Source: EUROSTAT & IFL(UC3M)

Date: September 14, 2007



**FORECAST ERRORS IN THE MONTHLY INFLATION RATE BY COUNTRIES IN THE EURO AREA,
UNITED KINGDOM, SWEDEN AND DENMARK IN AUGUST**

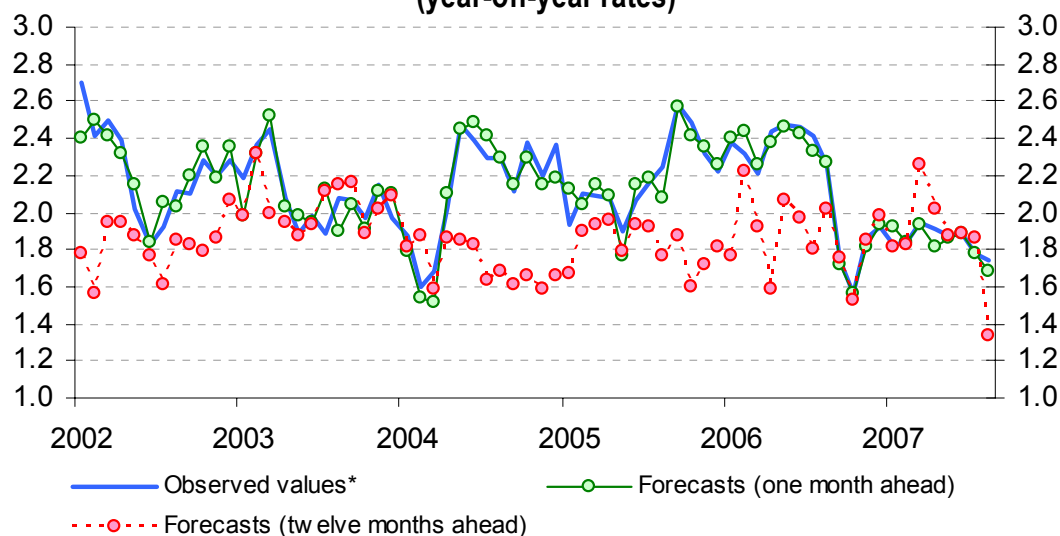
	Weights 2007 euro area	Weights 2006	Observed Monthly Rate	Forecast	Confidence Intervals at 80%	Observed Annual Rate
Spain	122.91		0.16	0.25	± 0.15	2.23
Germany	281.62		-0.10	-0.11	± 0.29	1.96
Austria	31.20		0.00	0.28	± 0.37	1.70
Belgium	33.83		1.56	1.72	± 0.32	1.15
Finland	16.16		0.01	0.26	± 0.37	1.34
France	207.44		0.43	0.16	± 0.20	1.28
Greece	30.60		-1.02	-0.92	± 0.78	2.74
Netherlands	52.85		0.12	0.35	± 0.33	1.06
Ireland	14.08		0.38	0.67	± 0.30	2.31
Italy	182.75		-0.19	-0.32	± 0.23	1.66
Luxembourg	2.41		0.93	0.46	± 0.32	1.86
Portugal	20.79		-0.42	-0.11	± 0.66	1.95
Slovenia	3.35		0.15	-0.13	± 0.24	3.43
Denmark		11.73	-0.19	-0.04	± 0.27	0.88
United Kingdom		186.86	0.29	0.22	± 0.33	1.75
Sweden		18.74	-0.12	0.09	± 0.50	1.21

Source: EUROSTAT & IFL(UC3M)

Date: September 14, 2007



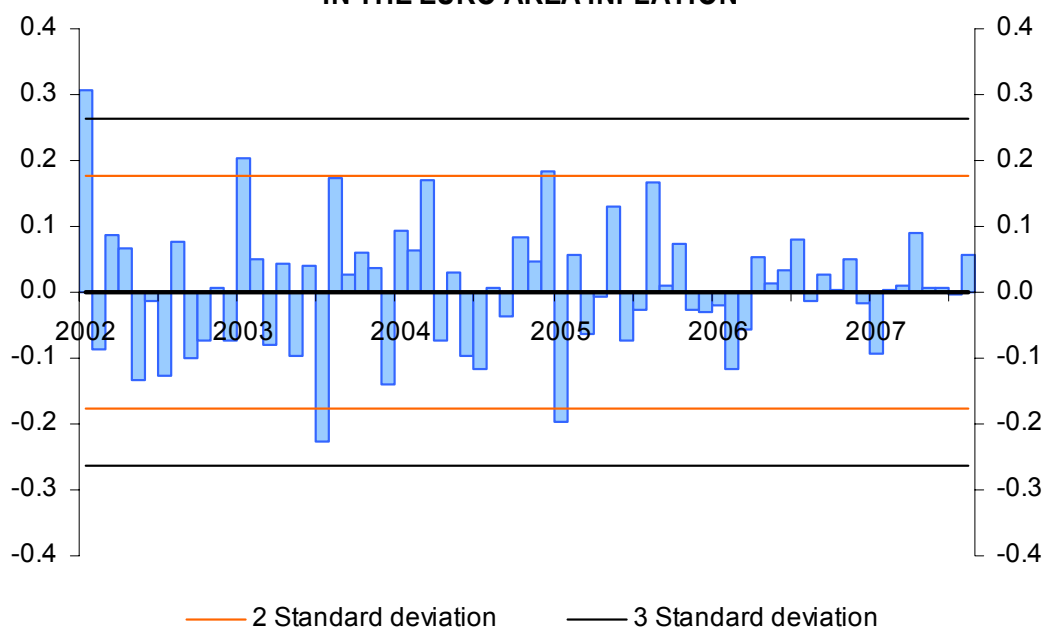
ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS FOR THE EURO AREA HICP (year-on-year rates)



* Observed values without revisions in the HICP

Source : EUROSTAT & IFL(UC3M)
Date: September 14, 2007

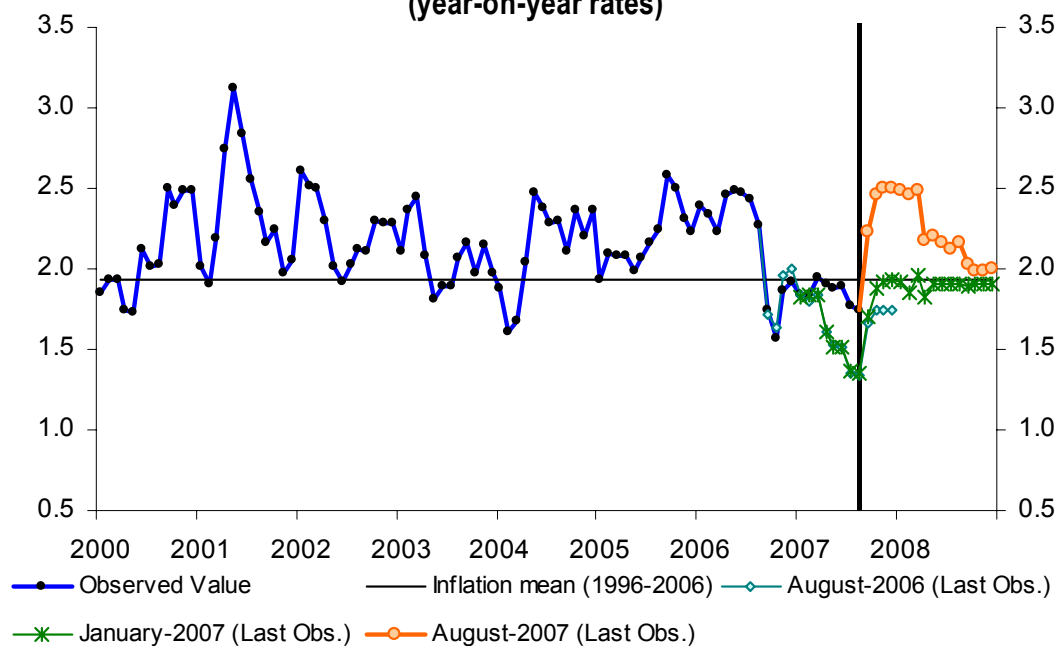
ONE MONTH AHEAD FORECAST ERRORS IN THE EURO AREA INFLATION



Source : EUROSTAT & IFL(UC3M)
Date: September 14, 2007

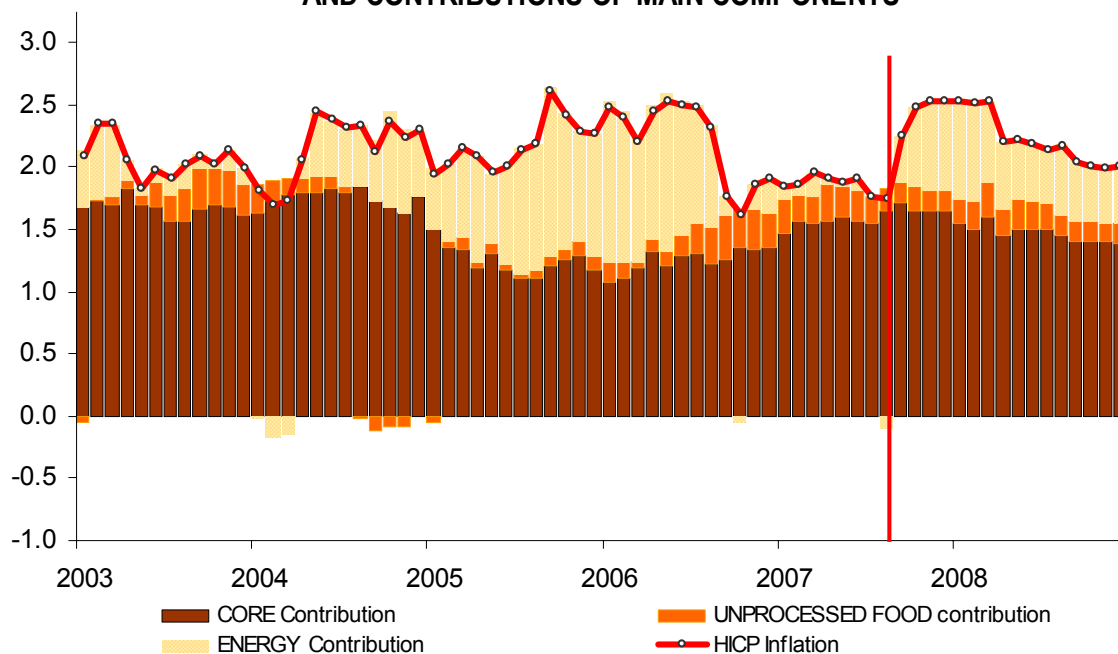


INFLATION IN THE EURO AREA (year-on-year rates)



Source: EUROSTAT & IFL(UC3M)
Date: September 21, 2007

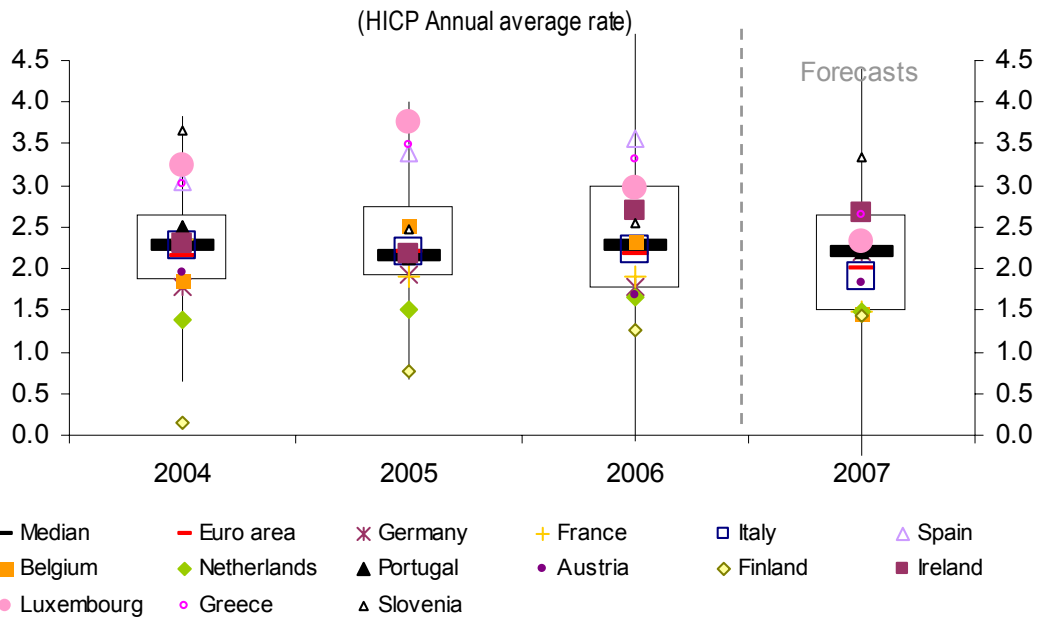
YEAR-ON-YEAR RATE OF EURO AREA INFLATION AND CONTRIBUTIONS OF MAIN COMPONENTS



Source: EUROSTAT & IFL(UC3M)
Date: September 21, 2007

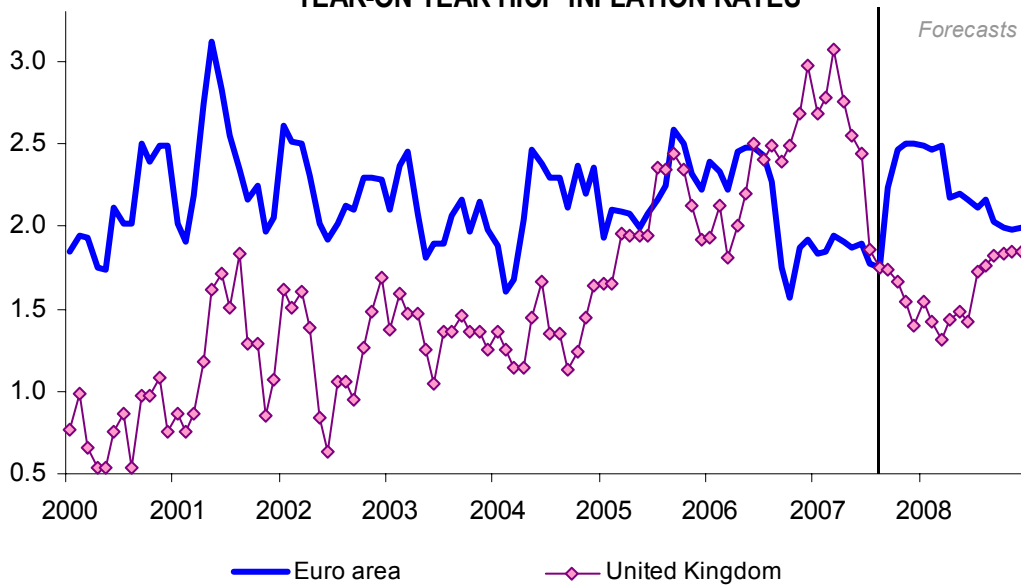


BOX DIAGRAM OF EURO AREA COUNTRIES INFLATION



Source: EUROSTAT & IFL(UC3M)
Date: September 21, 2007

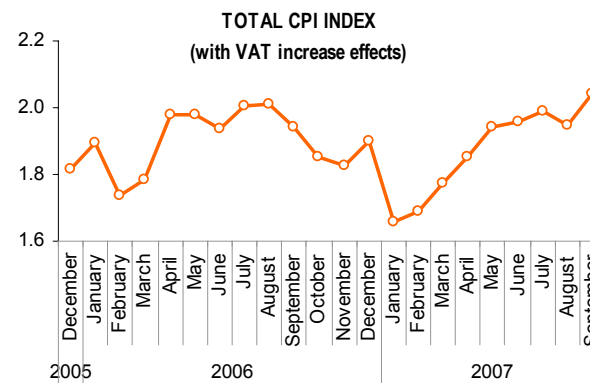
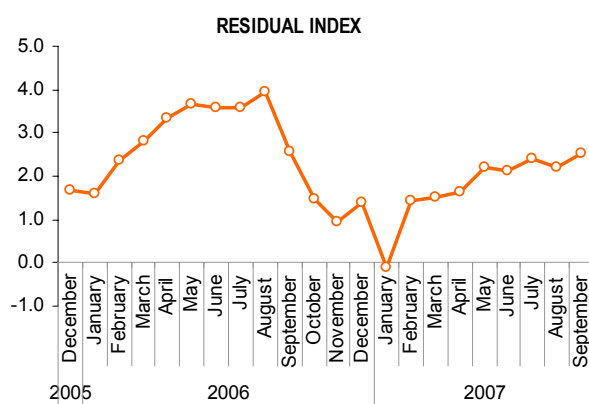
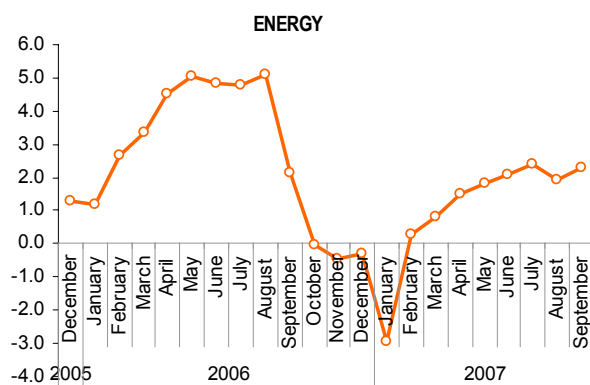
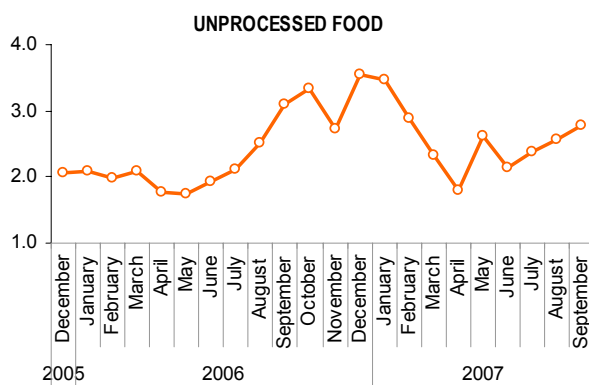
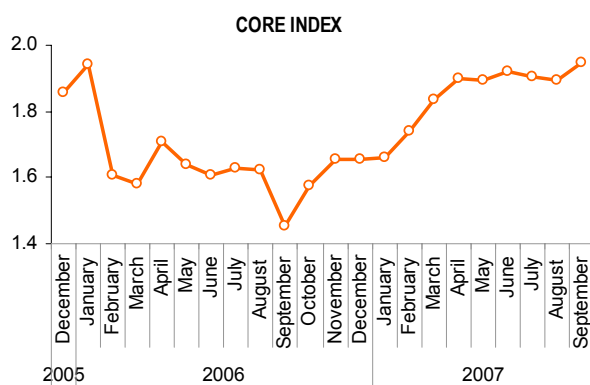
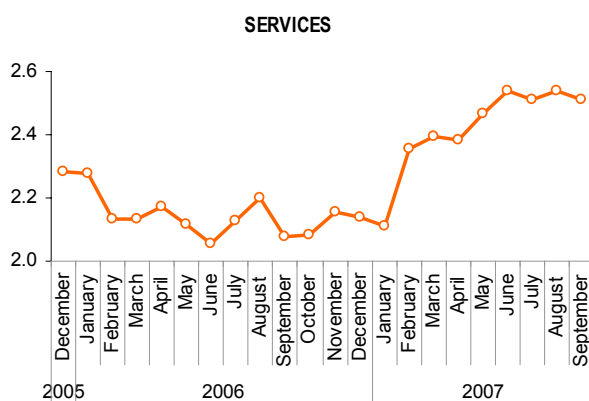
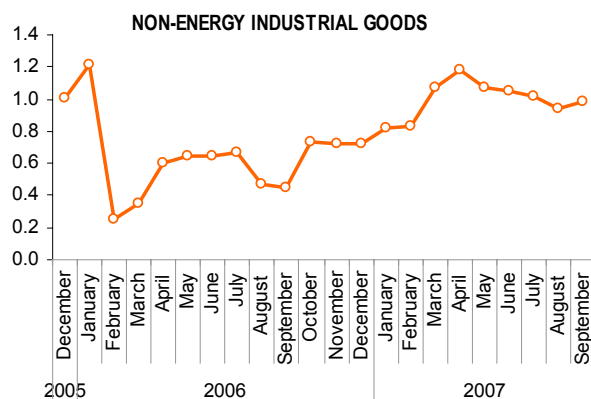
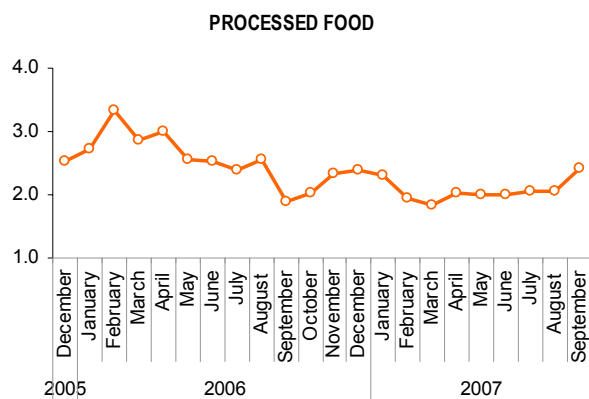
YEAR-ON YEAR HICP INFLATION RATES



Source: EUROSTAT & IFL(UC3M)
Date: September 21, 2007



FORECASTS FOR 2007 ANNUAL AVERAGE HICP GROWTH RATE IN THE EURO AREA BY COMPONENT



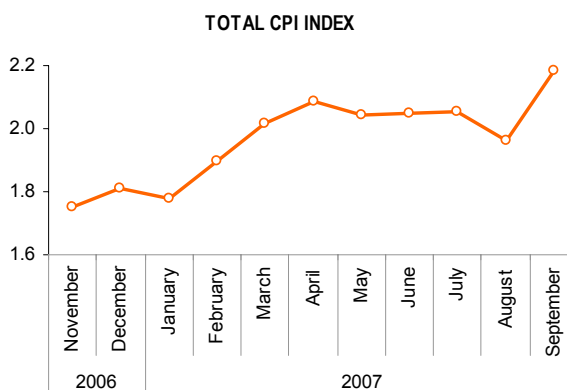
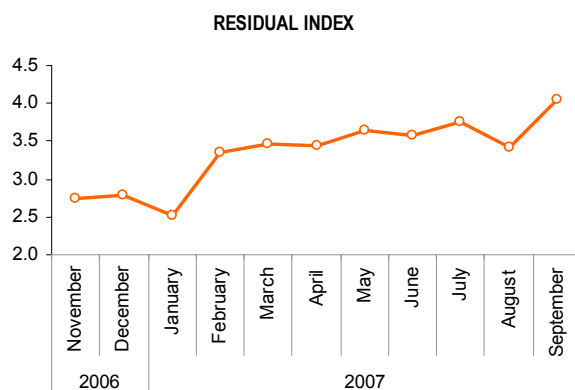
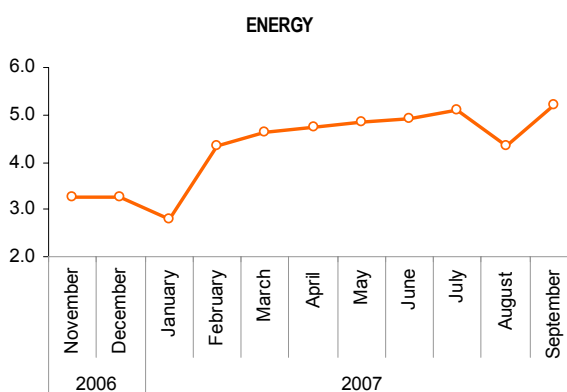
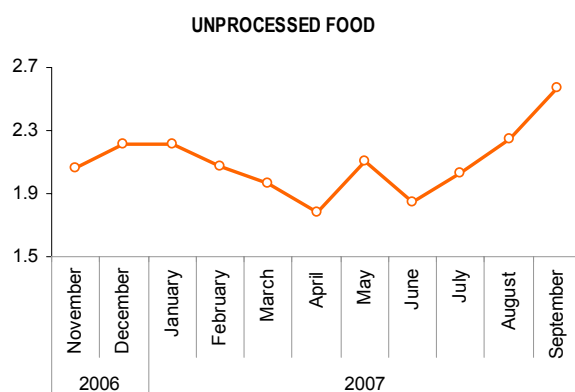
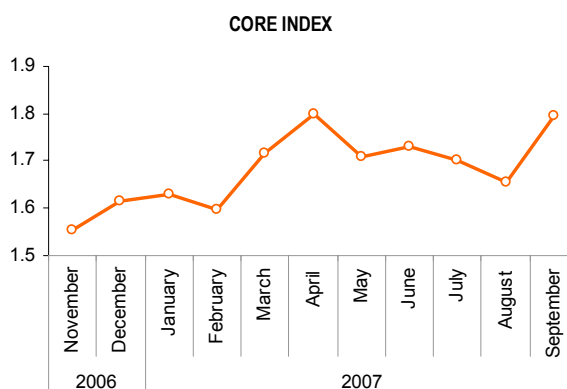
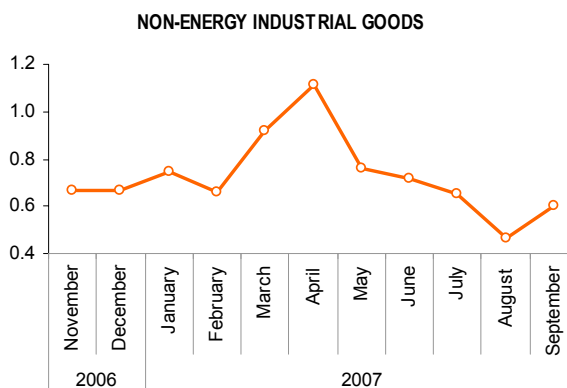
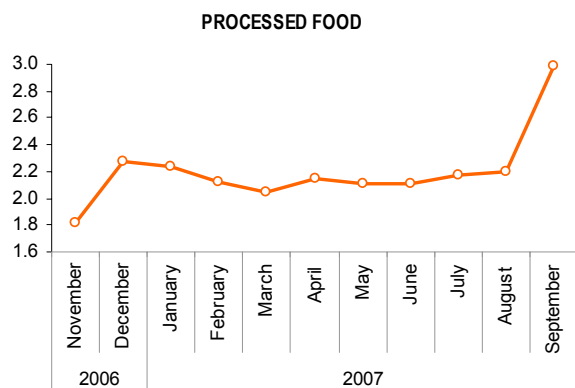
Note: These graphs show the average annual HICP growth rates for 2007 forecast in the Bulletin published in the month on the abscissa.

Source: EUROSTAT & IFL (UC3M)

Date: September 21, 2007



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



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

Source: EUROSTAT & IFL (UC3M)

Date: September 21, 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				
AVERAGE ANNUAL 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	1.6	3.9	4.5	3.9	
	2007	2.2	3.1	3.2	2.4	2.5	
	2008	4.3	1.9	3.7	4.2	3.4	
ANNUAL RATES*	2006	QI	1.4	0.8	4.1	3.1	3.3
		QII	0.6	1.3	4.1	4.0	3.8
		QIII	-0.6	2.4	4.8	6.1	5.2
		QIV	-2.5	2.1	2.7	4.7	3.5
	2007	QI	-2.2	3.8	2.8	2.2	2.5
		QII	1.1	2.8	2.5	1.6	2.0
		QIII	3.3	2.4	2.5	1.5	1.9
		QIV	6.5	2.9	4.3	4.1	3.4
	2008	QI	6.1	2.1	4.3	4.6	4.0
		QII	4.9	1.9	4.0	4.7	3.3
		QIII	2.7	1.8	3.3	3.8	2.9
		QIV	3.3	1.7	3.3	3.6	3.3

The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: FEDERAL RESERVE & IFL (UC3M)

Date: September 14, 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	2.59	4.23
February	-3.84	3.44	1.91	2.73	2.82	2.87	3.99
March	-3.06	2.63	1.31	2.77	4.16	1.95	3.76
April	-0.32	0.27	2.43	3.86	2.94	2.58	3.45
May	-0.65	0.31	3.40	2.70	4.18	1.84	3.22
June	0.88	-0.65	2.61	4.02	4.26	1.60	3.22
July	0.66	-0.10	3.69	3.72	4.96	1.76	2.13
August	1.47	0.00	2.76	3.72	4.62	1.93	3.27
September	2.23	0.24	1.94	2.24	5.90	2.63	3.36
October	2.36	0.63	3.00	2.34	4.49	3.58	3.11
November	2.88	1.39	2.37	3.39	3.02	3.69	3.42
December	2.71	1.82	3.28	3.83	2.86	2.92	3.24

The figures in the shaded area are forecasts.

Source: FEDERAL RESERVE & IFL (UC3M)

Date: September 14, 2007.



III.1.2 INFLATION.

Table III.1.2.1

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	3.9	3.7
Energy (2)	12.2	10.9	16.9	11.2	5.0	4.0
Residual Inflation (3=2+1)	5.3	6.0	7.6	5.7	4.3	3.8
Non-food and non-energy goods (4)	-2.0	-0.9	0.5	0.3	-0.4	-0.1
-Durable goods	-3.2	-2.3	0.4	-0.7	-1.7	-1.0
-Nondurable goods	-0.7	0.5	0.6	1.3	0.9	0.8
Non-energy services (5)	2.9	2.9	2.8	3.4	3.4	3.2
-Services less owner's equivalent rent of primary residence (5-a)	3.2	3.3	3.1	3.4	3.5	3.5
-Owner's equivalent rent of primary residence (a)	2.4	2.3	2.3	3.5	3.4	2.9
Core Inflation (6=4+5)	1.5	1.8	2.2	2.5	2.3	2.3
[Confidence intervals at 80% level]					± 0.07	± 0.44
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	2.8	2.7
[Confidence intervals at 80% level]					± 0.15	± 1.10
All items less owner's equivalent rent of primary residence (7-a)	2.2	2.8	3.7	3.1	2.6	2.6

Source: BLS & IFL (UC3M)
Date: September 19, 2007



Table III.1.2.2

USA ANNUAL RATES OF GROWTH ON CPI AND ITS COMPONENTS															
		CONSUMER PRICE INDEX													
		CORE INFLATION						ALL	Confidence Intervals at 80% level	RESIDUAL INFLATION			ALL	Confidence Intervals at 80% level	
		Non energy commodities less food			Non energy services							ALL			
		durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL			Food	Energy				
FI 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	27		3.1	3.8	3.3	28		
	2002	-2.6	0.4	-1.1	4.1	3.6	3.8	23		1.8	-5.9	-0.8	1.6		
	2003	-3.2	-0.7	-2.0	2.4	3.2	2.9	1.5		2.1	12.2	5.3	2.3		
	2004	-2.3	0.5	-0.9	2.3	3.3	2.9	1.8		3.4	10.9	6.0	2.7		
	2005	0.4	0.6	0.5	2.3	3.1	2.8	2.2		2.4	16.9	7.6	3.4		
	2006	-0.7	1.3	0.3	3.5	3.4	3.4	2.5		2.3	11.2	5.7	3.2		
	2007	-1.7	0.9	-0.4	3.4	3.5	3.4	2.3	± 0.07	3.9	5.0	4.3	2.8	± 0.15	
	2008	-1.0	0.8	-0.1	2.9	3.5	3.2	2.3	± 0.44	3.7	4.0	3.8	2.7	± 1.10	
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	-1.7	1.2	-0.3	4.1	3.1	3.6	2.5		3.3	4.4	3.7	2.8	
		April	-1.8	0.9	-0.5	3.9	3.2	3.5	2.3		3.7	2.9	3.4	2.6	
		May	-2.0	0.7	-0.7	3.5	3.4	3.4	2.2		3.9	4.7	4.2	2.7	
		June	-1.9	0.4	-0.8	3.3	3.4	3.4	2.2		4.1	4.6	4.3	2.7	
		July	-2.1	0.9	-0.6	3.1	3.5	3.3	2.2		4.2	1.0	2.8	2.4	
		August	-2.0	0.5	-0.7	3.0	3.4	3.2	2.1		4.3	-2.5	1.4	2.0	
		September	-1.8	0.5	-0.7	3.0	3.6	3.4	2.2	± 0.13	4.3	5.0	4.6	2.8	± 0.13
		October	-1.5	0.6	-0.5	2.8	3.6	3.3	2.2	± 0.20	4.2	17.2	9.2	3.8	± 0.42
		November	-1.1	0.6	-0.2	2.8	3.7	3.3	2.3	± 0.26	4.5	16.4	9.0	3.8	± 0.69
		December	-0.9	0.6	-0.2	2.8	3.8	3.4	2.4	± 0.32	4.7	13.1	7.9	3.6	± 0.85
	2008	January	-0.9	0.5	-0.2	2.8	3.7	3.3	2.3	± 0.36	4.4	13.9	8.0	3.6	± 0.97
		February	-1.0	0.3	-0.3	2.8	3.6	3.3	2.3	± 0.41	4.1	14.1	7.9	3.5	± 1.07
		March	-1.0	0.5	-0.3	2.8	3.6	3.2	2.2	± 0.44	4.0	8.3	5.7	3.0	± 1.12
		April	-1.1	0.8	-0.2	2.8	3.6	3.3	2.3	± 0.48	4.1	3.5	3.9	2.7	± 1.14
		May	-1.0	0.8	-0.1	2.9	3.6	3.3	2.3	± 0.52	3.9	-0.7	2.0	2.2	± 1.19
		June	-0.9	0.9	0.0	2.9	3.5	3.2	2.3	± 0.55	3.7	-0.2	2.1	2.3	± 1.27
		July	-0.9	0.8	0.0	3.0	3.4	3.3	2.4	± 0.57	3.5	1.6	2.7	2.4	± 1.34
		August	-0.9	1.0	0.0	3.0	3.5	3.3	2.4	± 0.59	3.4	5.3	4.1	2.8	± 1.42
		September	-0.9	1.0	0.0	2.9	3.4	3.2	2.3	± 0.59	3.2	4.6	3.8	2.7	± 1.55
		October	-1.0	1.0	0.0	2.9	3.4	3.2	2.3	± 0.59	3.2	0.9	2.3	2.3	± 1.59
		November	-1.0	1.0	0.0	2.9	3.4	3.2	2.3	± 0.59	3.2	0.1	2.0	2.2	± 1.70
		December	-1.0	1.0	-0.1	2.9	3.4	3.2	2.3	± 0.59	3.2	0.1	1.9	2.2	± 1.76

Confidence intervals are calculated with historical errors.

The figures in the shaded area are forecasts.

Source: BLS & IFL (UC3M)

Date: September 19, 2007



Table III.1.2.3

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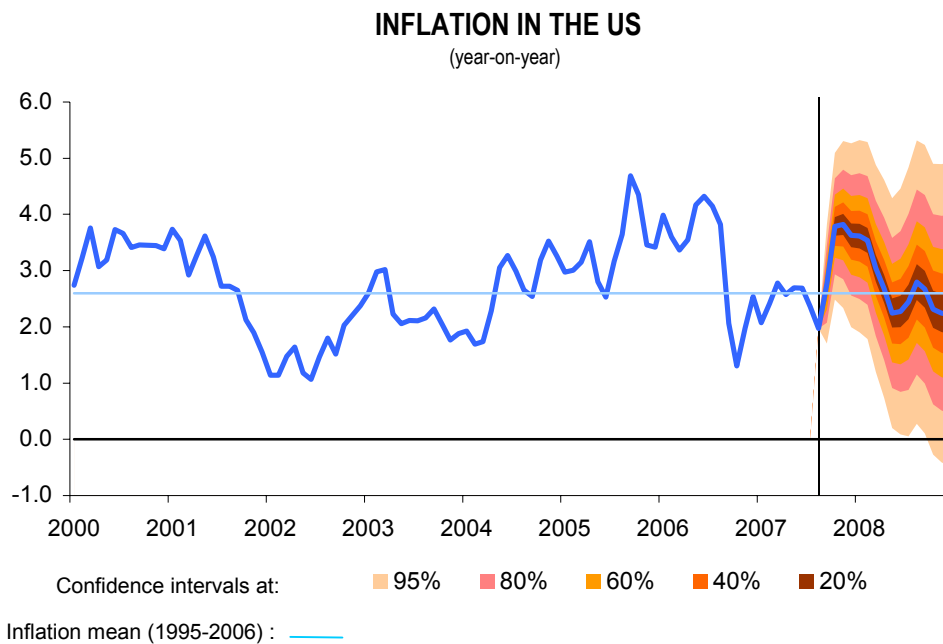
The figures in the shaded area are forecasts

Source: BLS & IFL (UC3M)

Date: September 19, 2007

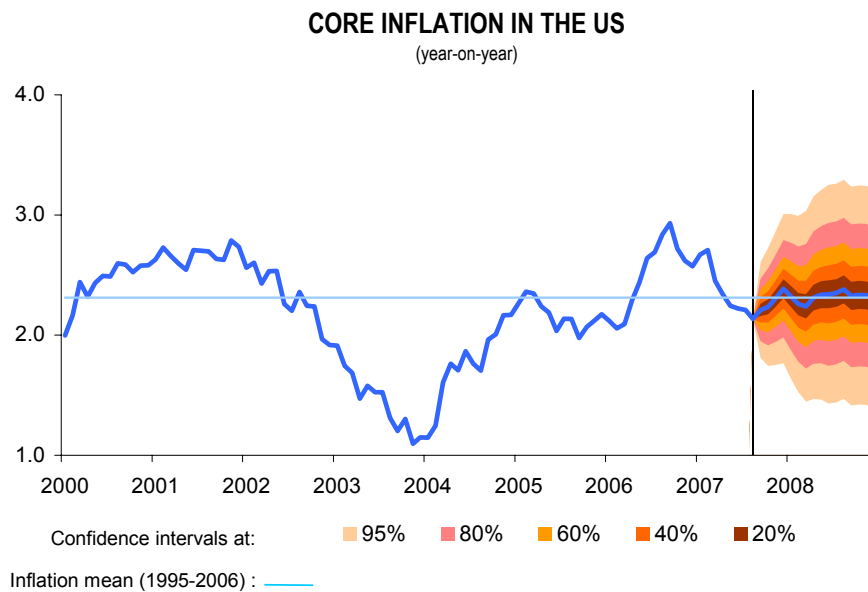


Graph III.1.2.1



Source :BLS & IFL (UC3M)
Date: September 19, 2007

Graph III.1.2.2



Source :BLS & IFL (UC3M)
Date: September 19, 2007



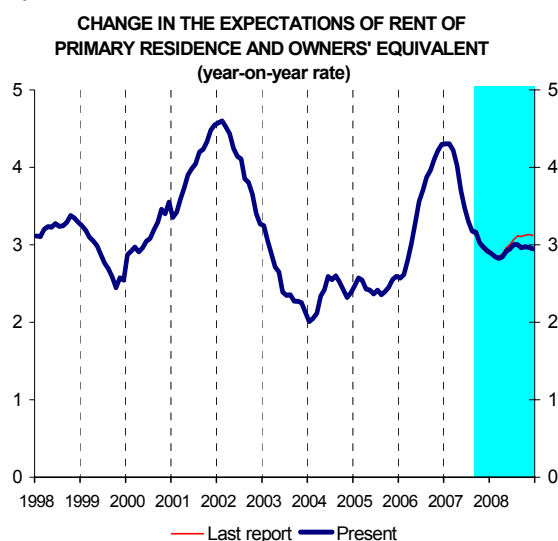
III.2. INFLATION: MAIN POINTS AND NEW RESULTS.

In the US in August, consumer prices registered a monthly decrease of 0.18%, similar to the forecast 0.16%³. The annual rate fell by four tenths from 2.36% to 1.97%.

On the other hand, core index prices rose by 0.17% versus the forecast 0.23%. The annual rate fell from 2.21% to 2.13%.

Within core inflation, we should mention the positive figures for apparel and rent of primary residence. However, telecommunication and transport services prices performed worse than expected.

Graph III.2.1



Source: BLS & IFL (UC3M)
Date: September 19, 2007

As for the prices not included in the core index, both food and energy prices performed as expected in aggregate terms.

Since the last report, besides August's CPI figure, we have new information about other price indicators. For import prices, both durable and non-durable goods performed much as expected. With regards to production prices, there was an upwards innovation in non-durable goods.

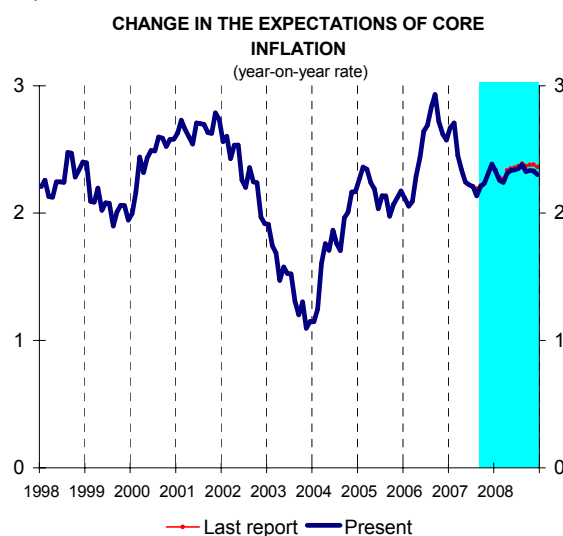
On the other hand, the dollar has depreciated relative to the rest of the world, and the price of West Texas Intermediate crude oil has risen significantly in all terms, although more intensely in the short term, to above 80\$, with an expected scenario of crude oil prices 9\$ higher than those presented in last month's report for October and 4\$ for the end of 2008.

³ Unless otherwise specified, our US reports use non-seasonally adjusted data.

Our forecasts for core and headline inflation are conditioned by all these variables and, basically, for the short term they are heavily influenced by the degree and rate at which the important increases in crude oil prices are transferred.

For 2007 and 2008, then, we are forecasting average annual core inflation rates of 2.34% (± 0.07)⁴ and 2.32% (± 0.44), respectively, very slightly lower than the forecast in our last Bulletin (graph III.2.2 and table III.2.1).

Graph III.2.2



Source: BLS & IFL (UC3M)
Date: September 19, 2007

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
2007 January	2.1	2.7	2.4	2.2
February	2.4	2.7	2.5	2.3
March	2.8	2.5	2.3	2.1
April	2.6	2.3	2.1	1.9
May	2.7	2.2	2.0	1.8
June	2.7	2.2	1.9	1.7
July	2.4	2.2	1.9	1.7
August	2.0	2.1	1.8	1.6
September	2.8	2.2	1.9	1.6
October	3.8	2.2	1.8	1.6
November	3.8	2.3	1.9	1.7
December	3.6	2.4	1.9	1.7
average annual				
2005	3.4	2.2	2.2	1.7
2006	3.2	2.5	2.2	1.9
2007	2.8	2.3	2.0	1.8
2008	2.7	2.3	2.0	1.6

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

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

Source: BLS, BEA & IFL (UC3M)

Date: September 19, 2007

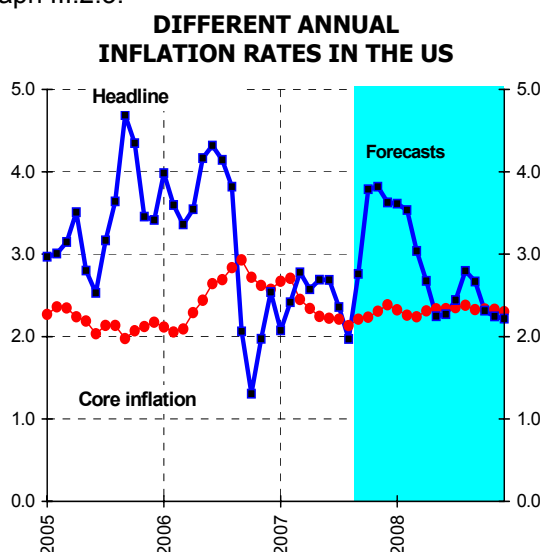
⁴ The values in brackets correspond to 80% confidence intervals.



In all, and basically as a result of the energy price situation, we are expecting average annual headline inflation in the U.S. to be 2.8% (± 0.15) in 2007 and 2.7% (± 1.10) in 2008, one tenth more than last month's forecast for 2007 (see table III.2.1).

As we mentioned last month, the annual rate of the general CPI has fallen to its lowest level in August at 2.0% and will be rising to levels of close to 3.8% in the next few months, subsequently falling to a range from 2.0% to 3.0% from the first quarter of 2008 on (graph III.2.3).

Graph III.2.3.



Source: BLS & IFL (UC3M)
Date: September 19, 2007

For September, we are expecting a monthly increase of 0.28% (± 0.13), with the annual rate rising from 1.97% to 2.76%, due to crude oil prices both this year and last. For core inflation, we are forecasting a monthly increase of 0.32% (± 0.13), with the annual rate rising from 2.13% to 2.21%.

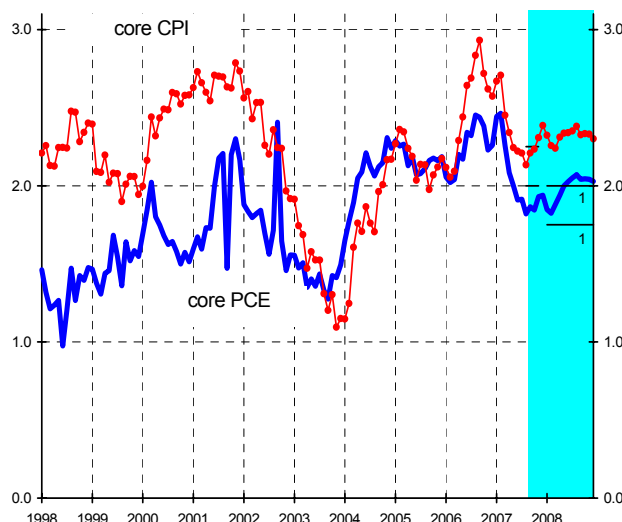
In terms of the core personal consumption expenditure index – core PCE⁵ – which is the inflation indicator most closely monitored by the Fed, with August's CPI figure there is a very slight improvement in our forecasts, expecting the August's PCE figure – to be published at the end of the month – to show an annual rate of 1.82% with an annual average of 2.04% for 2007, within the Fed's target range (2.00-2.25%). For 2008, the forecast is an average annual rate of 1.98%, on the upper limit of the Fed's target (1.75 – 2.00%). The large

⁵ The PCE (Personal Consumption Expenditure) is a price index which has the advantage over the consumer price index (CPI) that, instead of using a fixed shopping basket, it adapts to real expenditure, reflecting changes in the composition of the basket between the periods compared.

fluctuations in CPI inflation in 2007 and 2008, then, correspond to small fluctuations of around 2% in the core PCE. These small fluctuations are also shown by the measure of expected inflation estimated, for example, from five-year Treasury notes, as shown on the graph on the cover.

Graph III.2.4.

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US



(1) Central tendency established by the Fed.
Source: BLS, BEA & IFL (UC3M)
Date: September 19, 2007

In the real sector, the industrial production data were somewhat better than expected and the use of installed capacity grew slightly to 82.2%. On the other hand, in spite of the poor employment figure, the unemployment rate remained at 4.6%.

Finally, with regards to the housing market, August's figures about housing starts and building permits were 2% and 4% worse than expected, respectively, representing a more intense adjustment of the property sector.

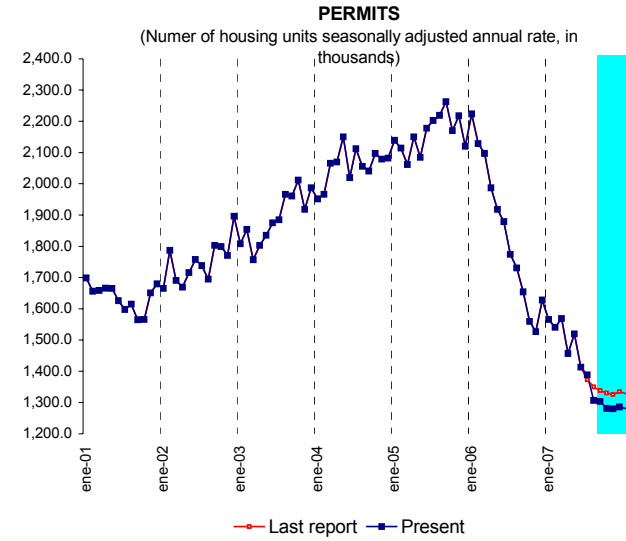
At this Bulletin's closing date, there was no information available concerning new and existing house sales in August.

With regards to the July figures, new house sales were 2.3 pp higher than expected, whereas prices were lower than forecast.

As for existing houses, the number of sales was similar to the forecast, with a negative average annual rate of 8.3% expected for 2007 after the 8.1% decrease registered in 2006. On the other hand, prices were slightly lower than expected and the average annual rate forecast for 2007 is a negative 0.2% (see graphs at the end of section III.3).

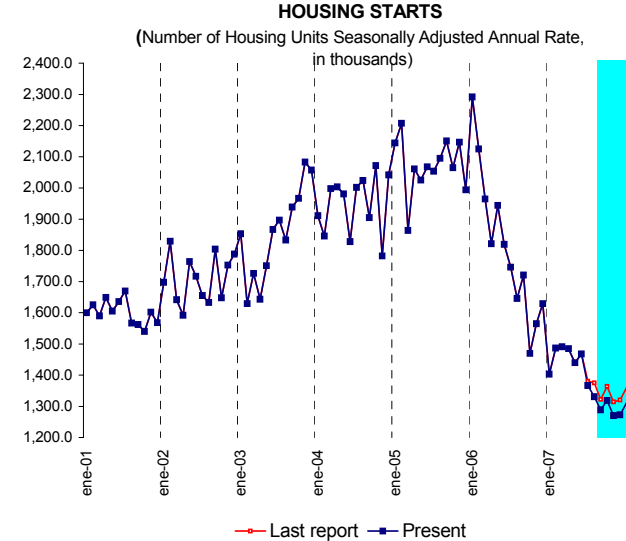


Graph III.2.5



Source: U.S. Census Bureau & IFL (UC3M)
Date: September 19, 2007

Graph III.2.6



Source: U.S. Census Bureau & IFL (UC3M)
Date: September 19, 2007



III.3. OTHER TABLES AND PLOTS.

Tables:

- CPI observed values and forecasts in the US.

Plots:

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

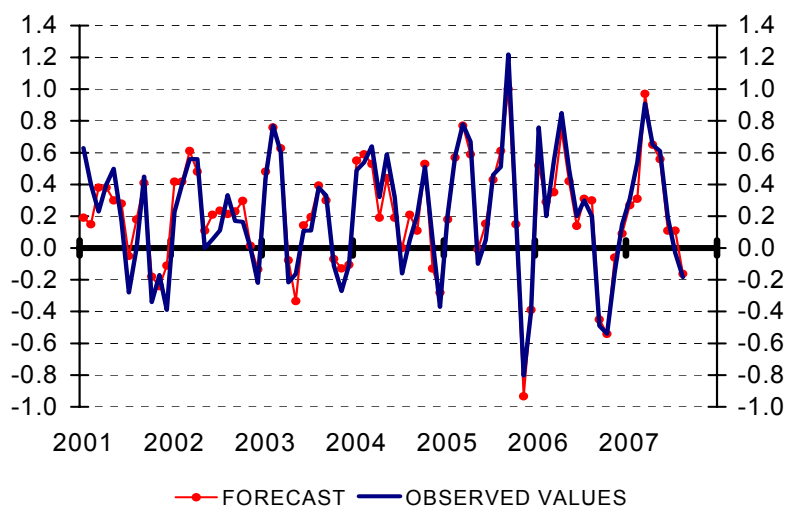


**OBSERVED VALUES AND FORECAST ON CPI IN US
(August 2007)**

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	4.29	0.38	0.37	0.31
Energy (2)	8.7	-2.52	-3.67	-3.89	1.26
Residual Inflation (3=2+1)	22.6	1.41	-1.31	-1.41	0.50
Non-food and non-energy goods (4)	21.7	-0.72	0.10	0.23	0.24
Less tobacco	21.0	-0.96	0.10	0.26	0.22
-Durable goods	11.1	-1.98	-0.13	-0.12	0.29
-Nondurable goods	10.6	0.52	0.33	0.60	0.37
Non-energy services (5)	55.7	3.24	0.19	0.22	0.15
-Services less owner's equivalent rent of primary residence (5-a)	31.8	3.44	0.14	0.21	0.22
-Owner's equivalent rent of primary residence (a)	23.8	2.97	0.27	0.23	0.12
Core Inflation (6=4+5)	77.4	2.13	0.17	0.23	0.13
Core inflation less owner's equivalent rent of primary residence (6-a)	53.6	1.77	0.12	0.22	0.16
Core inflation less owner's equivalent rent of primary residence and tobacco	52.9	1.70	0.12	0.23	0.16
Headline Inflation (7=6+3)	100.0	1.97	-0.18	-0.16	0.13
All items less owner's equivalent rent of primary residence (7-a)	76.2	1.67	-0.32	-0.28	0.17

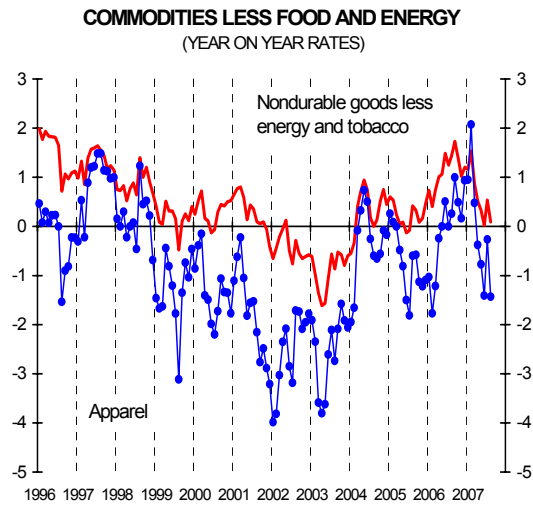
Source: BLS & IFL (UC3M)
Date: September 19, 2007

CPI MONTHLY GROWTH RATES IN USA

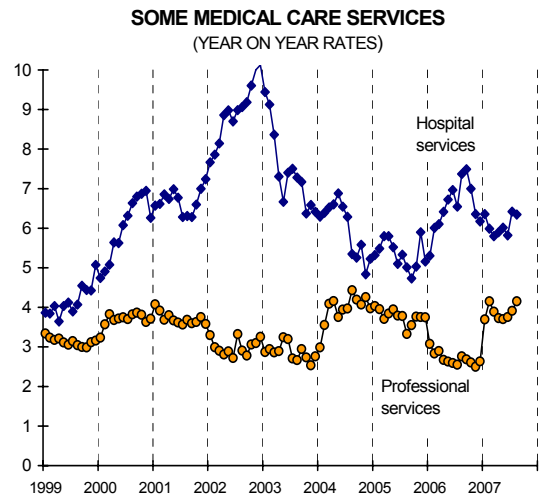


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Date: September 19, 2007

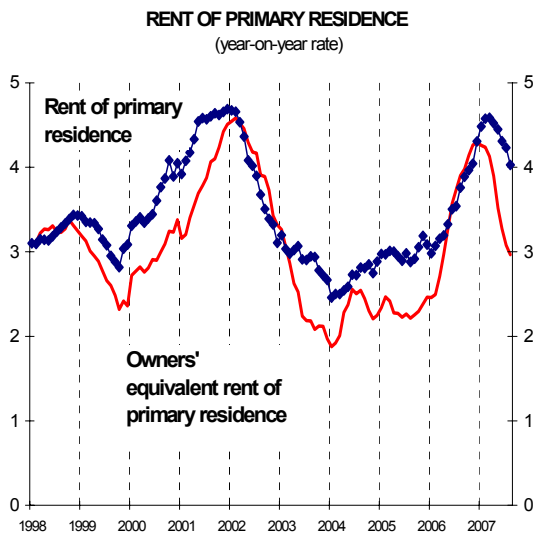




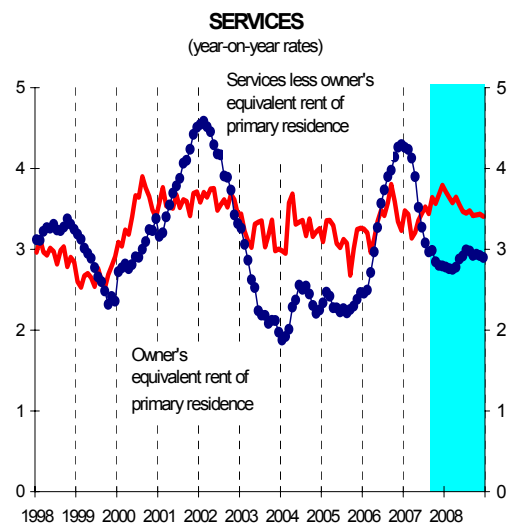
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Date: September 19, 2007



Source: BLS & IFL (UC3M)
Date: September 19, 2007

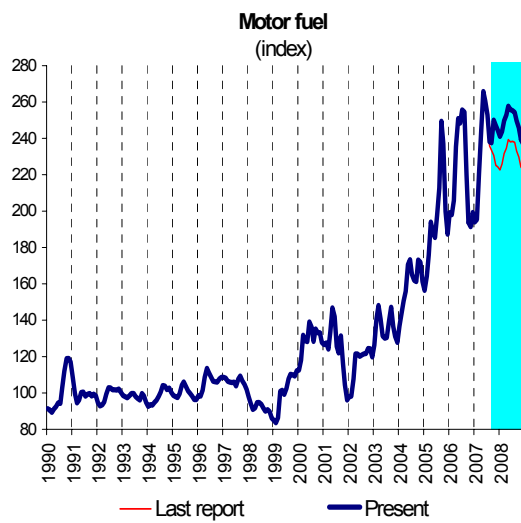


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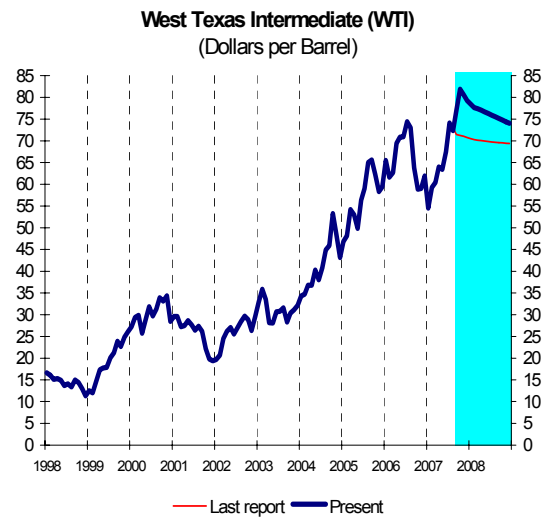


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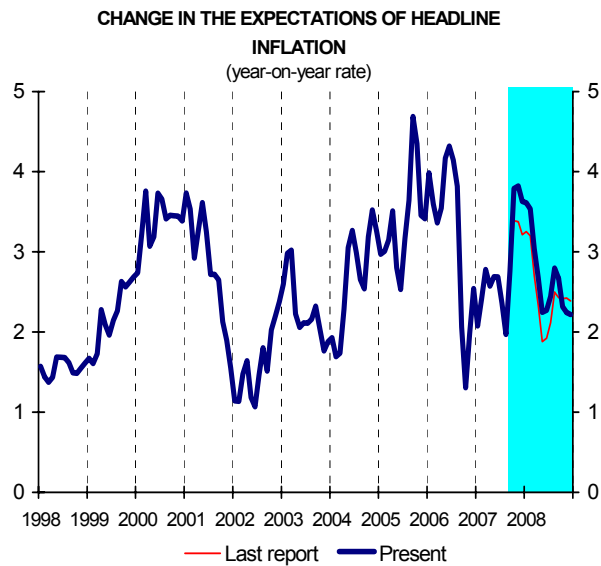




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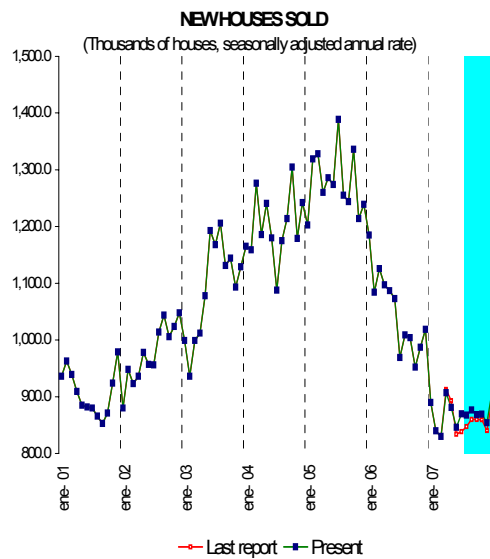


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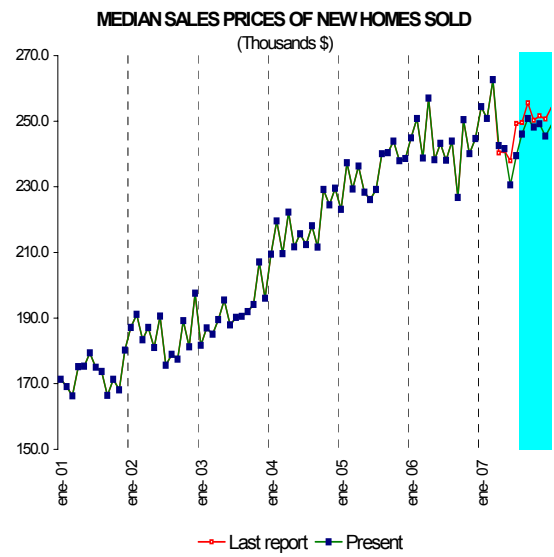


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Date: September 19, 2007

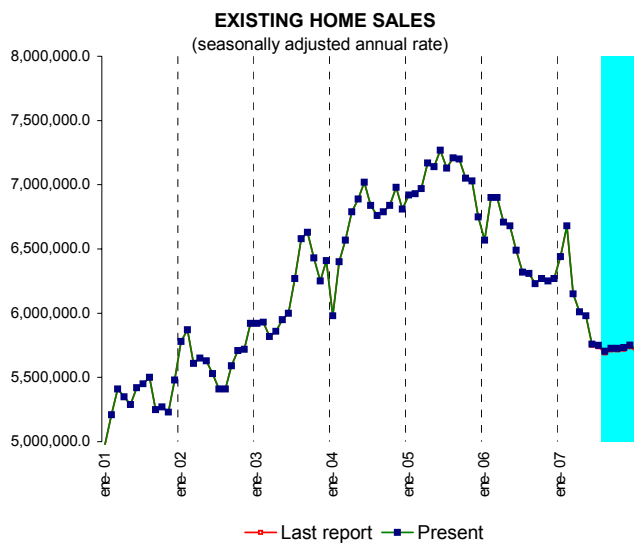




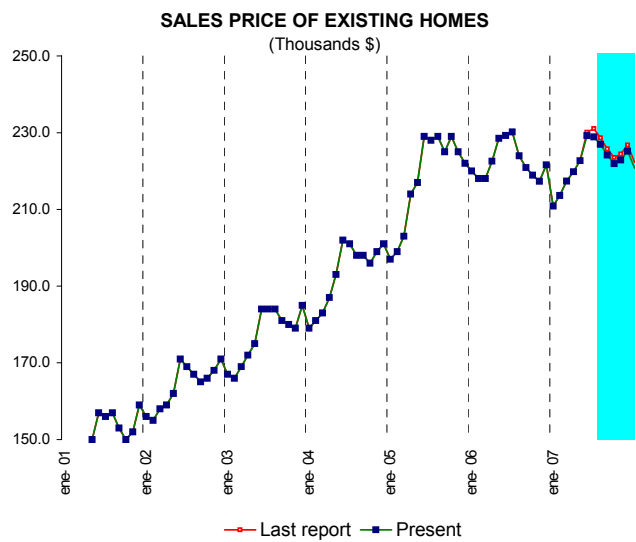
Source: U.S. Census Bureau & IFL (UC3M)
Date: August 24, 2007



Source: U.S. Census Bureau & IFL (UC3M)
Date: August 24, 2007



Source: National association of REALTORS & IFL (UC3M)
Date: August 27, 2007



Source: National association of REALTORS & IFL (UC3M)
Date: August 27, 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	3.8	3.3	3.0
Public Final Consumption Expenditure	5.5	4.8	5.1	4.2
Gross Fixed Capital Formation	6.9	6.8	6.6	5.4
Equipment	9.2	10.4	12.2	8.3
Building	6.1	6.0	4.6	3.8
Other products	6.4	4.6	4.8	6.5
National Demand (1)	5.3	5.1	4.8	4.1
Exports of Goods and Services	2.6	5.1	4.2	3.9
Imports of Goods and Services	7.7	8.3	6.7	6.8
Foreign Demand (1)	-1.6	-1.3	-1.1	-1.2
GDP (a)	3.6	3.9	3.8	3.0
GDP, current prices	8.0	8.0	7.3	6.5
Prices and Costs (b)				
CPI, annual average rate	3.4	3.5	2.6	3.0
CPI, dec./dec.	3.7	2.7	3.3	2.7
Compensation per employee	2.8	3.0	2.9	3.0
Unit labour cost	2.5	2.3	2.1	2.5
Labour Market (Data poll labour force) (2) (c)				
Active Population (% change)	3.2 / 3.5	3.3	2.8	2.8
Employment (EAPS)				
Annual average change in %	4.8 / 5.6	4.1	3.3	2.9
Annual average change in thousands	870.3/1002.4	774.5	644.1	598.3
Unemployment rate	9.6 / 9.2	8.5	8.1	8.0
Basic balances (a)				
Foreign sector				
Current Account (m.€)	-67.784	-86.350	-102.341	-108.227
Net lending or borrowing (%GDP) (3)	-7.5	-8.8	-9.8	-9.7
Public Administration				
Net lending or borrowing (%GDP) (3)	1.1	1.8	0.7	0.1
Other Economic Indicators (d)				
Industrial Production Index	0.1	3.7	3.0	2.8
(1) Contribution to GDP growth.				
(2) EAPS Testigo Annual Rate / EAPS 2005 Annual Rate.				
(3) In terms of National Accounts.				
Source: INE & IFL (UC3M).				
Date: (a) August 29, 2007				
(b) September 21, 2007				
(c) July 27, 2007				
(d) September 7, 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	2.9	4.8	5.9	4.2	6.2	7.2	3.9	3.7	6.2	-0.8	3.1
	2004	4.2	6.3	5.1	5.1	5.4	3.8	4.9	4.2	9.6	-1.7	3.3
	2005	4.2	5.5	6.9	9.2	6.1	6.4	5.3	2.6	7.7	-1.6	3.6
	2006	3.8	4.8	6.8	10.4	6.0	4.6	5.1	5.1	8.3	-1.3	3.9
	2007	3.3	5.1	6.6	12.2	4.6	4.8	4.8	4.2	6.7	-1.1	3.8
	2008	3.0	4.2	5.4	8.3	3.8	6.5	4.1	3.9	6.8	-1.2	3.0
ANNUAL RATES *	2006	QI	4.1	4.9	7.8	10.0	7.1	5.5	5.7	10.6	-1.8	3.7
		QII	3.5	4.0	5.7	7.4	5.5	4.5	4.9	6.1	-0.7	3.8
		QIII	3.8	4.8	6.8	11.0	5.9	5.1	4.2	7.5	-1.2	3.9
		QIV	3.7	5.7	7.0	13.0	5.5	5.3	5.7	8.9	-1.3	4.0
	2007	QI	3.4	5.7	6.6	13.3	5.2	5.0	3.7	5.9	-0.9	4.1
		QII	3.3	5.5	6.6	13.0	4.6	4.9	4.8	6.7	-0.9	4.0
		QIII	3.3	5.0	6.7	12.3	4.5	4.8	4.4	7.1	-1.1	3.7
		QIV	3.3	4.5	6.1	10.1	4.3	4.6	4.0	7.1	-1.2	3.3
	2008	QI	3.1	4.3	5.3	9.2	3.2	4.1	4.2	6.8	-1.1	3.1
		QII	3.1	4.4	5.5	8.0	4.0	4.2	3.3	6.8	-1.3	2.9
		QIII	3.0	4.2	5.4	8.0	4.0	4.1	4.1	6.8	-1.1	3.0
		QIV	3.0	3.8	5.4	8.0	4.0	4.0	4.1	6.8	-1.1	2.9

The figures in the shaded area are forecasts.

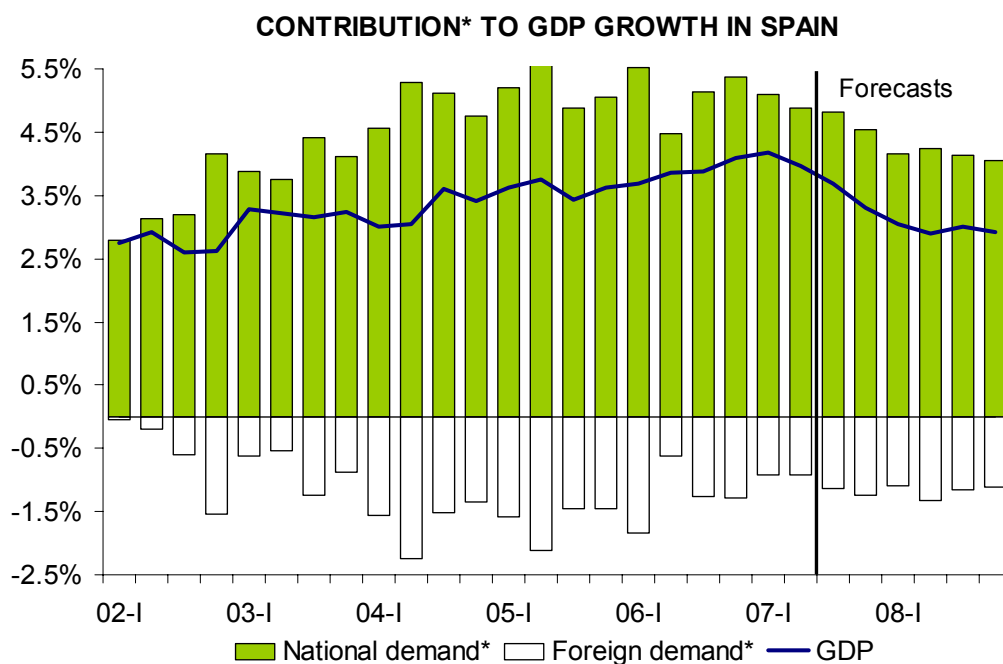
(*) Year-on-year rates.

(1) Contribution to GDP growth

Source: INE & IFL (UC3M)

Date: August 29, 2007

Graph IV.1.2.1



Source INE & IFL (UC3M)

Date: August 29, 2007



Table IV.1.2.2

ANNUAL GROWTH RATES IN GDP AND COMPONENTS											
GROSS VALUE ADDED											
		Agriculture	Energy	Industry	Construction	Market Services	Non-market services	TOTAL	Tax	Real GDP	
ANNUAL AVERAGE RATES	2003	-0.5	5.4	1.2	4.4	2.7	4.2	2.7	6.5	3.1	
	2004	-2.3	3.2	0.6	5.1	3.8	3.7	3.1	4.4	3.3	
	2005	-8.6	5.2	1.0	5.6	4.1	3.9	3.3	6.1	3.6	
	2006	2.4	1.4	2.9	5.0	4.1	4.3	3.8	3.5	3.9	
	2007	6.4	1.4	4.3	4.0	3.8	3.7	3.8	3.1	3.8	
	2008	2.5	3.1	3.2	3.2	3.0	3.0	3.0	2.9	3.0	
ANNUAL RATES *	2006	QI	-0.1	3.7	1.3	5.8	4.1	3.6	3.6	4.1	3.7
		QII	2.3	1.4	2.7	5.3	4.1	4.5	3.9	3.2	3.8
		QIII	-2.4	4.1	3.9	5.1	4.3	3.8	4.0	2.4	3.9
		QIV	10.1	-3.2	3.5	3.9	3.9	5.2	3.9	4.5	4.0
	2007	QI	8.8	-3.5	5.5	4.4	4.1	4.2	4.2	3.0	4.1
		QII	5.5	3.5	4.8	4.0	3.8	4.5	4.1	3.1	4.0
		QIII	8.1	1.7	3.5	3.4	3.6	3.9	3.6	4.2	3.7
		QIV	3.4	4.0	3.3	4.3	3.6	2.5	3.5	2.2	3.3
	2008	QI	2.1	6.4	3.2	2.7	3.0	3.7	3.1	2.8	3.1
		QII	2.6	2.1	3.2	3.1	3.1	2.6	3.0	3.3	2.9
		QIII	2.6	2.1	3.2	3.7	3.0	3.0	3.0	2.9	3.0
		QIV	2.6	2.1	3.2	3.3	2.9	2.9	2.9	2.6	2.9

The figures in the shaded area are forecasts.

(*) Year-on-year rates

Source: INE & IFL (UC3M)

Date: August 29, 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 Goods	Non durable Consumer goods	Consumer Goods	Capital Goods	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	7.7	2.2	3.0	6.9	2.1	-0.3	3.0
	2008	3.5	0.5	0.9	6.9	2.0	2.7	2.8
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	2.5	3.2
		QIV	14.2	2.0	3.7	10.6	-3.2	4.1
	2007	QI	16.9	2.9	4.8	8.9	-4.4	4.2
		QII	5.7	1.9	2.5	5.3	2.8	2.5
		QIII	3.5	2.1	2.3	6.9	-1.7	1.8
		QIV	5.5	2.0	2.6	6.5	2.6	3.2
	2008	QI	-0.9	-3.3	-3.0	2.9	-2.8	-0.9
		QII	6.0	2.3	2.9	9.6	4.2	4.5
		QIII	5.0	1.3	1.8	8.6	3.3	4.0
		QIV	4.0	1.5	1.9	6.6	3.5	3.6

The figures in the shaded area are forecasts.

* Year-on-year rates.

Source: INE & IFL (UC3M)

Date: September 7, 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	7.5	1.7
February	-0.9	1.7	1.8	-1.0	2.7	3.6	4.6
March	-10.6	9.7	7.2	-6.7	11.0	2.1	-8.3
April	11.4	-4.5	0.7	7.4	-9.8	6.3	13.4
May	-2.0	-1.2	2.7	0.1	8.1	2.1	-1.7
June	-5.2	4.5	5.7	-0.2	5.2	-0.3	3.0
July	3.6	1.9	0.0	-3.5	4.2	4.0	5.8
August	-3.4	-1.4	5.3	3.7	5.0	1.1	-2.5
September	2.4	2.5	3.8	0.2	1.1	0.0	6.8
October	5.1	0.8	-7.0	-0.1	7.3	5.3	4.1
November	0.3	1.4	4.3	0.9	4.1	2.0	-0.2
December	3.5	4.2	1.2	1.4	0.6	2.4	7.5

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: September 7, 2007



IV.1.4 INFLATION.

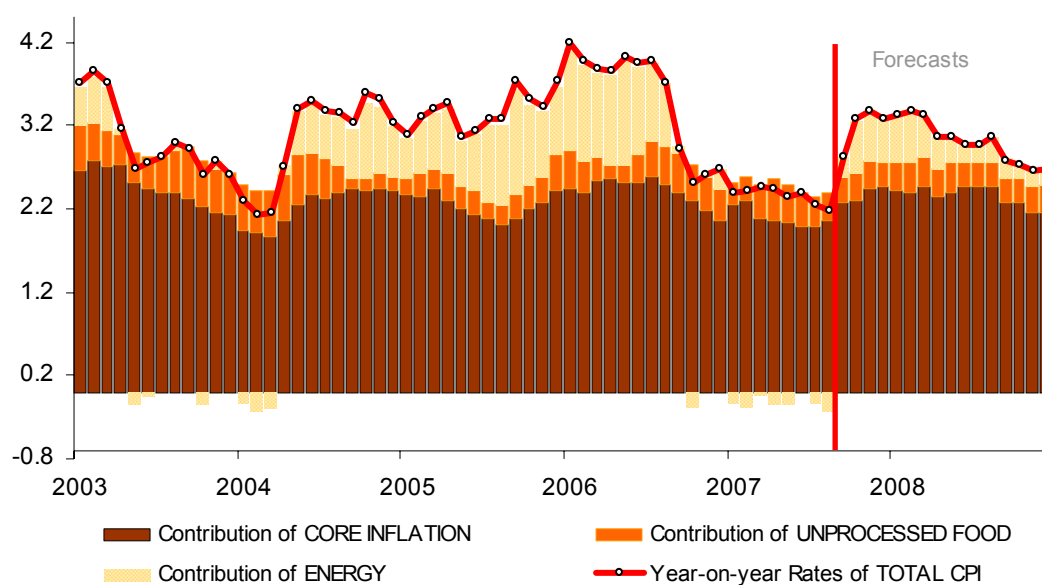
Table IV.1.4.1

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	2.6	3.0
CORE (82.3%)	2.7	2.7	2.9	2.6	2.9
Processed food (16.8%)	3.6	3.4	3.6	3.2	4.2
Non-energy industrial goods (29.0%)	0.9	0.9	1.4	0.7	0.7
Services (36.5%)	3.7	3.8	3.9	3.9	3.9
RESIDUAL (17.7%)	4.7	6.5	6.3	2.6	3.6
Non-Processed food (8.1%)	4.6	3.3	4.4	4.5	3.8
Energy (9.6%)	4.8	9.6	8.0	0.9	3.5

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

Graph IV.1.4.1

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



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



Table IV.1.4.2

CPI ANNUAL GROWTH BY COMPONENTS IN SPAIN											
		Consumer Prices Index								TOTAL 100% Confidence intervals at 80% *	
		Core			TOTAL Confidence intervals at 80% *		Residual				
		Processed food	Non energy industrial goods	Services			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	3.2	2.2	2.3	
	2000	0.9	2.1	3.7	2.5		4.2	13.3	8.8	3.4	
	2001	3.4	2.4	4.2	3.5		8.7	-1.0	3.6	3.6	
	2002	4.3	2.5	4.6	3.7		5.8	-0.2	2.6	3.5	
	2003	3.0	2.0	3.7	2.9		6.0	1.4	3.6	3.0	
	2004	3.6	0.9	3.7	2.7		4.6	4.8	4.7	3.0	
	2005	3.4	0.9	3.8	2.7		3.3	9.6	6.5	3.4	
	2006	3.6	1.4	3.9	2.9		4.4	8.0	6.3	3.5	
	2007	3.2	0.7	3.9	2.6	± 0.05	4.5	0.9	2.6	2.6 ± 0.10	
	2008	4.2	0.7	3.9	2.9	± 0.33	3.8	3.5	3.6	3.0 ± 0.71	
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	2.3	0.8	3.9	2.5		5.2	-0.3	2.3	2.5
		April	2.2	0.9	3.9	2.5		6.4	-1.5	2.2	2.4
		May	2.3	0.7	4.0	2.5		6.0	-1.7	1.9	2.3
		June	2.2	0.7	3.9	2.4		5.0	-0.2	2.3	2.4
		July	2.2	0.6	3.8	2.4		4.7	-1.2	1.5	2.2
		August	2.8	0.5	3.9	2.5		4.0	-2.2	0.7	2.2
		September	4.0	0.5	3.9	2.8	± 0.16	3.9	2.4	3.1	2.8 ± 0.17
		October	4.2	0.5	4.0	2.8	± 0.24	4.2	6.7	5.6	3.3 ± 0.31
		November	5.0	0.5	4.0	2.9	± 0.31	4.2	6.3	5.4	3.4 ± 0.44
		December	5.1	0.5	4.0	3.0	± 0.33	3.5	5.7	4.7	3.3 ± 0.54
	2008	January	4.7	0.6	4.0	2.9	± 0.36	3.9	6.3	5.2	3.3 ± 0.61
		February	4.6	0.5	4.0	2.9	± 0.35	4.4	6.5	5.5	3.4 ± 0.65
		March	4.7	0.7	4.0	3.0	± 0.40	4.4	5.3	4.8	3.3 ± 0.72
		April	4.7	0.6	3.7	2.8	± 0.42	4.0	4.2	4.1	3.1 ± 0.76
		May	4.7	0.7	3.8	2.9	± 0.46	4.3	3.3	3.8	3.1 ± 0.79
		June	4.8	0.7	3.9	3.0	± 0.49	3.5	2.3	2.8	3.0 ± 0.79
		July	4.8	0.8	3.9	3.0	± 0.51	3.3	2.4	2.8	3.0 ± 0.80
		August	4.7	0.8	4.0	3.0	± 0.52	3.6	3.3	3.4	3.1 ± 0.82
		September	3.6	0.8	4.0	2.8	± 0.54	3.5	2.4	2.9	2.8 ± 0.86
		October	3.5	0.8	4.0	2.8	± 0.55	3.6	1.8	2.6	2.7 ± 0.88
		November	2.8	0.8	4.0	2.6	± 0.57	3.7	2.1	2.8	2.6 ± 0.90
		December	2.8	0.8	4.0	2.6	± 0.57	3.9	2.2	3.0	2.7 ± 0.90

* Confidence intervals calculated with historical errors.

Source: INE & IFL (UC3M)

Date: September 21, 2007

The figures in the shaded areas are forecasts



Table IV.1.4.3

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	-3.5	0.6	-0.8	0.3	0.2	0.3	-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	0.4	-0.1	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	0.3	0.8	0.6	0.6	0.6	2.0	1.4	0.8
		2008	0.3	1.0	0.6	0.7	0.6	0.8	0.7	0.7
	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	0.2	2.9	0.7	1.3	1.1	1.9	1.5	1.4
		2008	0.3	2.8	0.4	1.2	0.7	0.9	0.8	1.1
	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	0.4	-0.1	0.2	0.0	1.5	0.8	0.3
		2008	0.1	0.5	0.0	0.2	0.3	0.6	0.5	0.3
	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	0.1	-0.2	0.3	0.1	0.4	0.7	0.6	0.2
		2008	0.2	-0.1	0.4	0.2	-0.5	-0.2	-0.3	0.1
	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	0.1	-3.8	0.6	-1.0	0.5	0.5	0.5	-0.7
		2008	0.1	-3.7	0.7	-1.0	0.4	0.5	0.5	-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	0.3	-0.3	0.6	0.2	0.2	-0.8	-0.3	0.1
		2008	0.2	-0.2	0.6	0.2	0.5	0.0	0.3	0.2
	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	1.2	1.1	-0.4	0.4	0.6	0.6	0.6	0.5
		2008	0.1	1.1	-0.4	0.2	0.5	-0.2	0.1	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	2.7	0.1	1.0	0.1	0.6	0.4	0.9
		2008	0.1	2.7	0.1	1.0	0.1	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	0.9	1.0	0.0	0.5	0.4	-1.1	-0.4	0.3
		2008	0.1	1.0	0.0	0.4	0.5	-0.9	-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	0.1	0.5	0.5	0.2	0.8	-0.2	0.3	0.2
		2008	0.1	-0.2	0.5	0.2	1.0	0.0	0.5	0.2

The figures in the shaded area are forecasts.

Source: INE & IFL (UC3M)

Date: September 21, 2007



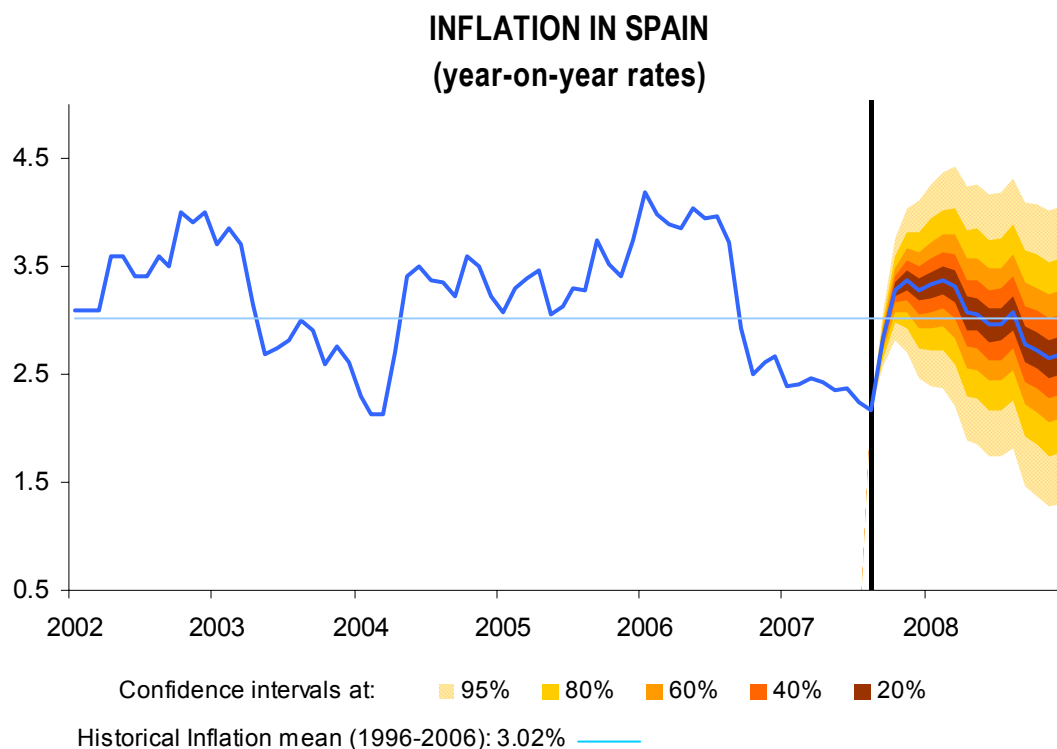
Table IV.1.4.4

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	3.9	5.0	
			Oils & Fats	1.0	18.4	9.4	10.5	23.4	-16.8	1.6	
			Tobacco	2.4	0.2	0.4	6.6	1.5	8.8	1.2	
			Processed food	16.8	3.0	3.6	3.4	3.6	3.2	4.2	
		Non energy industrial goods	Vehicles	6.3	1.7	1.6	1.8	2.3	1.6	1.8	
			Footwear	1.9	3.6	1.9	2.2	1.6	1.2	2.2	
			Clothing	7.0	3.8	1.8	1.1	1.1	0.9	0.8	
			Rest	13.8	0.9	0.3	0.5	1.2	0.3	0.0	
			Non energy industrial goods	29.0	2.0	0.9	0.9	1.4	0.7	0.7	
		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	3.3	3.5	
			Education	1.1	3.3	3.6	4.1	3.5	4.1	4.0	
			Hotels	0.7	4.3	3.0	2.3	3.6	6.4	5.7	
			Health	2.1	4.1	3.2	4.0	4.1	4.2	4.1	
			Household equipment	1.6	4.6	4.4	4.5	4.4	4.3	4.7	
			Restaurants	10.9	4.4	4.1	4.3	4.5	4.8	4.7	
			Telephone	3.5	-1.3	-1.1	-1.6	-1.4	0.3	0.2	
			Transports	5.1	4.3	4.4	4.4	4.2	3.2	3.3	
			Package holidays	1.3	1.8	1.4	2.2	3.1	1.0	5.8	
			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	4.8	4.7	
			Rest	2.8	4.3	4.2	3.8	4.3	3.7	3.9	
			Services	36.5	3.7	3.7	3.8	3.9	3.9	3.9	
		Core Inflation			82.3	2.9	2.7	2.7	2.9	2.6	2.9
		Residual Inflation	Non processed foods	Meat	3.0	8.7	7.4	3.8	6.0	4.3	2.4
				Fruits	1.5	1.1	1.1	2.7	0.1	4.1	5.7
				Eggs	0.2	3.1	3.7	-3.2	2.8	1.1	-0.4
				Vegetables	1.0	-2.7	-1.5	5.4	-0.8	6.4	4.5
				Mollusc	0.7	1.5	1.1	5.4	2.3	0.4	4.1
	Potatoes			0.3	23.0	24.2	-8.2	17.6	11.5	8.0	
	Fish			1.5	3.7	4.4	3.8	5.7	3.2	3.4	
	Non processed foods			8.1	6.0	4.6	3.3	4.4	4.5	3.8	
	Energy		Heat energy	5.5	1.4	7.1	12.3	6.6	0.3	4.4	
			Fuels	0.4	6.1	12.0	26.8	11.8	-2.9	8.7	
			Electricity and gas	3.6	0.8	0.8	4.0	9.6	2.0	1.4	
			Energy	9.6	1.4	4.8	9.6	8.0	0.9	3.5	
	Residual Inflation			17.7	3.6	4.7	6.5	6.3	2.6	3.6	
	CPI Total			100.0	3.0	3.0	3.4	3.5	2.6	3.0	

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

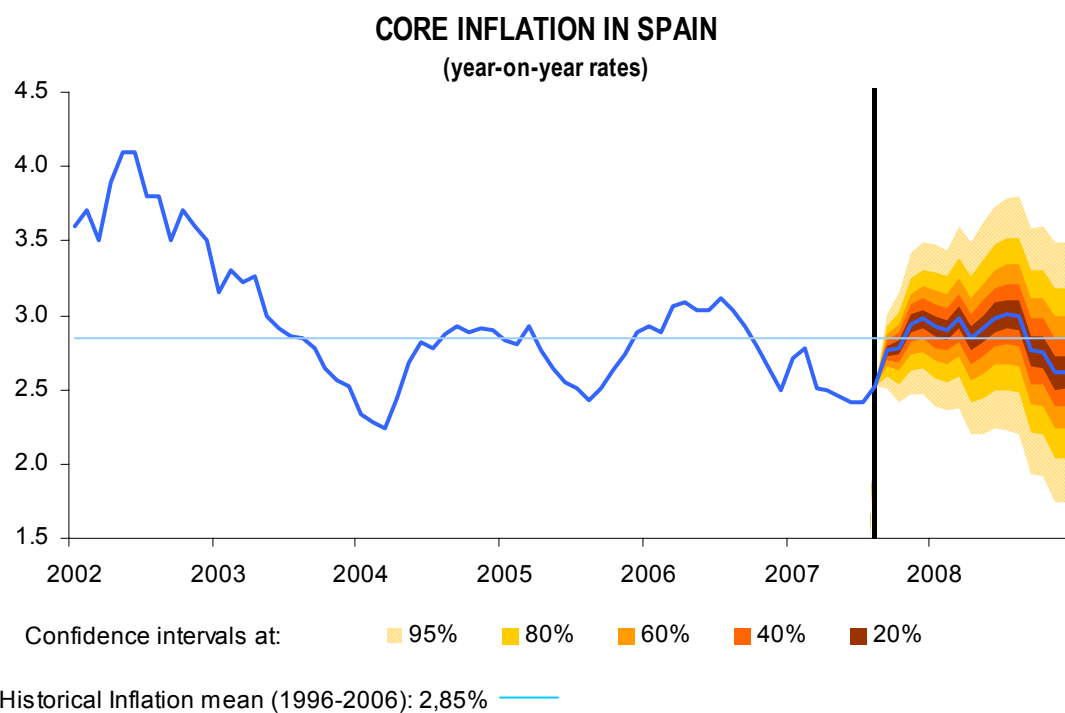


Graph IV.1.4.2



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

Graph IV.1.4.3



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



IV.2 ANALYSIS OF THE SPANISH ECONOMY.

IV.2.1 RECENT EVOLUTION OF THE SPANISH ECONOMY. THE PERFORMANCE OF THE SPANISH ECONOMY ACCORDING TO THE QUARTERLY NATIONAL ACCOUNTS FOR THE SECOND QUARTER OF 2007 AND PERSPECTIVES FOR 2007 AND 2008.

IV.2.1.1 Recent evolution of the Spanish economy.

The latest data coming from the Quarterly National Accounts (QNA), together with other economic indicators for July and August, shows that the Spanish economy has completed a phase of increasing growth and is entering a period of moderated growth which could become more intense due to the recent disturbances on the financial markets triggered by the sub-prime mortgage crisis in the United States.

The publication, at the end of August, of the QNA for the second quarter of this year confirmed the growth rate that the INE had published in the middle of the month, an aggregate figure discussed in the August issue of the Bulletin. According to this information, the Spanish economy continues to show dynamic growth, much more than the euro area, with a year-on-year growth rate in the period of 4% in real terms, according to figures adjusted for seasonality and working days effect, one tenth less than the previous quarter. In turn, the quarter-on-quarter rate was 0.9% in this period, representing a slight decrease of one tenth relative to the first quarter.

The observed GDP growth rate for the second quarter was somewhat better than forecast in the IFL (3.9%). When we revise the forecast average annual GDP growth rate for 2007 with the new figures, it remains at 3.8%, although the forecast for 2008 falls to 3% from 3.4%. A more detailed analysis of the National Accounts for the second quarter and the economic perspectives for 2007-2008 is provided in the next section.

Economic growth in the second quarter of 2007 continued to rest on national demand, which provided 4.9 points, one tenth less than in the previous quarter. This evolution of the contribution of national demand to GDP growth, together with the stability of the negative contribution by foreign demand, enabled the Spanish economy to continue to rebalance its pattern of growth, although very slightly.

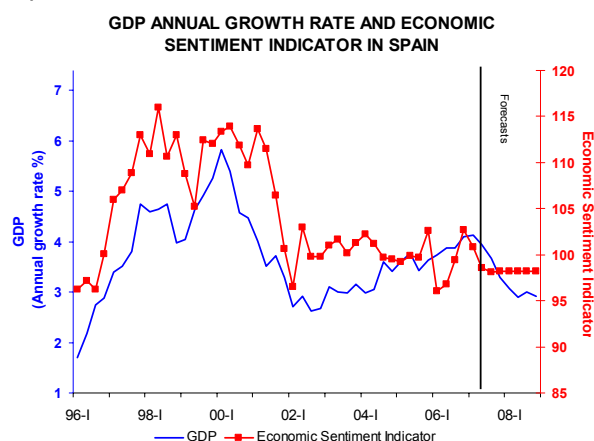
Besides the Accounts for the second quarter of 2007, the last month has also seen the publication of the results of some indicators corresponding to July and August, providing a more up-to-date view of the performance of the Spanish economy. These indicators include the Economic Sentiment Indicator,

the Industrial Production Index, the Industrial Confidence Indicator, new car registrations, apparent cement consumption, new Social Security contributors and registered unemployment. They all show that the Spanish economy in the third quarter of this year will continue to lose strength and that it has entered a cyclic phase of deceleration.

The Spanish economy's Economic Sentiment Indicator for August was better than expected, growing by 1.1 points to 98.8. The increase observed this month was due to more confidence in the evolution of the service and retail trade sectors, whereas confidence has fallen slightly in industry and consumer goods and, more substantially, in the evolution of the construction sector.

Using this latest information to obtain new forecasts for the indicator, although they are revised upwards, we continue to expect it to decline slightly in the next few months, subsequently stabilising from the second quarter of 2008 on at levels lower than those registered in the second quarter of this year. This foreseeable evolution of the indicator, then, is in line with the forecast economic growth of the Spanish economy obtained with the QNA for the second quarter of this year, as we shall see.

Graph IV.2.1.1.1



Source: EUROPEAN COMMISSION, INE & IFL(UC3M)
Date: August 31, 2007

The Spanish Industrial Production Index (IPI) for July was worse than expected. It registered a year-on-year growth rate of 4%, seven tenths less than the forecast estimated in the IFL. By economic destination of the goods, there were downwards innovations in durable consumer and intermediate

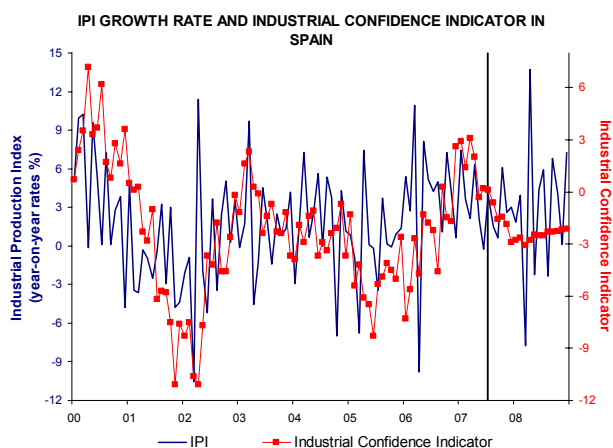


goods and energy which were not compensated by the upwards innovations in the other sectors.

The expectations of economic agents regarding the evolution of the Spanish industrial sector, estimated by the Industrial Confidence Indicator, have also been published. The latest figure available, corresponding to August, shows a greater than expected decline, leading to a small downwards revision of our forecasts for the indicator, showing that the decline will continue in the last quarter of this year and the first of 2008, after which it will improve slightly for the rest of the year.

In view of the new information, the forecast average annual growth rate for the production of the Spanish industrial sector has been revised downwards, according to the IPI, by 0.3 pp to 3% for 2007. However, our forecast average annual growth rate for 2008 remains at 2.8%.

Graph IV.2.1.1.2



Source: EUROPEAN COMMISSION, INE & IFL(UC3M)
Date: September 7, 2007

Other indicators, with recent information, clearly show that the reduced growth of the Spanish economy will continue in the third quarter of this year. In August, new car registrations fell by a year-on-year rate of 2.7%, after a smaller decrease in the previous month (-0.2%). In the first eight months of this year, registrations have fallen by 1.5%, more than in 2006. Apparent cement consumption registered a year-on-year increase of 3.7% in July, compared with a decrease in the previous month, with a year-on-year growth rate of 1.4% in the first seven months of the year compared with the 8.3% observed a year earlier.

With regards to the labour market, the new Social Security contributors and registered unemployment for August have been published. Both these indicators show a clear decline relative to the previous months. The year-on-year growth rate of contributors has fallen to 2.5%, three tenths less

than the growth rate last month and almost one pp. less than the growth rate last December. This is largely due to the construction sector, which went from a year-on-year growth rate last July of 3.1% to 0.1% in August. Registered unemployment in the last few months has declined somewhat, increasing in August by nearly 50 thousand people, in terms of the series adjusted for seasonality. Relative to a year earlier, it shows an increase of around 45 thousand, representing a year-on-year rate of 2.2%, a much greater increase than the previous months. This is largely due to the construction sector which, in August, registered year-on-year growth of nearly 10%, whereas the rate of variation was negative in April.

IV.2.1.2 The performance of the Spanish economy according to the Quarterly National Accounts for the second quarter of 2007 and perspectives for 2007 and 2008.

According to the Quarterly National Accounts (QNA) for the second quarter of this year, the Spanish economy continues to be highly dynamic, with a year-on-year growth rate of 4% in real terms, according to data adjusted for seasonality and working days effect, one tenth less than the previous quarter. In terms of the quarter-on-quarter rate, which provides a more updated view of the evolution of economic growth, it was 0.9%, one tenth less than the previous quarter.

The INE has made use of the publication of the National Accounts for the second quarter of this year to revise the accounts for 2003, 2004 and 2005. This has led to an average annual GDP growth rate of one tenth more in each of these years, so that 2003 growth was revised to 3.1%, 2004 to 3.3% and 2005 to 3.6%.

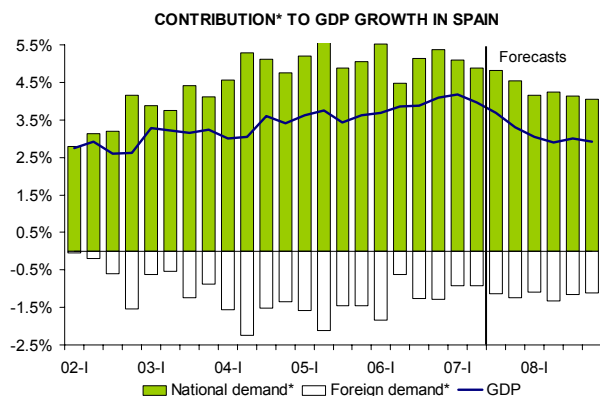
When comparing the observed GDP growth rate with our forecast, we find that it was one tenth higher. This forecasting error was basically due to national demand, particularly investment in equipment and public expenditure, considering that foreign demand's negative contribution to GDP growth was as forecast (-0.9 pp).

Economic growth in the second quarter of 2007 continued to rest on national demand, which represented 4.9 points, one tenth less than in the previous quarter. Within this aggregate we find strong investment in equipment, continued moderation in private consumption and a more intense deceleration in construction. It is worth mentioning that private consumption has experienced a deceleration, but smaller than expected, in spite of rising interest rates and growing household indebtedness. The evolution of national



demand's contribution to the GDP, together with the stability of the negative contribution of 0.9 pp to the GDP by foreign demand, enabled the Spanish economy to continue to rebalance its pattern of growth to a small extent.

Graph IV.2.1.2.1



Source: INE & IFL(UC3M)
Date: August 29, 2007

As said before, in the second quarter of this year, private consumption continued to show some deceleration. The year-on-year rate of variation was 3.3%, one tenth less than the previous quarter, so it is accumulating a cut of four tenths in the first half of the year. In terms of the quarter-on-quarter rate, growth was 0.8%, compared to 1% in the first quarter of the year. On the other hand, public spending continued to grow more than private expenditure and also reduced its year-on-year growth rate by two tenths to 5.5%.

With regards to gross fixed capital formation, it continued to be strong as in the previous quarter with a year-on-year rate of 6.6%. This stabilisation resulted from a clear loss of strength in construction, which reduced its growth rate from the first quarter's 5.2% to 4.6%, and to less growth of investment in equipment, varying from 13.3% to 13%. These variations were compensated for by greater growth in investment in other products.

As for foreign demand, both exports and imports increased their annual growth rates, with the negative contribution of foreign demand to the GDP remaining at the 0.9 percentage points of the previous quarter. Exports registered a year-on-year growth rate of 4.8%, just over one pp more than the previous quarter. Exports of goods and non-tourist services helped. The latter has been registering high growth rates in the last few years. On the other hand, tourism exports (final consumption of non-residents in Spain) registered a year-on-year decrease of 2.3%.

With regards to imports, their year-on-year growth rate was 6.7%, 0.8 pp more than in the previous quarter, basically due to imports of goods and non-tourist services. Tourist spending by Spanish nationals abroad, however, reduced its rate of growth.

On the supply side, all the major branches of activity made a positive contribution to GDP growth. The greatest year-on-year rate corresponded to agriculture (5.5%) and, within the non-agricultural branches, to non-energy industry (4.8%), followed by construction (4%), services (3.9%) and energy (3.5%). Relative to the previous quarter, and within the non-agricultural branches, energy showed strong recovery whereas the other branches reduced their year-on-year rates of growth. The lower growth of services was due to market services, which reduced their annual growth rate by 0.3 pp to 3.8%. Non-market services, however, increased their rate by three tenths to 4.5%.

Employment continues to be strong, as shown by the Economically Active Population Survey for the second quarter (see August Bulletin), although it continues to show a profile of falling growth. Full-time equivalent employment registered a year-on-year growth rate of 3.2%, one tenth less than in the previous quarter. This evolution represents the creation of around 591 thousand jobs between the second quarters of 2006 and 2007. This slight deceleration in employment resulted from an acceleration in wage earners and a strong fall in self-employment.

This employment result, together with a GDP growth reduction of the same magnitude, kept labour productivity stable at a growth rate of 0.8%. When analysing the productivity by sector, we find greater recovery in the manufacturing industry and continued weakness in construction and services.

Analysing the GDP on the income side, we find that compensation of employees showed a year-on-year rate of variation of 7%, two tenths more than the previous quarter, growing four tenths less than the GDP at current prices. However, gross operating surplus and mixed income moderated their growth rate by one tenth to 8.1%. On the other hand, net indirect taxes also reduced their annual growth rate, even more, from the first quarter's 8.7% to 6.3% in the second. In turn, compensation per employee in the second quarter increased their growth rate by one tenth to 2.9%. This evolution, together with the stability of productivity, produced a slight increase in the growth rate of unit labour costs, from 2% to 2.1%. This growth continues to be significantly lower than the GDP deflator (3.2%), so business surplus continued to improve with positive repercussions on investment and the creation of employment.



Forecasts

The macroeconomic forecasts consider that, in 2007 and 2008, the world economy will not have such favourable results as the last few years, according to most international economic agencies. The possible effect on the real economy of recent disturbances on the financial markets is not precisely known, but there is certainly more uncertainty concerning the future evolution of economic variables.

With the latest National Accounts figures, we have revised our forecast for GDP growth in the Spanish economy and its components for 2007 and 2008. For this year, the forecast average GDP growth has not changed, in spite of the slight upwards innovation observed in the second quarter of 2007, remaining at 3.8%. However, for 2008 it has fallen by four tenths to 3%. This expected deceleration of the Spanish economy in 2008 will largely be due to national demand, especially the expected continuing

fall in construction and private consumption, which will be joined by investment in equipment. Private consumption has reduced its forecast average annual growth in 2007 by one tenth to 3%, and by three in 2008 to 3%. On the other hand, the construction forecast has been revised downwards in 2007 from 4.9% to 4.6% and in 2008 from 4.2% to 3.8%. The downwards revision for investment in equipment in 2008 is less intense.

Also, although to a lesser extent, we are expecting a contribution by foreign demand to GDP deceleration, increasing its negative contribution to GDP growth to -1.2 pp, due to the probable moderation in exports resulting from the expected decline in the international economy. The forecast year-on-year growth rate for exports in 2007 has fallen from 5.2% to 4.2% and for 2008 from 4.9% to 3.9%. However, the forecast growth for imports remains unaltered.



IV.2.2 INFLATION.

In August, the CPI was lower than expected, with annual growth of 2.2%. Inflation therefore remained at the July levels, the lowest so far this year.

The lower than expected growth rate was basically due to downwards innovations in non-energy industrial goods, largely durables, and unprocessed food, with generalised negative innovations except for eggs and potatoes. The only component registering an upwards innovation was processed food. This component includes some basic products such as milk, which increased by a monthly rate of 2.3% in August, significantly more than expected.

In the last month, there have been a series of notes announcing price increases in basic products such as bread and milk (also in eggs, but their weight in the shopping basket is small). These notes are somewhat ambiguous when it comes to determining the precise moment of the price increase, or the market share of the companies applying such increases. However, analysing the information available and with its evident limitations, the estimate used in our forecasts was monthly growth of 4.4% in bread prices in September and 5.5% for milk. These same notes show that the total increases in the year could be greater, and we have therefore assumed new bread and milk price increases towards the end of the year. The assumptions we have used result from the hypothesis that these recent news will materialise as they appear, but there is some uncertainty, as the effect could be softened by retailers and distributors covering part of the increase. Accepting these somewhat imprecise constraints, the price increase expected in bread and milk for the last quarter of 2007 could increase the annual CPI growth rate by 2.5 tenths at the most.

Compared with these perspectives for processed food prices, unprocessed food registered a lower than expected price increase in August.

Together with food, the other aspect of interest in relation to the August figures is found in non-energy industrial goods, the annual rate of which continued to fall. With an August rate of 0.5%, they are much lower than the 1.2% observed in January this year, and at their lowest in the last ten years (only in 2004 were such low rates seen).

When updating our forecasts with the latest information available, the inflation rates expected for 2007 and 2008 remain at 2.6% for 2007 but

grow to 3.0% for 2008, basically due to greater growth expected in processed food in view of the upwards innovation in August and the aforementioned assumptions related to price growth in bread and milk.

Table IV.2.2.1.

ANNUAL CPI GROWTH RATES IN SPAIN*						
CPI	Observed			Forecasts		
	Aver 2005 ⁽²⁾	Aver 2006 ⁽²⁾	2007 Aug ⁽¹⁾	2007 Sep ⁽¹⁾	Aver 2007 ⁽²⁾	Aver 2008 ⁽²⁾
CORE (82.3%)	2.7	2.9	2.5	2.8 (±0.16)	2.6 (±0.05)	2.9 (±0.33)
TOTAL (100%)	3.4	3.5	2.2	2.8 (±0.17)	2.6 (±0.10)	3.0 (±0.71)

* 80% confidence intervals calculated with historical errors.

Source: INE & IFL(UC3M)

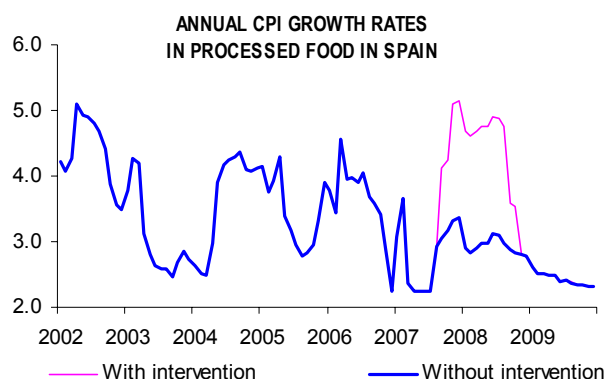
Date: September 21, 2007

⁽¹⁾ Year-on-year rate

⁽²⁾ Annual average rate

In terms of the average annual rate, the forecasts for processed food have been revised upwards to 3.2% for 2007 and 4.2% for 2008. Graph IV.2.2.1 shows the effect of the assumptions concerning bread and milk on the annual rates.

Graph IV.2.2.1



Source: INE & IFL(UC3M)

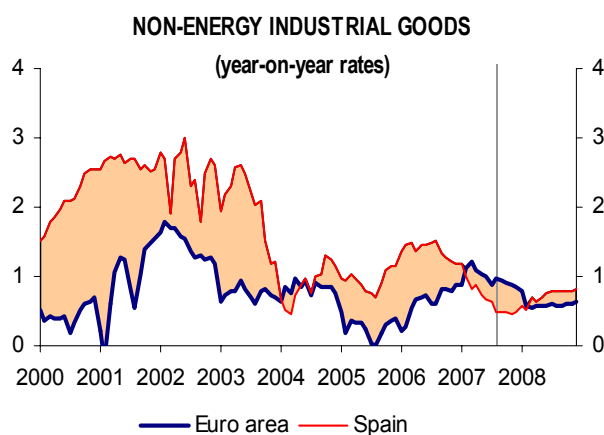
Date: September 13, 2007

With regards to the other components of core inflation, the forecast for services remains unaltered, and the forecast for non-energy industrial goods is revised downwards by approximately one and three tenths for 2007 and 2008, respectively. As we have mentioned in the last few Bulletins, the prices of these goods have been registering downwards innovations in the last few months (see graphs at the end of section IV.3) and now present



a negative differential with the euro area (Spain has less inflation than the euro area), although the differential has traditionally been positive (see graph IV.2.2.2). For 2008, we are expecting this differential to be positive again. Between this Bulletin and the inflation forecasts distributed on September 13 to our subscribers, there has been a revision of the econometric model used for one of the basic components of non-energy industrial goods. This has led to a downwards revision of nearly 0.2 pp in the average annual rate forecast for 2008 for all non-energy industrial goods, compared to the one distributed in the advance.

Graph IV.2.2.2



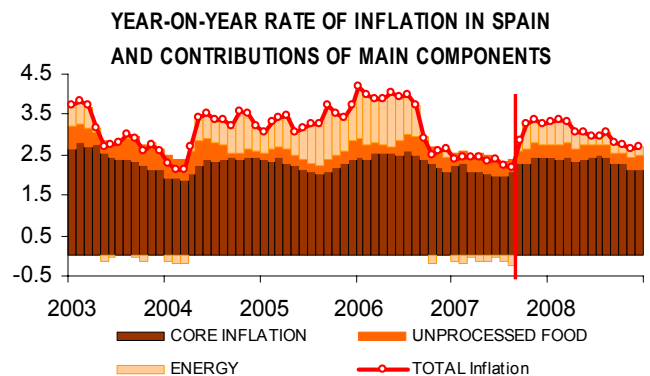
Source: EUROSTAT, INE & IFL (UC3M)
Date: September 21, 2007

With all the above, the forecasts for core inflation have been revised upwards for 2007 by one tenth to 2.6% and three tenths for 2008 to 2.9%, as the effect of the upwards revision for processed food prices was greater than that of the downwards movement for non-energy industrial goods.

Despite the panorama of expected increases in processed food prices, unprocessed food registered a downwards innovation in August, and food in general also grew less than expected. The forecasts for unprocessed food have been revised downwards to 4.5% for 2007 and 3.8% for 2008.

Finally, for energy, the rates have been revised upwards, especially for 2008. We are no longer forecasting a negative contribution by energy to headline inflation in any of the months remaining in our forecasting horizon (see graph IV.2.2.3).

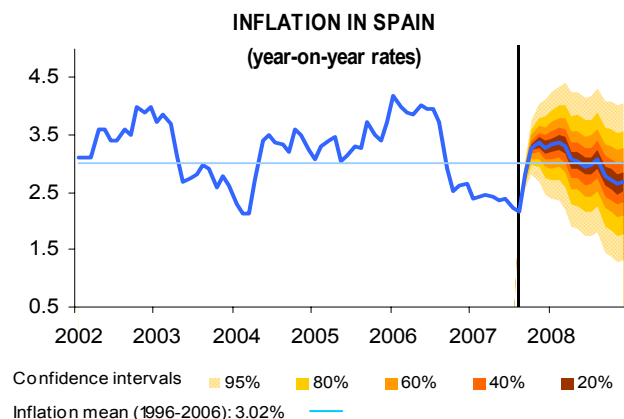
Graph IV.2.2.3



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

With all the above, the expected evolution of annual total CPI rates show a rise to 2.8% in September and to 3.3-3.4% in the last quarter of 2007 and first in 2008, subsequently falling to end 2008 at around 2.7% (see graph IV.2.2.4).

Graph IV.2.2.4



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



IV.3. TABLES AND PLOTS.

Tables:

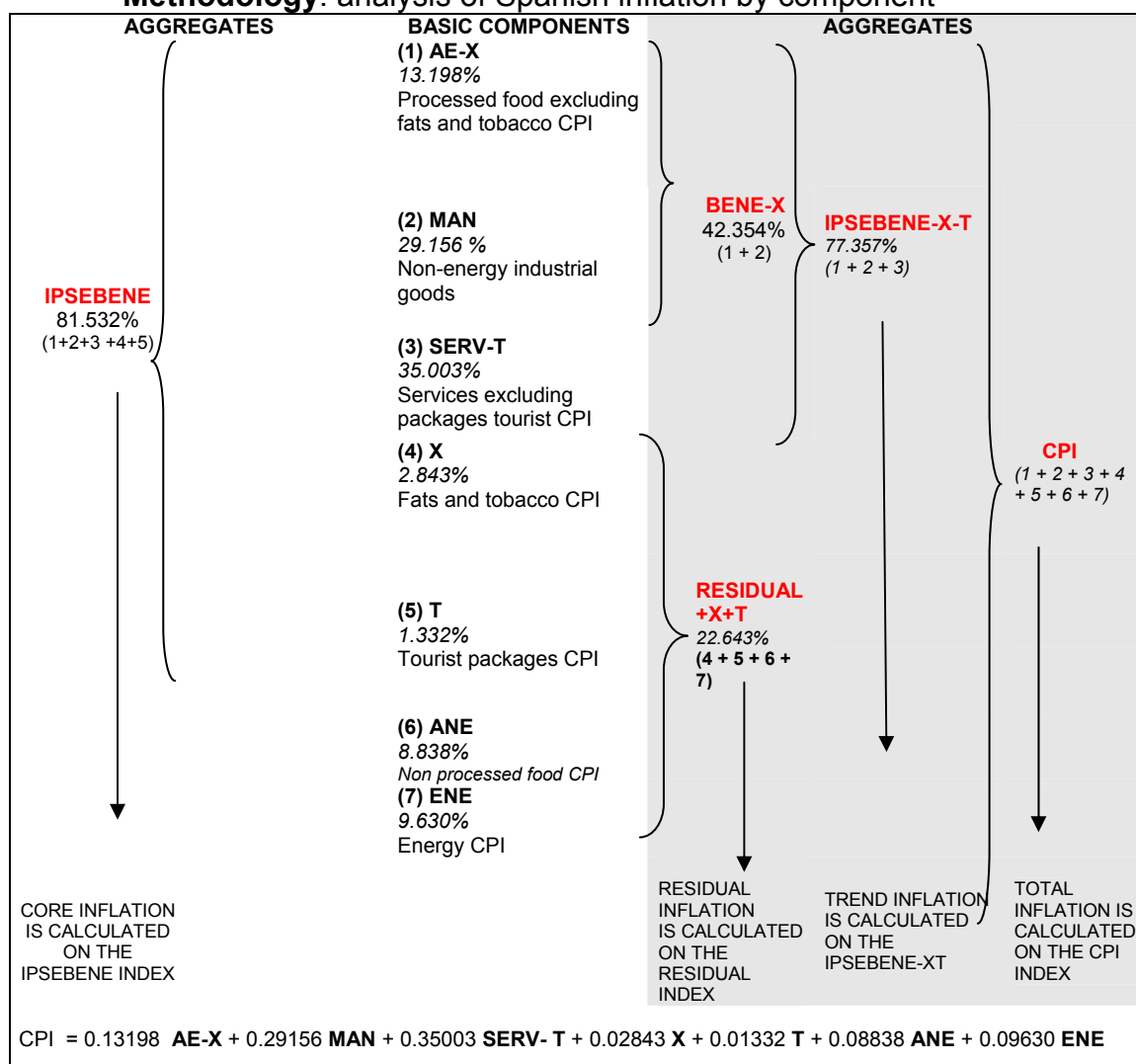
- Methodology: analysis of Spanish inflation by component
- Observed values and forecasts for the Spanish CPI.

Plots:

- One month ahead and twelve months ahead forecasts for the Spanish CPI (year-on-year rates).
- One month ahead forecast errors in Spanish inflation.
- Forecasts for 2007 annual average CPI growth rate by component.
- Forecasts for 2008 annual average CPI growth rate by component.



Methodology: analysis of Spanish inflation by component



Source: INE & IFL (UC3M) Weights 2007. These weights are not exactly the same as the INE's weights as the result of slight aggregation errors that appear when applying the above methodology.

OBSERVED VALUES AND FORECASTS FOR THE SPANISH CPI. MONTHLY RATES				
Consumer Price Index (CPI)	Weights 2007	Observed values August, 2007	Forecasts	Confidence intervals (*)
(1) Processed food	16.78	0.31	0.13	± 0.47
(2) Non energy industrial goods	29.04	-0.25	-0.08	± 0.33
(3) Services	36.48	0.58	0.59	± 0.14
CORE INFLATION [1+2+3]	82.30	0.24	0.27	± 0.16
(4) Non-Processed food	8.10	0.22	0.73	± 1.08
(5) Energy	9.60	-0.80	-0.64	± 0.67
RESIDUAL INFLATION [4+5]	17.70	-0.34	-0.03	± 0.60
HEADLINE INFLATION [1+2+3+4+5]	100.00	0.14	0.22	± 0.17

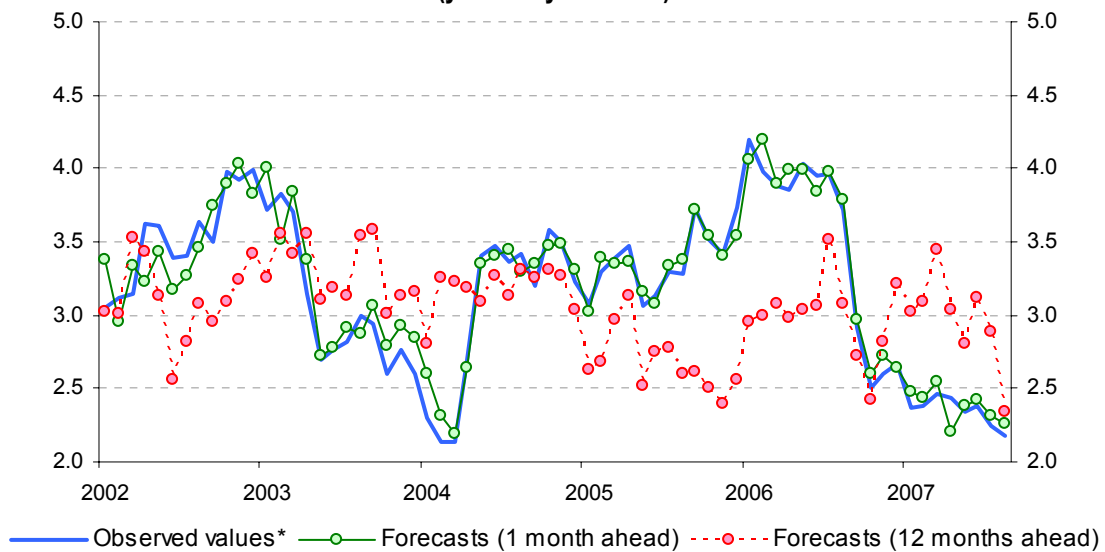
(*) Confidence intervals at 80%

Source INE & IFL (UC3M)

Date: September 13, 2007



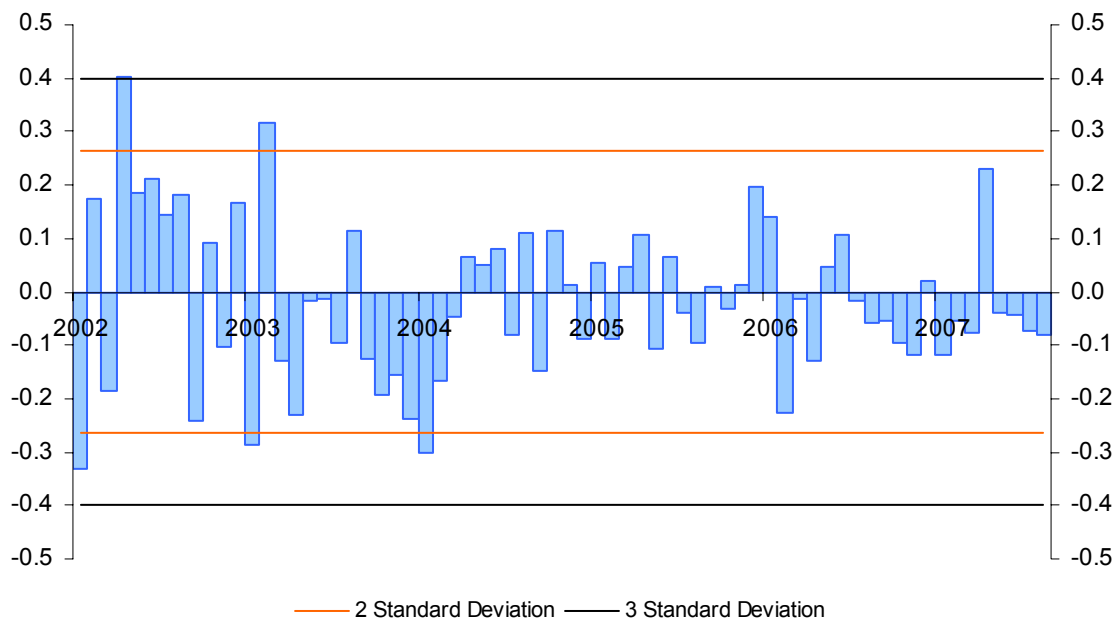
ONE MONTH AHEAD AND TWELVE MONTHS AHEAD FORECASTS FOR THE SPANISH CPI (year-on-year rates)



* Observed values without revisions in CPI

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

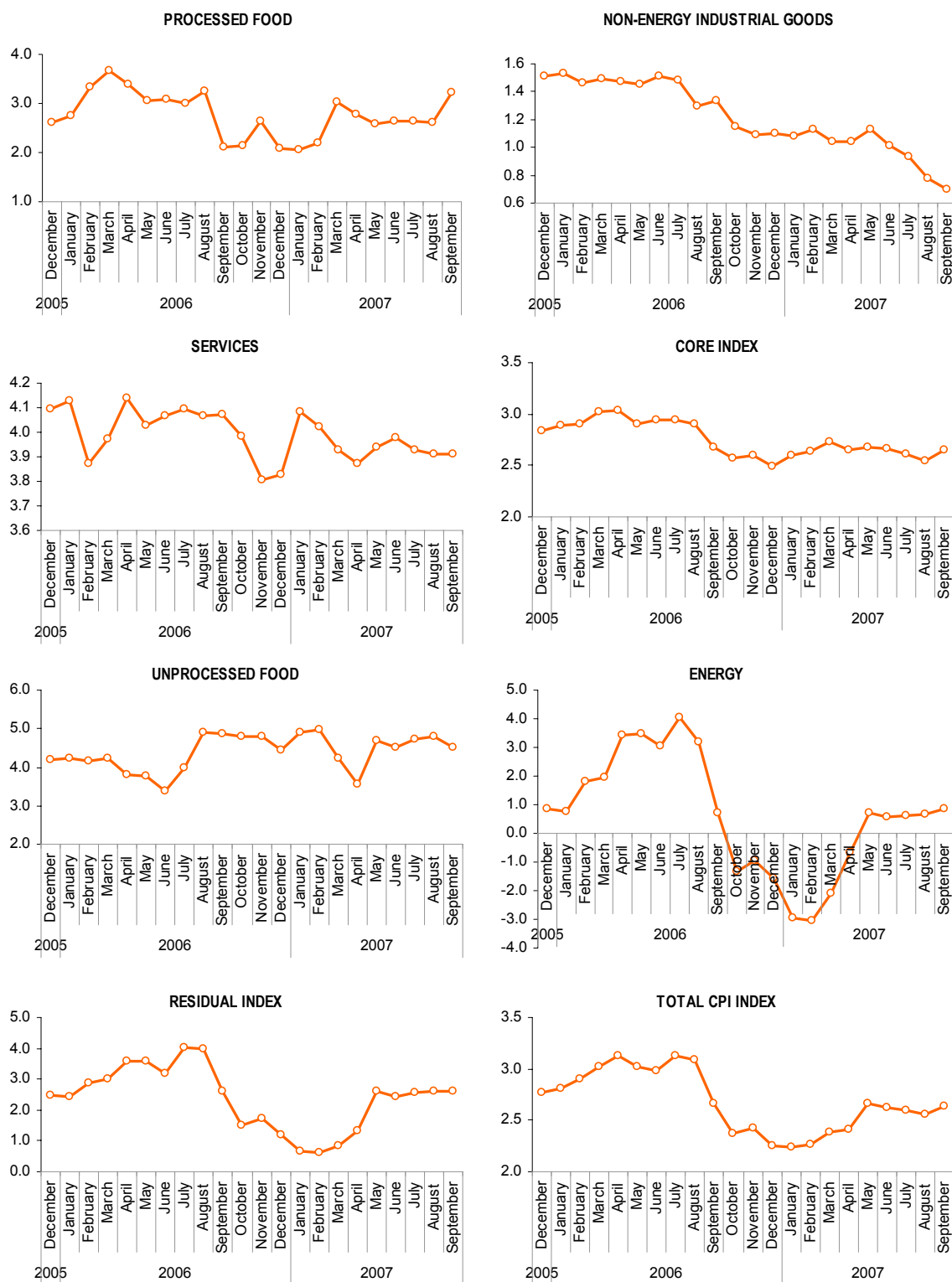
ONE MONTH AHEAD FORECAST ERRORS IN SPANISH INFLATION



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



FORECASTS FOR 2007 ANNUAL AVERAGE CPI GROWTH RATE BY COMPONENT



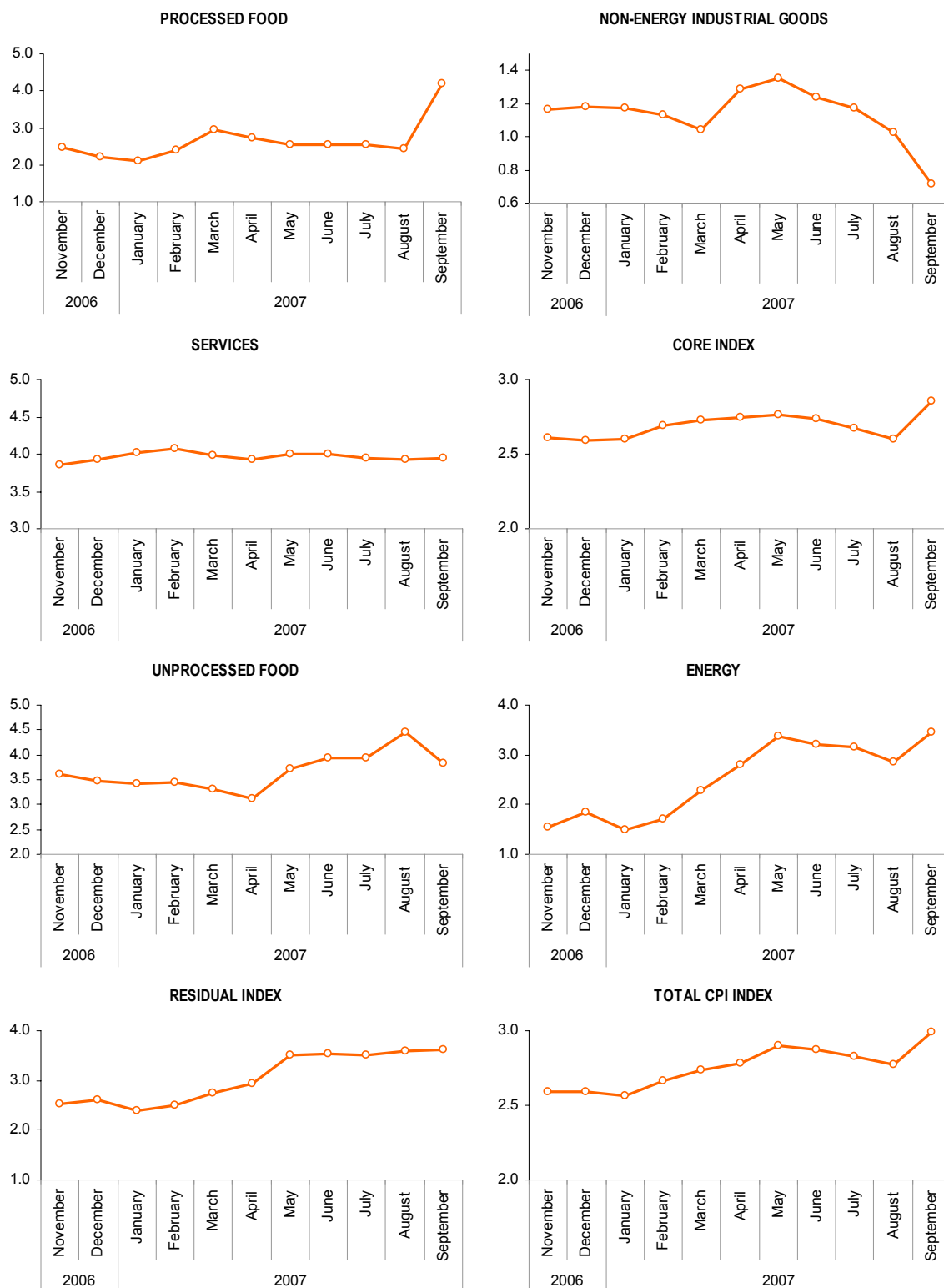
Note: These graphs show the average annual CPI growth rates for 2007 forecast in the Bulletin published in the month on the abscissa.

Source: INE & IFL(UC3M)

Date: September 21, 2007



FORECASTS FOR 2008 ANNUAL AVERAGE CPI GROWTH RATE BY COMPONENT



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

Source: INE & IFL(UC3M)

Date: September 21, 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
HEADLINE INFLATION								
Euro-area (100%).	2.3	2.2	2.1	2.1	2.2	2.2	2.0	2.2
US (76.2%). ⁽¹⁾	2.6	0.9	2.2	2.8	3.7	3.1	2.6	2.6
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	1.9	1.6
US (52.9%). ⁽¹⁾	2.1	1.6	1.1	1.6	2.1	2.1	1.8	2.0
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	2.5	2.3
US (31.8%). ⁽¹⁾	3.6	3.6	3.2	3.3	3.1	3.4	3.5	3.5
(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	1.0	0.6
US (21.0%).	0.3	-1.1	-2.0	-0.9	0.5	0.3	-0.4	-0.1
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	2.6	2.8
US (13.9%).	3.1	1.8	2.1	3.4	2.4	2.3	3.9	3.7
(2) Energy.								
Euro- area (9.62%).	2.2	-0.6	3.0	4.5	10.1	7.7	2.3	5.2
US (8.70%).	3.8	-5.9	12.2	10.9	16.9	11.2	5.0	4.0

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

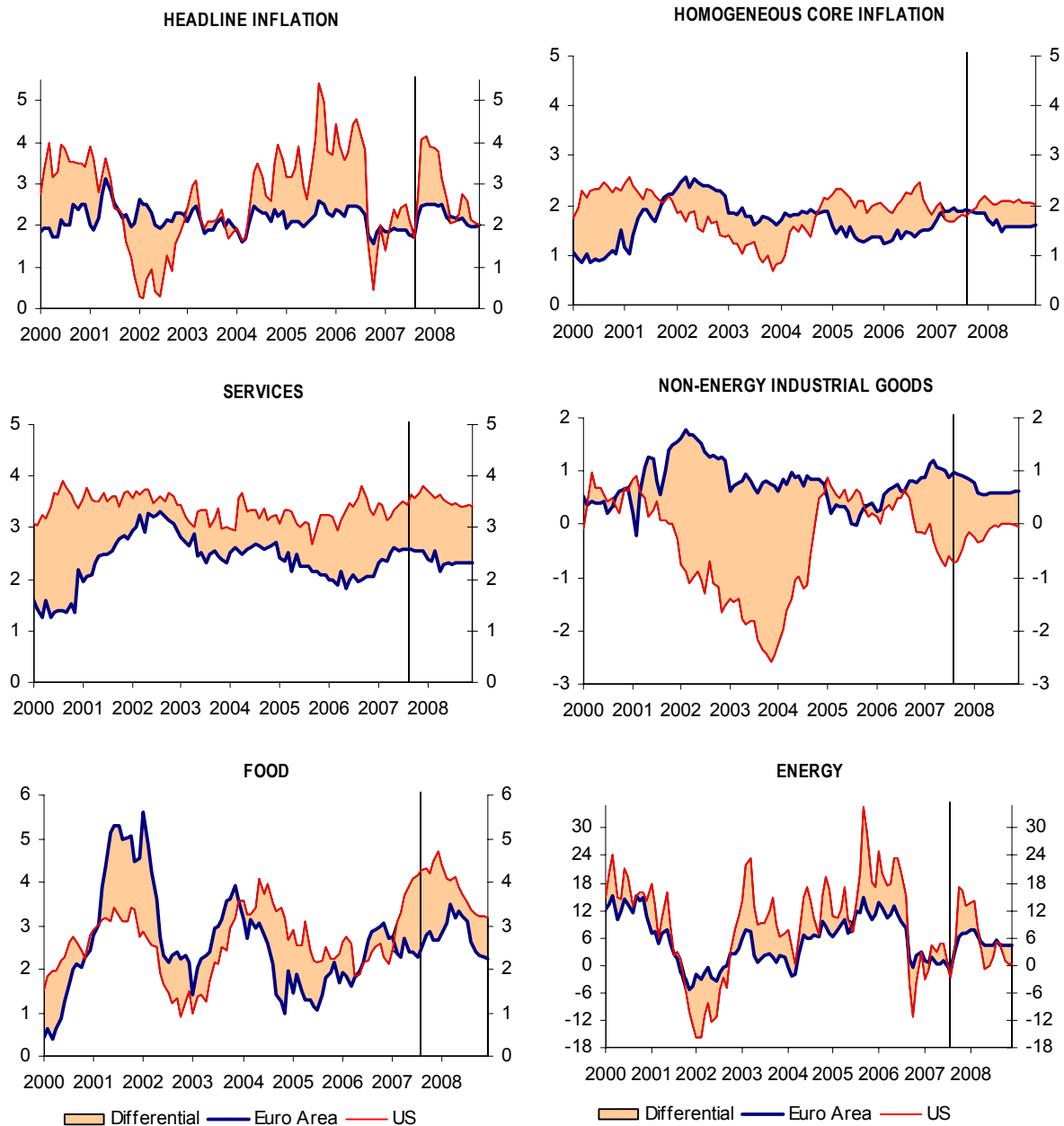
⁽²⁾ This homogeneous measure of core inflation does not coincide with the usual measure of core inflation for the euro area nor for the USA. It has been constructed in order to compare the data in the euro area and in the USA.

Source: EUROSTAT, BLS & IFL (UC3M)

Date: September 21, 2007



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



Source: EUROSTAT, BLS & IFL (UC3M)

Date: September 21, 2007

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

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



V.2 EURO AREA AND SPAIN

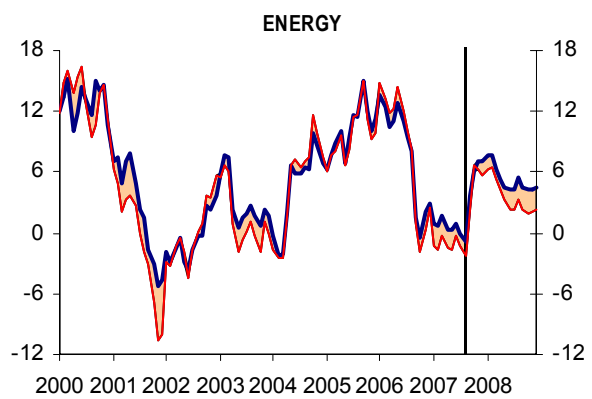
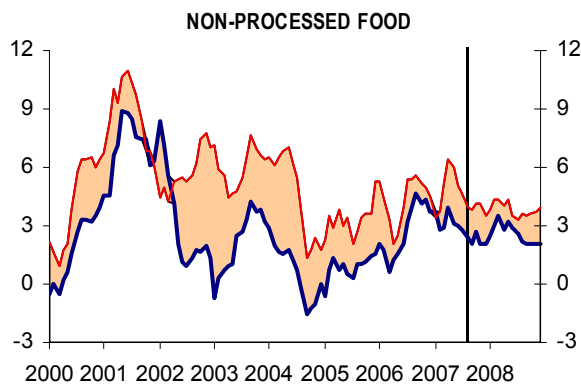
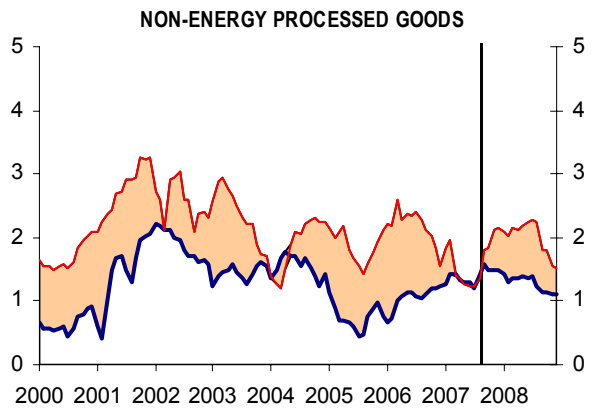
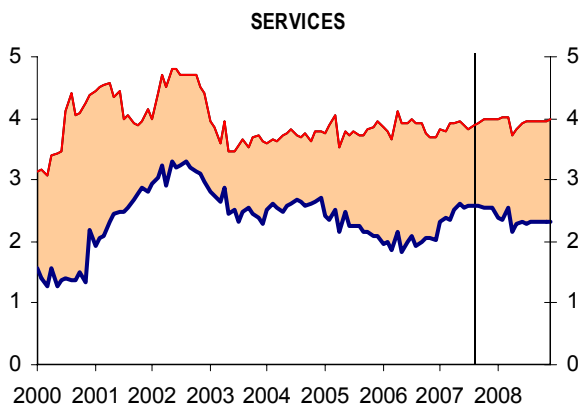
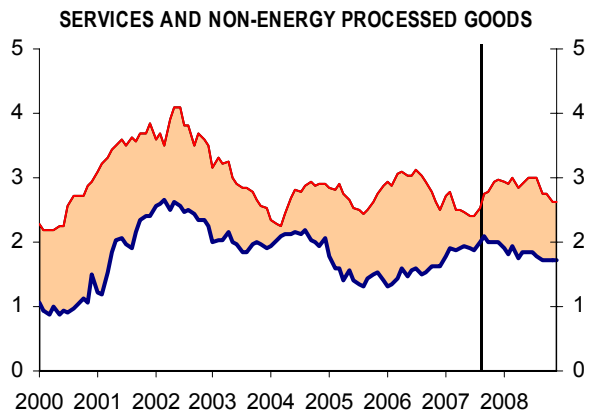
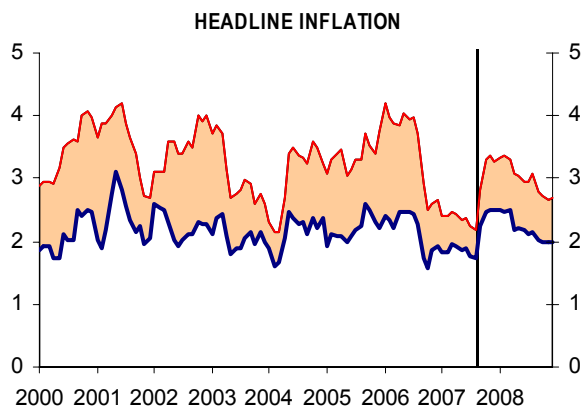
INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND SPAIN								
	2001	2002	2003	2004	2005	2006	Forecasts	
							2007	2008
HEADLINE INFLATION								
Spain (100%).	3.6	3.5	3.0	3.0	3.4	3.5	2.6	3.0
Euro-area (100%).	2.3	2.2	2.1	2.1	2.2	2.2	2.0	2.2
CORE INFLATION								
Services and Non-energy processed goods.								
Spain (82.30%).	3.5	3.7	2.9	2.7	2.7	2.9	2.6	2.9
Euro-area (82.76%).	1.9	2.5	2.0	2.1	1.5	1.5	1.9	1.8
COMPONENTS OF CORE INFLATION								
(1) Services.								
Spain (36.48%).	4.2	4.6	3.7	3.7	3.8	3.9	3.9	3.9
Euro- area (40.82%)	2.5	3.1	2.5	2.6	2.3	2.0	2.5	2.3
(2) Non-energy processed goods.								
Spain (45.82%).	2.8	2.6	2.4	1.9	1.9	2.2	1.6	2.0
Euro- area (41.93%).	1.5	1.9	1.4	1.5	0.7	1.1	1.4	1.3
RESIDUAL INFLATION								
1) Non-processed food.								
Spain (8.10%).	8.7	5.8	6.0	4.6	3.3	4.4	4.5	3.8
Euro- area (7.63%).	7.0	3.1	2.1	0.6	0.8	2.8	2.8	2.6
(2) Energy.								
Spain (9.60%).	-1.0	-0.2	1.4	4.8	9.6	8.0	0.9	3.5
Euro- area (9.61%).	2.2	-0.6	3.0	4.5	10.1	7.7	2.3	5.2

Source: EUROSTAT, INE & IFL

Date: September 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: September 21, 2007



VI. FORECASTS FROM DIFFERENT INSTITUTIONS

FORECASTS FROM DIFFERENT INSTITUTIONS ¹												
INFLATION												
	BIAM ²		CONSENSUS FORECASTS ³		IMF ⁴		ECB ⁵		ECB ⁶		OECD ⁷	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
EURO AREA	2.0	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.8	2.0
USA	2.8	2.7	2.7	2.3	1.9	2.5	-	-	-	-	2.6	2.6
SPAIN	2.6	3.0	2.6	2.7	2.6	2.7	-	-	-	-	2.5	2.7

REAL GDP (Percentage change from previous year)												
	BIAM ²		CONSENSUS FORECASTS ³		IMF ⁴		ECB ⁵		ECB ⁶		OECD ⁷	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
EURO AREA	2.6	2.1	2.6	2.2	2.6	2.5	2.7	2.3	2.6	2.3	2.7	2.3
USA	-	-	2.0	2.4	2.0	2.8	-	-	-	-	2.1	2.5
SPAIN	3.8	3.0	3.8	2.9	3.8	3.4	-	-	-	-	3.6	2.7

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

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

3 September, 2007.

4 IMF. World Economic Outlook. CPI: April, 2007. Real GDP: July, 2007.

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

6 ECB staff macroeconomic projection for the euro area. September, 2007. Point forecast implied by the interval presented in these projections.

7 OECD Economic Outlook 81. May, 2007. The inflation forecasts for the euro area and Spain are based on the HICP.

To produce the inflation forecasts in our Bulletin, headline inflation is broken down into core and residual inflation. Residual inflation is composed of inflation in unprocessed 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.

In the view of the inflation forecasts presented above, there exists quite a broad consensus regarding the rates expected for the euro area. For 2007, all forecasts are 2.0% except the OECD rate, which is the most optimistic at 1.8%. For 2008, all forecasts are 2.0% too except the BIAM's forecast, which points to a rise in inflation up to 2.2%. In the

case of Spain, the consensus is quite broad too, with values around 2.6% for 2007 and around 2.7% for 2008. BIAM's forecast of 3.0% for 2008 is the least optimistic. For the USA, there is wider variability.

Regarding GDP growth forecasts, all of them are around 2.6-2.7% for the euro area in 2007, but for 2008 there is a wider range with values going from BIAM's 2.1% to IMF's 2.5%. All of them point to lower growth in 2008 than in 2007. In the case of Spain, most of the forecasts are 3.8% for 2007, and range between 2.7% and 3.4% for 2008. BIAM's forecast for 2008 is in the middle of that range. As in the euro area, all forecasts point to lower growth in 2008 than in 2007.



Alan Greenspan's Legacy: Two Global Financial Crises

The property-mortgage bubble, which is at the bottom of the storm in the sub-prime mortgage market, was caused by the monetary policy of the U.S. Federal Reserve Bank from 2001 to 2005. Indeed, this bubble (more precisely, local and unsustainable inflation) is similar to the U.S. stock market bubble in 1998-2000, having arisen in nearly the same way and bursting for practically the same reasons. In both cases, most of the responsibility lies with the Federal Reserve and its once Chairman, Alan Greenspan who, going against all we have learnt since the sixties on good monetary policy, invented a role for himself as the master and wizard of the markets. Like all the previous wizards, he failed and now everyone is paying for his mistakes; one more reason not to buy his recently published autobiography.

Further and substantial doses of synthetic heroin – as those injected a few weeks ago were clearly not enough – have the financial markets, and the USA stock market in particular, on a temporary high once again. Will it last? I doubt it, and not so much because a recession may be cooking (the data we have available are mute: say there is a 50-50 chance of a recession within 6 months) but because the temporary quiet is purely artificial. As the governor of the Banca d'Italia reminded everyone last week; we do not yet know how deep the mortgage crisis in the US is, nor do we know who is truly holding bad assets, nor, finally, can we safely forecast how low the real estate values may drop in the US and if something smaller, but similar, is going to explode in Europe should interest rates keep increasing.

In the middle of all this uncertainty about the future, we better learn something from the past to avoid further mistakes. Because busy readers may be looking at this in a hurry, I will proceed backward by listing my conclusions first, and then arguing them.

CONCLUSIONS

- 1) My initial analogy with heroin is only partly humorous: anyone who is looking at a time horizon longer than a few weeks must be worried of continuing injections of cheap credit in the economic system. Once again, Mario Draghi nailed the issue most clearly last week: in times of financial turbulence price stability is of utmost importance. Not only Central Banks are in charge of price stability, there is little else they can actually guarantee other than price stability.

The US Federal Reserve Bank (FRB, from now on) is not following this most wise advice. Not

only it repeatedly injected abundant liquidity to keep otherwise drowning financial companies afloat during the month of August, but the 50 basis points cutting of the Federal Funds Rate is dangerously similar to the sudden cuts that followed the 2000-2001 “dot-com crash”. The “too big to fail” policy is back, keeping alive financial firms that should instead fail (thereby repeating the Japanese mistakes of 1993-2003), and another “local inflationary bubble” may be in the making. In other words, like in 1998 and in 2001, the FRB is acting like a “pusher”; it used to be the “Greenspan put”, now it may have become the “Bernanke put”. Either way, cheap heroin keeps flooding Wall Street.

- 2) Let me be clear: the recession may or may not be immediately coming, but it does not matter. As I insisted six months ago, recessions do come from time to time and we better put up with them: they are part of the physiology of the market system. This expansion has been going on, in the USA, for about six years, the unemployment rate has been at its minimum (around 4.6%) for many months and salaries are growing as a share of corporate revenues. Because the housing sector is clearly in a slump (that is where the inflationary bubble was) it is perfectly possible that a general recession will come in the next few months. Pumping money recklessly to avoid it will neither avoid the unavoidable nor help us later during the recovery: bad investments cannot be turned into good investments by fiat money. Amen. The short term real rate is below 2% and close to 1%: no reasonable person would think it should be even lower than that.
- 3) In the meanwhile, let's also learn that Mr. Greenspan was not the best central banker ever, not even the second. In fact, he may



easily have been as bad as Arthur Burns was. From his actions and policies the inflationary bubble that is now bursting in the mortgage markets was born. The same, in my opinion, applies to the “dot-com bubble”, which he cooperated to inflate with his 1997-1998 “miraculous” interventions following the Asian, Russian and LTCM crises.

- 4) Both bubbles strictly resemble the monetary boom-bust mechanisms known as “Austrian credit cycles”, with only minor differences. (i) They seem to be concentrated in a few sectors and not to affect the whole economy; (ii) the fast growth and sudden drop pertain more to the market prices of assets than to output and its nominal value. This is why I am insisting on the idea of a local inflationary bubble.
- 5) Once again we are paying a dear price to central banking religious beliefs, in particular to the idea that central bankers have magic “market-healing” powers. Such healing powers are always exercised by injecting abundant amounts of cheap money in the system, to “stimulate the economy”, “jumpstart growth” or “avoid a deflationary spiral”, whatever those religious psalmodes mean. Such was the preaching we listened to in 2001-2002 (which Alan Greenspan repeats in his recent if pompous autobiography) from both FRB economists, New York Times economists, “sticky prices” economists and Wall Street economists. The consequence, as I argue in the rest of this article, was the ‘sub-prime mortgages bubble’. Should the FRB travel again along the same path, which other bubble will we be witnessing five years from now?

FACTS

I assume everyone knows what an ARM or a 2/28 is, not to speak of ABS and similar securities. Consider then the following facts. The US real estate bubble starts roughly in 2002, most (nay: almost all) the defaulting mortgages are ARMs or 2/28 or similar “cheap short then risky long” financing devices. When were these loans created? During the 2001-2005 period, that is between 2 and 5 years ago: 2/28, ARM 3/1, 5/1 ... How did the term structure look between 2001 and 2004? Sharply inclined: short rates were at all time lows, around 1% nominal with inflation dipping only once below 2% while long term rates never left the traditional [4.5-6]% interval. Is there a spatial correlation between counties in which real estate prices have grown the most and those in which a larger fraction of mortgage financing was of the “cheap short then risky long” kind? Most certainly.

Was there a widespread claim (I would call it propaganda) coming from the same groups of economists listed above that we had entered a new era of persistently low interest rates? Just check the economic and financial press between 2002 and 2005. Why was the term structure so steep between 2001 and the end of 2004? Because the FRB lowered short terms rates dramatically and heavily intervened to keep the whole range from 1 months to 3/5 years at unusually low levels.

MISFACTS

Misfacts there have been plenty, obviously. As in every gold-rush, also in this case those working in and around the mortgage industry saw the opportunity for quick riches appearing and tried to grab them. While doing so they did not care much if a few rules of the game were violated, and a number of other people were thrown off the cliff. This is bad, and the fact that something of this kind is repeating only a few years after the many cases of corruption and bribing that emerged around the dot-com bubble, should make us pause, reflect and take severe actions. While these actions would not, per se, make another localized inflation bubble impossible (only the FRB can avoid that), they will make it more difficult to materialized and less socially damaging. Beside, they will restore transparency and confidence in the financial market mechanisms, both rather tarnished at this point.

- **Ratings companies:** completely unreliable, clearly. Volumes have been written about it, so there is little I can add about the completely screwed up incentive system under which S&P, Moodys and Fitch operate. Better find a way to change it and change it quickly, even if this is not going to be easy as the old system (under which the buyers of securities would pay for information) cannot be made compatible with the way markets work these days. The issue is, in any case, to make free entry work and reputation take its toll, neither of which seem to have happened so far.
- **Banking supervisors.** Most of the “bad stuff” took place in financial institutions that central banks do not regulate and oversee. This is a problem we better face. Should we start regulating also hedge funds, mortgage brokers and what not? No we should not, but we should find a reasonable way to make sure they provide the correct available information to their investors. Which leads me to a question: if there is something that is a pure public good, it is good and reliable information about the quality of traded financial assets. Central banks have a substantial amount of information about



a large chunk of them and are in the most advantageous position to learn about the rest. They also have large research departments, filled with first rate PhDs: it is about time they put the two together and start providing the markets, if not with ratings at least with a clear evaluation of the credit risk hiding behind what is being traded.

- **The models adopted.** I have a conflict of interest here, so I should not insist on this point too much. It seems clear, though, that after at least a decade of talking about value and credit at risk, most banks and financial operators are still working with simple linearizations and crude approximations and have not invested enough to understand and quantify the risk exposures they are taking. The markets, left at themselves, should take care of the latter. Still, it may take a long time before the cleansing effects of competitive destruction take place if central banks keep rescuing incompetent losers whenever there are enough of them crying out loud.
- **Information.** Did we know? Yes we did, big time. Not just the experts, the popular press had reported the risk and described how the situation was evolving way ahead of time, see, e.g., http://www.usatoday.com/money/perfi/housing/2004-12-07-subprime-day-2-usat_x.htm and <http://www.bloomberg.com/apps/news?pid=10000103&sid=aDSB370ItSJU&refer=us>, dated respectively July 12, 2004 and December 6, 2005! If you play in this market and do not pay attention to USA-Today and Bloomberg, then you cannot blame anyone but yourself once things go wrong. One can post dozens of similar articles from the popular press and hundreds of more technical ones from academics, FRB and IMF economists, and other researchers. The information was out there, a further reason for the central banks to let those that are failing fail.

THE MAIN CULPRIT

Between October 2001 and June 2004 the cost of short term borrowing from the FRB never exceeded 2%, with long periods at 1% or less. In the meanwhile the inflation rate never went under 1.6% and spent most of the time at around 2.4%-2.8%. Last year it was 3.2%. Still, only at the end of 2004 the FRB decided it was the case to raise the rate on Federal Funds and to do it slowly: it took two years to go back to about 5.5%. During the same time interval, long term money (i.e. at maturities of five

years or longer) traded at around 5%-6%, which is the same range it was before the FRB monetary injection and it is now. A similar, but much less extreme and protracted, policy was implemented by the BCE.

What would you do if the FRB was offering you tons of cheap money short term and everyone, including high ranking FRB officials, insisted that this was going to last for a long while, that a "new era" of low interest rates had arrived? If you had the possibility of lending that money long term at about 200 or more basis points above what it costed you and, at the same time, insure yourself from the risk of a future surge in rates, you would go ahead and make tons of money, would not you? Well, that's what mortgage originators and banks in general did in the USA between 2001 and 2005, because that is what ARMs, coupled with a market for mortgages and MBS, allow you to do.

Should we blame banks and mortgage originators? I would not: their job is to make money by lending to people who would like to purchase a house. When credit is abundant and cheap, they compete in passing that credit over to the potential buyers. If the credit available on the mortgage market is too cheap (compare to other kinds of investments) and its total value is, in nominal terms, more than the nominal value of the stock of houses on the market, the prices of those houses will go up. Supply will also go up, most certainly, but prices will move a lot more as they can move a lot quicker than the supply of houses can. This is local (in the sectorial sense) inflation: the relative price of real estate increased because for five years there was too much credit chasing too few houses. It is created by excess credit, and in the USA the FRB has the legal monopoly over credit: if there is too much of it around, there is only the FRB to blame.

A quick look at the data shows a remarkable simultaneity: the real estate inflation picks up at the end of 2001, exactly when, after the 9/11 emergency was over, the FRB decided not to bring interest rates back up but left them low. In fact, it lowered them further and kept pumping the money in the mortgage market. When, by the end of 2005, it was clear that the FRB had reversed its policy, that interest rates had come back up and were going to raise again, suddenly the inflationary real estate bubble started to disinflate. But a local asset inflation does not evaporate so quickly and without damages. In fact, there is only one way to make a local inflation go away without serious damages and that is, paradoxically, to create generalized neutral inflation. If all nominal prices and wages had increased of the same percentage, then the real estate bubble would have evaporated by definition. We would have simply had inflation, which is not a



good thing, but we would have not had the sub-prime mortgage crisis.

In fact, one should ask, why did this not happen? Why did not all the extra money flow out of the real estate sector and turn into demand for cars, TVs, restaurants, clothes, and so on, thereby increasing the general price level? The most honest answer is: why should the money go everywhere instead of staying where there is more money to be made? Is there any natural presumption that, once I have sold for \$ 500K a house that I bought for \$ 400K three years earlier (because someone who make less \$100K a year found a cheap mortgage for the desired amount) I should go out and spend the \$ 100K of capital gains I just made in clothes and durable goods? No there is not. What kind of economic theory or practical experience suggest that people tend to spend their capital gains right away? I am not aware of any. Common sense and economic theory, instead, teach that people who have had a large wealth effect will tend to save/invest most of it. Which means: if I am a wise head of household who tends to diversify, the \$100K of capital gains I have just made will presumably go into a wide array of assets: hence general asset inflation is a logical consequence! A portion of the capital gain will, for sure, go back into a more expensive house, meaning that some kind of real estate inflation is also a logical consequence of an expansionary credit policy of the kind described above. What is not obvious is that we will immediately have a very large real estate bubble.

Still, if the credit for investing in real estate is particularly cheap and abundant, and the expectations of future returns are not bad, chances are that a more than even share of that capital gain will remain in the real estate sector. In which case the real estate bubble will start to inflate.

This is just what happened in the USA between 2001 and 2005. Because this mechanism does not tend to cause aggregate inflation - i.e. because the way in which the FRB operates in general does not resemble the theoretical helicopter and, in the particular circumstances of 2001-2004, it resembled more a funnel – the incomes, of those that between 2001 and 2005 borrowed at low rates to purchase expensive houses, did not grow proportionally. Hence, when in 2005-2006 the rates adjusted to their mean-reverting historical standard, their nominal incomes were not high enough to be able to afford the now higher nominal (and real, relative to their incomes) mortgage payments and they started defaulting. End of story.

MORAL. Once again, fine tuning by manipulating the money supply did not work and brought a new kind of inflationary disaster upon us. The second in about ten years, as a very similar argument can be developed for the 1998-2000 dot-com bubble and subsequent stock market crash. Is it not about time we learn the lesson? Send the “Maestro” and his imitators packing and give us back Volcker and monetarist rules, please.



ANALYSIS OF THE FINANCIAL CRISIS AND THE SPANISH ECONOMIC SITUATION

From August 16 to September 9, several members of the Advisory Board and the Bulletin's director published their opinions concerning the current financial crisis and the Spanish economic situation in the Spanish press. Iván Mayo summarises and structures those opinions in this article.

The 2007 mortgage crisis, also known as the subprime mortgage crisis, started to spread through the financial markets on Thursday, August 9, 2007, although its origin goes back to previous years. The harm to economic growth will be in proportion to how long it takes to clarify the extent of the problem and this directly depends on how both institutions and economic agents manage the confidence crisis.

The crisis

This liquidity crisis is really a credit crisis, which is really a bubble, which is really an excessively carefree innovation with suspicions concerning rating agencies and even concerning agents of the financial system who have acted as sorcerer's apprentices, not really knowing what they were doing.

The global credit crisis entered a particularly serious phase in August and the uncertainty was still with us in September. The wholesale money markets, on which banks lend to each other, are not working properly, except for in the very short term, and there are very few operations. There is widespread mistrust. There is no lending, not even at the high interest rates applicable to one year deposits. There are times on the capital markets when liquidity dries up, nearly always due to a confidence crisis. The penultimate occasion was in 1998, although it was much more sudden then. There are two definitions of liquidity: the first is "market liquidity", which is the ease with which a financial asset can be converted into money or another liquid means of payment; the second is "credit liquidity", which is the ease with which banks or other financial institutions grant loans. The financial markets cannot operate without liquidity, as it has to be easy and cheap to sell and buy financial assets and easy to get into debt.

There is no confidence because the information handled by the operators on those markets is of questionable quality: they are unable to measure the extent of the infection derived from subprime mortgages in the U.S., mortgages which are based on less solvency and therefore higher than market interest rates. Mortgage loans in the United States are divided into prime and subprime. On a scale of

300 to 850 points, subprime loans have less than 620. This special kind of mortgage, preferably used to buy a home and aimed at clients with reduced solvency, therefore involving a greater than average risk of default than other loans, is granted at a higher interest rate than personal loans, with higher banking fees.

The new financial industry offers financial products enabling debt to be subject to sale and economic transaction by the purchase of bonds or credit securitisation. In other words, debt can be packaged and sold to third parties (such as funds) who use it to diversify their investments with what appears to be a safe asset, as it is guaranteed by collateral with an unlimited price. The financial institutions promoting subprime mortgages were able to remove them from the liabilities on their balance sheets by transferring them to investment funds or pension plans. The problem arises when the investor (who can be a financial institution, a bank or an individual) is unaware of the real risk, as there are packages containing good and poorer debtors, which encourages banks to continue with the strategy. According to risk rating agencies, the returns were also greater than those produced by traditional fixed income investments (both corporate and public). In a global economy, in which financial capital circulates at a lively pace, often changing hands, and which offers highly sophisticated and automated financial products, not all investors are aware of the ultimate nature of their operations. Well packaged and securitized, to date there is still insufficient information about their distribution, the portfolios in which they lie or which are the most contaminated balance sheets. We have learned about some cases of infection from U.S. banks and institutional investor in some European and Asian countries, but further problems would not be a surprise.



Causes of the crisis

Two crucial phenomena are clearly at the heart of this crisis: migratory movements and demographics on the one hand and, on the other, low real interest rates, possibly a delayed effect of Greenspan's efforts to handle the crisis facing him. Both of them have led to a spectacular demand for credit, especially mortgages in some places, including the two United States coasts. At a certain point in time, this demand became largely speculative, based on the belief that property is a good investment because its prices grow without limits. But this is not all, as we have a new financial industry clearly derived from the previous crisis and globalisation, but also from discoveries in the form of new derived financial products aimed at mitigating risks by diversification. They are, initially, easy to evaluate.

A sustained excess of liquidity always tends to create financial and property asset bubbles which rise much more than inflation and invariable burst. The excess of liquidity and, therefore, low interest rates in the last ten years have enabled economic agents to borrow leverage to buy assets; families have bought houses and cars, some companies have bought their own shares or their competitors, some individual and institutional investors have bought shares in high-risk funds, the latter have bought financial or property assets with a greater risk and margin and venture capital funds have bought out both trading and non-trading firms.

This leverage has been supplied by commercial and investment banks, which have issued financial instruments either directly on the markets or through other banks. In view of the growing demand for credit, banks also become indebted but the time came when their capital requirements prevented them from satisfying the demand for credit, so they took all easily securitised loans (through mortgage notes, CDOs, CLOs, CMOs and other obligations backed by packages of corporate and mortgage assets with different risk classifications, separated by tranches according to their credit ratings) from their balance sheets. What detonated the crisis were financial products based on subprime mortgage credits as collateral in the U.S. As was to be expected, they were very likely to be defaulted in view of the low income level (or job loss) of their holders and their high interest rates, meaning not only that they did not generate the returns required by their investors but also that creditors were unable to find buyers for their foreclosed assets, or could only sell them at very low prices. There is no need to be an expert to realise that as the central banks increased interest rates to control inflation, the value of the loans granted, packaged or not and of good or poor quality, was reduced, with a negative impact on the

balance sheets of the banks or intermediaries which had bought the initial credits. When this occurs, defaults increase, intermediaries try to get rid of the previously coveted packages and this starts a race to liquidity which is by no means easy, precisely because no one is buying; hence the credit drought. An effective demand cannot be sustained by new credits. The stock market suffers, investment plans are cancelled and macroeconomic perspectives start to sink.

Responsibility of credit rating agencies

The capacity and credibility of rating agencies has also been seriously questioned. They failed to diligently warn the market of the risks of investing in securities backed by subprime mortgages, the main cause of the market volatility seen in the last few weeks. American banks were the first to warn of a possible problem with these mortgages last year. However, the agencies specialised in analysing stock and companies with regards to their ability to fulfil their financial obligations did not start to review their ratings for the securities linked to these mortgages until spring of this year. The market would not have grown so much without the positive ratings issued by some agencies.

Transmission of the crisis to the financial markets

At this point, contagion is the key word and it depends on whether panic is widespread or not. Certainly, the financial instruments derived from financial theory and its practice are able to redistribute risk to prevent the possibility of contagion. It could only arise for psychological reasons, but such reasons disappear when a lender publicly claims to have limitless possibilities. This is the case of the central banks in the last few weeks, and we can learn from examining their behaviour. Uncertainty has spread to other structured products in which risk is difficult to evaluate. Investors are attempting to establish a price for the greatest aversion to risk, but this is not a simple exercise. The reaction is to flee towards quality and security; everyone settles in the short term and many are those who prefer securities issued by the governments of advanced societies, in spite of their low interest rates, to private securities with falling returns. The degree of contagion has been excessive: banking systems in which this type of mortgage barely exists, as in Spain, are being punished, as are investment funds with private fixed income securities, even though they are not associated to subprime mortgages or any other kind of similar structures.



Reaction of Central Banks to the crisis

The leading central banks, aware of the effects on the economy of the persistence of such a situation, have injected an extraordinary amount of liquidity. Interbank rates are important for economic activity; they act as a basis for most private financing operations, from business indebtedness for more or less risky transactions to those associated to the healthy mortgages taken out by many households.

They have acted rapidly and firmly, as they did in October, 1987 and in 1998. One of the major structural changes in the world economy is that monetary policy is more efficient than ever before. They are better able than ever to keep inflation low and smooth out business cycles. They evidently learned from the mistakes made during the Depression or the Japanese property crisis, but they certainly act professionally and effectively. In a case of a drop in confidence, not to mention panic, central banks have to supply liquidity immediately without changing their interest rates, to prevent the negative multiplying effect of the collapse of the financial markets on the economy. Such an injection of liquidity has no effects on taxes or inflation. And it does not save those financial institutions who need it to fulfil their obligations from bankruptcy, as all the central banks do is to make a fully guaranteed loan for a day or a week at higher than normal interest rates for monetary policy purposes.

The European Central Bank (ECB), which until recently had considered the possibility of a new interest rate increase, has finally ruled it out and kept its rates constant to the detriment of its anti-inflationist credibility. It has decided to admit that to guarantee the correct operation of the monetary markets is a priority. The macroeconomic circumstances are – as we have later seen – such that they can be seen in Bernanke style, in the sense that a drop in interest rates is feasible in the current context, or in Trichet style, simply failing to materialise a previously announced increase. The former has little to lose, but the latter seems to have got himself into a mess between the credibility he seeks, the limited objectives of the ECB and the its reputation which still needs to be consolidated.

The Spanish economy and the financial crisis

The two basic phenomena occurring before the crisis, migratory movements and demographics on the one hand and low real interest rates on the other, have been particularly felt in Spain. Spanish credit and financial institutions will come out of this crisis stronger, unlike their competitors in other developed countries. The main reason is that there

is no subprime mortgage market in Spain, where banks are not exposed to CDO investment with subprime tranches or high-risk fund leverage or even sophisticated derivatives of their own. The default level of credit investments in our banking system is at an all time low and the system is one of the most solvent in the world.

A good part of this situation is due to the Bank of Spain, which has always opposed the possible excesses derives from sustained liquidity and euphoria on the financial markets, and has prevented Spanish banks from copying what was occurring in other countries.

For several years, it has also forced credit institutions to accumulate extraordinary contracyclic provisions in preparation for what inevitably occurs after a long period of joy. Ultimately, solid and solvent financial institutions in the long term are much more important for the country and its people than others who are temporarily much more competitive in exchange for accepting much more risk.

As for the real economy, as the Bulletin has mentioned, the panorama is not a new one. For the last year we have been forecasting that Spanish growth would tend to decelerate slightly and we now estimate that it will do so to a somewhat greater extent. It will be seen in the fourth quarter, when the GDP will only grow by 3.3%. And this will take us into 2008, when we believe that the GDP will grow by 3%. The perspectives for the real economy do not point to a crisis for the Spanish economy.

In Spain, the basics, that is consumption, employment, disposable income and, therefore, the financial status of households, are strong, but central banks, once the present uncertainty has at least partly diminished, tend to increase the cost of money in order to correct future situations like what has caused this crisis. Its repercussion on consumption is difficult to estimate in econometric models. But it is obvious that deceleration in employment, higher mortgage expenditure and greater uncertainty due to what has occurred with the financial markets, will all have an impact on consumption. Expectations play an important role in economics and uncertainty can change consumer habits, although the 3% growth in consumption forecast in the Bulletin is still more than acceptable.

The deterioration of other economies may mean that the net balance between exports and imports gets even worse. But there is an internal re-adjustment towards a more stable evolution. The Spanish economy, which has a lower income level than other major economies, is highly dynamic, with



potential for higher than the average growth rates found in Europe for several more years.

The pattern of growth in the Spanish economy cannot be changed overnight. Construction will also continue to be important, even though it will grow at a slower rate. The financial setting, with higher interest rates, has changed, but the attraction of property in Spain for Europeans is not going to diminish and in just a short time the population has grown from 40 to 44 million, so households will continue to be created.

Conclusion

The damage to economic growth will be in proportion to how long it takes to clarify the extent of the problem, which is not precisely a local one. The context remains uncertain. And it continues to be related to the continuity of tension on the financial markets and the impact of past tension on economic activity. Part of the responsibility for the crisis lies with new derived financial products aimed at mitigating risk by diversification, but the effects of the crisis would not have occurred if financial intermediaries had used these products to actually distribute the risk involved, as the more spread out it is there is less chance of contagion. In the U.S., the subprime market represents 7% of all mortgages. Even if the situation continues to worsen, given its size, it is unlikely to have a significant macroeconomic impact on spending decisions in the U.S. Debt is well spread out on the financial markets, mitigating the impact of a possible collapse. The information available to date does not point to an impact on other segments of the U.S. mortgage market or other economies.

The stock market is the industry comprising all share transactions. It uses all the information available about trading firms for their evaluation. This is based on a continuum of agents who jointly trade shares. The trading of agents which

determines stock prices and the value of firms is based on all the information open to interpretation. The two most important variables in these decisions are expected returns and future risks. It is essential to have good information about them in order to make good assessments of firms and financial assets. In this crisis, the securitisation of debt in more or less homogeneous packages, the difficulties found by rating agencies for their evaluation, and the lack of information available with which to evaluate risk, is generating uncertainty on the market and re-assessments of some firms, with agents preferring less risky investments. These corrections are normal while agents are collecting new information provided by the action of institutions and the data published by firms themselves concerning their actual status.

The central banks have decided to give priority to guaranteeing the correct operation of the financial markets. As Buitre and Siebert say, it is difficult to leave a credit narrowing behind without preparing the terrain for the next credit or liquidity explosion. Ultimately, central bankers should earn their pay by creating markets.

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Interview with Antoni Espasa in El País on Sunday, September 9, 2007



IX. INDICATORS CALENDAR.

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10	11	12 Euro Area IPI (July)	13 Spanish CPI (August)	14 Euro Area HICP (August) USA IPI (August)	15	16
17	18	19 USA CPI (August)	20	21	22	23
24	25	26	27	28 Spanish HICP (Flash September) Euro Area HICP (Flash September) Euro Area ESI (September) USA PCE (August)	29	30

OCTOBER

1	2	3	4	5 Spanish IPI (August)	6	7
8	9	10	11 Spanish CPI (September)	12 Euro Area IPI (August)	13	14
15	16 Euro Area HICP (September) USA IPI (September)	17 USA CPI (September)	18	19	20	21
22	23	24	25	26 Spanish EAPS (QIII 2007)	27	28
29	30 Spanish HICP (A.D. October)	31 Euro Area HICP (A.D. October) Euro Area ESI (October)				

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





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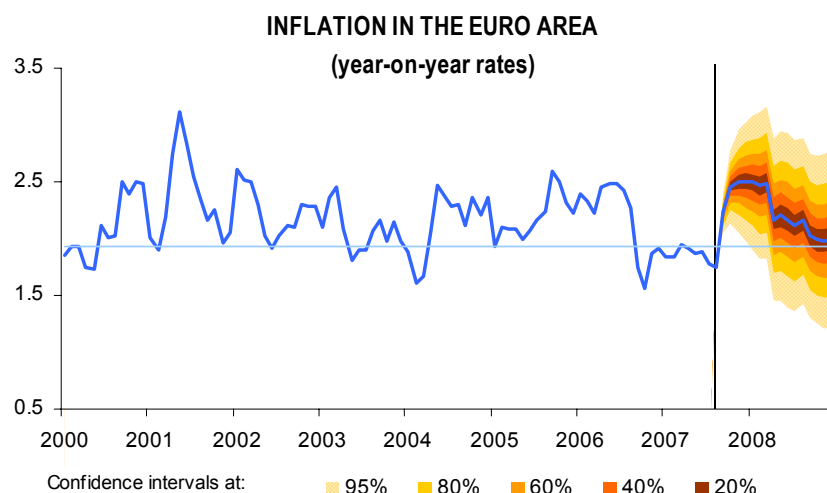
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Source: EUROSTAT & IFL(UC3M)

Date: September 21, 2007

MACROECONOMIC TABLE FOR THE EURO-AREA					
	Annual Average Rates				
	2004	2005	2006	Forecasts	
				2007	2008
GDP mp (1)	1.8	1.6	2.9	2.6	2.1
Demand					
Private Final Consumption	1.4	1.5	1.9	1.5	1.7
Public Final Consumption	1.3	1.4	1.9	2.0	1.9
Gross Capital Formation	2.5	3.0	5.6	4.3	2.6
Domestic Demand Contribution	1.6	1.8	2.6	2.2	2.0
Exports of Goods and Services	6.4	4.6	8.2	5.6	5.2
Imports of Goods and Services	6.3	5.4	7.9	4.8	5.0
Foreign Demand Contribution	0.2	-0.2	0.3	0.4	0.1

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

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