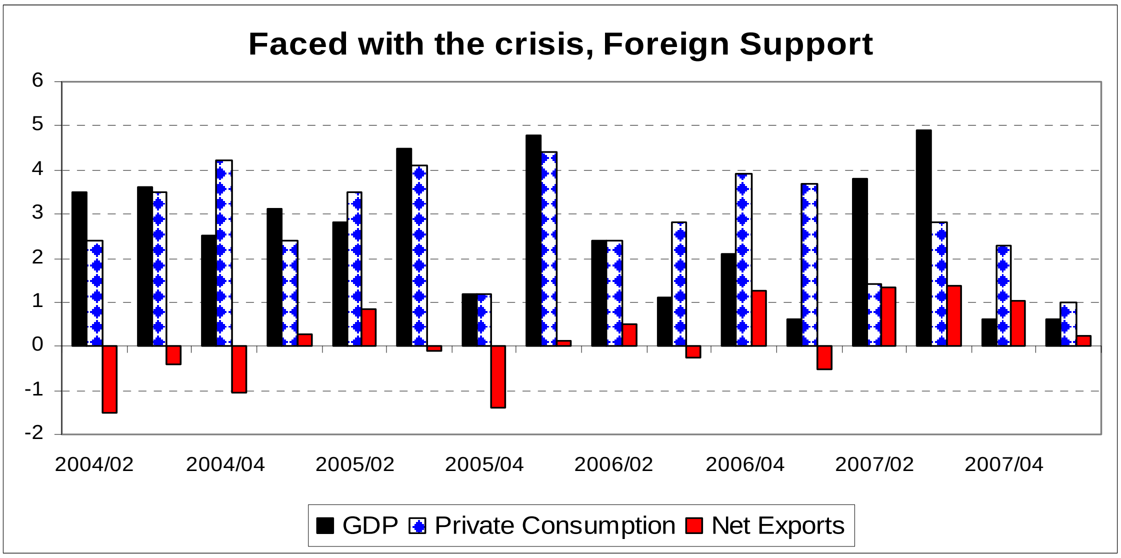
Observatorio de Coyuntura Económica Internacional

Valencia, April 2008

United States

Finally, there will not be a recession...technically



Source: US Bureau of Economic Analysis (BEA)
GDP and private consumption: quarterly annually adjusted growth. Net exports: contribution to GDP growth.

Key Points:

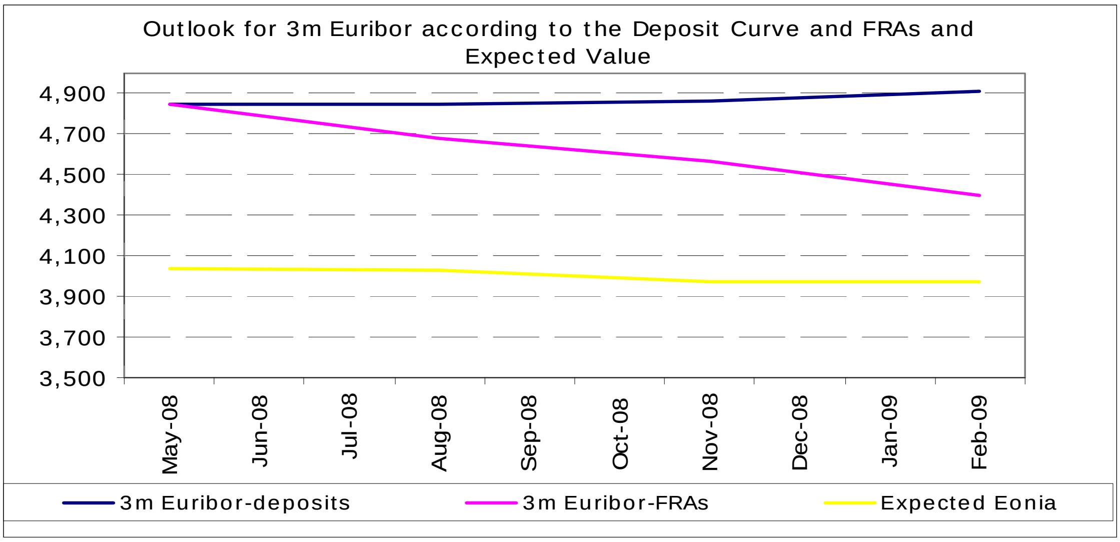
- On ending the first quarter with a positive growth rate (provisionally), it is highly unlikely that GDP will fall two quarters in a row.
- Market expectations become gloomier: the number of people who believe the worst of the financial crisis has passed increases. Risk of excessive pessimism becoming unjustified optimism.
- The Fed once again Powers interest rates, but changes its message in terms the risks the US economy faces, underlining the threat of inflation.
- Are excessively high prices beginning to drop in some markets? Gold falls US $150 per ounce since record an all-time high in March.

Key Data:

- GDP growth in Q1 2008: +0.6% (annually adjusted data), boosted by net exports and inventories (which together contributed 1.03 percentage points).
- Private consumption records lowest growth rate since Q1 1995 in Q1 2008 and investment drops, not only due to the collapse in residential investment (-26.7%), but also to a decrease in non-residential investment.
- April is the fourth month in a row in which jobs are lost, on this occasion 20,000 in net terms.
- The Fed lowers interest rates to 2%. With CPI prices advancing at a rate of 4%, the limits of monetary stimulus become more pronounced.

Euro-zone

Money, Money, Money



Source: Banco de España

Key Points:

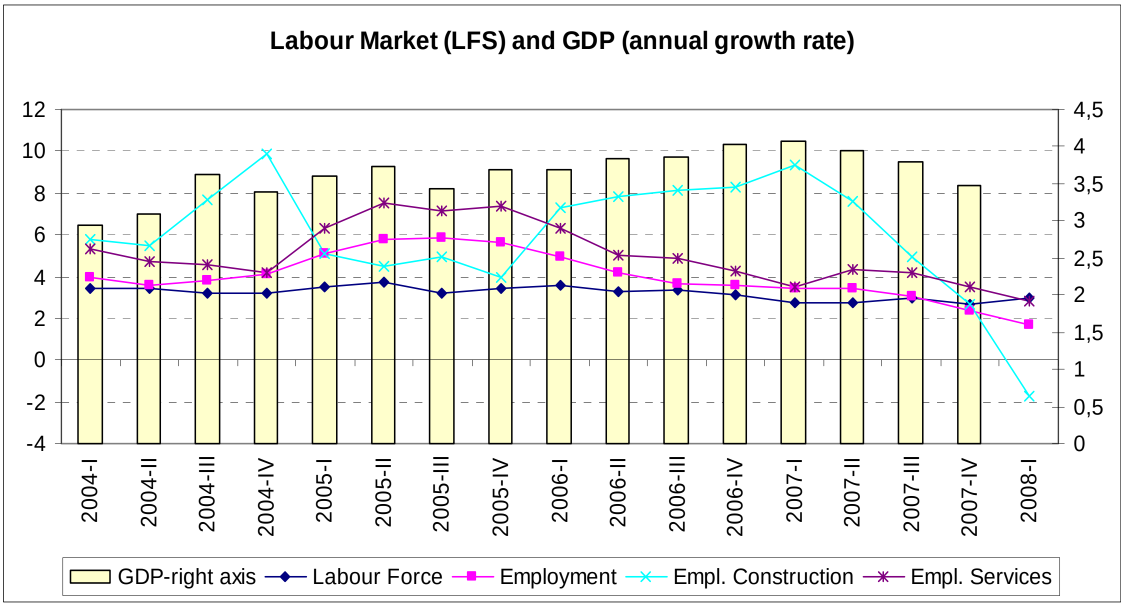
- Interbank market still not working correctly with a 62bp price distortion over a 12-month term in relation to one month interest rates. The European Central Bank (ECB) intervenes again to guarantee liquidity in the financial system.
- Some members of the ECB (Weber, Liebscher) believe the bank could be forced to raise interest rates due to the threat of inflation.
- Moody's rated the outlook for 32 European companies as negative and 11 as positive. Moody's also downgraded some Spanish savings banks and is likely to the same with more.

Key Data:

- Economic Sentiment Indicator (ESI) continues to fall in 2008 with 97.1 in April (99.6 in March). Slight drop in the PMI Manufacturing to 50.7 while PMI services and the composite indicator improve to 51.8 and 51.9 respectively.
- Activity improves over the first two months of the year: industrial output is up by a monthly 0.3% and an annual 3.1% (after seasonal adjustment); industrial orders are up by an annual 6.7% (after seasonal adjustment and construction is up by 4.3% in relation to the same month the previous year.
- Inflation improves in April: 3.3% (3.6% in March) and the unemployment rate remains stable at 7.1%.
- Euro-zone Public deficit decreases in 2007 to 0.6% of GDP (1.3% in 2006).

Spain

Labour Market Slump



Source: own elaboration with data from the Spanish National Institute of Statistics and Banco de España

Key Points:

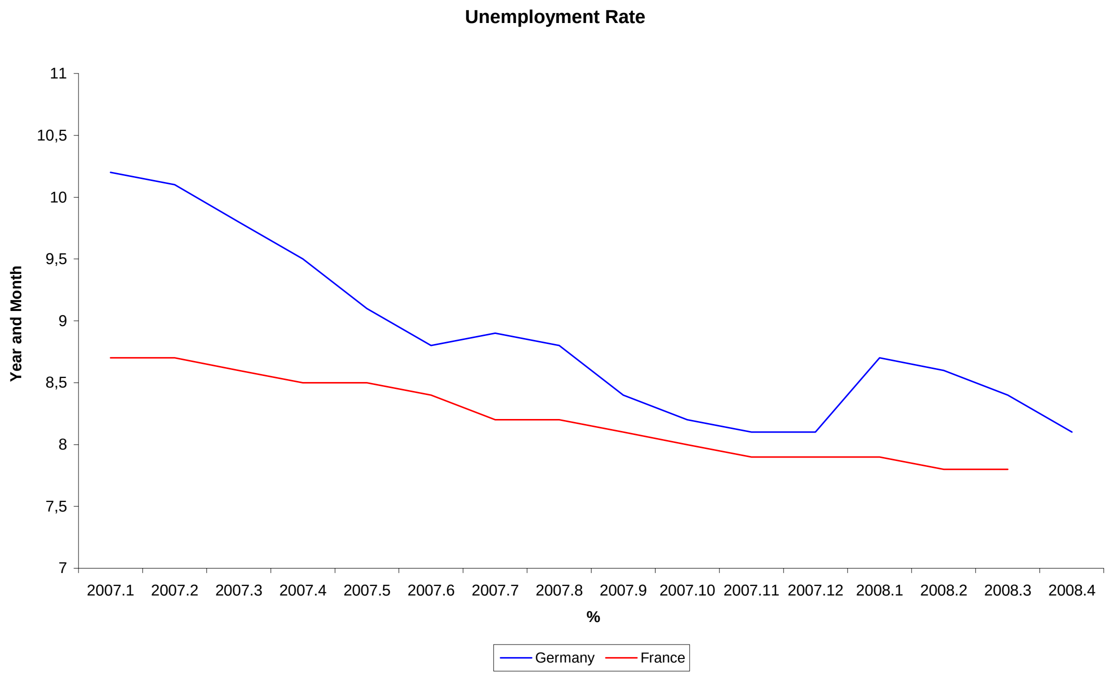
- Employment drops for the second quarter in a row (first time since Q1 2002). Marked quarterly slump in employment in construction and services.
- Main central banks inject more liquidity in the light of the lack of credit.
- Credit crunch sparks increases in the Euribor to levels unheard of since 2000, increasing households' financial burden. The labour market slump, real estate slowdown and uncertainty explain the weakness of private consumption.
- Foreign deficit grows less in Jan-Feb 2008 (in relation to the same period in 2007): smaller deficit in income and current transfers, larger surplus in services, which offsets the marked rise in the trade deficit.

Key Data:

- Labour Force Survey Q1 2008 (annual growth rates): employment grows (1.66%) less than the labour force (2.97%). Marked increase in unemployment over the last year (17.4%), particularly in construction (65.14%) and services (17.29%). Unemployment rate rises to 9.6%.
- Slowdown reduces public surplus to 3,276 million Euros in Q1 2008 (51% less than in Q1 2007). VAT income falls remarkably (real estate slump and weak private consumption).
- Headline and core inflation rose by 0.1% in March (4.5% and 3.4% respectively), leaving the inflation gap with the EMU at 1%.
- Household savings rate drops 0.2% to 10.3% of disposable income in 2007. Nevertheless, a rise has been observed over the last few months due to the current uncertainty.

France and Germany

Prices Still not Giving an Inch



Key Points:

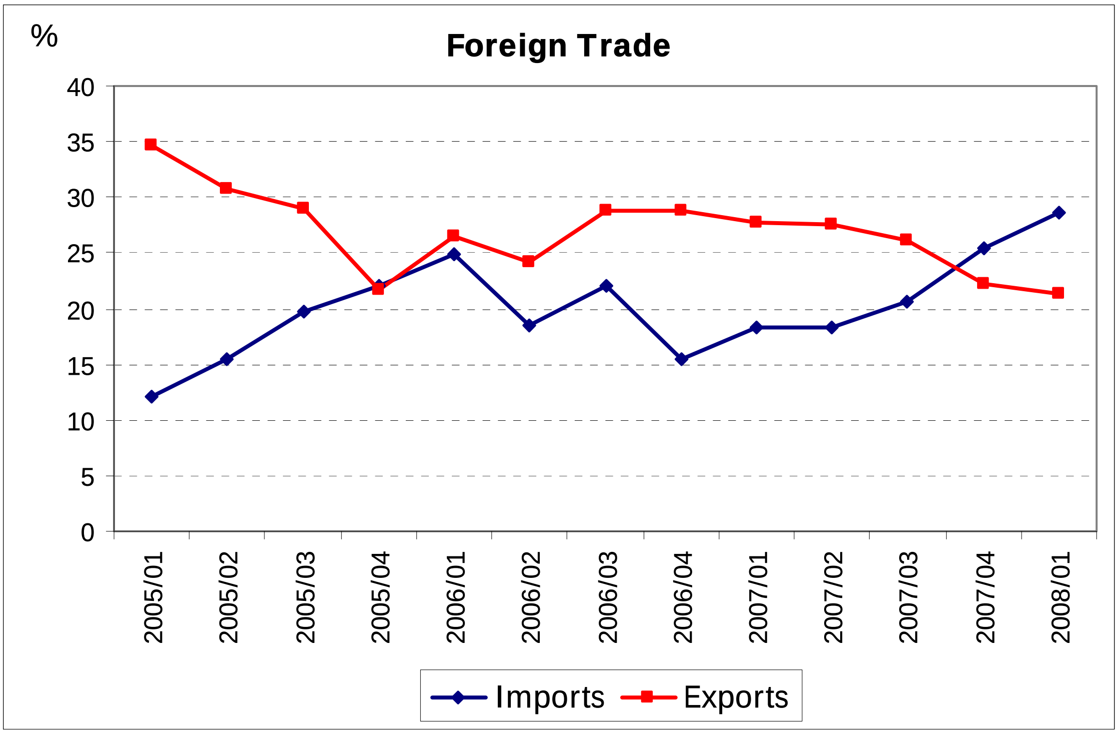
- After setting new record highs, both the Euro and oil prices level out.
- Despite the appreciation of the Euro, German foreign trade still shows no sign of fainting.
- Unemployment trend is one of the firmest indicators of the sound fundaments of growth in France and Germany at the beginning of 2008.
- The most negative aspect of the current economic scenario is still the dreadful trend in inflation, boosted by food and raw material prices.

Key Data:

- The unemployment rate continues to drop in March and April in both France and Germany.
- Inflation rises above 3% in both countries in March (3.1% in Germany and 3.2% in France).
- Industrial Production Index remains strong in February, particularly in Germany.
- All confidence indicators reveal that economic sentiment worsened in April both in France and Germany.

China

Worldwide Slowdown Affects Chinese Exports



Source: Organisation for Economic Co-operation and Development (OECD)

Key Points:

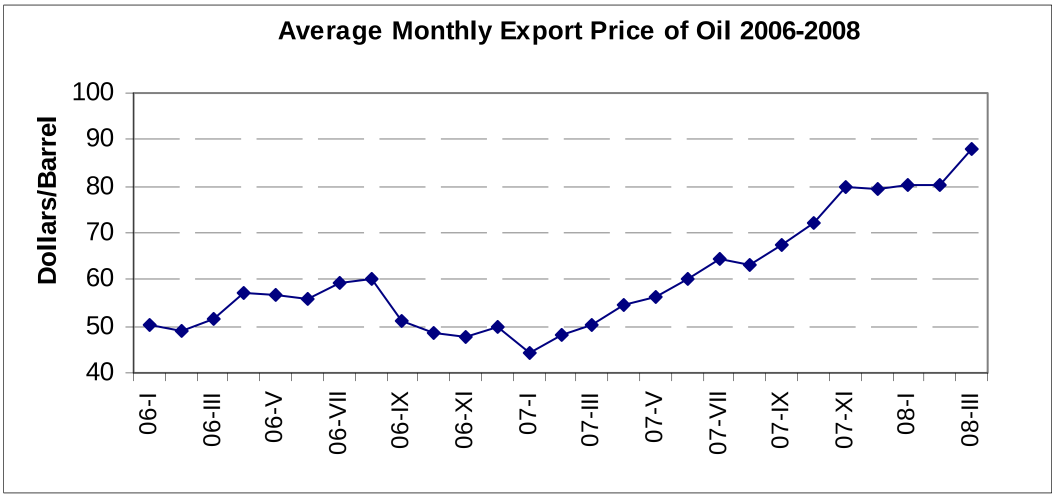
- Decrease in taxes levied on stock exchange transactions from 0.3% to 0.1% will boost stock markets.
- Weak foreign demand, the appreciation of the Yuan and bad weather spark a 10.8% decrease in the current account surplus in the first quarter.
- Domestic consumption "vital" for growth; retail sales up by 20.6% in the first quarter.
- Government prohibits companies from raising refined oil and electricity prices to curb inflation.

Key Data:

- Unstoppable inflation in the first quarter: CPI rises by 8%, PPI by 6.9% and retail prices by 7.4%, well above the rates recorded in 2007.
- GDP grows by 10.6% in the first quarter, less than in 2007, due to poor weather conditions and the crisis in the United States.
- The Central Bank of China raises the cash rate by a further 0.5% to 16%.
- Currency reserves amount to 1.68 billion dollars in March due to the trade surplus, foreign direct investment and speculation capital inflows.

Mexico

Soaring Oil Prices Boost Economic Growth with Strong Forex Income



Source: elaborated with information from PEMEX

Key Points:

- Foreign exchange inflows through oil exports continue to prop up the economy. The price of the Mexican export mix is well above that estimated in order to elaborate the budget
- Mexican GDP continued to grow strongly in February, despite the slowdown in the United States
- Annual inflation rate rises above 4% target rate (plus or minus 1%)
- Commercial bank loans flow into the private sector

Key Data:

- Mexico exported oil to a value of 3,779 million dollars in the first quarter, 53.8% more than over the same period in 2007. Oil prices averaged 88.10 dollars in march, well above the 49-dollar estimate used for budget purposes.
- The Global Economic Indicator (IGAE in Spanish) recorded an annual rise of 5.8% in February, but seasonally adjusted data reveal a monthly decrease of 1.65%.
- The annual inflation rate rises to 4.53% in the first two weeks of April while core inflation rises to an annual 4.5%, with process food prices figuring prominently (up by 8.25%).
- The main categories of commercial bank loans to the private sector rose in real terms in March by more than an annual 20%.