

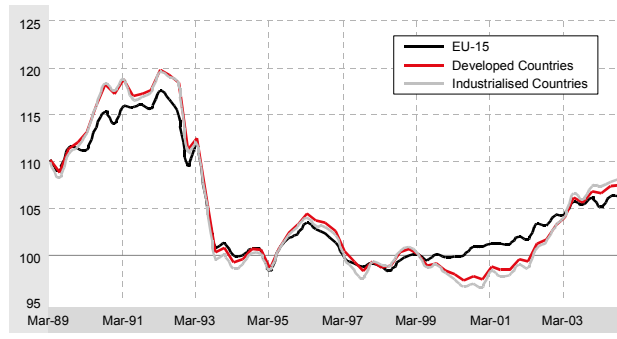
THE IBERIAN MACRO OBSERVER

The Spanish Economy is No Longer Competitive

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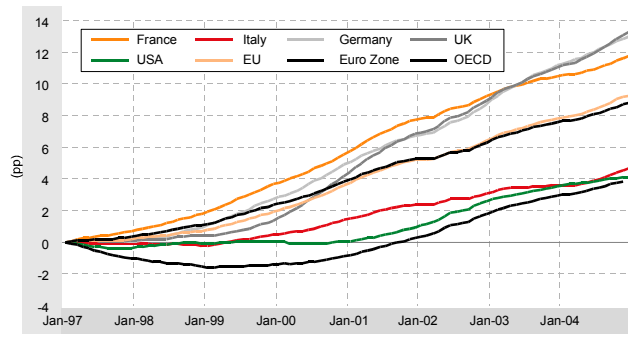
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Spain – Competitive Indices Using CPI, 1989-2004



Source: BoS and Santander Central Hispano Bolsa.

Spain – Total Economy ULC Cumulative Differentials, 1997-2004



Source: MINECO and Santander Central Hispano Bolsa.

Things to Watch during the Week

In the US:

- (1) Consumer credit could jump again in December.
- (2) Wholesale inventories may rise in December.
- (3) December trade balance could improve slightly.
- (4) Initial jobless claims to remain at low levels.

In the Euro Zone:

- (1) German IPI could rebound sharply in December.
- (2) German trade balance could improve in December.
- (3) French industrial production could go up in December.
- (4) French GDP expected to have risen 0.6% QoQ in 4Q04E.

- In 4Q04, the Spanish economy grew 0.8% QoQ and 2.7% YoY, according to forecasts by the Bank of Spain. This would leave FY04 GDP growth at 2.6% (vs our 2.5% forecast). The definitive GDP data should be released in the weeks ahead. Spanish business confidence indicators (PMI) were positive in January, although that of the Chambers of Commerce posted its lowest reading since 2002. Economic data was mixed, showing weak employment and industrial production figures and some continuing strength in retail sales.

- Two weeks ago we analysed the growing problem of the Spanish current account deficit. This week's *Macro Corner* looks at Spain's competitive position, in particular the weakness of exports. Spain's competitiveness is clearly damaged and the deterioration is highlighted by price indicators (eg, CPI, ULC or export unit value indices) and the real trade-weighted indices.

- The deterioration of Spain's competitive position is a real problem that has to be addressed as soon as possible. Following the introduction of the euro, the tool historically used to address the problem – currency devaluation – is not an option anymore. Therefore, other kinds of policies should be used, such as: (1) liberalisation of the labour and goods & services markets; (2) productivity increases; and (3) investments in technology to produce higher value added goods.

- In short, Spain needs to introduce supply-side policies that can increase flexibility in the economy and push up productivity levels. If no measures are taken, we believe that improving Spain's trade deficit through an increase in exports is going to be an impossible task, and the economy will certainly feel the effects.

THE WEEK BEHIND

Macro Data Published Last Week

Day	Time	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
31-Jan Monday	8:45	France	Consumer Confidence Indicator	Jan	-25.0	-24.0	-25
	9:00	Spain	Retail Sales (m/y)	Dec	-2.7/8.3r	-	26.7/5.6
	9:30	Italy	Retail Confidence General	Dec	95.6	96.6	97.9
	9:30	Italy	Services Survey	Jan	8	8	19
	11:00	Italy	PPI (m/y)	Dec	0.0/4.3r	0.0/4.3	-0.2/4.2
	11:00	Euro Zone	Business Climate Indicator	Jan	0.44r	0.48	0.40
	11:00	Euro Zone	Euro Zone Consumer Confidence	Jan	-13.0	-12.0	-13.0
	14:30	US	Personal Income	Dec	0.4r	3.4	3.7
	14:30	US	Personal Spending	Dec	0.4r	0.8	0.8
	14:30	US	PCE Deflator (y)	Dec	2.7r	2.4	2.4
	14:30	US	PCE Core (y)		1.6r	1.5	1.5
	16:00	US	New Home Sales	Jan	1,097kr	1,200k	1,098k
	16:00	US	Chicago Purchasing Manager	Jan	61.9r	59.0	62.4
	1-Feb Tuesday	10:00	Euro Zone	PMI Manufacturing (Survey)	Jan	51.4	51.7
10:00		Euro Zone	Euro Zone Unemployment Rate	Dec	8.8r	8.9	8.9
16:00		US	Construction Spending (m)	Dec	0.3r	0.5	1.1
16:00		US	ISM Manufacturing	Jan	57.3r	57.0	56.4
16:00		US	ISM Prices Paid	Jan	72.0	71.5	69.0
2-Feb Wednesday	0:30	US	ABC Consumer Confidence	30-Jan	-8	-	-11
	8:00	Germany	Retail Sales (m/y)	Dec	-1.7/0.3r	1.9/0.5	-0.3/-2.7
	9:55	Germany	Unemployment Rate	Jan	10.8	11.3	11.4
	11:00	Euro Zone	Euro Zone PPI (m/y)	Dec	-0.2/3.7r	0.1/3.6	-0.2/3.6
	13:00	US	MBA Mortgage Applications	28-Feb	-3.6	-	7.3
	20:15	US	FOMC Rate Decision	2-Feb	2.25	2.50	2.50
3-Feb Thursday	10:00	Euro Zone	PMI Services (Survey)	Jan	52.6	52.9	53.4
	13:45	Euro Zone	ECB Announces Interest Rates	Feb	2.00	2.00	2.00
	14:30	US	Initial Jobless Claims	29-Jan	325k	325k	316k
	14:30	US	Continuing Claims	22-Jan	2,812kr	2,765k	2,696k
	14:30	US	Non-Farm Productivity	4Q P	1.8	1.5	0.8
	14:30	US	Unit Labour Costs	4Q P	1.6	2.0	2.3
	16:00	US	Factory Orders	Dec	1.4r	0.7	0.3
	16:00	US	ISM Non Manufacturing	Jan	63.9r	61.0	59.2
4-Jan Friday	9:00	Spain	Industrial Output (sa/wda) (y)	Dec	2.2	3.5	0.9
	11:00	Italy	CPI (NIC incl tobacco) (m/y)	Jan P	0.2/2.0	0.2/2.1	0.0/1.9
	11:00	Euro Zone	Euro Zone Retail Trade (m/y)	Dec	-0.1/0.2r	0.5/1.2	0.2/0.5
	12:00	Germany	Factory Orders (m/y)	Dec P	-2.4/1.2	1.5/1.5	7.1/7.1
	14:30	US	Unemployment Rate	Jan	5.4	5.4	5.2
	14:30	US	Non-Farm Payrolls	Jan	133kr	200k	146k
	14:30	US	Manufacturing Payrolls	Jan	-7kr	5k	-25k
	14:30	US	Average Hourly Earnings (m/y)	Jan	0.1/2.7	0.2/-	0.2/-
	14:30	US	Average Weekly Hours	Jan	33.8	33.8	33.7
	15:45	US	Uni. of Michigan Confidence	Jan F	95.8	96.0	95.5

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (I) Index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (E) estimate; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (1) first release; (2) second release; (*) CET.

Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Central Hispano Bolsa estimates and forecasts.

SPAIN'S 4Q04 GDP: +0.8% QoQ, +2.7% YoY

According to forecasts by the Bank of Spain, the Spanish economy grew 0.8% QoQ and 2.7% YoY in 4Q04. The Ministry of the Economy's definitive data should be released in the weeks ahead. If confirmed, the Bank of Spain's numbers would put the FY04 GDP growth numbers at 2.6%, above our outlook of 2.5%. Internal demand, namely private consumption, was the main driver of the acceleration in GDP growth rates. The central bank said the trade deficit might have subtracted around 1.5pp of growth in 2004.



Spanish leading business confidence indicators improved, with the PMI for both the manufacturing and services sectors rising in January. Spanish consumer confidence also rose, according to a new index published by the ICO (official credit institute). On the negative side, the Chambers of Commerce's 1Q05 business confidence indicator reached its lowest level since 2002. The loss of competitiveness of exports could be behind that poor performance.

Hard data revealed a relatively poor picture of the Spanish economy: (1) January employment numbers were weak, with unemployment rising by 53,159 people in the month. We expect relatively weak employment numbers in 2005F; (2) December industrial production was relatively sluggish, with growth coming almost solely from the energy sector. Intermediate and consumer goods contributed modestly to activity growth in December, while capital goods made a negative contribution. We expect the same trends to be maintained in the near future; (3) car sales increased 6.1% YoY in January; and (4) retail sales grew 2.6% YoY in December.

WEAK US EMPLOYMENT AND STRONG GERMAN FACTORY ORDERS

The Week in the US: Confidence indicators point to lower activity levels ahead. The deceleration in productivity growth continued, while unit labour costs rose again, adding pressure to corporate margins. The January employment report was weaker than expected.

ISM indices point to lower GDP growth rates ahead

The ISM indices, for both the manufacturing and services sectors, posted a bigger-than-expected decline in January. Although they are still at levels consistent with expansion in both sectors, there is mounting evidence that the deceleration in activity continues. The January numbers confirm our expectations that GDP growth is decelerating. There was an increase in the employment index of the manufacturing ISM, but, in our view, the decline in the backlog orders' indices for manufacturing and services is clearly negative news for future employment and activity.

Productivity down and ULC up

4Q04 productivity and unit labour costs numbers were also very interesting. They pointed to a deceleration in productivity and acceleration in unit labour costs (ULCs). We believe that productivity will continue to decelerate in 2005F, pushing up ULCs. The overall result will probably be slower-than-expected GDP growth and a deceleration, or even contraction, in growth in company margins. The latter will obviously affect company profits.

Personal income boosted by Microsoft pay-out

The major payout by Microsoft lifted personal income sharply (3.7% MoM). Excluding that special factor, personal income would have grown 0.6% MoM. Given personal income growth rates, we believe private consumption is not sustainable at current levels (above 4.0% QoQ annualised). Jobless claims were better than expected, with a significant decline in continuing claims. January factory orders were weaker than expected, rising just 0.3% MoM. Shipments remained strong, while inventories eased.

January employment numbers were relatively weak

We closed the week with the release of weaker-than-expected January employment figures: (1) non-farm payrolls rose by just 146k in the month; (2) the unemployment rate declined to 5.2% from 5.4% thanks to another fall in the labour participation ratio to 65.8%, the lowest since 1988; (3) average hourly earnings are growing modestly, while average weekly earnings actually fell in the month; (4) aggregate weekly hours also point to lower activity growth levels in 1Q05F. We do not expect employment creation to pick up in the short run and expect to see non-farm payrolls in the 150k-200k range in the months ahead.

The Week in the Euro Zone: The data released last week confirmed our expectations: there was a recovery in the leading business confidence indicators, pointing to higher GDP growth levels in 2H05F. On the other hand, we had mixed figures out of Germany, with strong factory orders, but still weak consumption.

Business confidence continues to improve

Euro zone PMI indices rose again in January, in both the manufacturing and the services sector. These new increases reinforce our view that the Euro zone economy is on track to show stronger GDP growth rates in 2H05F (we still expect relatively weak numbers in 1H05F). The negative spot in the reports was the relative weakness that persists in the employment indices, particularly in Germany. We believe that employment conditions will tend to improve as the year progresses. However, European Commission indices show a mixed performance.

German figures were mixed

In Germany, we had mixed numbers: (1) January employment figures were very negative, with the unemployment rate jumping to 11.4%; (2) December retail sales figures were weak again, falling 0.3% MoM and 2.7% YoY; (3) factory orders posted a strong gain in December, rising 7.1% MoM, driven by internal demand. Capital goods orders were particularly firm. We expect these numbers to anticipate a strong reading in business investment in capital goods in both 4Q04E and 1Q05F; (4) preliminary January CPI figures point to a sharp slowdown in inflation to 1.6% YoY from 2.1% YoY in December. We expect this positive news on inflation to continue across Europe in the coming quarters.



THE WEEK AHEAD

Macro Data to Be Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
During the Week	–	Germany	Wholesale Price Index (m/y)	Jan	-0.3/3.8	0.6/3.9
7-Feb Monday	21:00	US	Consumer Credit (US\$ bn)	Dec	-8.7	6.8
8-Feb Tuesday	8:45 12:00	France Germany	Central Government Balance (€ bn) Industrial Production (m/y)	Dec Dec P	-58.4 -1.5/-0.5	1.0/0.7
9-Feb Wednesday	0:30 13:00 16:00	US US US	ABC Consumer Confidence MBA Mortgage Applications (m) Wholesale Inventories (m)	6-Feb 4-Feb Dec	-11 7.3 1.1	– – 0.9
10-Feb Thursday	8:00 8:00 8:00 8:00 8:45 8:45 10:00 14:30 14:30 14:30 20:00	Germany Germany Germany Germany France France Euro Zone US US US US	Current Account (€ bn) Trade Balance (€ bn) Imports (m) Exports (m) Industrial Production (m/y) Manufacturing Production (m/y) ECB to Release February Monthly Report Trade Balance (US\$ bn) Initial Jobless Claims Continuing Claims Monthly Budget Statement (US\$ bn)	Dec Dec Dec Dec Dec Dec – Dec 5-Feb 29-Jan Jan	8.5 11.9 1.5 0.1 0.1/2.1 -0.3/2.6 – -60.3 316k 2,696k -1.4	9.0 12.0 -0.4 0.6 0.3/2.1 0.3/2.5 – -57.3 332k – 5.2
11-Feb Friday	8:45 8:45 12:00	France France	Trade Balance (€ mn) GDP (q) OECD Leading Indicators	Dec 4Q P Dec	-1,080 0.0 –	-700 0.6 –

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (I) index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (E) estimate; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (1) first release; (2) second release; (*) CET.

Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Central Hispano Bolsa estimates and forecasts.

NOTHING REALLY IMPORTANT EXPECTED THIS WEEK

In the US: (1) December consumer credit could jump again; (2) December wholesale inventories are expected to rise 0.9% MoM; (3) December trade data should show a slight improvement; and (4) initial jobless claims are likely to remain low.

In the Euro zone: (1) German industrial production is expected to rebound sharply in December; (2) the German trade balance could improve in December; (3) French industrial production should rise in December; and (4) French GDP is expected to increase by 0.6% QoQ in 4Q04E.

RATES AND CURRENCIES

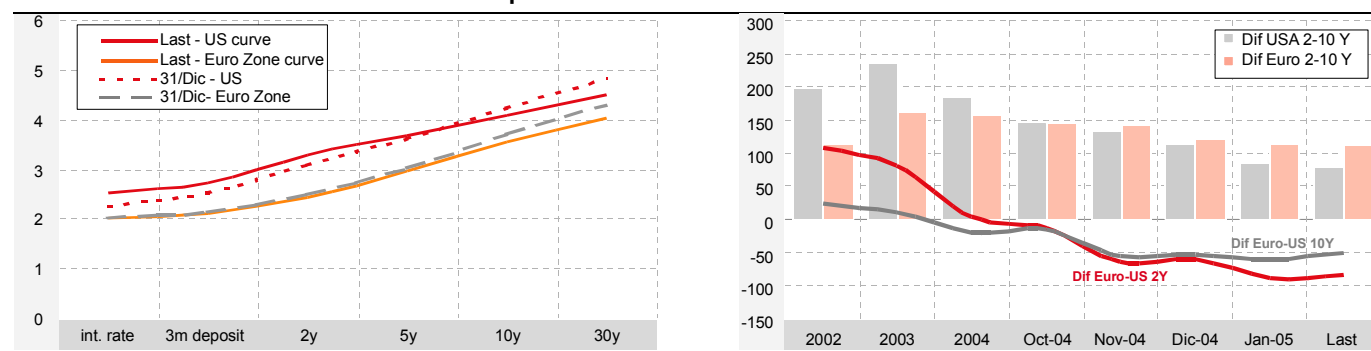
- Last week, the Federal Reserve raised interest rates by 25bp to 2.50%. The decision was fully in line with expectations, and the Fed made no changes to its post-meeting statement, which in our view means that the ‘measured pace’ of interest rate hikes will be maintained in the meetings ahead. The ECB decided to leave interest rates unchanged at last week’s meeting and, according to the statement, it seems that Euro zone interest rates are unlikely to rise in the near future.
- The G7 conference and the statement of Fed chairman, Alan Greenspan on the current and budget deficits pushed the dollar up against the euro. We maintain our positive stance on the greenback against the Euro zone currency.

US and Euro Zone – Interest Rates and Currencies

		Annual ¹			Quarterly ¹				Monthly				Weekly			
		2002	2003	2004	Mar-04	Jun-04	Sep-04	Dec-04	Oct-04	Nov-04	Dec-04	Jan-05	21-Jan	28-Jan	04-Feb	Last (2)
ST Interest Rates																
	ECB repo rate	3.2	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.00	2.00	2.00	2.00
	Fed funds	1.7	1.1	1.4	1.0	1.1	1.5	2.0	1.8	2.0	2.3	2.3	2.25	2.25	2.50	2.50
	Euribor 3M	3.3	2.3	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.13	2.12	2.09	2.12
	US dep 3M	1.7	1.2	1.6	1.1	1.3	1.8	2.3	2.1	2.4	2.5	2.7	2.66	2.69	2.73	2.73
LT Interest Rates																
Euro	2Y	3.6	2.5	2.5	2.3	2.6	2.5	2.4	2.4	2.4	2.5	2.4	2.40	2.39	2.44	2.42
	5Y	4.2	3.3	3.3	3.2	3.5	3.4	3.1	3.2	3.0	3.0	2.9	2.93	2.92	2.97	2.94
	10Y	4.8	4.1	4.1	4.1	4.3	4.1	3.8	3.9	3.8	3.7	3.5	3.57	3.55	3.56	3.50
US	30Y	5.2	4.8	4.7	4.8	4.9	4.7	4.4	4.6	4.4	4.3	4.0	4.11	4.05	4.01	3.93
	2Y	2.5	1.6	2.4	1.7	2.5	2.6	2.9	2.5	3.0	3.1	3.3	3.14	3.26	3.28	3.30
	5Y	3.7	2.9	3.4	3.0	3.7	3.5	3.5	3.3	3.7	3.6	3.7	3.64	3.69	3.67	3.68
	10Y	4.5	4.0	4.2	4.0	4.6	4.2	4.2	4.0	4.3	4.2	4.1	4.14	4.14	4.08	4.08
	30Y	5.3	4.9	5.0	4.9	5.3	5.0	4.9	4.8	5.0	4.8	4.6	4.64	4.61	4.48	4.47
Spreads																
Dif-Euro	3M-30Y	194	255	265	284	287	261	228	243	226	216	194	198	193	191	182
	2Y-10Y	115	164	160	178	171	154	136	145	144	120	115	117	116	112	108
Dif US	3M-30Y	352	374	338	380	399	321	254	269	263	230	188	199	192	176	175
	2Y-10Y	198	235	184	230	207	168	133	148	135	115	86	100	89	79	78
Dif-Euro-US Int		154	115	60	100	92	50	0	25	0	-25	-25	-25	-25	-50	-50
	2Y	107	82	5	61	6	-2	-45	-13	-64	-59	-88	-75	-87	-84	-88
	10Y	24	11	-20	9	-30	-16	-42	-16	-55	-54	-59	-57	-59	-52	-57
Currencies																
	€/US\$	0.95	1.14	1.25	1.24	1.21	1.22	1.32	1.276	1.328	1.356	1.305	1.305	1.303	1.289	1.285
	€/¥	118	132	134	132	133	135	137	135	137	139	135	134	135	134	134
	US\$/¥	125	116	107	106	110	110	104	106	103	103	104	103	103	104	104

(1) Figures represent the average for the period; (2) February 7, 2004.
Source: Santander Central Hispano Bolsa estimates and forecasts.

US and Euro Zone – Debt Curve & 2Y-10Y Spreads

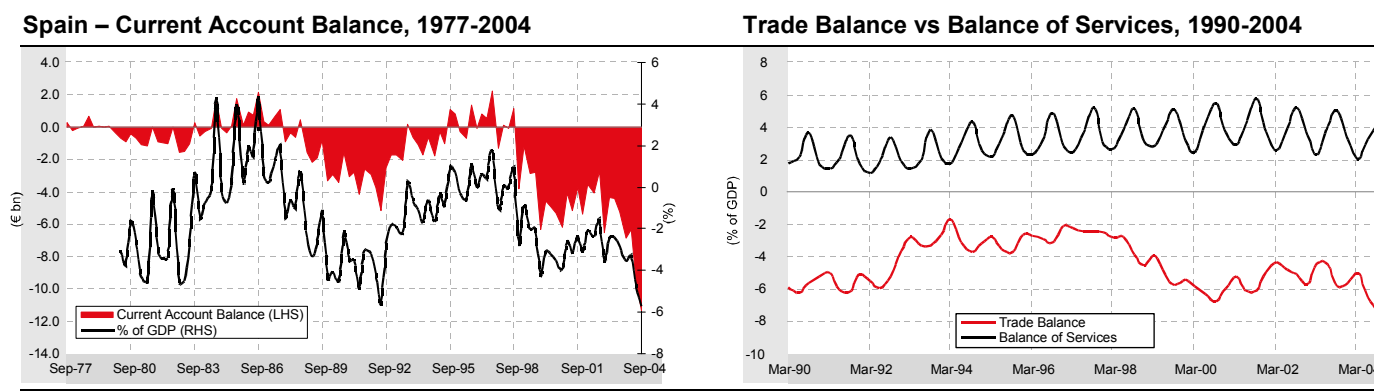


Source: Bloomberg.



MACRO CORNER: SPANISH COMPETITIVENESS

Two weeks ago, in the January 24 edition of *Macro Observer*, we analysed the performance of the Spanish Balance of Payments. As we pointed out then, the balance of payments was becoming a major problem for the Spanish economy. Due to the sharp expansion seen in the economy in recent years (mainly driven by internal demand), the current account deficit has grown significantly. According to published numbers, the current account deficit jumped to record levels of 5.7% of GDP in 3Q04, and the main factor pushing up the current account deficit was the trade balance. The deficit in the trade of goods jumped to 7.4% of GDP, at the same time that the balance of services reduced its surplus.



Source: MINECO, Bloomberg and Santander Central Hispano Bolsa.

In our conclusions, we highlighted that the solutions for reducing the current account deficit are limited, since Spain cannot devalue its currency, as it did at the beginning of the 1990s. The solutions were: (1) a deceleration in internal demand combined with an increase in savings; (2) an improvement in Spain's competitive position; and (3) a pick-up in the services account (possibly by changing the tourism model).

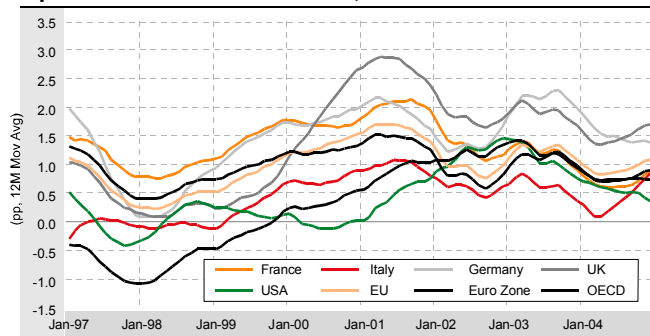
In this edition of *Macro Corner*, we look at the deteriorating competitive position of the Spanish economy in recent years and the possible ways to improve it in the future.

In our analysis, we will look first at the differentials accumulated in different price variables between Spain and other economic areas. We will focus on CPI differentials, the export and import Unit Value Indices (UVI), ULC and the producer prices indices. Secondly, we will analyse Spanish competitiveness through competitiveness indices, in which we will include effective exchange rates, both nominal and real. Finally, we will look at the penetration of foreign products imported into the Spanish economy in recent years.

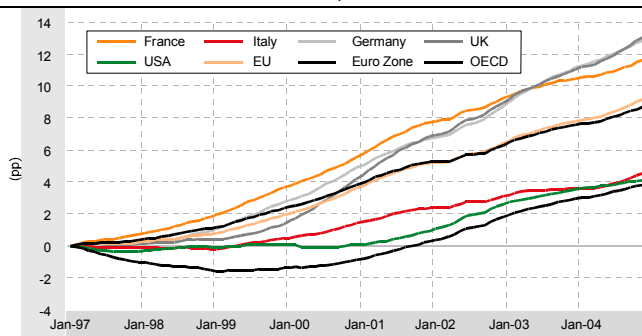
CPI DIFFERENTIALS HAVE INCREASED SHARPLY IN RECENT YEARS

Our first tool of analysis is the differential in CPI prices between Spain and the main economic areas and countries. An increase in the CPI differential (Spanish CPI growth rates above those of other areas) over a long period of time would indicate a loss of competitiveness and a decrease in the CPI differential (Spanish CPI growth rates below those of other areas) would lead to increased competitiveness.

Spain – CPI YoY Differentials, 1997-2004



CPI Cumulative Differentials, 1997-2004



Source: MINECO and Santander Central Hispano Bolsa.

The loss of competitiveness as seen through CPI differentials is quite evident in the graph above and the table below. Spanish CPI has been growing faster than that of its main commercial partners since the beginning of 2000. Moreover, it is still growing at a faster pace. On the other hand, it is useful to see that the cumulative CPI differentials since 1997 are tremendous against practically all the economic areas and large economies. It is particularly worrisome that the cumulative CPI differential against the Euro zone, which is Spain's main trading partner, has been nearly 9pp since 1997.

Spain – CPI Differentials, 1997-2004

(pp)	Germany	France	Italy	UK	EU	Euro Zone	USA	Japan	OECD
Dif % YoY ¹	1.39	1.20	1.23	1.70	1.08	0.9	0.36	3.04	0.74
Cumulative ²	13.01	11.76	4.69	13.25	9.26	8.79	4.07	24.68	3.81

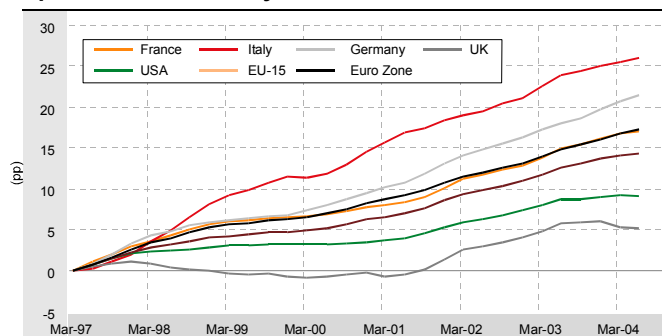
(1) 12 months average % YoY differentials in December 2004. (2) Cumulative differential period 1997-2004.

Source: MINECO and Santander Central Hispano Bolsa.

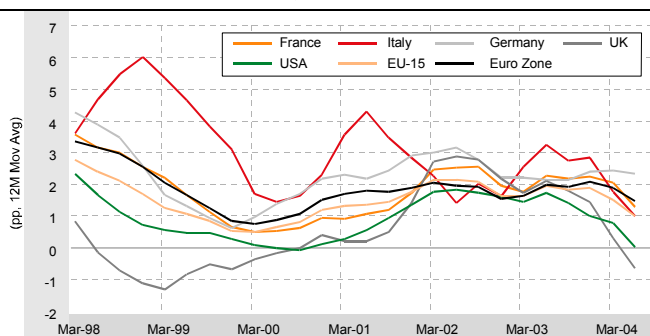
SPANISH ULC GROWTH RATES MUST BE REDUCED

Our second area of analysis is ULC, in an effort to reach some conclusions about how Spanish companies can compete with other countries given their costs. This clearly compares the productivity levels among different countries, analysed through costs. Higher productivity levels normally imply lower levels of ULC, even with higher salary levels. Obviously, an increase in the ULC differential (Spanish ULC growth rates above those of other countries) over a long period of time would provoke a loss of competitiveness and *vice versa*.

Spain – Total Economy ULC Cumulative Differentials



ULC %YoY Differentials, 1998-2004



Source: MINECO and Santander Central Hispano Bolsa.



The loss of competitiveness highlighted by the ULC differentials is quite clear in both the broad economy and the industrial sector. However, it is important to note that, in relative terms, the loss of competitiveness in the industrial sector has been lower than in the economy as a whole. The reasons could be that: (1) the industrial sector has maintained higher productivity growth rates than the whole economy (mainly given the absence of job creation in the sector); (2) industrial sector salary costs have grown less than those in the construction sector (which has been the main driver of economic growth in recent years), but more than in the services sector; and (3) competitive pressures in the industrial sector are much higher than in the construction or services sectors.

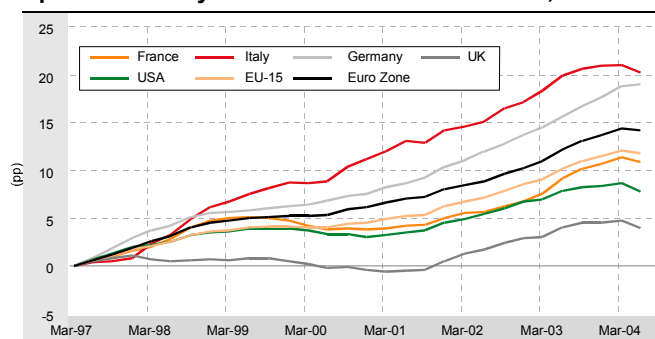
Spain – ULC Differentials for Total Economy and the Industrial Sector, 1997-2004

(pp)	Germany	France	Italy	UK	EU	Euro Zone	USA
Total economy							
Dif % YoY ¹	2.35	1.30	1.00	-0.63	1.01	1.49	0.04
Cumulative ²	21.49	17.07	26.02	5.08	14.35	17.22	9.09
Industrial sector							
Dif % YoY ¹	2.34	1.16	-0.42	-0.17	0.96	1.29	-0.33
Cumulative ²	19.02	10.94	20.32	3.97	11.81	14.27	7.80

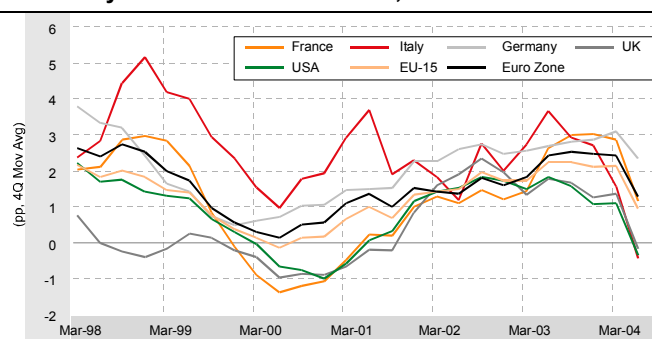
(1) 12-month average % YoY differentials in 2Q04. (2) Cumulative differential period: 1997-2Q04.
Source: MINECO and Santander Central Hispano Bolsa.

So we can see that the cumulative differential in ULC between Spain and its competitors should be reduced in the years ahead, or at least Spain should reduce the pace at which the differential has grown in the past five years (since it is also true that Spanish costs have been lower in absolute terms for quite a while). It seems that the annual growth rate in the differential has started to contract. In our view, to maintain this positive trend, Spain would have to: (1) control costs in the short run through a moderation in salary growth rates (as an initial, quick solution); and (2) increase productivity growth rates, which would allow higher increases in income without implying greater increases in costs (as a more medium-term solution).

Spain – Industry ULC Cumulative Differentials, 1997-2004



Industry ULC %YoY Differentials, 1998-2004

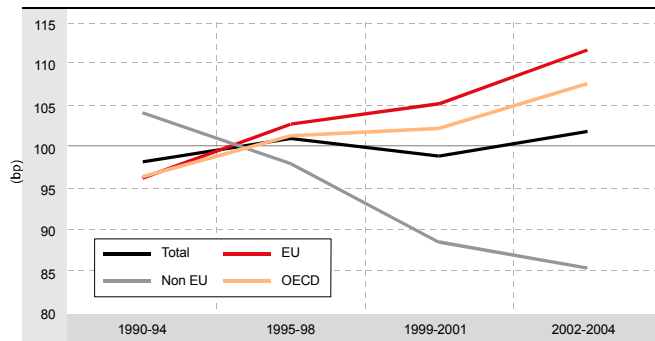


Source: MINECO and Santander Central Hispano Bolsa.

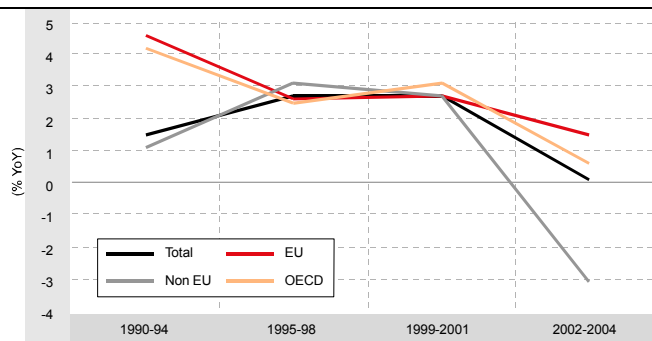
UVI OF EXPORTS AND IMPORTS ALSO REFLECTS LOSS OF COMPETITIVENESS

Unit value indices (UVI) are a useful tool to analyse the performance of the price of exports and imports of the goods traded by an economy with its trading partners. Using the export/import UVI ratio, we can see if an economy is improving its competitive position (ie, a falling ratio, indicating that import prices are higher than export prices) or if it is being eroded (ie, a rising ratio, indicating that export prices are higher than import prices). We also analyse the performance of the export UVI for two reasons: (1) to see if the competitive position changes with a movement in export prices; and (2) to compare the performance of export prices with those of internal prices like CPI or ULC, to see if companies are passing on the cost increases to foreign buyers or are absorbing them, which would lead to declining margins or profits.

Spain – Export/Import UVI Ratio Economic Area



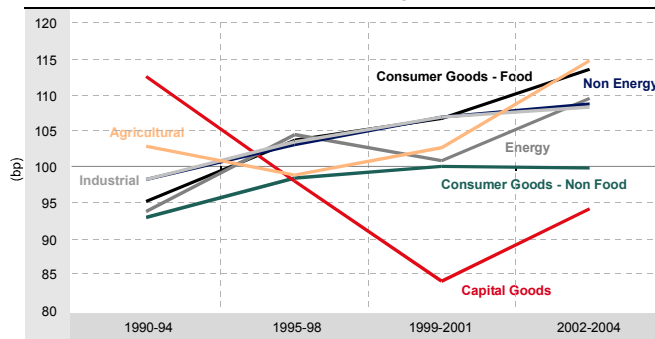
Export UVI by Economic Area, 1990-2004



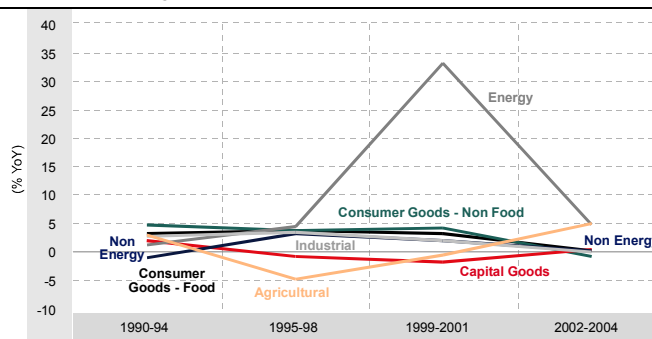
Source: MINECO and Santander Central Hispano Bolsa.

Looking at the economic trading areas, we can see in the graphs above and the table on the next page that Spain has lost some of its competitive advantages over other parts of the world. However, breaking down the different areas, we can see that the distribution is not homogeneous. Firstly, Spain is less competitive vis-à-vis EU and OECD countries, while it has gained competitive power against non-EU countries. The moderation of export prices when compared with all areas is evident, particularly with non-EU countries. In our view, this is bad news, as Spain has lost competitive power versus its main trading partners (the EU), while the gains achieved against non-EU countries will have little positive impact on Spain's trade balance. Moreover, the loss of competition with EU countries can only be improved through price differentials, not exchange rates, as is the case with non-EU countries.

Spain – Export/Import UVI Ratio by Product/Sector



Export UVI by Products/Sectors, 1990-2004



Source: MINECO and Santander Central Hispano Bolsa.

In the product/sector breakdown, we also find some interesting ideas: (1) Spain still has some competitive advantage in capital goods; (2) Spain has lost its competitive advantage in practically all other products except consumer non-foods; (3) the loss of competitive advantage is particularly significant in consumer foods and also in industrial products; and (4) export prices are either stagnant or falling in all products and sectors except agriculture. Looking at products/sectors, Spain's competitive position is also negative, since we only have advantages in products or sectors (capital goods) that do not have a significant weighting in Spain's exports.

Finally, we can see that export prices are growing more slowly than internal prices and ULC, which indicates that export companies have seen their margins deteriorate in recent years.



Spain – Unit Value Indices of Imports and Exports, 1990-2004

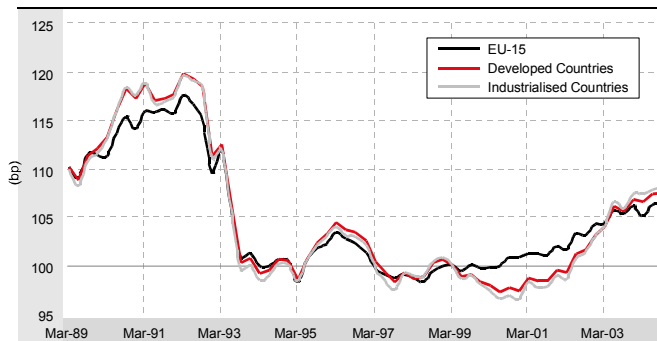
	1990-94	1995-98	1999-2001	2002-04	1990-94	1995-98	1999-2001	2002-04
Economic Areas								
	Export/Import UVI Ratio (bp)				Export UVI (% YoY)			
Total	98.1	101.0	98.9	101.8	1.5	2.7	2.7	0.1
EU	96.2	102.7	105.1	111.6	4.6	2.6	2.7	1.5
No EU	104.1	98.0	88.5	85.2	1.1	3.1	2.7	-3.1
OECD	96.4	101.2	102.2	107.7	4.2	2.5	3.1	0.6
Goods and Sectors								
	Export/Import UVI Ratio (bp)				Export UVI (% YoY)			
Total	98.1	101.0	98.9	101.8	1.5	2.7	2.7	0.1
Consumer Goods	93.5	99.8	101.4	102.7	4.3	3.7	4.0	-0.4
Food	95.1	103.6	106.6	113.5	3.3	3.7	3.3	0.4
Non-Food	93.0	98.4	100.1	99.8	4.7	3.7	4.4	-0.7
Capital Goods	112.5	98.0	84.1	94.1	2.1	-0.7	-1.7	0.6
Intermediate Gds	97.6	102.1	101.0	101.5	-0.9	3.2	3.0	0.5
Energy	93.8	104.5	100.8	109.4	1.3	4.6	33.2	4.8
Non-Energy	98.2	103.0	106.8	108.7	-1.0	3.2	2.0	0.2
Industrial	98.2	103.4	106.8	108.2	2.8	3.6	2.1	0.0
Agricultural	102.8	98.8	102.7	114.8	3.1	-4.6	-0.5	5.1

All figures are averages for the period. An increase in the index implies a loss of competitiveness and the other way round.
Source: MINECO and Santander Central Hispano Bolsa.

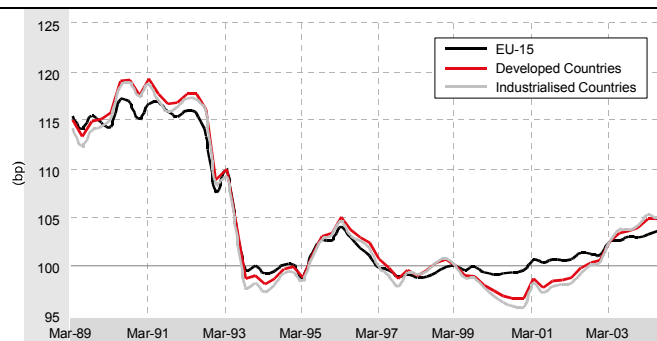
COMPETITIVENESS INDICES ALSO POINT TO DETERIORATION

Using other measures of competitiveness indices, like nominal trade-weighted indices and real (consumer and producer) trade-weighted indices, we also find that Spain's competitive position has deteriorated significantly in recent years. An increase in the index means deterioration in Spain's competitive position, while a decline in the index points to gains in competitiveness.

Spain – Competitive Indices using CPI, 1989-2004



Competitive Indices with Manufacturing Prices, 1989-2004

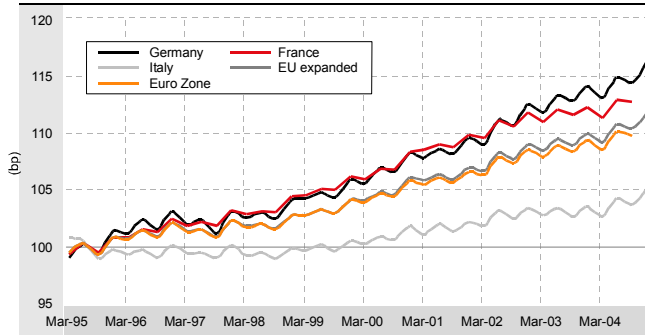


Source: BoS and Santander Central Hispano Bolsa.

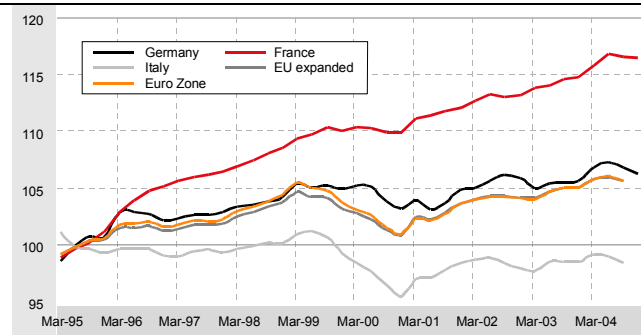
As shown in the above graphs, the loss of competitiveness has been dramatic in recent years, although it is true that has still not reached 1990 levels. Moreover, it should be noted that competitiveness indices calculated with manufacturing or industrial prices have not deteriorated as much as those calculated with consumer prices.

It is important to highlight that the sharp improvement seen in the competitiveness indices in 1990-93 was driven by the devaluation of the peseta, rather than a sharp deceleration in price growth rates or even a decline in relative terms. We can see that the solution used at the beginning of the previous decade to improve Spain's competitive position (currency devaluation) is no longer an option.

Spain – Real Trade Weighted Indices (CPI), 1995-2004



Real Trade Weighted Indices (PPI), 1995-2004



Source: Mineco and Santander Central Hispano Bolsa.

CONCLUSION: SPAIN'S COMPETITIVE POSITION IS BECOMING AN ISSUE

Our conclusion is that the deterioration in Spain's competitive position is a real problem that has to be addressed as soon as possible. The tool historically used to address that problem (currency devaluation) is not an option nowadays. In our view, other solutions to the problem could include: (1) liberalisation of the labour market and that of goods and services; (2) productivity increases; (3) investments in technology to produce higher value added goods. These are all supply-side policies that could introduce more flexibility in Spain's economy and could increase productivity levels.

In our view, if no measures are taken to address the issue, improving Spain's trade deficit through an increase in exports is going to be an impossible task and the economy will certainly feel the effects.



MACROECONOMIC ESTIMATES AND FORECASTS

Europe, the US and Japan – Estimates and Forecasts, 2002-06F

GDP	2002	2003	2004E	Cons	2005F	Cons	2006F	Cons
Germany	0.1	-0.1	1.2	1.5	1.3	1.2	2.1	1.6
France	1.1	0.5	2.1	2.1	1.6	1.8	2.4	2.1
Italy	0.4	0.4	1.2	1.3	1.4	1.4	2.0	1.7
Spain	2.4	2.5	2.5	2.6	2.4	2.5	2.5	2.5
Portugal	0.4	-1.2	1.5	1.2	2.3	2.2	2.6	-
Euro-12	0.6	0.5	1.8	1.8	1.5	1.7	2.2	2.0
UK	1.8	2.2	-	3.3	-	2.6	-	-
Argentina	-10.9	8.8	8.4	7.1	4.7	4.3	4.5	-
Brazil	1.9	0.5	4.9	4.5	3.6	3.5	3.5	-
México	0.7	1.3	4.0	4.0	4.0	3.6	4.0	-
Japan	-0.3	2.5	-	4.3	-	1.8	-	1.8
US	1.9	3.0	4.3	4.4	2.9	3.5	3.1	3.4

CPI	2002	2003	2004E	Cons	2005F	Cons	2006F	Cons
Germany	1.4	1.1	1.6	1.7	1.2	1.3	1.3	1.3
France	1.9	2.2	2.3	2.2	1.8	1.7	1.8	1.6
Italy	2.6	2.8	2.3	2.3	2.0	2.1	2.0	1.9
Spain	3.6	3.1	2.9	3.1	2.8	2.8	2.3	2.5
Portugal	3.6	3.3	2.5	2.4	2.2	2.2	2.2	-
Euro-12	2.3	2.1	2.1	2.1	1.7	1.8	1.7	1.7
UK	1.3	1.3	-	1.4	-	1.8	-	-
Argentina	41.0	3.7	5.7	6.6	9.0	7.5	6.0	-
Brazil	12.5	9.3	7.6	7.3	6.2	5.9	5.0	-
México	5.7	4.0	5.2	4.7	4.0	4.0	4.0	-
Japan	-1.0	-0.3	-	-0.1	-	0.0	-	0.4
US	1.6	2.3	2.6	2.6	2.2	2.3	2.3	2.3

Financial Indicators	2002	2003	2004E	Cons	2005F	Cons	2006F	Cons
Intervention rates								
Euro zone	2.75 (3.21)	2.00 (2.25)	2.00 (2.00)	-	2.25 (2.06)	2.75	3.25 (2.88)	3.50
US	1.25 (1.67)	1.00 (1.10)	2.25 (1.40)	-	3.25 (2.63)	3.50	4.25 (4.13)	-
10Y bond yields								
Euro zone	4.20 (4.77)	4.29 (4.09)	3.68 (4.06)	--	4.20 (4.05)	4.19	4.90 (4.60)	4.46
US	3.82 (4.53)	4.25 (3.99)	4.22 (4.25)	-	5.15 (4.60)	5.10	5.00 (4.18)	5.50
Exchange rates								
Euro-dollar	1.05 (0.95)	1.26 (1.14)	1.36 (1.24)	-	1.23 (1.22)	1.339	1.15 (1.18)	1.336

(*) Annual averages in brackets.

Source: Consensus forecasts (January 2005). Euro Zone Barometer (January 2005). Santander Investment Securities and SCH Bolsa estimates and forecasts.

APPENDIX 1

Summary of Euro Zone Figures, 2001-4Q04

GDP Components	Annual Growth			YoY Rates				QoQ Annualised Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
Private consumption	1.9	0.6	1.0	1.0	1.1	0.9	-	1.2	0.1	2.7	0.4	0.4	-
Public consumption	2.4	3.1	1.6	1.7	1.7	1.5	-	2.7	1.9	0.5	1.6	2.0	-
Business investment	-0.4	-2.7	-0.5	1.0	1.5	1.8	-	1.4	4.2	-1.0	1.2	3.0	-
Inventory (contribution)	0.0	-0.4	-0.1	0.0	0.3	1.3	-	-1.3	2.6	-0.4	0.4	2.7	-
Internal demand (contribution)	0.9	0.3	1.2	1.2	1.6	2.6	-	0.2	4.1	1.0	1.2	4.1	-
Exports	3.3	1.9	0.2	3.8	7.4	6.2	-	10.9	1.0	6.5	11.7	6.0	-
Imports	1.6	0.5	2.0	3.3	6.6	8.7	-	5.9	7.7	2.3	10.6	14.6	-
Net exports (contribution)	0.7	0.6	-0.7	0.2	0.4	-0.8	-	1.9	-2.5	1.6	0.6	-3.0	-
GDP	1.6	0.9	0.5	1.4	2.1	1.8	-	2.1	1.6	2.7	1.9	1.1	-
Nominal GDP (€ bn)	6,847.3	7,082.3	7,265.3										
Activity Indicators	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Industrial production	0.6	-0.3	0.3	1.4	3.3	2.9	-	3.3	2.8	1.2	0.0	-	-
- Ex construction	0.4	-0.5	0.3	1.0	3.1	2.8	-	2.0	3.5	1.1	0.5	-	-
Manufacturing production	0.3	-0.8	0.0	1.0	3.2	2.8	-	2.5	3.5	1.1	0.2	-	-
Retail sales	1.6	0.0	0.3	0.4	0.0	0.0	0.0	-0.1	-0.4	-0.7	0.2	0.5	-
New car registrations	0.0	-2.4	-1.2	1.5	3.4	-0.9	2.8	-1.4	-0.9	2.5	2.3	3.5	-
Capacity utilisation	83.2	81.2	81.1	80.6	80.8	81.6	82.0						
Confidence Indicators	Annual Average			Quarterly Average				Index					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Economic confidence	100.8	94.4	93.4	98.6	99.9	100.6	100.9	100.9	100.9	101.5	100.9	100.2	100.6
Business climate	-0.19	-0.53	-0.43	-0.01	0.34	0.52	0.45	0.48	0.51	0.53	0.39	0.44	0.40
Industrial confidence	-9	-11	-10	-7	-5	-4	-3	-4	-3	-3	-3	-4	-5
Construction confidence	-10	-19	-20	-19	-16	-15	-14	-15	-15	-14	-14	-13	-14
Retail trade survey	-8	-17	-12	-9	-8	-8	-8	-7	-9	-7	-10	-7	-6
Services confidence	15	1	2	11	12	12	11	13	11	12	11	10	13
Consumer confidence	-5	-11	-18	-14	-14	-14	-13	-14	-13	-13	-13	-13	-13
PMI	48	50	49	52.8	54.4	53.9	51.4	53.9	53.1	52.4	50.4	51.4	51.9
- Output	49	52	51	53.9	56.0	55.9	52.3	55.7	54.8	54.0	50.5	52.4	53.3
- New orders	47	51	50	55.0	56.1	55.2	51.3	55.5	54.1	52.6	49.8	51.6	52.9
- Employment	49	47	47	48.4	48.9	49.5	48.4	49.4	49.5	49.0	48.0	48.3	48.1
- Stock purchases	47	46	46	46.9	48.4	49.2	49.5	49.4	48.8	48.9	49.4	50.1	49.4
- Delivery times	53	50	50	45.0	40.4	43.1	44.6	43.4	43.9	44.0	44.4	45.4	46.1
- Prices	48	52	52	59.8	70.7	69.4	72.8	66.6	71.3	76.4	72.1	69.9	69.1
Prices	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
CPI	2.4	2.3	2.1	1.7	2.3	2.3	2.3	0.2	0.1	0.4	-0.1	0.3	-
Core CPI	1.8	2.4	1.8	1.8	1.9	1.8	1.8	0.3	0.2	0.3	0.0	0.5	-
PPI (ex construction)	2.0	-0.1	1.4	0.2	2.0	3.1	3.8	0.4	0.2	0.8	-0.2	-0.2	-
GDP deflator	2.4	2.5	2.1	1.9	2.1	1.8	-						
Domestic demand deflator	2.2	2.1	1.8	1.5	2.1	1.9	-						
Costs and salaries	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Unit labour costs	2.6	2.2	2.0	1.0	0.4	0.1	-						
Salaries	2.8	2.6	2.4	2.2	2.2	1.5	-						
Productivity	0.2	0.4	0.4	1.2	1.8	1.4	-						
Employment Market	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Unemployment rate	8.0	8.5	8.9	9.0	8.8	8.9	8.8	8.9	8.9	8.8	8.8	8.9	-
Money Supply	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
M3	10.9	6.6	6.4	5.7	5.2	6.0	6.2	0.4	0.7	0.6	0.3	0.7	-
M3 mov. average 3m (YoY)	7.9	7.1	7.0	5.9	5.2	5.8	-	5.7	5.8	5.9	6.1	-	-
Loans to the private sector	7.0	4.0	4.7	4.6	5.4	5.8	6.3	-0.1	0.7	0.6	0.8	0.5	-
Currency (YoY rates)	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
€ effective exchange rate	1.5	3.0	11.4	8.5	1.2	2.7	3.7	2.8	3.5	3.2	4.7	3.3	-
Real effective exch rate € (CPI)	0.6	4.1	12.6	8.9	1.6	2.8	3.3	3.1	3.4	2.9	4.3	2.8	-
Real effective exch rate € (PPI)	1.7	3.9	11.2	7.3	0.5	2.2	2.5	2.4	3.0	2.3	3.3	2.0	-
Real effective exch rate € (ULC)	-1.1	2.6	13.0	10.7	2.4	-	-						
External sector	Annual Growth			YoY Rates				MoM Rates					
	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
CA Balance (% GDP)	-0.2	0.8	0.3	0.8	0.3	0.5	-	0.0	0.0	0.0	0.0	-	-
- € bn	-11	58	22	27	44	50	40	50	45	40	40	-	-
Public accounts (% GDP)	Annual Growth			YoY Rates				MoM Rates					
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Government receipts (% GDP)	47.1	47.7	47.3	46.9	47.6	47.9	47.3	47.8	47.5	46.8	46.3	46.3	-
Government expenditures	52	53.5	52.5	52.0	52.0	50.6	49.6	49.1	48.5	48.6	48.7	49.1	-
Deficit/Surplus	-5.0	-5.9	-5.2	-5.2	-4.3	-2.7	-2.3	-1.3	-1.0	-1.7	-2.4	-2.7	-

Sources: Bloomberg; Datastream; Reuters and Santander Central Hispano Bolsa.



APPENDIX 2

Summary of US Figures, 2001-4Q04

GDP	2002	2003	YoY Rates				QoQ Annualised Rates			
			1Q04	2Q04	3Q04	4Q04	1Q04	2Q04	3Q04	4Q04
Private consumption	3.1	3.3	4.2	3.6	3.6	3.9	4.1	1.6	5.1	4.6
Government consumption	4.4	2.8	2.8	1.6	1.8	1.6	2.5	2.2	0.7	0.9
Business investment	-2.4	4.4	12.8	16.8	11.7	10.6	12.3	19.0	2.4	9.2
- Equipment & software	-5.5	6.4	13.1	13.9	12.9	13.6	8.1	14.2	17.5	14.9
- Construction	-4.4	3.7	8.7	9.3	5.9	3.4	1.0	13.5	0.8	-1.0
Internal demand	2.5	3.4	5.2	5.1	4.5	4.5	5.1	4.2	3.9	4.7
Exports	-2.4	1.9	8.4	10.8	9.4	4.1	7.3	7.3	6.0	-3.9
Imports	3.4	4.4	8.1	10.7	11.1	9.2	10.6	12.6	4.6	9.1
GDP	1.9	3.0	5.0	4.8	4.0	3.7	4.5	3.3	4.0	3.1
Nominal GDP (US\$ bn)	10,487	11,004								
General Activity	YoY Rates				YoY Rates					
	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Leading indicator	4.0	4.2	2.3	1.0	2.2	1.9	1.1	1.1	1.0	-
Coincident indicator	2.0	2.7	2.6	2.5	2.8	2.5	2.6	2.4	2.5	-
Stocks to sales ratio	1.27	1.23	1.23	1.24	1.23	1.24	1.24	1.24	1.23	-
Industrial production	2.8	4.9	4.6	4.2	5.0	3.9	4.5	3.7	4.4	-
Capacity utilisation (1)	77.7	77.7	78.3	78.6	78.3	78.0	78.5	78.6	79.2	-
ISM index	25.6	27.2	10.5	-4.8	7.2	7.3	-0.4	-6.0	-7.7	-10.2
ISM index (1)	62.1	62.3	61.6	57.6	59.6	59.1	57.5	57.6	57.3	56.4
Private Consumption	YoY Rates				YoY Rates					
	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Real hourly earnings	0.2	-0.7	-0.4	-0.9	-0.2	0.0	-0.7	-1.2	-0.8	-
Retail sales	7.8	7.8	6.5	8.2	4.7	7.7	8.8	7.2	8.7	-
- Less autos	8.2	9.4	7.8	8.7	7.1	8.1	8.9	8.5	8.6	-
Personal spending	4.2	3.6	3.6	3.9	3.0	4.0	4.2	3.5	4.0	-
Consumer confidence (1)	88.5	93.0	105.7	92.6	98.7	96.7	92.9	92.6	102.7	103.4
- Expectations (1)	91.9	94.8	105.3	90.2	97.3	97.7	92.2	90.2	100.7	98.4
Savings rate (1)	0.9	1.5	0.5	0.3	0.7	0.3	0.2	0.3	3.4	-
Consumer credit	5.0	4.0	4.2	-	3.9	4.2	4.3	3.9	-	-
Business Investment	YoY Rates				YoY Rates					
	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
New orders	8.5	13.1	11.7	10.2	12.2	10.7	9.1	11.6	9.9	-
- Less autos	9.0	14.2	12.4	11.9	13.3	12.2	11.5	12.8	11.4	-
Non-defense cap orders less aircraft	11.3	12.3	12.1	11.2	14.6	10.7	12.5	11.3	9.9	-
ISM: production index	29.2	25.5	6.5	-12.3	-2.4	4.1	-5.6	-13.1	-17.7	-16.2
ISM: new orders	28.7	24.8	2.7	-10.6	1.0	-3.9	-9.1	-14.1	-8.4	-18.4
After-tax profits	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
	23.5	31.8	14.3	6.7	9.8	14.7	17.2	19.5	5.8	-
Construction	YoY Rates				YoY Rates					
	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Housing starts	11.2	10.0	4.6	-3.7	10.0	-0.9	4.1	-12.0	-3.1	-
New home sales	22.2	9.2	-0.2	3.3	-2.6	7.5	10.7	1.0	-2.0	-
Construction spending	7.2	10.2	9.6	8.1	9.3	8.9	8.0	7.7	8.7	-
Building permits	6.7	9.7	4.0	2.8	0.3	2.8	0.2	5.6	2.7	-
Employment, wages and salaries	YoY Rates				YoY Rates					
	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Pool of available workers	0.5	0.3	0.8	0.8	0.8	0.7	0.8	0.8	1.0	0.8
Total employment	0.7	0.9	1.5	1.3	1.5	1.4	1.3	1.3	1.3	1.3
Unemployment rate (1)	5.6	5.5	5.5	5.4	5.4	5.4	5.5	5.4	5.4	5.2
Unemp avg duration (weeks) (1)	20.2	19.7	18.5	19.8	19.2	19.6	19.7	19.8	19.3	19.3
Avg working hours per week (1)	33.8	33.7	33.7	33.7	33.7	33.8	33.8	33.7	33.8	33.7
Avg hourly earnings	1.8	2.1	2.2	2.5	2.2	2.4	2.6	2.4	2.6	2.6
Employment cost index	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
	3.7	3.6	3.9	3.8	4.0	3.9	3.8	3.9	3.8	3.7
Prices	YoY Rates				YoY Rates					
	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
CPI	1.8	2.9	2.7	3.3	2.7	2.5	3.2	3.5	3.3	-
Core CPI	1.3	1.8	1.8	2.1	1.7	2.0	2.0	2.2	2.2	-
PPI	2.3	4.2	3.5	4.5	3.3	3.3	4.4	5.0	4.1	-
Core PPI	0.9	1.5	1.6	2.0	1.5	1.9	1.8	1.9	2.2	-
Import prices	1.4	5.7	7.0	8.6	7.1	8.2	9.9	9.1	6.9	-
Export prices	2.9	4.2	4.2	4.2	4.0	4.0	4.4	4.2	4.1	-
External sector	YoY Rates				YoY Rates					
	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Balance of goods & services (3)	-506.0	-522.0	-561.0	-605.0	-561	-571	-585	-605	-	-
Balance of goods & serv (3) (% GDP)	-4.4	-4.5	-4.7	-5.1	-	-	-	-	-	-
Trade balance (3)	-588.4	-607.5	-648.1	-693.7	-648	-658	-673	-694	-	-
Trade balance (3) as a % of GDP	-5.1	-5.2	-5.5	-5.8	-	-	-	-	-	-
Nominal effective exchange rate	-12.3	-5.9	-7.1	-6.3	-7.8	-6.4	-4.5	-7.9	-6.7	-3.8
Monetary policy and public accts	YoY Rates				YoY Rates					
	1Q04	2Q04	3Q04	4Q04	Aug04	Sep04	Oct04	Nov04	Dec04	Jan05
Money supply (M2)	4.5	4.7	3.6	5.2	3.2	4.1	4.6	5.3	5.6	-
Federal funds rate (1)	1.01	1.01	1.27	1.92	1.43	1.62	1.75	1.92	2.16	2.29
Federal receipts (2)	410	550	479	487	138	207	137	135	216	-
Federal expenditures (2)	580	576	565	606	179	183	194	192	219	-
Federal public deficit (2)	-171	-26	-86	-119	-41	25	-57	-58	-3	-

(1) Levels. (2) Cumulative change in fiscal year, US\$ bn. (3) Annual cumulative, US\$ bn.
Source: Datastream.

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Key to Investment Codes

Buy	Upside of more than 15%.
Hold	Upside of 10%-15%.
Underweight	Upside of less than 10%.

Note: New investment code criteria were implemented on January 1, 2005. Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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