THE IBERIAN MACRO OBSERVER

Revising Spanish GDP forecasts

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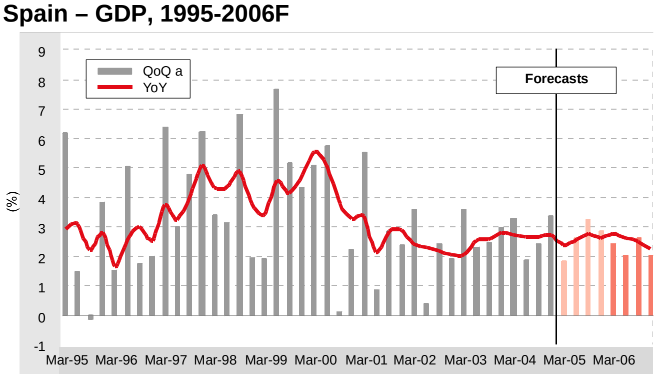
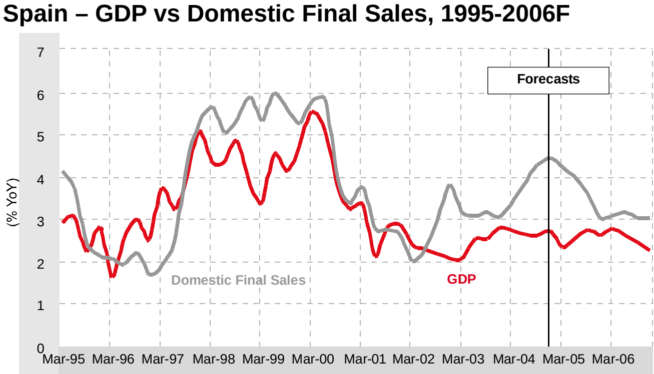
Spain – GDP, 1995-2006F



Source: Datastream and SCH Bolsa estimates and forecasts.

Spain – GDP vs Domestic Final Sales, 1995-2006F



Source: Datastream and SCH Bolsa estimates and forecasts.

Things to Watch during the Week

In the US:

(1) February trade deficit likely to increase slightly
(2) March retail sales expected to rise 0.8%
(3) February business inventories should go up 0.6% MoM
(4) Industrial production expected to grow modestly in March
(5) April Univ of Michigan confidence indicator could fall slightly

In the Euro Zone:

(1) French industrial production should grow slightly in February
(2) Spain and French CPI figures could post a strong increase
(3) ECB to publish Euro zone final 4Q04 GDP figures
(4) Spanish current account deficit expected to continue higher
(5) ECB to publish its monthly bulletin

- The European Commission (EC) cut its growth forecasts for the Euro zone in both 2005 and 2006. It reduced expected GDP growth to 1.6% from 2.0% in 2005, and to 2.1% from 2.2% in 2006. The outlook for 2005 inflation was unchanged at 1.9%, but was reduced to 1.5% from 1.7% in 2006. We maintain our inflation forecast of 1.5% for 2005 and 2.2% for 2006.

- We are revising our estimates and forecasts for the Spanish economy. In an environment in which most of the revisions made by investment banks and officials have been on the downside, we are revising upwards our forecast for Spanish GDP growth in 2005E. However, we are leaving our 2006F forecasts unchanged.

- We have raised our GDP 2005E growth estimate to 2.6% from 2.4% previously, but are sticking to our forecast of 2.5% in 2006F. This upward revision in GDP growth should not be seen in the context of improving fundamentals in the Spanish economy, but as a continuation of the inertia of previous quarters. This inertia, together with the very expansionary monetary conditions (courtesy of low ECB interest rates) should mean that the Spanish economy continues to outperform the rest of the Euro zone. It is also likely to mean that the required adjustments in the Spanish economy are postponed.

- In our view, the external sector is a problem for the Spanish economy. The current account deficit rose to 4.9% of GDP in 2004 from 2.8% in 2003. According to our forecasts (which assume a deceleration in internal demand), the current account deficit is likely to remain at 2004 levels in both 2005E and 2006F. Given that the Spanish economy can no longer use the tool of currency depreciation to adjust this deficit, the adjustment will need to be effected internally through an increase in savings and lower internal demand.

The Week Behind

Macro Data Published Last Week

Day	Time	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
4-April Monday	11:00	Euro Zone	Euro Zone PPI (m/y)	Feb	0.6/3.9	–	0.4/4.2
5-April Tuesday	9:00	Spain	Industrial Output (nsa/wda) (y)	Feb	1.0/1.1	–/1.2	-0.7/-0.5
	10:00	Euro Zone	PMI Services	Mar	53.0	53.0	53.0
	23:00	US	ABC Consumer Confidence	4-Apr	-13	–	-17
6-April Wednesday	12:00	Germany	Factory Orders (m/y)	Feb	-3.5/4.7r	0.3/4.0	-2.6/1.3
	13:00	US	MBA Mortgage Applications	2-Apr	2.4	–	-4.4
7-April Thursday	12:00	Germany	Industrial Production (m/y)	Feb	2.8/3.8r	-1.1/2.7	-2.2/1.7
	13:45	Euro Zone	ECB announces Interest Rate Decision	Apr	2.0	2.0	2.00
	14:30	US	Initial Jobless Claims	3-Apr	353kr	330k	334k
	14:30	US	Continuing Claims	27-Mar	2,598kr	2,625k	2,688k
	16:00	US	Wholesale Inventories	Feb	1.0r	0.7	0.6
	21:00	US	Consumer Credit (US$ bn)	Feb	11.6r	7.5	5.6
8-April Friday	8:00	Germany	Current Account (€ bn)	Feb	6.8r	6.9	8.4
	8:00	Germany	Trade Balance (€ bn)	Feb	13.3r	12.8	13.5
	8:00	Germany	Imports (m)	Feb	5.7r	-1.6	-3.7
	8:00	Germany	Exports (m)	Feb	5.8	-0.7	-2.8
	12:00	Euro Zone	Euro Zone OECD Leading Indicators	Feb	105.8	105.5	105.7

(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.

No Major News

Probably, the most important news in the macro environment during the week was the revision of the EC's Euro zone economic forecasts. The EC revised downwards its growth forecasts for the Euro zone in both 2005 and 2006. It reduced expected GDP growth to 1.6% from 2.0% in 2005 and to 2.1% from 2.2% in 2006. The inflation estimate was maintained at 1.9% in 2005, but was reduced to 1.5% from 1.7% in 2006. We maintain our forecasts of 1.5% inflation in 2005E and 2.2% for 2006F.

The Week in Spain: The number of unemployed fell by 32,217 people in March. There was also an increase in the number of people registered for Social Security, with the annual rate growing at 2.94%. These are positive figures (which could have been boosted by the Easter season) since the bulk of the jobs created were in the services sector. April numbers could be slightly negative. In any case, jobs are still being created.

The Bank of Spain said that the economy was still doing well, with business investment continuing its recovery trend. However, the central bank also noted that household debt levels are still rising, with debt already representing 100% of gross disposable income. The EC pointed out that the Spanish economy is still loosing its competitive advantage and predicted that competitiveness will continue to be one of the main problems in Spain in the future.

Industrial production was worse than expected in February, falling a seasonally-adjusted 0.5% YoY. All components performed negatively, except the energy sector. Energy production rose 4.1% YoY in February, after an increase of 8.3% YoY in the previous month. It is worth highlighting consumer goods production, which fell 1.8% YoY, with declines in both the durable (-0.2% YoY) and non-durable goods (-2.0% YoY) components. This is in line with the deceleration we expect in private consumption in 2005E. On the other hand, the second consecutive decline in capital goods production (-0.7% YoY in February after -4.8% YoY in January) could represent a risk for business investment, which has grown strongly in the last two quarters. We would not be surprised to see continuing weakness in industrial production in the short run, in line with the performance of business leading indicators.

In Germany: Industrial production fell 2.2% MoM in February, after rising 2.8% MoM in the previous month. Despite the decline in February, the average growth in industrial production in the first two months of 2005 was still higher than in 4Q04. We see the February fall as a payback after the strong numbers shown in the previous month. In any case, if the weakness seen in factory orders were to persist in March, industrial production will probably weaken in 2Q05F.

THE WEEK AHEAD

Macro Data to Be Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
During the week	–	Germany	Producer Prices (m/y)	Mar	0.4/4.2	0.5/4.1
11-April	8:45	France	Industrial Production (m/y)	Feb	0.2/2.9	0.1 / 2.1
Monday	8:45	France	Manufacturing Production (m/y)	Feb	0.5/4.0	0.0 / 2.8
12-April	8:45	France	Trade Balance (€ mn)	Feb	-9.31	–
Tuesday	14:30	US	Trade Balance (US$ bn)	Feb	-58.3	-58.5
	20:00	US	Minutes of March 22 FOMC Meeting	22-Mar	–	–
	20:00	US	Monthly Budget Statement (US$ bn)	Mar	-72.7	-70.5
	23:00	US	ABC Consumer Confidence	10-Apr	-17	–
13-April	8:45	France	CPI (m/y)	Mar	0.5/1.6	0.5/1.8
Wednesday	9:00	Spain	CPI (m/y)	Mar	0.3/3.3	0.8/3.4
	9:00	Spain	CPI Core Index (m/y)	Mar	0.2/2.8	0.6/2.8
	10:00	Italy	Industrial Production (m/y) (sa/wda)	Feb	0.1/-1.5	–
	13:00	US	MBA Mortgage Applications	8-Apr	-4.4	–
	14:30	US	Advance Retail Sales	Mar	0.4r	0.8
	14:30	US	Retail Sales Less Autos	Mar	0.4	0.6
14-April	10:00	Italy	CPI (NIC incl tobacco) (m/y)	Mar	0.3/1.9	–
Thursday	10:00	Euro Zone	ECB to release April Monthly Bulletin	Apr	–	–
	11:00	Euro Zone	GDP (q/y)	4Q	0.2/1.9	0.2/1.6
	11:00	Euro Zone	EC publishes 1Q05 and 2Q05 GDP Forecasts	–	–	–
	14:30	US	Initial Jobless Claims	9-Apr	334k	–
	14:30	US	Continuing Claims	2-Apr	2,688k	–
	14:30	US	Business Inventories	Feb	0.9	0.6
15-April	–	Spain	Current Account (€)	Mar	-5,710.4	–
Friday	10:00	Italy	Trade Balance (Total/Europe)	Feb	-1,982/-23mn	–
	–	Italy	Current Account (€)	Feb	-4,350.0	–
	11:00	Euro Zone	Labour Cost (y)	4Q	2.2	2.2
	14:30	US	Empire Manufacturing	Apr	19.6	19.0
	14:30	US	Import Price Index (m/y)	Mar	0.8/6.1	1.2/–
	15:00	US	Net Foreign Security Purchases (US$ bn)	Feb	91.5	18.7
	15:15	US	Industrial Production	Mar	0.3	0.3
	15:15	US	Capacity Utilization	Mar	79.4	79.6
	15:15	US	Univ. of Michigan Confidence Indicator	Apr	92.6	92.0

(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.

THINGS TO LOOK OUT FOR

In the US: (1) The trade deficit could increase slightly in February; (2) retail sales are expected to rise 0.8% in March, pointing to an increase in 1Q05E private consumption of around 3.0% QoQa; (3) Business inventories should rise 0.6% MoM in February; (4) March industrial production is expected to grow modestly; and (5) the University of Michigan confidence indicator could fall slightly in April.

In the Euro zone: (1) French industrial production should grow slightly in February; (2) Spanish and French CPI figures could post a strong increase in March; (3) the ECB is to publish the Euro zone final 4Q04 GDP figures and its monthly bulletin; and (4) the Spanish current account deficit could increase again in March.

Rates and Currencies

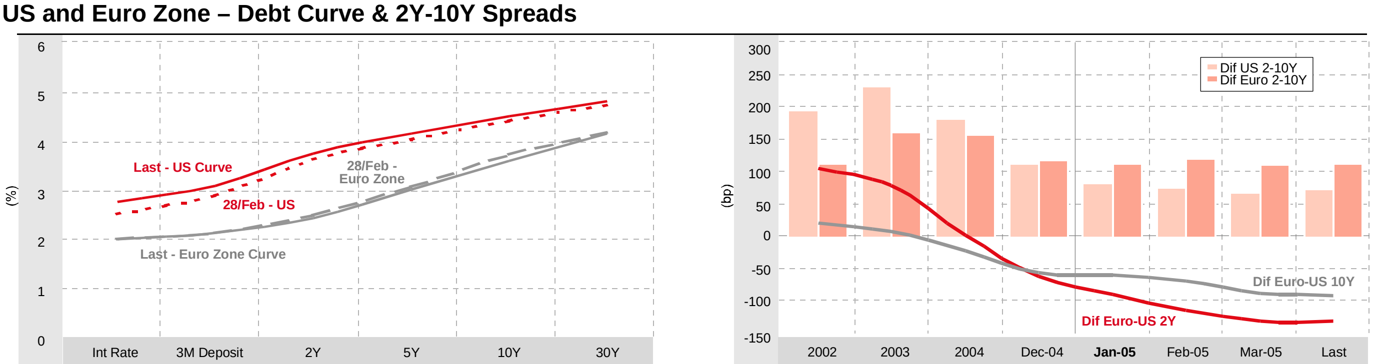
- The ECB left interest rates unchanged, as expected. ECB president Jean-Claude Trichet said that there was no evidence of underlying inflation pressures, and that headline inflation should remain at around 2.0% in the months ahead. He said that growth remains relatively solid, although oil prices could be a risk for growth and inflation. Trichet said he is not thinking about cutting interest rates but restated that liquidity remains too high for a scenario of normal GDP growth.
- Our view remains unchanged; we believe the ECB will not raise interest rates until the end of the year.

US and Euro Zone – Interest Rates and Currencies

		Annual[1]			Quarterly[1]				Monthly				Weekly			
		2002	2003	2004	Jun-04	Sep-04	Dec-04	Mar-05	Dec-04	Jan-05	Feb-05	Mar-05	25-Mar	01-Apr	08-Apr	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	1.1	1.5	2.0	2.5	2.3	2.3	2.5	2.8	2.75	2.75	2.75	**2.75**
	Euribor 3M	3.3	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.09	2.09	2.12	**2.12**
	US dep 3M	1.7	1.1	1.6	1.3	1.8	2.3	2.9	2.5	2.7	2.9	3.1	3.04	3.06	3.08	**3.08**
LT Interest Rates																
Euro	2Y	3.6	2.5	2.5	2.6	2.5	2.4	2.5	2.5	2.4	2.5	2.5	2.59	2.48	2.43	**2.43**
	5Y	4.2	3.3	3.3	3.5	3.4	3.1	3.0	3.0	2.9	3.1	3.1	3.10	3.05	3.00	**3.00**
	10Y	4.8	4.1	4.1	4.3	4.1	3.8	3.6	3.7	3.5	3.7	3.6	3.71	3.62	3.59	**3.59**
	30Y	5.2	4.8	4.7	4.9	4.7	4.4	4.1	4.3	4.0	4.2	4.1	4.17	4.12	4.14	**4.14**
US	2Y	2.5	1.6	2.4	2.5	2.6	2.9	3.5	3.1	3.3	3.6	3.8	3.85	3.73	3.73	**3.72**
	5Y	3.7	2.9	3.4	3.7	3.5	3.5	4.0	3.6	3.7	4.0	4.2	4.31	4.12	4.14	**4.14**
	10Y	4.5	4.0	4.2	4.6	4.2	4.2	4.3	4.2	4.1	4.4	4.5	4.59	4.45	4.48	**4.48**
	30Y	5.3	4.9	5.0	5.3	5.0	4.9	4.7	4.8	4.6	4.7	4.8	4.84	4.72	4.78	**4.78**
Spreads																
Dif-Euro	3M-30Y	195	257	265	287	262	228	199	216	194	205	198	207	202	202	**202**
	2Y-10Y	115	164	160	171	154	136	117	120	115	122	113	112	115	116	**116**
Dif US	3M-30Y	354	376	338	399	321	254	180	230	188	184	168	181	167	171	**171**
	2Y-10Y	198	235	184	207	168	133	78	115	86	78	71	74	72	76	**76**
Dif-Euro-US	Int	154	115	60	92	50	0	-50	-25	-25	-50	-75	-75	-75	-75	**-75**
	2Y	107	82	5	6	-2	-45	-109	-59	-88	-112	-129	-126	-125	-130	**-130**
	10Y	24	11	-20	-30	-16	-42	-71	-54	-59	-67	-86	-88	-82	-90	**-90**
Currencies																
	€/US$	0.95	1.14	1.25	1.21	1.22	1.32	1.31	1.365	1.300	1.326	1.296	1.295	1.296	1.283	**1.283**
	€/¥	118	132	134	132	135	137	137	140	135	138	139	138	139	139	**139**
	US$/¥	125	116	108	109	111	104	105	102	104	104	107	106	107	109	**109**

(1) Figures represent the average for the period; (2) April 8, 2005.
Source: Santander Central Hispano Bolsa estimates and forecasts.

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



Source: Bloomberg.

MACRO CORNER: REVISING SPANISH GDP

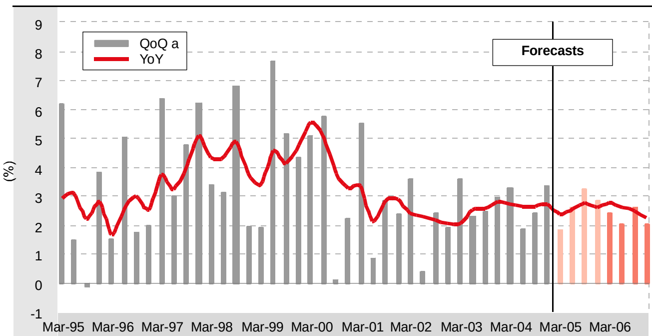
Revising GDP growth upwards

In this *Macro Observer* we are revising our estimates and forecasts for the Spanish economy. In a European context in which most investment banks and officials have been downgrading their economic forecasts, we are raising our estimate for Spanish GDP growth in 2005F to 2.6% (2.4% previously). However, at this stage we are not making any changes to the 2006F numbers (+2.5%) we estimated in November 2004.

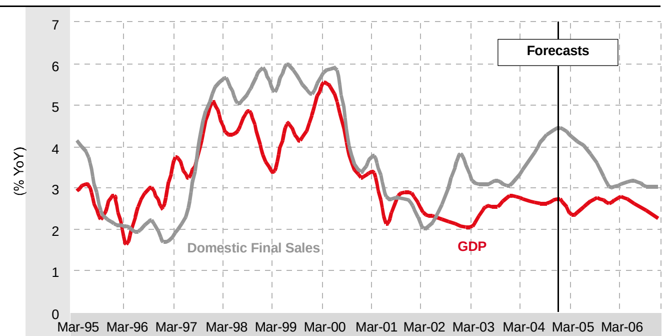
Our long-term view does not change

This upward revision does not mean that we think the Spanish economy's problems – growth model, real estate bubble, external sector, etc – have been resolved, but as the persistence of the inertia seen in previous quarters. This inertia and the very expansionary monetary conditions – courtesy of the still low ECB rates – should lead the Spanish economy to keep outperforming the rest of the Euro zone and should postpone any correction.

Spain – GDP, 1995-2006F



Spain – GDP vs Domestic Final Sales, 1995-2006F

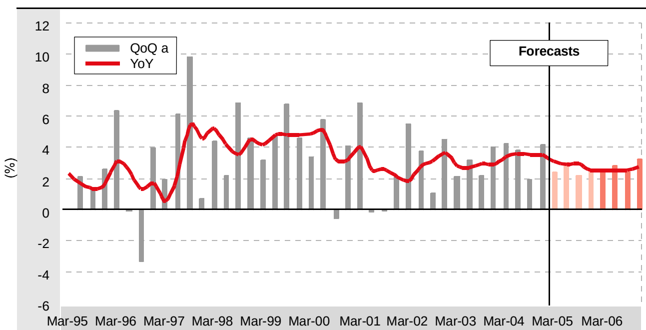


Source: Datastream and SCH Bolsa estimates and forecasts.

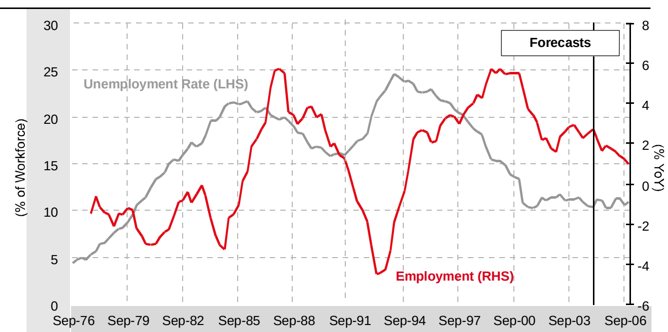
The main points of our GDP revision are as follows:

- ***Private consumption.*** We are raising our private consumption forecasts slightly for both 2005F (to 2.9% from 2.6%) and 2006F (to 2.6% from 2.5%) due to: (1) stronger-than-expected private consumption in 2004, when it climbed 3.5% versus 2.9% in 2003; (2) positive employment numbers in 2H04 (+2.6% YoY on average), with unemployment down to 10.8% in 2004 from 11.3% in 2003; (3) sufficiently strong growth in salaries and income to sustain current consumption levels; (4) the sustained increase in housing prices and the recovery in equity markets is pushing net household wealth higher, despite the increase in debt levels; and (5) still quite expansionary financial conditions, with real interest rates in negative territory.

Spain-Private Consumption, 1995-2006F



Spain-Employment vs Unemployment Rate, 1976-2006F



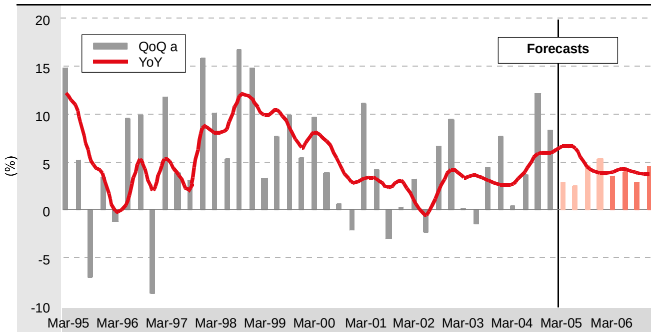
Source: Datastream, Mineco and SCH Bolsa estimates and forecasts.

Despite this relatively positive outlook for private consumption, we see some risks going forward: (1) Debt levels are very high, at around 100% of gross disposable income. (2) ECB interest rates are too low and will have to be raised at some point (in 4Q05F in our view). In that scenario, as more than 95% of households' mortgage debt is linked to floating rates, an increase in the ECB Refi rate would clearly have a negative impact on consumption. (3) Job creation could decelerate in 2006F, in line with lower economic growth, while the growth rates for wages and salaries could also decline. (4) In a scenario of falling housing prices, wealth would obviously be affected and consumers would have to boost their savings.

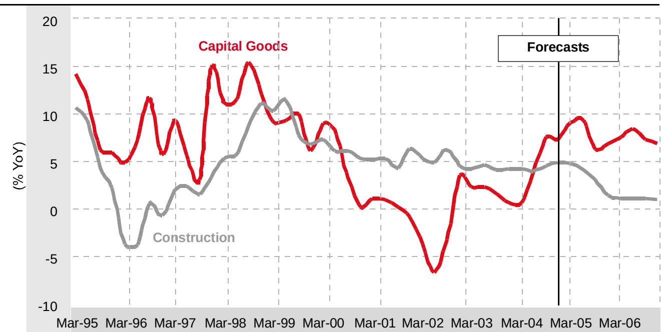
- ***Total investment.*** We are increasing our forecasts for total investment to 5.3% in 2005F (from 2.9%). We now expect investment in capital goods to rise 7.9% in 2005F from 4.9% in 2004, while investment in construction should decelerate to 3.4% in 2005F after going up 4.4% in the previous year.

The reasons for our positive view on business investment in capital goods are: (1) an acceleration in activity during the year; (2) the pent-up demand, after several years of moderate growth (or even contraction) in investment; (3) Spanish companies' healthy balance sheets and strong growth in profits; and (4) expansionary monetary conditions.

Spain – Total Investment, 1995-2006F



Spain – Capital Goods vs Construction, 1995-2006F

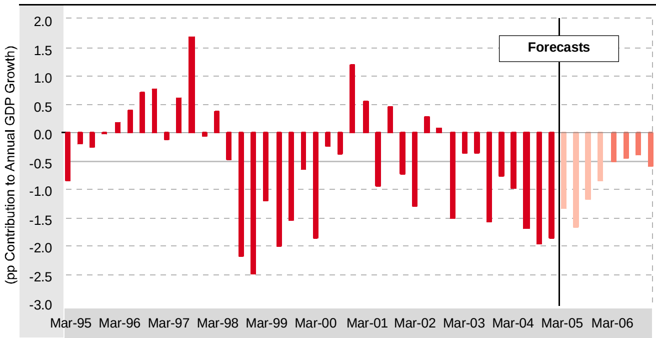


Source: Datastream, Mineco and SCH Bolsa estimates and forecasts.

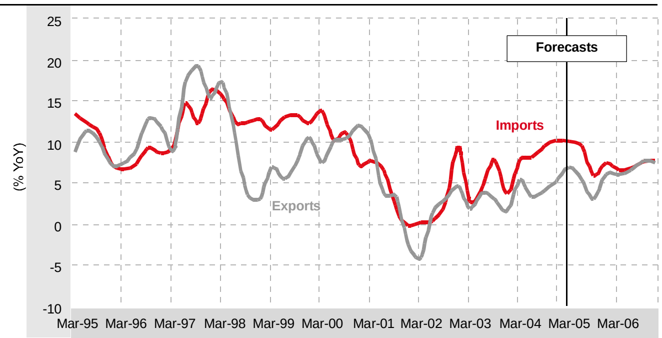
Looking at investment in construction, we expect growth rates to decelerate gradually in 2005F and the coming years. However, looking at the order books in the sector, this deceleration could be limited in 2005F. The stability of short-term interest rates and the ECB's indications that it does not intend to raise them in the short run also help the mortgage market.

- ***The external sector.*** Given the upward revision in our expectations for internal demand and the loss of competitiveness in the Spanish economy, we have revised our external sector numbers. Accordingly, imports are expected to grow 8.3% in 2005E after jumping 9.0% in 2004, while exports should increase modestly at 5.6% in 2005E from 4.9% a year earlier.

Spain – Net External Sector, 1995-2006F



Spain – Imports vs Exports, 1995-2006F



Source: Datastream, Mineco and SCH Bolsa estimates and forecasts.

As a result, the contribution of the external sector to GDP growth is likely to be more negative than we previously expected. We think that the external sector will trim 1.3pp off 2005E GDP growth, after a negative impact of 1.6pp in 2004. A deceleration in internal demand, together with a recovery of internal demand in the economies of Spain's main trading partners, should help reduce the trade deficit in 2006F, and help to reduce the external sector's negative contribution to GDP to 0.5pp.

- ***Inflation.*** We have not change our inflation forecasts: we maintain our view that inflation will tend to decelerate in 2006F (2.3%), after rising 2.8% in 2005E.

- ***Labour market.*** In our view, the unemployment rate should remain more or less stable in both 2005E (10.7%) and 2006F (11.0%). Although we still expect job creation to be positive, the expected increase in the workforce, together with an increase in participation ratios, should prevent a sharp fall in the unemployment rate.

- ***Current account.*** In our view, the external sector represents a problem for the economy. The current account deficit rose to 4.9% of GDP in 2004 (vs 2.8% in 2003). According to our forecasts (which include an expected deceleration in internal demand), the current account deficit should remain at close to 2004 levels in both 2005E and 2006F. Given that the Spanish economy can no longer use the tool of currency depreciation to adjust this deficit, the required adjustment should be effected internally through an increase in savings and lower internal demand.

Spanish GDP – History and Forecasts, 2002-06F

		3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05F	2Q05F	3Q05F	4Q05F	2002	2003	2004	2005E	2006F
Real GDP	QoQ	0.6	0.7	0.8	0.5	0.6	0.8	0.5	0.7	0.8	0.7					
	QoQa	2.4	3.0	3.3	1.9	2.4	3.4	1.8	2.6	3.2	2.8					
	YoY	**2.6**	**2.8**	**2.7**	**2.6**	**2.6**	**2.7**	**2.4**	**2.5**	**2.8**	**2.6**	**2.2**	**2.5**	**2.7**	**2.6**	**2.5**
Private consumption (59.5% of GDP)	QoQ	0.5	1.0	1.0	0.9	0.5	1.0	0.6	0.8	0.6	0.7					
	QoQa	2.2	4.0	4.3	3.8	1.9	4.2	2.4	3.0	2.2	2.6					
	YoY	**3.0**	**2.9**	**3.4**	**3.6**	**3.5**	**3.5**	**3.1**	**2.9**	**3.0**	**2.6**	**2.8**	**2.9**	**3.5**	**2.9**	**2.6**
Public consumption (18.8% of GDP)	QoQ	1.0	1.4	1.5	0.8	1.1	2.0	0.8	0.6	1.0	1.0					
	QoQa	4.0	5.7	5.9	3.2	4.4	8.2	3.2	2.4	4.1	4.1					
	YoY	**3.8**	**4.2**	**4.6**	**4.7**	**4.8**	**5.4**	**4.7**	**4.6**	**4.5**	**3.4**	**4.1**	**3.9**	**4.9**	**4.3**	**3.4**
Total investment (25.2% of GDP)	QoQ	1.1	1.9	0.1	0.9	2.9	2.0	0.7	0.6	1.1	1.3					
	QoQa	4.4	7.6	0.3	3.7	12.1	8.3	2.8	2.5	4.7	5.3					
	YoY	**3.1**	**2.6**	**2.7**	**4.0**	**5.8**	**6.0**	**6.7**	**6.4**	**4.5**	**3.8**	**1.7**	**3.2**	**4.6**	**5.3**	**4.0**
Capital goods (7.0% of GDP)	QoQ	2.7	2.6	-1.4	0.4	8.1	2.2	0.8	0.7	2.3	2.7					
	QoQa	11.2	10.8	-5.4	1.6	36.6	9.2	3.2	2.8	9.5	11.2					
	YoY	**1.0**	**-0.3**	**-0.4**	**4.3**	**9.8**	**9.4**	**11.8**	**12.2**	**6.1**	**6.6**	**-2.5**	**1.7**	**4.9**	**7.9**	**7.5**
Construction (14.2% of GDP)	QoQ	0.7	1.4	0.7	1.2	1.2	1.8	0.6	0.5	0.2	0.1					
	QoQa	2.9	5.8	2.8	4.7	4.9	7.3	2.4	2.0	0.8	0.4					
	YoY	**4.1**	**4.2**	**4.2**	**4.1**	**4.6**	**4.9**	**4.8**	**4.1**	**3.1**	**1.4**	**5.3**	**4.3**	**4.4**	**3.4**	**1.1**
Inventories	€ mn	412	642	1,474	636	733	699	519	766	991	1,140					
	Cont GDP[1]	0.2	0.2	0.6	-0.6	0.1	0.0	-0.1	0.2	0.1	0.1	**0.0**	**0.1**	**0.2**	**0.0**	**-0.2**
Exports (30.6% of GDP)	QoQ	2.8	-1.9	-0.9	3.2	3.6	-0.8	0.9	1.7	1.4	2.0					
	QoQa	11.8	-7.2	-3.4	13.6	15.3	-3.3	3.6	7.0	5.5	8.0					
	YoY	**3.1**	**1.6**	**5.5**	**3.3**	**4.1**	**5.2**	**7.0**	**5.4**	**3.1**	**6.0**	**1.3**	**2.6**	**4.5**	**5.4**	**7.0**
Imports (34.2% of GDP)	QoQ	3.8	0.4	1.2	2.5	5.1	1.0	1.1	2.1	1.6	2.5					
	QoQa	16.3	1.7	5.0	10.4	22.1	4.2	4.5	8.7	6.6	10.3					
	YoY	**7.9**	**3.7**	**8.0**	**8.2**	**9.5**	**10.2**	**10.0**	**9.6**	**6.0**	**7.5**	**3.1**	**4.8**	**9.0**	**8.3**	**7.2**
Net external sector	€ mn	-595	-1,045	-985	162	-997	-950	-184	-366	-261	-482					
	Cont GDP[1]	-0.4	-0.7	-0.7	0.1	-0.7	-0.6	-0.1	-0.2	-0.2	-0.3	**-0.6**	**-0.8**	**-1.6**	**-1.3**	**-0.5**
CPI												**3.1**	**3.0**	**3.0**	**2.8**	**2.3**
Unemployment rate												**11.4**	**11.3**	**10.8**	**10.7**	**11.0**
Public budget[2]												**-0.1**	**0.4**	**-0.3**	**-0.5**	**-0.5**
Current account[2]												**-2.4**	**-2.8**	**-4.9**	**-4.7**	**-4.9**

(1) Cont GDP: contribution to QoQ GDP growth. (2) as a % of GDP. Annual figures: annual average.
Source: INE, BoS, Santander Central Hispano Bolsa estimates and forecasts.

MACROECONOMIC ESTIMATES AND FORECASTS

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

GDP	2002	2003	2004	2005E	Cons	2006F	Cons
Germany	0.1	-0.1	1.0	1.3	1.1	2.1	1.6
France	1.1	0.5	2.3	1.6	1.9	2.4	2.1
Italy	0.4	0.4	1.1	1.4	1.2	2.0	1.7
Spain	2.4	2.5	2.7	2.4	2.6	2.5	2.5
Portugal	0.4	-1.2	1.0	2.3	1.9	2.6	2.4
Euro-12	**0.6**	**0.5**	**1.8**	**1.5**	**1.6**	**2.2**	**2.0**
UK	1.8	2.2	4.9	–	2.5	–	2.4
Argentina	-10.9	8.8	9.0	4.7	6.7	4.5	4.1
Brazil	1.9	0.5	5.2	3.6	3.7	3.5	3.7
México	0.9	1.6	4.4	4.0	3.9	4.0	3.5
Japan	-0.3	2.5	2.9	–	1.1	–	1.8
US	**1.9**	**3.0**	**4.4**	**2.9**	**3.5**	**3.1**	**3.4**

CPI	2002	2003	2004	2005E	Cons	2006F	Cons
Germany	1.4	1.1	1.8	1.2	1.4	1.3	1.3
France	1.9	2.2	2.3	1.8	1.7	1.8	1.6
Italy	2.6	2.8	2.3	2.0	2.0	2.0	1.9
Spain	3.6	3.1	3.1	2.8	2.7	2.3	2.5
Portugal	3.6	3.3	2.5	2.2	2.3	2.2	2.3
Euro-12	**2.3**	**2.1**	**2.1**	**1.7**	**1.8**	**1.7**	**1.7**
UK	1.3	1.3	1.60	–	1.7	–	1.8
Argentina	41.0	3.7	6.1	9.0	9.3	6.0	7.1
Brazil	12.5	9.3	7.6	6.2	6.0	5.0	5.4
México	5.7	4.0	5.2	4.0	3.9	4.0	3.9
Japan	-1.0	-0.3	0.0	–	0.0	–	0.3
US	**1.6**	**2.3**	**2.7**	**2.2**	**2.4**	**2.3**	**2.2**

Financial Indicators	2002	2003	2004	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)	**3.50** (2.63)	3.50	**4.25** (4.13)	–
3M rates							
Euro-zone	**2.86** (3.26)	**2.11** (2.26)	**2.13** (2.08)	**2.50** (2.23)	2.40	**3.65** (3.18)	3.02
US	**1.29** (1.72)	**1.09** (1.14)	**2.52** (1.56)	**3.74** (2.93)	3.50	**4.05** (4.15)	–
2Y bond yields							
Euro-zone	**2.72** (3.62)	**2.61** (2.46)	**2.48** (2.48)	**3.25** (2.83)	–	**4.35** (3.93)	–
US	**1.60** (2.55)	**1.82** (1.64)	**3.06** (2.36)	**4.50** (3.59)	–	**3.75** (3.99)	–
10Y bond yields							
Euro-zone	**4.20** (4.77)	**4.29 (**4.09)	**3.68 (**4.06)	**4.20 (**4.05)	4.09	**4.90 (**4.60)	4.50
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
Currencies							
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 (March 2005). €uro Zone Barometer (March 2005). Santander Central Hispano Investment and Santander Central Hispano Bolsa estimates and forecasts.

Appendix 1

Summary of Euro Zone Figures, 2001-4Q04

	Annual Growth			YoY Rates				QoQ Annualised Rates					
GDP Components	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**4Q03**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**1Q05**
Private consumption	1.9	0.7	1.0	1.2	0.9	1.3	-	0.0	3.1	0.2	0.3	1.8	-
Public consumption	2.4	3.1	1.6	1.8	1.5	1.2	-	1.9	0.9	1.6	1.5	0.7	-
Business investment	-0.2	-2.5	-0.6	1.9	2.1	1.6	-	4.3	-0.4	1.9	2.6	2.4	-
Inventory (contribution)	0.0	-0.4	-0.1	0.2	1.3	0.5		2.8	-0.5	0.4	2.6	-0.4	
Internal demand (contribution)	1.0	0.4	1.2	1.7	2.6	1.9	-	4.1	1.3	1.2	3.8	1.3	-
Exports	3.5	1.9	0.2	7.2	5.6	6.0	-	0.5	5.7	11.4	5.2	1.9	-
Imports	1.8	0.5	2.0	6.0	7.8	7.1	-	7.0	1.5	10.1	13.1	3.9	-
Net exports (contribution)	0.7	0.5	-0.7	0.6	-0.7	-0.3		-2.4	1.6	0.7	-2.8	-0.7	
GDP	**1.6**	**0.9**	**0.5**	**2.2**	**1.9**	**1.6**	**-**	**1.7**	**3.0**	**1.9**	**1.0**	**0.6**	**-**
Nominal GDP (€ bn)	6850.3	7085.5	7271.6										
	Annual Growth			**YoY Rates**				**MoM Rates**					
Activity indicators	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
Industrial production	0.6	-0.3	0.2	3.3	2.9	0.8	-	1.0	-0.9	2.4	2.5	-	-
- Ex construction	0.4	-0.5	0.3	3.1	2.8	0.8	-	1.1	0.4	1.0	2.2	-	-
Manufacturing production	0.3	-0.8	0.0	3.2	2.9	0.7	-	1.1	0.1	0.9	2.7	-	-
Retail sales	1.6	0.1	0.3	0.0	0.0	0.1	-	-0.6	0.5	0.5	-0.5	1.0	-
New car registrations	0.3	-2.8	-1.3	3.5	-0.9	2.6	-	2.4	2.3	3.3	3.7	-2.8	-
Capacity utilisation	83.2	81.2	81.1	81.1	82.0	82.1	82.0						
	Annual Average			**Quarterly Average**				**Index**					
Confidence indicators	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
Economic confidence	100.9	94.4	93.4	99.9	100.6	100.9	99.0	101.5	100.9	100.2	100.8	98.8	97.4
Business climate	-0.19	-0.53	-0.43	0.34	0.52	0.45	-	0.53	0.39	0.44	0.40	0.20	-
Industrial confidence	-9	-11	-11	-5	-4	-3	-6	-3	-3	-4	-5	-6	-8
Construction confidence	-10	-19	-20	-16	-15	-14	-13	-14	-14	-13	-13	-14	-13
Retail trade survey	-8	-17	-11	-8	-8	-8	-8	-7	-10	-7	-6	-8	-10
Services confidence	15	1	2	12	12	11	11	12	11	10	13	10	9
Consumer confidence	-5	-11	-18	-14	-14	-13	-13	-13	-13	-13	-13	-13	-14
PMI	**48**	**50**	**49**	**52.8**	**54.4**	**53.9**	**51.4**	**52.4**	**50.4**	**51.4**	**51.9**	**51.9**	**50.4**
- Output	49	52	51	53.9	56.0	55.9	52.3	54.0	50.5	52.4	53.3	53.4	51.6
- New orders	47	51	50	55.0	56.1	55.2	51.3	52.6	49.8	51.6	52.9	52.8	50.4
- Employment	49	47	47	48.4	48.9	49.5	48.4	49.0	48.0	48.3	48.1	49.3	48.8
- Stock purchases	47	46	46	46.9	48.4	49.2	49.5	48.9	49.4	50.1	49.4	49.6	48.5
- Delivery times	53	50	50	45.0	40.4	43.1	44.6	44.0	44.4	45.4	46.1	47.5	48.3
- Prices	48	52	52	59.8	70.7	69.4	72.8	76.4	72.1	69.9	69.1	64.8	59.8
	Annual Growth			**YoY Rates**				**MoM Rates**					
Prices	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
CPI	2.4	2.3	2.1	2.3	2.3	2.3	-	0.4	-0.1	0.3	-0.6	0.3	-
Core CPI	1.8	2.4	1.8	1.9	1.8	1.8	-	0.3	0.0	0.5	-1.0	0.2	-
PPI (ex construction)	2.0	-0.1	1.4	2.0	3.1	3.8	-	0.8	-0.2	-0.3	0.6	0.4	-
GDP deflator	2.4	2.5	2.1	2.1	1.7	1.7	-						
Domestic demand deflator	2.2	2.2	1.9	2.2	1.9	2.2	-						
Costs and salaries	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**						
Unit labour costs	2.6	2.2	2.0	0.4	0.1	-	-						
Salaries	2.8	2.6	2.4	2.2	1.5	-	-						
Productivity	0.2	0.4	0.4	1.8	1.4	-	-						
	Annual Growth			**YoY Rates**				**MoM Rates**					
Employment market	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
Unemployment rate	7.8	8.2	8.7	8.8	8.8	8.8	-	8.9	8.8	8.8	8.8	8.9	-
	Annual Growth			**YoY Rates**				**MoM Rates**					
Money supply	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
M3	10.9	6.6	6.4	5.2	6.0	6.1	-	0.6	0.3	0.6	0.6	0.3	-
M3 mov. average 3m (YoY)	7.9	7.1	7.0	5.2	5.8	6.3	-	6.0	6.1	6.3	6.5	-	-
Loans to the private sector	7.0	4.0	4.7	5.4	5.8	6.3	-	0.6	0.8	0.5	0.6	0.3	-
Currency (YoY rates)	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
€ effective exchange rate	1.5	3.0	11.4	1.2	2.7	3.7	-	3.2	4.7	3.3	0.3	-0.3	-
Real effective exch rate € (CPI)	0.6	4.0	12.6	1.7	2.7	3.3	-	2.9	4.2	2.9	0.5	-0.1	-
Real effective exch rate € (PPI)	1.7	3.9	11.2	0.5	2.2	2.7	-	2.3	3.4	2.4	0.2	-0.3	-
Real effective exch rate € (ULC)	-1.6	2.6	12.9	1.0	1.2	-	-						
External sector	**2001**	**2002**	**2003**	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
CA Balance (% GDP)	-0.2	0.8	0.3	0.3	0.5	0.7	-	0.0	0.0	0.0	0.0	-	-
- € bn	-11	58	22	41	49	40	37	40	41	42	37	-	-
Public accounts (% GDP)	**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	-4.2	-2.6	-2.2	-1.3	0.2	-1.7	-2.4	-2.8	-2.7

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

APPENDIX 2

Summary of US Figures, 2001-4Q04

GDP	2002	2003	YoY Rates 2Q04	3Q04	4Q04	1Q05	QoQ Annualised Rates 2Q04	3Q04	4Q04	1Q05
Private consumption	3.1	3.3	3.6	3.6	3.8	-	1.6	5.1	4.2	-
Government consumption	4.4	2.8	1.6	1.8	1.6	-	2.2	0.7	0.8	-
Business investment	-2.4	4.4	16.8	11.7	11.6	-	19.0	2.4	13.3	-
- Equipment & software	-5.5	6.4	13.9	12.9	14.5	-	14.2	17.5	18.4	-
- Construction	-4.4	3.7	9.3	5.9	4.5	-	13.5	0.8	3.0	-
Internal demand	2.5	3.4	5.1	4.5	4.6	-	4.2	3.9	5.0	-
Exports	-2.4	1.9	10.8	9.4	5.9	-	7.3	6.0	3.2	-
Imports	3.4	4.4	10.7	11.1	9.8	-	12.6	4.6	11.4	-
GDP	**1.9**	**3.0**	**4.8**	**4.0**	**3.9**	**-**	**3.3**	**4.0**	**3.8**	**-**
Nominal GDP (US$ bn)	10487	11004								

General Activity	YoY Rates 2Q04	3Q04	4Q04	1Q05	Oct04	Nov04	YoY Rates Dec04	Jan05	Feb05	Mar05
Leading indicator	4.2	2.4	1.3	-	1.2	1.3	1.3	0.7	0.7	-
Coincident indicator	2.7	2.6	2.9	-	2.7	2.4	3.5	2.9	3.0	-
Stocks to sales ratio	1.23	1.23	1.24	1.23	1.24	1.24	1.23	1.23	1.25	-
Industrial production	4.9	4.6	4.3	-	4.6	3.8	4.4	4.2	3.5	-
Capacity utilisation (1)	77.7	78.3	78.5	79.2	78.5	78.7	79.2	79.2	79.4	-
ISM index	27.2	10.5	-4.8	-10.8	-0.4	-6.0	-7.7	-10.2	-11.0	-11.4
ISM index (1)	62.3	61.6	57.5	57.3	57.5	57.6	57.3	56.4	55.3	55.2

Private consumption	YoY Rates 2Q04	3Q04	4Q04	1Q05	Oct04	Nov04	YoY Rates Dec04	Jan05	Feb05	Mar05
Real hourly earnings	-0.6	-0.4	-0.8	-	-0.6	-1.2	-0.7	-0.4	-0.4	-
Retail sales	7.6	6.3	8.3	-	8.6	7.3	8.9	8.1	7.8	-
- Less autos	9.1	7.6	8.9	-	9.0	8.7	8.9	8.3	8.4	-
Personal spending	3.6	3.6	3.8	-	4.0	3.4	3.9	3.6	3.5	-
Consumer confidence (1)	93.0	105.7	92.9	102.7	92.9	92.6	102.7	105.1	104.4	102.4
- Expectations (1)	94.8	105.3	92.2	100.7	92.2	90.2	100.7	100.4	96.1	93.7
Savings rate (1)	1.5	0.7	0.6	3.7	0.6	0.6	3.7	0.8	0.6	-
Consumer credit	4.0	4.2	4.7	-	4.5	4.6	4.7	3.9	4.1	-

Business investment	YoY Rates 2Q04	3Q04	4Q04	1Q05	Oct04	Nov04	Dec04	YoY Rates Jan05	Feb05	Mar05
New orders	13.1	11.7	10.3	-	9.1	11.6	10.2	11.1	10.0	-
- Less autos	14.2	12.4	12.0	-	11.5	12.8	11.7	11.9	12.4	-
Non-defense cap orders less aircraft	12.3	12.1	11.4	-	12.5	11.3	10.6	14.0	13.2	-
ISM: production index	25.5	6.5	-12.3	-14.4	-5.6	-13.1	-17.7	-16.2	-12.8	-14.1
ISM: new orders	24.8	2.7	-10.6	-15.9	-9.1	-14.1	-8.4	-18.4	-16.7	-12.6
	4Q02	**1Q03**	**2Q03**	**3Q03**	**4Q03**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**1Q05**
After-tax profits	31.8	14.3	6.7	9.8	14.7	17.2	19.5	5.8	6.8	-

Construction	YoY Rates 2Q04	3Q04	4Q04	1Q05	Oct04	Nov04	YoY Rates Dec04	Jan05	Feb05	Mar05
Housing starts	10.0	4.6	-2.9	-	4.1	-12.1	-0.5	12.9	15.8	-
New home sales	9.2	-0.2	10.6	-	14.3	8.0	9.5	-2.9	5.2	-
Construction spending	10.2	9.6	8.6	-	8.0	8.4	9.3	10.3	10.0	-
Building permits	11.2	5.9	4.8	-	2.0	7.9	4.6	8.2	7.7	-
Employment, wages and salaries	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
Pool of available workers	0.3	0.8	0.8	1.0	0.8	0.8	1.0	0.8	1.1	1.0
Total employment	0.9	1.5	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.5
Unemployment rate (1)	5.5	5.5	5.5	5.4	5.5	5.4	5.4	5.2	5.4	5.2
Unemp avg duration (weeks) (1)	19.7	18.5	19.7	19.3	19.7	19.8	19.3	19.3	19.1	19.5
Avg working hours per week (1)	33.7	33.7	33.8	33.7	33.8	33.7	33.7	33.7	33.7	33.7
Avg hourly earnings	2.1	2.2	2.5	2.6	2.6	2.4	2.6	2.7	2.6	2.6
	4Q02	**1Q03**	**2Q03**	**3Q03**	**4Q03**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**1Q05**
Employment cost index	3.6	3.9	3.8	4.0	3.9	3.8	3.9	3.8	3.7	-

Prices	YoY Rates 2Q04	3Q04	4Q04	1Q05	Oct04	Nov04	YoY Rates Dec04	Jan05	Feb05	Mar05
CPI	2.9	2.7	3.3	-	3.2	3.5	3.3	3.0	3.0	-
Core CPI	1.8	1.8	2.1	-	2.0	2.2	2.2	2.3	2.4	-
PPI	4.2	3.5	4.5	-	4.5	5.0	4.1	4.2	4.8	-
Core PPI	1.5	1.6	2.0	-	1.8	1.9	2.2	2.7	2.8	-
Import prices	5.7	7.0	8.5	-	9.9	9.0	6.7	5.8	6.1	-
Export prices	4.2	4.2	4.2	-	4.4	4.2	4.0	4.1	3.4	-
External sector	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
Balance of goods & services (3)	-516.0	-548.0	-586.0	-629.0	-586	-605	-617	-629	-	-
Balance of goods & serv (3) (% GDP)	-4.4	-4.6	-4.9	-						
Trade balance (3)	-600.8	-634.9	-674.0	-720.6	-674	-694	-707	-721	-	-
Trade balance (3) as a % of GDP	-5.2	-5.4	-5.6	-						
Nominal effective exchange rate	-5.9	-7.1	-6.3	-4.4	-4.5	-7.9	-6.7	-3.8	-3.4	-6.1
Monetary policy and public accts	**2Q04**	**3Q04**	**4Q04**	**1Q05**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**	**Mar05**
Money supply (M2)	4.7	3.6	5.2	-	4.7	5.3	5.7	5.7	5.2	-
Federal funds rate (1)	1.01	1.27	1.75	2.16	1.75	1.92	2.16	2.29	2.50	2.63
Federal receipts (2)	550	479	487	-	137	135	216	202	101	-
Federal expenditures (2)	576	565	605	-	194	192	219	194	215	-
Federal public deficit (2)	-26	-86	-118	-	-57	-58	-3	9	-114	-

(1) Levels. (2) Cumulative change in fiscal year, billion dollars. (3) Annual cumulative, billion dollars.
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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