



Dirección General de Economía  
y Política Financiera  
CONSEJERÍA DE ECONOMÍA Y HACIENDA

**Comunidad de Madrid**

# Economic Situation of the Community of Madrid

I / 2015

## Presentation:

With the publication of this report "Economic Situation of the Community of Madrid" we expand our range of products offering the latest economic information.

This report, which has just been published, will be quarterly and has been created with the purpose of analysing economic performance in our region in a way, we think, is enjoyable, yet strictly accurate.

Our sheets on the current situation and the monthly report will continue to appear.

From the Sub-directorate General for Economic Studies we will be happy to receive any comments, suggestions or criticism that might improve our reports.

Sub-directorate General for Economic Studies  
DG for Economic and Financial Policies

## Other periodicals from the Economy Area in 2015:

- Notes on the Economic Situation of the Community of Madrid (monthly).
- Position of Industry in the Community of Madrid (quarterly)
- Report on Foreign Trade (monthly).
- Note on R+D indicators (annual).
- Survey of innovation in enterprises (annual).
- Note on high technology indicators (annual).
- Notes on individual monitoring of the main macroeconomic indicators in the Community of Madrid (monthly or quarterly, depending on the nature of the data):

Affiliation to Social Security, Registered Unemployment, Industrial Production Index (IPI), Consumer Price Index (CPI), Corporations, Indices of Retail Trade (ICM in its Spanish acronym) Sector Business Index Services (IASS) Mortgages on dwellings, Hotel tourism situation (CTH) Labour Force Survey (LFS), Dynamics of Occupation, Foreign Direct Investment (FDI) and Regional Accounts Quarterly (ACWP).

If you do not receive our reports and they are of interest, you can order them by email from [estudios@madrid.org](mailto:estudios@madrid.org)

**Translated by Fyne Formación**

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## **I. Summary of the economic situation**

In the last quarter there has been an improvement in the economic climate and some of the latent risks in the global economy have been dispelled. Along these lines is the favourable attitude of the financial markets, which have welcomed the political refinancing agreement reached between Greece and the Commission and the implementation of measures to revitalize the Eurozone, both tax-based (the Juncker Investment Plan) and monetary (the Draghi Plan for asset purchase). The high volatility in commodity markets, particularly oil, not divorced from a return to the pattern of rising oil prices, has tended to abate. In addition, new solutions are being explored in the medium term on the geopolitical front.

In this context, the beginning of 2015 points to an improvement in global business, although with marked differences by area, each one determining the characteristics of the combination of economic policies to be introduced. The action taken in the euro area has produced an upward revision of growth forecasts, highlighting Spain among the most dynamic countries in 2015, according to the Commission itself. The latest National Accounts data reflects acceleration in GDP growth and points to an increase based on investment and private consumption which, however, appears to be matched by a widening trade deficit.

The pattern shown by the Community of Madrid's economy appears similar, although differences in the intensity of the phenomena are significant. Growth in 2014 was higher than the national average, as was the pattern of acceleration shown by the quarterly GDP changes. Thus, the volume of production attained by the region in the fourth quarter of 2014 has returned to 2008 figures, this advance being mainly due to the good performance of services from the supply side and the external demand/end user consumption tandem – as well as non-residential investment on the demand side. The last two components show more recent revitalization in their indices.

Trade between the Community of Madrid and abroad continued to show very high volumes in 2014, only beaten by those of the previous year, consolidating our region as second in foreign trade on the national scene. Without the data for the fourth quarter on Foreign Direct Investment, which will be announced on the 20th, Madrid confirms its leadership in both the issue and receipt of foreign productive capital.

In the sector analysis, the reactivation of services is the mainstay on which recovery in the regional economy is supported, alongside a fledgling advance in construction, now driven by the recovery in residential demand. Among the factors that have made the turning point in this market possible, we should highlight what appears to be the end of the adjustment in housing prices and the resumption of lending business, favoured by the liquidity facilities which the European Central Bank has provided to the banks.

Figure by figure, the labour market continues to show signs of progress. Registry sources such as the Labour Force Survey (LFS) draw increasingly on robust recovery profiles for employment and falling joblessness, now no longer in a context of depleting numbers but of expansion, this feature being characteristic of phases of cyclical recovery.

This is the main focus of the recent pattern in the regional economy. It is hardly surprising, then, that the different institutions involved in national predictions highlight the Community of Madrid as one of the regions with highest expected GDP growth, possibly even over the 3% mark, for 2015.

***Closing date for information: 6 March, 2015***

***Department of Economics, Sub-directorate General for Economic Studies***

## II. International Setting

**The year 2014 ended with 3.3% growth in the global economy, showing signs of slight recovery but unevenly affecting the major economies**

The USA still stands out as the main driving force globally, a counterpoint to the weak recovery in Japan, the Eurozone, and the gradual and controlled slowdown in China and other emerging countries which are coming to the end of their growth models. For 2015 global growth of 3.5% is forecast, despite the uncertainties linked to oil prices and geopolitical and financial risks.

**In emerging economies signs of exhaustion and significant tensions are beginning to appear, due to movements in commodity prices and the dollar.**

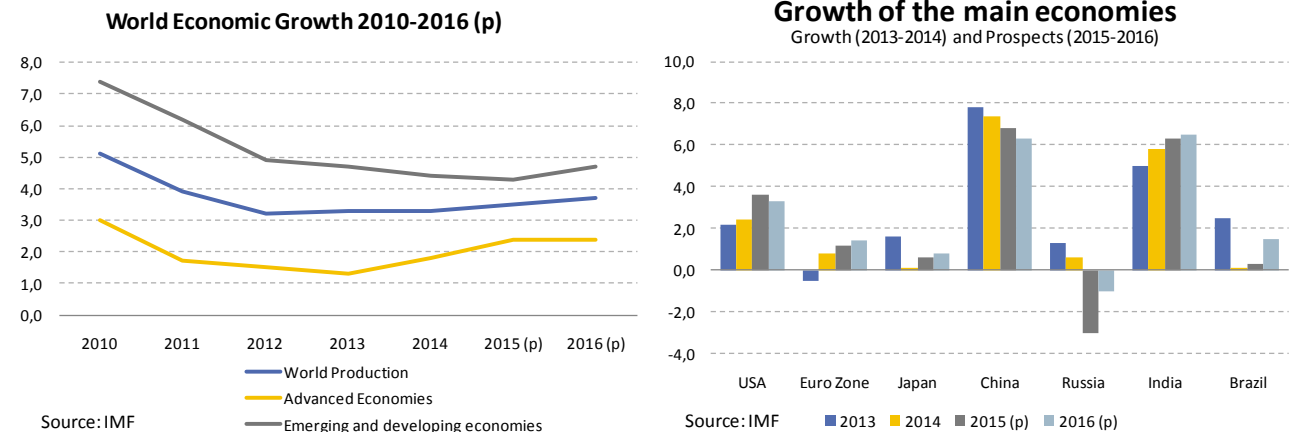
Recent developments in oil prices and other commodities are having a positive effect on net importers (China, India) and a negative one on net exporters (Russia, Latin America etc.). For 2015 we expect modest growth of 4.3% for the developing economies.

*China* continues its gradual and controlled slowdown with growth in 2014 of 7.4%, the lowest figure since 1990, and estimated growth of 6.8% for 2015. *India* is benefitting from cheap oil to implement further reforms to promote its growth, expected to be above 6%. *Russia*, strongly affected both by the drop in oil prices, geopolitical uncertainties and the collapse of the rouble, is going into severe recession. *Latin America and the Caribbean* appear to confirm the existence of a two-speed model: the sharp slowdown in South America, especially in Argentina, Venezuela and Brazil, contrasts with the "solid" growth in Mexico and Central America.

**In advanced economies, easy monetary policies are laying the foundations for recovery. Business is increasing, albeit inconsistently by area.**

In 2014 *the United States* registered growth of 2.4% and the thrust of private consumption, the healthy tone of employment and the rebound in residential investment all confirm the strength of its economy. For 2015 lower fiscal adjustment is expected, along with a recovery in housing and the start of the monetary standardization process. Japan fell into technical recession in the third quarter, weighed down by weak private domestic demand, despite the rise in spending on infrastructure and the depreciation of the yen. The government hopes to revive business through their record 2015 budget.

The *Eurozone* recovery shows signs of moderate levels of business, however rebounding slightly in the last quarter of 2014. The recent fall in oil prices, the depreciation in the euro and the ECB's easing of monetary policy all support projected growth of 1.2% for 2015, although differences between countries are marked: slow progress in France and Italy; Germany leading; Ireland and Spain with growth figures. The ECB has expanded the asset purchase programme to help reduce the risk of deflation; consolidate the progressive depreciation of the euro; boost the foreign sector and reduce risk premiums in peripheral countries. The Commission has temporarily relaxed the deficit target for the countries which undertake structural reforms and seek to promote investment through the European Strategic Investment Fund. The main risks: deflation, difficulties in creating employment, or internal differences over the most appropriate combination of reforms and their rate of application.



### III. National framework

#### 1. Growth

##### Spanish economy closed 2014 with faster growth.

The recovery continues to gain momentum, as is clear from the Quarterly National Accounts (CNTR in its Spanish acronym) for the fourth quarter of 2014 (INE: National Statistics Institute). The GDP grew by 0.7% over the quarter, two decimal points higher than Q3. Also, the rate of year-on-year growth bounced back to the 2.0% level. With this new impetus, 2014 closed with overall growth of 1.4%, the highest since before the start of the crisis.

##### Trends this year point to gradually strengthened domestic demand.

Throughout 2014, domestic demand has been gaining momentum. Over the year it contributed 2.2 points to global growth, once again positive, consolidating the end of the recession. Private consumption has reacted at last, with an increase of 1.8%, while investment increased by 3.6% over the year as a whole, highlighting the dynamism of investments made in equipment (+12.2%). Both components are showing a trend of accelerated growth, however, this is not seen in public consumption, which remains virtually unchanged, compared to 2013 (+0.1%).

External demand moved back into the red in 2014, shaving eight decimal points from GDP growth, although it appears that in the second half of the year this negative contribution slowed due to a new surge in exports, which had slumped significantly in the second quarter.

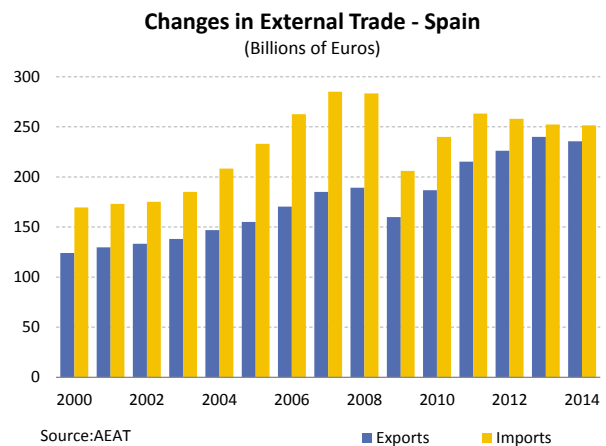
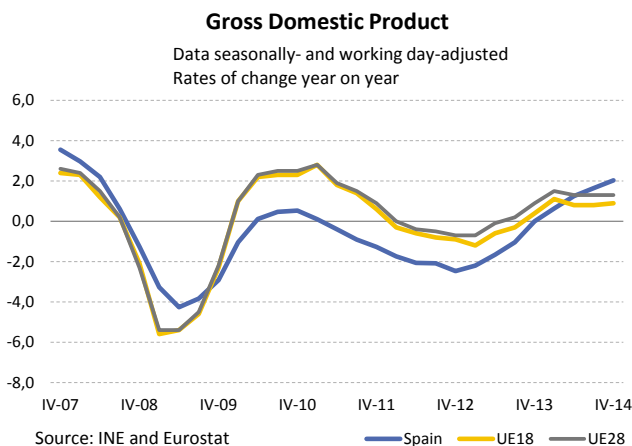
#### 2. External Sector

##### Trade slows growth in 2014 but remains at high levels.

According to the latest published data in December, on the trade balance in Spain, exports reached €240.03bn, 2.9% more than in 2013, while imports were up by 4.8% to reach €264.50bn, a record figure. The trade balance recorded a deficit of €24.47bn, 29% higher than in 2013, and the coverage rate stood at 90.7%.

This data reveals a slowdown in exports in 2014, due mainly to weak destinations like Latin America (Brazil, Argentina and Venezuela), the Middle East and non-EU Europe, linked to the recent slowdown in these economies. The USA (the largest contributor to the rise in the rate of change in total sales) has established itself as the sixth EU market and the EU has increased its share slightly. By sector, the largest contributor to growth is the car industry.

Imports, however, rebounded in 2014, over exports, which explain the increase in the trade deficit. Germany has become the country billing most to Spain, with France in second place, while China moves forward one position to stand third, relegating Italy to fourth place. By sector, the major contribution to the growth of imports comes from the automotive sector, capital goods and consumer manufactures.



**Labour market**

**The results of the Labour Force Survey (LFS) for 4Q 2014, reaffirmed the positive trend in the Spanish labour market.**

The year 2014 closed with LFS figures that consolidate the path of recovery observed over the four quarters. The number of employed, which began to descend in year-on-year terms in the third quarter of 2008, and has been doing so until the first quarter of 2014, returned to positive figures in the second quarter, and thereafter employment rose with increasing intensity to the current level of 2.5%. At the same time, the number of unemployed, after registering constant annual increases from mid-2007, began to decline in the fourth quarter of 2013 and still continues, with progressively faster rates, reaching -8.1% YoY in the fourth quarter of 2014.

This growth has led to 2014 being the first year with job creation in Spain since 2007, and also the first year with a global decline in unemployment, this time since 2006. In terms of annual average, the number of employed in Spain in 2014 increases by 205,175 people, compared to 2013, and at a rate of 1.2%, while unemployment is down by 440,725 people: 7.3% fewer than in 2013.

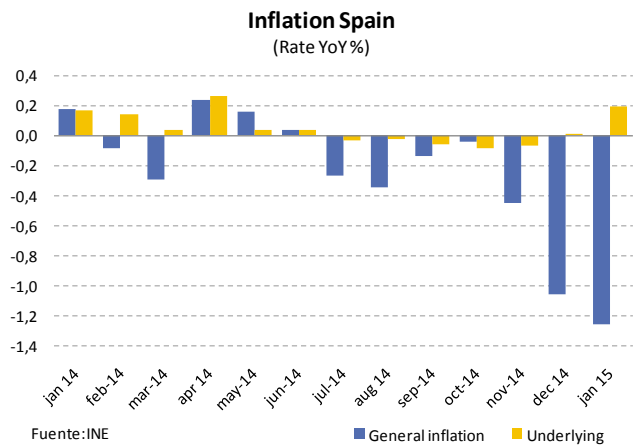
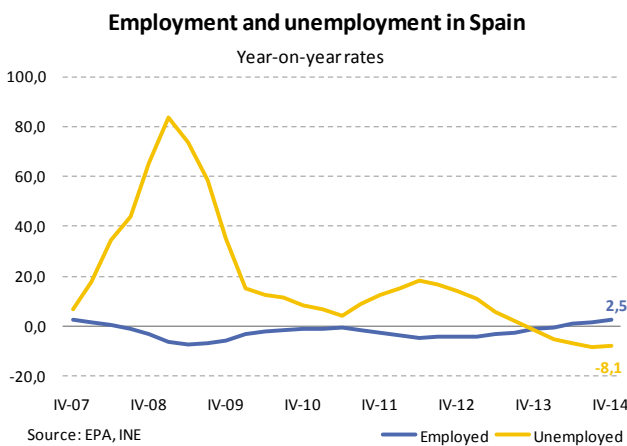
**Prices**

**The negative year-on-year rate is not widespread: the underlying rate is positive.**

In January, inflation (CPI rate) in Spain stood at -1.3%: this means more than six months with negative rates. However, the alleged effect of the drop in demand does not appear to exist, since private consumption is growing (2%) and both GDP and household spending recorded positive rates in 2014. This is because negative inflation is not widespread, nor is it expected to last long. It is chiefly due to the fall in oil prices, a product which we import, so cheaper prices benefit all economic partners in the form of increases in purchasing power or lower production costs, and this therefore provides major support for the recovery in the Spanish economy.

The core price index, which excludes energy products and unprocessed foods, as these are the most volatile components, stagnated in 2014 (with an average variation of 0%) but the figure for January 2015 puts this back in the black, at 0.2%.

The outlook for 2015 is uncertain, given the volatility of oil prices, although, on closing this report, the price of a barrel of Brent was near \$ 62/barrel, up 16% from the end of January.



## IV. Recent development in Madrid's economy

### IV.1. Economic growth

#### The Community of Madrid closed 2014 showing signs of tone enhancement in its economy.

The latest growth in the Community of Madrid, published by the Institute of Statistics, reflects the improved economic climate which our region has experienced throughout 2014. Since our region came out of the last recession in the second quarter of 2013, it has experienced a gradual improvement which, according to estimates, places Madrid as one of the key regions in the recovery of the Spanish economy.

In particular, recent data for the fourth quarter of 2014 reflected an 0.8% increase in Madrid's GDP from the previous quarter. This is the most dynamic quarterly growth since the end of the crisis. Considering the CNTR (Spanish National Quarterly Accounting), Spain as a whole grew at a rate of 0.7%.

In annual terms, Madrid's GDP growth sprung back to 2.3%, maintaining a positive differential of three decimal points over Spain.

#### Over 2014 as a whole, Madrid achieved a growth rate of 1.7%

So, after two years in recession and, despite the recovery which began in 2013, Madrid obtained its first growth figure of 1.7%. According to the INE, this region also maintains an annual average rate higher than the national average, standing at 1.4%.

#### Regional demand gained strength throughout 2014.

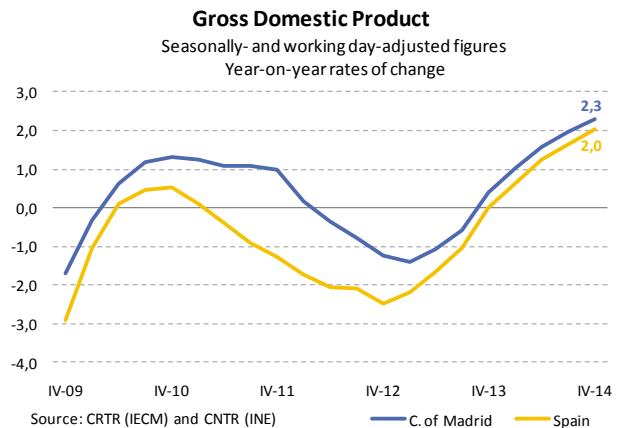
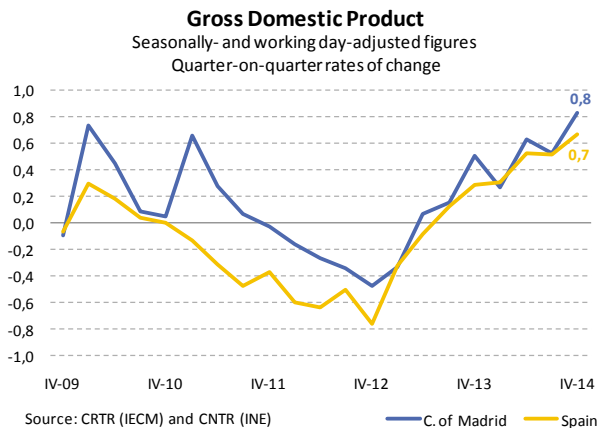
In the early stages of emergence from the recession, Madrid's economy, like the Spanish economy as a whole, leaned on a foreign sector that had been strengthening throughout the crisis and which managed to cushion the fall in production. Regional demand, which remained negative until the last quarter of 2013, has been gaining momentum gradually, thus recording its first year on year growth in the second quarter of 2014, and over that entire year it saw a rise of 0.9% (-2.6% in 2013).

By contrast, external demand has been moderating its contribution to GDP growth since late 2013. On average in 2014, the external contribution to global growth was nine decimal points, seven below the figure for 2013. However, in the last quarter of 2014, this increased slightly, introducing a change in the slowing trend in recent quarters.

#### The revitalization of Madrid's economy in 2014 is firmly founded upon services.

Undoubtedly services in general are stimulating economic growth in our region, with a growth rate of 2.2% in 2014. The region experienced a progressive acceleration throughout the year which resulted in a rate of 2.8% in the fourth quarter.

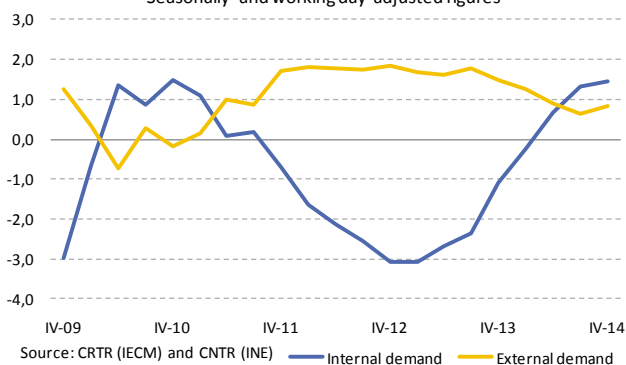
Construction, meanwhile, appears to have increasingly come out of the recession: the advance in the second half of 2014 has brought a growth rate of 0.1% over the year as a whole, leaving behind a period of adjustment that has spanned over five years.

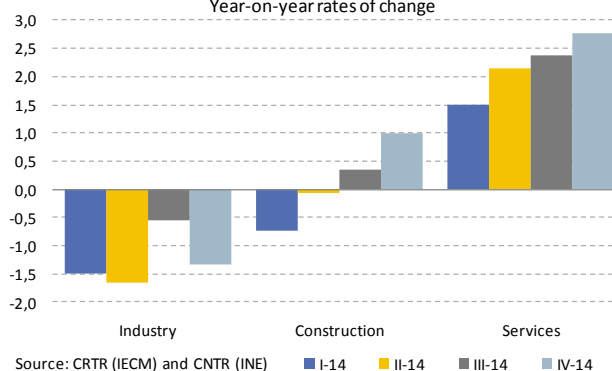




**Contribution of regional and external demand to GDP growth in the C. of Madrid**

Seasonally- and working day-adjusted figures


**Sector growth Community of Madrid**

 Seasonally- and working day-adjusted figures  
Year-on-year rates of change

**QUARTERLY ACCOUNTS FOR THE COMMUNITY OF MADRID. BASELINE 2008**

(Volume indices. Seasonally- and working day-adjusted figures)

**Quarter- on-quarter rates of change (%)**

	2013		2014		2013				2014			
			I T	II T	III T	IV T	I T	II T	III T	IV T		
Agriculture	-4,0	-1,0	1,4	-3,8	-2,5	0,7	1,7	-1,6	0,0	0,8		
Industry	-3,3	-1,3	-1,0	-0,5	-0,9	0,7	-0,8	-0,7	0,2	-0,1		
Construction	-2,8	0,1	-1,0	-0,5	0,1	-0,4	0,1	0,2	0,5	0,2		
Services	-0,3	2,2	-0,2	0,2	0,3	0,6	0,4	0,8	0,5	1,0		
GAV	-0,8	1,7	-0,3	0,1	0,2	0,5	0,3	0,6	0,5	0,8		
<b>GDP</b>	<b>-0,7</b>	<b>1,7</b>	<b>-0,3</b>	<b>0,1</b>	<b>0,2</b>	<b>0,5</b>	<b>0,3</b>	<b>0,6</b>	<b>0,5</b>	<b>0,8</b>		
<b>Final consumption costs</b>	<b>-2,2</b>	<b>0,7</b>	<b>-0,7</b>	<b>-0,5</b>	<b>-0,3</b>	<b>0,3</b>	<b>0,3</b>	<b>0,3</b>	<b>0,2</b>	<b>0,4</b>		
- of households	-1,5	1,2	-0,5	-0,4	0,2	0,4	0,3	0,4	0,2	0,5		
- of PAs and ISFLSH	-3,9	-0,6	-1,2	-0,7	-1,7	-0,1	0,2	0,2	0,4	0,1		
<b>Gross Capital Formation</b>	<b>-4,2</b>	<b>1,7</b>	<b>-0,9</b>	<b>-0,7</b>	<b>-0,6</b>	<b>0,7</b>	<b>0,1</b>	<b>1,2</b>	<b>0,9</b>	<b>0,9</b>		
- Investment in Housing	-6,0	-1,6	-1,8	-1,6	-1,4	-0,1	-0,7	-0,1	0,4	0,2		
- Rest of investment	-3,9	2,3	-0,7	-0,6	-0,5	0,8	0,2	1,5	1,0	1,0		
<b>Regional demand</b>	<b>-2,6</b>	<b>0,9</b>	<b>-0,7</b>	<b>-0,5</b>	<b>-0,4</b>	<b>0,4</b>	<b>0,2</b>	<b>0,5</b>	<b>0,4</b>	<b>0,5</b>		
<b>External demand (1)</b>	<b>1,6</b>	<b>0,9</b>	<b>0,3</b>	<b>0,5</b>	<b>0,5</b>	<b>0,2</b>	<b>0,1</b>	<b>0,2</b>	<b>0,2</b>	<b>0,4</b>		
<b>GDP</b>	<b>-0,7</b>	<b>1,7</b>	<b>-0,3</b>	<b>0,1</b>	<b>0,2</b>	<b>0,5</b>	<b>0,3</b>	<b>0,6</b>	<b>0,5</b>	<b>0,8</b>		

**Year-on-year rates of change (%)**

	2013		2014		2013				2014			
			I T	II T	III T	IV T	I T	II T	III T	IV T		
Agriculture	-4,0	-1,0	-3,7	-3,9	-4,0	-4,2	-3,9	-1,7	0,8	0,9		
Industry	-3,3	-1,3	-4,7	-3,3	-3,2	-1,7	-1,5	-1,7	-0,6	-1,3		
Construction	-2,8	0,1	-3,6	-3,1	-2,6	-1,8	-0,7	-0,1	0,3	1,0		
Services	-0,3	2,2	-1,0	-0,8	-0,2	0,9	1,5	2,1	2,4	2,8		
GAV	-0,8	1,7	-1,6	-1,2	-0,7	0,4	1,0	1,6	2,0	2,3		
<b>GDP</b>	<b>-0,7</b>	<b>1,7</b>	<b>-1,4</b>	<b>-1,1</b>	<b>-0,6</b>	<b>0,4</b>	<b>1,0</b>	<b>1,6</b>	<b>2,0</b>	<b>2,3</b>		
<b>Final consumption costs</b>	<b>-2,2</b>	<b>0,7</b>	<b>-2,8</b>	<b>-2,5</b>	<b>-2,2</b>	<b>-1,2</b>	<b>-0,2</b>	<b>0,6</b>	<b>1,2</b>	<b>1,3</b>		
- of households	-1,5	1,2	-2,3	-2,0	-1,6	-0,3	0,6	1,4	1,3	1,5		
- of PAs and ISFLSH	-3,9	-0,6	-4,1	-3,8	-4,0	-3,6	-2,3	-1,4	0,6	0,9		
<b>Gross Capital Formation</b>	<b>-4,2</b>	<b>1,7</b>	<b>-5,8</b>	<b>-5,2</b>	<b>-4,4</b>	<b>-1,5</b>	<b>-0,6</b>	<b>1,4</b>	<b>2,9</b>	<b>3,1</b>		
- Investment in Housing	-6,0	-1,6	-7,5	-6,1	-5,6	-4,7	-3,7	-2,2	-0,5	-0,1		
- Rest of investment	-3,9	2,3	-5,4	-5,0	-4,2	-0,9	0,0	2,0	3,5	3,7		
<b>Regional demand</b>	<b>-2,6</b>	<b>0,9</b>	<b>-3,5</b>	<b>-3,1</b>	<b>-2,7</b>	<b>-1,3</b>	<b>-0,3</b>	<b>0,8</b>	<b>1,5</b>	<b>1,7</b>		
<b>External demand (1)</b>	<b>1,6</b>	<b>0,9</b>	<b>1,7</b>	<b>1,6</b>	<b>1,8</b>	<b>1,5</b>	<b>1,3</b>	<b>0,9</b>	<b>0,6</b>	<b>0,8</b>		
<b>GDP</b>	<b>-0,7</b>	<b>1,7</b>	<b>-1,4</b>	<b>-1,1</b>	<b>-0,6</b>	<b>0,4</b>	<b>1,0</b>	<b>1,6</b>	<b>2,0</b>	<b>2,3</b>		

(1) Contribution to GDP growth

Source: Community of Madrid Institute of Statistics

## IV.2. Demand and production

### IV.2.A. Domestic Demand

#### Strong rebound in consumer durables and investment.

The indicator for private car registration, which acts as a thermometer of the ability and willingness to consume, reached 261,510 registrations in 2014, up from 2013 figures by 14.9% due to the institutional aid sector. The latest information available for the month of February, 2015, appears to confirm the positive data on this indicator, with a further acceleration in the year-on-year rate for the non-centred 12-month mobile average (MM12). This fact is not divorced from the confirmation of continued government support for plans to renew the fleet of cars throughout the course of 2015.

The increase in truck registrations during 2014 reflects the upturn in business, which always goes hand in hand with the need for this type of vehicle: the year-on-year rate stood at 35.3%, the highest since 2010, when it reached a record high for that type of vehicle. The February figure, although more modest than in previous months, continues to show significant growth (5.0%) and the trend continues to sustain its rise.

#### The latest figures for fuel consumption, influenced by the recent drop in prices.

Despite the increase in fuel consumption in the last months of 2014, taking the year as a whole, both fuels recorded negative rates, while petrol consumption showed the smallest fall in the last twelve years. The trend in both variables is the moderation in previous months' reductions.

#### Unpaid bills of exchange maintain their downward path year-on-year.

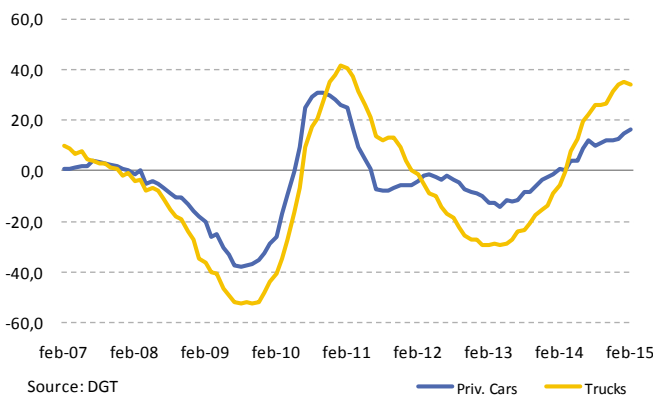
Unpaid bills of exchange fell in December 2014, both in number (-10.5%) and value (-29.4%) and for yet another month the percentage of the total outstanding fell. During 2014, pending debt continued to decline, both in number and amount, resulting in a drop in bad debts and default rates.

#### Credit to the private sector, with deflated figures, continues to slow the pace of decline.

The drop in private credit, especially since the third quarter of 2012, has gradually been contained. Thus, in the third quarter of 2014 it recorded a fall of 2.2% year-on-year, with the drop during the previous quarter levelling out by almost one point. Private sector deposits, for their part, were up for the sixth consecutive quarter but slowed this upward trend in the third quarter of 2014, to reach 0.5% with deflated figures: 1.4 lower than the second quarter.

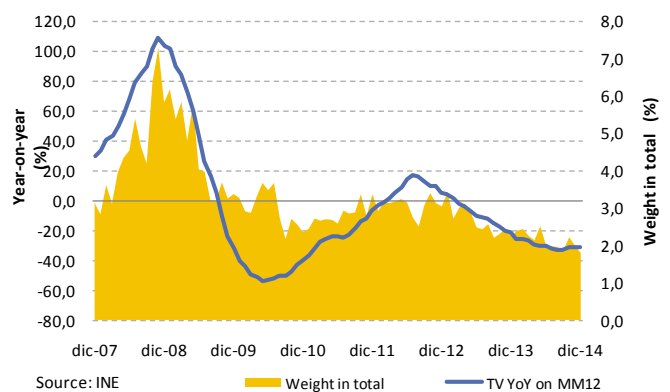
**Vehicle Registration C. of Madrid**

YoY rates of change on non-centred MM12



**Total unpaid bills of exchange C. of Madrid**

Proportion of total and year-on-year rates of change on MM12



**IV.2.B. External demand**

**Moderate sales in 2014 with a good level of business and good prospects**

In 2014, the volume of exports from the Community of Madrid amounted to €27.99bn, albeit 9.0% lower than 2013 figures. This is the second largest amount in the series. Moreover, progress throughout the year marked a favourable trend, especially in the second half, which concluded with a positive annual rate (0.9%) in the fourth quarter.

The volume of goods imported by the region stood at €50.07bn for the whole of 2014: 5.2% up on 2013, implying a change in trend in the last two years, which had recorded negative annual rates. In fact, in the figures over 2014 as a whole, the first half still recorded negative rates, and it was only in the second half of the year when there was a change of sign, with the last quarter up by 11.1% year-on-year, strongly linked to the revitalization in non-residential investment in the regional economy.

This pattern of trade flows brought down the coverage rate to 55.9%, 13.5% below 2013 figures.

**The Community of Madrid, the region with the second greatest weight in business**

Nationally, Madrid stands as number two region in terms of trade for both exports, with 11.7% of total sales, and imports, accounting for 18.9% of total Spanish purchases.

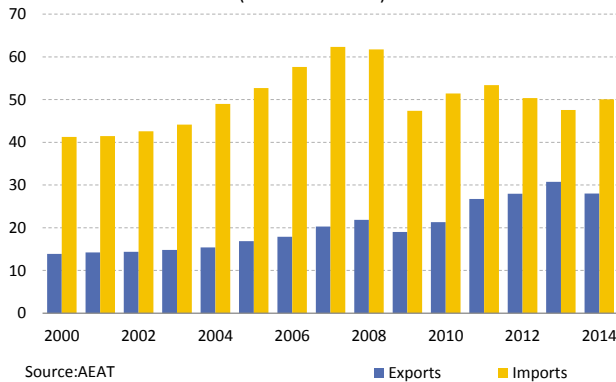
*Pharmaceuticals*, for the third consecutive year, consolidated their leadership as bestselling sector. The automotive sector moved up to second position, with France as the largest customer, which in 2014 increased its purchasing in this sector by around 7%. *Aerospace vehicles*, which were the second biggest sector in terms of export figures for 2013, fell back to fifth place in 2014.

*Machinery and electrical equipment, pharmaceutical products and machinery and mechanical appliances* are the three areas with greatest demand from foreign markets, with advances in 2014, compared with the drop recorded in 2013; this area absorbed almost 40% of total imports by Madrid as a region.

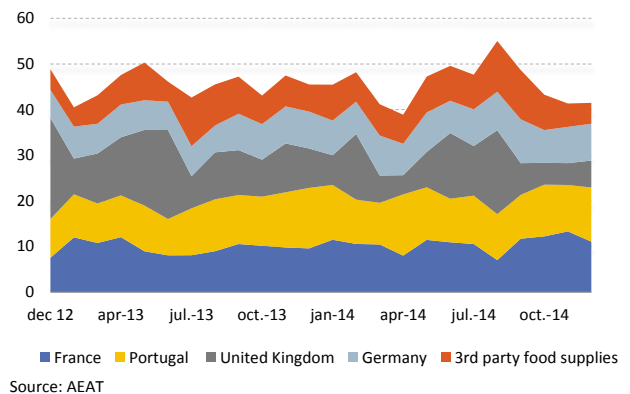
Among the Community of Madrid’s (CM) ten largest customers, the USA has increased purchasing from our region the most, compared with 2013, and has the highest positive rate of change for total exports. The UK recorded the most negative contributions and was also the region which has most decreased its imports. The European Union continued to collect more than 52% of our exports and France was our largest customer, although in 2014 Portugal came very close.

CM imports in 2014 came mainly from Europe (65.7%), although two countries slipped into the ranking of the top 10 suppliers; China, which advances one place since 2013, now standing in second place, and the US, which consolidates its fourth position. Germany, our main supplier, increased its sales to the CM and won market share.

**Foreign trade C. of Madrid**  
(Billions of Euros)



**Weight of Spain’s biggest export customer countries (%)**



### IV.2.C. Foreign direct investment

**Between January and September 2014, the Community of Madrid received €5.09bn, which was more than the rest of autonomous communities put together.**

Historically, the Community of Madrid as a region has attracted the lion’s share of foreign capital flowing into Spain in the form of investment, at a considerable distance from other autonomous communities. Since the start of records on these investments, in 1993, 59.6% of foreign direct investment in Spain has landed in the Community of Madrid.

This leadership has been constant over the past 21 years: the latest published data shows that in the first nine months of 2014 the Community of Madrid was the target for €5.09bn, representing 52.5% of total foreign investment in Spain during that period.

In the third quarter of 2014, the most recent period recorded, Madrid attracted nearly €2bn, representing 38.3% of the national total, an unusually small weight due to the fact that the investment figure unassigned to any CCAA was exceptionally high (this represents 35% of the national total and less than 5% in previous quarters).

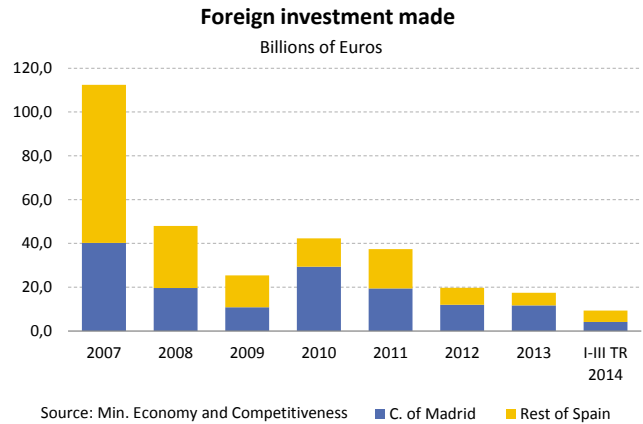
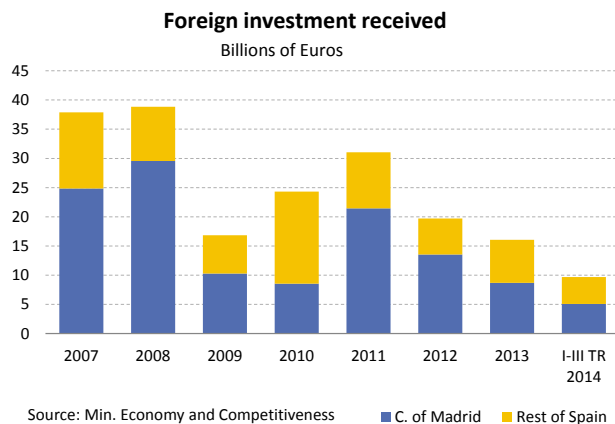
Indeed, the Community of Madrid is the favourite of foreign investment, as evidenced by the fact that in the accumulated figure for the first nine months of 2014, the capital attracted to our region is almost five times that of Catalonia, in second position in the ranking, and 7.6 times higher than the figure for the Basque Country, in third place.

**In the first nine months of 2015, the Community of Madrid will make almost half of the total investment for Spain abroad.**

A similar pattern happens with Spanish companies’ investment beyond our borders. Thus, from 1993 until today, the Community of Madrid was the source of 56.5% of Spanish investment abroad. In 2013, the last full year for which information is available, this percentage rises to 66.9%, and in the accumulated figure for January to September 2014, the weight of our region in the whole of Spain stood at 44.8%, after making investments of €4.16bn abroad.

Focussing on the third quarter of 2014, companies in the Community of Madrid made overseas investments worth €905m, representing 44.0% of the total nationwide.

In 2014, the second place in the regional classification, which is usually occupied by Catalonia, went to Cantabria, which made 34.2% of Spanish investments abroad between January and September. Catalonia fell back to third place, with a figure of only a fifth of the Community of Madrid’s for the same period.



**IV.2.D. Production**

**1. Industry**

**In 2014 industry slowed its rate of decline compared to 2013 but failed to consolidate its recovery.**

Looking at the Quarterly Regional Accounting for the Community of Madrid (IECM in its Spanish acronym) for the fourth quarter of 2014, sluggishness continued to be the descriptor for industry in the region. The sector, together with construction, the hardest hit in this last recession, has so far failed to show any clear signs of recovery. Since late 2012 a gradual trend began in falling year-on-year rates, dropping from 6.0% year-on-year in the third quarter of 2012 to 0.6% in the third Q. 2014. However, at the end of 2014 the rate of decline intensified by a few decimal points, which is consistent with what was observed in some production indicators. On average, industry shrunk by 1.3% in 2014, while in 2013 the figure was 3.3%.

**In general, available short-term indicators have been slowing their rate of decline in 2014 but have not recovered the levels of previous years.**

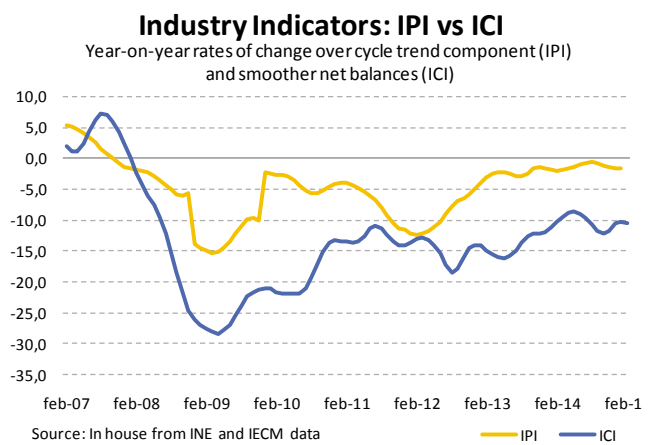
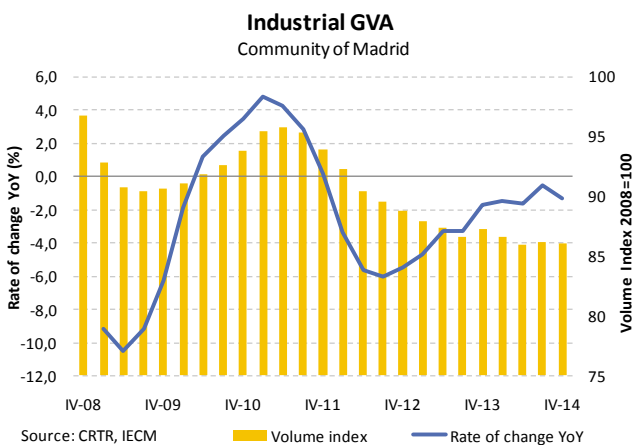
In 2014 the Industrial Production Index (IPI) in 2014 followed this trend, showing a slowing rate of decline compared to 2013 (-1.2% vs. -2.7% in 2013), which could have been greater, had it continued throughout the whole year. However, in the last four month there has been a renewed cooling off in cycle-trend terms, so prospects for recovery in the sector have been held back.

In the same vein, the Industrial Climate Index (ICI) is still far from showing signs of recovery. The year 2014 began by improving slightly (although still with negative balances) but in the second half of the year a worse scenario was becoming increasingly evident. However, in early 2015 some correction in this trend may be appearing, albeit still weak. Other indicators reflect this cooling around the fourth quarter. For example, the rate of incoming orders for Madrid industry, as drafted by the INE, had been showing an upward trend in recent months but was interrupted in December, and the rate of turnover, despite maintaining a profile of moderation in the rate of decline, failed to finish the year in the black.

**According to the LFS, industrial employment improved in the second half of 2014.**

Data on affiliation to Social Security in industry also sketches a similar profile to that of production indicators, so the rate of decline eased off somewhat at the beginning of 2014 until the end of the year, when it recoiled once again. However, registered unemployment in the sector reduced steadily and rapidly: 9.2% for 2014 as a whole.

The number of those currently employed in industry, according to the Labour Force Survey (EPA in its Spanish acronym) has shown an unfavourable trend since 2012, particularly severe in the second half of 2013 and first half of 2014. However, in Q3 and Q4 last year a change was seen with the first two previews for rate of change.



## 2. Construction

### The recovery of the sector's business in the second half of 2014 is confirmed, with its GVA recording the first increase in 2014

According to the Quarterly Regional Accounts for the Community of Madrid, (baseline 2008: IECM), the drop in GVA for the sector, which had been the dominant trend since the beginning of the series (2008), seems to have come to a definitively halt from the third quarter of 2014. The increase at that point; 0.3%, accelerated sharply in the fourth quarter to reach 1.0%. This makes 2014 business levels slightly higher than the previous year (0.1%); levels which are, however, heavily depleted by five years of persistent, sharp falls (showing a volume index of 71.1 in 2014; 100 in 2008). Also, from the demand side, recovery can be glimpsed in the residential segment, although annual growth in housing investment in the second half of 2014 merely stemmed the drop for the year overall.

### A good start to the year for the sector's leading indicators, while delays bear witness to the profound weakness in the building sector in the recent past.

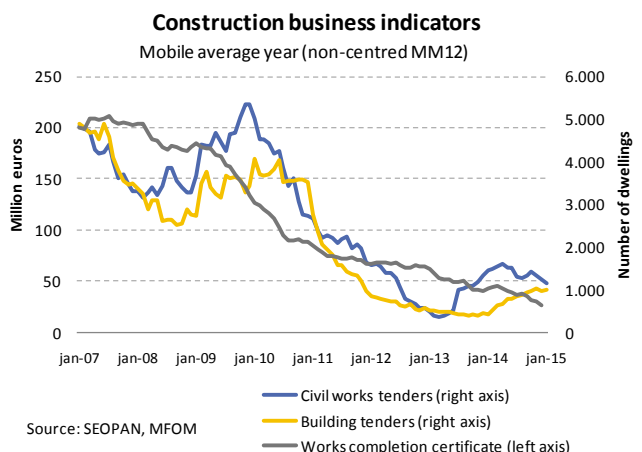
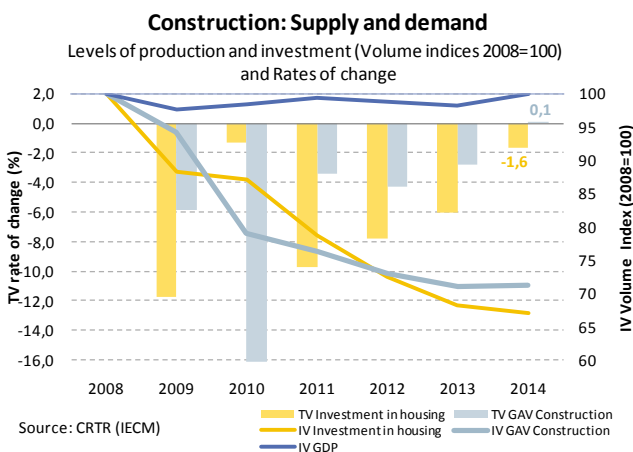
Worthy of note was the good performance of public bidding, which had already tipped the scales in 2013 due to the increasing amount of civil works. This was joined by building in 2014, a year when both have recorded double-digit growth. Lower tax pressure, greatly improved access to credit and better financing conditions for the Autonomous Communities (self-governing Spanish regions) have brought a general increase in the amounts tendered by both central and local government: 42.9% and 116% respectively, in 2014. Nevertheless, the Community of Madrid, with levels similar to the previous year, is still the source of 1 out of every 2 euros tendered in the region. Data from January 2015 corroborate the upswing in the residential segment and local government.

Other leading indicators are following the same direction of recovery: visas and permits, although both with more delayed information. Housing approvals were up 20.5% in 2014, 59.1% for municipal licenses to build housing until September, with more licenses approved in the first nine months of 2014 than all 2013. However, works completion certificates remained very weak in 2014, as expected by their lagging indicator; the drop in figures stands at around 35% for the second consecutive year.

### Residential demand, driven by stabilizing prices and improved access to credit, is seeing increases in the number of house sales and mortgage operations in the second half of 2014.

Merchandising of dwellings in the region in the second half of the year was up on the figure for the same period the previous year, due entirely to the reactivation of the new housing market in 2014. This segment, especially weakened in 2013 by the increase in the marginal VAT rate applicable, is the only sector which saw increases in 2014, possibly related to the faster drop in stock prices on new housing.

The mortgage business has also revived in 2014, introducing the first advance in both the number of mortgages and borrowed capital after three years of consecutive fall. Unprecedented also is the increase in average capital mortgaged, the first upswing since 2007.



### 3. Services

**Solid recovery for GVA services throughout 2014 has enabled current business levels to exceed pre-economic crisis levels.**

Services have been the main plank of the Madrid economy during the economic cycle’s recession phase: according to ACWP (Actual Cost of Work Performed) figures from the IECM (Integrated European Census Microdata), this sector is the only one which has recorded production levels above 2008 during the years 2010-2014, price effect adjusted. The GVA for the sector, which had fallen by 0.3% in 2013, was up by 2.2% in 2014, due to the continued acceleration in its quarterly rise, reaching a 5.5% higher level of business this year, as compared with 2008.

The three tertiary branches that make up aggregate services have undergone remarkable revitalization in GVA in 2014: the growth in distribution services and hotel and catering was up by 3.5 points, with a YoY rate of change increase of 2.0%: growth in business and financial services rose 2.0 points to reach 2.3%; and the remainder of services accelerated by 2.3 points to reach a growth figure of 2.2%. All share a profile of upward growth for quarterly GVA, giving a solid base to the progress made.

This favourable and differential behaviour for services during the economic crisis has enabled the sector to gain weight within the whole regional economy in 2014, accounting for 76.4% of GDP in the Community of Madrid, four points higher than in 2008.

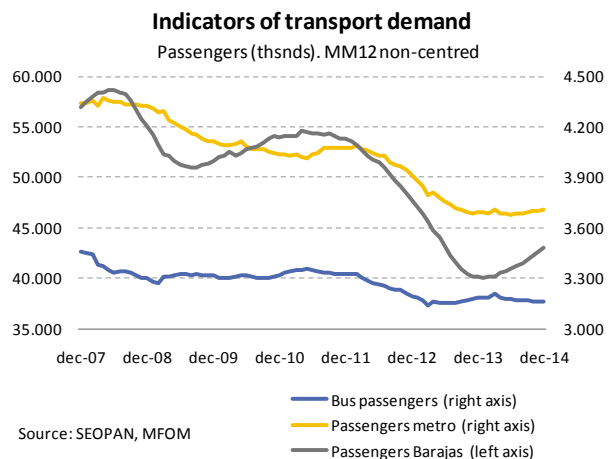
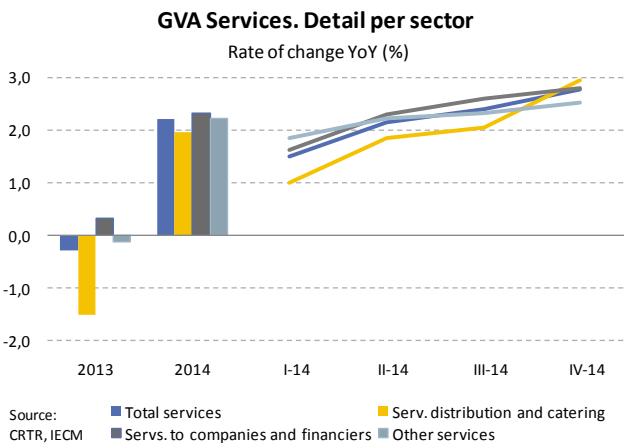
**Business indicators observed progressive invigoration throughout 2014, as in the case of sector GVA, with services at the head of regional growth.**

Business indicators in the service sector (IASS), which began the year with flat trend profiles, flexed upwards in the second half of the year. This behaviour was more pronounced in terms of turnover, where positive growth rates have been the keynote this year (2014) in terms of employment, but where rate of change advances have held back until the last quarter. Especially positive was the behaviour of business indicators for December, the latest available month, with a positive seasonal bias and levels this year beating Decembers observed over the previous three years.

**The demand for transport services has recovered due to the revival in domestic consumption, the labour market and improved economic prospects.**

Throughout 2014 there has been a steady increase in passenger traffic at Barajas airport, culminating with an increase of 5.3% for the year as a whole, after three years of decline – with 12.1% as the most pronounced in 2013. Thus, the current levels of more than 40 million passengers a year resemble those of 2005, but are still far from the 50 million handled by Barajas on average between 2007 and 2011.

The recovery of air freight in the region has been even greater, with an increase of 6.1% in 2014 to reach 364,500 tonnes, only surpassed in 2010 and 2011.



A recovery was also observed in passenger numbers for the Madrid metro, after six years of fall, only interrupted in 2011. With around 561,000 travellers in 2014, figures have increased by 0.5%, far from the average levels of 640,000 users for the ten-year period, 2003-2012. However, this means of transport is still used more than city buses, which again registered a further drop of 0.9% in 2014, to give a figure of 452,000 for the number of travellers.

**Substantial improvement in Retail Trade Indices (RTI) in the fourth quarter of 2014, especially for turnover**

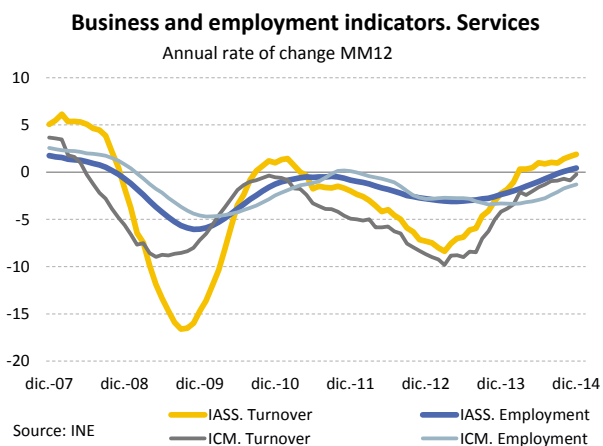
The main indicators for the commercial sector also experienced the first rate of change upswing in the last months of 2014. Although the series had flexed upwards months before, it was not until this time that the increasingly restrained falls every month had become increments in turnover. The recovery in the employment rate shares a very similar profile, but slightly delayed in time, and we are now observing the first growth for the original series, which has not yet been passed on to the trend.

**Exceptional behaviour in the region’s hotel sector in 2014, approaching record highs for the number of travellers and overnight stays, due to renewed momentum in the domestic market.**

The trends in hotel-based tourism in 2014 proved to be exceptional, with levels of visitors and overnight stays hovering around the record highs of 2011, with both variables at the same growth rate: 11.6% up on 2013 figures. If that year was marked by the weakness of the sector, and particularly by domestic demand, in contrast, 2014 has highlighted the sector’s now dynamic nature: the number of travellers resident in Spain grew by 12.4%, increasing their overnight stays by 12.9% (10.5% and 10.4% respectively for residents abroad).

Of major importance is also the hotel occupancy rate for the year, which already exceeded 50% for existing beds and 60% for room bookings. Given the lower degree of seasonality than the national average in our region, increases in occupancy are an especially key parameter for monitoring developments in the sector in the medium term, and its improvement is, without doubt, the result of significant efforts made by the region’s main players in tourism promotion. The average length of stay remains stable, very close to two nights, as in previous years, and at a considerable distance from the national average, due to the difference in tourist behaviour.

Madrid stands out in 2014 as the single most dynamic region of all with double-digit growth, placing it as the third highest in number of travellers, only beaten by Catalonia and Andalusia; and the sixth in volume of overnight stays. Furthermore, the mean occupancy rate this year has only been exceeded by the Balearic and Canary Islands and Valencia. The data available for the month of January, 2015, confirms the positive tone of the sector.





### Box I. Research, development and innovation

**The Community of Madrid is the leader in Research and Development in terms of both volume of domestic expenditure and staff numbers employed in this area.**

According to data published by the INE during the first quarter, domestic expenditure on research and development (R+D) in the Community of Madrid in 2014 amounted to €3.43bn, which places it at the top of the ranking for regional expenditure on R+D, and in third place, behind the Basque Country and Navarre, taking the percentage of expenditure as a proportion of GDP: 1.75%. Furthermore, along with Extremadura, it is the only community which has increased this percentage in the last year.

By field of operation, it is the business sector that represents the highest percentage of total expenditure on R+D in the Community, with 56.7%, followed by the public administration sector (25.1%) and then higher education (18, 1%).

In terms of employment, the region stands out again with a total of 47,609 people in full-time equivalent (FTE) jobs in R+D, 23.4% of the national total. Researchers as a group reached the figure of 28,631 (FTE); 60.6% of staff employed in R+D in the Community; and 23.2% of researchers, nationally.

<b>R&amp;D, Innovation and High Technology Indicators</b>			
	<b>C. Madrid</b>	<b>Spain</b>	<b>Wt. CM/Spain</b>
<b>R&amp;D Indicators: 2013</b>			
Total expenditure (€bn)	3.43	13.01	26,4%
Total personnel (FTE)	47.609	203.302	23,4%
Total researchers (FTE)	28.631	123.225	23,2%
<b>Innovation Indicators in companies. Period 2011-2013</b>			
Innovating Companies	6.993	38.092	18,4%
Companies with technological innovations (product and/or process)	3.459	19.370	17,9%
Companies with non-technological innovations (organizational and/or marketing)	5.565	29.840	18,6%
<b>High Technology Indicators: 2013</b>			
Employed in AyMA technology (thsnds)	311	1.197	26,0%
Turnover manufacturing sector AyMA technology (€bn)	18.93	150.23	12,6%

Source: INE

**In the period 2011-2013, 28.3% of Madrid companies with 10 or more employees were innovative, ahead of the national average (26%).**

According to the survey on innovation in enterprises, in 2013 companies in the Community of Madrid spent €4.46bn on technological innovation, 33.7% of the total spending on that category. Over the period 2011-2013, 14.0% (3,459) of Madrid companies with 10 or more employees introduced technological innovations (product or process), while 22.5% (5,565 companies) opted for non-technological innovations (organizational and/or marketing). A total of 14.3% of the turnover in enterprises with innovation business corresponded to new or improved products.

**The Community of Madrid leads many of the high technology indicators.**

In 2013 companies in the high and medium-high technology sectors (AyMAT) in the region employed 311,000 people (26% of the national total). These companies invested €1.35bn in R+D (29.7% the national total) and had the most staff devoted to R+D: 14,288 people in FTE (25.4% of the national total). Turnover for AYMAT manufacturing companies in the Community of Madrid stood at €18.93bn in 2013, generating 12.6% of total turnover in AYMAT sectors and 16% in terms of added value.

Among the different Madrid AyMAT sectors stood out by turnover: Manufacture of electrical equipment, machinery, motor vehicles, trailers and semi-trailers (31.9% of total); manufacture of pharmaceuticals (27.8% of the turnover in the region and 37.3% of the sector nationally); aerospace and related machinery: 7.2% of the total turnover of the AYMAT sectors in Madrid and 59.7% of the national aeronautical sector.

### IV.3. Prices and wages

#### Oil prices are primarily responsible for the fall in inflation.

The latest data on the Consumer Price Index, published by the INE for the month of January, 2015, places inflation (CPI year-on-year) for the CM at -1.3%. This is the eighth consecutive month with a zero or negative rate YoY, similar to the whole of Spain. However, we could only say that Madrid's economy is in deflation if we consider inflation as a good indicator of prices as a whole in the economy. We should recall that no official quarterly data is published on the GDP deflator. In any case, the current economic scenario does not suggest that this situation of YoY falls in the CPI will last any length of time.

The collapse in oil prices, which have fallen from \$114/barrel in June to \$50/barrel in January, is chiefly responsible for falling inflation. Although this fall in prices has not been passed on completely to the 'Transport' group, it certainly is the component with the lowest rate in January (-7.8%) and the group with greatest downward pressure on overall inflation.

Of the twelve categories that make up the index, only four recorded negative rates: the aforementioned 'Transport'; 'Communications' which has had negative rates for the last five years; 'Leisure and Culture' which records 15 months below zero; and 'Housing' which has been affected - albeit more moderately - by the fall in oil prices, directly influencing the subgroup of Electricity, gas and other fuels. The remaining groups recorded positive inflation in January, with no clear downward trend, which would lead us to suspect that they will record persistently negative rates.

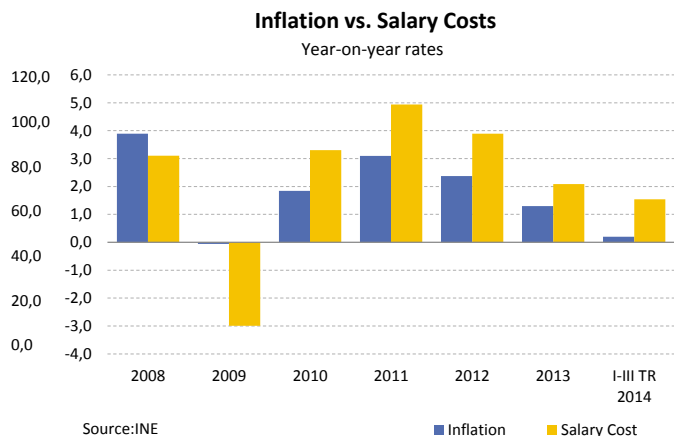
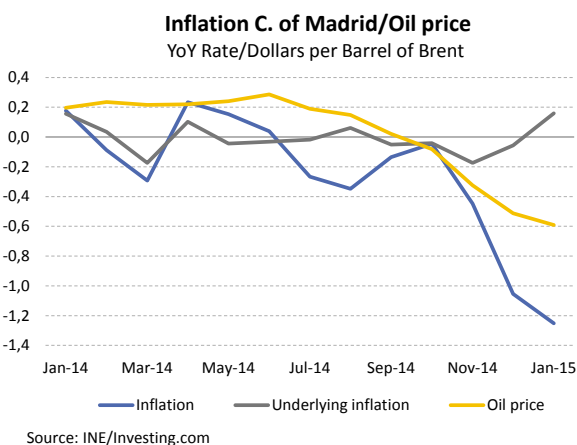
According to the January figure, price levels in our region, compared to other communities, are approximately in the middle, taking Spain as a whole. The most notable differences are recorded in the categories of 'accommodation' and 'Leisure and Culture', where our community stands at half a point below Spain as a whole; and 'Food and non-alcoholic beverages' which in January recorded an increase of six decimal points.

The economic figures show that Madrid's economy is in the process of revitalization: GDP in this community increased by 2.3% in the fourth quarter of 2014; unemployment continued to fall; job-creation has begun to make itself apparent and consumption is reviving. The forecasts anticipate growth in domestic demand, so it is not likely that inflation will remain long in negative figures.

#### Wages were up in the CM in Q3, 2014.

Labour costs in the Community of Madrid, according to the latest data published for the third quarter of 2014, recorded an increase of 2.0% (compared to a decrease of 0.4% nationally). Wage costs increased by 1.9% over the same period of 2013. The CM recorded labour costs of €2,900.66 per worker per month, more than 450 euros higher than in the whole of Spain. By sector, construction records greatest growth, while industry and services also grew. The inflation-wage cost differential in the third quarter stood at -2.1 points.

The recovery in wages is another example of the revival in the Community of Madrid economy.



## IV.4. Labour market

### 1. Labour Force Survey (LFS)

**The results of the LFS for the fourth quarter of 2014 show a clear trend of improvement in the Community of Madrid Labour Market.**

The analysis of the main indicators in the last Labour Force Survey published by the National Institute of Statistics reflects the continuation of a favourable trend overall, with the best growth in recent years in the last quarter of 2014.

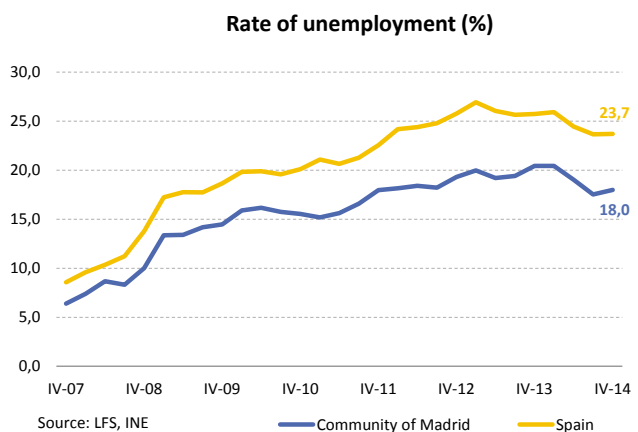
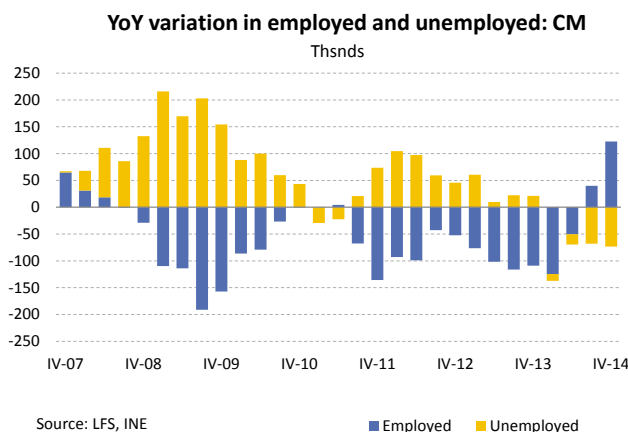
The unemployment rate in the Community of Madrid fell by 10.7% as compared with the same period of 2013, thus recording the sharpest annual decline since the first quarter of 2006. Between 2006 and 2013 - with a number of very specific exceptions - unemployment recorded annual increases in the Community of Madrid which reached maximum values in 2008 and 2009 with rates of change of over 40%, 60% and even 80% (year on year quarterly rates). As of 2010, albeit still with positive rates, the rise in unemployment began to slow off until 2014, when the number of unemployed fell in all four quarters in year-on-year terms at progressively accelerating rates until the aforementioned drop (-10.7%), the last and most significant of the four.

The trend is also clearly positive with regard to employment: in the fourth quarter of 2014 employment figures in the Community of Madrid increased by 122,600, as against the same period of 2013, representing an increase of 4.6% year on year, the strongest since early 2006. This is the second consecutive increase in employment in the Community of Madrid, tripling the increase seen in the previous quarter (1.5%).

**The service sector was a clear leader in the recovery in employment in Madrid.**

This rise in employment is based mainly on the increase in the service sector in the Community of Madrid, which represented 95.9% of the annual increase in employment in the fourth quarter of 2014. During that period services grew by 5.2% annually, compared to 4.1% for industry and the stagnant state of construction. Over 2014, as a whole, the Community of Madrid service sector, along with the primary sector, was the only sector which increased its employee numbers as against 2013, with an increase of 7,200, partly offsetting the fall-back experienced in industry, which lost nearly 10,000, while construction lost 1,675.

Thus, the unemployment rate in the Community of Madrid fell by 2.5 points as against the same quarter last year, to stand at 18.0%, returning to the levels of three years ago. This is the largest annual drop in the unemployment rate in Madrid since the beginning of the statistical series. The unemployment rate in the Community of Madrid is 5.7 points lower than the national average (23.7%), and this difference has remained over the five point mark in the last three years. Throughout 2014 the unemployment rate in the Community of Madrid was the fourth lowest in Spain.

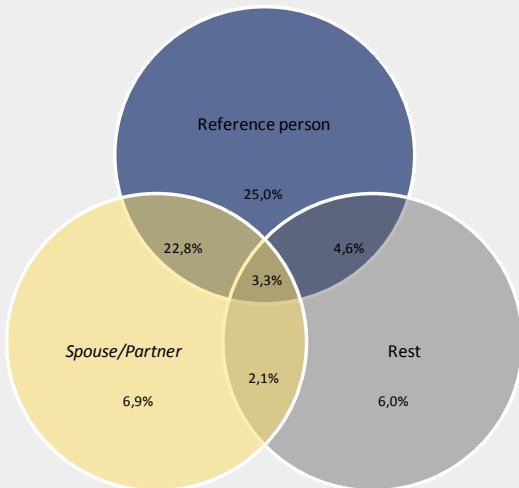


**Box II. Households per employed in relation to the Reference Person**

According to the information shown in the first chart below, which shows LFS data for the fourth quarter of 2014 - the latest period available - in 55.7% (25.0% + 22.8% + 3.3% + 4, 6%) of households in the Community of Madrid the reference person was in employment; in 26.0% of homes both the reference person and the spouse were in employment; and in 64.7% of households either the reference person or the spouse was in employment.

**Households in the Community of Madrid (%). 2014, 4Q**

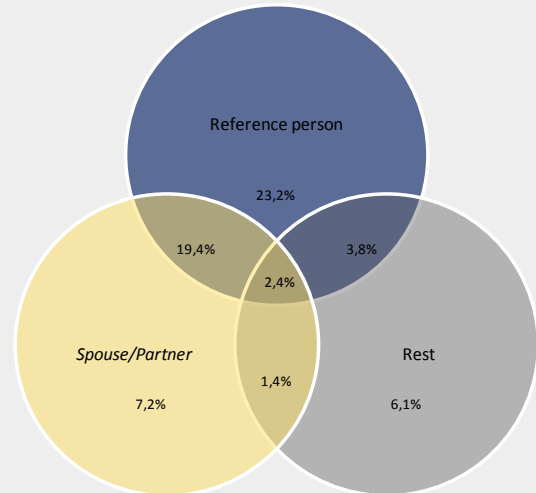
Employed in relation to the Reference person



Source: LFS, INE and in house

**Households in Spain (%). 2014, 4Q**

Employed in relation to the Reference person



Source: LFS, INE and in house

According to the same information, in 70.7% of households in the Community of Madrid region at least one member of the household was in employment.

These figures are slightly higher than the national average, where in 48.8% of households the reference person was in employment; in 21.8% the reference person and spouse were in employment; and in 57.5% of cases either the reference person or spouse was working.

Similarly, in 63.6% of Spanish households at least one of its members was employed.

## 2. Registration Data

### Registered unemployment has intensified its downward trend in the Community of Madrid.

Registered unemployment has been continuously on the decline year-on-year in Madrid since November 2013. From mid-2007 to October 2013, registered unemployment increased in terms of year-on-year comparisons, particularly in 2009, when it reached record rates of over 50%, slackening off somewhat thereafter.

In February 2015 - the latest data published at the close of this report - registered unemployment in Madrid had fallen year-on-year by -7.5%, identical to the previous month, and higher than the drop of 6.9% in the last two months of 2014. The seasonally- and working day-adjusted rate (SWDA) for February stood at -7.8%. Thus, the number of unemployed registered at employment offices in the Community stood at slightly above half a million (508,448), returning to pre-2012 levels.

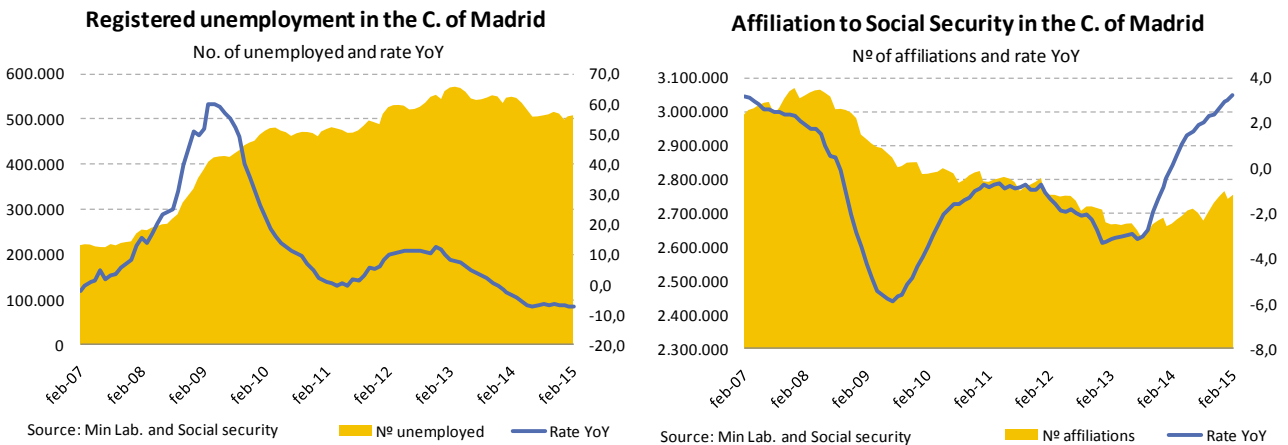
In the last ten months, the fall in unemployment in the Community of Madrid has been more intense than in Spain nationally.

### Social security affiliation has recorded thirteen consecutive year on year increases.

Consistent with this decline in registered unemployment in Madrid over the last sixteen months, the number of contributions to Social Security has been increasing, also in year-on-year terms over the last thirteen months. From February 2014 to February 2015 (latest available data), affiliation has risen in the Community of Madrid, every month more strongly than before, to reach 3.2% in February, four decimal points higher than the national average. The seasonally- and working day-adjusted rate (SWDA) for regional affiliation in February stood at 3.2%. Consequently, the number of affiliation in the Community of Madrid stands at 2,753,350 (16.5% of the national total), thus returning to the values of three years ago.

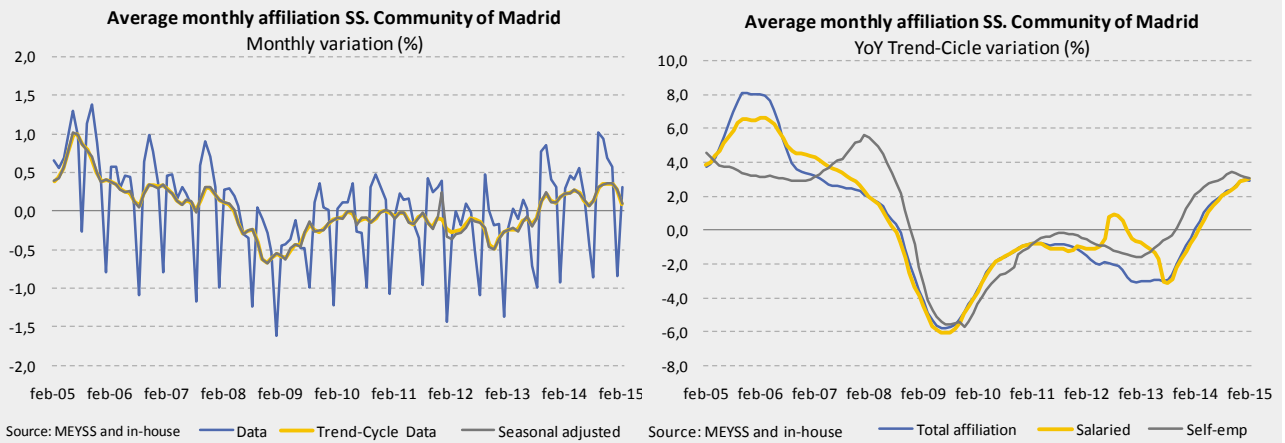
### Social security inflows and outflows were especially favourable in the Community of Madrid in the fourth quarter of 2014.

Analysing Social Security affiliation from a dynamic standpoint, we can see that in the fourth quarter of 2014 job entrants, composed of the new contributors during the period, were the largest figure recorded in the fourth quarter since 2007. Specifically, in the last quarter of 2014, there were 213,493 new affiliations to the Social Security system, 16,800 more than in the same period of 2013. At the same time, the number of affiliated workers leaving the system in these three months: 155,276 people, is the second lowest for the fourth quarter. As a result of this favourable trend in employment in- and outflows in the Community of Madrid, the number of affiliates in the fourth quarter of 2014 stood at 2,783,173; the highest in four years, after an increase of 2.1% from the previous quarter, and a 2.8% rise when compared year-on-year.



**Box III. Seasonally -and working day- adjusted registration with CM Social Security**

The first graph shows the unadjusted monthly variation in the series of average monthly Social Security affiliations; the seasonally- and working day-adjusted affiliation (SWDA); and the cycle trend sign.



Comparing the raw sign with SWDA, the marked seasonal effect which manifested itself in the months of **January** and **August**, usually undergoes a significant drop as compared with the previous month. The average in the period under consideration was -1.1% and -1.0% respectively.

July also usually records a drop from the previous month, but less intense than those above mentioned (average of -0.1 over the period).

Conversely, the months of **September**, **October** and **November** tend to record growth as compared with the previous month. The average figure for the period was 0.5%, 0.6% and 0.4% respectively.

The graph shows a peak in December 2011 in the SWDA sign, allegedly related to the obligation to register domestic workers from January 2012 onwards, and the accumulation of new affiliations to the scheme in the last month before the deadline.

On the other hand, the SWDA sign is very similar to the cycle-trend sign, due to the low variability in the irregular component it presented throughout the period, with values very close to unity (the time series has a multiplier effect).

The following graph shows the YoY variations in the cycle trend sign for the series of total affiliations: affiliations to the general scheme and to the self-employed scheme. We can see the growth trend since July 2013 for all schemes, with the self-employed scheme recording the widest variations.

Quantifying the acceleration of this growth using the regression line slope associated with the series since July 2013, we can see that the total affiliation series and affiliation to the general scheme have increased by a mean difference in YoY rates of change of 0.35% and 0.36% respectively in each period. Likewise, the number of affiliations to the self-employed scheme, with a mean difference slightly below 0.22%.

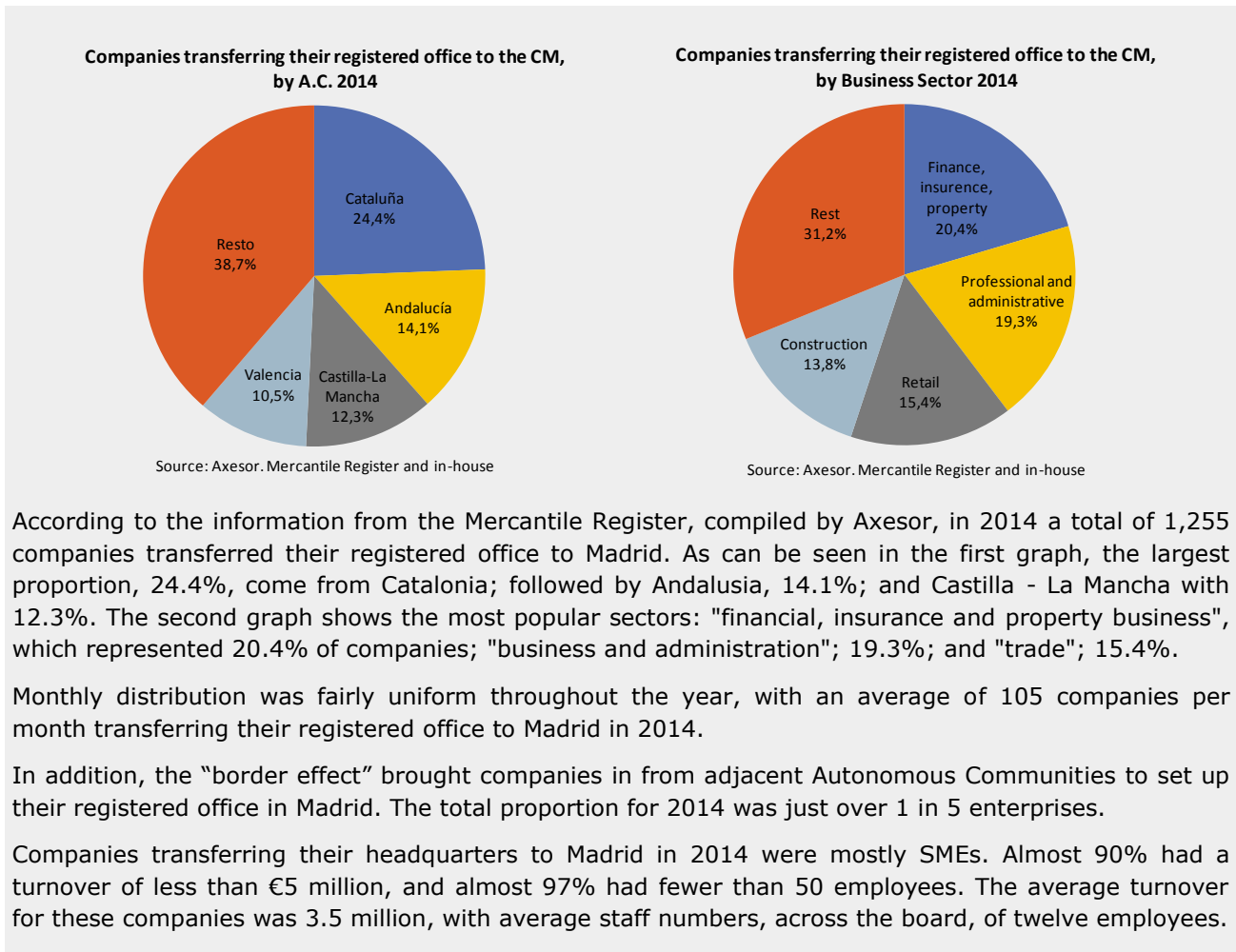
## IV. 5. Entrepreneurial network

According to the statistics on Trading Companies (INE), in 2014 a total of 20,286 companies came into being in the Community of Madrid, the highest level in the last seven years and an increase of 3.3% over 2013. In 2014 our region continued to create one in five companies of all those opened in Spain, and the CM takes first place in the regional ranking, beating the second region, Catalonia with 2,621 trading companies. The year 2014 has also been characterized by calling a halt to four years of continuous business closures: the year ended with a drop of 8.4% in the number of liquidations as compared with 2013.

Paid-up capital for new businesses reached the figure of €3.26bn, 64.5% higher than in 2013, after two consecutive years of losses. This figure amounts to 41.1% of total national investment and places our region as the leader also in this variable.

Average capitalization by company formed totalled an average of 161,000 euros; up 59.3% YoY and doubling the national average. Only the Basque Country surpasses our region, due to the extraordinary and short-term contribution in December, when two corporate entities were set up with a significant amount of paid-up capital on their part.

### Box IV. Companies transferring their registered office to the Community of Madrid



## V. Future Outlook

### Forecasts for the Spanish economy are taking on a more optimistic outlook as the months go by.

Throughout 2014 we witnessed a general process of forecast revisions. And these early months of 2015 produced a climate of greater optimism than most predictions actually confirm: on the FUNCAS panel for January, 13 of the 18 participating institutions revised their forecast for 2015 upwards, the average for which stood at 2.1% (ranging between 1.9% and 2.5%). This exceeded the November panel by one decimal point and the average forecast six months ago by two point.

Of the new estimates which came out in February, we could highlight the BBVA's, which increased its national growth projection of October by seven decimal points to 2.7%. Furthermore, the European Commission, in its winter forecast, also raised its estimate for 2015 from 1.7% to 2.3%, one of the largest upward revisions of all the countries in the European Union. The improved labour market, as well as funding conditions, the increased confidence and falling oil prices are all factors that the Commission points to as encouraging domestic demand, which will sustain growth, although it also expects that the negative contribution of external demand may slow off as the country's competitiveness improves.

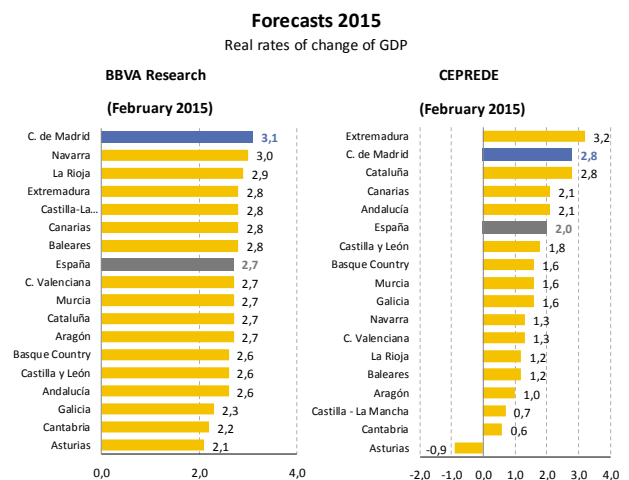
### The Community of Madrid's expectations are also looking better.

Madrid's economy continues to give out permanent signs of recovery and an improving economic climate every month. The latest estimates from the Dept. of Economy and Finance in the Community of Madrid reflect this, since it is expected that Madrid's growth in 2015 may rise to 3.3% (three decimal points above Spain as a whole), beating the October estimate by eight decimal points.

Furthermore, other estimates available at a regional level support this optimistic view of the Community of Madrid, which also occupies a prominent position among the Autonomous Communities in terms of growth in 2015. First, the view of BBVA Research reflects little breadth in the regional dispersion of its forecasts. Madrid ranks at the top of all of them, with a growth forecast of 3.1% GDP, and Asturias, in last place, which could grow by 2.1%. Our region is expected to grow four decimal points above the national average.

Meanwhile, CEPREDE agrees that Madrid will stand out this year as one of the most dynamic regions, although the range of its regional forecasts is wider: between 3.2% for Extremadura and -0, 9% for Asturias. Taking all the regions, Madrid is anticipated to reach a growth rate of 2.8%, eight points higher than expected for the country as a whole.

SUMMARY OF THE LATEST GROWTH ESTIMATES AND FORECASTS					
(Rate of change of GDP)					
	Date of estimate	Community of Madrid		Spain	
		2014	2015	2014	2015
Dept. of Economy and Finance	Feb-15	1,7	3,3	1,4	3,0
BBVA Research	Feb-15	1,6	3,1	1,4	2,7
Hispalink	Jul-14	1,4	2,7	1,3	2,2
CEPREDE	Feb-15	1,9	2,8	1,3	2,0
Ministry of Economy and Competitiveness	Sep-14	-	-	2,0	n.d.
Bank of Spain	Dec-14	-	-	2,0	n.d.
FUNCAS	Mar-15	-	-	3,0	2,8
FUNCAS Panel	Mar-15	-	-	2,6	2,6
European Commission	Feb-15	-	-	2,3	2,5
FMI	Jan-15	-	-	2,0	1,8
OCDE	Nov-14	-	-	1,7	1,9





## Appendix. Madrid in the context of the European regions

SUMMARY OF INDICATORS FOR THE EUROPEAN REGIONS (1)								
		High Tech. Jobs	Industry High Tech. Jobs	Services High Tech. Jobs	R+D Xpend.	GDP pps	GDP pps per capita	Earnings per H.hold
	Year Latest Data	2013	2013	2013	2011	2011	2011	2011
	Unit Measure	Miles Empleos	Miles Empleos	Miles Empleos	%	Millones Euros	Euros	Euros
<b>EU28</b>	<b>European Union 28</b>	<b>8.393,0</b>	<b>2.368,0</b>	<b>6.025</b>	<b>1,97</b>	<b>12.711.918</b>	<b>25.100</b>	<b>-</b>
<b>ES</b>	<b>Spain</b>	<b>629,0</b>	<b>112,0</b>	<b>517,0</b>	<b>1,32</b>	<b>1.115.678</b>	<b>24.200</b>	<b>14.500</b>
AT13	Wien	58,0	8,0	49,0	3,68	70.634	41.300	19.800
BE10	Région de Bruxelles	23,0	2,0	21,0	1,37	62.667	55.600	15.700
CZ01	Praha	59,0	7,0	52,0	2,44	53.112	42.900	13.500
DE21	Oberbayern	176,0	68,0	108,0	4,50	185.876	42.200	23.700
DE30	Berlin	119,0	29,0	90,0	3,53	98.365	28.300	16.600
<b>ES30</b>	<b>Community of Madrid</b>	<b>252,0</b>	<b>36,0</b>	<b>216,0</b>	<b>2,00</b>	<b>200.935</b>	<b>31.500</b>	<b>17.500</b>
ES51	Cataluña	117,0	40,0	76,0	1,60	207.162	28.400	16.600
FI1B	Helsinki-Uusimaa	70,0	14,0	56,0	4,35	59.079	38.300	17.600
FR10	Île de France	356,0	52,0	304,0	3,02	542.049	45.600	21.600
ITC4	Lombardia	212,0	73,0	139,0	1,32	330.042	33.200	19.100
ITI4	Lazio	136,0	25,0	111,0	1,67	168.609	29.300	17.300
NL32	Noord-Holland	58,0	6,0	52,0	2,09	98.836	36.600	15.500
PT17	Lisboa	55,0	9,0	46,0	2,05	76.196	26.900	15.500
SE11	Stockholm	92,0	9,0	83,0	3,77	89.770	43.300	18.700
UKI1	Inner London	114,0	:	109,0	1,21	258.380	80.400	23.500
Posición de la C. de Madrid en la selección de regiones		2	5	2	10	5	11	8

		Activity Rate	Unemp. Rate	Unemp. Rate under 25 y.	Population	Fertility Rate	Cause Death (2)
	Year Latest Data	2013	2013	2013	2013	2012	2008_2010
	Unit Measure	%	%	%	Personas	Hijos por Mujer	Fallecidos
<b>EU28</b>	<b>European Union 28</b>	<b>57,6</b>	<b>10,8</b>	<b>23,6</b>	<b>505.674.965</b>	<b>1,58</b>	<b>971,8</b>
<b>ES</b>	<b>Spain</b>	<b>59,4</b>	<b>26,1</b>	<b>55,5</b>	<b>46.727.890</b>	<b>1,32</b>	<b>830,3</b>
AT13	Wien	60,8	8,4	14,9	1.741.246	1,40	951,1
BE10	Région de Bruxelles	54,8	19,2	39,9	1.174.624	1,94	863,9
CZ01	Praha	62,2	3,1	9,7	1.246.780	1,38	995,9
DE21	Oberbayern	64,5	2,5	4,3	4.482.367	1,39	879,3
DE30	Berlin	61,2	10,4	14,3	3.545.685	1,35	929,5
<b>ES30</b>	<b>Community of Madrid</b>	<b>63,8</b>	<b>19,8</b>	<b>48,8</b>	<b>6.414.620</b>	<b>1,33</b>	<b>652,4</b>
ES51	Cataluña	62,4	23,1	50,2	7.480.921	1,40	823,1
FI1B	Helsinki-Uusimaa	65,9	6,7	17,2	1.566.835	1,60	727,8
FR10	Île de France	61,6	8,9	18,3	11.952.061	2,02	601,9
ITC4	Lombardia	54,7	8,1	30,8	9.794.525	1,52	906,7
ITI4	Lazio	50,6	12,3	45,9	5.557.276	1,47	922,6
NL32	Noord-Holland	67,2	6,6	11,9	2.724.300	1,62	791,6
PT17	Lisboa	58,8	18,5	45,3	2.818.388	1,50	918,7
SE11	Stockholm	75,5	6,9	19,8	2.127.006	1,87	773,2
UKI1	Inner London	68,5	8,9	24,5	3.310.420	1,64	527,1
Posición de la C. de Madrid en la selección de regiones		6	2	2	4	15	13

(1) Of the 272 European regions in the 2010 Name Catalogue for the Regions, NUTS2, for the EU28 (equivalent in Spain to the ACs), 15 regions with similar characteristics to the Community of Madrid have been selected. Many are metropolitan regions and others are key regions in countries representing the Union.

(2) Statistics for Causes of Death refer to deaths due to illness; aftereffects of pathological processes; accidents or violent events. Standardized rates per 100,000 inhabitants. Average: 3 years.

Source: Eurostat

## Concepts, Sources and abbreviations used

### Most frequently used acronyms and abbreviations (\*original Spanish acronym)

<i>Pas</i>	Public Administration Depts.	<i>EUROSTAT</i>	European Union Statistics Office
<i>AEAT*</i>	State Agency for Tax Administration	<i>IMF</i>	International Monetary Fund
<i>AyMAT*</i>	Medium-high and High Technology	<i>FUNCAS*</i>	Foundation of Confederate Saving Banks
<i>ECB</i>	European Central Bank	<i>IECM*</i>	Community of Madrid Institute of Statistics
<i>BE*</i>	Banco of Spain	<i>INE*</i>	National Statistics Institute
<i>ACs</i>	Autonomous Communities	<i>MINECO*</i>	Ministry of Economy and Competition
<i>ECs</i>	European Communities	<i>MEYSS*</i>	Ministry of Employment and Social Security
<i>CM</i>	Community of Madrid	<i>MFOM*</i>	Ministry of Development
<i>CNTR</i>	National Quarterly Accounting	<i>OECD</i>	Organization for Economic Cooperation and Development
<i>CRTR</i>	Regional Quarterly Accounting Community of Madrid*	<i>OPEC</i>	Organization of Oil Exporting Countries
<i>CORES*</i>	Corporation for Strategic Reserves of Petroleum Products	<i>GDP</i>	Gross Domestic Product
<i>CRE*</i>	Regional Accounting of Spain	<i>SEOPAN*</i>	National Association of Construction Companies
<i>SWDA</i>	Seasonally- and working day adjusted	<i>EU</i>	European Union
<i>CT</i>	Cycle-trend component	<i>EMU</i>	Economic and Monetary Union
<i>DGT*</i>	Central Traffic Dept.	<i>VAB</i>	Gross Added Value

## Basics Concepts

### Twelve-month non-centred moving average (MM12).

Series built up from the original through successive arithmetical means, wherein each figure is obtained from the average over the last twelve months of the original series. The aim when constructing a series of moving averages is to rule out possible seasonal or erratic variations from a series, in order to obtain an estimate of the cycle-trend component of the given variable.

### Trend-Cycle (T-C)

One of the unobservable components that a variable can be broken down into according to classic time series analysis. It can be extracted or estimated through various techniques and represents the consistent development that underlies the observed changes in the variable, once seasonal variations and irregular or short-term disturbances have been eliminated. It therefore shows the developments in the series in the long term. Typically, the trend includes another component - the cyclical component - which includes the oscillations that occur in the series in periods of three to five years, however, due to the difficulty of separating these, they usually appear in the so-called cycle-trend component.

### Seasonal- and working day-adjusted (SWDA)

A high frequency time series technique of analysis applied to remove both seasonality (movements that form a pattern repeated roughly every year) and calendar effects (representing the impact on the time series due to the different structure of months or quarters in each of the years, both in length and composition). By seasonally- and working day-adjusting a variable, the aim is to eliminate the effect of these fluctuations on the variable, and facilitate interpretation of economic events.

### Opinion Polls

They attempt to measure the attitude of the survey target (consumers, entrepreneurs, etc.) against a variable (consumption, production or employment, etc.) to anticipate whether this variable will increase, decrease or remain stable in the coming months.

### Response Outcome

In opinion polls, the results for the variables researched are basically obtained through differences or balances between positive and negative responses, although depending on the survey, there are different methods of calculation.

### Rate of change

Using a rate of change the value of a variable can be compared at a given time with the value taken at another time. Various different types of rates of change can be calculated. Among the most common are the following:

- *Month-on-month rate (quarter-on-quarter, etc.):* this compares the value of a period (of under one year: month, quarter, etc.) with that of the previous period (month, quarter, etc.)
- *Year-on-year rate:* this compares the value of a period with the same period the previous year (of the same month in the case of monthly data, or the same quarter if the data is quarterly, etc.)
- *Accumulated rate of change so far this year:* Compares the accumulated value of a period (sum or average, as appropriate to the data type: months, quarters, etc. elapsed in a year) with the same accumulated period the previous year.