

IA- BBVA UEM

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Activity in decelerating mode

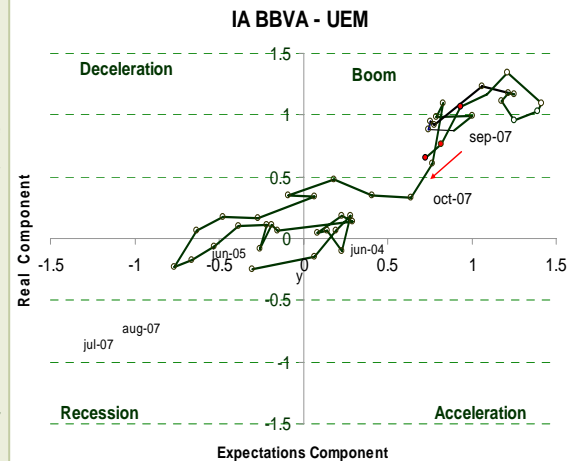
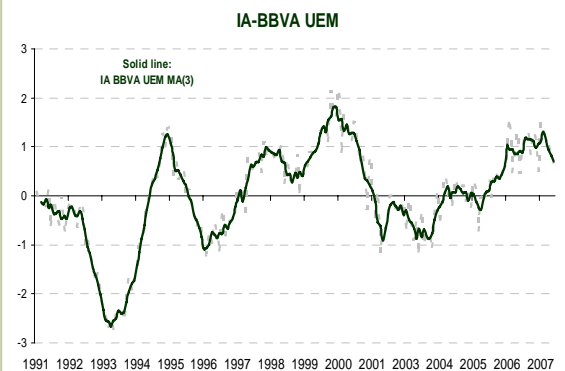
- The IA-BBVA UEM indicator declined in October, but remains above trend.
- This decline is somewhat larger in the real component, though expectations have also deteriorated.
- Across sectors, marginal improvements in consumption expenditure and manufacturing have been fully offset by a sharp decline in construction.
- Across countries, Spain and Germany recorded large corrections.

In October, our activity IA-BBVA UEM indicator declined for the fourth consecutive month to from 0.81 to 0.70 (on a moving average basis), though this decline has been somewhat less pronounced than in September. In line with the trend initiated in July, our indicator reveals that activity in the euro area is in a moderating mode. Nevertheless, it still remains in expansionary territory.

Both the real and the expectations components declined for the fourth consecutive month, though the real component experienced the largest decline, from 0.76 in September to 0.65 in October. The manufacturing and consumption expenditure sectors improved very marginally, after a sizeable decline in September. This was not sufficient to offset the sharp fall observed in construction (from 0.18 to 0.07). The employment component remained broadly stable.

Across major countries, our indicator experienced a significant correction in Germany and Spain, while it improved marginally in France.

Overall, our November update confirms that activity is clearly in decelerating mode, pointing to somewhat weaker growth in the fourth quarter of the year.



| IA - BBVA UEM | Information Used | Current | | Previous | |
|---------------|------------------|---------|-------|----------|-------|
| | | Value | MA(3) | Value | MA(3) |
| Avg. 3Q06 | 100% | 0.85 | 0.85 | 0.84 | 0.84 |
| Avg. 4Q06 | 100% | 1.18 | 1.18 | 1.17 | 1.17 |
| Avg. 2006 | 100% | 0.86 | 0.85 | 0.86 | 0.85 |
| Avg. 1Q07 | 100% | 1.11 | 1.11 | 1.11 | 1.11 |
| Avg. 2Q07 | 85% | 1.11 | 1.11 | 1.12 | 1.12 |
| Avg. 3Q07 | 15% | 0.94 | 0.94 | 0.95 | 0.95 |
| Apr.07 | 100% | 0.48 | 1.06 | 0.50 | 1.07 |
| May.07 | 100% | 1.53 | 1.11 | 1.54 | 1.12 |
| Jun.07 | 100% | 1.32 | 1.30 | 1.31 | 1.29 |
| Jul.07 | 100% | 1.04 | 1.13 | 1.04 | 1.12 |
| Aug. 07 | 95% | 1.03 | 0.94 | 1.01 | 0.95 |
| Sep. 07 | 75% | 0.76 | 0.81 | 0.80 | 0.91 |
| Oct. 07 | 62% | 0.65 | 0.70 | | |

The IA - BBVA UEM is a weighted average of 149 activity indicators drawn from different activity areas (such as expenditure, output and employment) and from different economic regions (EMU aggregate and its main economic areas). The index has been calculated using a "Principal Components Approach" upon standardized, stationary and outliers-corrected time series. It is constructed to have an average value of zero and a standard deviation of one. An IA BBVA UEM reading of zero is associated with trend growth, thus values above (under) zero signal accelerations (decelerations) of activity. IA BBVA UEM monthly values may be subject to revision as more real information on the data is gathered. Information not available by the time of the monthly calculation of the IA BBVA UEM will be forecasted by means of ARIMA models of the indicators.

For further information please see our "EuropaWatch Nov.05" publication at the BBVA's Servicio de Estudios -website <http://serviciodeestudios.bbva.com/>

IA BBVA UEM will be published on the first Friday of every month.