

# **EXECUTIVE SUMMARY**

## **1. Analysis of the situation of the City of Madrid**

### **1.1. Economic environment and prospects**

The Spanish economy is undergoing a process of adjustment, which led to a contraction of GDP in the final two quarters of 2008 and an average growth rate for the year as a whole of 1.2% compared to 2007. This is the lowest growth rate since 1993. Of particular note was the positive contribution by the foreign sector, which had not been seen in recent years. This was due to the heavy decline in imports in a context of falling consumption and investment.

The economic situation in the Madrid Autonomous Region has worsened in the face of the increasingly negative developments in the world economy. According to the figures for the fourth quarter of 2008, the cycle-trend GDP for the region fell by 1% compared to the same period in 2007, presenting a contraction of more than two points compared to the growth in the previous quarter and a sharper decline than that recorded for the Spanish national average.

According to the Active Population Survey, a total of 16,800 jobs were destroyed in the fourth quarter of 2008 compared to the previous year, a year-on-year decline of 0.5%. Meanwhile, the number of workers continued to rise and with the negative developments in employment, the number of unemployed significantly increased, to over 345 thousand people.

### **1.2. Production activities**

#### **INDUSTRY**

In the last three months for which figures are available, production in industry in the Madrid Autonomous Region as measured by the Industrial Production Index (IPI) presented further declines that reinforce the negative trend seen throughout 2008. The year-on-year change in the IPI in January 2009 was -3.6%, consistent with the changes of -3.6% and 2.9% recorded in November and December.

The decline in the number of workers in industry registered with the Social Security in the City of Madrid became more acute in the fourth

quarter of 2008, at -4.2%, after -2.0% and -0.7% in the previous quarters. These falls mean that the total figure for Social Security registration in industry in the City is 108,113 workers, which means that 2,181 jobs have been lost in this sector since the previous quarter.

In the fourth quarter, the gross figures for industrial GAV for the Madrid Autonomous Region presented a year-on-year change of -5.0%, which was a slight moderation in their decline compared to the previous quarter.

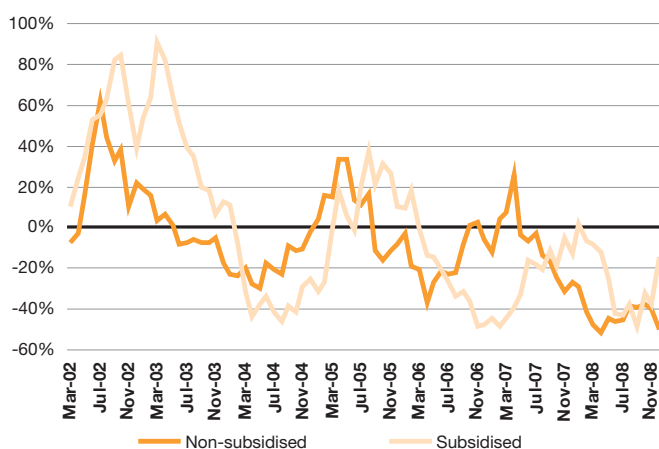
### CONSTRUCTION AND THE REAL ESTATE MARKET

The dynamic of the construction sector within the labour market continued to worsen in the fourth quarter of 2008. As a result, the number of workers registered with the Social Security system employed in construction was 119,732 in the fourth quarter of the year, 19.8% less than in the same period of 2007. This decline was less acute than that recorded for Spain as a whole, where the number of registered workers in the construction sector fell by almost 24% in the same period.

6,464 new licences to build homes were issued in the City of Madrid in 2008, 38.9% less than the figure for 2007, when more than 10,500 licences were approved.

Madrid City Council's support for the construction of state-subsidised housing has prevented a more marked decline in residential activity. As a result, 3,727 licences to build non-subsidised homes and 2,737 licences to build subsidised homes were granted in 2008. The number of non-subsidised homes begun last year fell by 49.6% compared to the previous year, while the figure for state-subsidised housing fell by just over 14%. As a result, more than 42 percent of homes begun in Madrid had some type of subsidy.

**New housing permits, subsidised and non-subsidised (Year-on-year)**



Source: Town Planning and Housing Government Department Madrid City Council

## SERVICES

### The Financial System

In the fourth quarter of the year, both credit investment and client deposits in the Madrid Autonomous Region continued to show increasingly lacklustre growth, and this trend was also observed in the average figure for Spain as a whole.

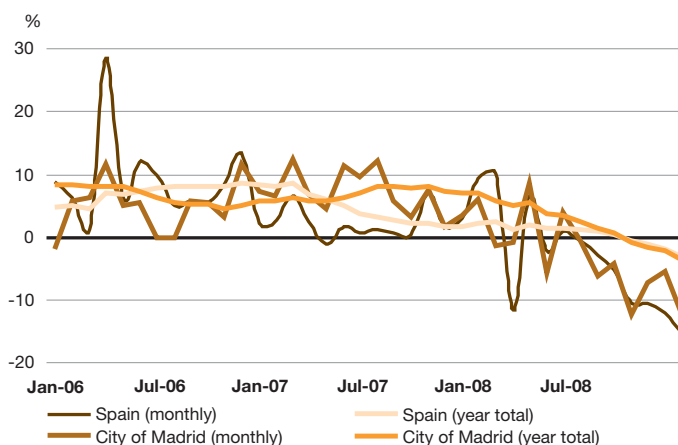
The adjustment in the mortgage market continued, and the number of mortgages in the Madrid Autonomous Region fell by 19.3% in the last three months of the year, with less than 9,000 mortgages recorded in November, the lowest level in the last six years. However, the amount involved increased by 5.9% in the same period. This is a reflection of the fall in the Euribor rate, which was around 3% in December 2008.

The downward trend has continued in the main international stock markets, including the Madrid Stock Exchange, which once again posted a new low in early March, with an index value of slightly below 720 points. The level has increased since then, to above 820 points at the end of the month.

### Tourism

According to the figures for overnight stays in hotel accommodation in the City of Madrid, tourist demand in the quarter between December 2008 and February 2009 declined significantly, with a total year-on-year fall of 8.5%, as a result of the current international economic crisis. This negative trend in the number of overnight stays started in the second half of 2008. However, the pace of the decline has increased in recent months, and reached a year-on-year decline of -12.6% in February 2009.

**Overnight stays in hotel accommodation  
(year on year rate of the monthly and year figures)**



Source: Hotel Occupancy Survey - NSI

## Transport

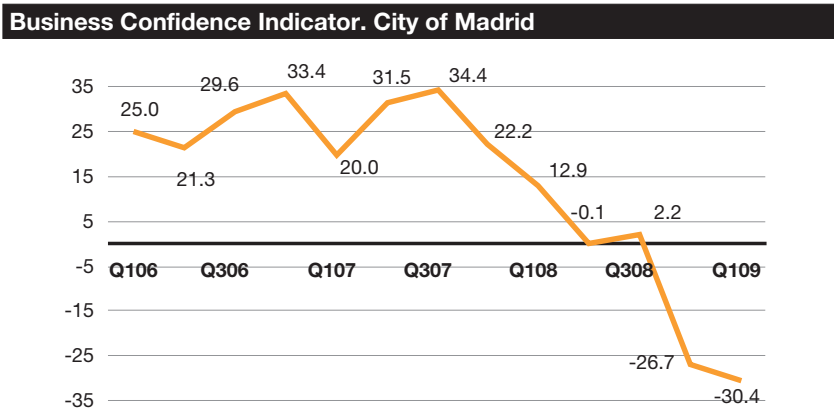
The recession continues to affect passenger transport, and air transport in particular, which fell by -15.8% during the period between December and February. The decline in the number of passengers arriving in and departing from Madrid-Barajas airport was more acute on domestic flights. Goods traffic by air fell on both domestic and international flights, albeit to a lesser extent on international flights.

As regards urban transport, there was a slight increase in the average daily intensity of urban traffic in the City of Madrid, as well as its average speed. Furthermore, the number of passengers using public transport (the bus and Metro) fell by 1% between October and December 2008.

## 1.3. Business Dynamic

The effects of the economic recession are especially evident in the number of company constitution proceedings, which hit a new low in the City of Madrid for recent years once again in December 2008, the most recent month for which figures are available. During that month, the annual average number of constitution proceedings was 1,066. The figures for this indicator have been falling for over a year. The forecasts suggest that the trend will remain negative, with a figure of less than 1,000 constitution proceedings anticipated for the first quarter of 2009.

There was a further decline in the business confidence indicator of the City of Madrid, produced by Madrid City Council. As a result of this fall, a new low point was reached in the records available for this indicator, which fell to -30.4. This shows that the recession is intensifying in the first quarter of 2009. The results obtained show that businesspeoples' perception of the economic environment and their forecasts for activity and profit remain highly negative in the first quarter of 2009. Indeed, there is no significant improvement anticipated for the second quarter.

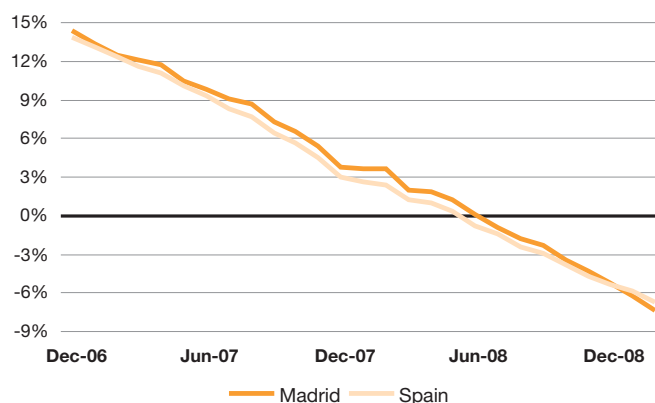


Source: Business Climate Survey - Madrid City Council Economic Office

## 1.4. Demand

Retail sales in the Madrid Autonomous Region continued to fall in the early months of 2009, in step with the trend observed throughout 2008. December, January and February saw an average annual variation in sales of -9.5%, -10.0% and -13.1%, respectively.

**Retail sales at constant prices (Average annual rate)**



Source: NSI

Social Security registration in the retail trade in the City of Madrid showed a year-on-year change of -1.9% in the final quarter of 2008, accentuating the downturn trend recorded in the other quarters of the year.

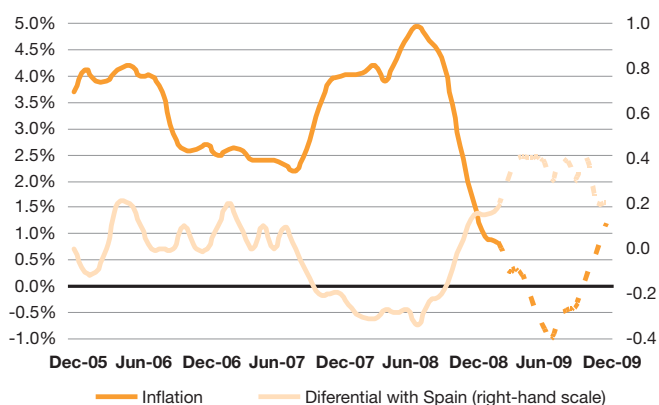
The total trade deficit in the Madrid Autonomous Region in the last 12 months presented a year-on-year change of -5.5% in December, falling to 39,764 million euros, below the levels observed in 2008. The reduction in the total deficit is therefore continuing. This is essentially due to the decline in demand for imports in the Madrid Autonomous Region.

## 1.5. Prices and salaries

The Consumer Price Index (CPI) in the Madrid Autonomous Region continued its downward trend in February, to a year-on-year rate of 0.8%, two tenths of a point less than the previous month. In Spain as a whole, the inflation rate was 0.7%, meaning that the difference with the Spanish national average was a tenth of a percentage point. The underlying rate fell dramatically compared to February 2007, to 1.7%, and remained above the general rate. Forecasts suggest that the decline in the CPI in the region will become even more acute, reaching -1.0% in July. A gradual increase is anticipated from that point on, which will lead to a year-on-year rate of 1.7% in December. Despite the slight downturn observed in the Industrial Price Index (IPI) in the Madrid Autonomous Region, its growth rates remain high, at 5.4% in January, unlike those in Spain, which were -0.6%.

A decline in housing prices has been observed at regional and municipal level, which is more marked in second-hand homes, at -4.9% in the region and -3.5% in the City. The rise in the price of new housing has slackened off, although there are no evident negative growth rates, as is the case in Spain as a whole (2.6% in the region and 4.7% in the city of Madrid).

**CPI in the Autonomous Region of Madrid (year-on-year rate)**



**N.B:** The dotted lines show predictions  
 Differential calculated using forecasts by the Flores de Lemus Institute  
 Source: NSI and FLI

## 1.6. Labour market

The deterioration in the labour market in the City of Madrid intensified in the fourth quarter of 2008. This was evident in the figures for the employed population (which recorded a fall of -1.3% in year-on-year terms according to the Active Population Survey) and the unemployed population (which increased by 62.3% in year-on-year terms and accounts for 9.6% of the active population). However, the increase in the active population has intensified, and the opposite effect to what would be anticipated in a recession has been observed (the discouragement effect). This is mainly taking place among men and in those aged from 25 to 29 years old.

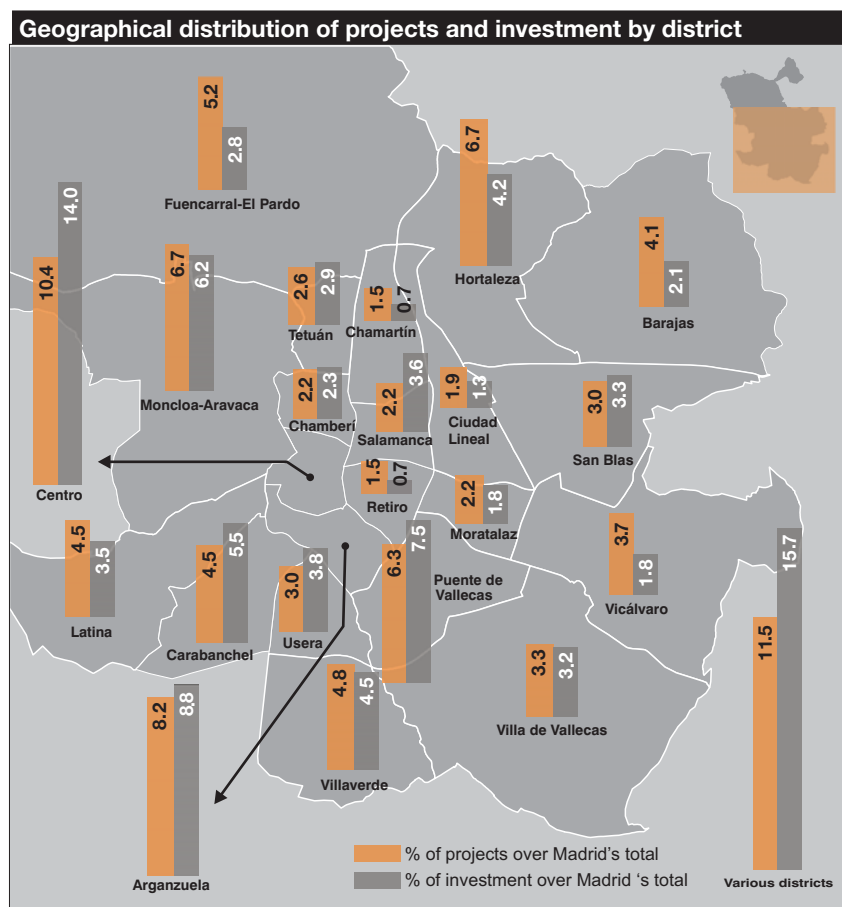
The groups most affected by the decline in economic activity are non-wage earners (the self-employed) and workers in the construction sector, who are subject to the sharpest declines in year-on-year terms. However, this has spread to the other groups and business sectors in general and industrial sectors in particular. Of particular interest is the good performance of the services sector, which has maintained its rate of job creation due to the employment associated with the Christmas campaign.

## 2. Territorial balance

### Local Investment State Fund projects in Madrid

Madrid City Council will use up the possibilities offered by the State Local Investment Fund. The 554 million euros that are going to be invested in 269 projects will generate a GAV of 419 million euros for the Madrid economy and will create around 8,000 jobs.

These projects will have an impact not only on the social, economic, environmental and territorial balance of the City, but also on the quality of life for both residents and for visitors, as reflected by their distribution throughout the City.



Source: Afi and Munimadrid

The three areas with the highest volume of projects are public spaces, with 65 initiatives accounting for 24.2% of the total, sports, with 61 initiatives (22.7%), and facilities, which will involve 52 projects (19.3%). These are followed by green areas (15.2%), culture (7.4%), economy (4.1%), sustainable mobility (3.7%) and the environment (3.3%).

### 3. Business attraction pole

#### Effects of the Olympic process on tourism

The Olympic process could be an important means of increasing the number of tourists in the coming years. The refurbishment and expansion of Madrid's hotels undertaken as a consequence of the Olympic expectations, the improvement in infrastructures and the raising of the City's international profile based on these improvements, as well as the promotional campaign involved in the Olympic candidacy, could all be an important stimulus for increasing the number of tourists arriving in the City of Madrid.

In this respect, the current Candidacy, Madrid 2016, may explain part of the major growth in tourism experienced by the City of Madrid in recent years. During the period 2004-2008, this differential would have involved 750,000 fewer tourists if Madrid had followed the pattern of growth of Spain as a whole. These additional visitors lead to 490 million euros of tourism expenditure, and are able to generate an effect on Madrid's economy of more than 393 million euros in terms of GAV and 10 thousand jobs.

The arrival of between 1.5 and 2 million more tourists if the Games were held in the city would lead to an income of 1,020 million euros in a moderate scenario and 1,359 million euros in an intermediate scenario. In the intermediate scenario, the direct, indirect and induced economic effects would add an extra 1,090 million euros to the GAV of the City of Madrid and would create 27,786 jobs equivalent to full time employment, with the greatest impact in the hostelry, vehicles and transport retail, sales and repair, and the transport, storage and communications sectors.

<b>Impact on the use of the tourism expenditure from the celebration of the Olympic Games in the City of Madrid. Intermediate scenario</b>				
	Total	Direct	Indirect	Induced
A,B Agriculture, animal farming, horticulture, fishing and quarrying	242.2	154.6	4.9	82.7
C,E Energy y mining	198.5	118.5	27.5	52.5
D Manufacturing	940.2	401.5	137.6	401.1
F Construction	353.0	25.0	158.2	169.8
G Trade; sale and repair of motor vehicles	4,598.9	2,976.6	135.1	1,487.2
H Hostelry	12,838.2	12,049.2	58.1	730.9
I Transport, storage and communications	4,355.5	3,819.5	185.9	350.0
J Financial intermediation services	450.3	133.1	72.8	244.3
K Real estate activities and rentals; corporate services	1,879.4	1,127.5	324.4	427.5
L Real estate activities and rentals; corporate services	81.7	0.2	1.4	80.1
M Education	402.1	31.5	24.0	346.7
N Human health and veterinary activities; social services	421.1	0.3	30.8	390.0
O,P Services provided to the community; personal services	1,025.5	0.8	26.4	998.2
<b>Total</b>	<b>27,786.4</b>	<b>20,838.4</b>	<b>1,187.0</b>	<b>5,761.1</b>

Source: Afi from IOT 2004 data (Madrid Statistics Office)



## 4. Monographic report

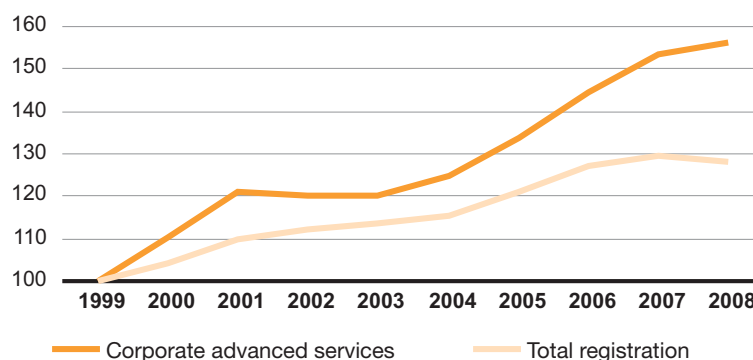
### Corporate advanced services

The strength of the advanced services sector in Madrid is particularly due to its broad-based demand. Not for nothing is the City first in the ranking of Spanish cities with the largest number of company headquarters, both Spanish and foreign. One of the distinguishing features of the advanced services subsector is its highly qualified human capital. Madrid is Spain's leading centre for universities and business schools. Third, the technological component is particularly important in this area. In this respect, Madrid has a large number of people employed in R+D activities, at 22.3 workers per thousand, which far exceeds the average figure for Spain as a whole.

The figures also confirm that this is a sector that is expanding in the City of Madrid. For example, in terms of employment, the subsector recorded growth of 56.4% between 1999 and 2008, a much higher figure than that for Social Security registration in the City as a whole, which increased by 28.2%.

It is very important for Madrid to study the developments in an area that has a promising outlook for the future. This is highlighted in numerous publications, such as *Jobs of the Future* (Accenture, 2006), the Eurostat Regional Yearbook-Focus on Business Services (Eurostat, 2008) and *Nuevos nichos de negocio en un contexto de crisis para las empresas españolas* [New Business Niches in a Context of Crisis for Spanish Businesses] (Viálogos-CAN and Afi, 2008). Furthermore, the international institutional framework is undertaking initiatives that will reinforce the potential for growth of this sector, including the imminent complete transposition of the European Services Directive (2006/123/EC).

**Social Security registration in advanced services in Madrid (1999=100)**



Source: Statistic Office, Madrid City Council - General Treasury of the Social Security