

# **Madrid Economía** **Economy 2006**



---

## SUMMARY

<b>Presentation</b>	5
<b>Introduction</b>	6
<b>Population</b>	7
<b>Economic activity</b>	10
<b>Research and training</b>	15
<b>Employment</b>	17
<b>Prices and salaries</b>	20
<b>Foreign sector</b>	22
<b>Conclusions</b>	25



---

## PRESENTATION

*Madrid Economy 2006* is the latest issue of a publication that aims to offer straightforward but comprehensive information on some of the City of Madrid's most important economic data.

Madrid has proved to be the region that has shown the most growth in Spain, reinforcing its role as the country's economic centre. It is also currently maintaining a level of economic dynamism that clearly exceeds that of the European Union, which itself in turn seems to be showing accelerating growth. All of this has allowed our city to extend its international profile, strengthening the bases on which it can consolidate its position within an economy that is increasingly global and competitive.

Madrid continues to develop strongly and dynamically, welcoming new citizens from many countries around the world. These citizens are for the most part actively contributing to the generation of higher levels of growth and well-being. At the same time, Madrid is being transformed into an increasingly consolidated urban space with an improved infrastructure, factors that will unquestionably benefit the generation of increased business activity in the future.

Cities are increasingly becoming true centres for business-generation, and this dynamism is spreading to spaces that are becoming even broader. Madrid is conscious of this trend and knows that it is essential to provide information on the economic reality of the situation, something which is perhaps not always given the necessary attention, either locally or internationally. We hope that this publication will contribute to a greater understanding of the City and its place among the great urban centres both in Spain and abroad.

**Miguel Ángel Villanueva González**

*Councillor of Economy and Citizen Involvement*

July 2005

---

## INTRODUCTION

The City of Madrid covers an area of 607.1 square kilometres, the length and breadth of which is served by an important communications infrastructure that makes it the number one logistical centre in both Spain and southern Europe. It is criss-crossed by an important network of motorways, arterial roads and linked routes, and forms the hub of Spain's domestic rail network, offering efficient connections not only with other points in the local area but also with the rest of Spain and Europe. It is also home to the most important airport in Spain, Barajas, whose extension, concluded in February 2006, is designed to increase future capacity to 70 million passengers a year.

With a population of more than three million, the second most populated city in the European Union after Berlin, forms part of the third largest urban grouping in Europe behind the Île-de-France and Greater London. In recent years, the city's ability to attract foreign residents has increased to the extent that they now represent 16.6% of the total.

Madrid's business sector has shown continuous growth over recent years and is characterised by its great specialisation in the provision of services, particularly those directed towards companies, financial mediation, logistics and communications. Tourism-related activities, which involve businesses from all the production segments, are particularly important to the city and have shown significant growth in recent years, particularly in terms of links with business and trade fair activities.

Madrid is also an important centre for innovation and technology. Not for nothing is it the Spanish region that invests most in research and development, easily exceeding the national average in terms of percentage of GDP. It also has important university institutions, both public and private, which include notable technology and research establishments.

As one would expect, all of these factors combine to create a highly dynamic jobs market that is able to offer employment not only to the majority of the city's residents but also to a large number of those who live in the surrounding metropolitan area, and even beyond. The number of people settling is growing, and the forecast is that this will continue. Unemployment has fallen as a result and it currently stands at levels that are considerably lower than those recorded at regional, national and European levels.

In spite of this, labour costs during recent times have increased at lower rate than inflation, which has in turn been affected by the rise in energy costs in Spain just as it has in all the other developed economies.

All of the above issues are dealt with in more details in the following sections, which offer a summary of some of the essential aspects of Madrid's economy and the way these different areas are evolving, in line with our policy of continuing to provide more and better information about the city.

## POPULATION

Madrid's population currently stands at 3,242,924 inhabitants, twice that of Barcelona and four times that of Valencia, respectively numbers two and three in Spain. This makes Madrid the second largest city in Europe, only beaten by Berlin. With 7.2% of the Spanish population, it is home to a higher percentage of the total national population than any of the other large European cities.

The City of Madrid accounts for 52.9% of the total population of the Community of Madrid, which with almost 6 million inhabitants is, in turn the third largest metropolitan area in Europe, behind the Île-de-France and Greater London. It is also the third most populated province in Spain after Andalusia and Catalonia.

### European cities

City	Population	% of country	% of region	Area of influence	Population
Berlin	3,392,425	4.1	100.0	Berlin	3,392,425
<b>Madrid</b>	<b>3,242,924</b>	<b>7.2</b>	<b>52.9*</b>	<b>Community of Madrid</b>	<b>5,964,143</b>
Inner-London	2,766,065	4.6	37.6	Greater London	7,355,354
Rome	2,546,804	4.4	49.5	Lazio	5,145,805
Paris	2,125,246	3.6	19.0	Île-de-France	11,204,725

\* In 2005.

Source: General Department of Statistics, Madrid City Council (City of Madrid, 2006), Nacional Statistics Institute (Community of Madrid, 2005) and Eurostat (2003).

### Spanish cities

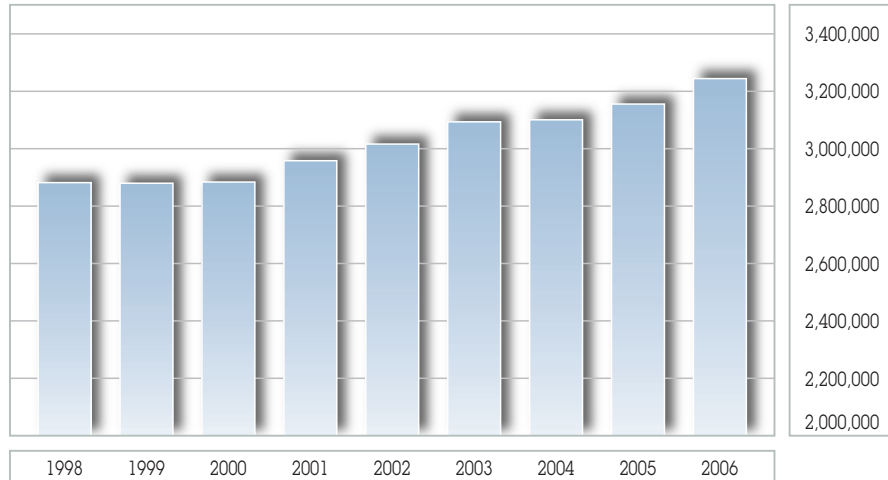
City	Population	% of country	% of region	Region	Population
<b>Madrid</b>	<b>3,242,924</b>	<b>7.2</b>	<b>52.9*</b>	<b>Community of Madrid</b>	<b>5,964,143</b>
Barcelona	1,593,075	3.6	22.8	Catalonia	6,995,206
Valencia	796,549	1.8	17.0	Community of Valencia	4,692,449
Seville	704,154	1.6	9.0	Andalusia	7,849,799
Zaragoza	647,373	1.5	51.0	Aragon	1,269,027

\* In 2005.

Source: General Department of Statistics, Madrid City Council (City of Madrid, 2006) and Nacional Statistics Institute (2005).

But perhaps the most important aspect is not its size but its evolution. In the last five years the demographic dynamic has been boosted by a significant influx of immigrants. This has led to a change in trends with the city's population growing at almost 2 per cent per annum, an effect which took the city's population past 3.2 million in 2006.

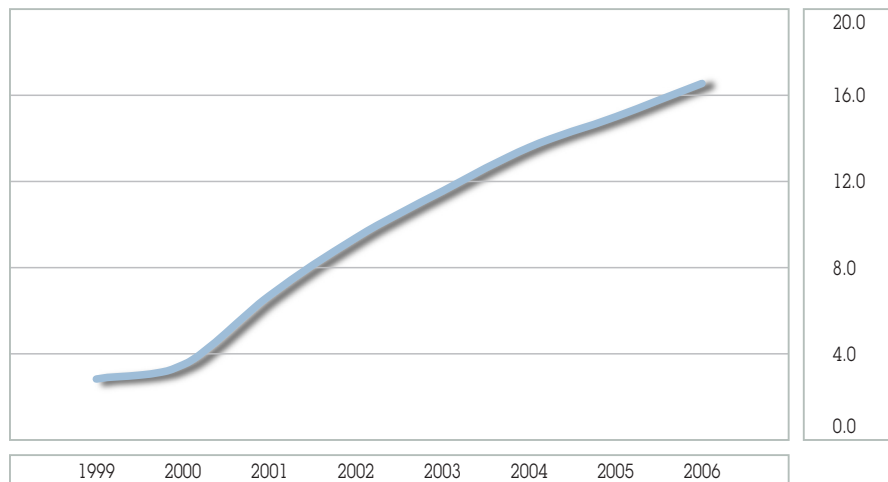
### The population of Madrid



Source: Nacional Statistics Institute.

The significant number of foreign immigrants settling in the city in recent years has raised their number to 16.6% of the total population, around 537,000, as opposed to 2.8 per cent just seven years ago. More than 50,000 foreign nationals now choose Madrid as their new home each year, and this trend, though slackening slightly, remains strong.

### Percent of foreign population

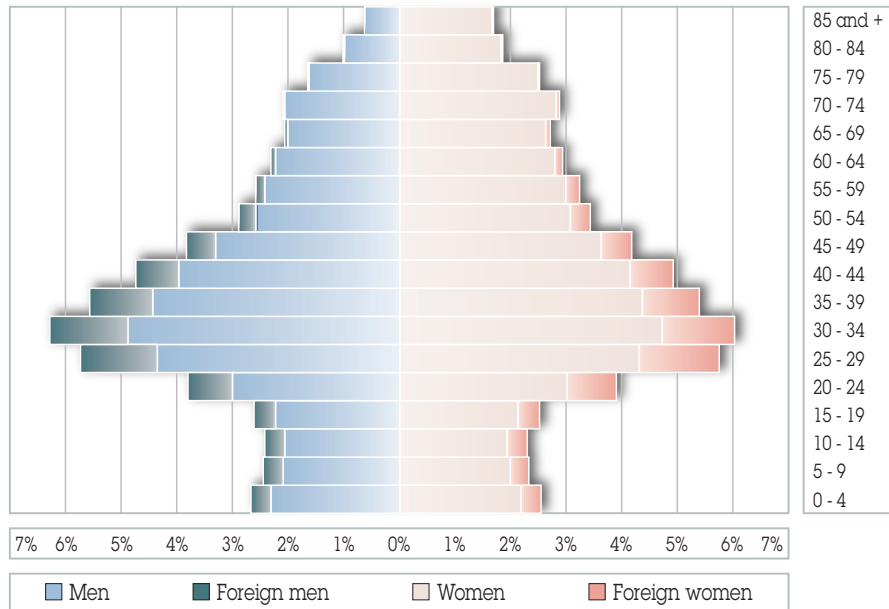


Source: General Department of Statistics, Madrid City Council.



This process is having a very positive effect on the demographic structure of the city, since it is leading to an ever greater inclusion of workers in the production sector, opening up the population pyramid in the 20 to 49 age groups. At the same time it broadens considerably the bottom end of the population pyramid in an intense and necessary rejuvenation process.

City of Madrid population pyramid



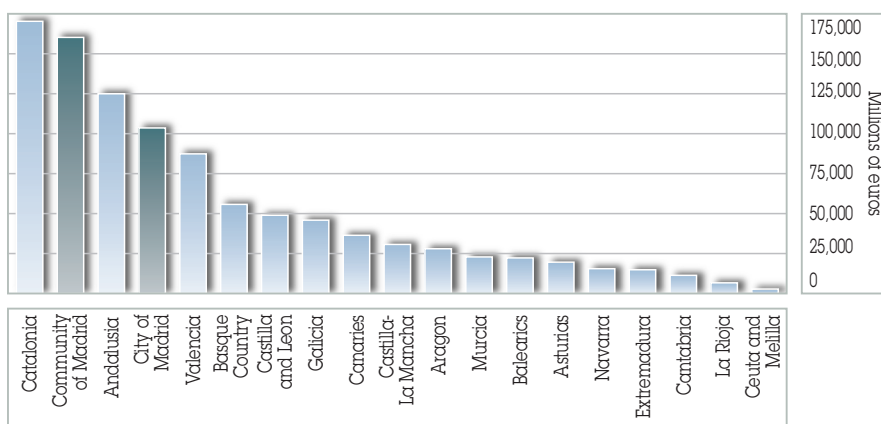
Source: General Department of Statistics, Madrid City Council.

2

## ECONOMIC ACTIVITY

Gross Domestic Product (GDP) for the City of Madrid in 2005 totalled around 103,500 million euros, a figure that represented no less than 64.6 per cent of the total for the whole Community of Madrid and 11.4 per cent of the total for Spain, eleven and four percentage points above the average for the population in each of these two areas. The city's individual production figures would exceed those of all the Autonomous Communities except Catalonia and Andalusia, in addition to that of the Community of Madrid itself, as well as the figures recorded by nine of the ten countries (all except Poland) included in the latest enlargement of the European Union.

### GDP for Madrid and other spanish regions

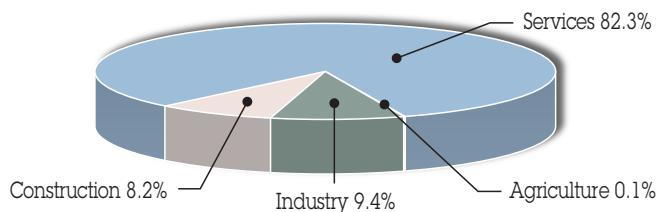


Source: Nacional Statistics Institute; for Madrid, GDP estimated by Madrid City Council's Economic Observer Office.

Of this production, more than 9 per cent comes from industry (mainly graphics, energy, transport, electronics and pharmaceuticals), while construction, which has shown dynamic development in recent years, accounts for a little over 8 per cent. However, it is the services sector which contributes most to shaping the City of Madrid's productivity map, accounting for 82.3 per cent of the total business and showing a slight upward trend in recent years.

### Gross value added (2004)

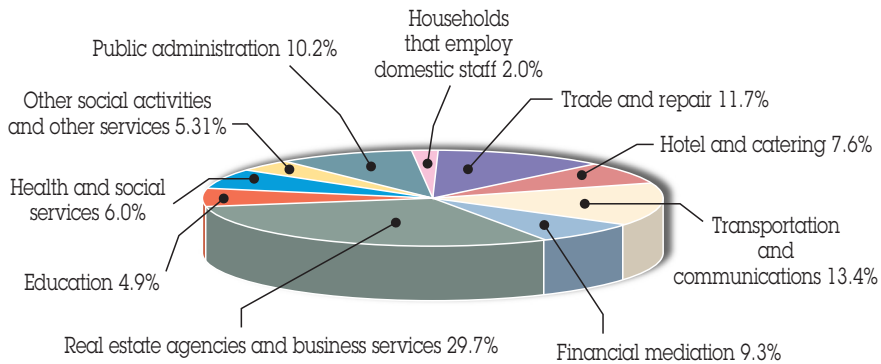
Agriculture	102,109
Industry	8,050,311
Construction	7,069,107
Services	70,891,900
<b>Total</b>	<b>86,113,427</b>



GVA estimated at current prices, in thousands of euros.  
Source: Madrid City Council's Economic Observer Office.

Of all these services, the most notable are those directed at companies, which, together with real estate activities, account for more than a quarter of all services. Then come transport, logistics and communications sectors, then trade and public administration, followed by financial mediation services (Madrid is one of Europe's main financial centres). These five groups generate three quarters of the value added for this business sector and account for more than 60% of the total.

**Services in Madrid (percentage)**

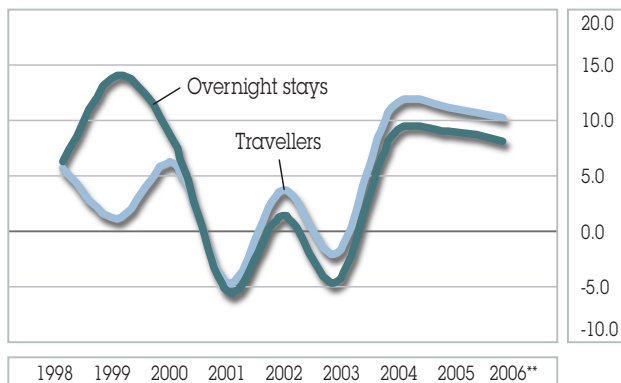


Source: Madrid City Council's Economic Observer Office.

Another activity that is extremely important for Madrid is tourism, which helps to keep a large proportion of the city's population employed in the hotel and catering sector. Hotel business has grown notably in recent years, after overcoming a slow start to the millennium. The figures for 2005 as a whole reached historic levels, with more than 12 million overnight stays, and the number of visitors in transit came close to six million for the year. The figures for the twelve months to May 2006 continue to show significant growth, with 6.3 million visitors in transit and 12.8 million overnight stays.

**Tourism in the city (thousands and percent annual change)**

Year	Travellers	Overnight stays
1998	4,601.4	9,190.1
1999	4,652.5	10,476.9
2000	4,936.3	11,331.1
2001	4,707.2	10,710.3
2002	4,882.3	10,862.3
2003	4,786.1	10,379.6
2004	5,320.1	11,276.7
2005	5,914.6	12,302.1
2006*	6,345.3	12,756.9



\* Twelve months to May.

\*\* Date to May. Percent change from twelve months previously.

Source: National Statistics Institute (EOH). From January 2006, new EOH.

The city has a significant and growing number of hotel beds, with more than 800 different establishments in May 2006 offering a total of more than 65,000 places. 61 per cent of these are offered at four- and five-star hotels.

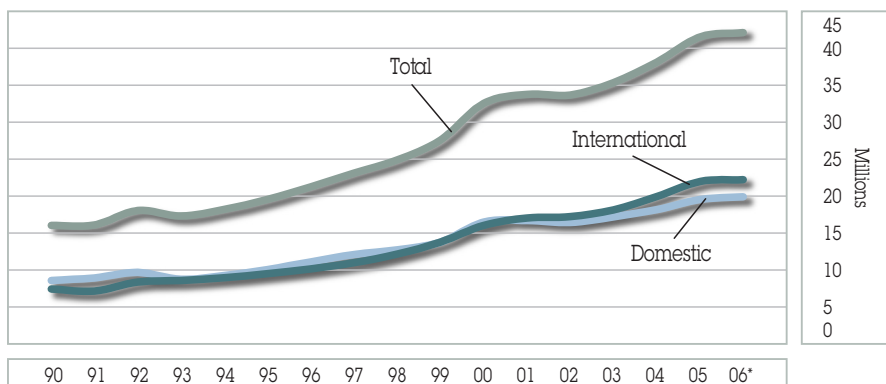
### Hotels

Star rating	Number	Beds	Employees
<i>Hotels</i>			
Five	20	9,409	3,325
Four	94	30,091	5,017
Three	60	10,256	1,297
Two and one	22	2,832	343
<b>Total hotels</b>	<b>196</b>	<b>52,588</b>	<b>9,982</b>
<i>Hostals</i>			
Three and two	181	6,340	699
One	444	6,622	601
<b>Total hostals</b>	<b>625</b>	<b>12,962</b>	<b>1,300</b>
<b>Total</b>	<b>821</b>	<b>65,550</b>	<b>11,282</b>

Source: National Statistics Institute.

Given its close links with tourist activity in all its guises and, as a consequence, with a variety of business sectors, the continuing increase in air passengers coming through Barajas is very important. More than 42 million passengers currently pass through Madrid airport each year, double the number recorded ten years ago. It provides yet another illustration of the dynamism of the city's business activity. The extension work that concluded in February will shortly expand the airport's potential capacity to 70 million passengers a year.

### Passengers passing through Madrid airport according to flight type

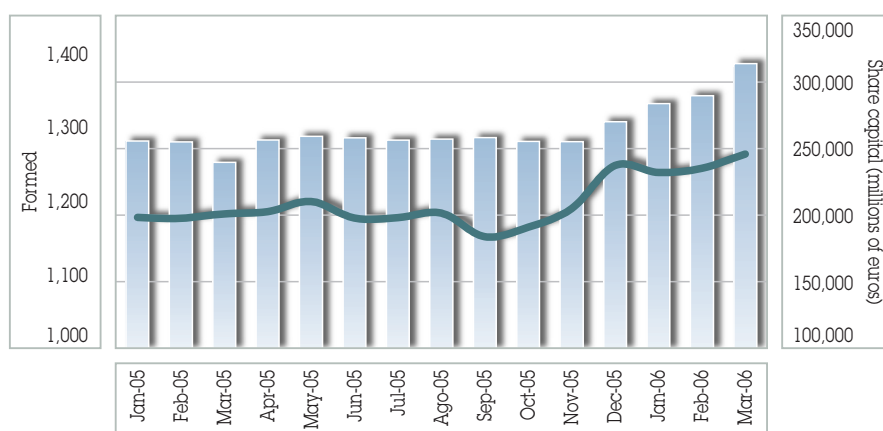


\* To March.  
Source: Ministry of Development and Aena.

We cannot end this brief overview of the production sector in Madrid without mentioning the dynamic evolution of private initiatives in a whole series of areas such as health, education and social services which, against a background of increasing demand, now account in combination for more than 16 per cent of the city's services.

This dynamism in the business sector can also be seen in the number of new businesses being created. More new businesses are generated in Madrid than anywhere else in Spain, with average figures that are double those of the rest of the country as a whole.

### Commercial companies



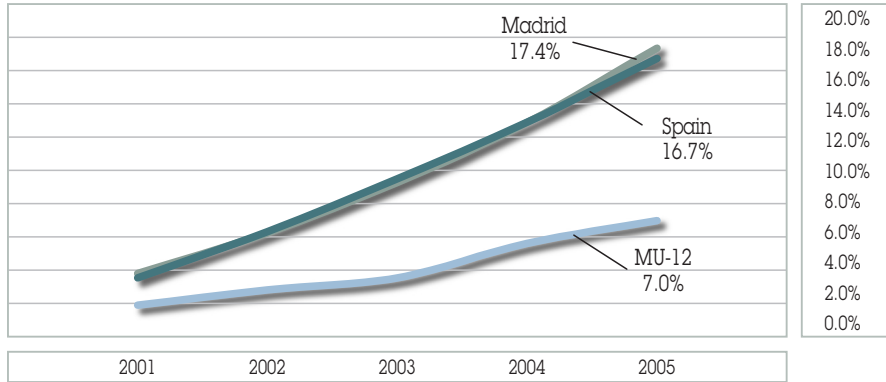
Source: General Department of Statistics, Madrid City Council.

In addition, businesses in Madrid look to the future with optimism, as it was reflected in the recent report by the Association of European Chambers of Commerce and Industry (Eurochambres) for 2006. Madrid is noted for its job creation prospects and business turnover figures, not only in comparison with the rest of Spain but also when compared with the great majority of countries and regions in the European Union, especially the more developed areas. Madrid recorded a score of 61 points for prospective business turnover in 2006, while the average scores for Spain and the EU were 54 and 34 respectively.

These production factors clearly have a dynamic effect on the surrounding area. During 2005, the metropolitan area grew by 4.0%, the highest level of growth recorded in any region in Spain and six tenths of a point above the national average. This would imply accumulated growth between 2001 and 2005 of 17.4%, more than 10 points above the average for the Monetary Union.

The area that experienced the greatest growth in Madrid in 2005 was construction, which grew by 8.0 per cent, overtaking growth in services which grew by 3.8%.

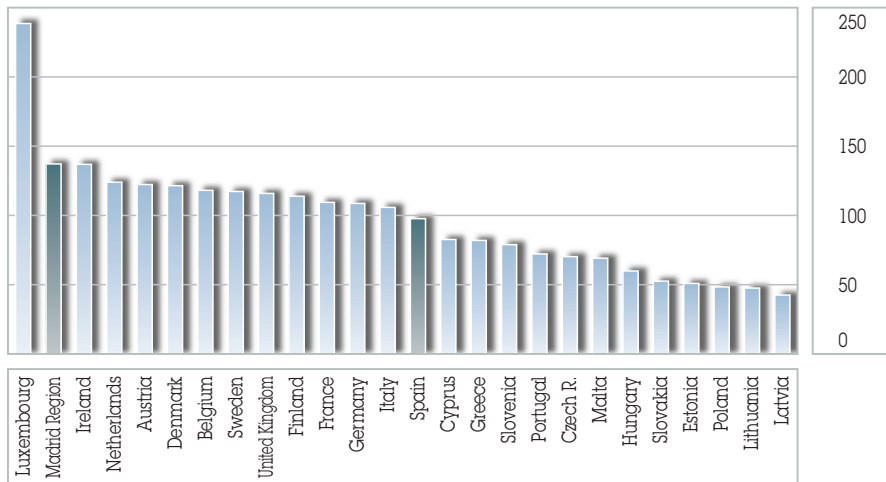
Accumulated growth in GDP



Source: National Statistics Institute and Eurostat.

It is predicted that the city's economy will grow by 4.0% in 2006, two-tenths of a point below the figure for 2005. This is clearly above the levels predicted both for Spain and the twelve euro-zone countries as a whole, which the European Commission has set at 2.1%.

PIB per cápita (ppa) Madrid



Source: Eurostat and National Statistics Institute.

The result of all this is that the GDP per capita in Madrid is the highest in Spain, 41% above the average figure. It also exceeds the European Union average by 37 points.

3

## RESEARCH AND TRAINING

Such dynamism would not be possible without one fundamental factor providing support for the city's productive capacity: high quality training and research. Madrid has a large number of university students in proportion to its population. The different university institutions in the city and the surrounding metropolitan area have more than 225,000 registered undergraduate students, of which 30% are reading architecture or engineering. This does not include those who have advanced to post-graduate level.

### Students at Madrid universities (2005-2006 academic year)

Type of course	Type of Institution		
	Public	Private	Total
Under-graduate and Diploma courses	122,429	30,472	152,901
Architecture and Engineering	53,690	11,294	64,984
Combined courses	5,327	2,343	7,670
<b>Total</b>	<b>181,446</b>	<b>44,109</b>	<b>225,555</b>

Source: National Statistics Institute.

The proportion of students in Madrid is 17% higher than the figure for the whole of Spain, and in addition, the rich offer of universities within the metropolitan area (a total of fifteen, seven of which are public and eight private) attracts a large number of non-residents, the majority of whom become part of the city's production sector on completing their studies.

### Madrid universities

Public	Private
University of Alcalá	Alfonso X El Sabio University
Autonomous University of Madrid	Antonio de Nebrija University
Carlos III University, Madrid	Camilo José Cela University
Complutense University of Madrid	European University of Madrid
Polytechnic University of Madrid	Francisco de Vitoria University
King Juan Carlos University	Comillas Pontifical University
National Distance-Learning University (UNED)	Salamanca Pontifical University in Madrid
	San Pablo Ceu University

Source: Directorate General for Universities and Research of the Madrid Region.

In addition to these university establishments, Madrid is home to an important number of research institutions working in all fields. Particularly important is the Advanced Centre for Scientific Research (CSIC), which specialises in research in the fields of science and technology.

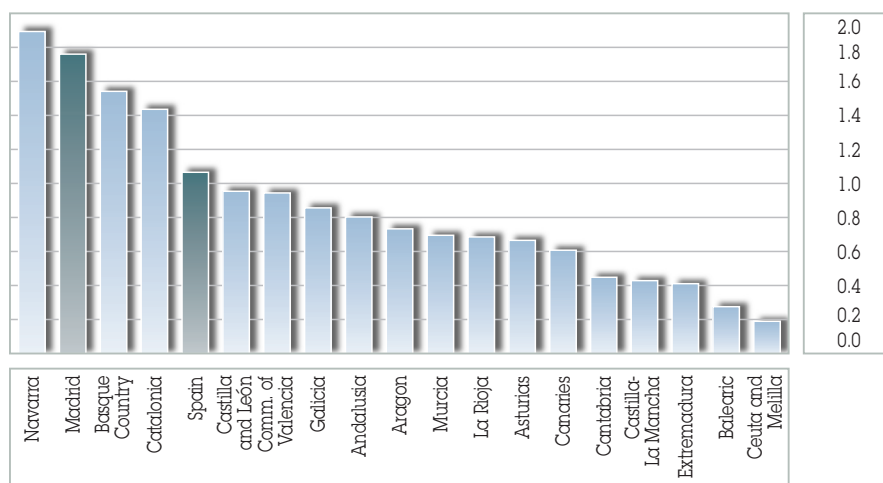
### State research centres and institutes with headquarters in Madrid

Centre for Research into Energy, the Environment and Technology (CIEMAT)	Advanced Centre for Scientific Research (CSIC): 46 centres and institutes
Spanish Oceanography Institute (IEO)	National Institute for Research into Agricultural Technology and Food (INIA)
Spanish Institute of Geo-mining Technology (IGME)	National Institute for Aerospace Technology (INTA)
El Pardo Model Basin (CEHIPAR)	Army Engineering Laboratories (LIE)
Naval Research and Development Centre (CIDA)	Institute for Energy Saving and Diversification (IDAE)
Centre for Educational Research and Documentation (CIDE)	Spanish Metrology Centre (CEM)
Centre for Public Works Studies and Testing (CEDEX)	National Geographical Institute (IGN)
Fiscal Studies Institute (IEF)	Centre for Legal Studies (CEJ)
National Meteorological Institute (INM)	Centre for Political and Constitutional Studies (CEPCO)
Centre for Sociological Research (CIS)	National Centre for Oncological Research (CNIO)
National Centre for Cardiovascular Research (CNIC)	Carlos III Health Institute (ISCIII)
National Institute for Health and Safety at Work (INSHT)	

Source: Madrid Autonomous Community Ministry of Education.

Madrid is the area in Spain that invests most in R&D. The high level of investment made in Madrid, 2,447 million euros in 2004, represents 27.4 per cent of the national total. 57 per cent of this is accounted for by business, with the public authorities responsible for a further 26 per cent. In terms of production, this figure represents 1.65 per cent of local GDP, a figure bettered only in Navarra and well above the national average of 1.07 per cent.

### R&D as percent of GDP



Source: National Statistics Institute.

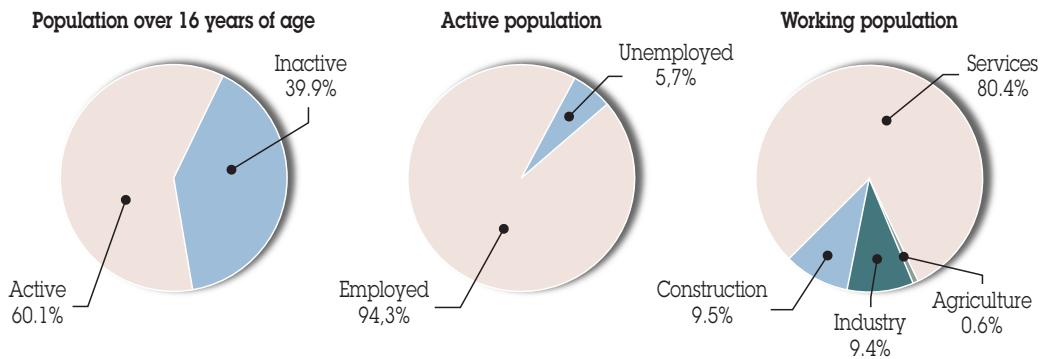


## EMPLOYMENT

All of the above data relating to demographics, production and innovation in the City of Madrid have important implications for jobs in the surrounding area. Activity rate is therefore higher than both the Spanish and European averages, but, on the contrary, its unemployment rate is much lower.

This situation, supported by the spectacular growth shown in recent years, with increased levels of job creation and reduced levels of unemployment that are without equal in the rest of Europe, has been closely linked with the gradual incorporation of women in the labour market. In the 16 to 24 age group there are now more women in work than men.

### Population and its relation with the activity



Employment Figures		Rates		
Group / Status	Number	Total	Men	Women
Over 16 years of age	2,683,600			
— Active	1,612,500	60.1	68.9	52.6
• Employed	1,521,000	56.7	64.8	49.3
- Agriculture	9,700			
- Industry	143,700			
- Construction	144,200			
- Services	1,223,300			
• Unemployed	91,600	5.7	5.2	6.2
— Inactive	1,071,100	39.9		

EPA figures for the 1st quarter of 2006 (INE).  
Source: Department of Statistics, Madrid City Council.

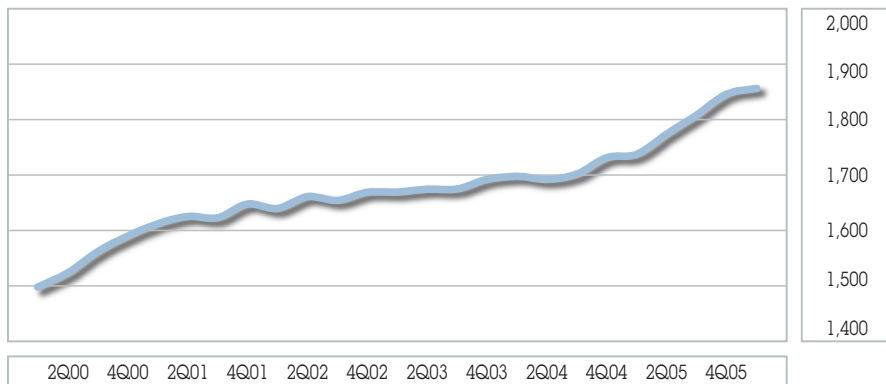
The way the jobs done by Madrid residents are distributed among the various sectors shown in the above table is in line with the way the city's production is structured and shows a clear specialization in tertiary activities. The number of people working in the services sector amounts to 1,223,300, representing 80.4 per cent of the total. 9.5 per cent of people work in construction while 9.4 per cent work in the industrial sector.

Of the 1,521,000 in work 159,200 have their own businesses, 1,095,300 are salaried workers in the private sector and 252,400 are salaried workers in the public sector. 76.4 per cent of all these salaried workers are employed on long-term contracts.

It should be remembered however that these figures only refer to the people who actually live in Madrid, and a large number of people who are resident in other municipal areas and autonomous communities also come to Madrid to work each day. The number of actual jobs in the city of Madrid can be estimated from the number of people on the employment register, most of whom are registered with the Social Security Department.

1,856,274 people are recorded in the Social Security Register as working in the City of Madrid, regardless of where they actually live. This means that more than 300,000 workers come to work each day in the city. This indicator has continued to show an upward trend in recent years, with a year-on-year increase of 6.8 per cent recorded in the first quarter of 2006.

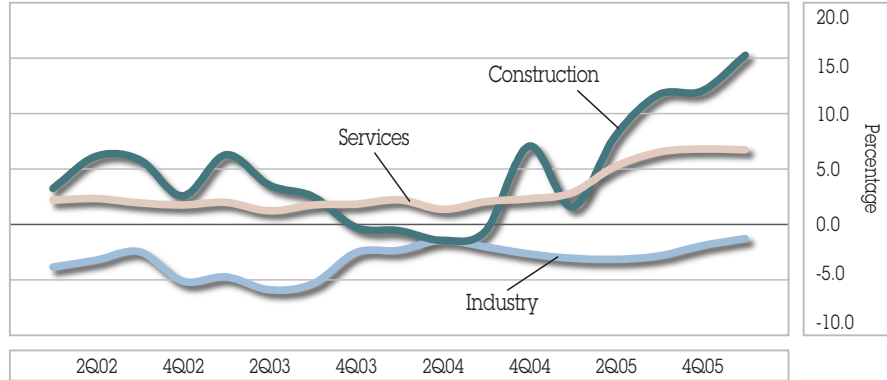
**Social Security registration (thousands)**



Source: Department of Statistics, Madrid City Council (data from MTAS).

This information again confirms that the majority of jobs in Madrid are found in the services sector, accounting for 85.1 per cent of the total. This is greater than the number of Madrid residents employed in the sector, a fact that reinforces the city's position as an economic area with a strong specialisation in this type of business.

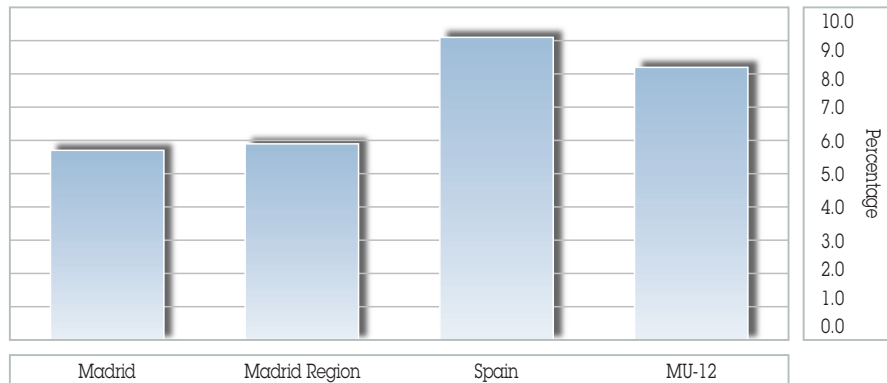
**Social Security registrations by sector (year-on-year change)**



Source: Department of Statistics, Madrid City Council (data from MTAS).

This dynamic strength in the area of job creation explains why the unemployment rate is 5.7 per cent, well below the national average (9.1 per cent) and the average for the European Monetary Union (8,2 per cent). Unemployment rates fell over the course of the last twelve months, further increasing the differential between Madrid and other parts of Spain at the beginning of 2006.

**Employment rate**

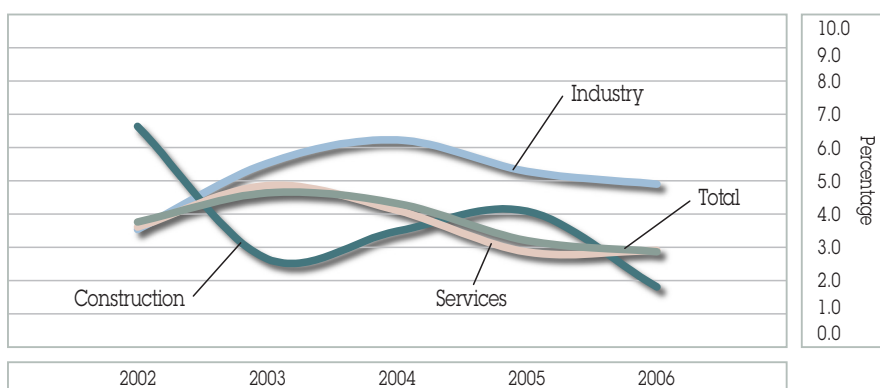


Source: National Statistics Institute and Bank of Spain (first quarter 2006).

## PRICES AND SALARIES

This positive dynamic in the jobs market has occurred without any excessive tensions being created as regards labour costs. While it is true that labour in the Madrid metropolitan area is more expensive than in the rest of Spain, as a result of the higher levels of qualification on offer, it is equally true that any change has remained within a range that is significantly below the rise in the rate of inflation.

**Labour costs per worker year-on-year percent change (first quarter of each year)**

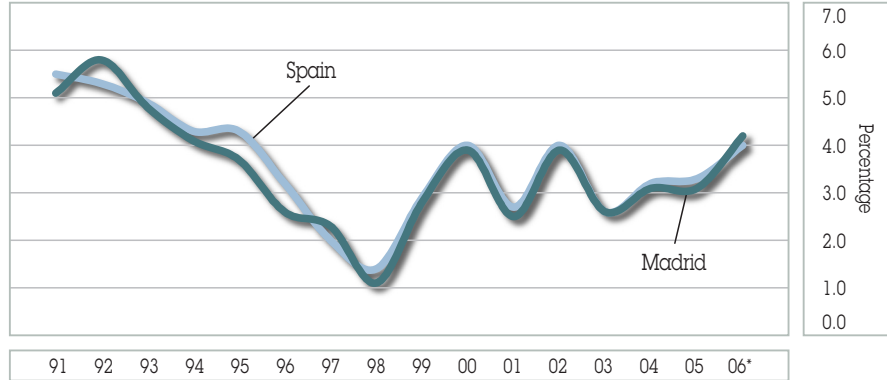


Source: National Statistics Institute (ETCL).

As regards the way these costs have evolved over recent years, the graph shows that in construction and, to a lesser extent, industry, their behaviour has been more volatile, while they have remained more stable in the services sector, and the greater specific weight of this sector has had a great influence on the behaviour of costs as a whole. This overall average has shown a downward trend since 2004, to the extent that in the first quarter of 2006, the average increase was running at 2.9%, seven tenths of a point below the rise in the retail price index.

The Retail Price Index (RPI) has shown a similar evolution for both Madrid and Spain as a whole in recent years, and in both cases with significant fluctuations. Prices are currently influenced by an upsurge in inflation caused by recent rises in fuel prices.

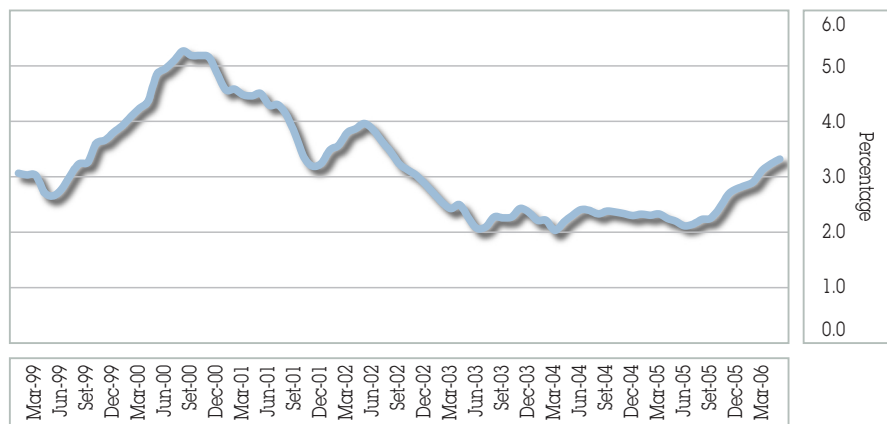
Retail price index (year-on-year percent change)



\*To may.  
Source: National Statistics Institute.

There have also been rises in interest rates in the euro zone since last autumn, in line with the decisions taken by the Central European Bank, which since December has raised rates on three separate occasions to the current level of 2.75%. Average one-year rates on the inter-bank market, which stood at 3.32 per cent in May, have risen 52 per cent over the last twelve months, a situation that should serve to provide greater control over inflation.

Euribor 12 month rate (monthly average, percentage)



Source: Bank of Spain.

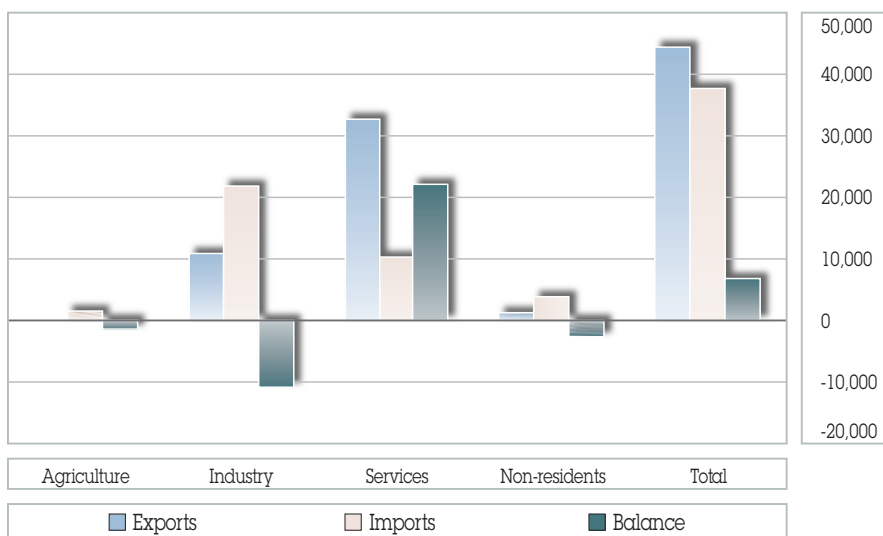
## FOREIGN SECTOR

Against this background, the City of Madrid's commercial relationships with other economic areas show an extremely positive balance. The city trades, as one would expect, both with the rest of the Autonomous Community of which it is the capital and with the rest of Spain as a whole. The estimated balance between the export and import of both goods and services to and from areas outside the Community (both in Spain and abroad) shows a surplus of 6,916 million euros.

In spite of the fact that it is located in the second most important industrial region in Spain, the city imports a large proportion of the goods that it consumes, but this is easily offset by the positive balance in the provision of services, a large proportion of which it exports.

### Trade with areas outside the region

	Exports	Imports	Balance
Agriculture	16.9	1,602.1	-1,585.2
Industry	10,576.1	21,549.4	-10,973.3
Services	32,728.2	10,492.4	22,235.8
Non-residents	1,097.9	3,859.4	-2,761.4
<b>Total</b>	<b>44,419.2</b>	<b>37,503.3</b>	<b>6,915.9</b>



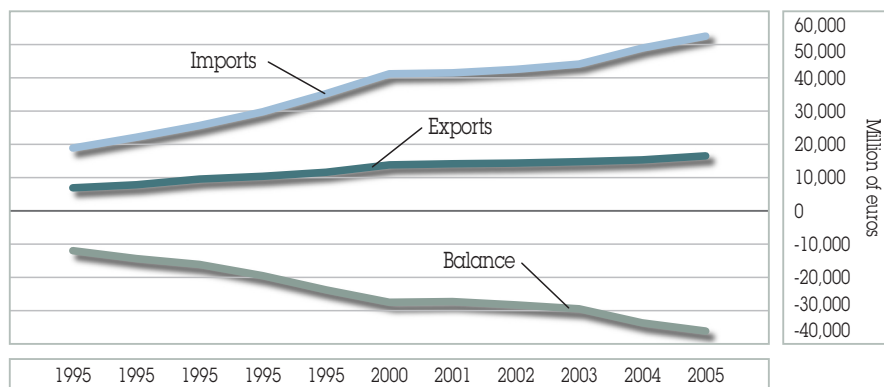
Millions of euros.

Source: Economic Observatory (estimated on the basis of the Community of Madrid's input-output tables).

Having placed it in its proper context, the trading of goods with other countries, the area habitually shown in the statistics relating to foreign trade, serves as an indicator of the way business has evolved over time. The region of Madrid, and within it the City of Madrid, plays a central role as the third most important community in Spain for exports after Catalonia and Valencia. In terms of imports it is in second place behind Catalonia. It currently accounts for 10.5 per cent of all exports and 23.5 per cent of all imports in Spain.

The evolution of these figures over time is positive in both cases, with more fluctuation in the case of imports due to the way in which both the price of oil and the euro/dollar exchange rate have behaved.

### Foreign trade in the region

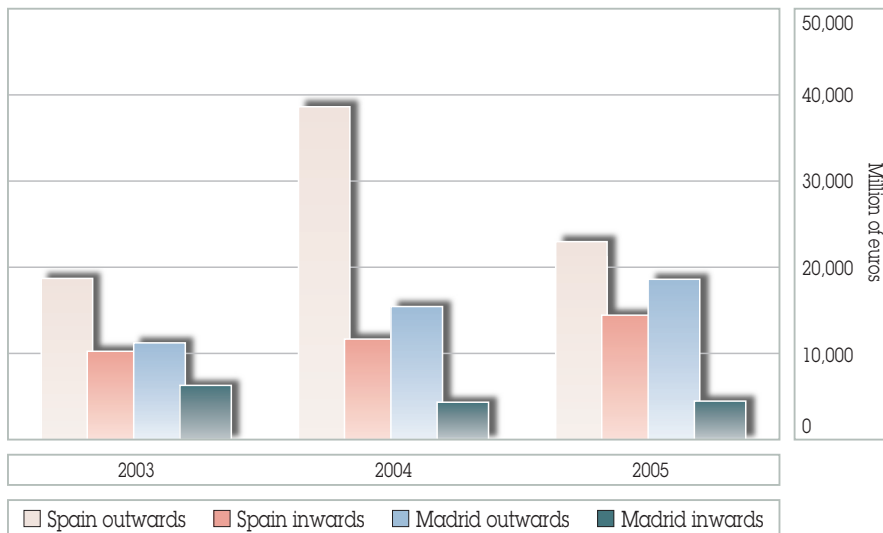


Source: Secretary of State for Trade and Tourism.

The figures for recent years show exports growing at an accelerating rate, rising from almost zero to 12.1 per cent during the first quarter of 2006, while the import figure has slowed appreciably from nearly 14 per cent to just 7.6 per cent.

As far as investments are concerned, Madrid also plays a crucial role, receiving a large proportion of the investment funds flowing into Spain from abroad. In 2005, Madrid accounted for 54% of all foreign funds invested in the different Spanish regions. An even more significant fact is that the metropolitan area accounted for 80.0 per cent of all Spanish investment abroad, showing an increase in 2005 of 21 per cent over the figure for the previous year. Madrid's role as both a major investor and an important recipient of investment funds is clear.

Foreign investments



Source: Secretary of State for Trade and Tourism.



## CONCLUSIONS

This report on the current economic situation in the City of Madrid gives a picture of an economic space with a large number of growth-generating factors. The first of these is the great dynamism of its population, in which the capacity to attract workers from other countries is a key factor.

The second is the city's specialisation in sectors that show the greatest potential for growth and the greatest capacity to generate added value, both in industry and services. Notable among these are sales-related services, particularly those aimed at businesses, financial mediation, logistics and communications.

This specialist approach combines with another fundamental factor: the dynamism of Madrid's businesses, their size, the roles they play in their respective sectors and the optimism with which they view the future. This all has unquestionably helped to turn Madrid into the city that has created most jobs and most effectively reduced its rates of unemployment in recent years, providing employment for a large proportion of the working population living in the surrounding areas. It continues to do so.

Another notable factor is the great wealth of innovation centres and the investment in R&D being made by all the different parties involved in the city's economy, particularly in the business sector.

In spite of this great dynamism, the relative containment of salaries, with increases kept below the rise in the retail price index, remains a strong feature of the city's economy and, along with the relatively low interest rates, it is an extremely important factor for growth.

All of this has helped to create the beneficial financial relationship that the City of Madrid enjoys with the exterior, both in terms of trade and as regards investment.

As a result, forecasts relating to the city's economy for both 2006 and 2007 continue to predict growth at levels exceeding those of other areas, thus ensuring that the City of Madrid and the region that surrounds it will continue to hold the leading position in terms of national growth.