



Macro Note

20 June 2019



In real terms, the economy grew by 1.7% YOY in Q1. Domestic demand decreased by 2.8%, exports increased by 2.6% and imports decreased by 8.1%. The contribution of net foreign trade to GDP growth was positive by 4.4%.

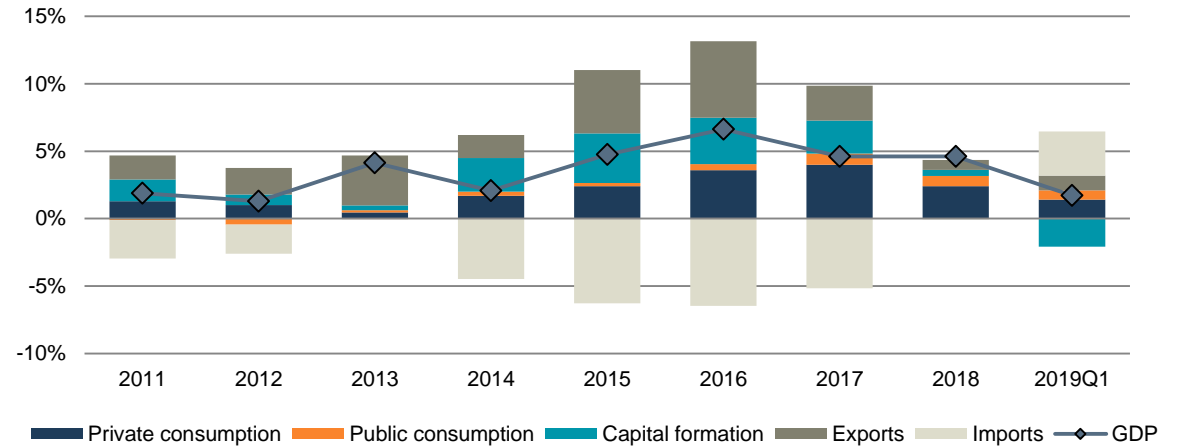
Private consumption increased by 2.8% YOY in Q1. This is the smallest YOY increase since Q3 2014.

Business sector investment decreased by 33.6% YOY in Q1. This decrease is mainly due to the sale of four airplanes by WOW air to Air Canada in January which enters national accounts as disinvestment. Business sector investment excluding ships, aircrafts and heavy industry decreased by 5.4% YOY. This is the 5th consecutive quarter that business sector investment (ex. ships, aircrafts, heavy industry) decreases YOY.

We expect the economy to contract by 0.5% in real terms in 2019, but that this contraction will be short-lived and that the economy will grow again in 2020.

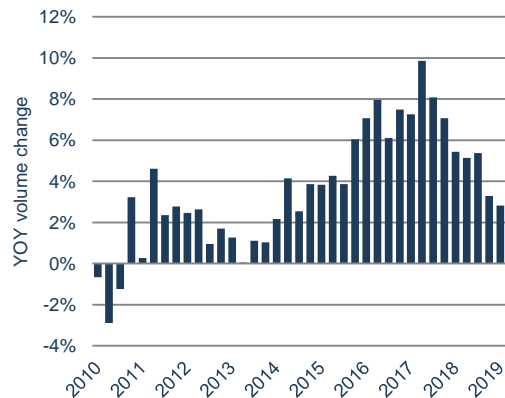
GDP growth and contribution of underlying components

Source: Statistics Iceland



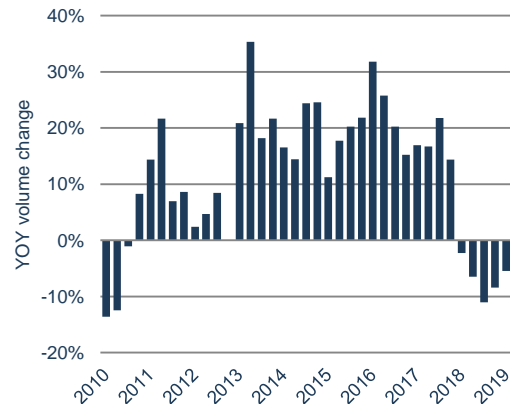
Private consumption increased by 2.8% YOY in Q1. This is the smallest increase YOY since Q3 2014.

Source: Statistics Iceland



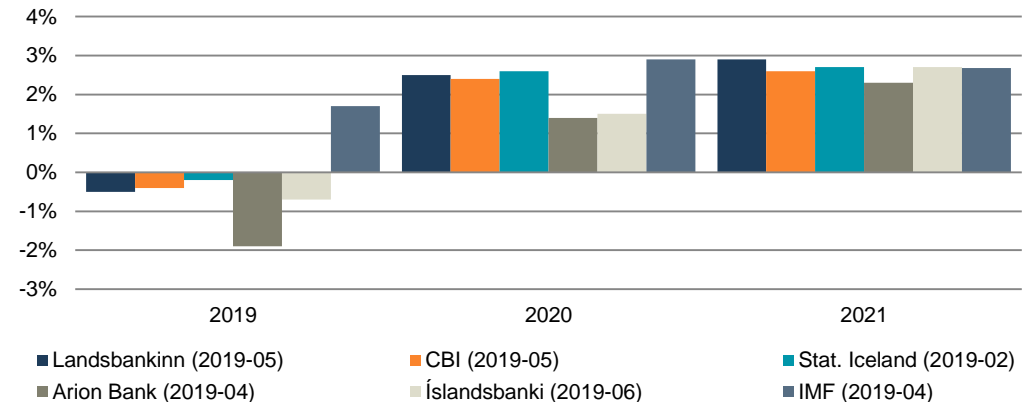
Business sector investment excl. ships, aircrafts and heavy industry decreased by 5.4% YOY in Q1

Source: Statistics Iceland



Most GDP forecasts assume a small contraction in 2019, but the downturn will be of short duration, and the economy will grow again in 2020.

Source: Statistics Iceland, CBI, IMF, Landsbankinn, Íslandsbanki, Arion Bank





The **current account surplus was ISK 35.1bn (1.2% of GDP) in Q1 2019** compared to an ISK 6.7bn (0.2% of GDP) surplus in Q1 2018. The increase was mainly due to exports of old fishing vessels and airplanes (WOW air sold 4 jets to Air Canada in January). The surplus excluding ships and airplanes was ISK 12.5bn (0.4% of GDP).

WOW air ceased operations at the end of Q1 so the bankruptcy did not impact Q1 numbers.

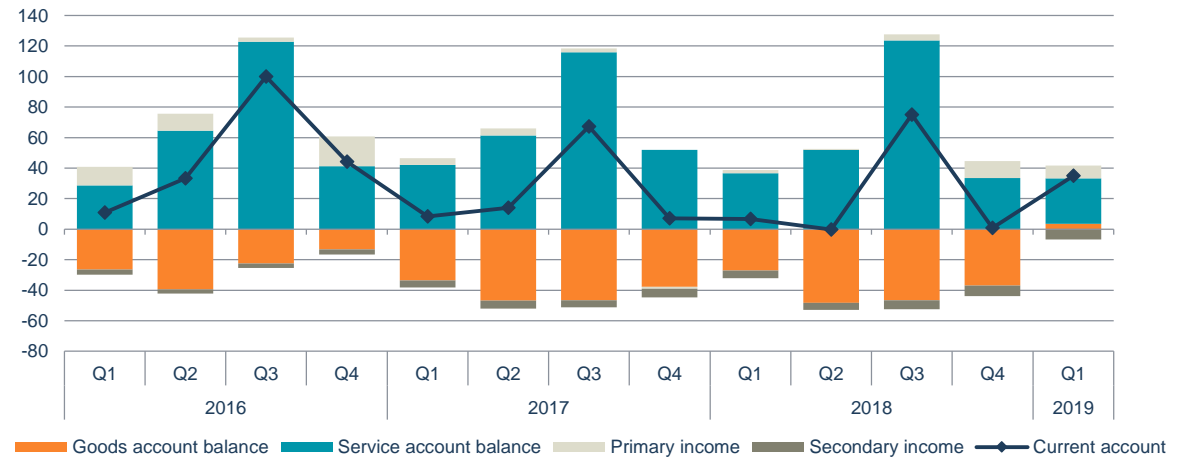
No catch quota was issued for capelin this season and the outlook for next year is rather bleak, as stock recruitment has been poor.

We expect the current account surplus to be ISK 34.5bn (1.2% of GDP) in 2019, compared with a surplus of ISK 81.5bn (2.9% of GDP) in 2018. The contraction is mainly due to the bankruptcy of WOW air and capelin catch failure.

The net external position was positive by ISK 598bn (20% of GDP) at the end of Q1, an increase of ISK 270bn (9.2% of GDP) QOQ. The increase is mainly do to a rise in prices of foreign securities and a depreciation of the króna.

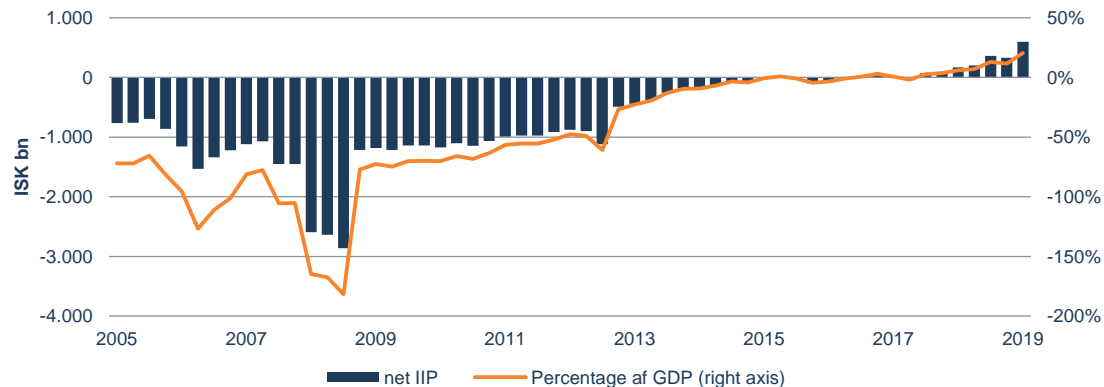
The **current account surplus was ISK 35.1bn (1.2% of GDP) in Q1** compared to an ISK 6.7bn (0.2% of GDP) surplus in Q1 2018.

Source: CBI



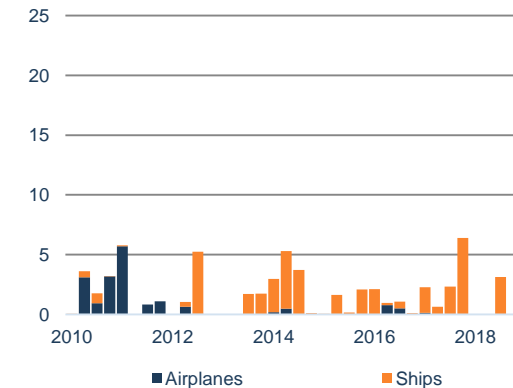
The **net external position was positive by ISK 276 bn (9.9% of GDP) at year-end 2018**

Source: CBI, Statistics Iceland



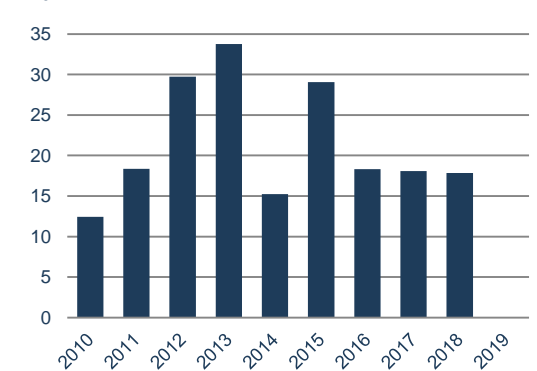
Exports of airplanes and ships amounted to ISK 22.6bn in Q1.

Source: Statistics Iceland



Capelin exports where ISK 17.8bn last year. No catch quota was issued for this season.

Source: Statistics Iceland





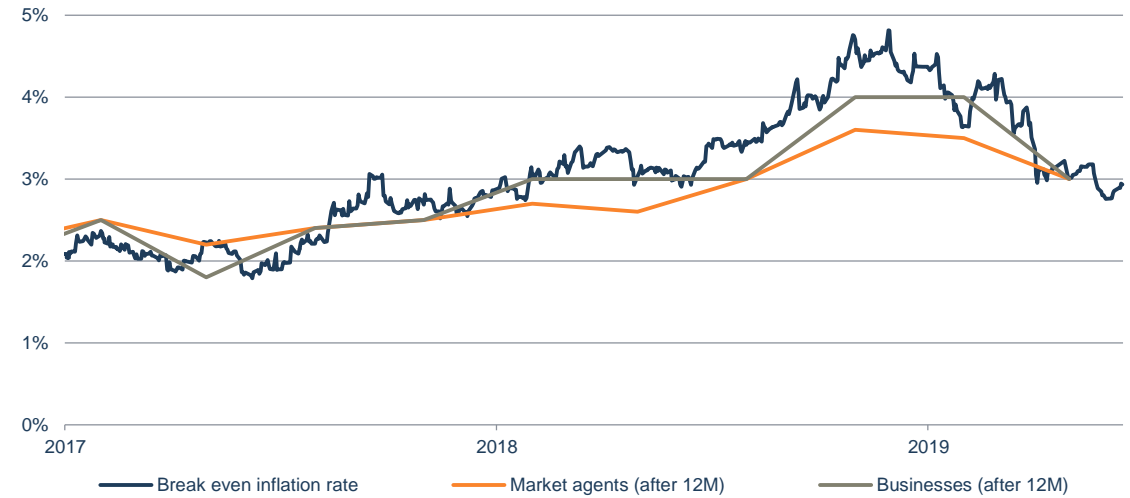
Inflation was 3.6% in May, up from 3.3% in April. We expect the CPI to increase by 0.4% MOM in June, bringing the headline number to 3.4%. The MOM increase is mainly due to seasonal changes in international airfares.

Inflation expectations appear to have peaked in Q4 2018, falling steadily since. The break-even inflation rate is currently at 3% after going as high as 4.5% in October 2018.

The Monetary Policy Committee (MPC) lowered policy rates by 0.5 percentage points at its meeting in May. All five committee members voted in favour of this change. We expect the MPC to lower policy rates a further 0,25 percentage points next week.

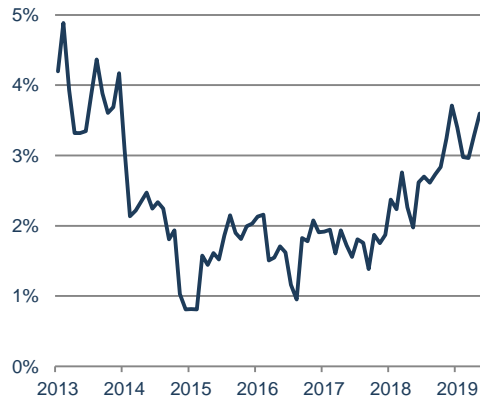
Inflation expectations appear to have peaked in Q4 2018, falling steadily since.

Source: Statistics Iceland, Landsbankinn Economic Research forecast



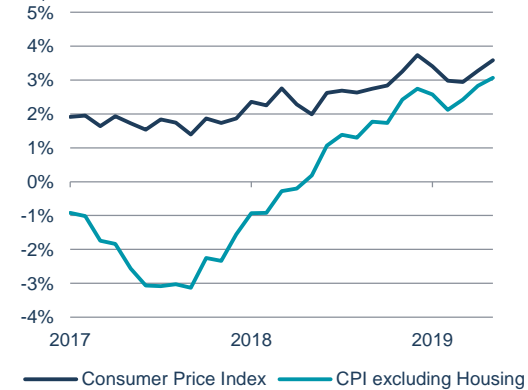
Inflation was 3.6% in May.

Spurce: Statistics Iceland

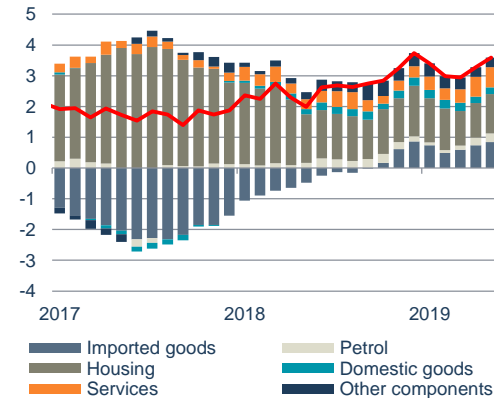


Headline inflation and CPI excluding housing are converging.

Spurce: Statistics Iceland

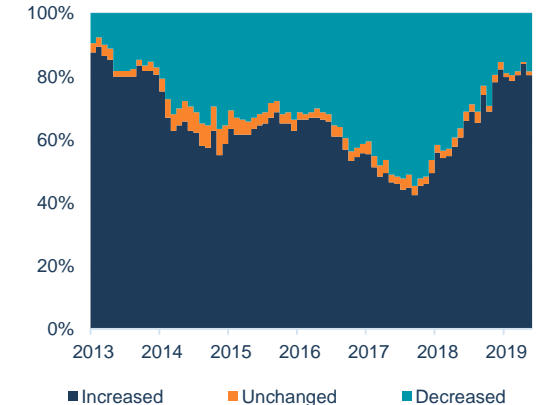


The main components in inflation.



80% of subcomponents in the CPI have increased the last 12 months.

Spurce: Statistics Iceland



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