



# Economic Research Monthly Newsletter

**November 2024**

**Landsbankinn Economic Research**

# Market Calendar - November 2024

Monday	Tuesday	Wednesday	Thursday	Friday
				1 November Unemployment in the US
4	5	6	7	8
	Eimskip publishes results US presidential elections	Kvika Bank, Heimar and Sýn publish results	Interest rate decision by the FED and the Bank of England	Registered unemployment in Oct. (VMST)
11	12	13	14	15
Departures from Keflavík International Airport in Oct. (FMST) Reitir publishes results		Market expectations survey (SÍ) Payment mediation figures for Oct. (SÍ) Inflation in the US	Alvotech publishes results	
18	19	20	21	22
	Housing price index (HMS)	Interest rate decision by the Central Bank of Iceland <i>Monetary Bulletin 2024/4</i> Iceland Seafood publishes results Rental price index for Oct. (HMS) Inflation in the UK	Alvotech, Brim, Hampiðjan and Síldarvinnslan publish results	
25	26	27	28	29
Goods and services balance in Q3 (HAG)		Skagi publishes results	Consumer price index for Nov. (HAG)	National accounts for Q3 (HAG) Parliamentary election in Iceland Ísfélagið publishes results Inflation in the eurozone

FMST: Ferðamálastofa (Icelandic Tourist Board), HAG: Hagstofa Íslands (Statistics Iceland), HMS: Húsnæðis- og mannvirkjastofnun (Housing and Construction Authority), SÍ: Seðlabanki Íslands (Central Bank of Iceland), VMST:

Vinnumálastofnun (Directorate of Labour)

Source: Landsbankinn Economic Research

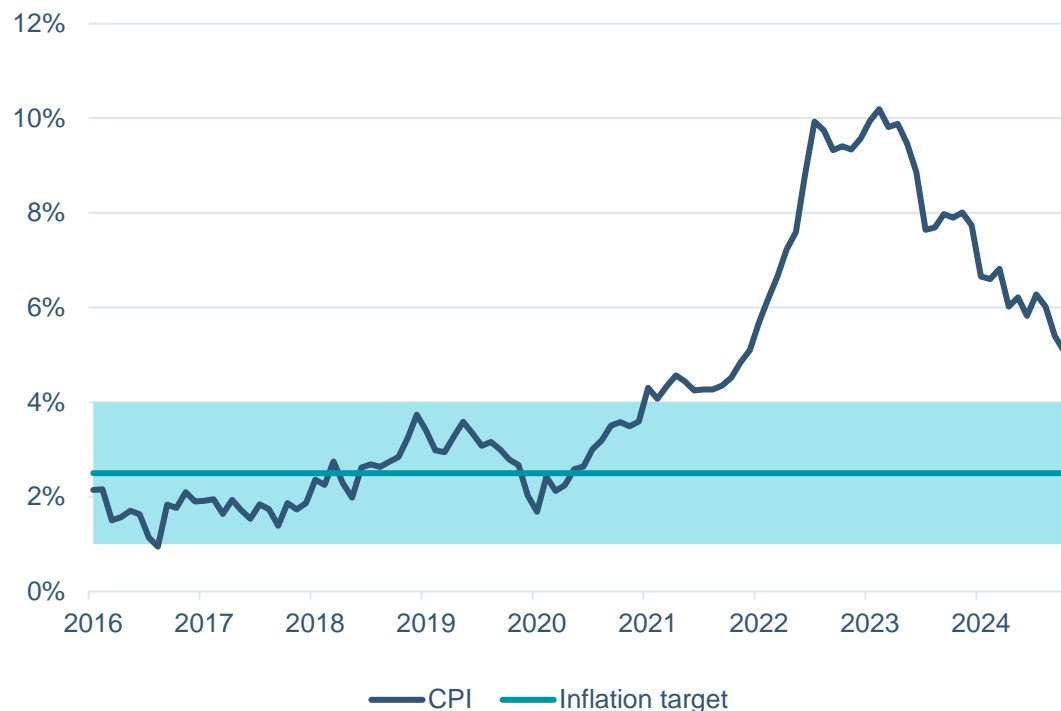


# Inflation

The CPI rose by 0.28% between months in October and inflation receded from 5.4% to 5.1%. Inflation less housing was unchanged between months. Core inflation indices 1 and 2 fell between months while core index 4 rose. This is because core index 4 does not include imputed rent which was the main driver of the decrease in inflation between months.

## Consumer price index

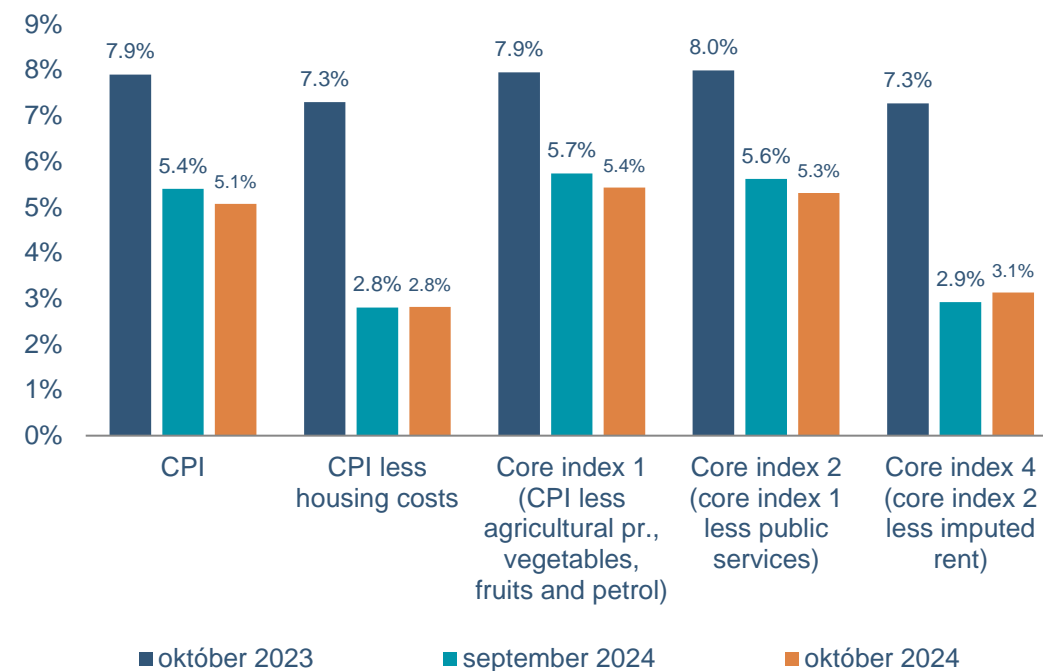
YoY change



## Latest number, one month ago and one year ago

ago

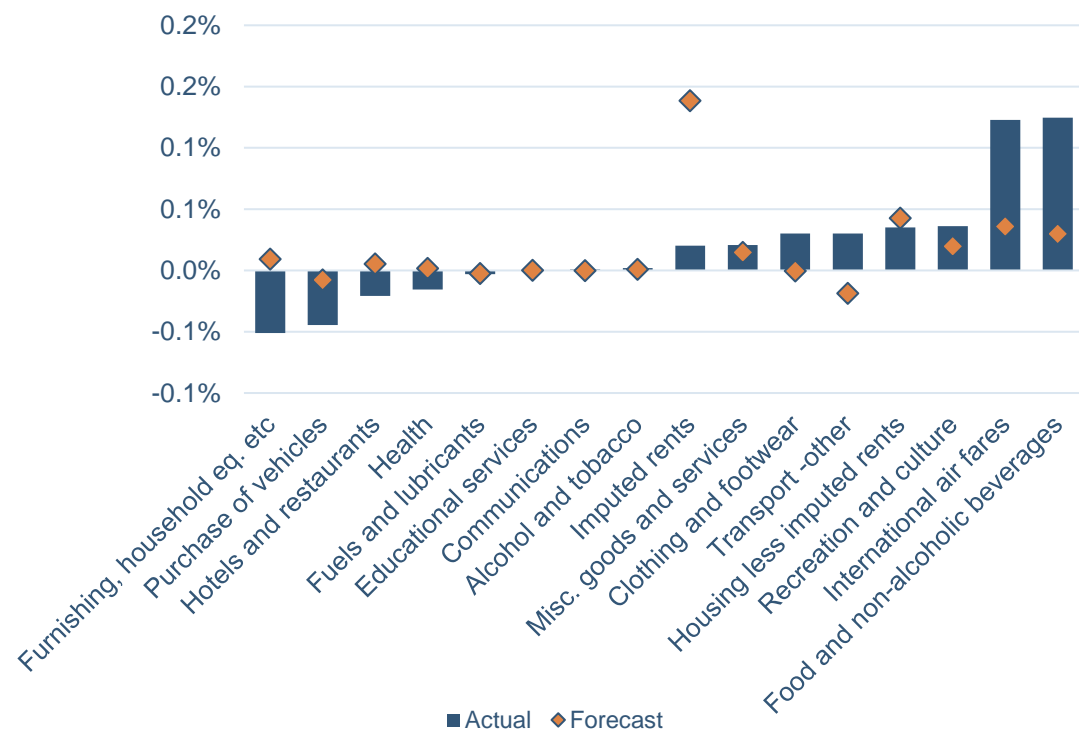
YoY change



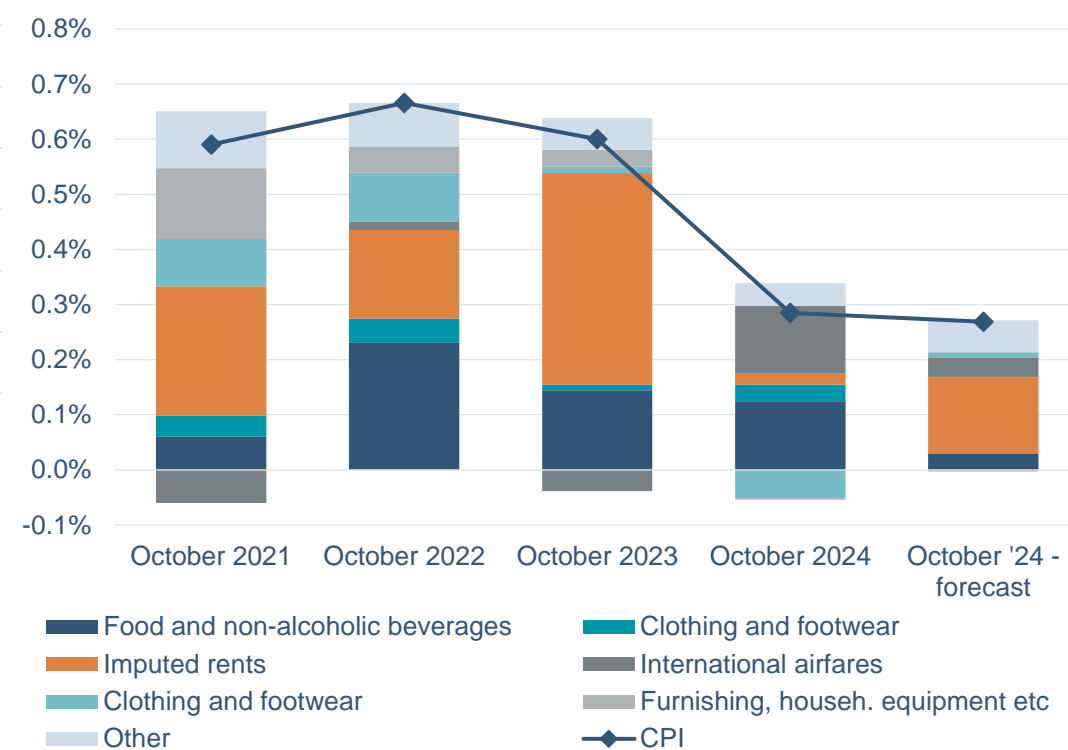
# MoM change in CPI

The MoM change in the CPI matched our forecast. We forecast a 0.27% increase in the index between months and that 12-month inflation would drop to 5.1%. While the value of the index almost exactly matched our forecast, changes to individual components did not. Groceries and international air fares rose more than we expected while imputed rent rose less.

## Contribution of components in October 2024



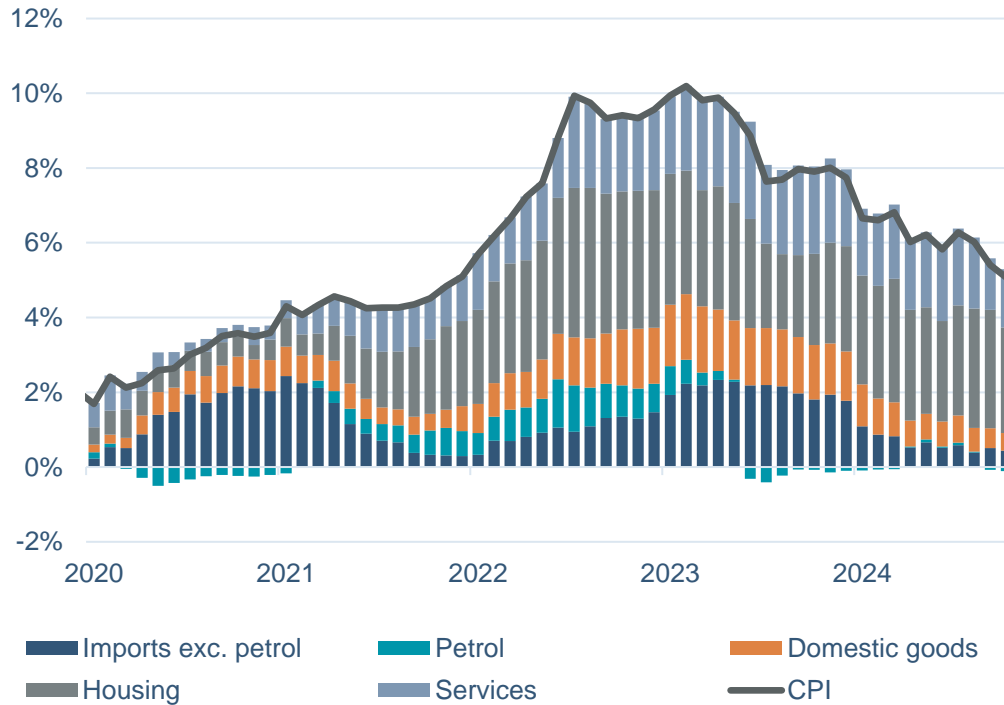
## Contribution of components in October



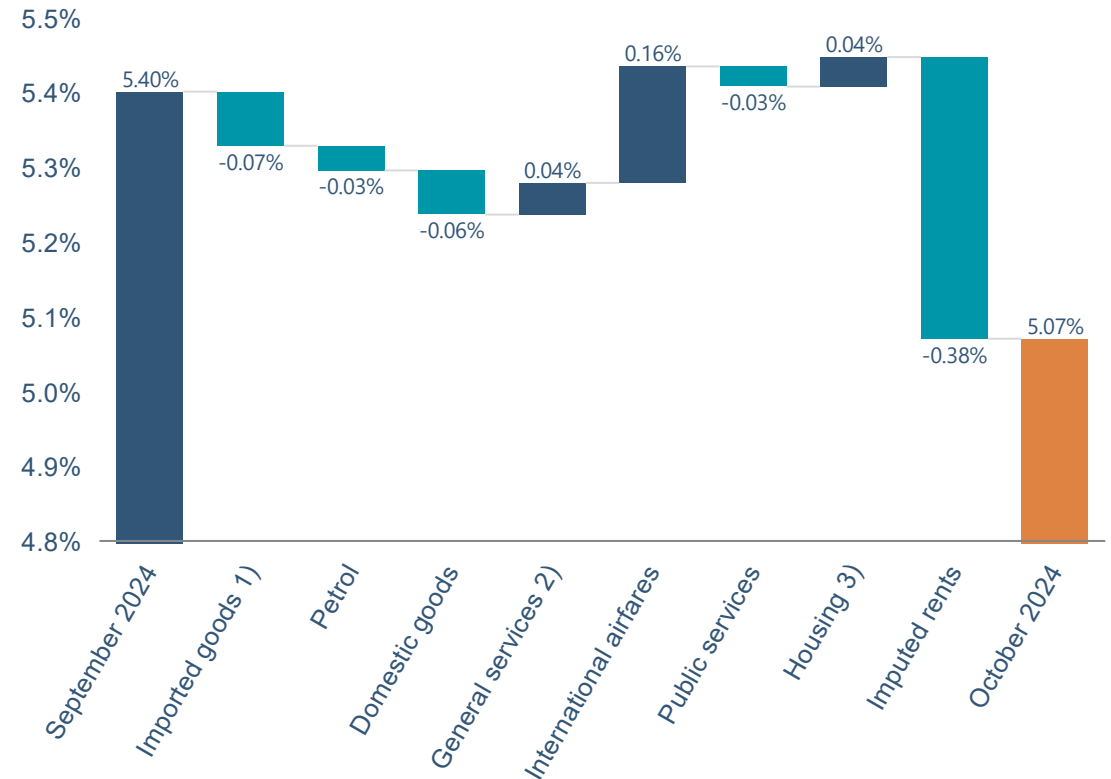
# Composition of annualised inflation

The main change to the composition of 12-month inflation between months was in the weight of imputed rent which decreased by 0.38 percentage points, more than the change in 2-month inflation. This is because imputed rent only grew by 0.1% between months this year as compared to 2.0% in October of last year. The weight of international air fares rose slightly as air fares increased more between months this year than in October 2023.

**Inflation by type and origin**  
YoY change and weight of components



**Change in inflation**



1) Imports less petrol 2) General services less canteens and int. air fares 3) Housing less imputed rent  
Source: Statistics Iceland

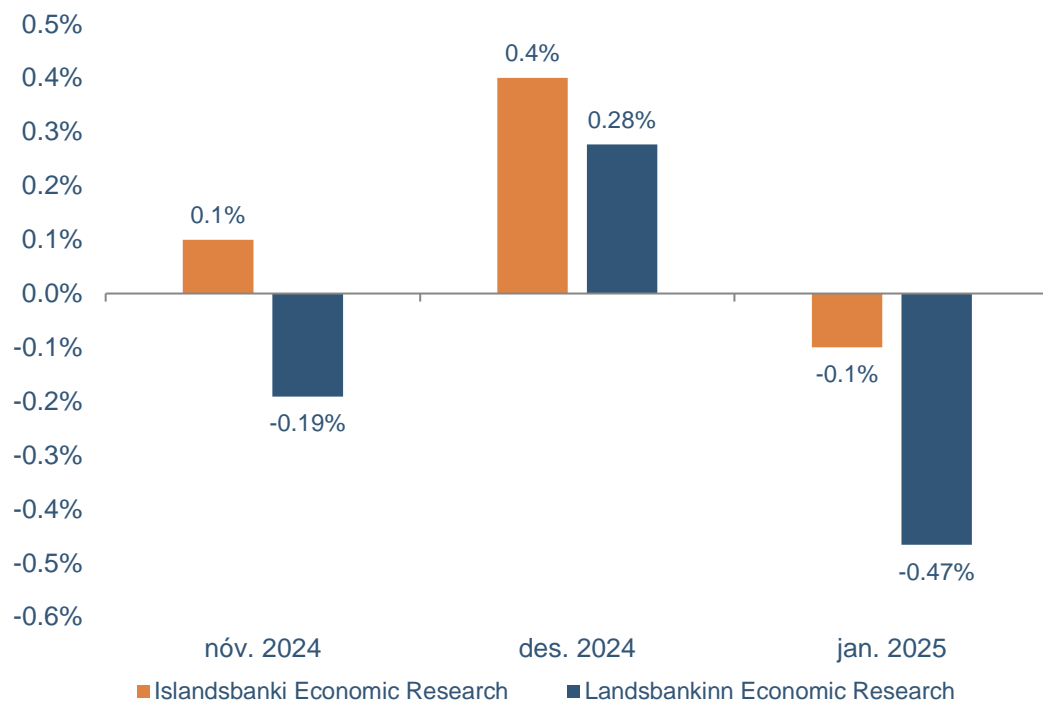


# Inflation forecast

We expect 12-month inflation to measure 4.5% in November, 4.3% in December and 4.0% in January of next year. The forecast has been adjusted slightly downwards compared to our last inflation forecast, published before the October CPI publication. A lower forecast for imputed rent in the coming months is the main difference.

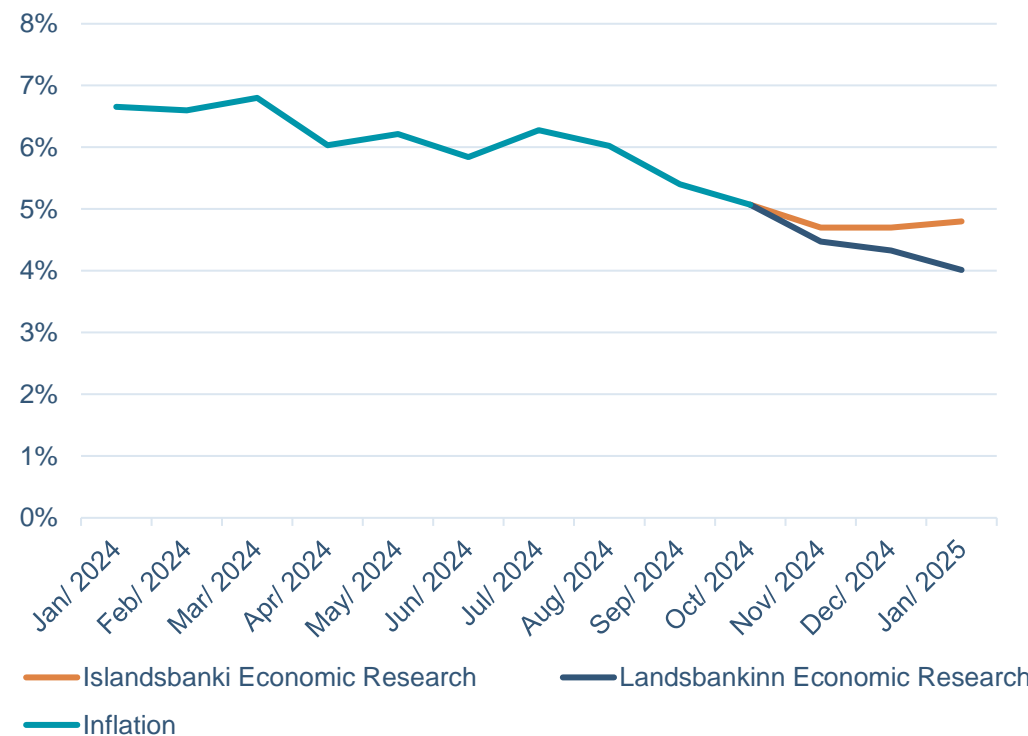
## Inflation forecasts

MoM change



## Inflation forecasts

12M inflation



# Kilometre fee rolled into CPI

## Statistics Iceland reasoning

- The fee is for road use, charged per driven kilometre.
- Statistics Iceland considers the fee to be a road-usage fee and as such rolls it into the CPI.
- This fee differs from the fee adopted at the beginning of last year, on electric cars and plug-in hybrids. That was a tax on specific car types rather than a fee for road usage.
- This is different to the cancellation of the National Broadcasting Company use charge in favour of a broadcasting levy. The broadcasting levy was charged regardless of usage.

## Impact on CPI:

- Petrol and diesel fees will be cancelled, having a lowering impact on the CPI.
- The carbon emission fee will be raised, yet by how much is not yet clear.
- The kilometre fee is introduced, most likely under component "07248 Road fees" and will move the CPI upward.

No weight in the CPI; weights will be updated in January. All in all, these changes should not impact measured inflation, though the final procedures are not yet clear.

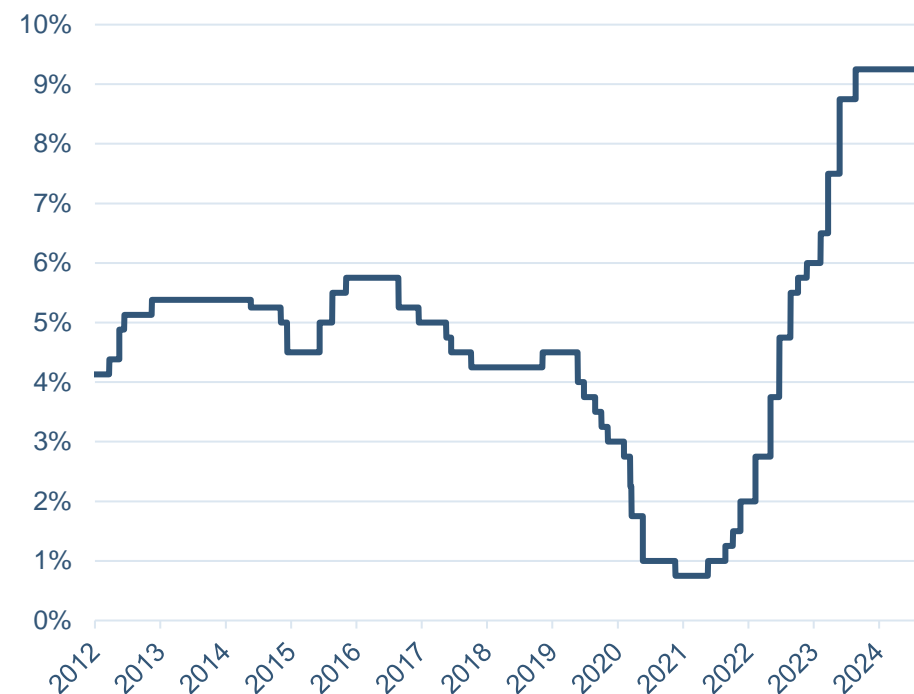
# Next policy rate decision at the end of the month

All MPC members voted for the Governor's proposal to lower the CBI's key interest rate by 0.25 percentage points, although one Committee member would have preferred to hold the rate unchanged. This was a more harmonious decision than we had expected. The next policy rate decision will be announced on Wednesday 20 November.

## MPC interest rate decisions

Date	Prop.	For	Against	Other option	Conclusion	Key interest rate
9 Feb. 2022	+0.75%	ÁJ, RS, GJ, GZ, KÓ			+0.75%	2.75%
4 May 2022	+1.00%	ÁJ, RS, GJ, GZ, HS			+1.00%	3.75%
22 June 2022	+1.00%	ÁJ, RS, GJ, GZ, HS		GZ (+1.25%)	+1.00%	4.75%
24 Aug 2022	+0.75%	ÁJ, RS, GJ, GZ, HS		GZ (+1.00%)	+0.75%	5.50%
5 Oct. 2022	+0.25%	ÁJ, RS, GJ, GZ, HS			+0.25%	5.75%
23 Nov. 2022	+0.25%	ÁJ, RS, GJ, GZ, HS		GZ (+0.50%)	+0.25%	6.00%
8 Feb. 2023	+0.50%	ÁJ, RS, GJ, GZ, HS		HS (+0.75%)	+0.50%	6.50%
22 March 2023	+1.00%	ÁJ, RS, GJ, ÁÓP, HS			+1.00%	7.50%
24 May 2023	+1.25%	ÁJ, RS, ÁÓP, HS	GJ (+1.00%)		+1.25%	8.75%
23 Aug 2023	+0.50%	ÁJ, RS, ÁÓP, HS	GJ (+0.25%)		+0.50%	9.25%
4 Oct. 2023	Unch.	ÁJ, RS, GJ, ÁÓP	HS (+0.25%)	ÁÓP (+0.25%)	Unch.	9.25%
22 Nov. 2023	Unch.	ÁJ, RS, GJ, ÁÓP, HS			Unch.	9.25%
7 Feb 2024	Unch.	ÁJ, RS, ÁÓP, HS	(-0.25%)		Unch.	9.25%
20 March 2024	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		óbr.	9.25%
8 May 2024	Unch.	ÁJ, RS, ÁÓP, HS	AS (-0.25%)		Unch.	9.25%
21 Aug 2024	Unch.	ÁJ, RS, TB, ÁÓP, HS			Unch.	9.25%
2 Oct. 2024	-0.25%	ÁJ, RS, TB, ÁÓP, HS		HS (Unch.)	-0.25%	9.00%
20 Nov. 2024						

## Key interest rate of the Central Bank of Iceland



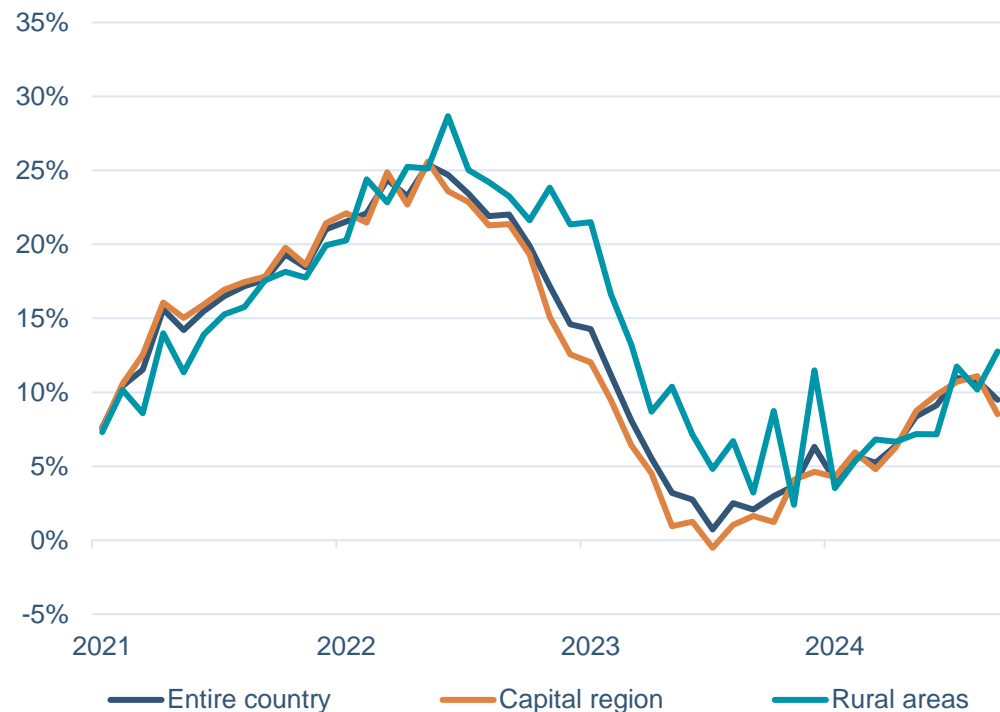


# Housing price index

The housing price index fell by 0.28% in September, decreasing for the first time since January. This brought the 12-month increase down from 10.8% to 9.5%. The 12-month increase is higher in rural Iceland (12.8%) than in the capital region (8.5%). Housing price increases continue to exceed general price level increases considerably. We caution against reading too much into individual price measurements and continue to forecast slow price hikes in the coming months.

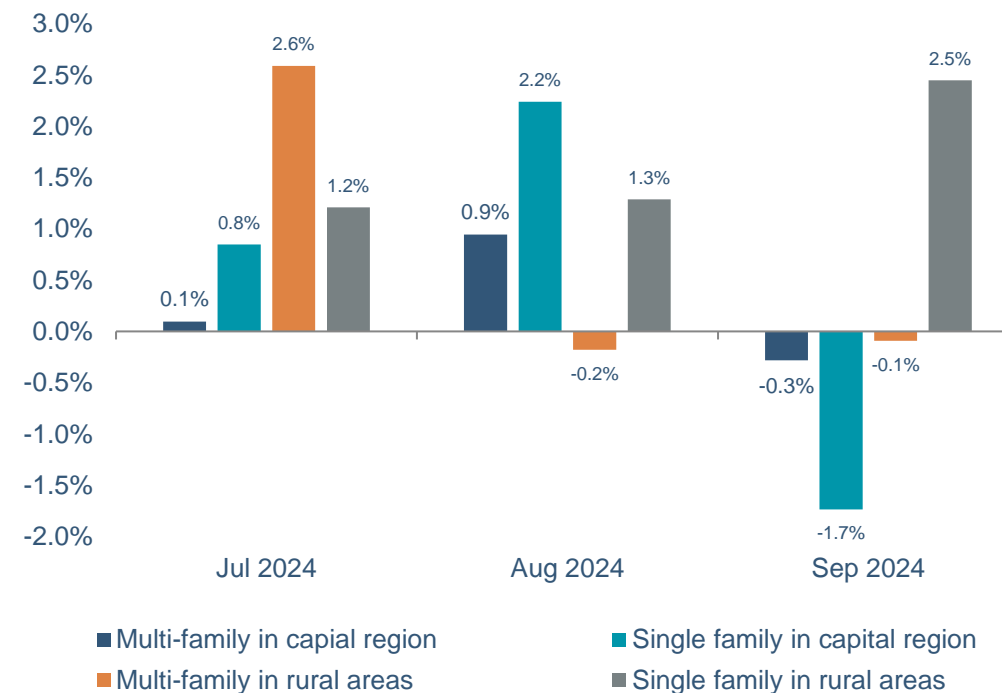
## Housing price index

YoY change



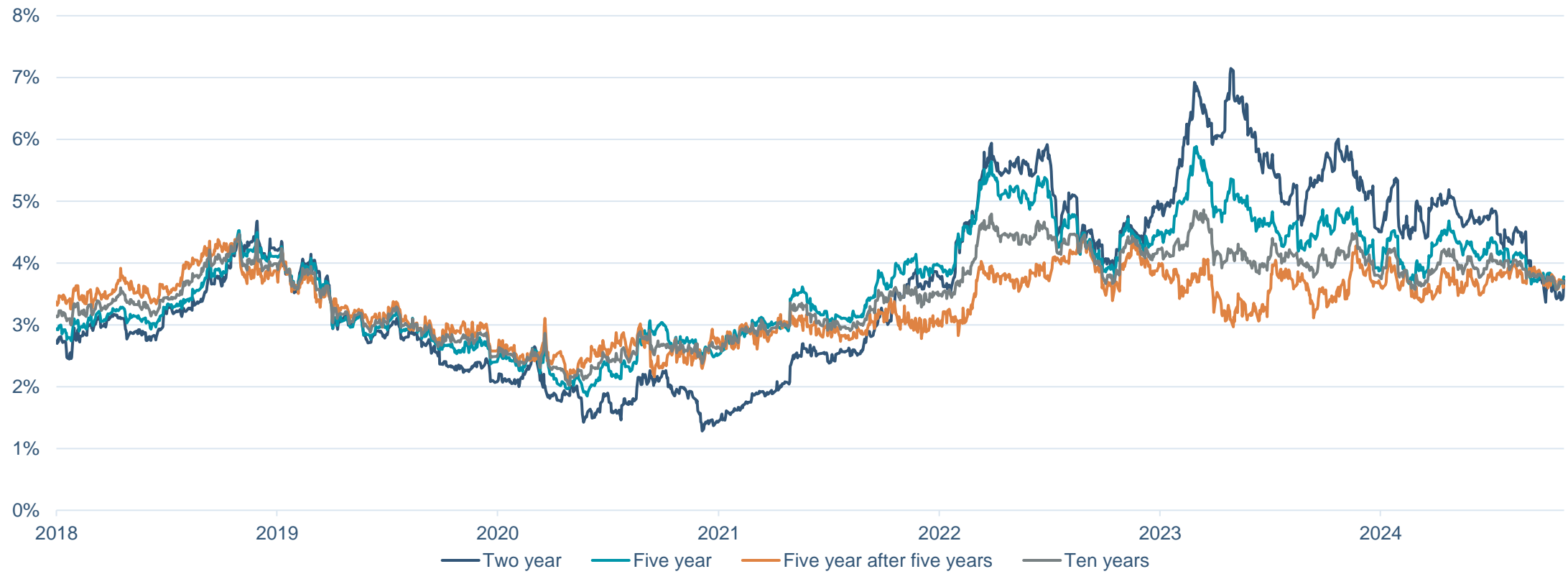
## Past three months

MoM change



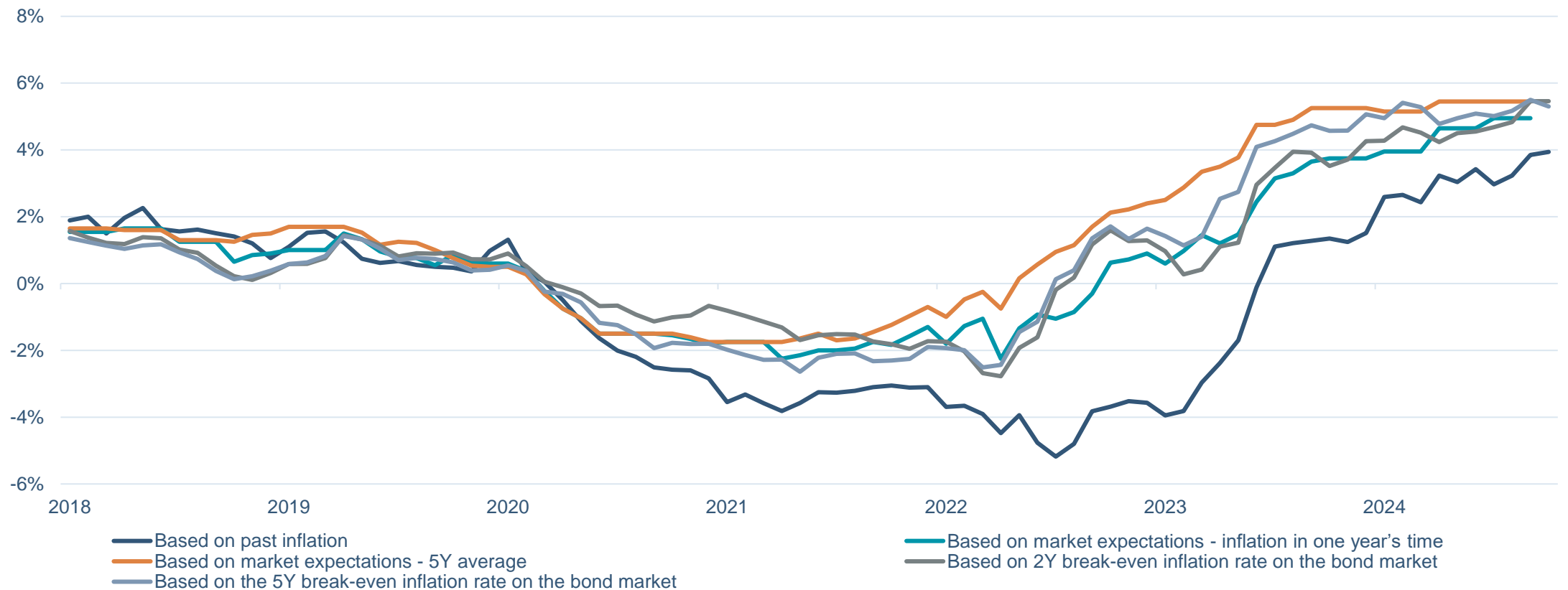
# Break-even inflation rate on the bond market

The short-term break-even inflation rate rose somewhat after Statistics Iceland announced that the kilometre fee would be rolled into the CPI and is currently more or less the same for two, five and ten years. At the end of October, the 2Y rate was 3.8% (+0.4% intra month), 3.8% for 5Y (+0.2% intra month) and 3.7% for 10Y (unch. intra month). The 5Y after five years rate was 3.6% (-0.1% intra month) at the end of the month.



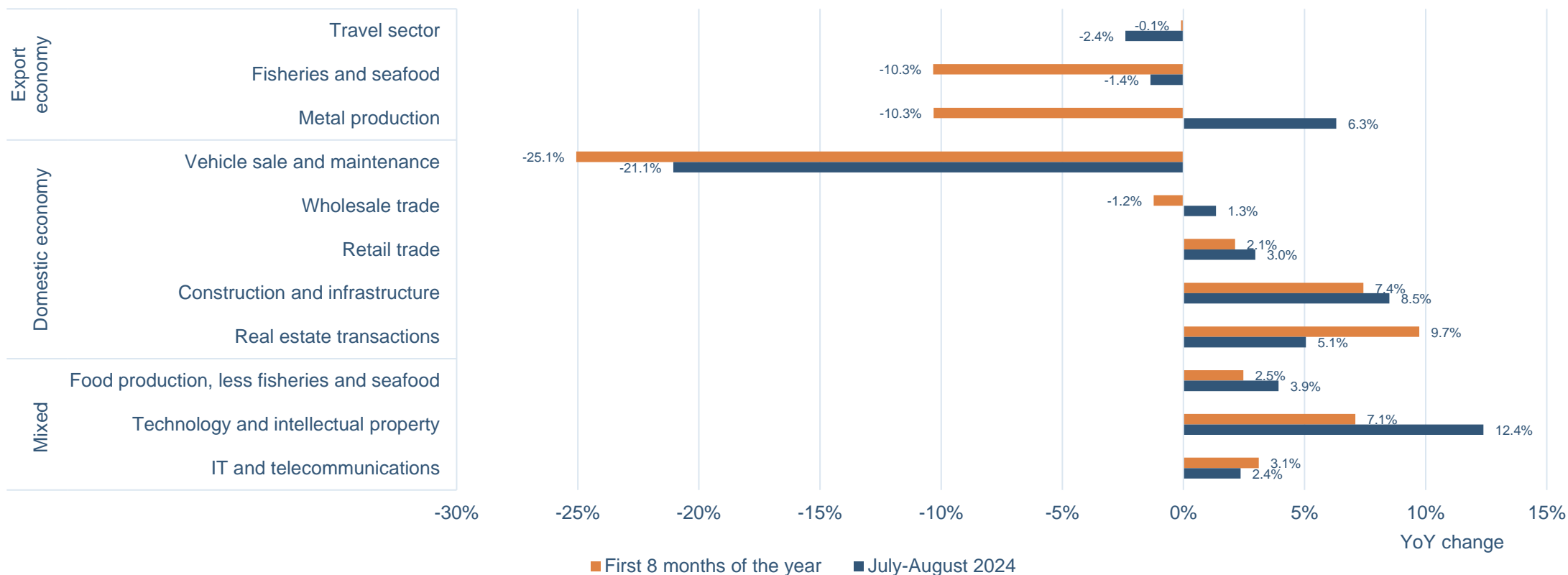
# Real policy rate

The real policy rate has increased in the past few months, by all measurements. Based on past inflation, the real interest rate is 3.9%, up by 2.4 percentage points since the beginning of the year. Based on inflation expectations, the real interest rate is between 5.0% and 5.5%.



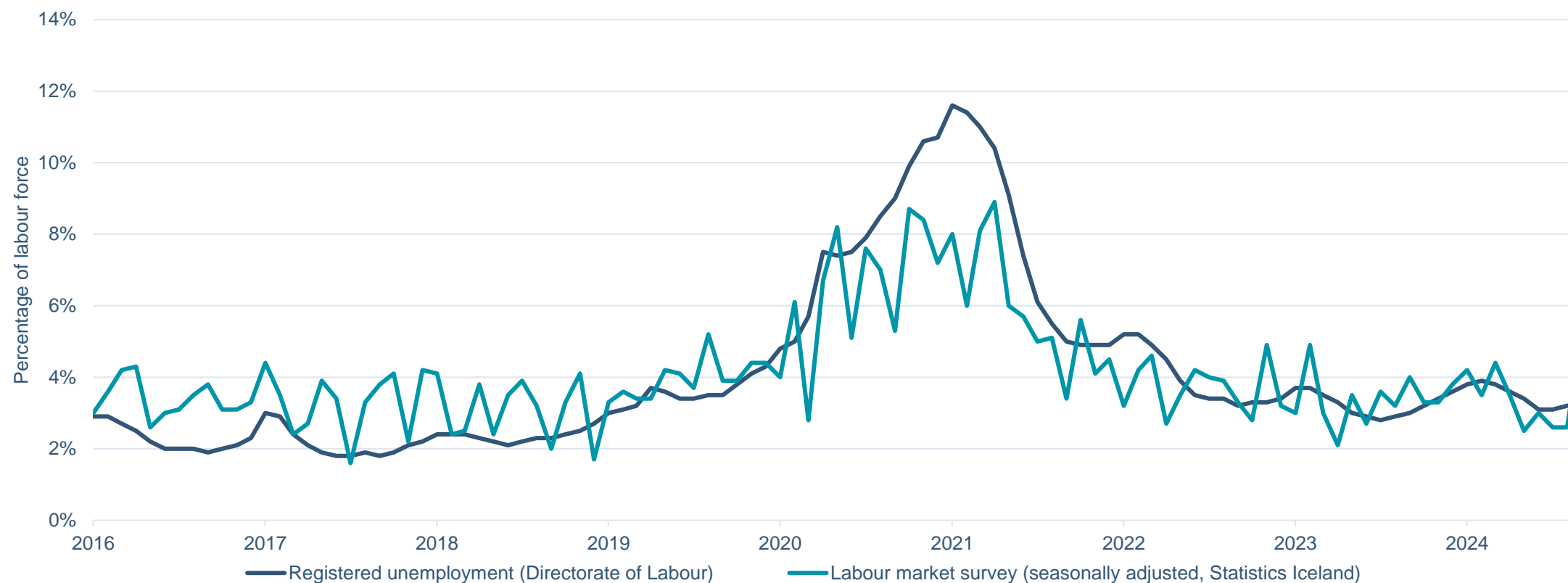
# Turnover by VAT reports

Turnover based on VAT reports grew by 2.1% year over year in July-August. Turnover in the travel sector contracted between years despite an increase in tourist numbers in the period and in payment card turnover. Higher turnover in aluminium was driven by higher aluminium prices. Domestically, turnover in vehicle sales and maintenance continued to contract while growing in other sectors. Turnover in technology and intellectual property sectors grew significantly in line with continued export growth in the intellectual property sector.



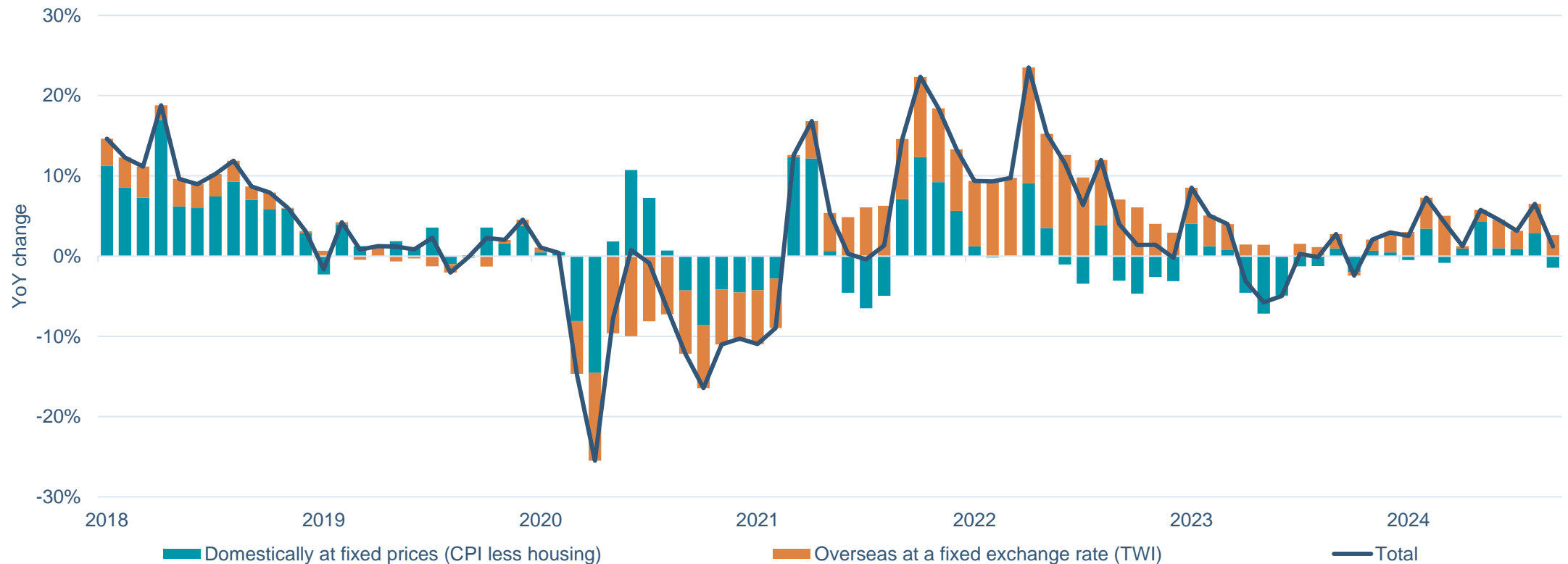
# Unemployment

Registered unemployment with the Directorate of Labour was 3.3% in September and is slightly higher than the same time last year, when it was 3.0%. Registered unemployment has been around 0.3 percentage points higher than the previous year in the past three months. Seasonally adjusted unemployment according to the labour market survey of Statistics Iceland doubled between months in September, from 2.6% to 5.2%. The labour market survey is a sample survey, and its results tend to fluctuate quite a lot between months, making individual results less reliable.



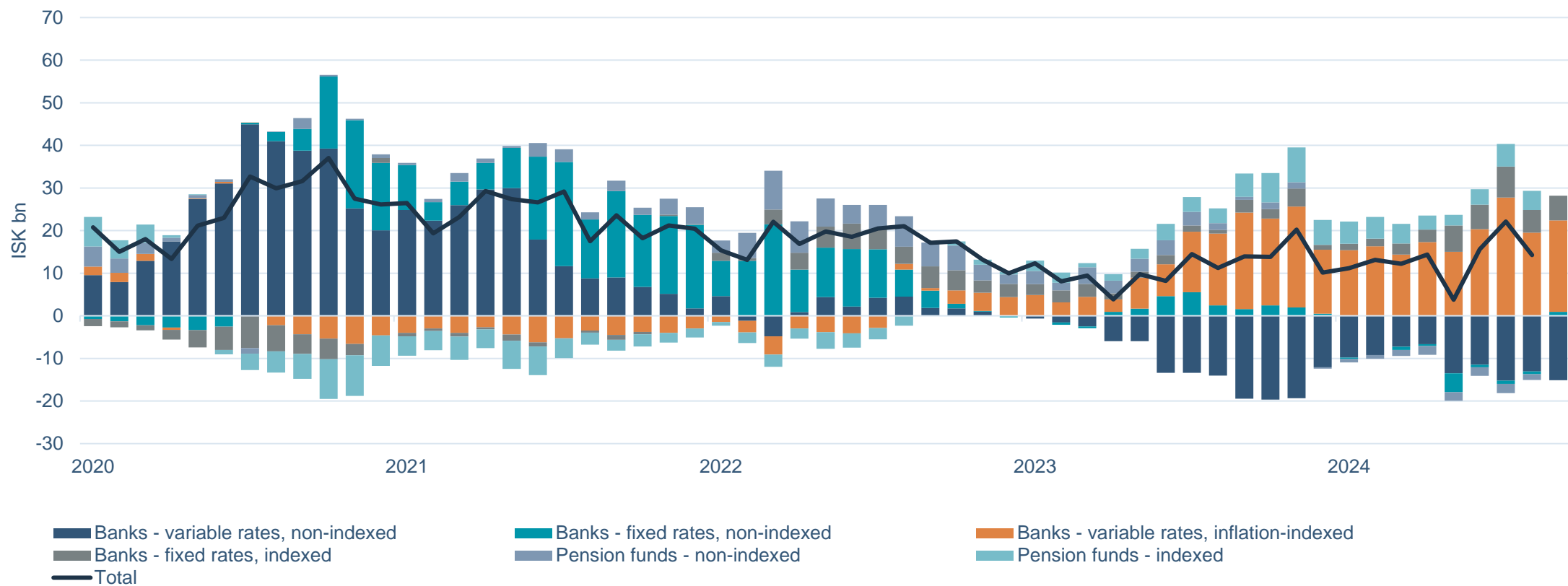
# Payment card turnover of Icelandic households

The total payment card turnover by Icelandic households was ISK 120.8 bn in September and is up by 1.2% between years, having regard for price and exchange rate changes. While Icelandic payment card turnover overseas remains strong, it finally appears to be slowing down domestically. Domestic payment card turnover contracted for the first time since March and total payment card turnover increased less than in the most recent months. We avoid reading too much into data from individual months, especially as consumption still appears strong, reflected for instance in growing household deposits.



# New housing mortgages

Net new mortgages by deposit institutions amounted to ISK 11 bn in September, whereof net new inflation-indexed mortgages were ISK 25 bn and net retirement of non-indexed mortgages were ISK 14 bn.

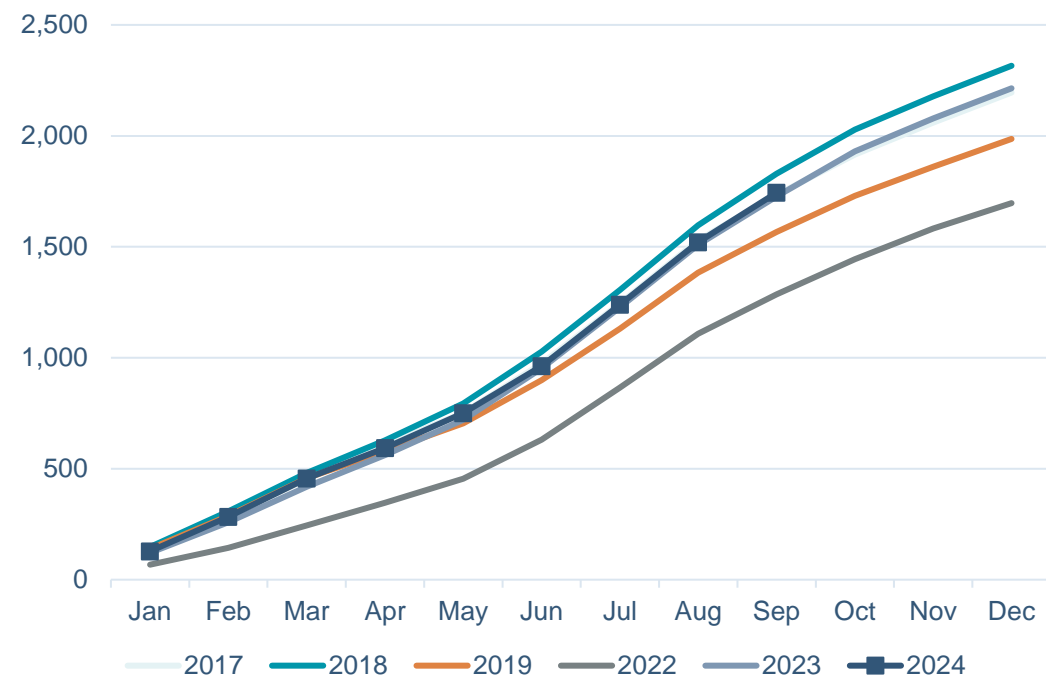


# The travel sector

Around 223,000 non-domestic travellers passed through Keflavík International Airport in September, a 2.2% increase from August 2023. In the first 9 months of the year, departures were 1,744,000, a 1.0% increase from the same period in 2023. In September, non-domestic payment card turnover grew by 6.9% between years at fixed prices and by 4.9% at a fixed exchange rate. Overnight stays are up by 2.8% between years in September.

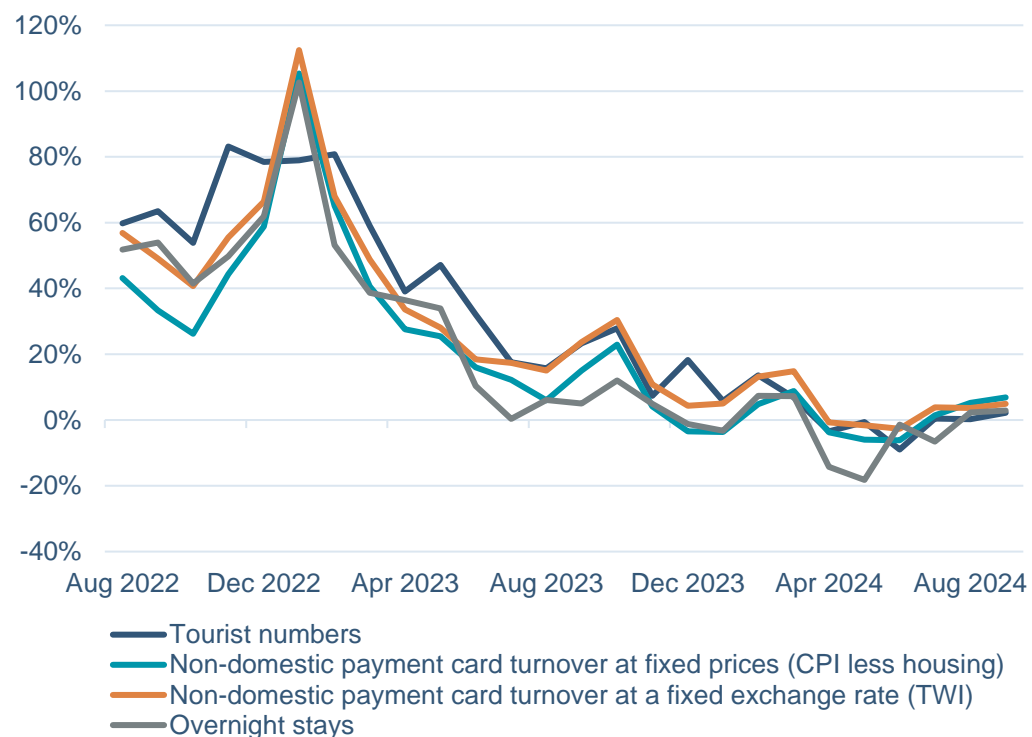
## Acc. tourist numbers

Thousand individuals



## Development of key indicators

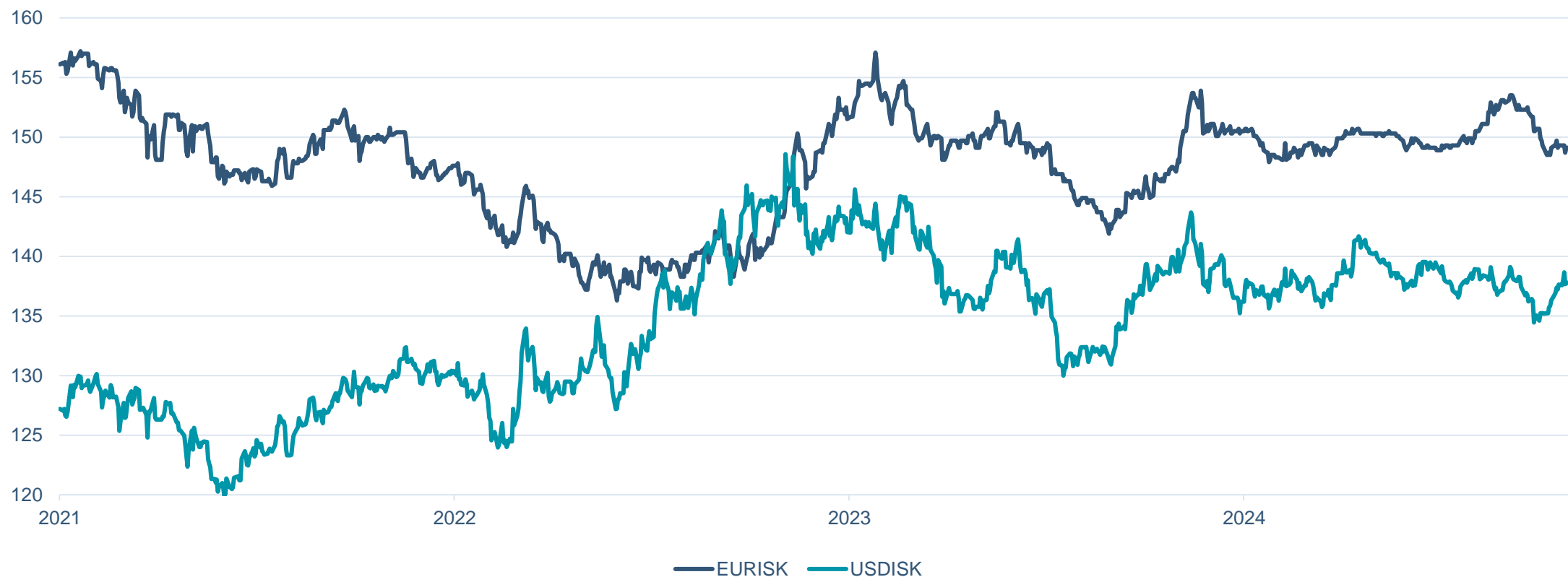
MoM change by month





# ISK exchange rate

The ISK appreciated against the euro while depreciating against the US dollar in October. At the end of the month, the euro stood at 148.9 (-1.2% intra month) and the USD at 136.8 (+1.7% intra month).



# CBI intervention in the FX market

The CBI last intervened the FX market in February when it purchased euros for ISK 9.2 bn to counter inflows from non-domestic investors buying Icelandic Treasury bond.

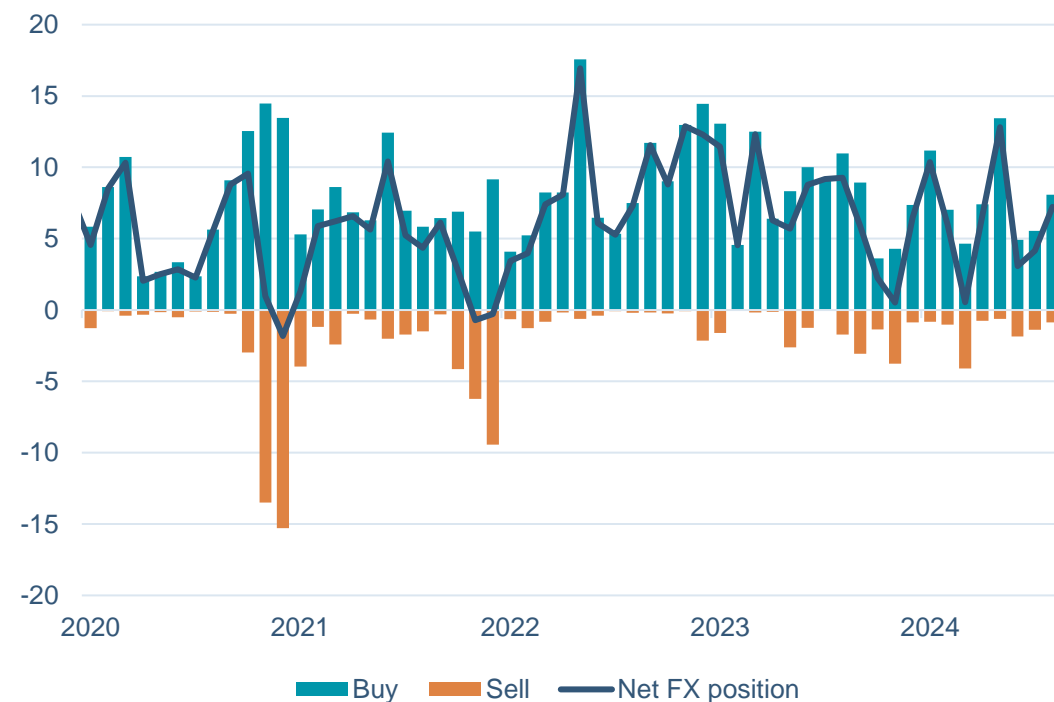


# Pension funds' fx transactions

Accumulated forex purchases by the pension funds in the first eight months of the year totals ISK 51 bn, slightly less than the same time last year, when total FX purchases amounted to ISK 68 bn, and in 2022, when the amount was ISK 59 bn.

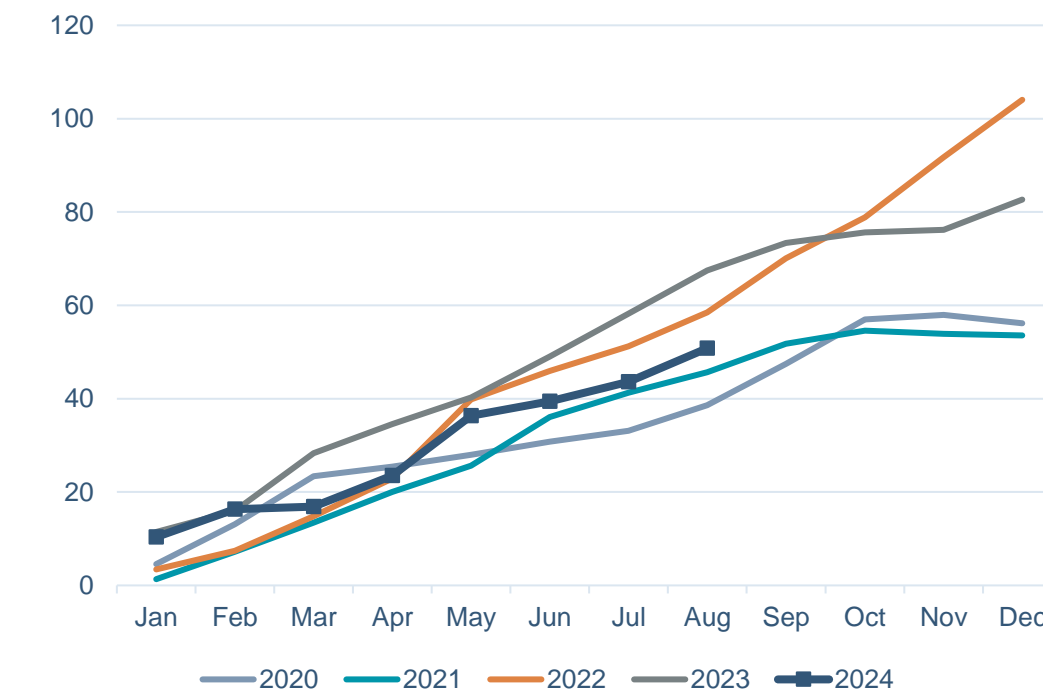
## Foreign currency transactions

ISK bn



## Accumulated inter year FX purchase

ISK bn



# Disclaimer

This review and/or summary is marketing material intended for information purposes and does not constitute financial advice or an independent financial analysis. This marketing material does not contain investment advice or independent investment analysis. The legal provisions that apply to financial advice and financial analysis do not apply to this content, including the ban on transactions prior to publication.

Information about the prices of domestic shares, bonds and/or indices is source from Nasdaq Iceland - the Stock Exchange. Landsbankinn's website contains further information under each individual equity, bond class or index. Information about the prices of non-domestic financial instruments, indices and/or funds are sourced from parties Landsbankinn considers reliable. Past returns are not an indication of future returns.

Information about the past returns of Landsbréf funds is based on information from Landsbréf. Detailed information about the historic performance of individual funds is available on Landsbankinn's website, including on returns for the past 5 years. Information about the past performance of funds show nominal returns, unless otherwise stated. If results are based on foreign currencies, returns may increase or decrease as a result of currency fluctuations. Past returns are not necessarily an indication of future returns.

Securities transactions involve risk and readers are encouraged to familiarise themselves with the Risk Description for Trading in Financial Instruments and Landsbankinn's Conflict of Interest Policy, available on Landsbankinn's website.

Landsbankinn is licensed to operate as a commercial bank in accordance with Act No. 161/2002, on Financial Undertakings, and is subject to supervision by the Financial Supervisory Authority of the Central Bank of Iceland ([www.sedlabanki.is/fjarmalaeftirlit](http://www.sedlabanki.is/fjarmalaeftirlit)).