



Economic Research Monthly Newsletter

December 2024

Landsbankinn Economic Research

Market events - December 2024

Monday	Tuesday	Wednesday	Thursday	Friday
2	3 Current account in Q3(HAG)	4 Minutes of the Monetary Policy Committee (SÍ) Statement of the Financial Stability Committee (SÍ)	5	6 Unemployment in the US
9	10 Departures from Keflavík International Airport in Nov. (FMST) Registered unemployment in Nov. (VMST)	11 Inflation in the US	12 ECB policy rate decision	13
16	17 Housing price index for Nov. (HMS) Payment mediation figures for Nov. (SÍ)	18 Rental price index for Nov. (HMS) Turnover based on VAT reports in Sept-Oct. (HAG) FED policy rate decision Inflation in the UK	19 Consumer price index for Dec. (HAG) Bank of England policy rate decision	20 Publication of economic indicators (SÍ)
23	24	25	26	27
30	31			

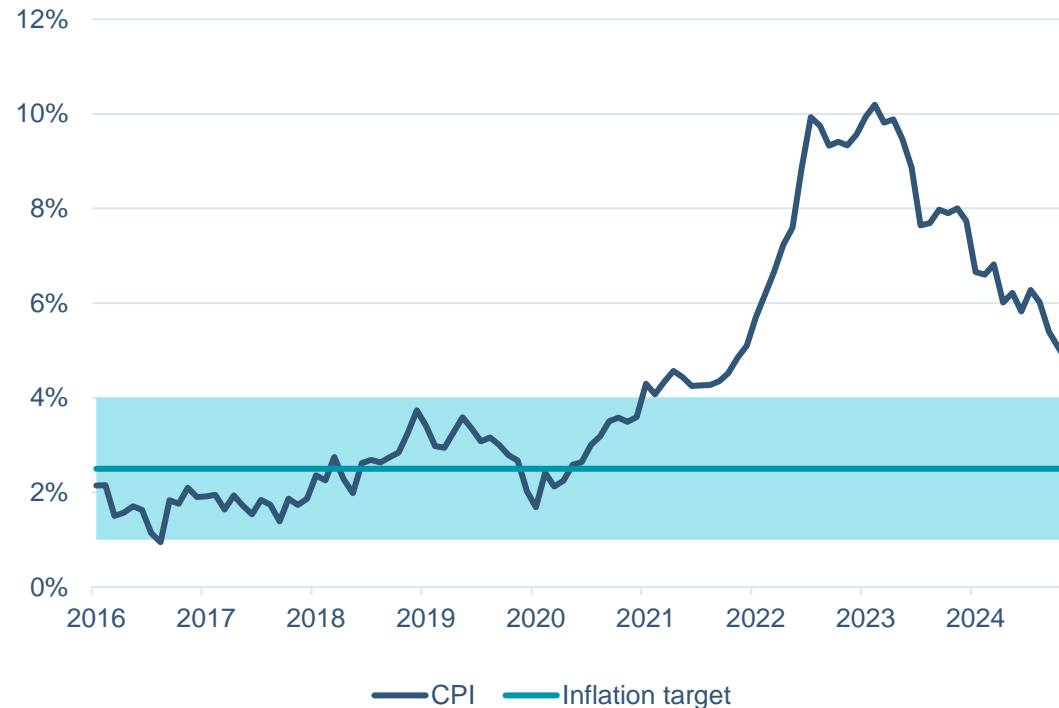


Inflation

The CPI rose by 0.09% between months in November, bringing 12M inflation down from 5.1% to 4.8%. The 12M increase in the index less housing and core inflation indices 1 and 2 decreased between months while core index 4 ticked upward.

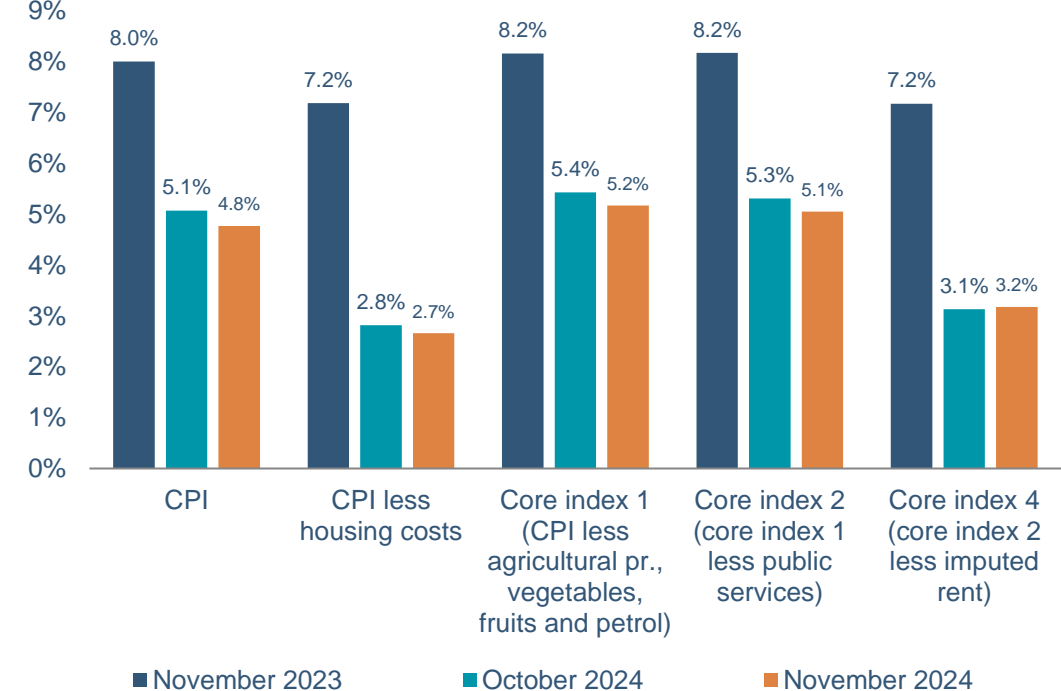
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

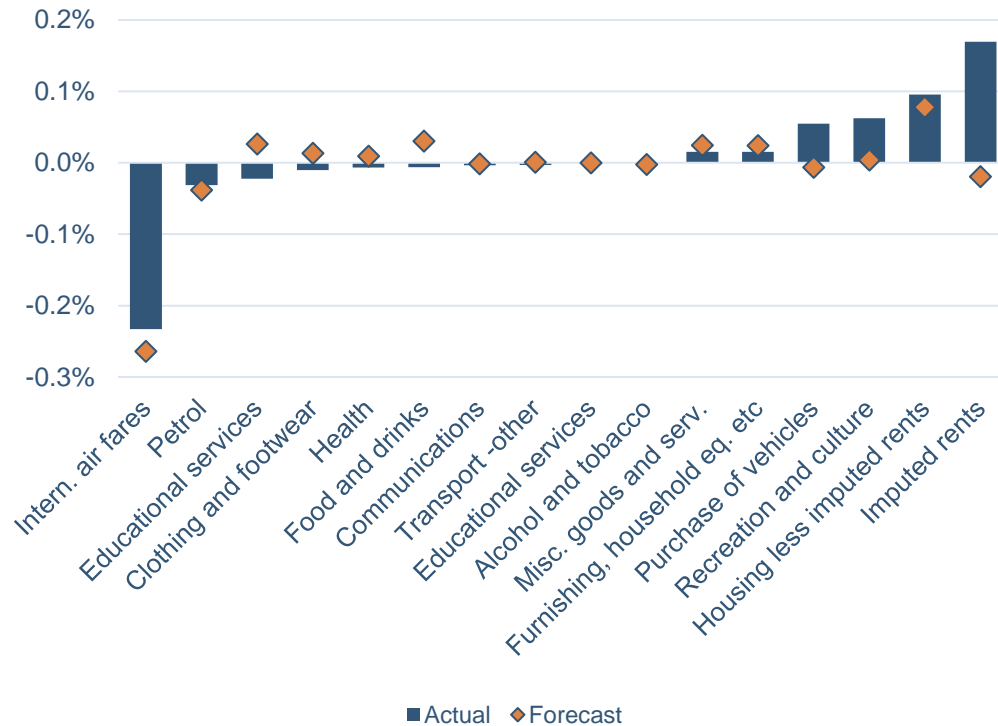
YoY change



MoM change in the CPI

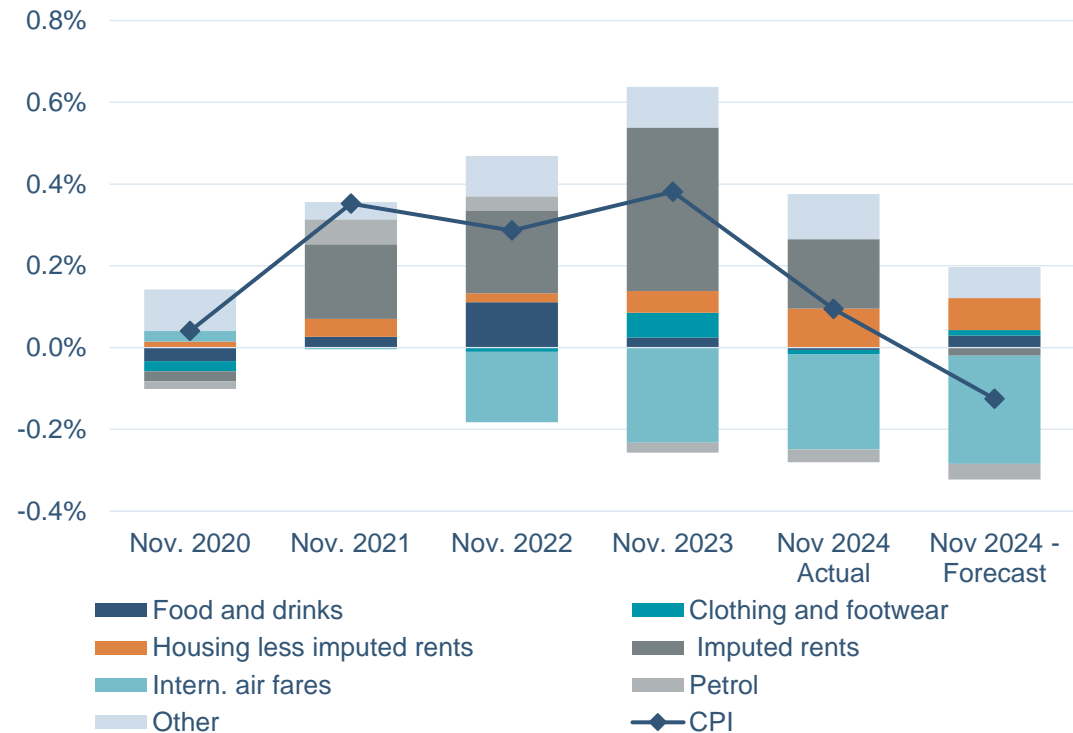
The November CPI was higher than we expected - we forecast a 0.13% decrease in the index between months and 12M inflation to drop to 4.5%. The main reason for the difference is imputed rent, which rose somewhat between months when we had expected a slight decline. Also, the food basket decreased between months when we had expected an increase, new car prices rose when we had forecast a slight decrease, and recreation and culture rose more than we expected.

Contribution of components in November



November measurement of CPI

YoY change and weight of components

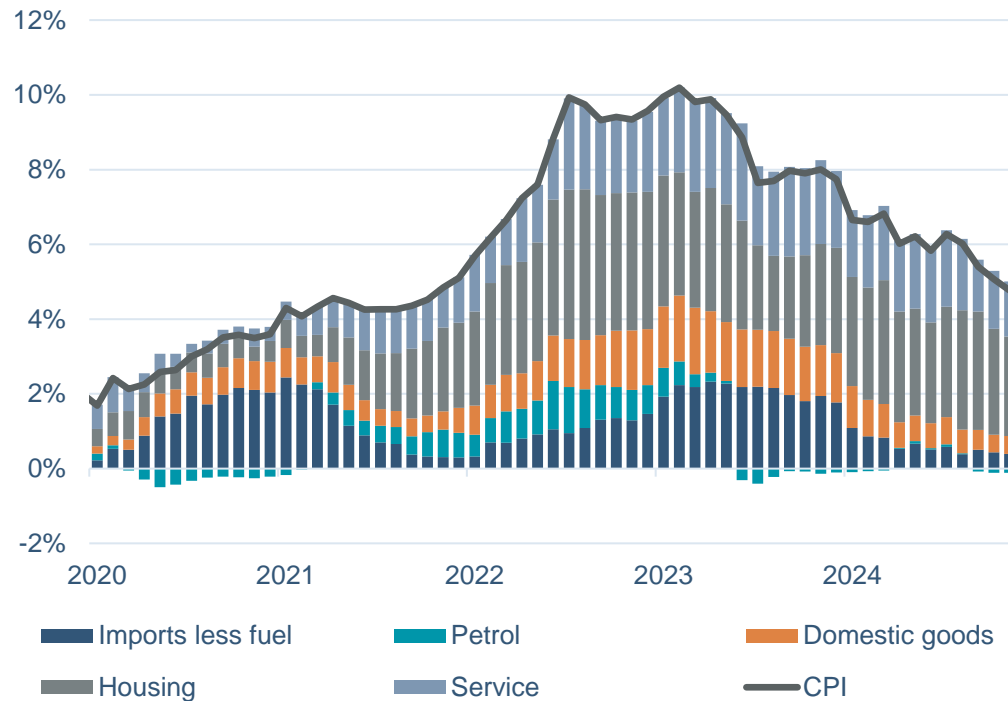


Composition of 12M inflation

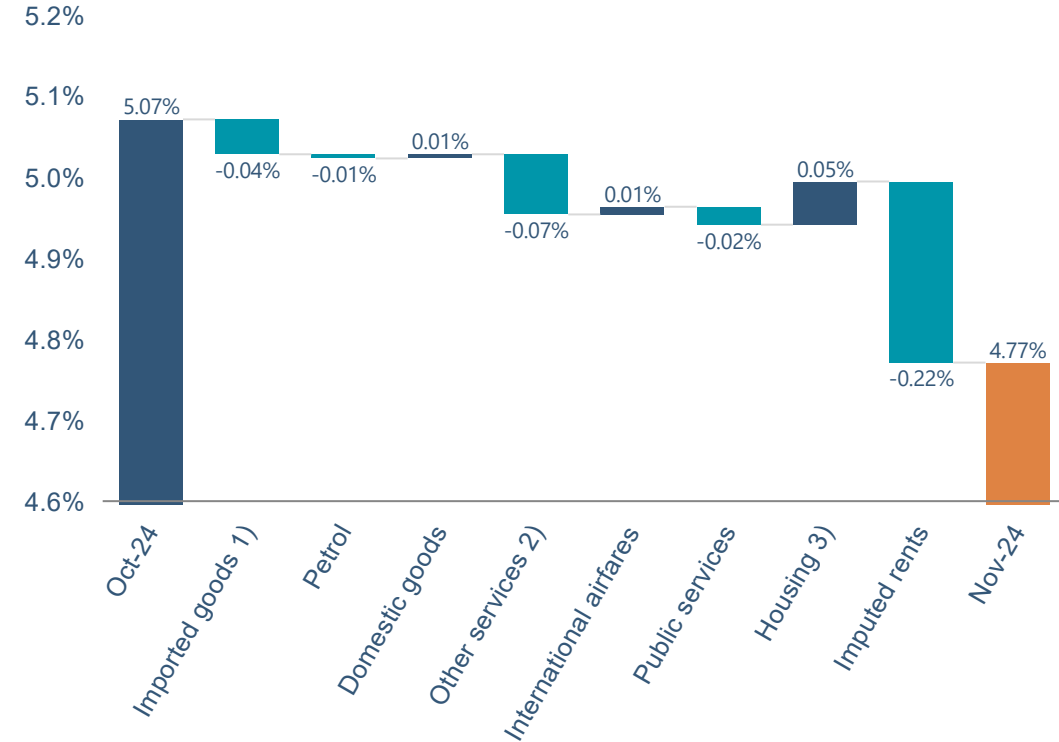
The main change to the composition of 12M inflation between months was the decreased weight of imputed rent. This is because imputed rent increased less now than the same time last year, by 0.9% MoM this year compared to 2.1% in November 2023. The contribution of imported goods, services and housing to 12M inflation decreased between months while the contribution of domestic goods grew.

Inflation by type and origin

YoY change and weight of components



Change in inflation



1) Imported goods less petrol. 2) General services less int. air fares. 3) Housing less imputed rent.

Source: Statistics Iceland

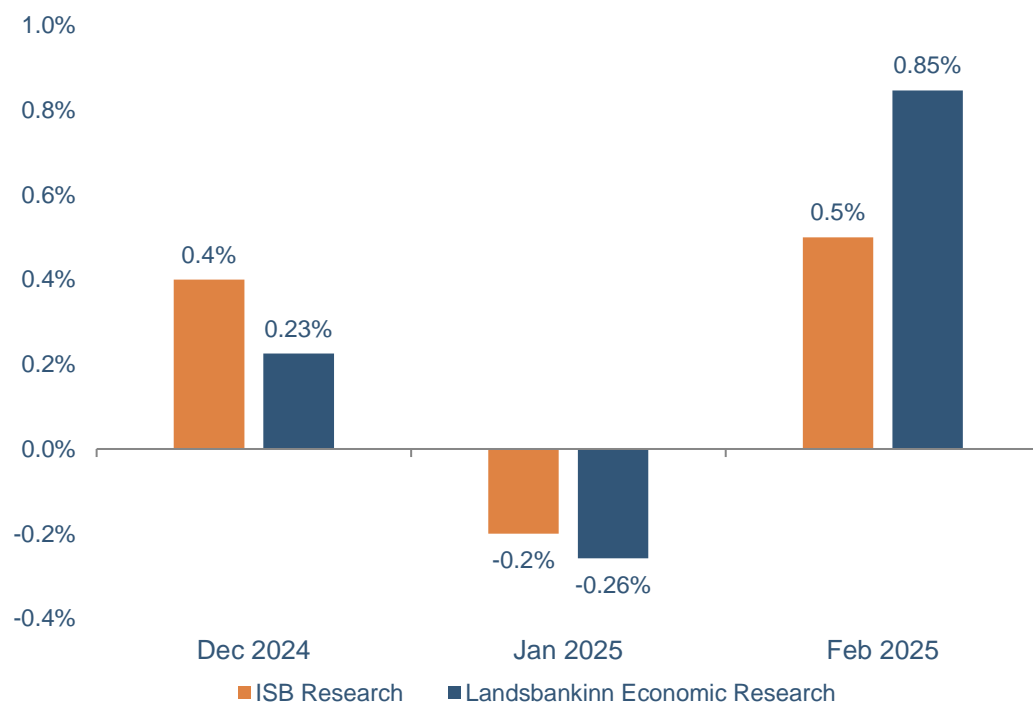


The outlook for the next months

We expect 12M inflation to be 4.6% in December, 4.5% in January and 4.0% in February. This forecast is higher than our last, published in the price measurement week, when we forecast 4.3% in December, 4.1% in January and 3.5% in February. The difference is mainly due to two factors. Firstly, our forecast is higher than we expected because of higher November figures and, secondly, we now expect a higher increase in imputed rent than before. As there is not a great deal of experience yet with Statistics Iceland's measurement of imputed rent, development of the component is hard to predict.

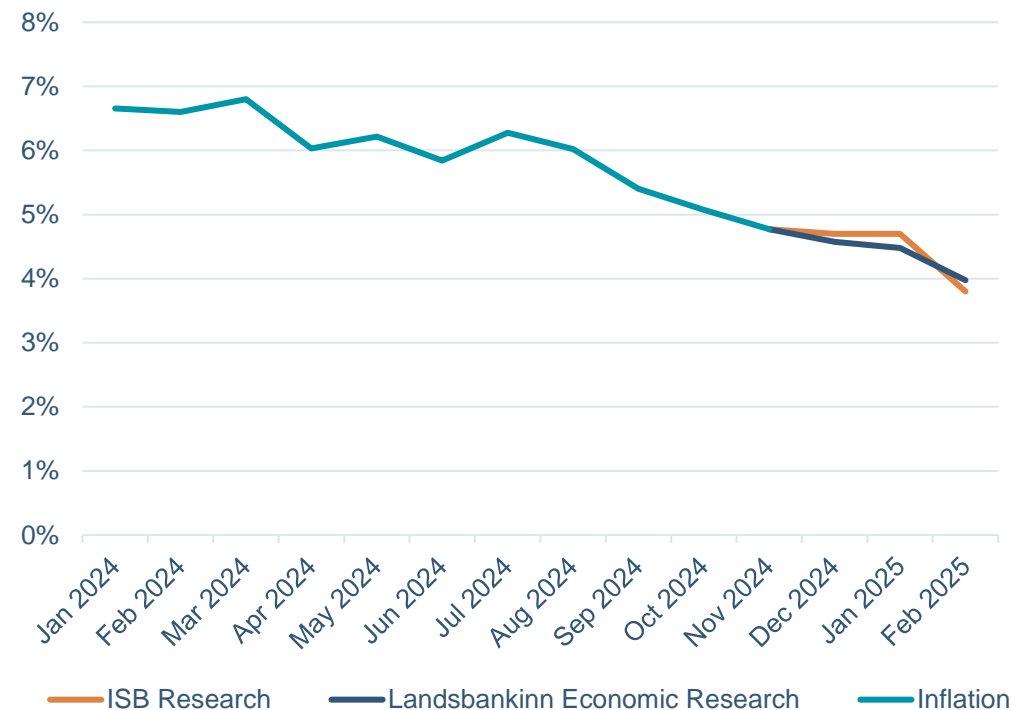
Inflation forecasts

YoY change



Inflation forecasts

12M inflation



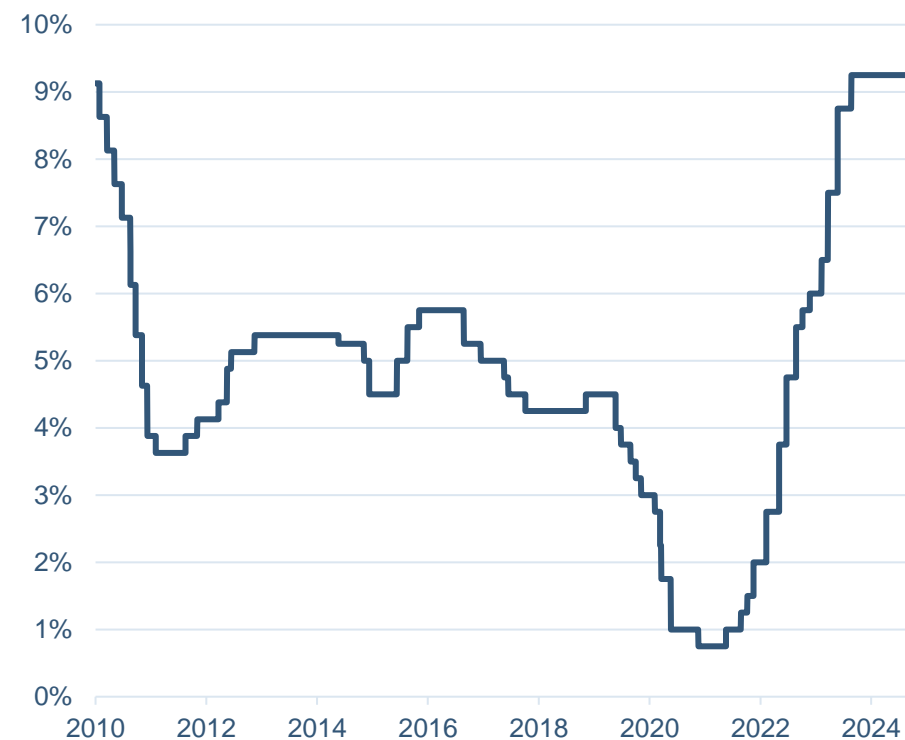
Policy rate

The Monetary Policy Committee lowered the policy rate by 0.50 percentage points at its November meeting, bringing the CBI's key interest rate, 7-day term deposits, to 8.50%. The decision was in line with our expectations. The next interest rate decision is scheduled for Wednesday, 5 February 2025, twelve weeks from the previous decision.

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%
04 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%)		Unch.	9.25%
08 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					-0.50%	8.50%

CBI key rate

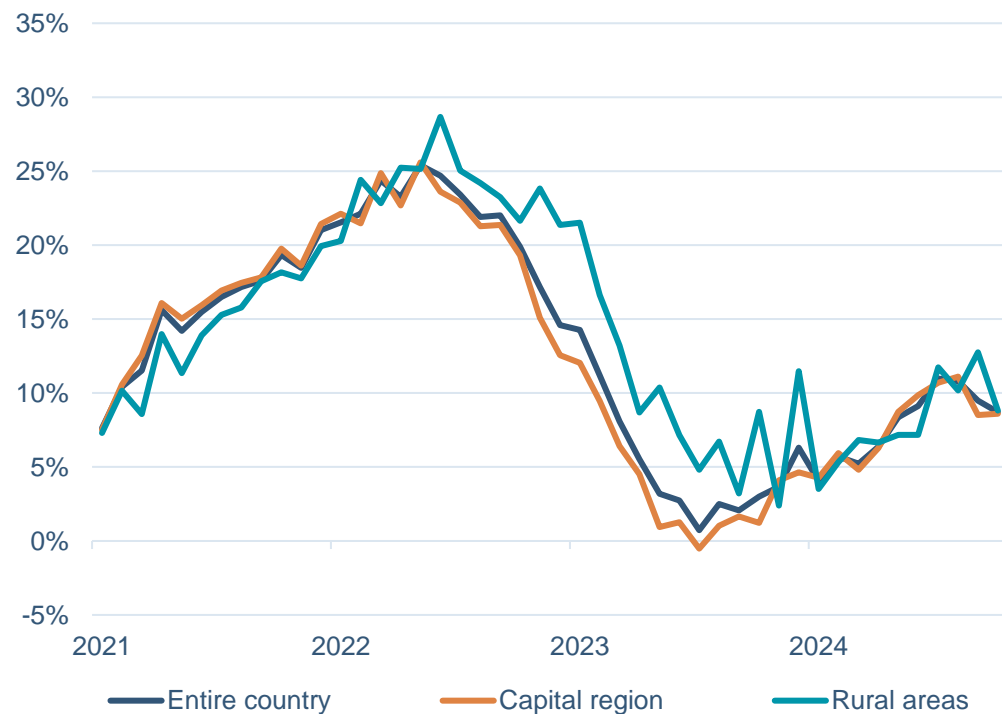


Housing price index

The housing price index rose by 0.18% between months in October. This brought the 12M increase down from 9.5% to 8.7%. This is the third month in a row in which the 12M increase dwindles between months. It peaked at 11.0% in July. The 12M increase is very similar in the capital city area (8.6%) and in rural Iceland (8.5%). Housing price increases on an annualised basis continue to exceed general price level increases considerably.

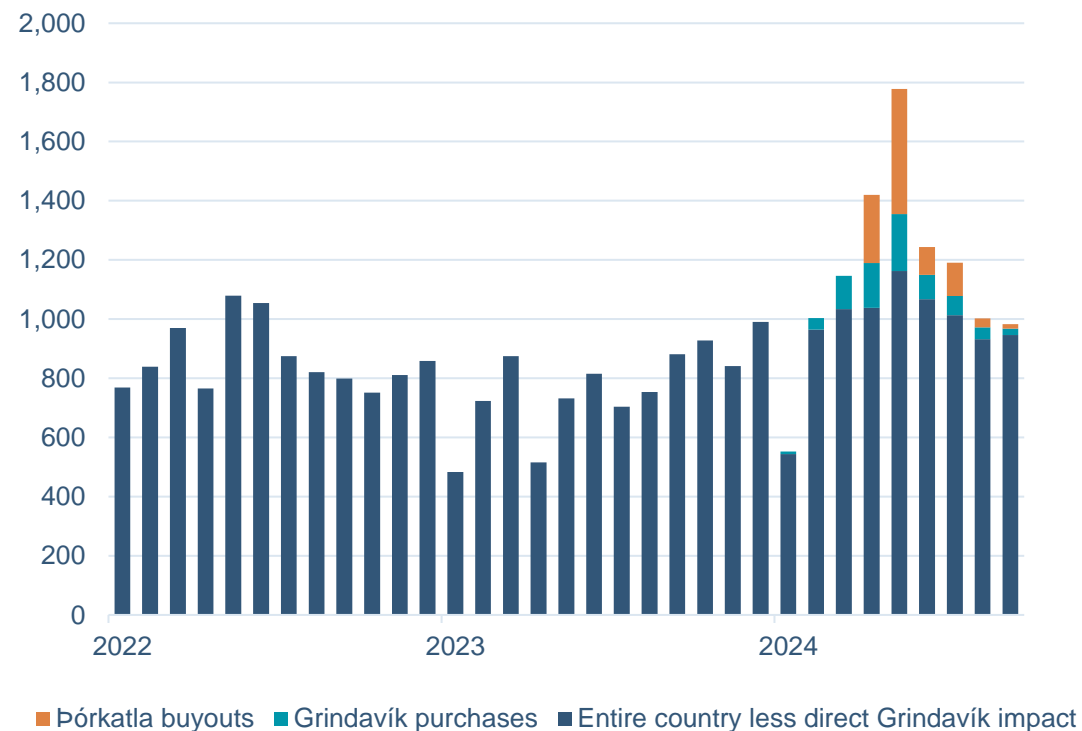
Housing price index

YoY change



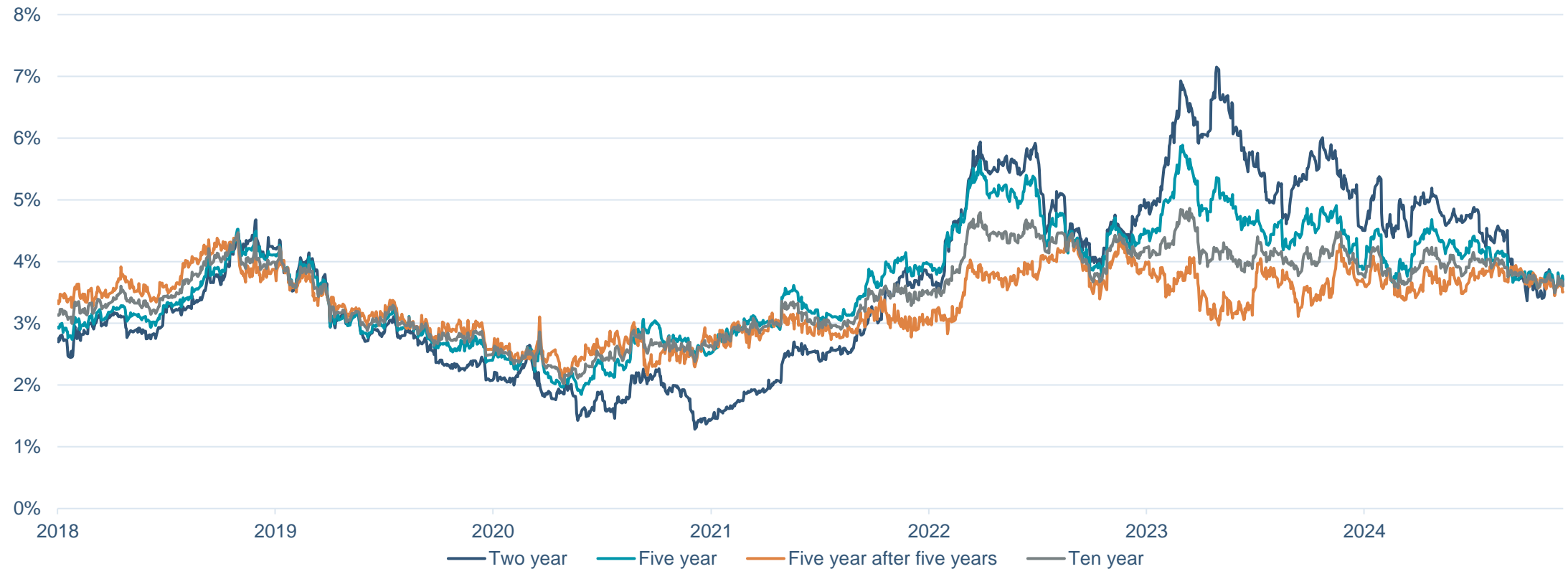
Signed purchase contracts

Number of contracts



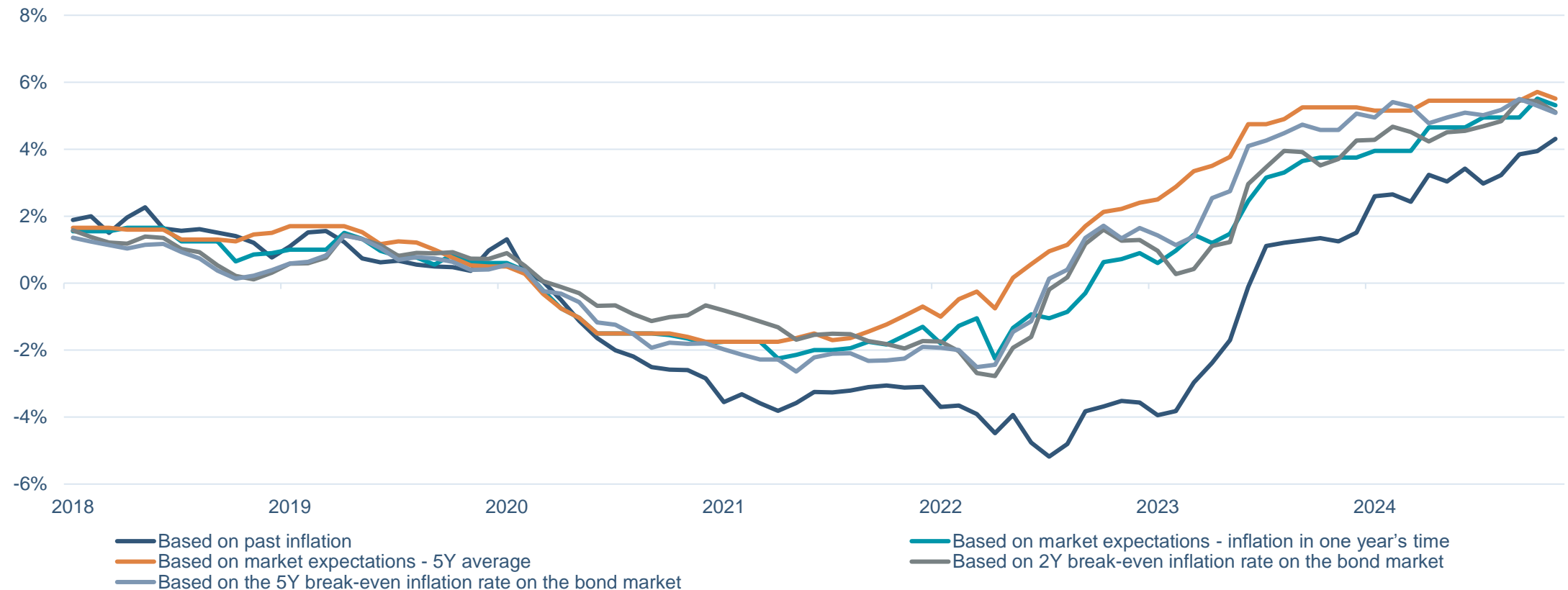
Inflation break even rate

At the end of November, the two-year break-even rate was 3.6% (-0.2% intra month), the five-year break-even rate was 3.7% (-0.1% intra month), and the ten-year break-even rate was 3.6% (-0.1% intra month). The five-year after five years break even rate was 3.5% (0.1% intra month).



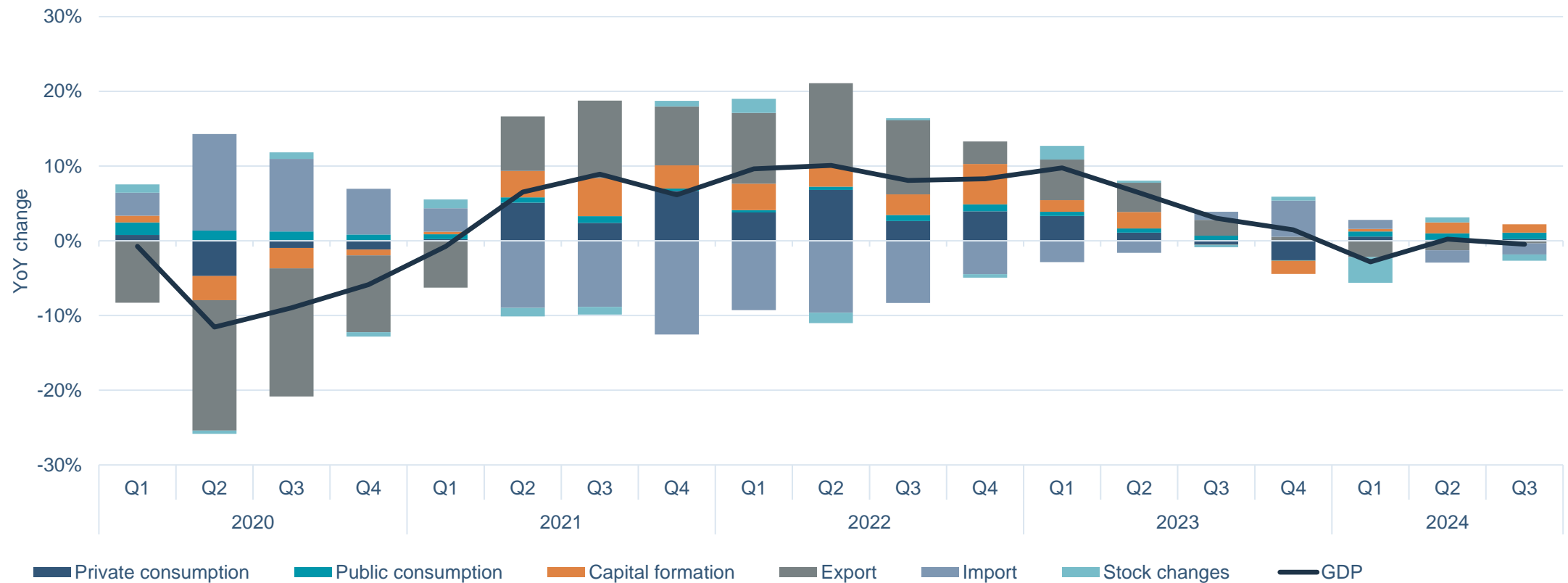
Real policy rate

The real policy rate has risen this year to date by all measurements. Based on past inflation, the real interest rate is 4.3%, up by 2.8 percentage points since the beginning of the year. Based on inflation expectations, the real interest rate is between 5.1% and 5.3%.



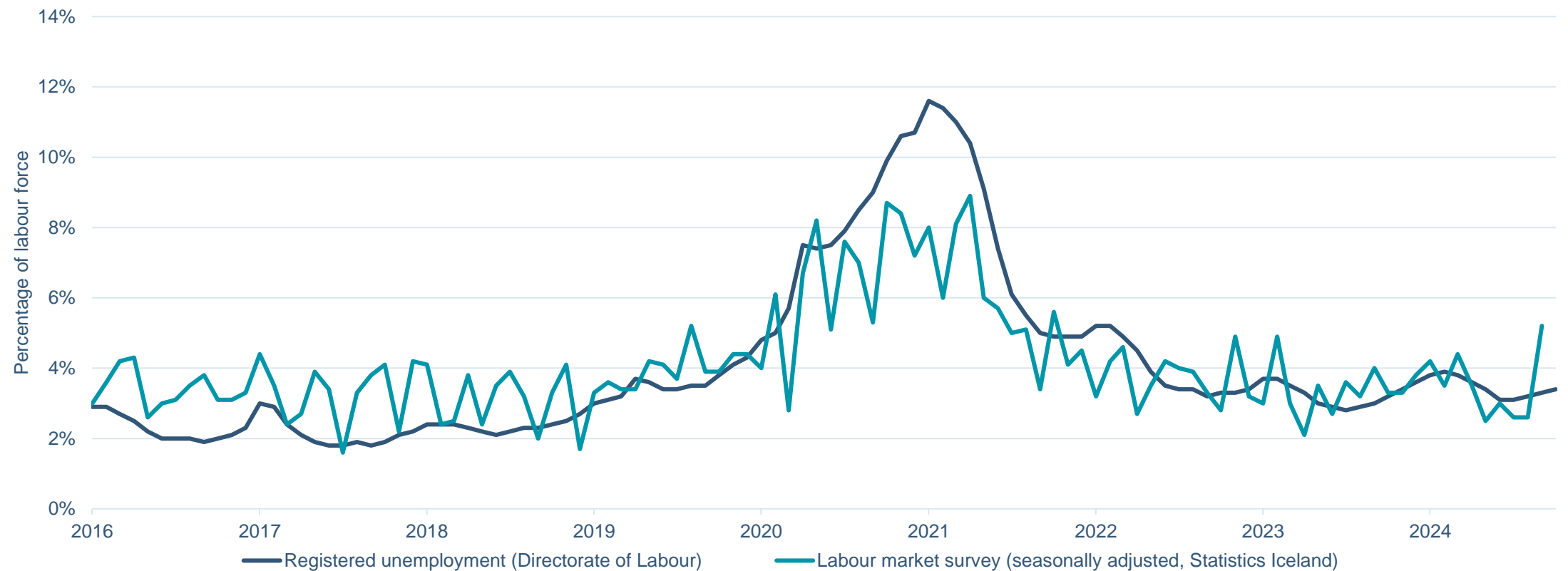
Gross domestic product

According to Statistics Iceland's preliminary estimate, GDP contracted by 0.5% in real terms in the third quarter and by 1.0% during the first nine months of the year. Domestic demand increased year-on-year, mainly driven by higher public consumption and housing investment. Both exports and imports declined compared to the previous year. However, the net effect of foreign trade was negative for economic growth, explaining the contraction in GDP despite the year-on-year increase in domestic demand.



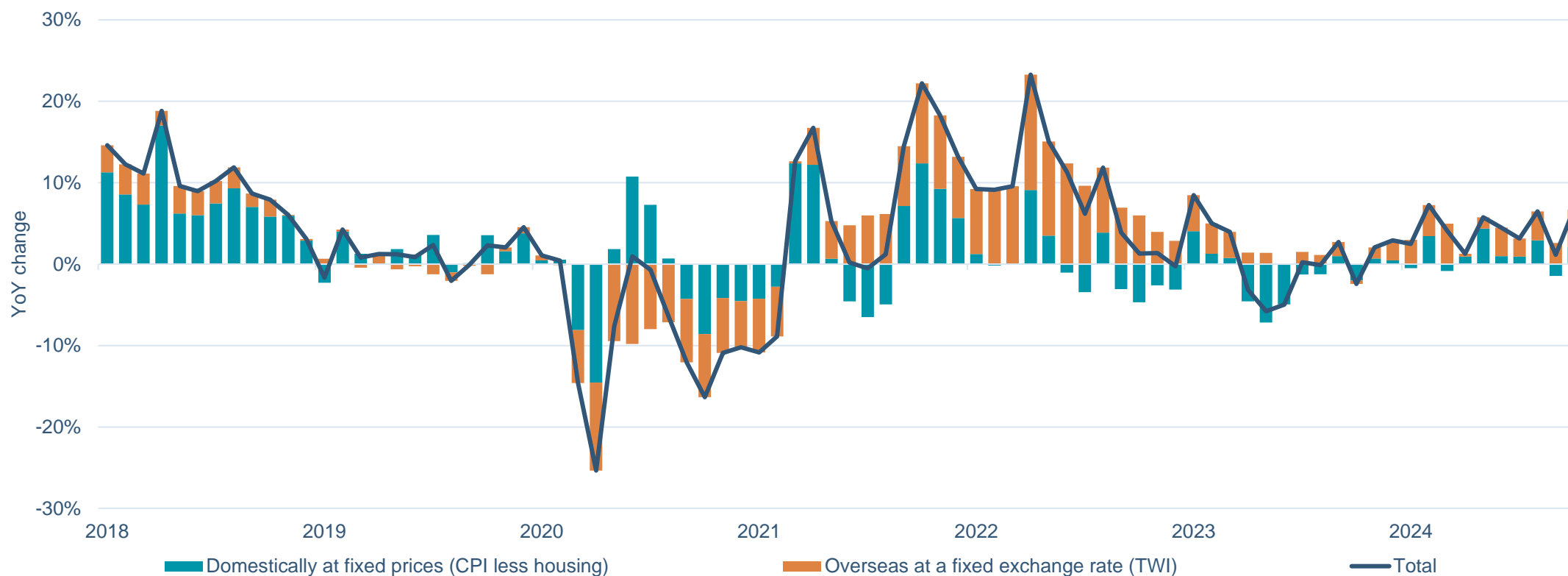
Unemployment

Registered unemployment was 3.4% in October, 0.2% higher than in October of last year. Registered unemployment has been around 0.2 and 0.4 percentage points higher than the previous year in the past nine months.



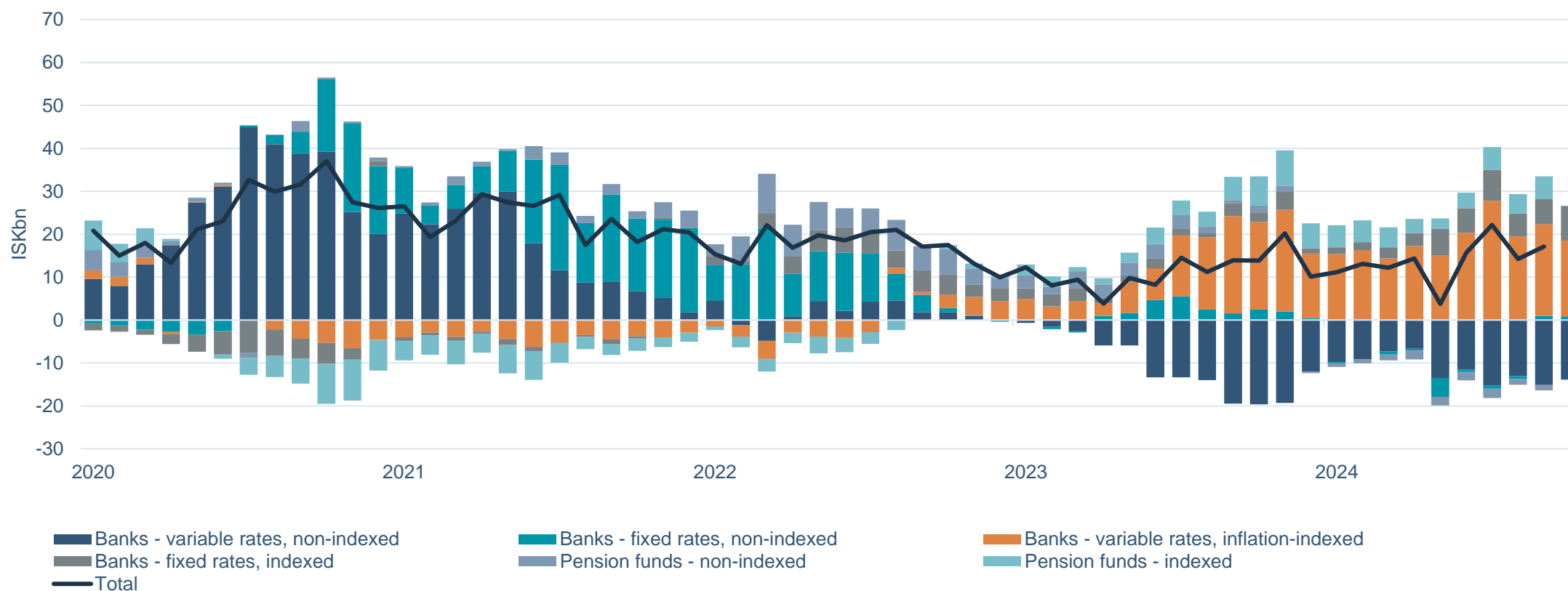
Payment card turnover of Icelandic households

The total payment card turnover by Icelandic households was ISK 110 bn in October and is up by 6.7% between years, having regard for price and exchange rate changes. October was the 12th month in a row during which household payment card turnover grew between years. The last time it declined between years was in September 2023. Payment card turnover increased by 2.7% between years domestically and by 21.9% overseas. 24% of all turnover took place overseas.



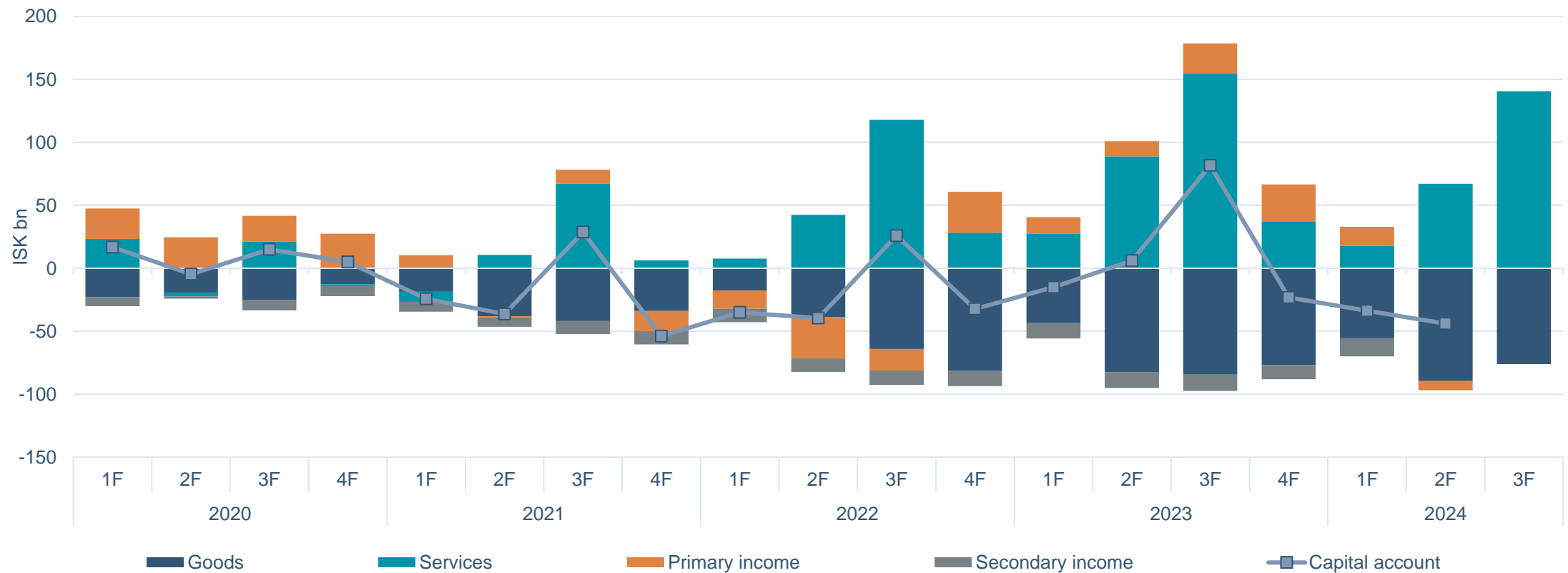
Net new housing mortgages

Net new housing mortgages by deposit institutions amounted to ISK 13 bn in October. Of that figure, ISK 26 bn represents net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 13 bn. In the first 10 months of the year, net new inflation-indexed loans by deposit institutions were ISK 207 bn with net repayment of non-indexed loans amounting to ISK 108 bn.



Balance of trade

The goods and services balance recorded a surplus of ISK 64.5 bn in the third quarter of this year, which is typically the strongest quarter for the trade balance. However, this result is ISK 6.1 bn lower than in the third quarter of last year. For the first nine months of the year, the surplus in goods and services amounted to ISK 8.1 bn, a decrease of ISK 52.7 bn compared to the same period last year.

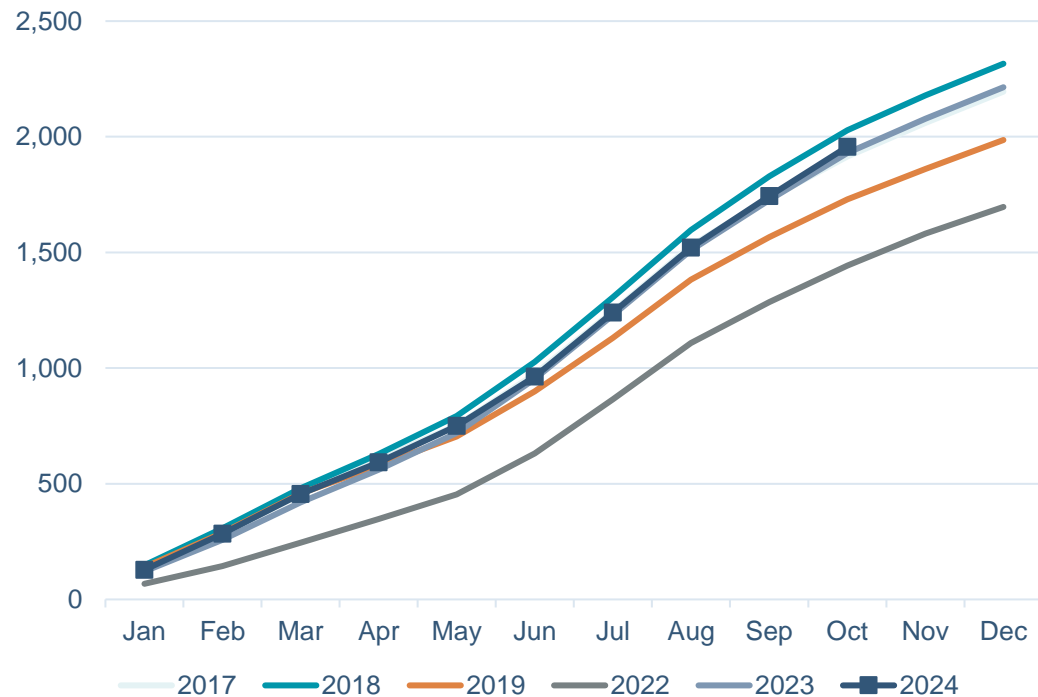


State of the travel sector

213,000 foreign travellers departed from Keflavík International Airport in October, which is a 4.9% increase YoY. In the first 9 months of the year, departures were 1,957,000, a 1.4% increase from the same period in 2023. In October, non-domestic payment card turnover grew by 7.7% between years at fixed prices and by 9.2% at a fixed exchange rate.

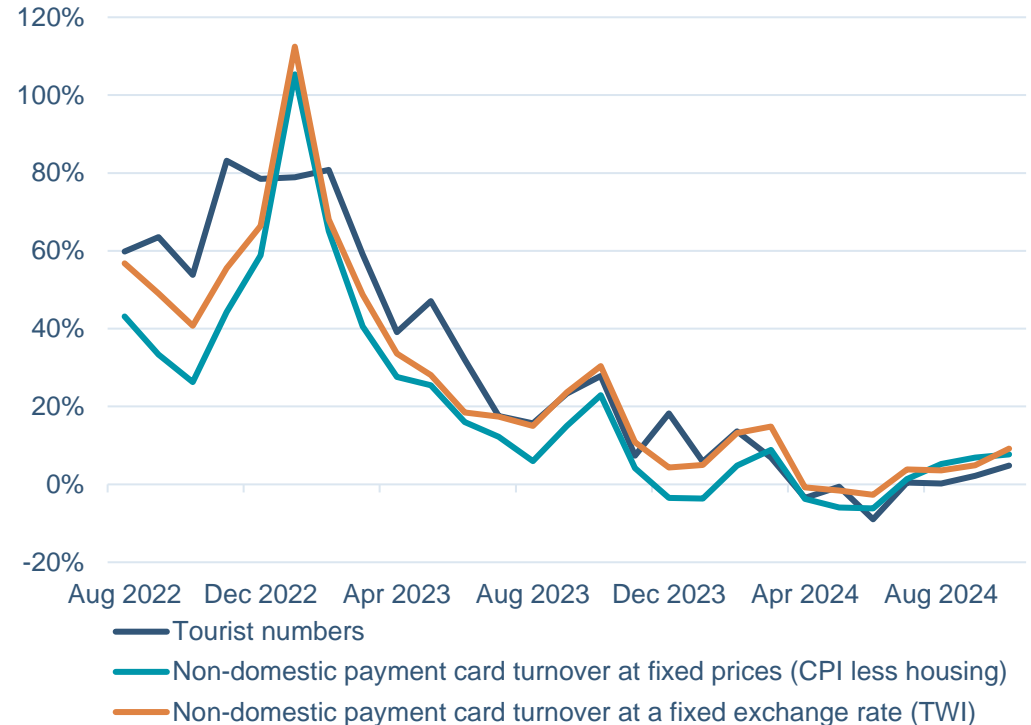
Aggregate tourist numbers

Thousand individuals



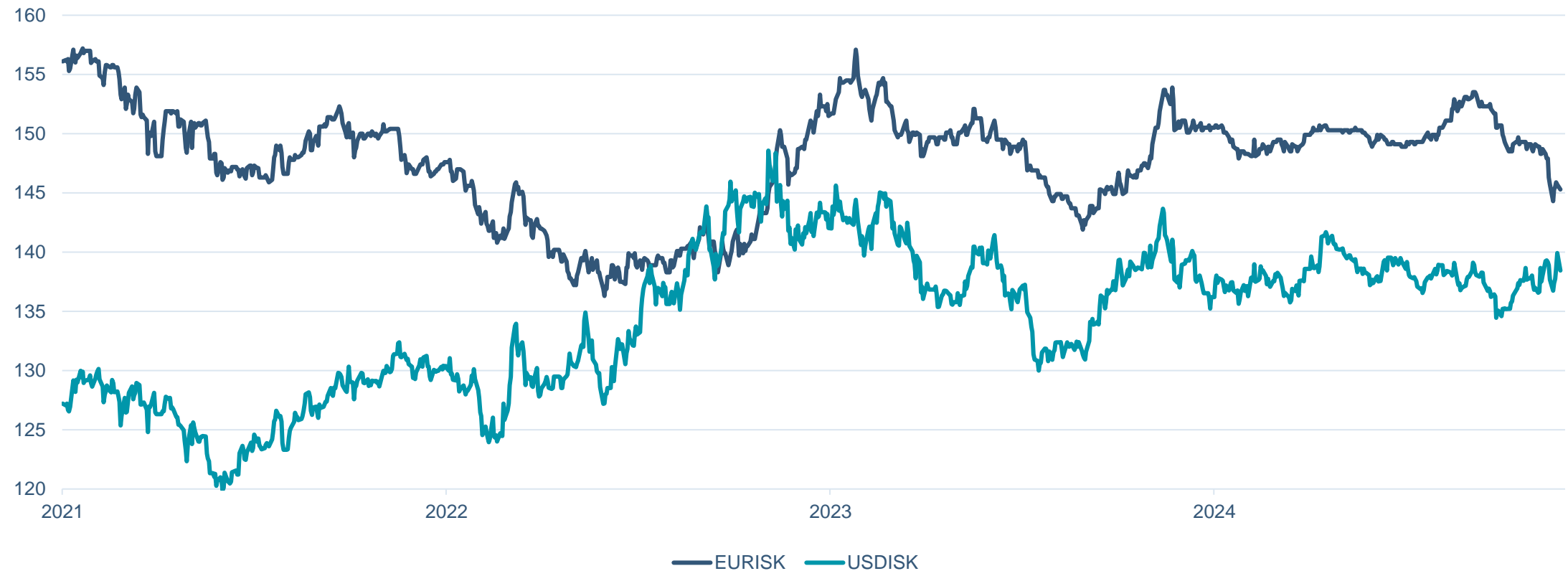
Development of key indicators

YoY change by month



ISK exchange rate

The ISK appreciated against the euro while depreciating against the US dollar in November. At the end of the month, the euro stood at 145.7 (-2.1% intra month) and the USD at 139.0 (+0.8% intra month). The ISK has not been stronger against the euro since October of 2023.



CBI involvement in the FX market

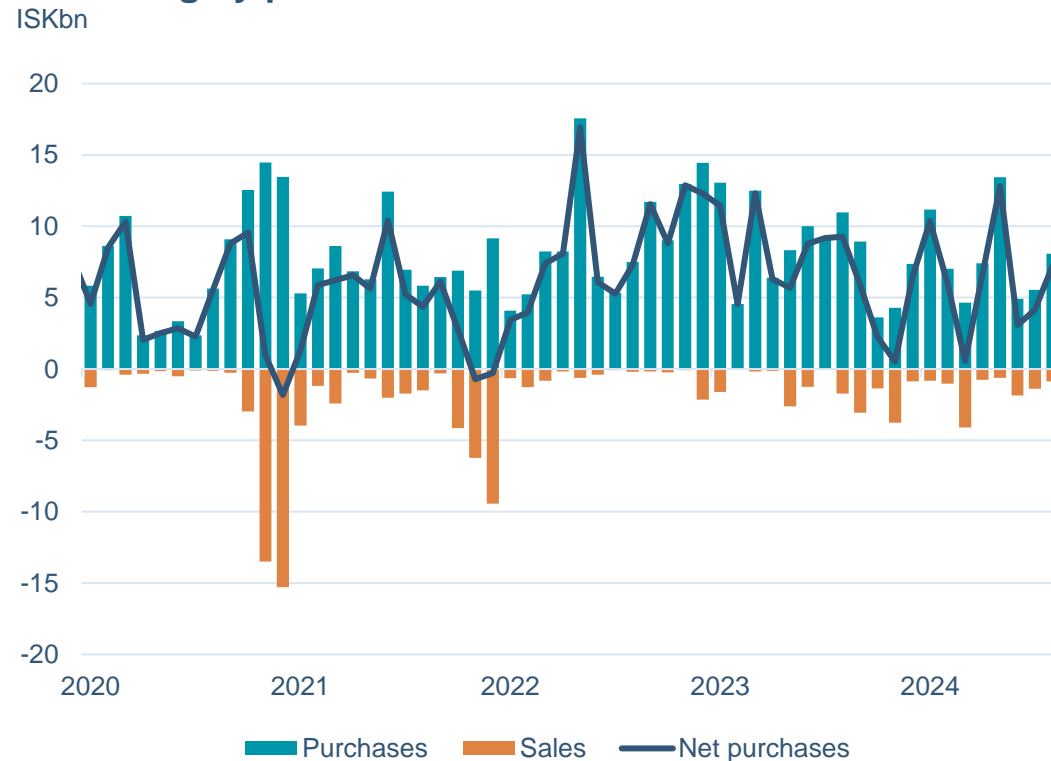
The CBI last entered the FX market in February when it purchased euros for ISK 9.2 bn to counter inflows from non-domestic investors buying Icelandic Treasury notes. The CBI did not get involved in the appreciation that occurred in November.



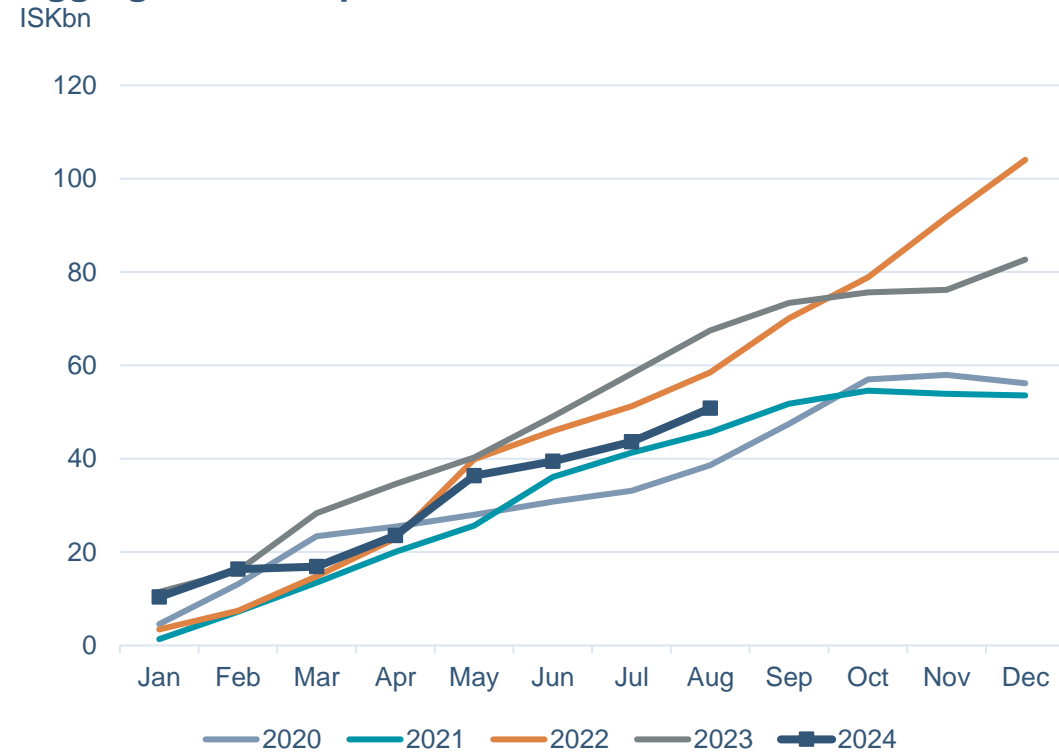
FX trading by the pension funds

Accumulated forex trading 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.

FX trading by pension funds



Aggregate net FX purchases



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