



Economic Research Monthly Newsletter

January 2025
Landsbankinn Economic Research

Market events – January 2025

| Monday | Tuesday | Wednesday | Thursday | Friday |
|--------|---|--|---|--|
| | | 1 | 2 | 3 |
| 6 | 7 Inflation in the eurozone | 8 | 9 | 10 Registered unemployment in Dec. (VMST) Unemployment in the US |
| 13 | 14 | 15 Inflation in the US Inflation in the UK | 16 | 17 Payment mediation figures for Dec. (Sí) |
| 20 | 21 Consumer price index for Dec. (HMS) | 22 Rental price index for Dec. (HMS) | 23 | 24 |
| 27 | 28 | 29 | 30 Consumer price index for Jan. (HAG) FED policy rate decision ECB policy rate decision National accounts in the US National accounts in the eurozone | 31 |

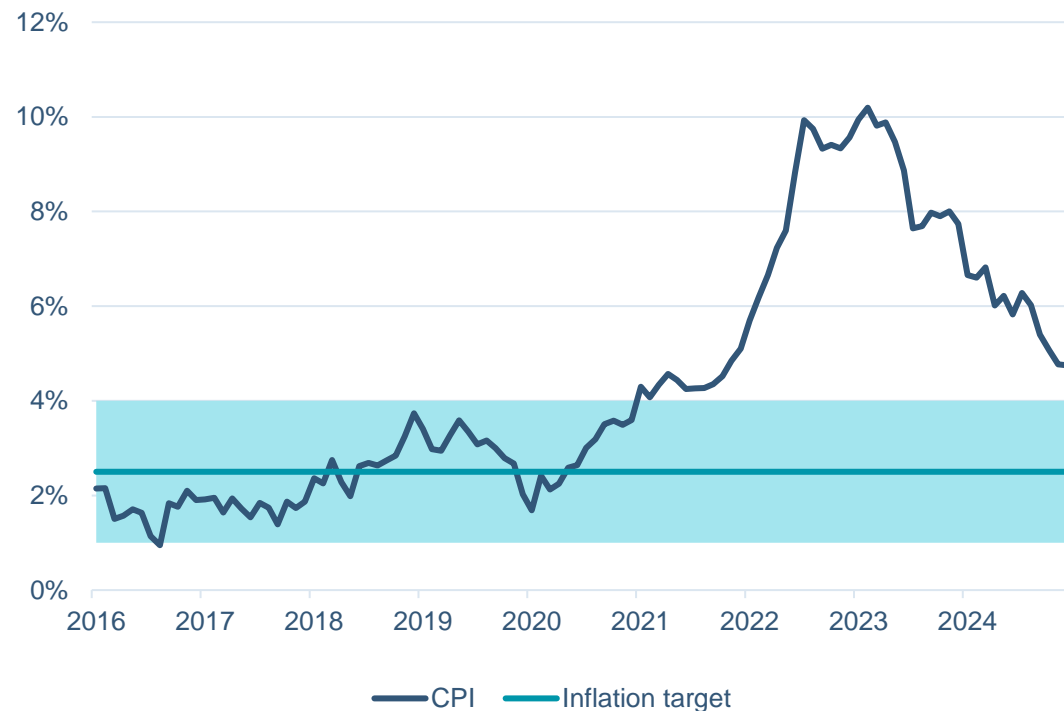


Inflation

The CPI rose by 0.39% between months in December and inflation was unchanged from November, at 4.8%. Annualised inflation excl. housing rose from 2.7% to 2.8%. The 12-month increase in core indices 1 and 2 decreased somewhat, while core index 4 remained unchanged.

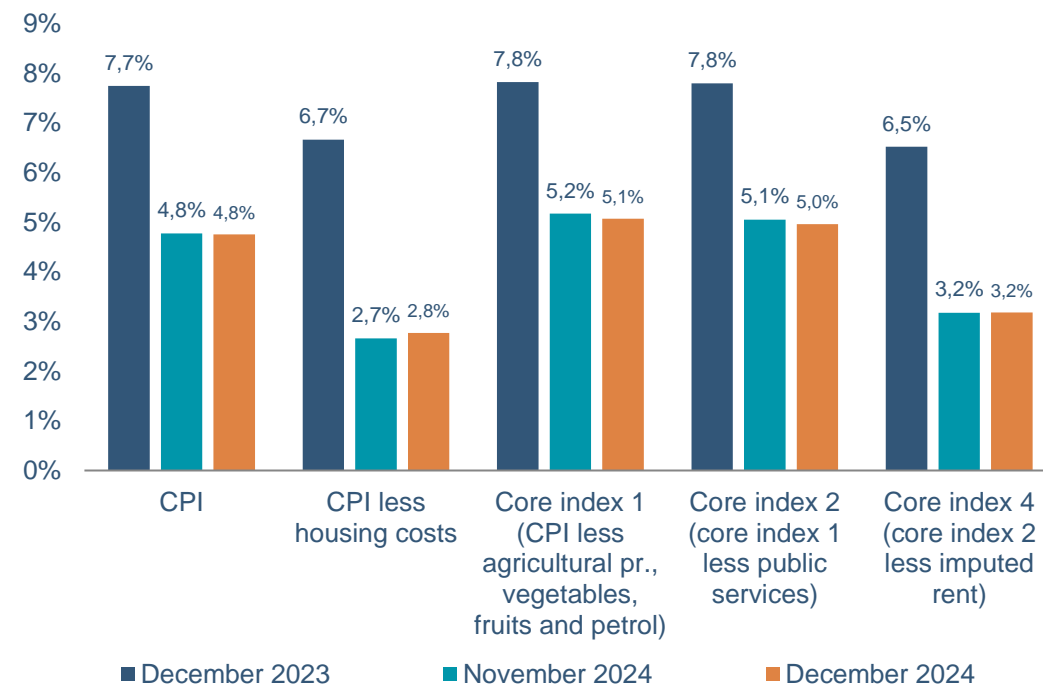
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

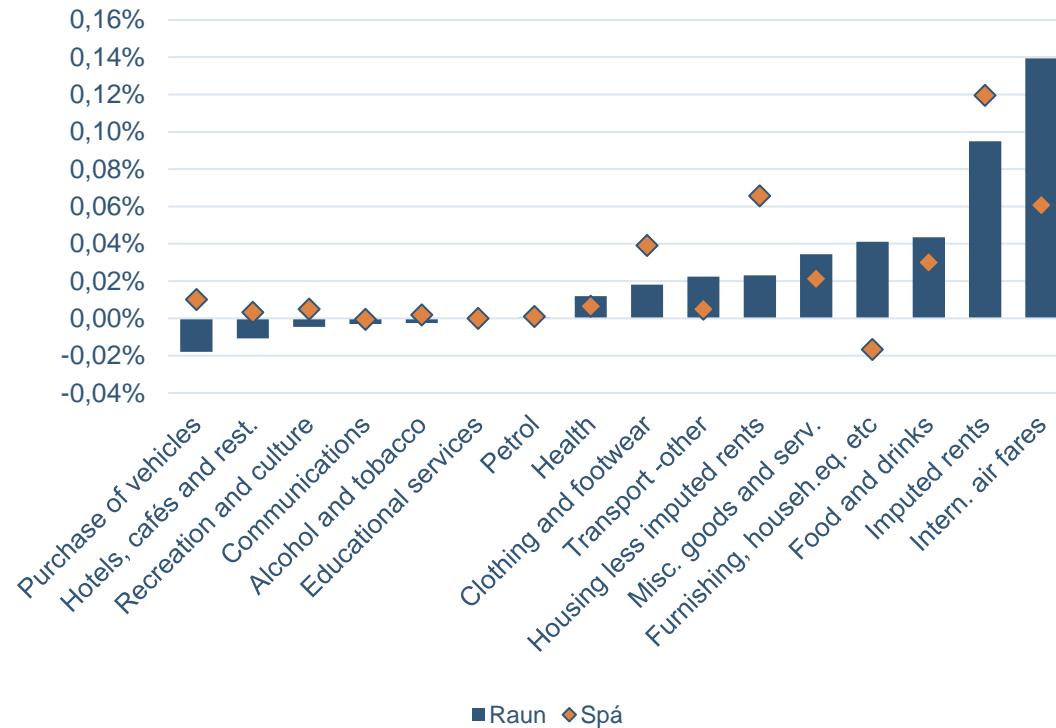
YoY change



MoM change in the CPI

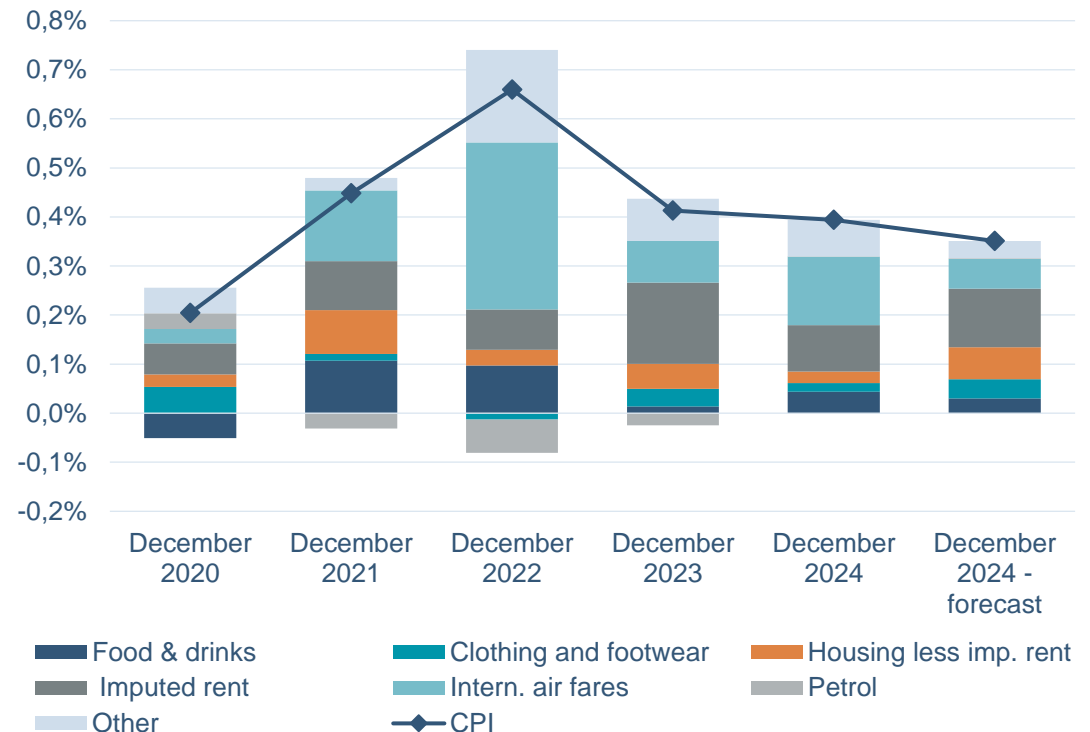
We forecast a slightly lower increase, or 0.35% between months. International airfares rose more than we had forecast, and the price of furniture and household appliances grew instead of decreasing. On the other hand, housing costs excluding imputed rent rose somewhat less than anticipated. This was due to a lower increase in paid rent than we expected. Another factor was that the price of electricity fell between months when we had forecast an increase. New car prices decreased a little where we had forecast an increase. New car prices decreased a little where we had forecast an increase.

Contribution of components in December



December measurements of CPI

MoM change and weight of components

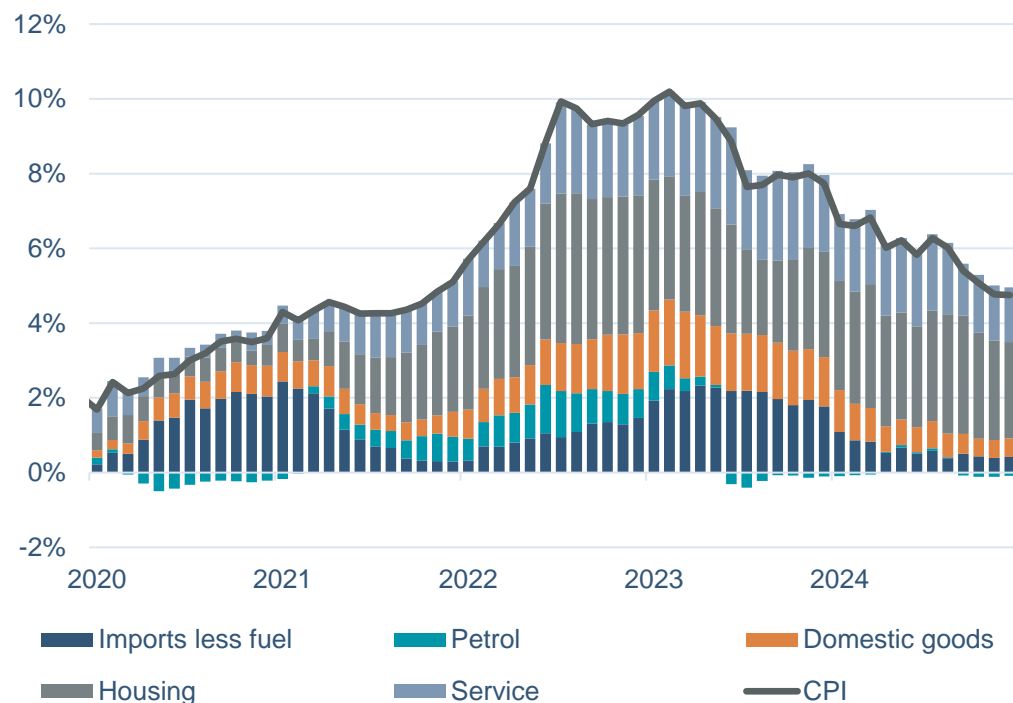


Composition of 12M inflation

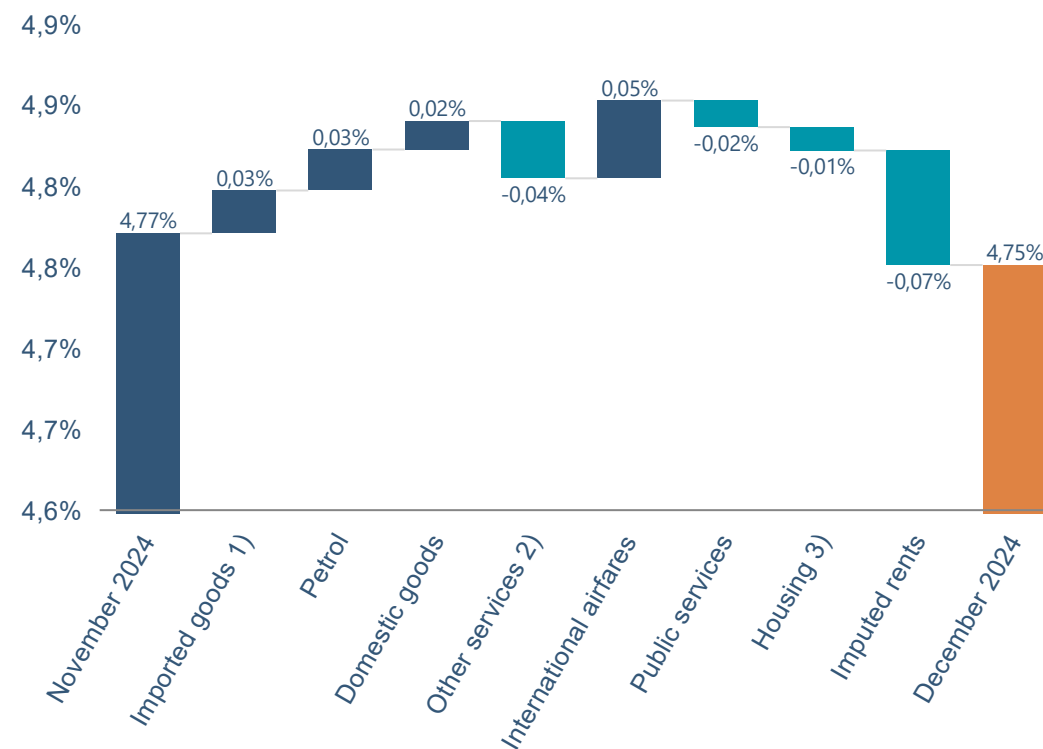
While changes to 12M inflation are negligible, from 4.77% to 4.75%, the composition of its components has changed. The contribution of both imported and domestic goods rose between months, the housing component decreased and service was unchanged. Imputed rent fell by 0.07% and international air fares increased by 0.05%.

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

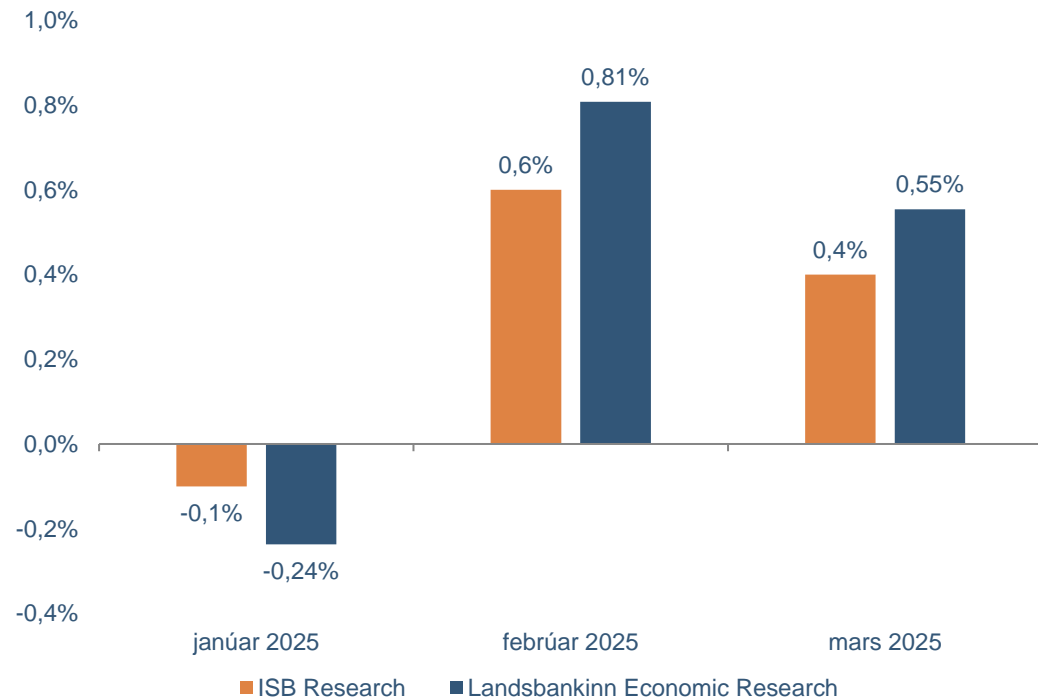


The outlook for the next months

We now expect the CPI to decrease by 0.24% in January, rise by 0.81% in February and by 0.55% in March. If the forecast holds, 12M inflation will be 4.7% in January, 4.1% in February, and 3.9% in March. This forecast is more or less unchanged from our previous forecast, published in the price measurement week in December. December price measurements gave little cause to alter the inflation outlook for the next months.

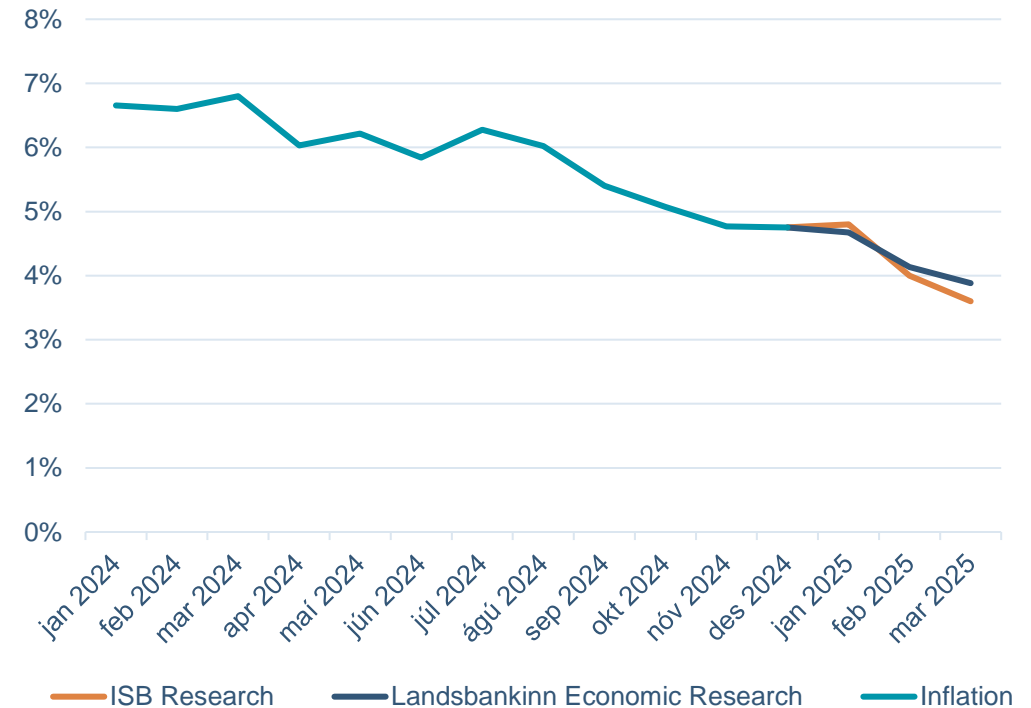
Inflation forecasts

MoM change



Inflation forecasts

12M inflation



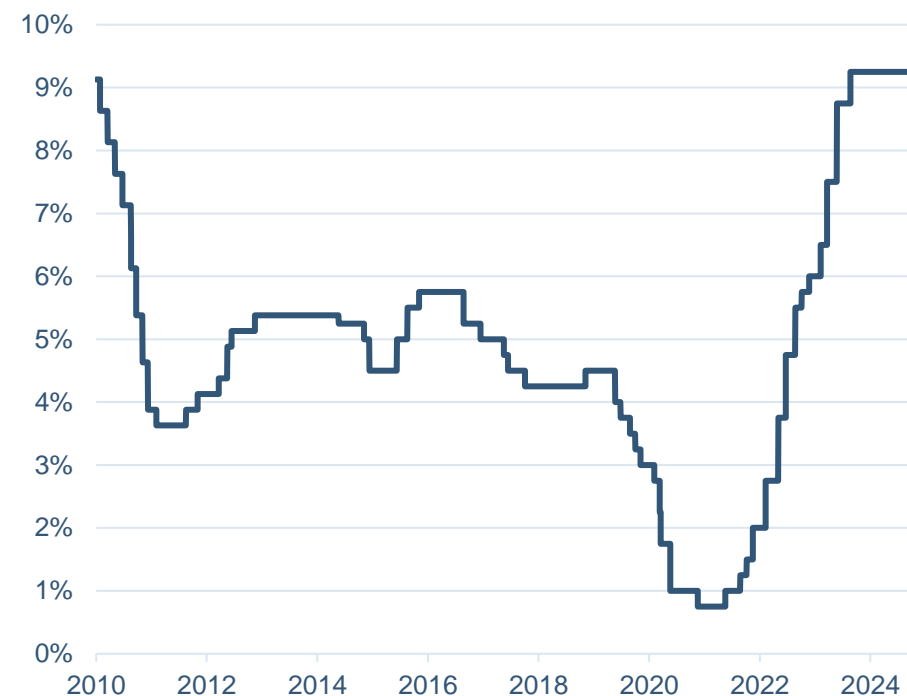
Policy rate

All five member of the Central Bank's Monetary Policy Committee voted for the Governor's proposal to lower the policy rate by 0.50 percentage points at the MPC's last meeting on 18-19 November. The next interest rate decision is scheduled for Wednesday, 5 February 2025, twelve weeks from the previous decision. If our inflation forecast proves accurate, we consider it likely that the MPC will consider the rate-cutting trajectory justified going forward.

MPC interest rate decisions

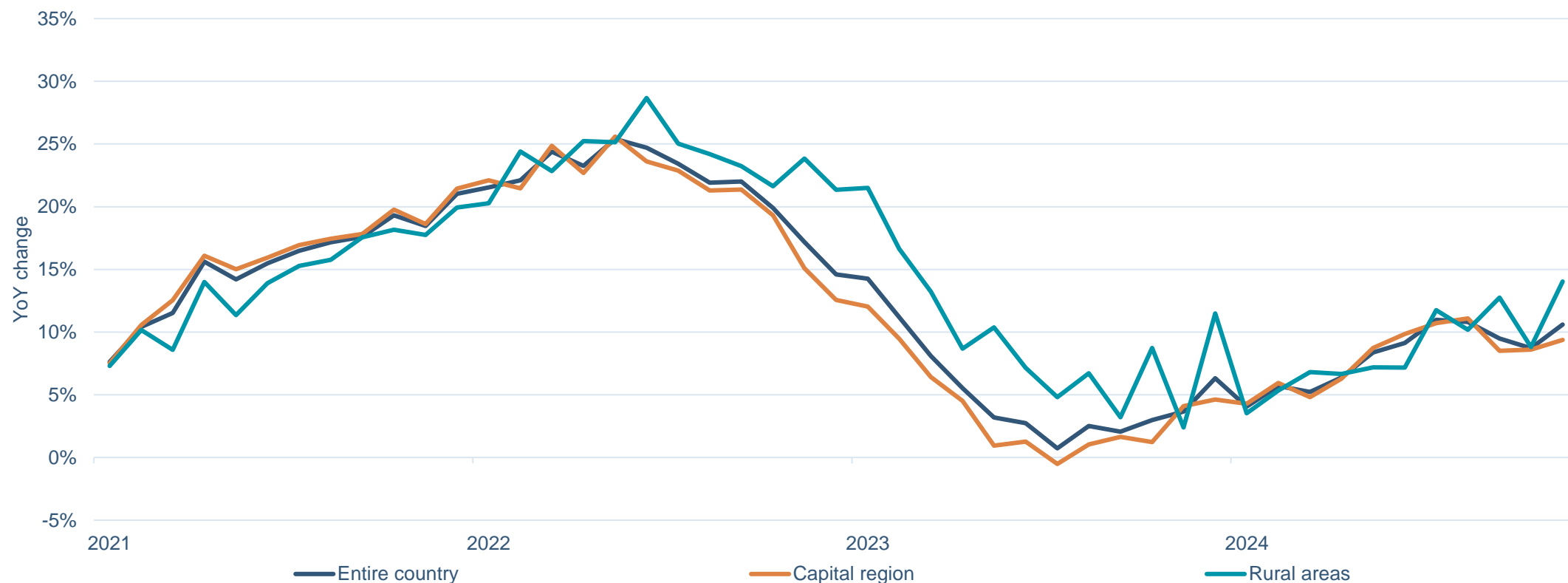
| Date | Prop. | For | Against | Other option | Conclusion | Key interest rate |
|---------------|--------|---------------------|-------------|--------------|------------|-------------------|
| 8 Feb. 2023 | +0.50% | ÁJ, RS, GJ, GZ, HS | | HS (+0.75%) | +0.50% | 6.50% |
| 22 March 2023 | +1.00% | ÁJ, 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 | GJ (-0.25%) | | Unch. | 9.25% |
| 20 March 2024 | Unch. | ÁJ, RS, ÁÓP, HS | GJ (-0.25%) | | Unch. | 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 | -0.50% | ÁJ, RS, TB, ÁÓP, HS | | | -0.50% | 8.50% |
| 5 Feb. 2025 | | | | | | |
| 19 March 2025 | | | | | | |
| 21 May 2025 | | | | | | |
| 20 Aug 2025 | | | | | | |
| 8 Oct. 2025 | | | | | | |
| 19 Nov. 2025 | | | | | | |

Key interest rate of the Central Bank of Iceland



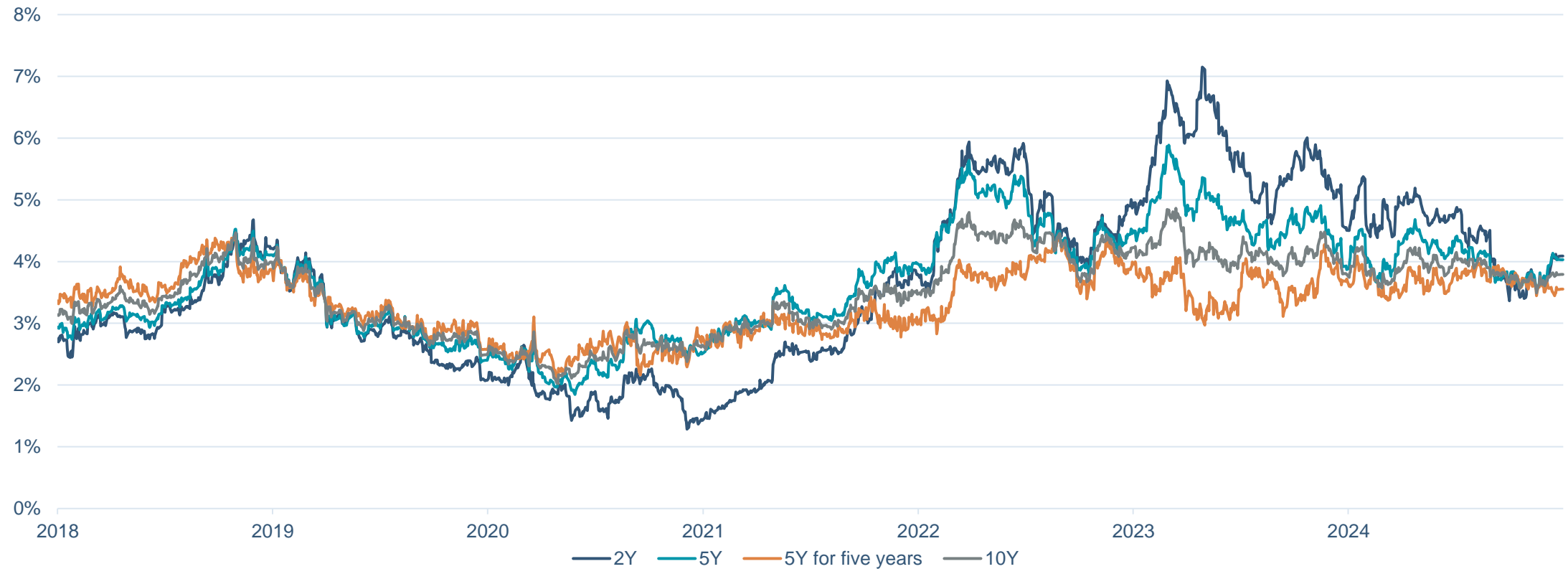
Housing price index

The housing price index rose by 0.8% between months in November. This follows on the heels of a mere 0.2% increase in October and a 0.3% decrease in September. After two calm months there are indications that the real estate market is still rather lively. The annualised increase of housing prices now measures 10.6%, up from 8.7% in October. Housing price increases on an annualised basis continue to exceed general price level increases considerably. Despite this increase, we remain convinced that tighter lending conditions and the rise in inflation-indexed interest rates will reduce housing price growth in the coming months.



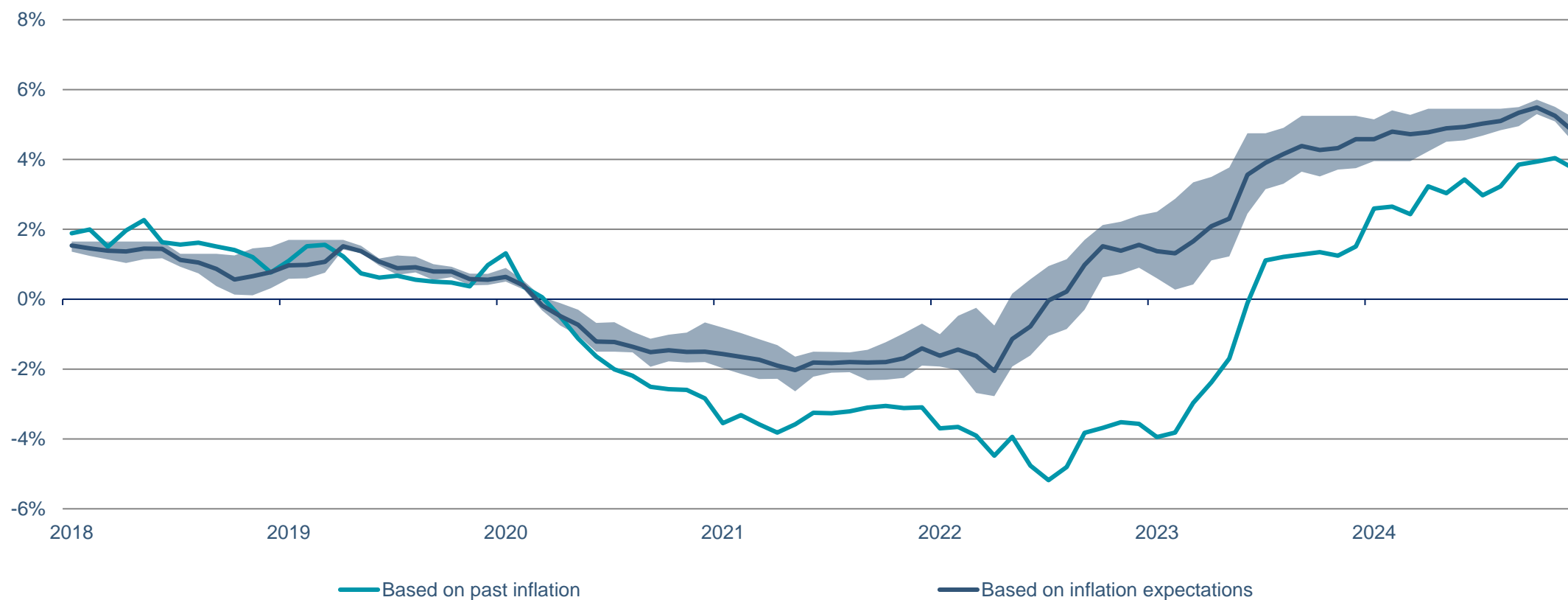
Inflation premium on the bond market

The inflation premium on the bond market rose in December. At the end of the month, the 2Y rate was 4.1% (+0.5% intra month), 4.0% for 5Y (+0.3% intra month) and 3.8% for 10Y (+0.2% intra month). The five-year forward inflation premium starting in five years remained unchanged at 3.5%.



Real policy rate

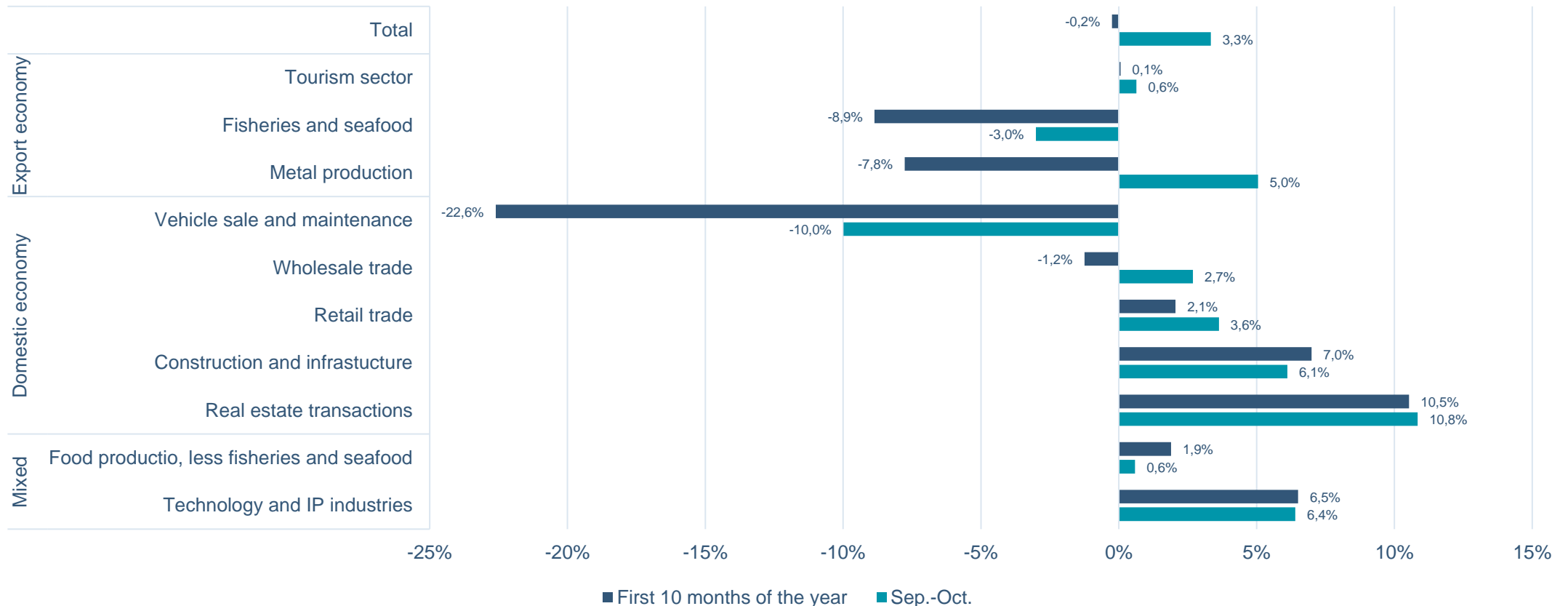
The real policy rate fell slightly between months in December. Based on past inflation, the real policy rate was 3.7% but was on average 4.8%, having regard for inflation expectations.



The real policy rate is the difference between the CBI's key interest rate and inflation, or inflation expectations. The real policy rate based on inflation expectation is the average of the 2Y and 5Y inflation premiums on the bond market and the market expectation survey for 1Y and 5Ys. The shaded area shows the highest and lowest values. Source: Central Bank of Iceland, Statistics Iceland, Landsbankinn Economic Research

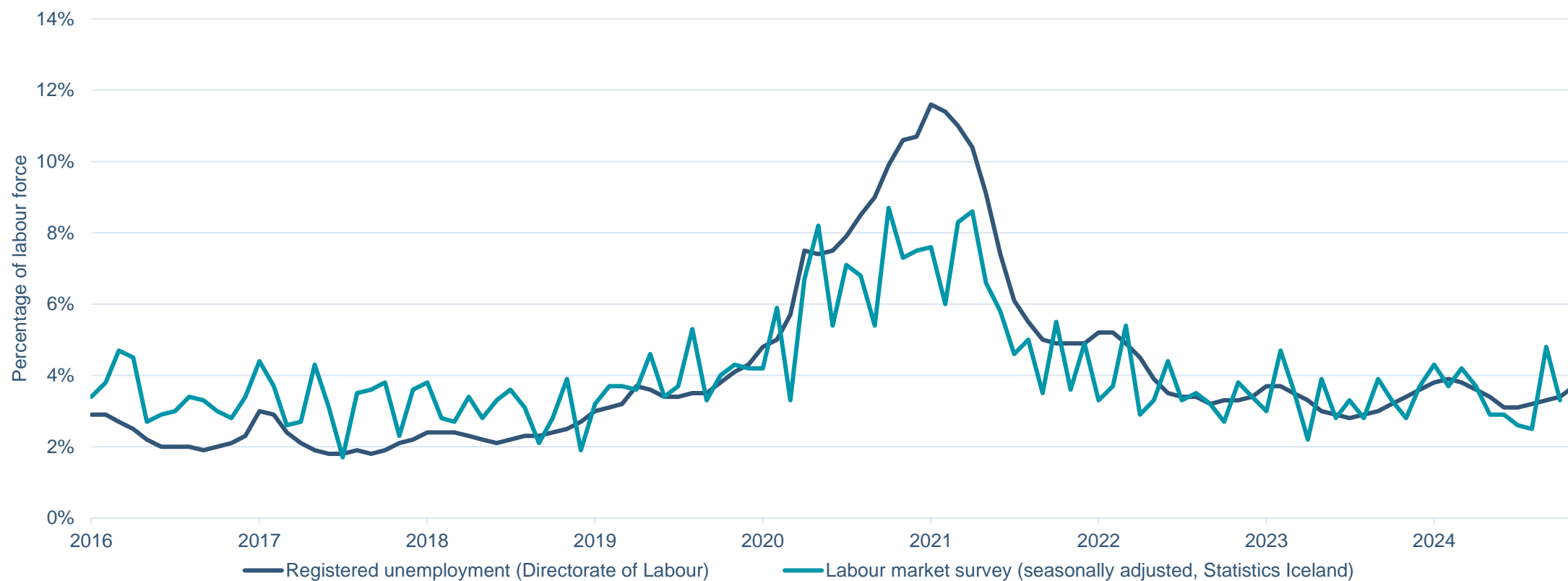
Turnover by VAT reports

Turnover based on VAT reports grew by 3.3% between years in Sept-Oct. at fixed prices. In the export-driven economy, turnover increased in the tourism and metal production sectors but declined in the seafood and fisheries sector. In the domestic economy, turnover grew in almost all major sectors, except for the automotive industry. The largest increase was in real estate transactions. Turnover in the technology and intellectual property industries continues to grow significantly.



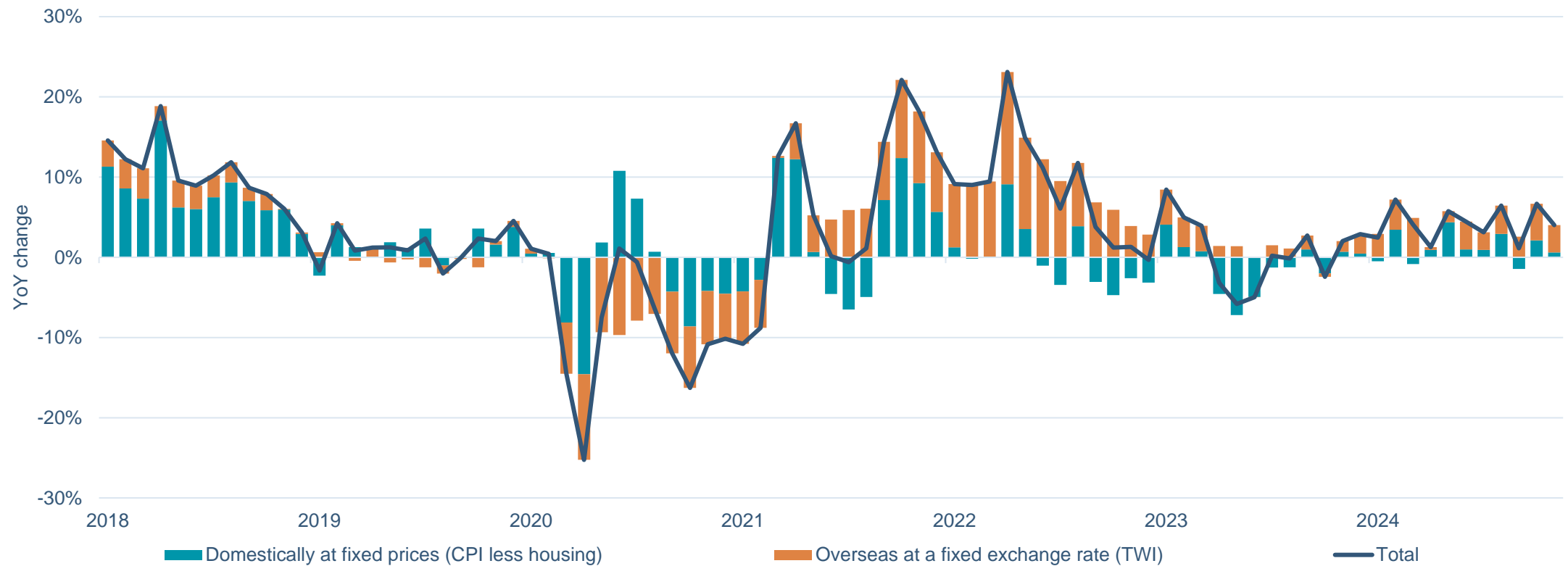
Unemployment

Registered unemployment with the Directorate of Labour was 3.7% in November, up from 3.4% from October. Unemployment generally increases between months in November. Unemployment was 0.3 percentage points higher than in November of 2023, a difference that continues the trend of recent months.



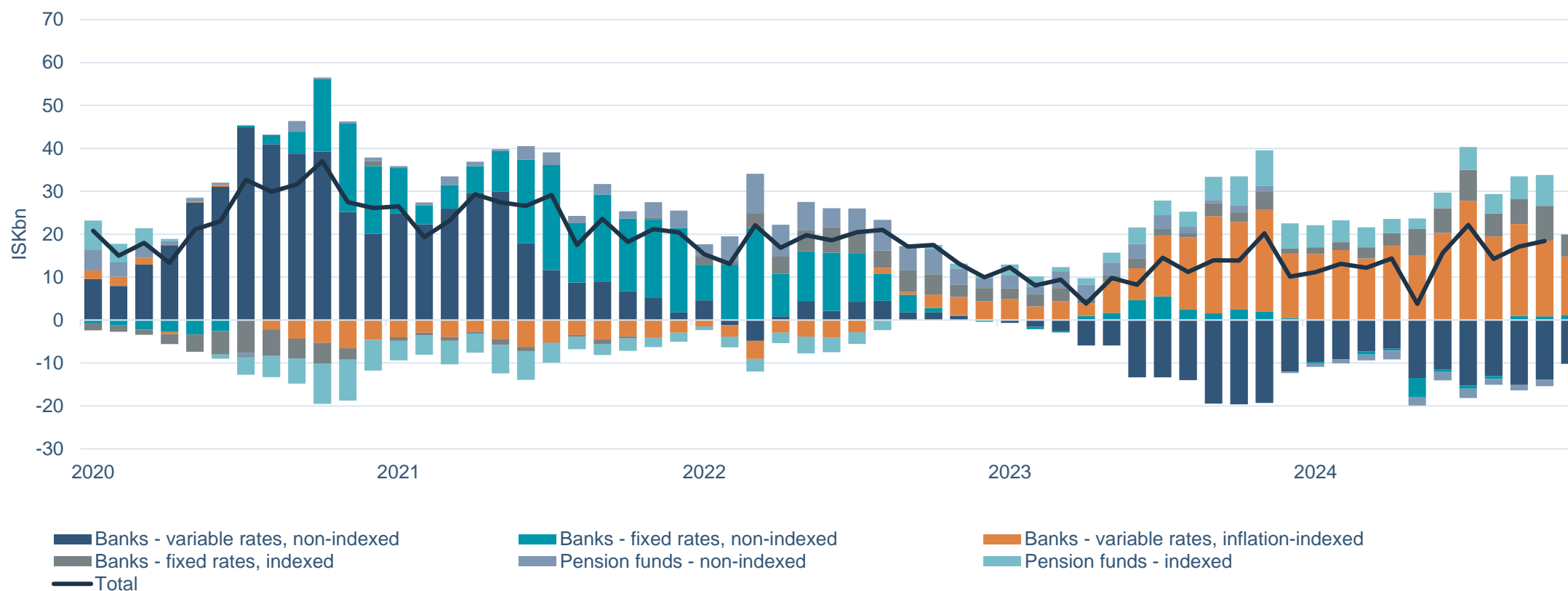
Payment card turnover of Icelandic households

The total payment card turnover by Icelandic households was ISK 112.7 bn in November and is up by 4.9% between years, having regard for price and exchange rate changes. Domestic payment card turnover by Icelandic households grew by 0.7% in real terms and by 17.4% overseas at a fixed exchange rate, compared to November of 2023.



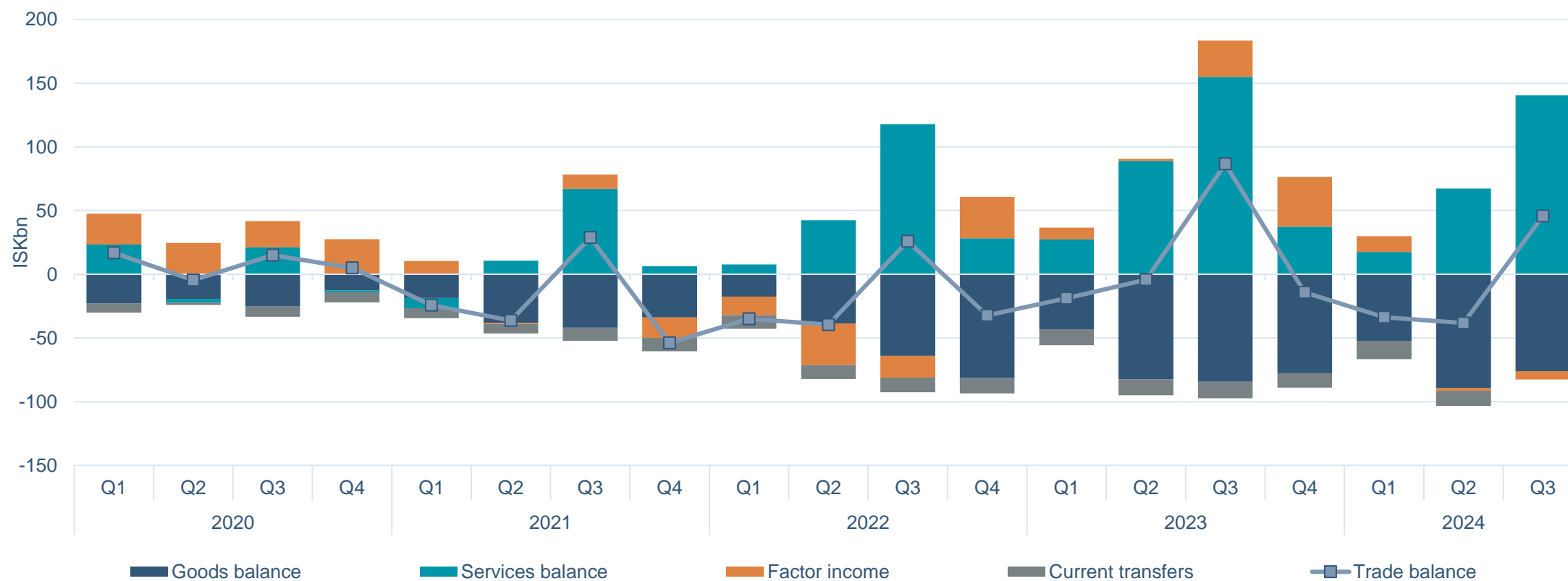
Net new housing mortgages

Net new housing mortgages by deposit institutions amounted to ISK 10 bn in November. Of that figure, ISK 19 bn represents net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 9 bn. In the first 11 months of the year, net new inflation-indexed loans by deposit institutions were ISK 250 bn with net repayment of non-indexed loans amounting to ISK 130 bn.



Balance of trade

In the third quarter, the current account surplus was ISK 46 bn. This follows on the heels of an ISK 34 bn deficit in the first quarter and ISK 38 bn deficit in the second quarter. The third quarter is generally the most favourable, reflecting the high season in the tourism sector. The net deficit in the first nine months of 2024 is ISK 26 bn, quite a turnaround from 2023 when there was an ISK 63 bn surplus in the same period.

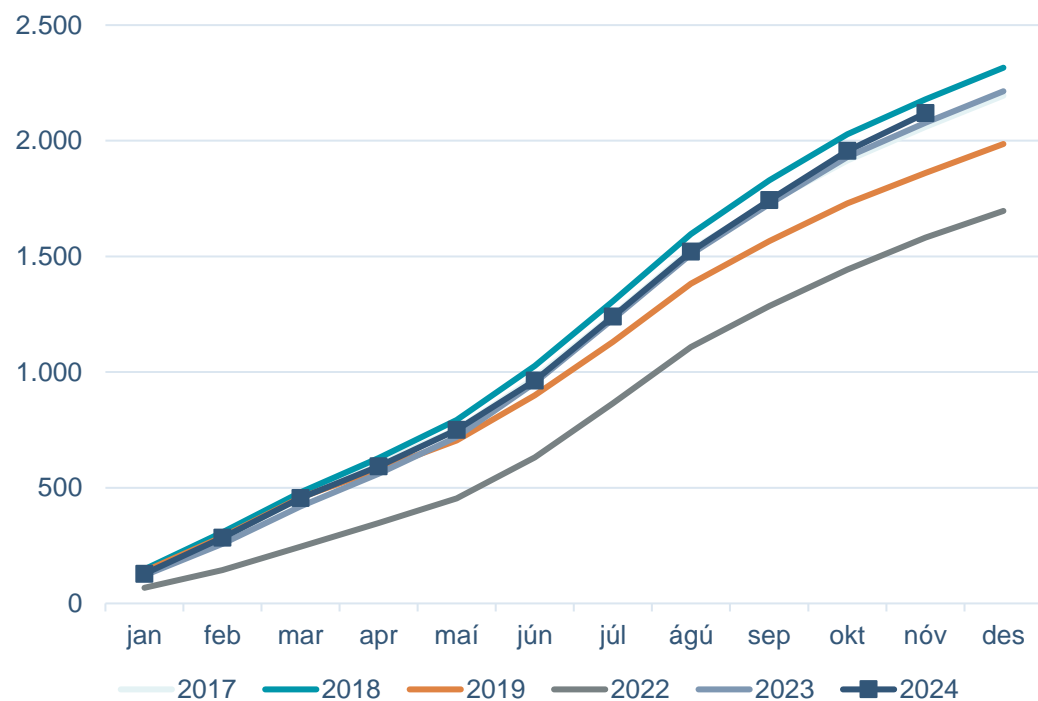


State of the travel sector

162,000 foreign travellers departed from Keflavík International Airport in November 2024, which is a 9.3% increase YoY. In the first 11 months of the year, departures numbered 2.120.000, a 1.9% increase from the same period in 2023. In November, non-domestic payment card turnover grew by 8.4% between years at fixed prices and by 14.3% at a fixed exchange rate.

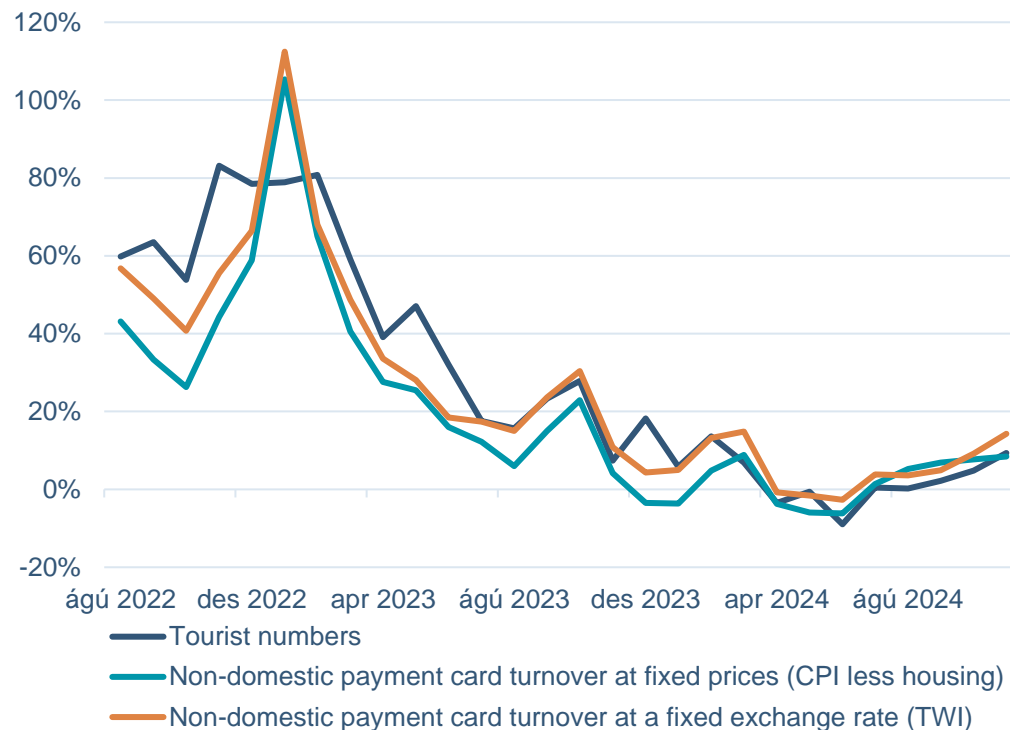
Acc. tourist numbers

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 December. At the end of the month, the euro stood at 143.9 (-1.2% intra month) and the USD at 138.2 (+0.2% intra month). The ISK has not been as strong against the euro since September of 2023. In 2024, the ISK appreciated considerably against the euro, starting at 150.5 at the beginning of the year. The ISK depreciated slightly against the USD in 2024, from 136.2 at the beginning of the year.



CBI involvement in the FX market

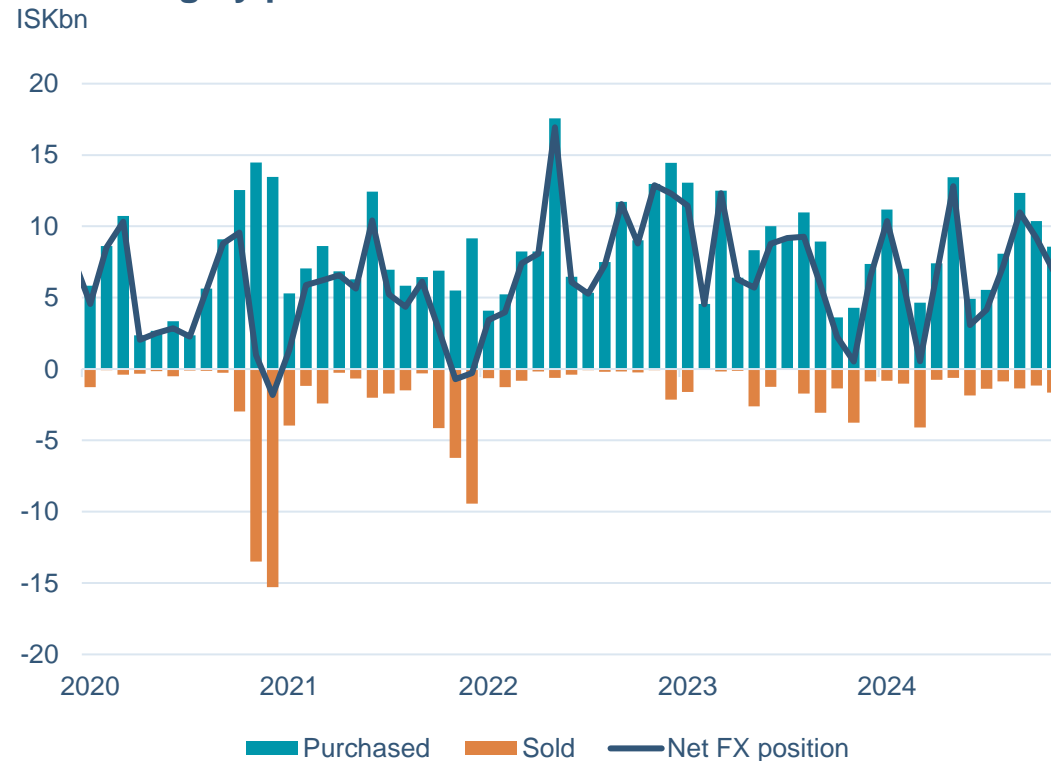
The CBI last entered the FX market in February of 2024 when it purchased euros for ISK 9.2 bn to counter inflows from non-domestic investors buying Icelandic Treasury notes. The CBI has not taken any action in the past few months despite considerable appreciation since early September.



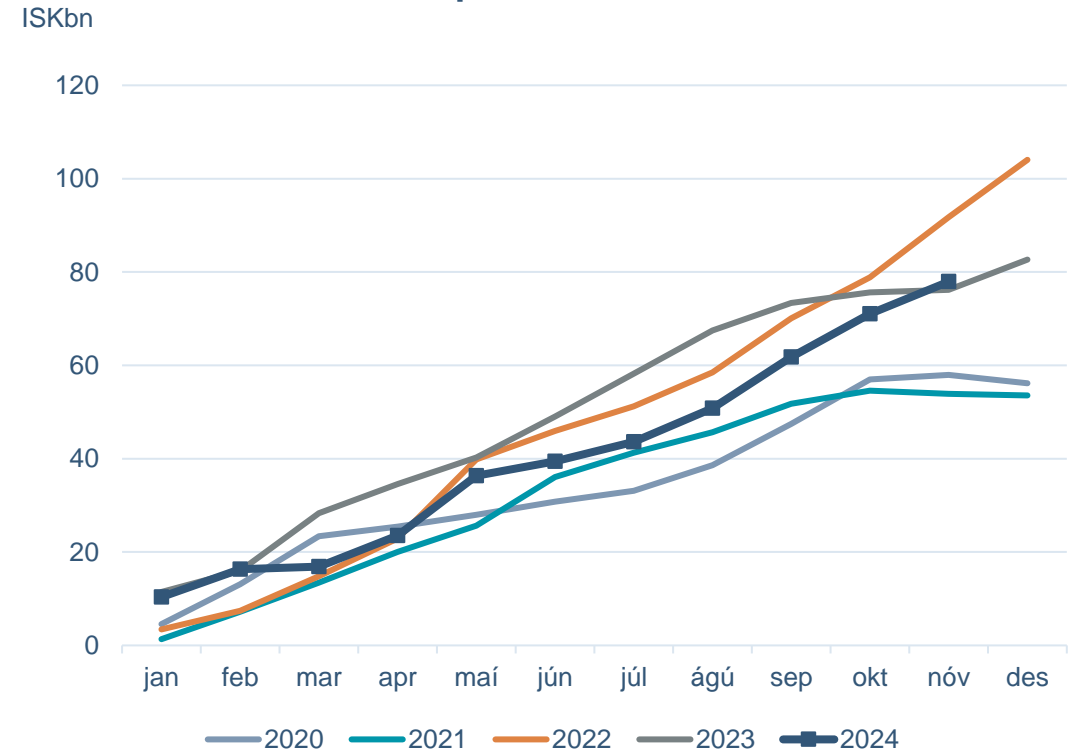
FX trading by the pension funds

The Icelandic pension funds purchased euros for a net amount of ISK 78 bn in the first 11 months of last year. This is a slightly higher amount than in the same period of 2023, when they purchased foreign currency for ISK 76 bn. In the same period of 2022, the pension funds purchased foreign currency for ISK 92 bn.

FX trading by pension funds



Accumulated annual FX purchases



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