



Economic Research Monthly Newsletter

March 2025

Landsbankinn Economic Research

Market events – March 2025

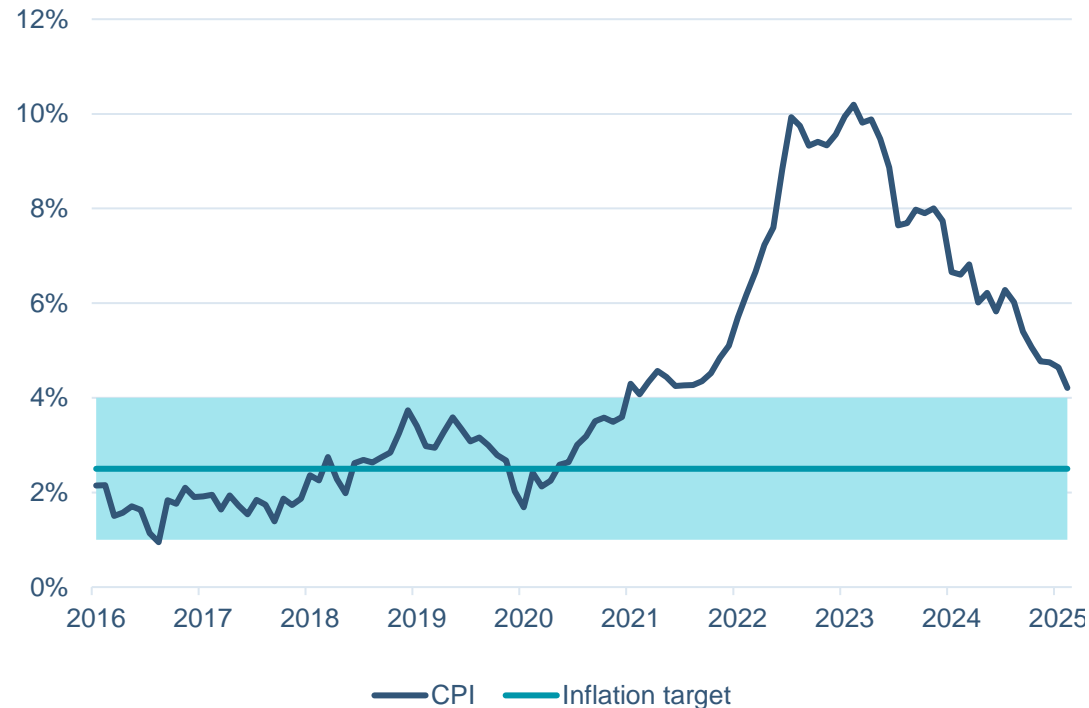
Monday	Tuesday	Wednesday	Thursday	Friday
3 Reitir publishes results Inflation in the eurozone	4 Eimskip publishes results	5	6 Balance of trade and net foreign debt (CBI) Hampiðjan and Síldarvinnslan publish results ECB policy rate decision	7 Kaldalón publishes results Unemployment in the US
10 Registered unemployment in Feb (VMST)	11 Departures from Keflavík International Airport in Feb (FMST)	12 Inflation in the US	13	14
17 Payment mediation in Feb. (CBI)	18 Housing price index for Feb. (HMS)	19 Policy rate decision (CBI) Rental price index for Feb. (HMS) FED policy rate decision Inflation in the UK	20 Monthly report (HMS) Bank of England policy rate decision	21 Wage index in Feb. (HAG)
24	25	26 Statement of the Monetary Policy Committee and publication of the financial stability report. Inflation in the UK Alvotech publishes results	27 CPI in March (HAG) Ísfélagið publishes results	28 Economic indicators (Sí) Amaroq publishes results

Inflation

The Consumer Price Index (CPI) rose by 0.91% between months in February and inflation receded from 4.6% to 4.2%. The annual increase in imported goods and public services declined between months, while the annual increase in domestic goods rose. Inflation excluding housing and the annual increase of all three core inflation indices decreased MoM, indicating that underlying inflationary pressure is also easing.

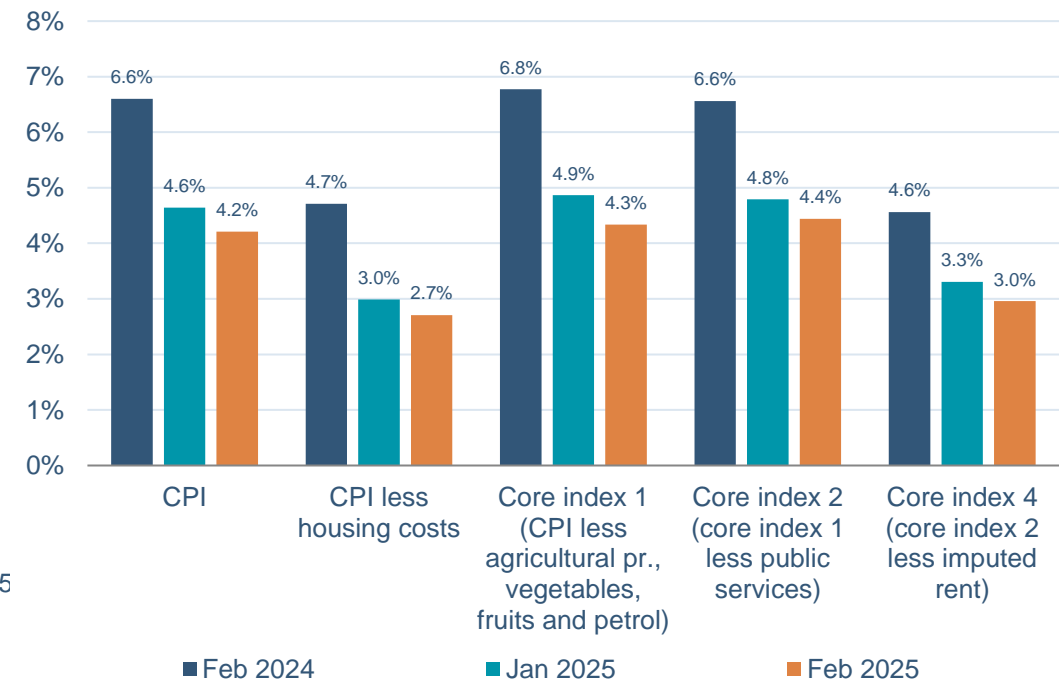
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

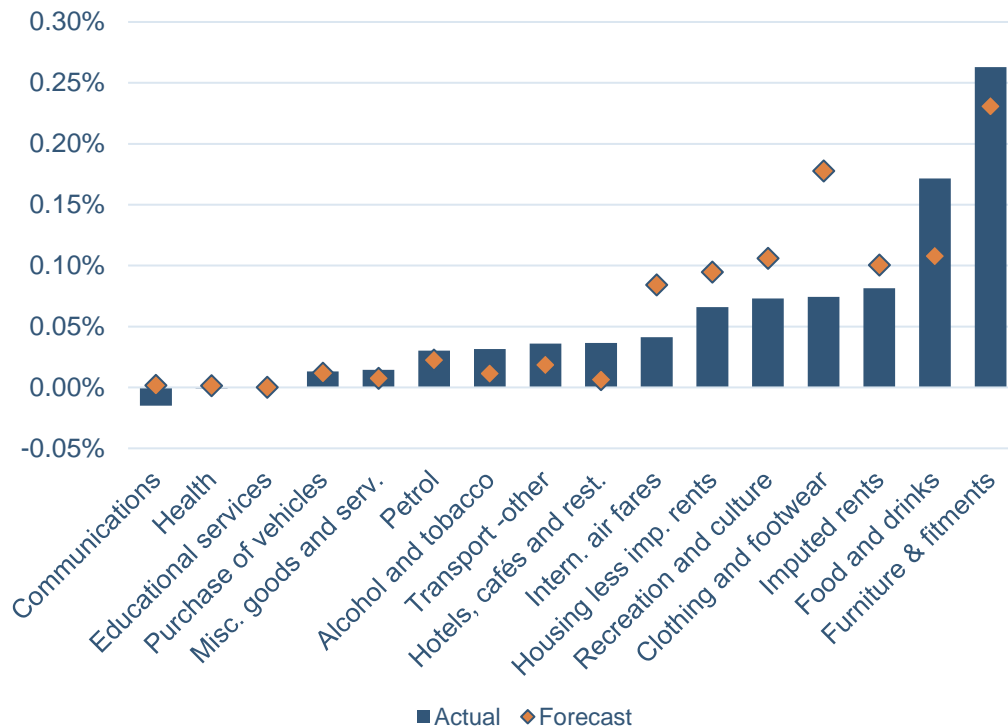
YoY change



MoM change in the CPI

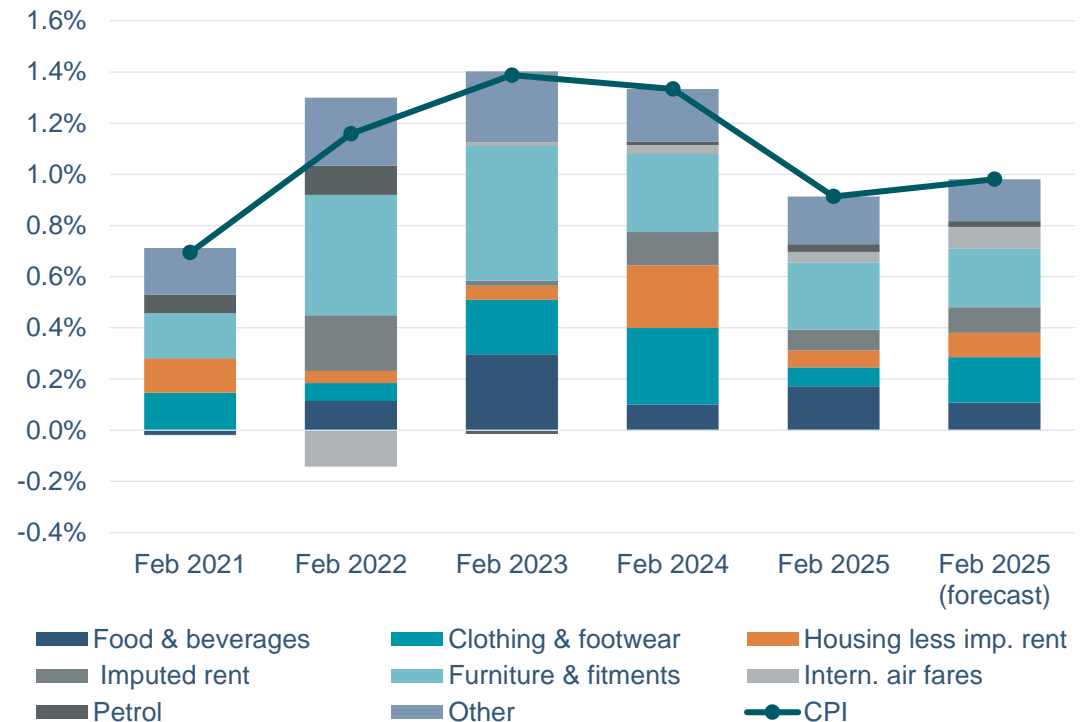
The measurement was very close to our expectations. We had predicted that the index would rise by 0.98% and that inflation would recede to 4.3%. The biggest surprise was that clothing and footwear increased much less than we anticipated. January sales are usually reversed in February and March, but the distribution of the price increases between these two months varies. A smaller price increase in clothing and footwear in February likely means a larger increase in March. The substantial rise in food and beverages also came as somewhat of a surprise to us.

Contribution of components in February



February measurement of the CPI

YoY change and weight of components

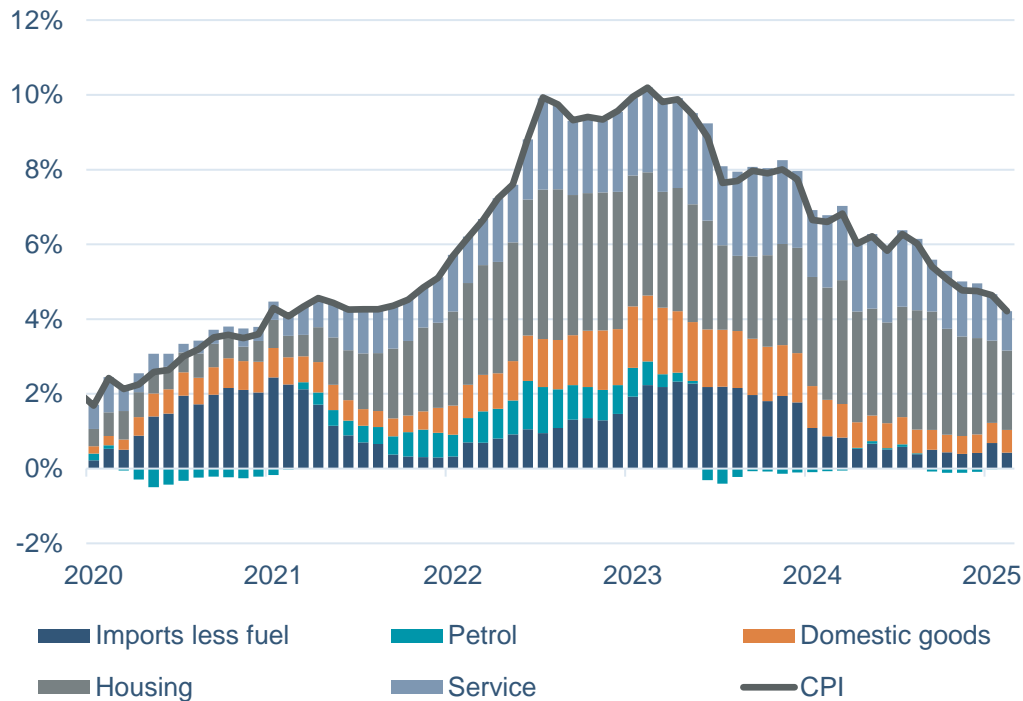


Composition of 12M inflation

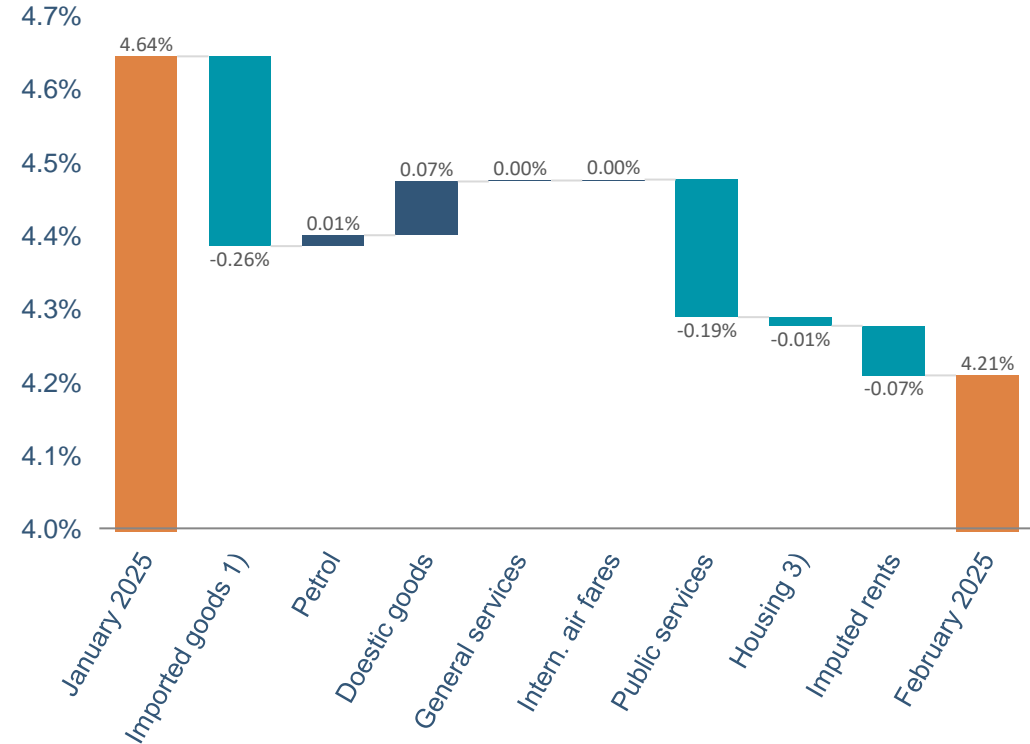
The decline in the contribution of imported goods to annual inflation is partly explained by the fact that January sales on clothing and footwear were reversed to a lesser extent in February this year than last. The decrease in the contribution of public services to annual inflation is due to significantly lower tariff increases by municipalities on waste collection, cold water and sewage fees this year compared to last year, when these items saw unusually large increases in February.

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

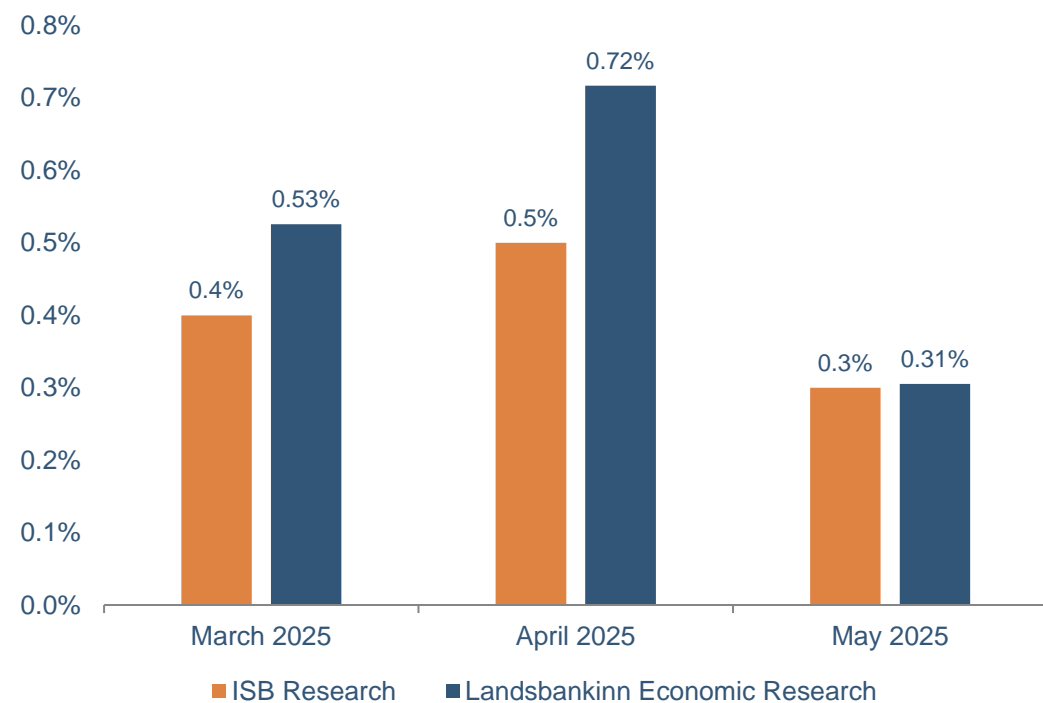


The outlook for the next months

We now expect the CPI to increase by 0.53% in March, 0.72% in April, and 0.31% in May. If the forecast holds, annual inflation will be 3.9% in March, rise to 4.1% in April and then decrease to 3.8% in May. The increase in April is largely due to the impact of Easter on international airfares. Last year, the first days of Easter were in March, causing the holiday's effect on airfares to be distributed between March and April. This year, Easter falls late in April, so we expect the entire impact on airfares to be reflected in that month.

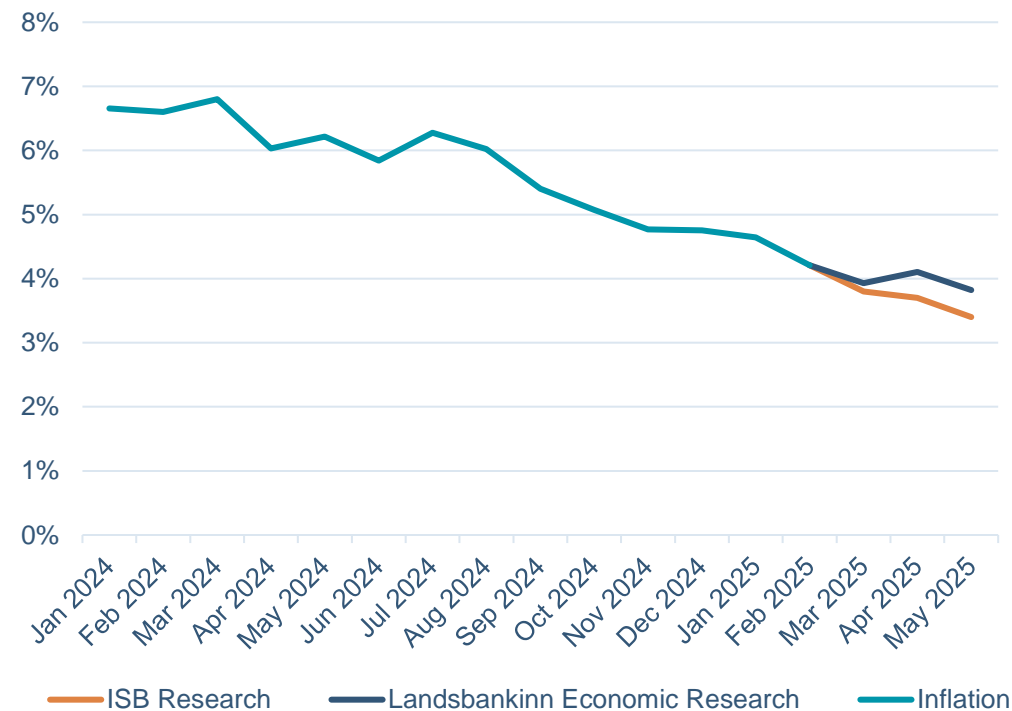
Inflation forecasts

MoM change



Inflation forecasts

12M inflation



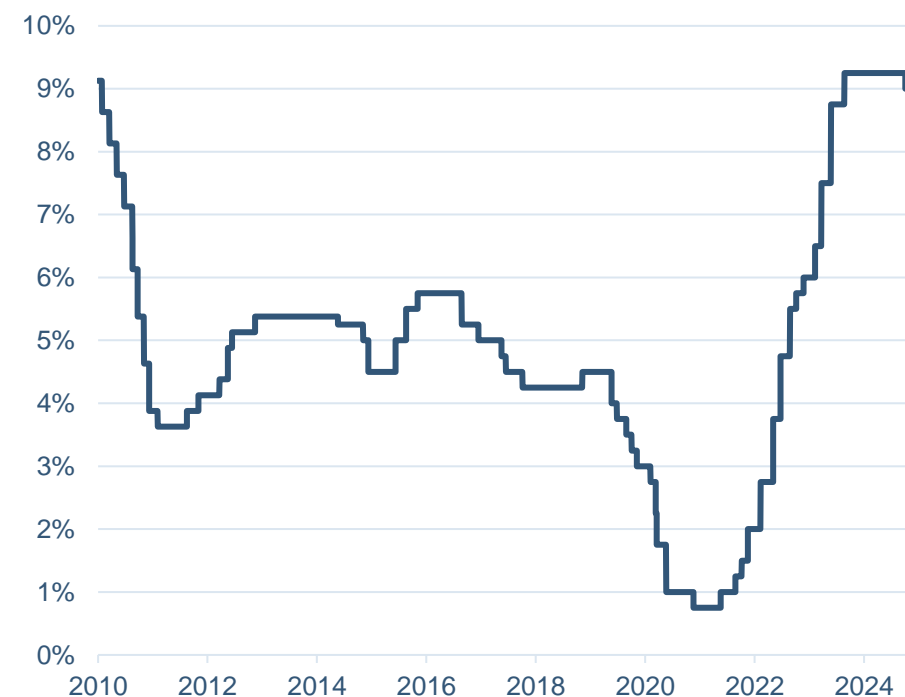
Policy rate

The Monetary Policy Committee lowered the policy rate by 0.5 pp at its February meeting. The MPC discussed both 0.25 and 0.5 pp cuts, with all Committee members supporting the decision. This was in line with our forecast of 0.5 pp decrease. According to the statement, inflation is expected to continue easing in the coming months yet remaining inflationary pressures necessitate a “continued tight monetary policy stance”. The next policy rate decision is on Wednesday, 19 March.

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	-0.50%	ÁJ, RS, TB, ÁÓP, HS			-0.50%	8.00%
19 March 2025						
21 May 2025						
20 Aug 2025						
8 Oct. 2025						
19 Nov. 2025						

Key interest rate of the Central Bank of Iceland

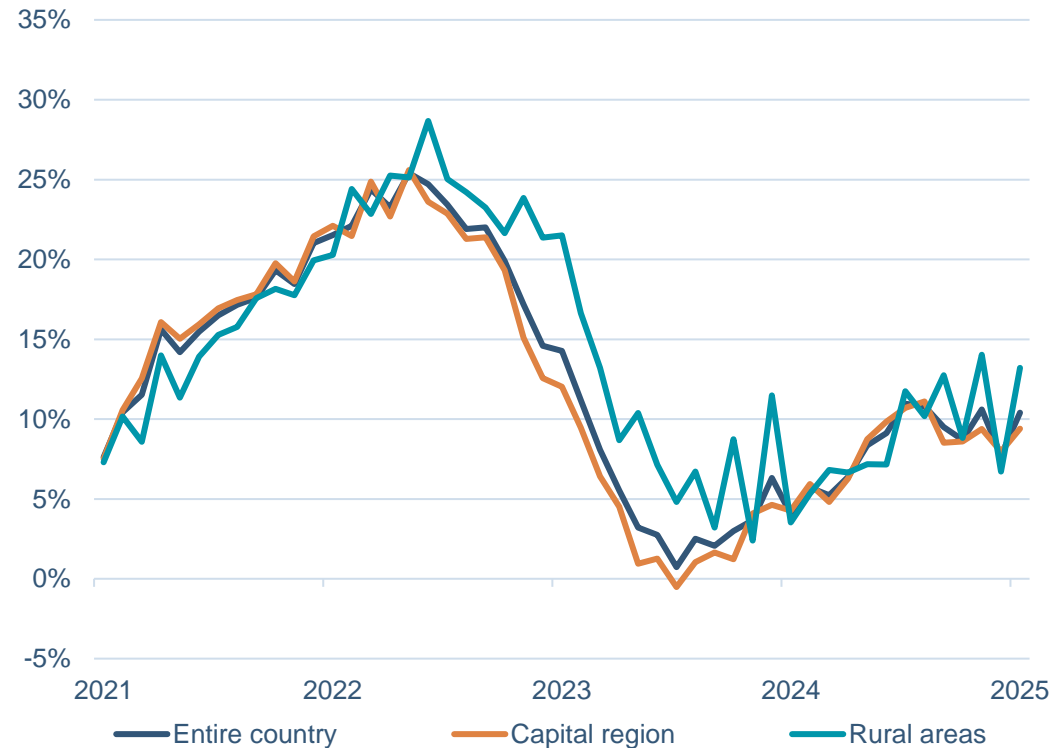


The real estate market

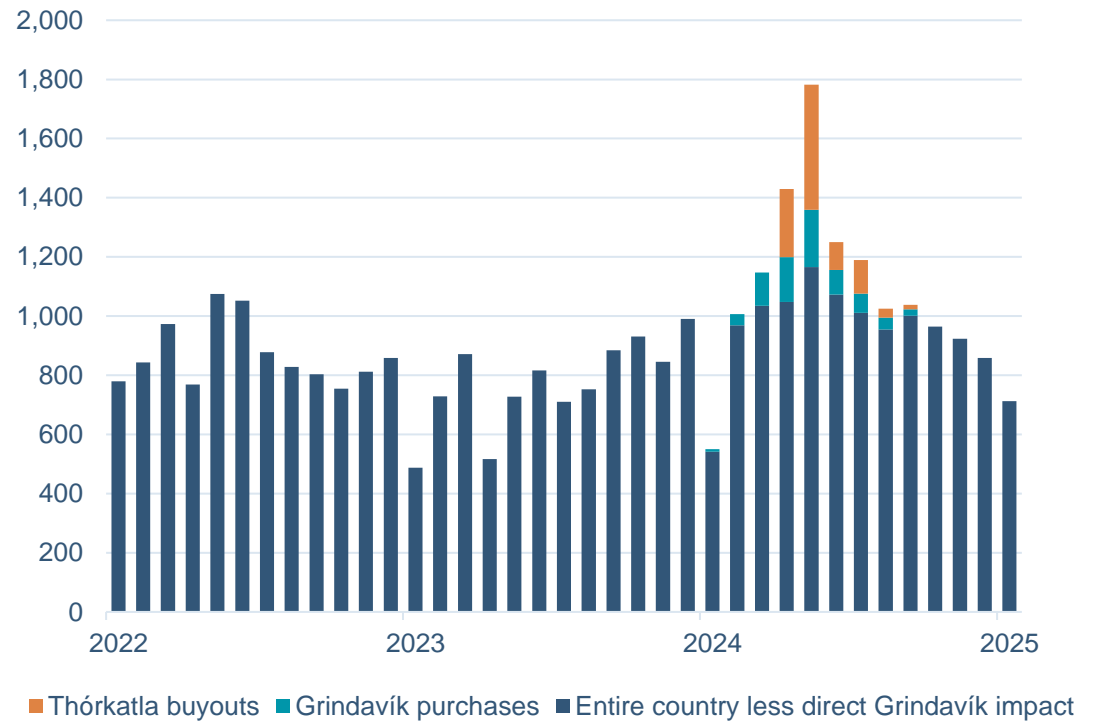
The housing price index rose by 1.5% between months in January and the annualised increase of the index grew from 7.7% to 10.4%. Single-family dwellings in the capital city area increased most, or by 3.7% of between months. Just over 700 purchase agreements for residential housing were concluded countrywide, decreasing in number between months for the fourth month running.

Housing price index

YoY change

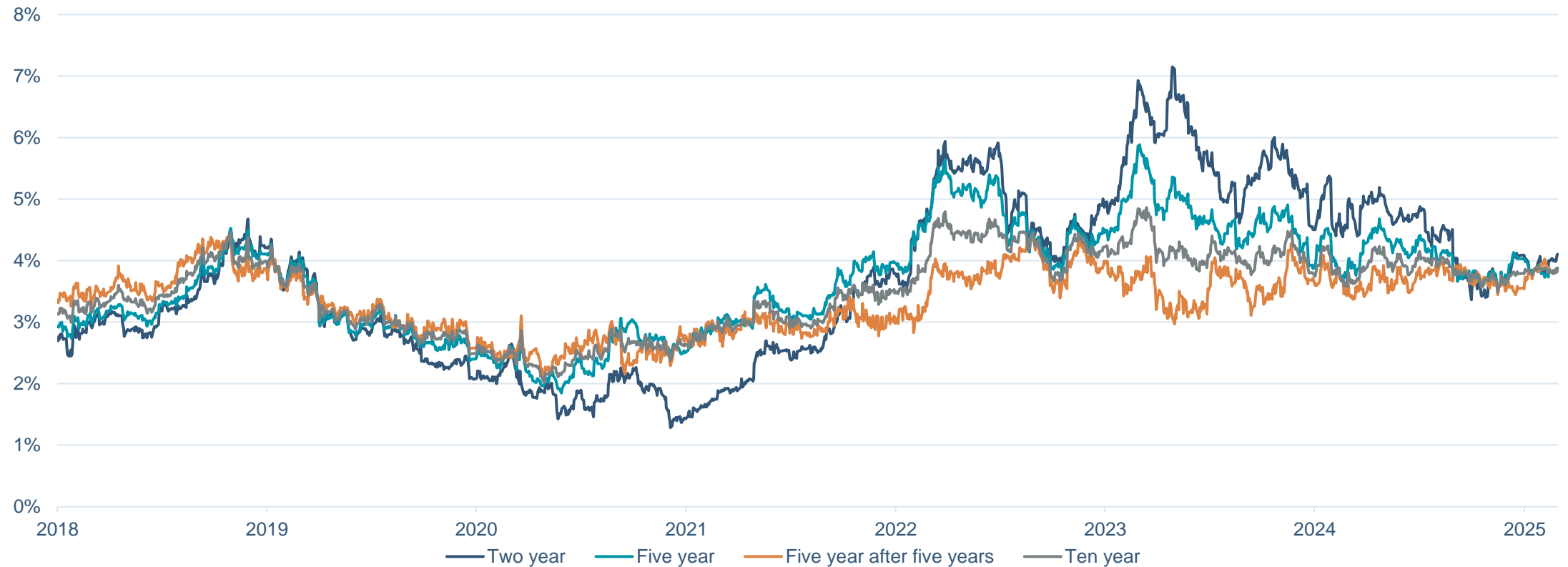


Signed purchase contracts - entire country



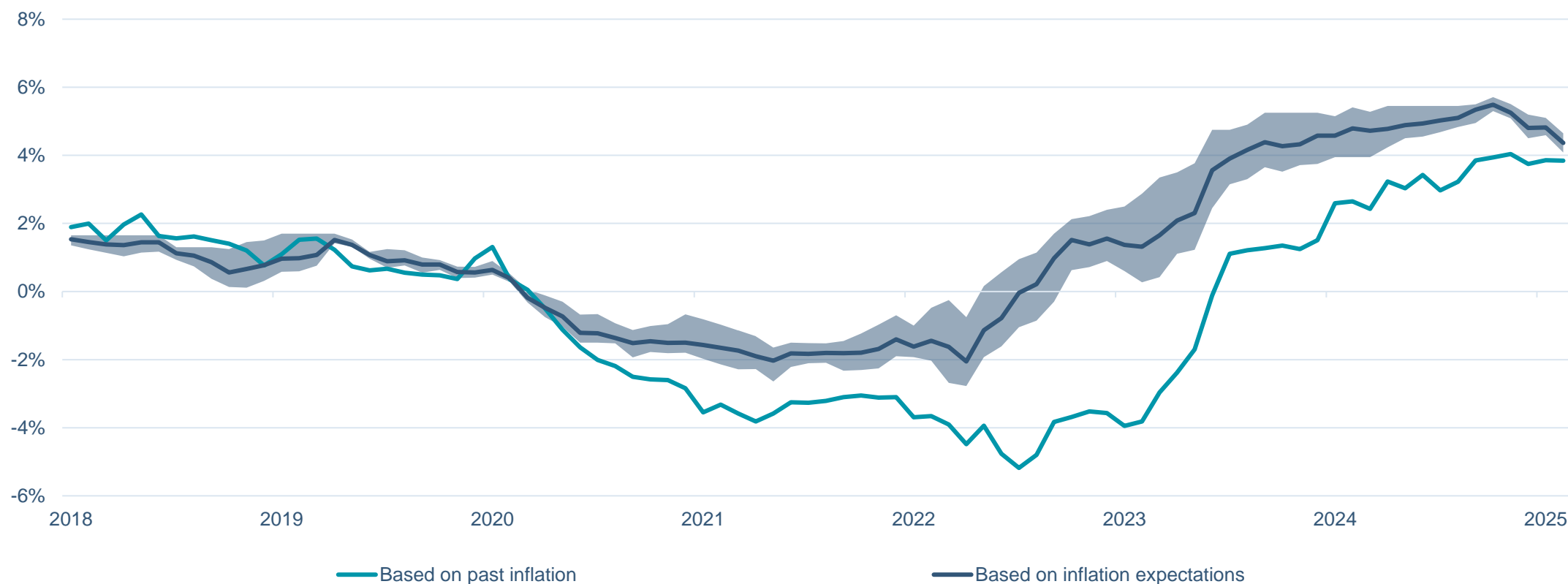
Break-even inflation rate on the bond market

The break-even inflation rate on the bond market is slightly higher in the short term than in the long term, standing at 4.1% over two years but 3.9% over five and ten years. In February, the two-year premium increased, while there was little change in the five and ten-year premium.



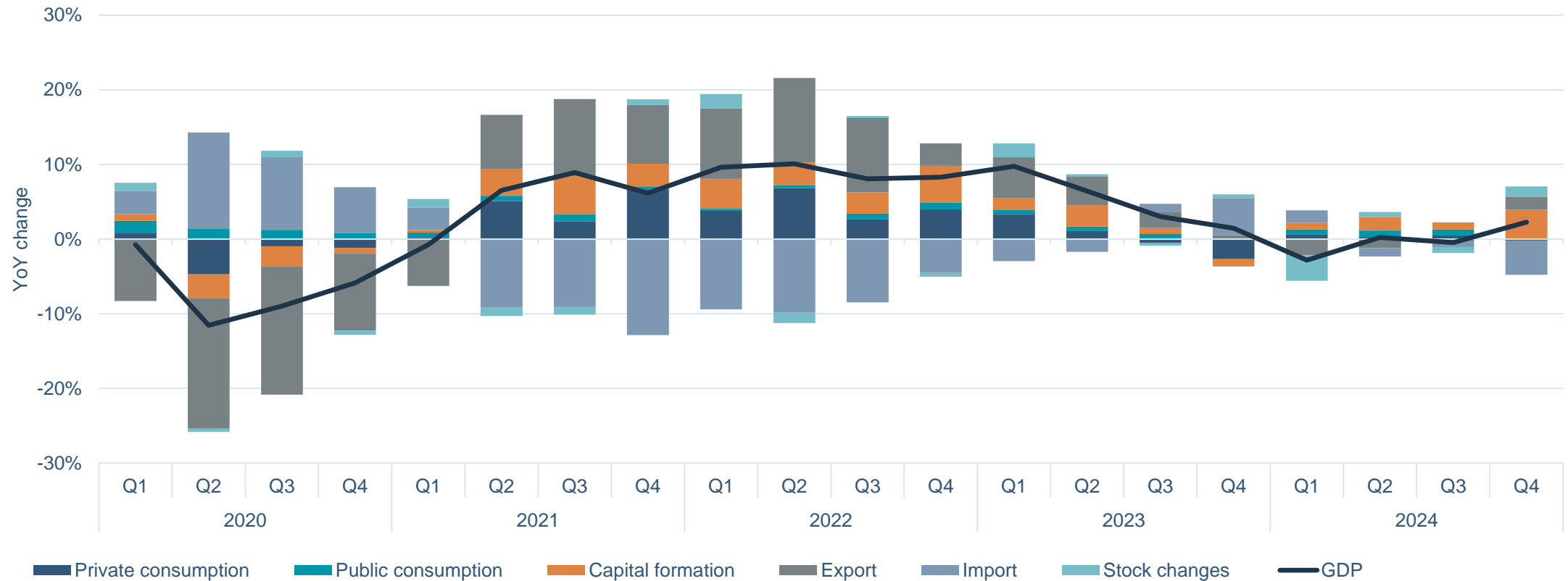
Real policy rate

The Monetary Policy Committee's level of restraint, based on past inflation, has remained fairly stable at around or just below 4% since last September. Based on the average of key inflation expectation measures, the level of restraint has decreased by approximately one percentage point since it peaked in October last year.



Gross domestic product

Gross domestic product (GDP) grew by 2.1% in the fourth quarter, according to newly released national accounts from Statistics Iceland. The final quarter of the year was the most active of 2024, but overall, Statistics Iceland estimates that GDP growth for the year was 0.5%. Growth towards the end of the year was largely driven by an increase in investment. However, this was offset by a significant rise in imports, mainly due to investment goods.



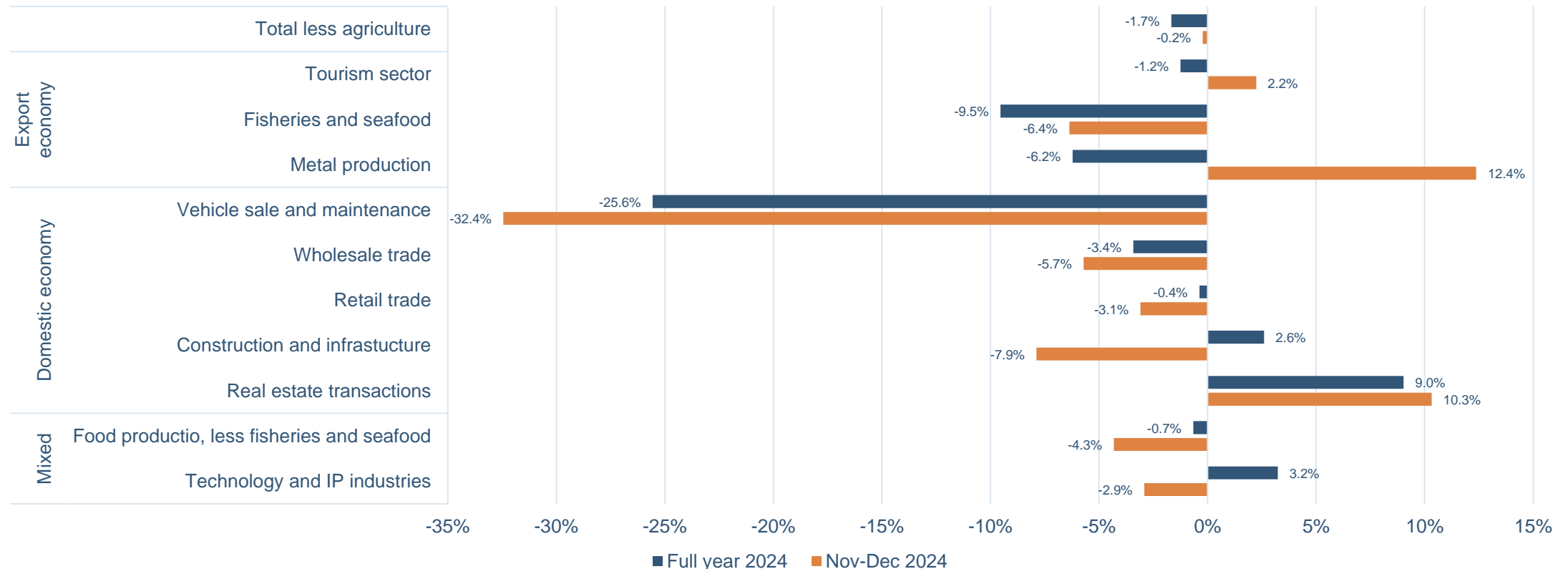
Source: Statistics Iceland

An error was found in previously published data from Statistics Iceland. GDP increased by 0.5%, not 0.6% in 2024 and 2.1% in the fourth quarter of 2024, not 2.3%, as was presented prior to the correction.



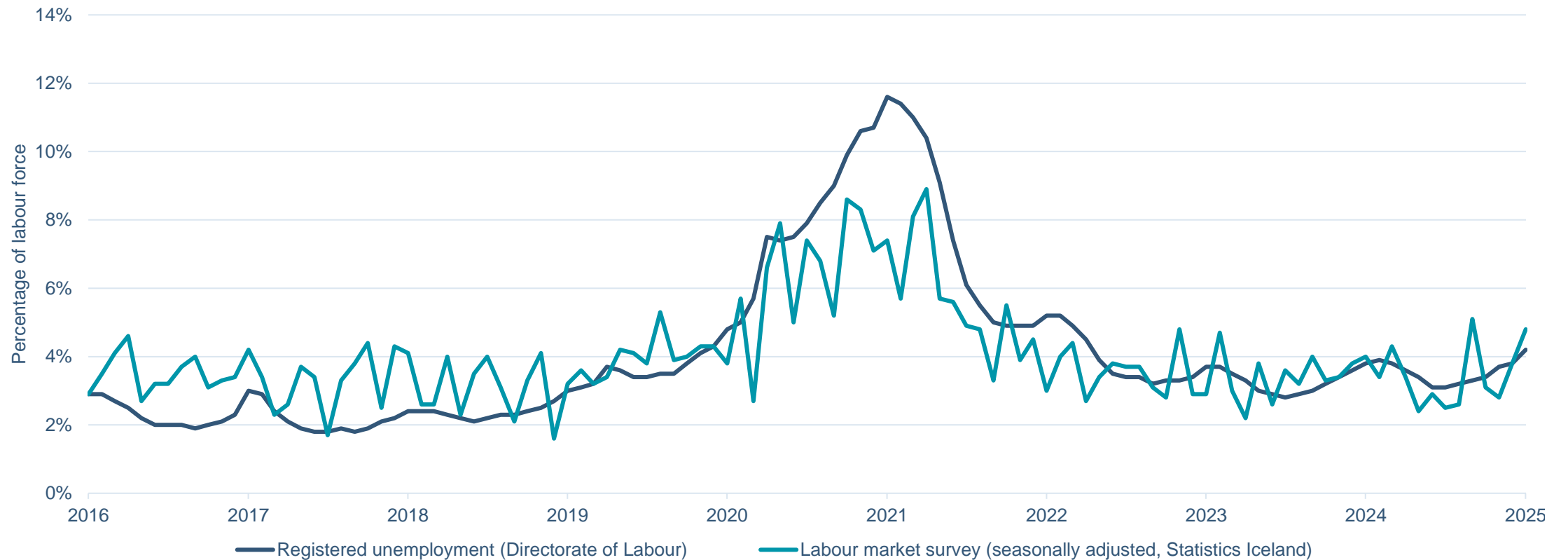
Turnover based on VAT reports

During the VAT period of Nov-Dec last year, turnover contracted YoY after adjusting for price levels. That being said, increased turnover was observed in tourism and metal production, which contrasts with the overall trend for the year in these two sectors. The increased turnover in metal production can be attributed to higher global aluminium prices. The volume of real estate transactions continued to grow, largely driven by increased rental income from commercial properties. Notably, a YoY decline was observed in construction and civil engineering activity in November and December, which deviates from the trend for the year as a whole. The sharp contraction in vehicle sales and maintenance persisted.



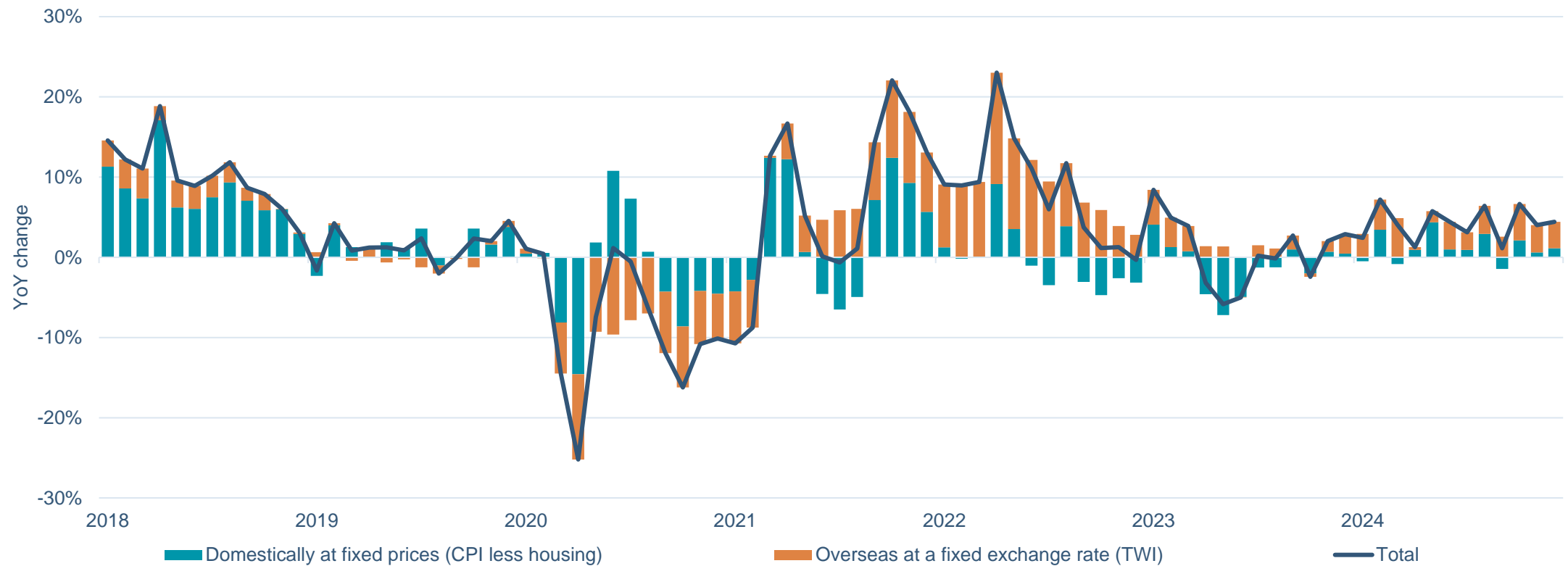
Unemployment

Registered unemployment with the Directorate of Labour was 4.2% in January, up from 3.8% in December. Unemployment was 0.4 pp higher in January of this year than January 2024. This is a slightly more pronounced YoY difference than in the past few months - it ranged between 0.2-0.3 pp in the second half of 2024. Seasonally adjusted unemployment according to the labour market survey of Statistics Iceland was 4.8%.



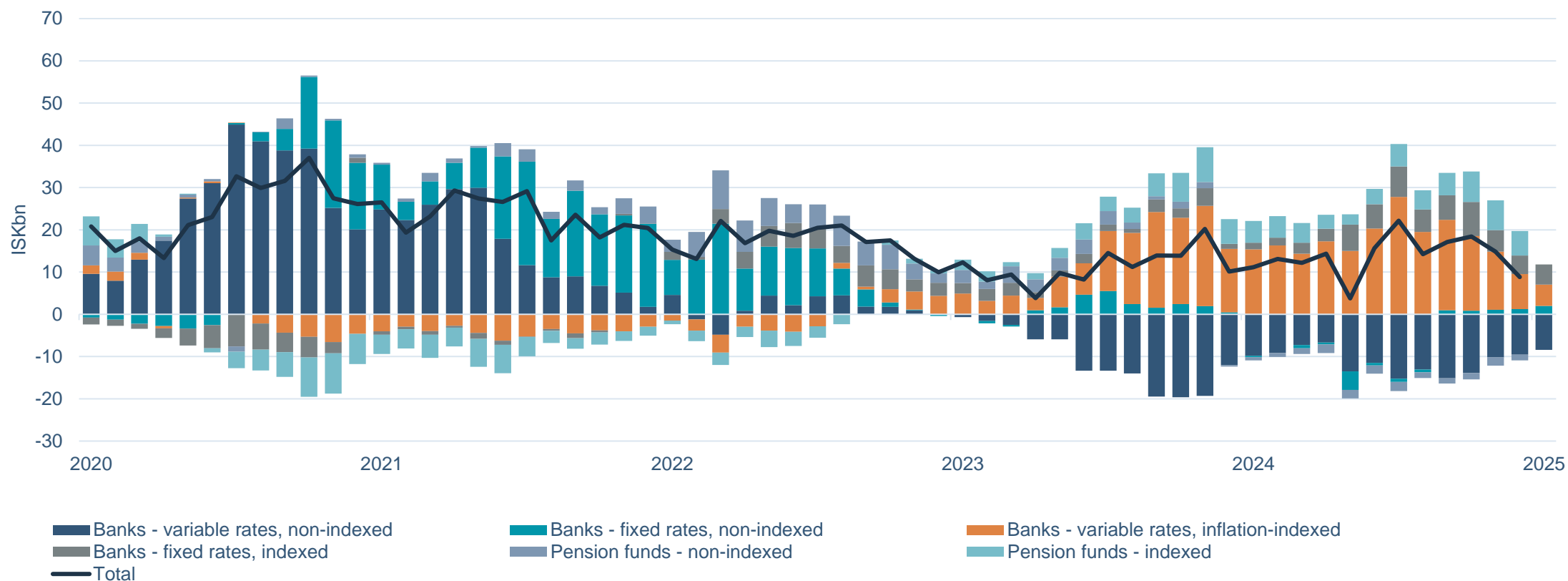
Payment card turnover of Icelandic households

Total payment card turnover by Icelandic households was ISK 123 bn in January and is up by 6.5% between years, having regard for price and exchange rate changes. Domestic household card turnover increased by 3.4% in real terms between years and by 18.8% internationally, measured at a fixed exchange rate. Icelanders set a record in international travel in January and consumption does not appear to ease at all, despite high real interest rates.



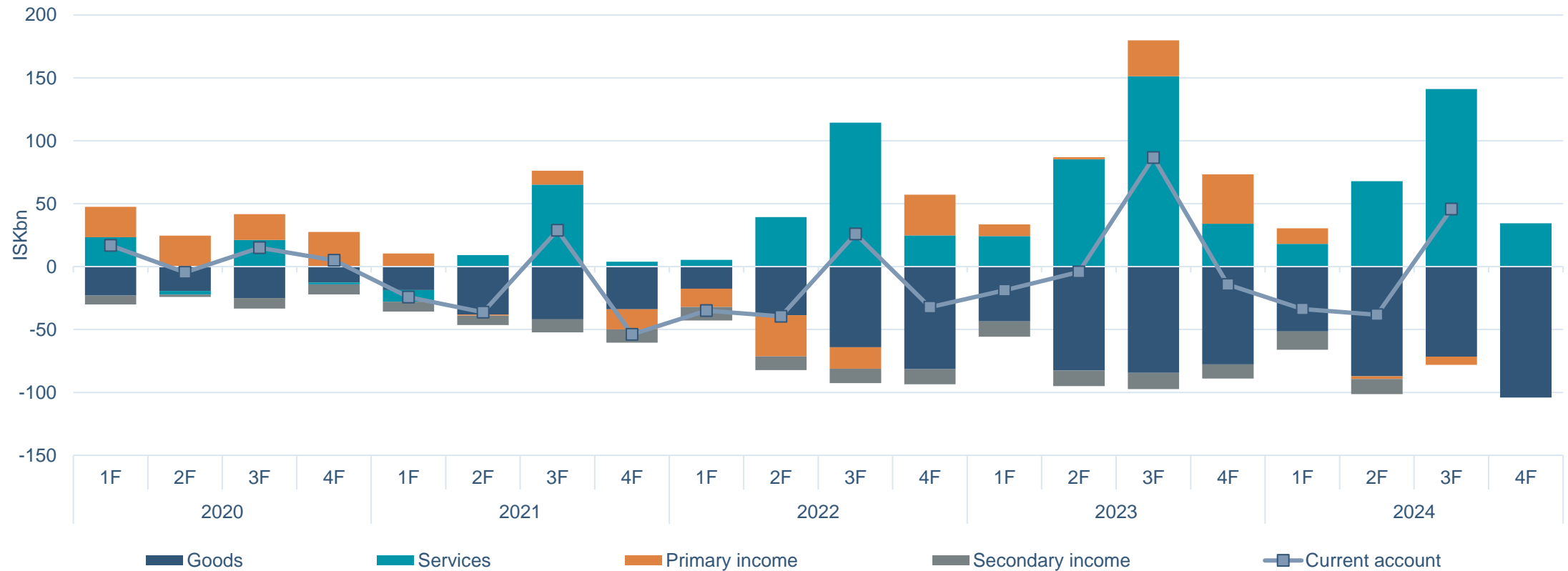
Net new housing mortgages

Net new housing mortgages by deposit institutions amounted to ISK 3.4 bn in January. Of that figure, ISK 9.8 bn represents net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 6.4 bn. Net repayment of non-indexed loans has fallen compared to mid-2024, as has net new inflation-indexed borrowing.



Current account

In the fourth quarter of last year, the foreign trade balance recorded a deficit of nearly ISK 70 bn. This is about ISK 26 bn worse than in the same quarter the previous year. The weaker outcome is primarily due to more goods imports, including an unusually large volume of equipment for data centre development.

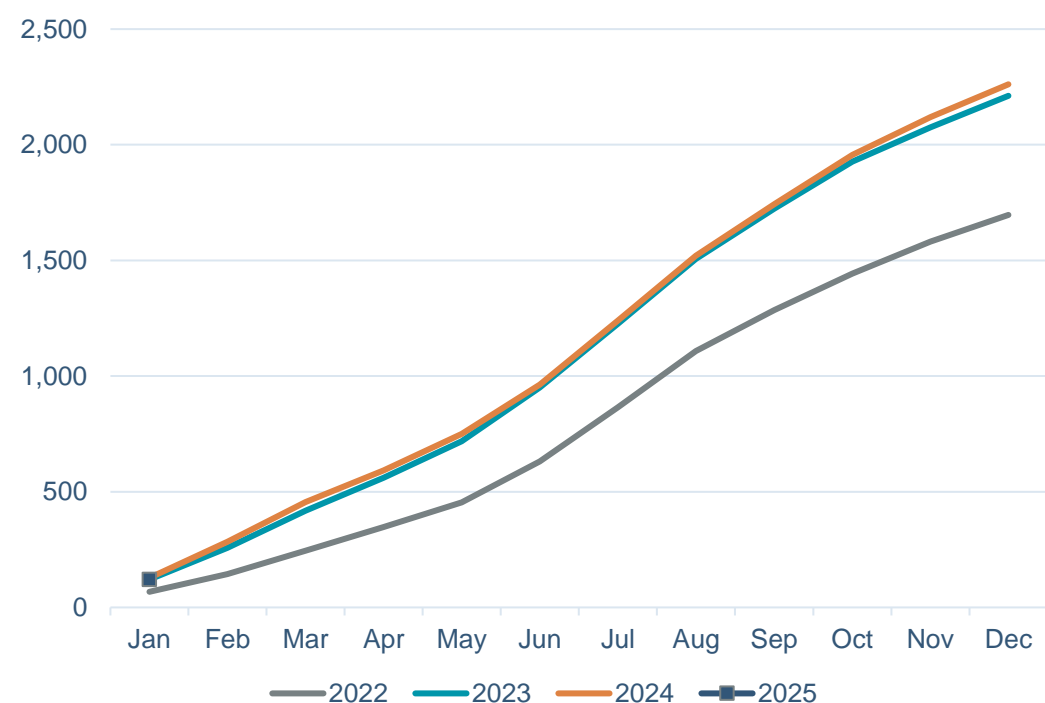


State of the travel sector

121,000 foreign travellers departed from Keflavík International Airport in January, which is a 5.8% decrease YoY. Conversely, non-domestic payment card turnover grew by 7.3% between years in January at fixed prices and by 14.9% at a fixed exchange rate. The increase in payment card turnover was lower than the previous month, a trend that corresponds to tourist numbers.

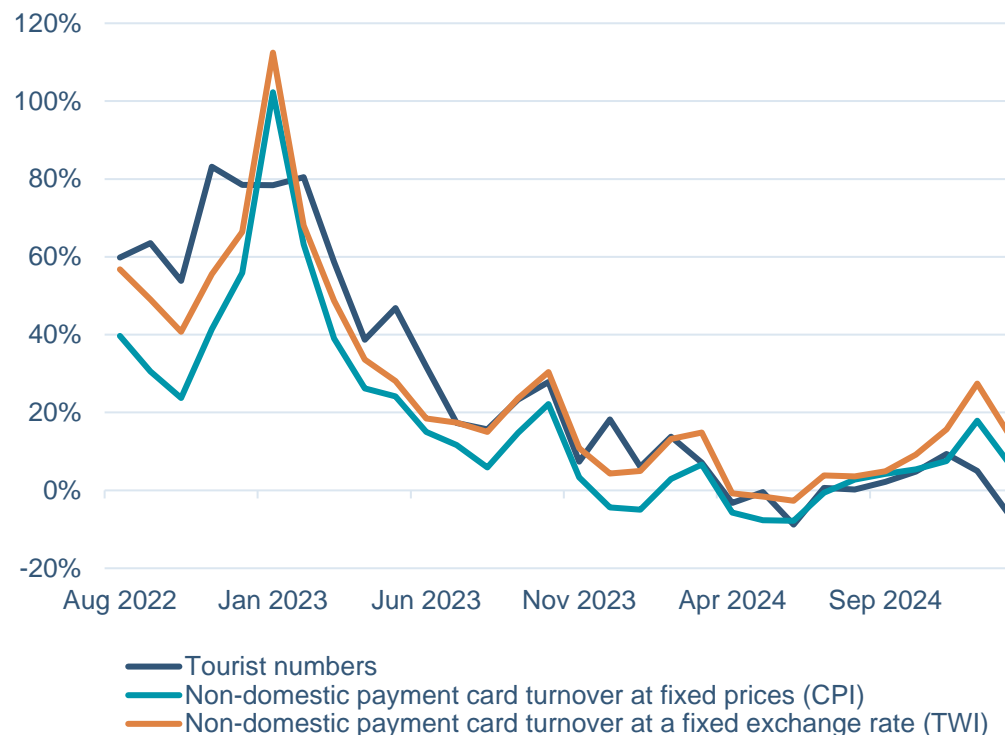
Acc. tourist numbers

Thousand individuals



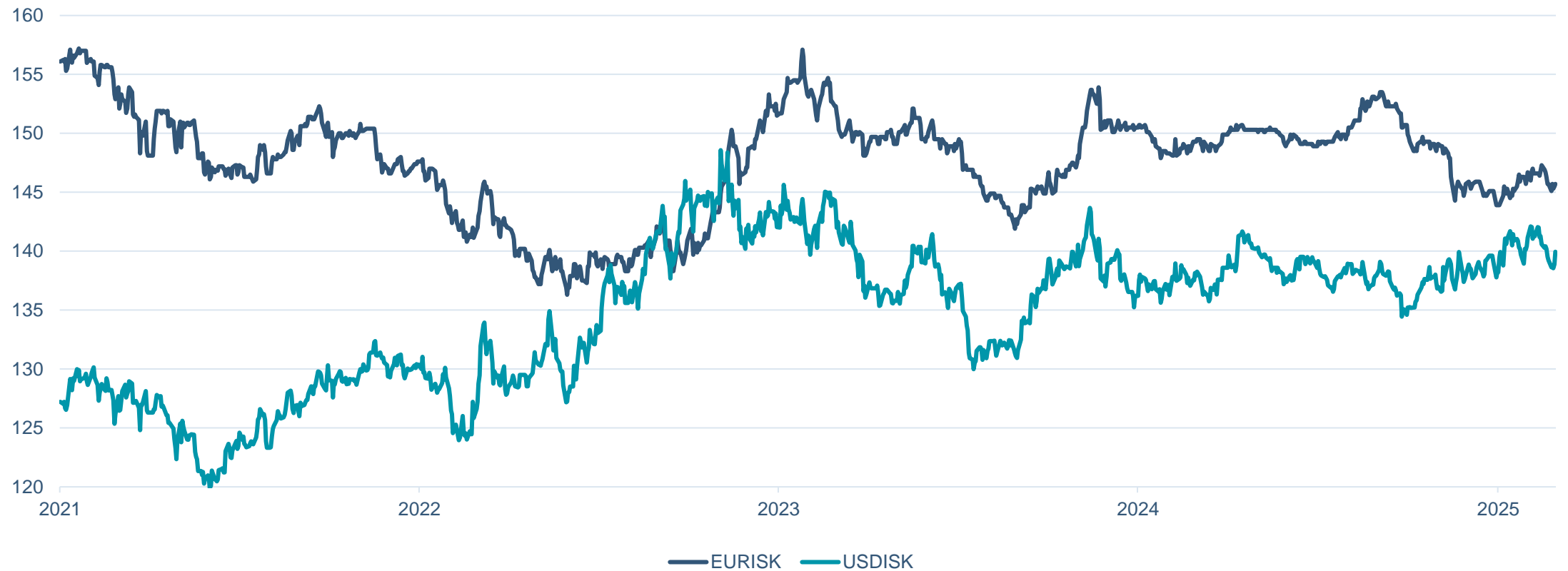
Development of key indicators

YoY change by month



ISK exchange rate

The ISK strengthened against the euro and the US dollar in February. At the end of the month, the EUR was 145.7 (ISK -1.0 as compared to the end of January) and the USD was 140.0 (ISK -1.2 as compared to the end of January)



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.



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