



Economic Research Monthly Newsletter

February 2025

Landsbankinn Economic Research

Market events - February 2025

Monday	Tuesday	Wednesday	Thursday	Friday
Inflation in the eurozone 3	4	5 Policy rate decision and publication of the CBI's Monetary Bulletin (CBI) Festi publishes results	6 Sjóvá and SKEL publish results Bank of England policy rate decision	7 Unemployment in the US
Registered unemployment in Jan (DL) 10	11 Departures from Keflavík International Airport (ITB)	12 Arion Bank and Kvika Bank publish results Inflation in the US	13 Eik, Heimar and Íslandsbanki publish results	14
Payment mediation in Jan. (CBI) 17	18 Housing price index for Jan. (HCA) Síminn publishes results	19 Rental price index for Jan. (HCA) Minutes of the Monetary Policy Committee (CBI) Sýn publishes results Inflation in the UK	20 Monthly report (HCA) Skaginn and Sýn publish results	21 Wage index in Jan. (SI)
24	25	26 Turnover based on Nov-Dec. VAT reports (SI) Alvotech and Iceland Seafood publish results	27 Consumer price index for Feb. (SI) Goods and services balance in Q4 (SI) Overnight stays in Jan. Brim and Nóva klúbburinn publish results	28 National accounts for Q4 (SI)

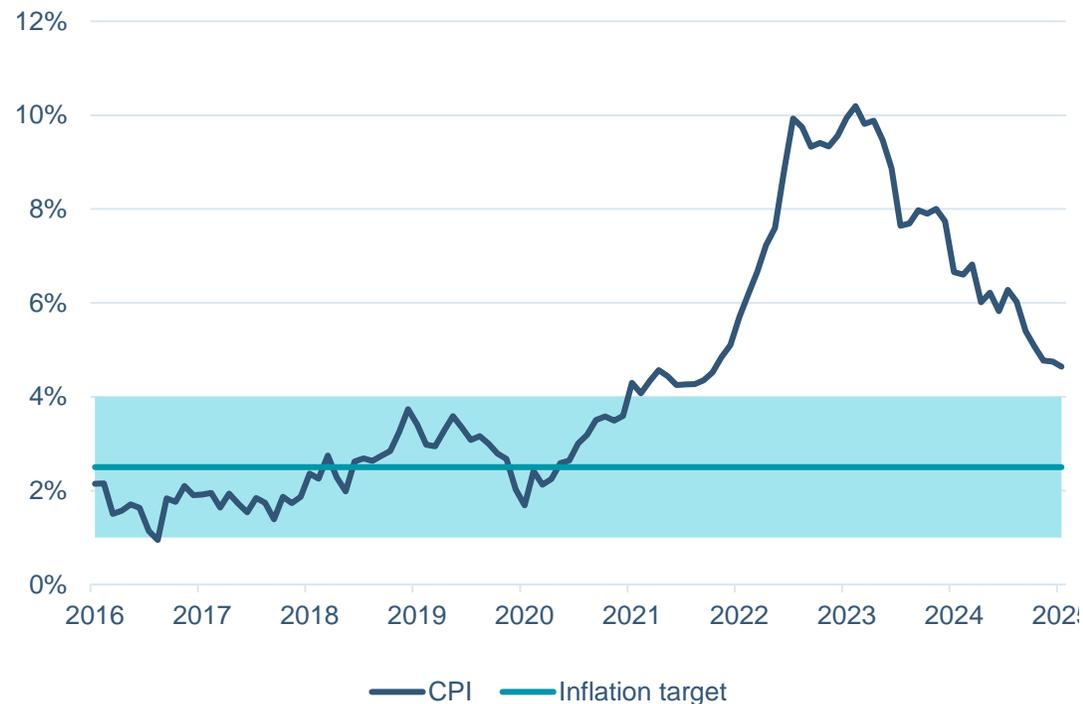


Inflation

The CPI rose by 0.27% between months in January and inflation receded from 4.8% to 4.6%. 12-Month inflation less housing increased slightly, from 2.8% to 3.0%. The decrease in inflation is mainly caused by a lower housing component. Core index 4, which excludes housing and various fluctuating components, rose between months, partly due to slacker January sales this year as compared to 2024.

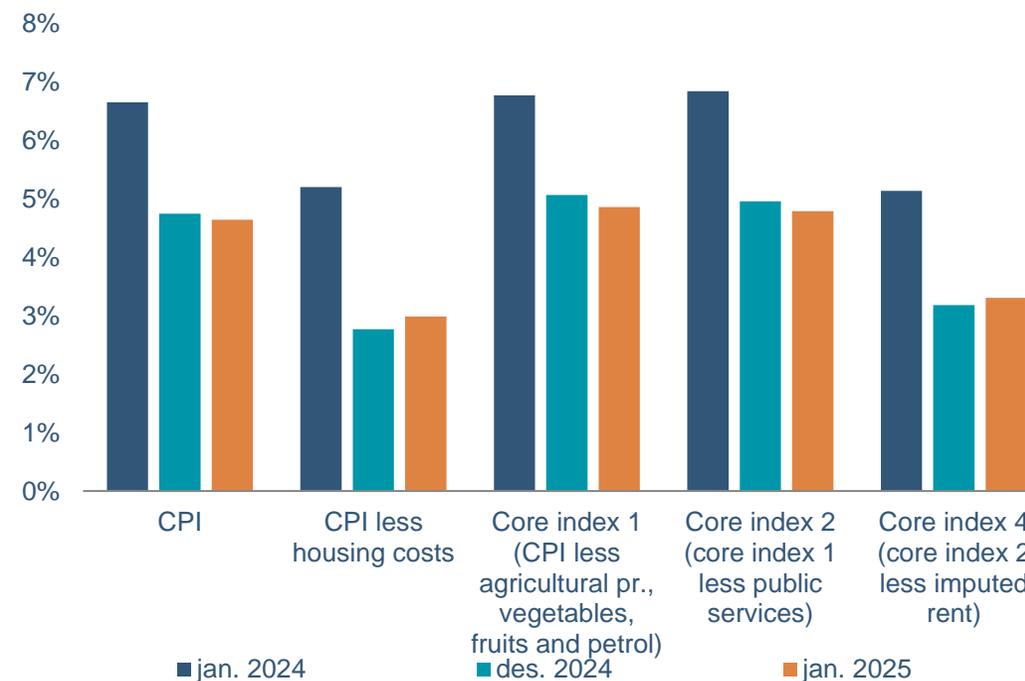
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

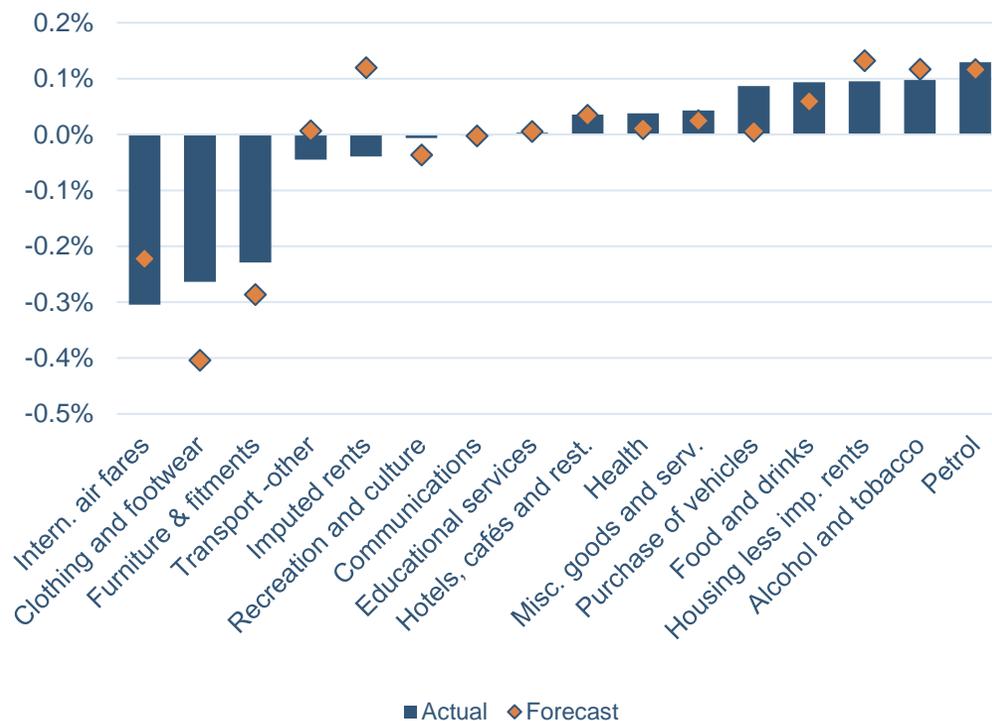
YoY change



MoM change in the CPI

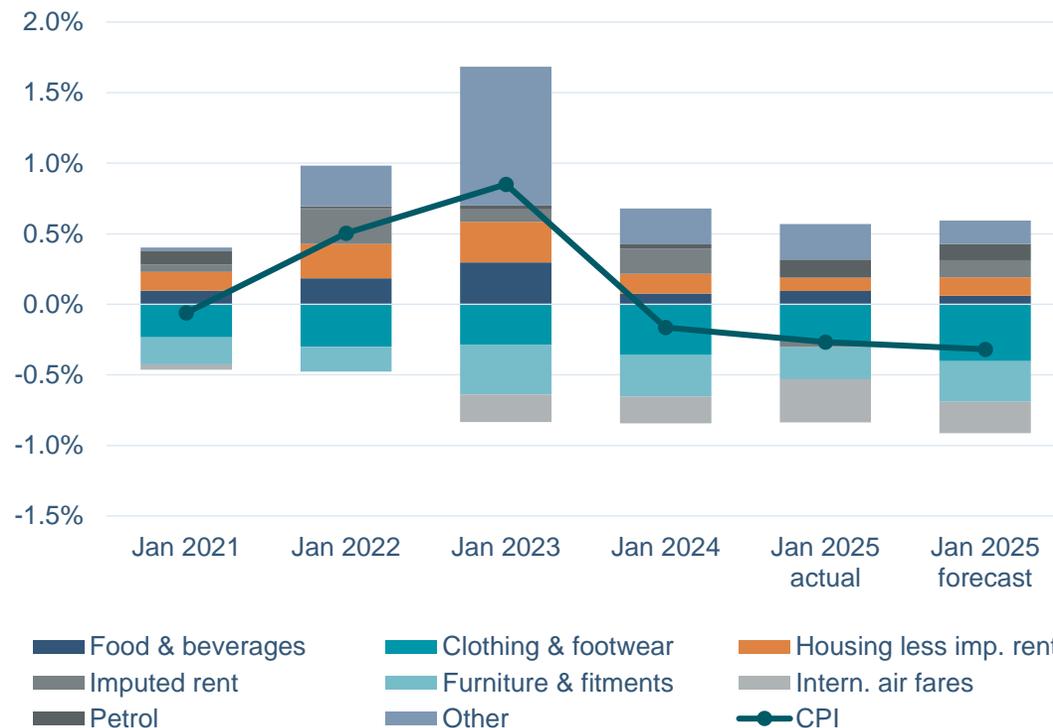
We expected a slightly larger decrease of the index between months, or 0.32%. The main surprises in the measurement came from slacker January sales than expected. This was offset by a decrease in imputed rent between months in January - we had expected an increase. The price of new cars rose unexpectedly between months and international air fares fell more than we anticipated.

Contribution of components in January



January CPI measurements

MoM change and weight of components

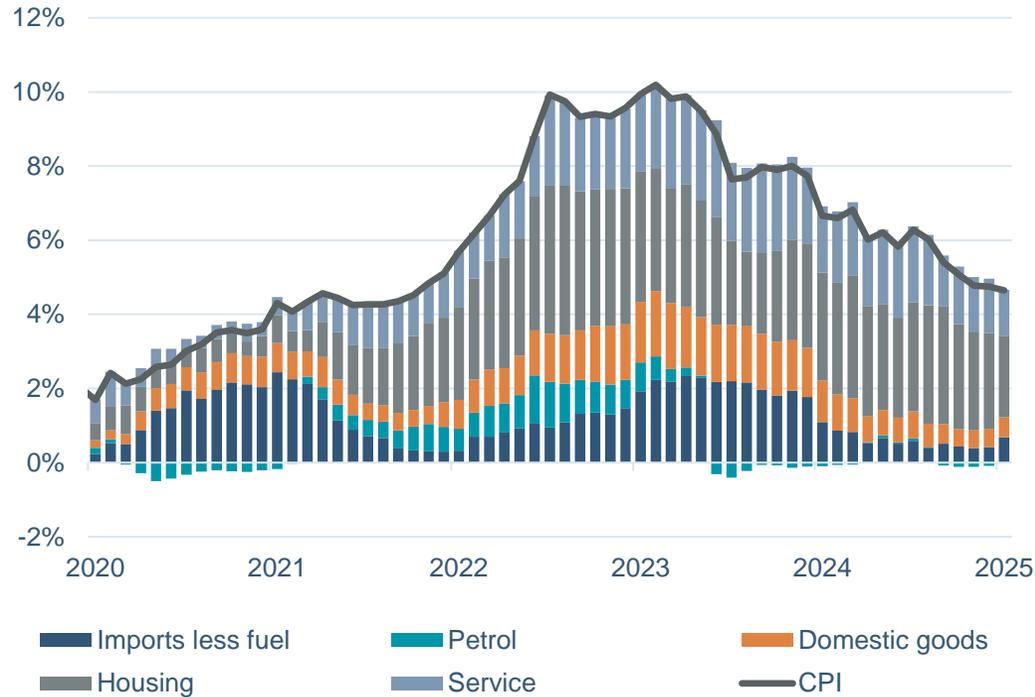


Composition of 12M inflation

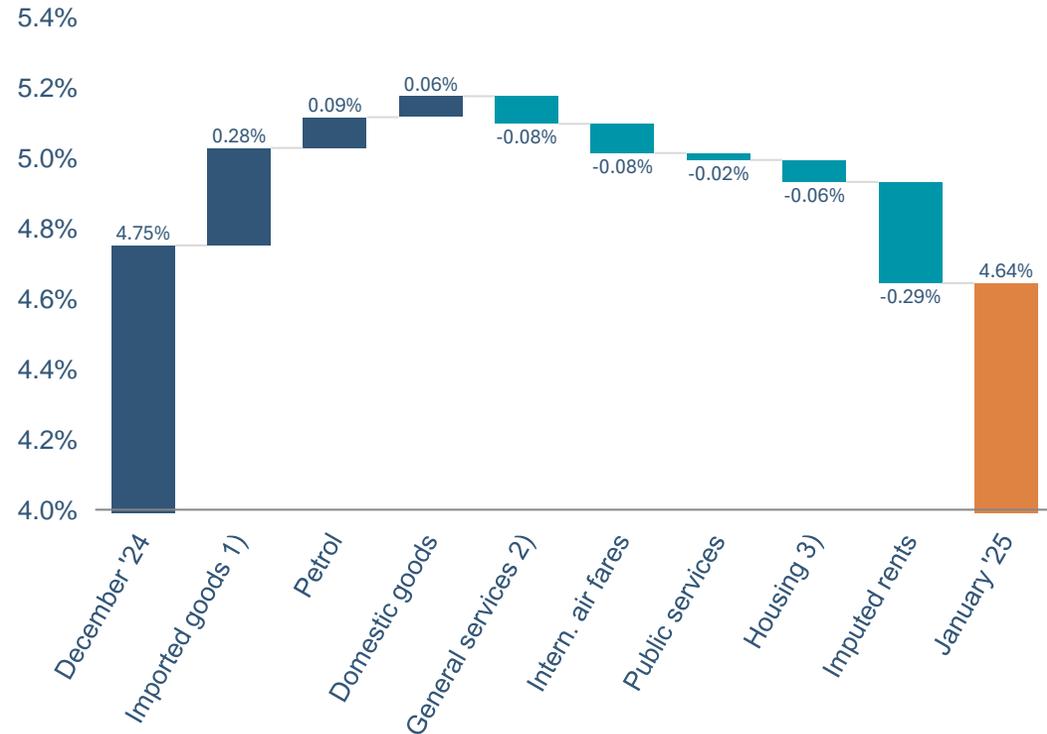
The contribution of goods prices to inflation increased MoM, largely due to weak January sales compared to last year. The contribution of imputed rent to annual inflation has decreased in recent months due to lower price increases compared to the same period last year. This January marked the first recorded decline in imputed rent since Statistics Iceland adopted its new methodology to assess that component, leading to a notable reduction in its contribution to inflation.

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

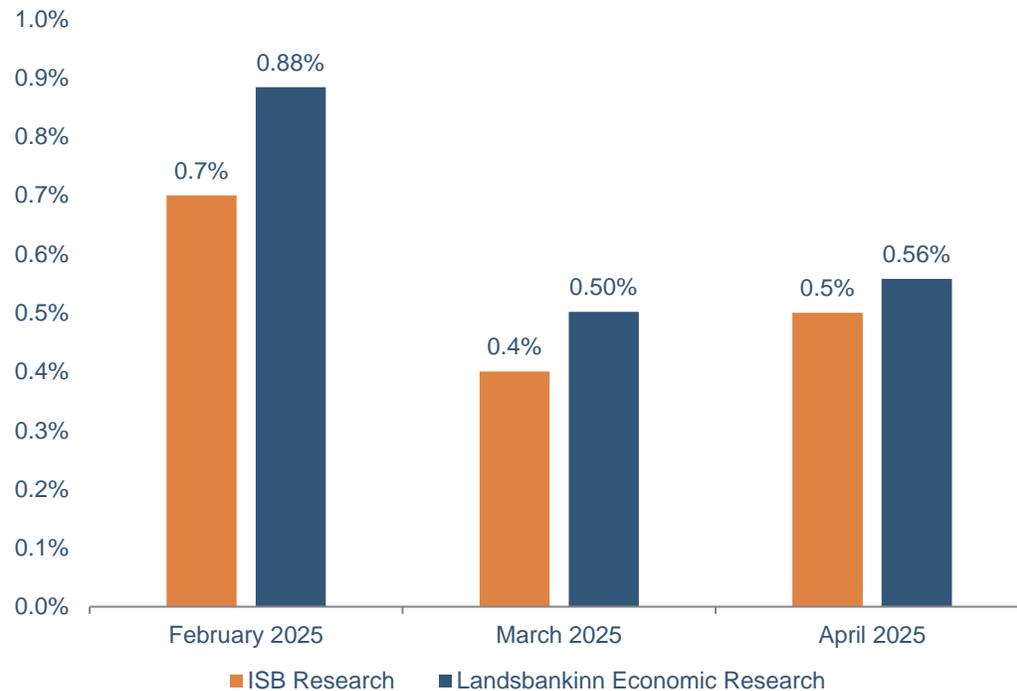


The outlook for the next months

We now expect the CPI to increase by 0.88% in February, rise by 0.50% in March and 0.56% in April. If the forecast holds, annual inflation will be 4.2% in February and 3.9% in March and April. According to the forecast, about half of the expected decline in inflation over the coming months will be due to a reduced contribution from imputed rent. This is because months with significant increases in imputed rent from 2024 will drop out of the annual inflation calculation in the coming months.

Inflation forecasts

MoM change



Inflation forecasts

12M inflation



Policy rate

We consider it most likely that the MPC will lower the policy rate by 0.5 pp in February. Inflation has receded by 0.5 pp from the MPC's last meeting. Lowering the policy rate by 0.5 pp would move the real policy rate compared to past inflation back to the same value it had following the last decision and in effect mean an unchanged monetary stance.

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

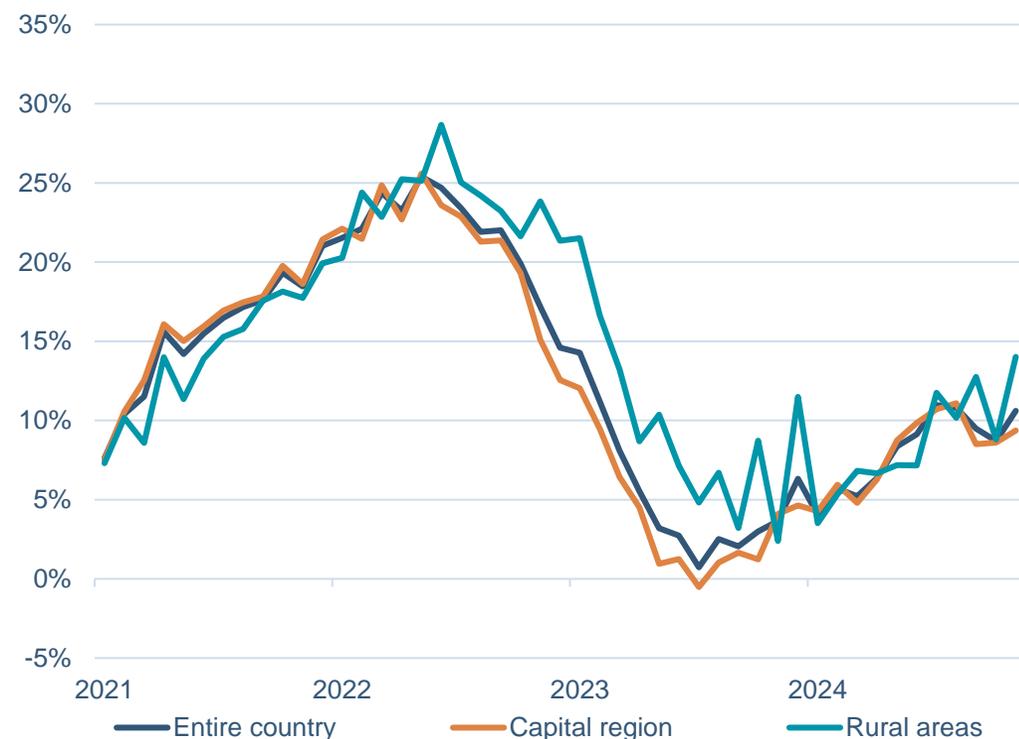


Housing price index

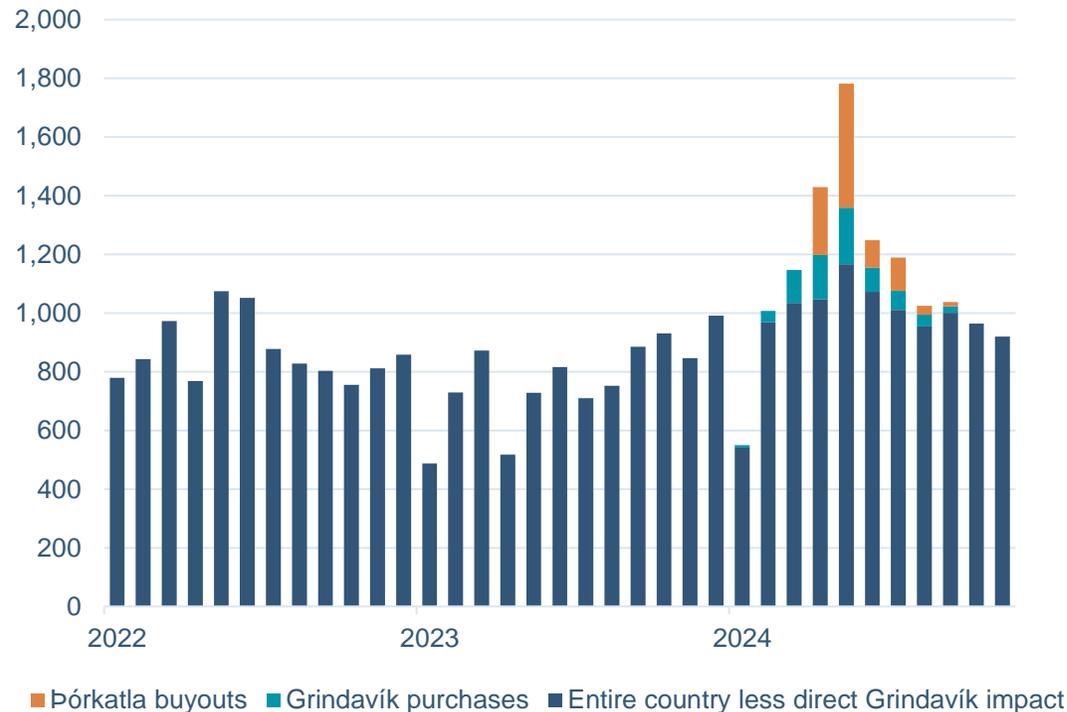
The housing price index decreased by 0.6% between months in December. The biggest impact comes from a 2.2% decrease in the price of single-family homes in the capital area. The 12-month increase of the index fell from 10.6% to 7.7%. Despite this decrease between months, the 12-month increase in the housing price index is somewhat higher than general price increases. A total of 920 purchase contracts were concluded country-wide in November, 9% more than in the same month of 2023.

Housing price index

YoY change



Signed purchase contracts - entire country



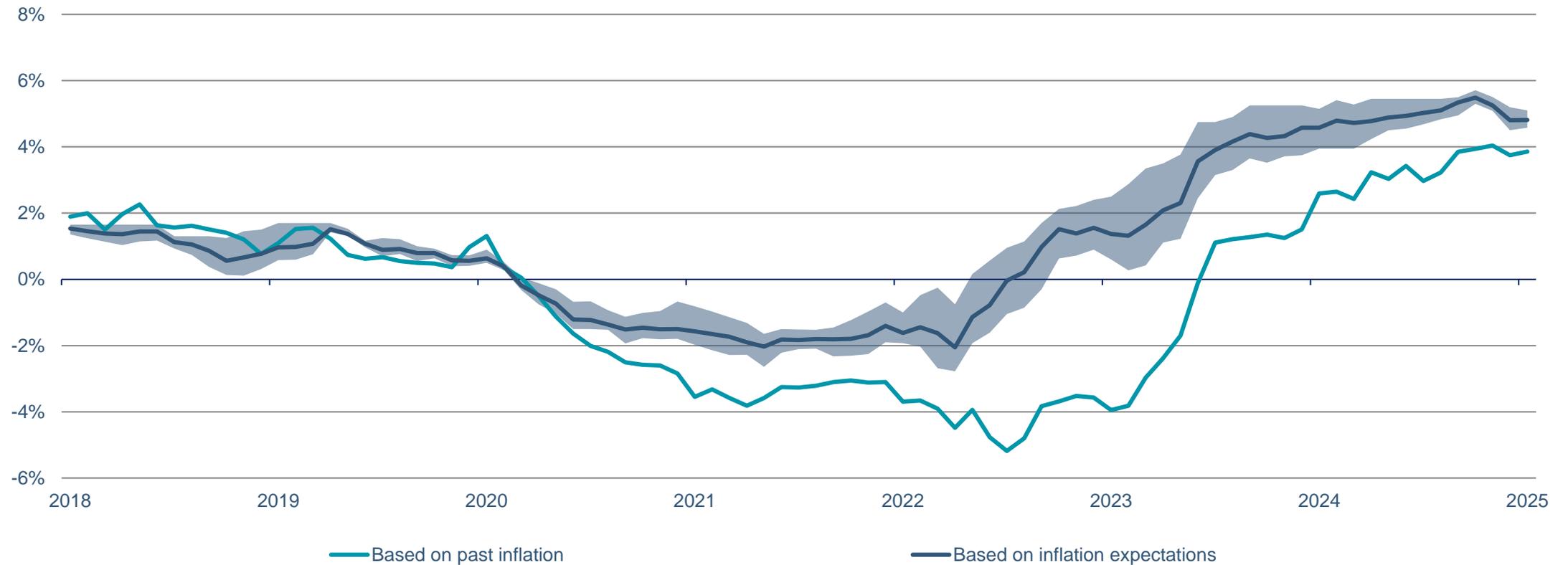
Inflation premium on the bond market

The inflation premium in the bond market is now very similar in both the short and long term, just below 4 pp. The premium for two-year and five-year bonds declined in January, while it increased five-year after five years, as well as for ten-year bonds.



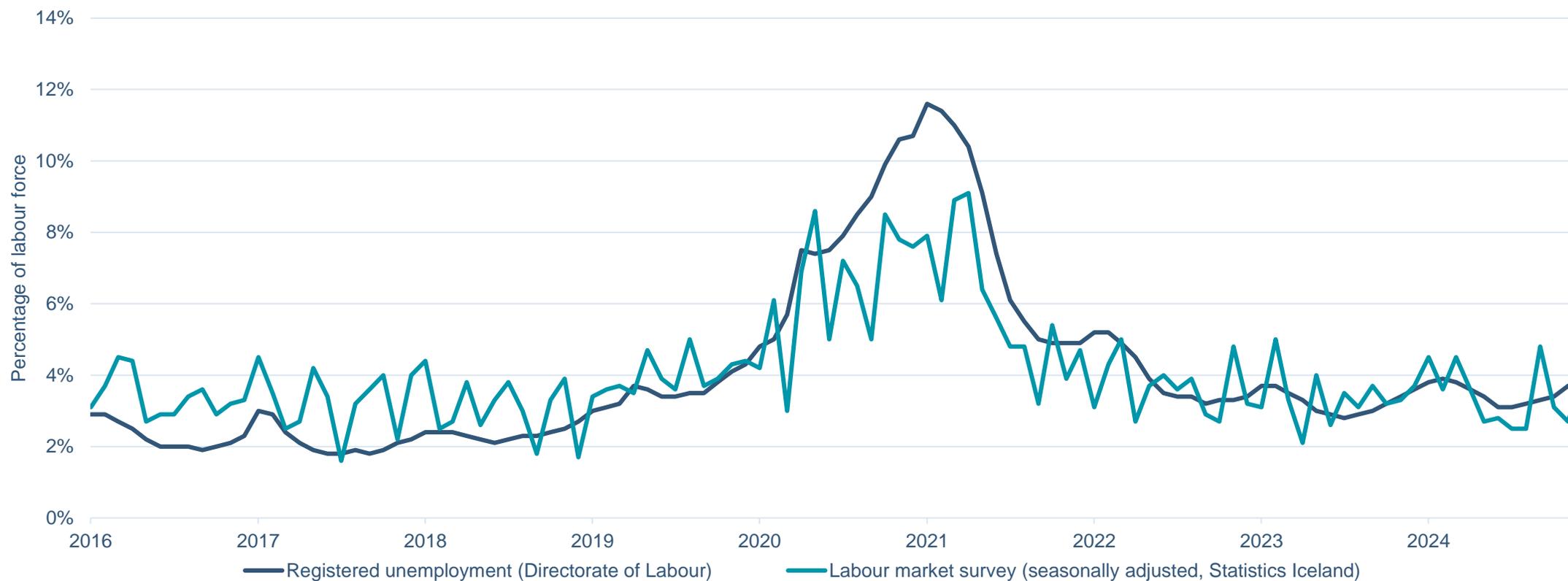
Real policy rate

Real policy rates, based on past inflation, increased slightly MoM in January. When measured against the average of various inflation expectation indicators, they remained unchanged. It is likely that real policy rates will decline slightly again following the next interest rate decision.



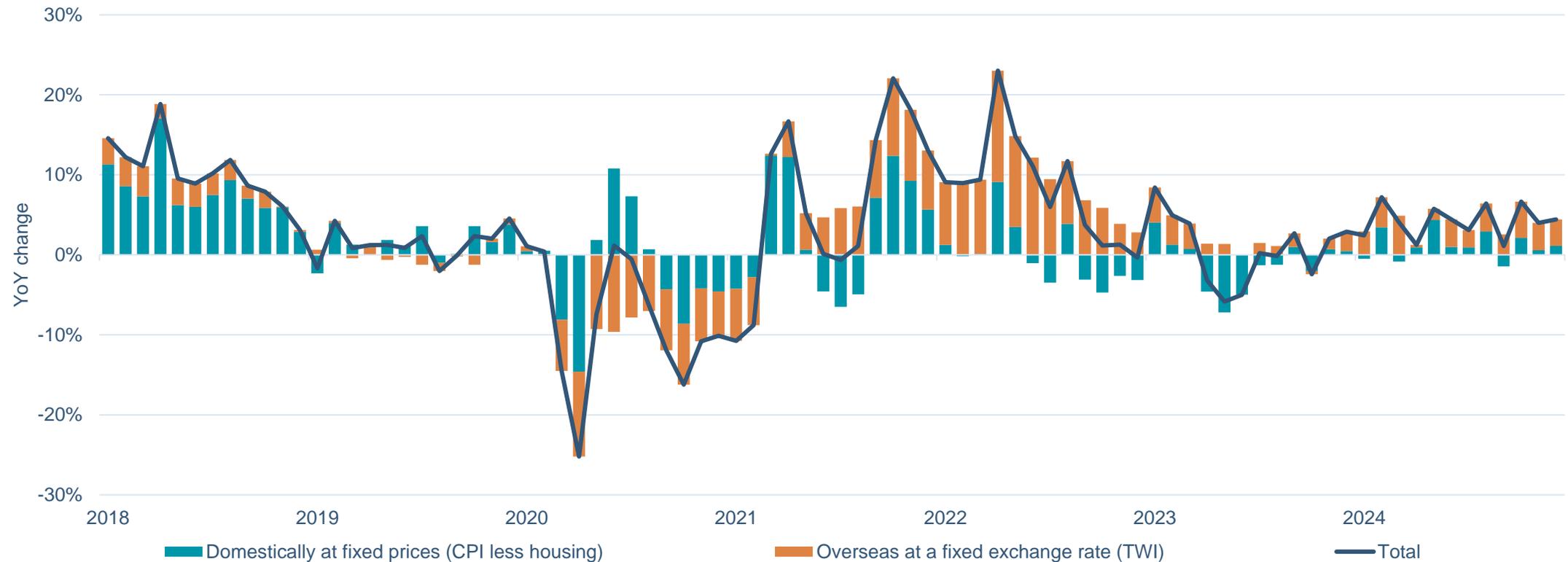
Unemployment

Registered unemployment with the Directorate of Labour was 3.8% in December, up from 3.7% from November. Unemployment generally increases between months in December. Unemployment was 0.2 pp higher in December than in same month the previous year, a YoY difference that continues the trend of recent months. Seasonally adjusted unemployment according to the labour market survey of Statistics Iceland was 3.9%.



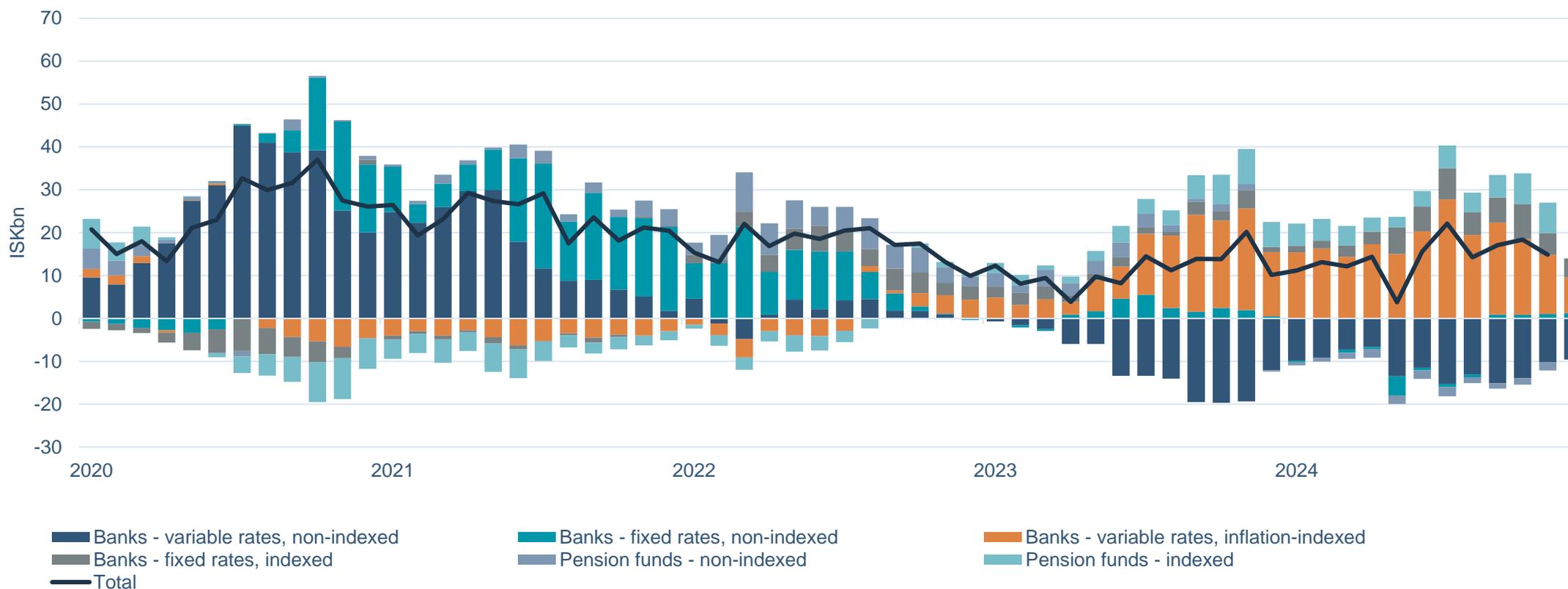
Payment card turnover of Icelandic households

Total payment card turnover by Icelandic households was ISK 127 bn in December and is up by 4.4% between years, having regard for price and exchange rate changes. Domestic payment card turnover by Icelandic households increased by 1.4% YoY in real terms and increased by 18.2% YoY overseas at a fixed exchange rate.



Net new housing mortgages

Net new housing mortgages with the commercial banks amounted to over ISK 4 bn in December 2024. Of that figure, just under ISK 13 bn represents net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 8 bn. For the entire year, net new inflation-indexed loans by the commercial banks were ISK 264 bn with net repayment of non-indexed loans amounting to ISK 139 bn.

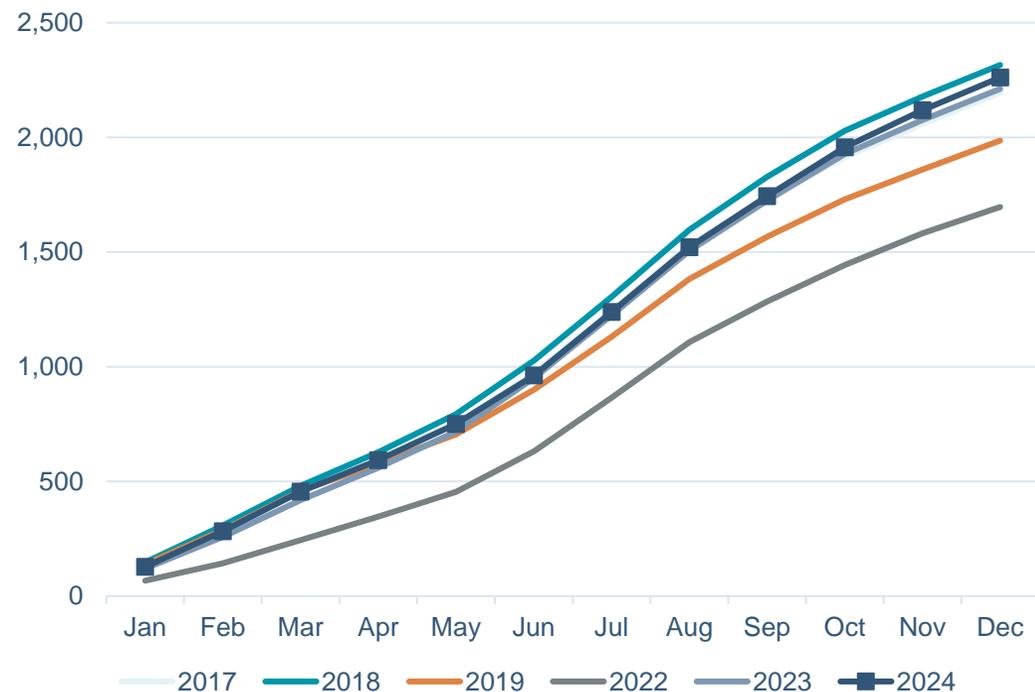


The travel sector

142,000 foreign travellers departed from Keflavík International Airport in December 2024, which is a 5.0% YoY increase. Total departures in 2024 numbered 2.26 million, a 2.2% YoY increase. In December, non-domestic payment card turnover grew by 18% between years at fixed prices and by 27% at a fixed exchange rate.

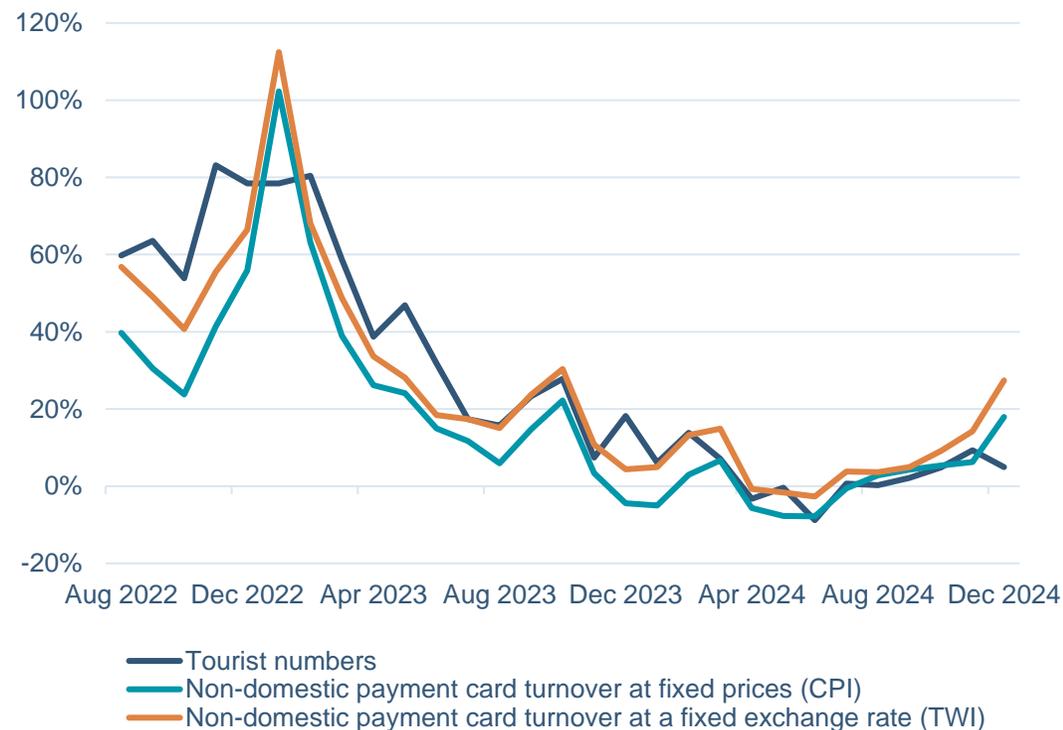
Acc. tourist numbers

Thousand individuals



Development of key indicators

YoY change by month

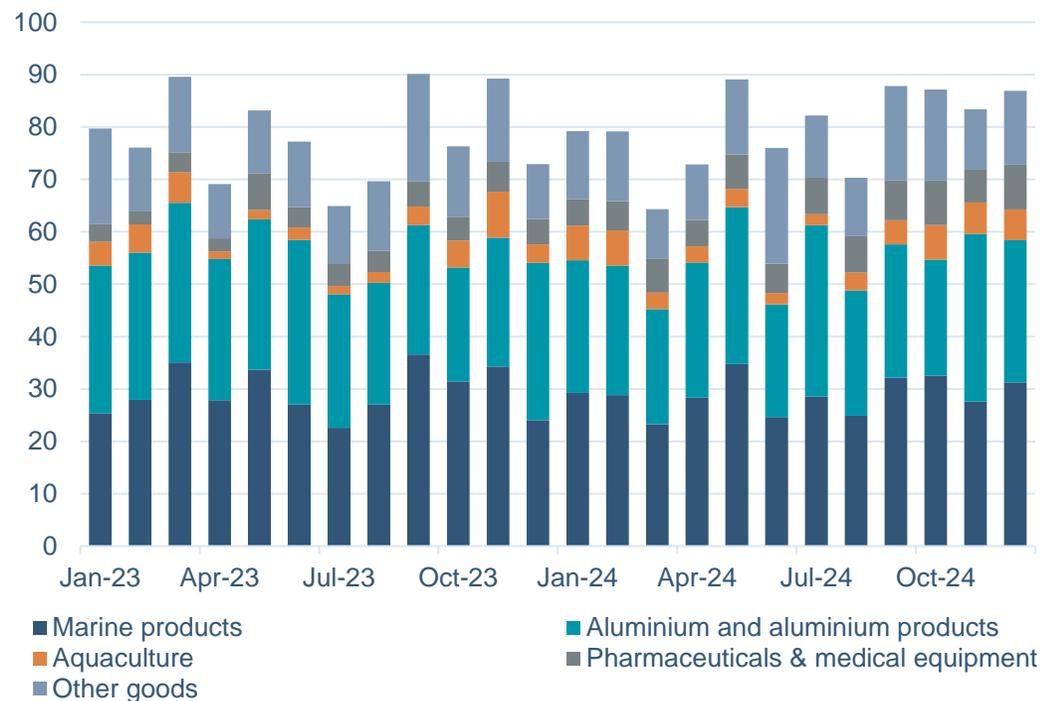


Balance of trade

Goods exports were strong in December, increasing by 19.2% YoY. Imports were also significant, with the value of goods imports rising by 29.5% at current prices. The largest increase was in the import of investment goods, primarily related to the construction of data centres. The trade deficit for goods was ISK 43.8 bn in December, bringing the total trade deficit for the year to ISK 398.5 billion, compared to ISK 368.3 billion in 2023.

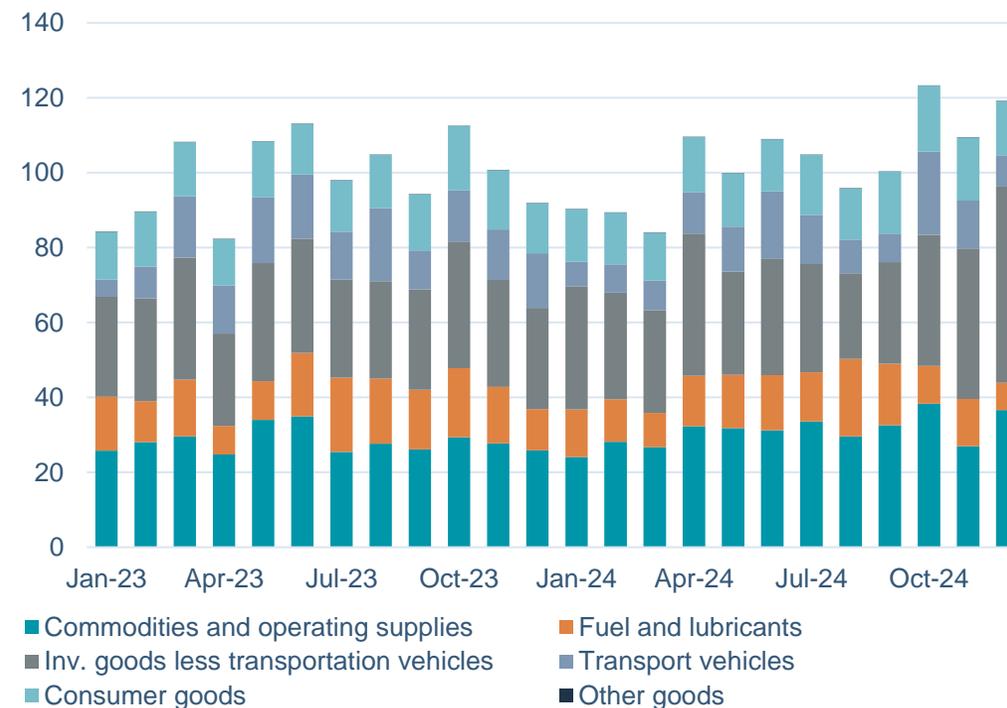
Goods exports

Current prices for each year



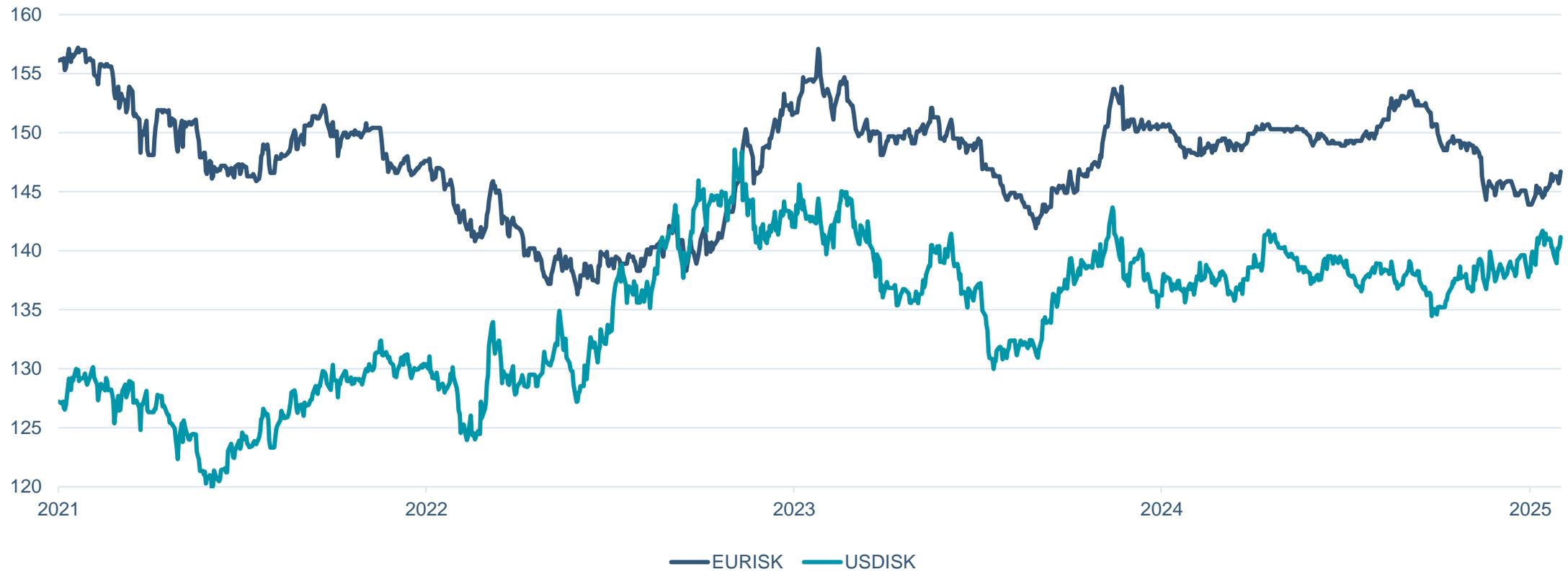
Goods imports

ISKbn at current prices for each year



ISK exchange rate

The ISK weakened against the euro and the US dollar in January. At the end of the month, the euro cost 146,7 instead of 143,9 as at the end of December (+1.9%) and the USD 141.15 instead of 138.2 as at the end of December (+2.1% intra month).



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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