

The background of the entire page is a photograph of a lakeside town. In the foreground, a calm lake reflects the sky and the buildings. Several swans are swimming in the water. In the middle ground, a row of colorful houses with red and white facades and dark roofs sits along the water's edge. Behind the houses, a line of evergreen trees is visible. The sky is overcast with soft, grey clouds.

# Economic Research Monthly Newsletter

**April 2025**

**Landsbankinn Economic Research**

# Market events - April 2025

Monday	Tuesday	Wednesday	Thursday	Friday
	1	2 Minutes of the Monetary Policy Committee (CBI) Inflation in the eurozone	3	4 Íslandshótel publishes results Unemployment in the US
7	8	9	10 Departures from Keflavík International Airport in March (FMST) Registered unemployment in March (VMST) Ölgerðin publishes results Inflation in the US	11
14	15 Housing price index for March (HMS) Hagar publishes results	16 Rental price index in March (HMS) Payment mediation in March (CBI) Inflation in the UK	17 Monthly report (HMS) ECB policy rate decision	18
21	22	23	24	25 Wage index in March (HAG) New registrations and bankruptcies (HAG)
28	29 CPI in March (HAG) Festi, Icelandair and Síminn publish results	30 Overnight stays in March (HAG) Turnover based on VAT reports for Jan-Feb (HAG) Landsbankinn publishes results		



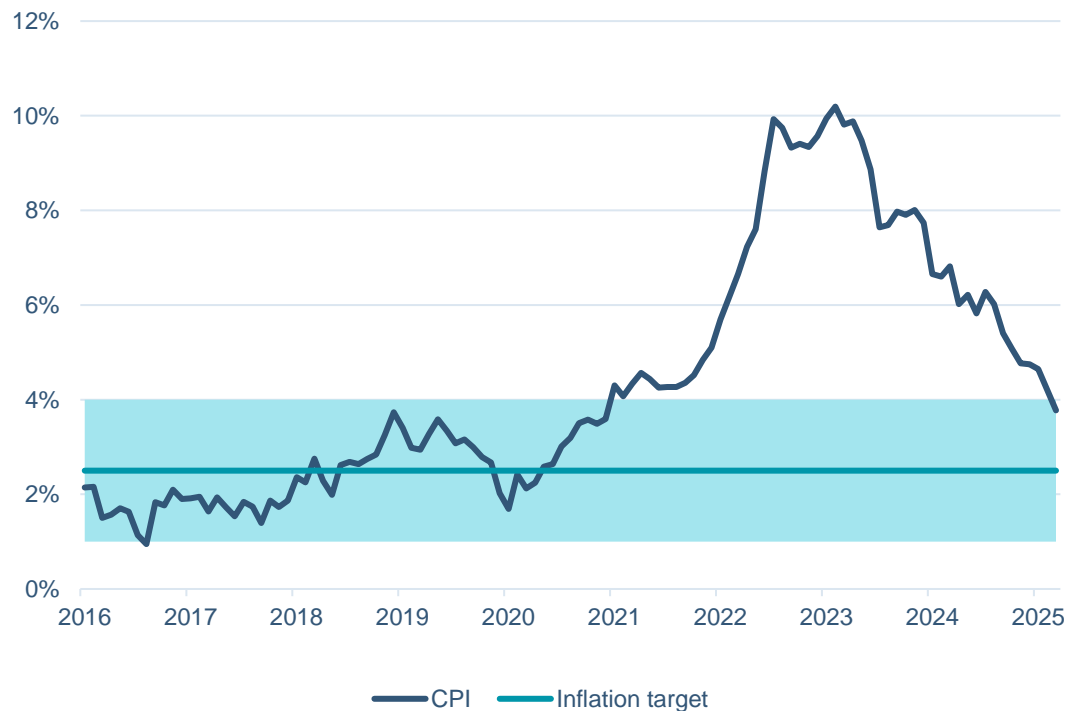
# Inflation

The CPI rose by 0.37% between months in March and inflation receded from 4.2% to 3.8%. Inflation has now subsided to below the upper tolerance limit of the CBI, for the first time since year-end 2020. This inflation measurement is fairly positive in our view and the underlying inflationary pressure appears to have slackened, reflected in a lower increase of the CPI less housing as well as all three core indices.

**Hagsjá: Verðbólga mælist undir 4%**

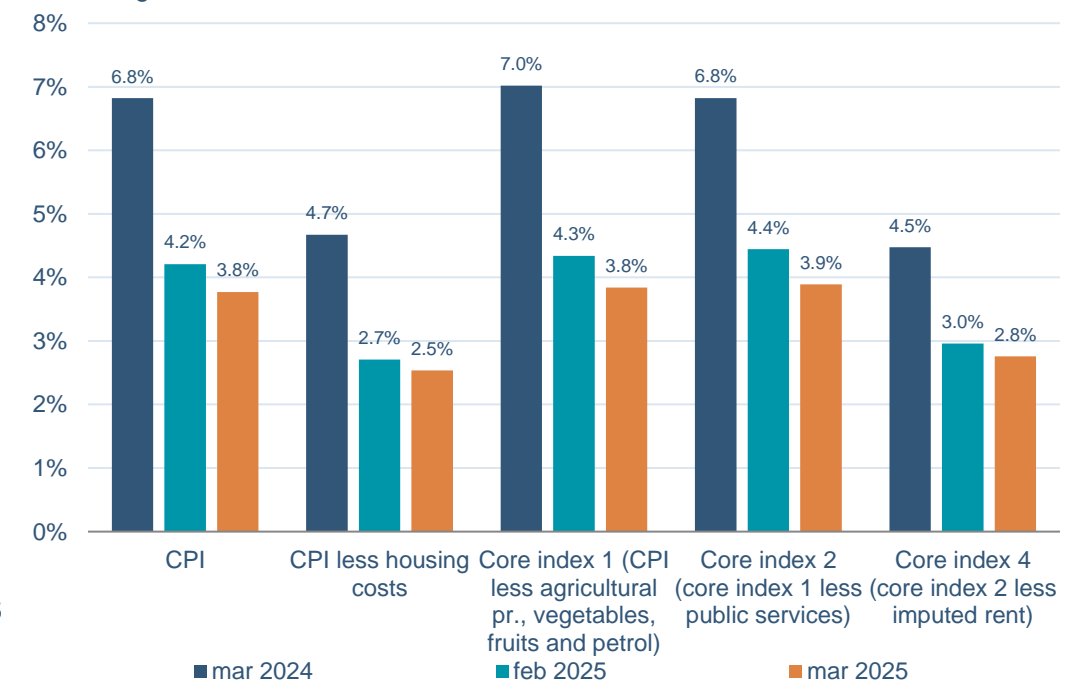
## Consumer price index

YoY change



## Most recent measurement, one month ago and one year ago

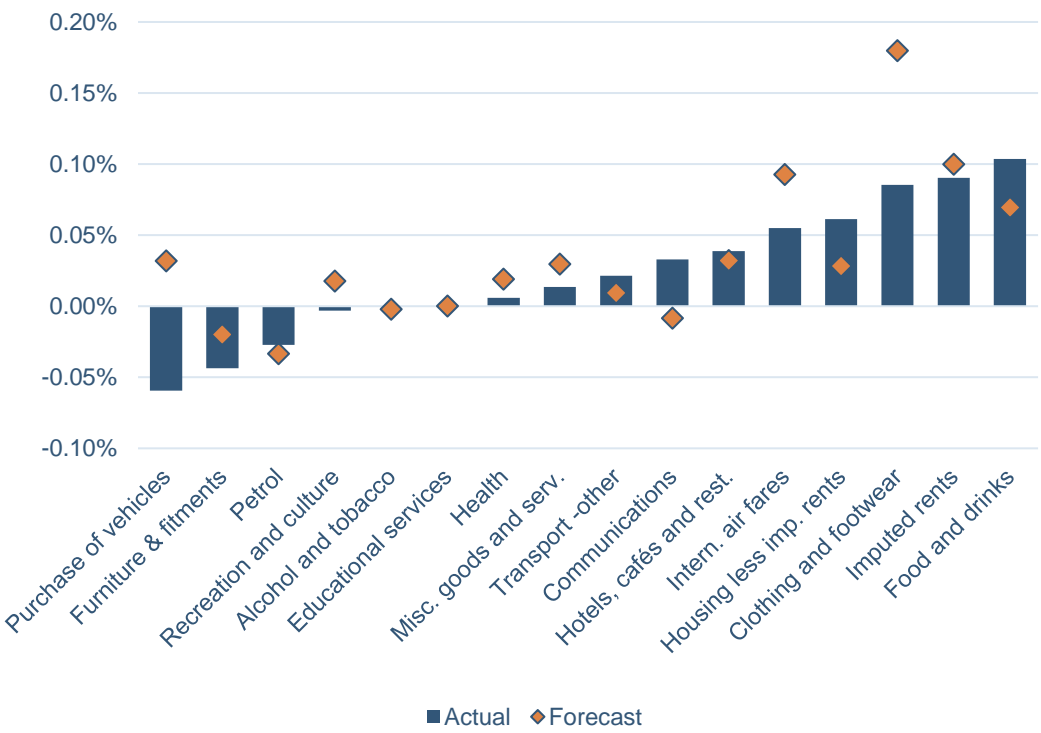
YoY change



# MoM change in the CPI

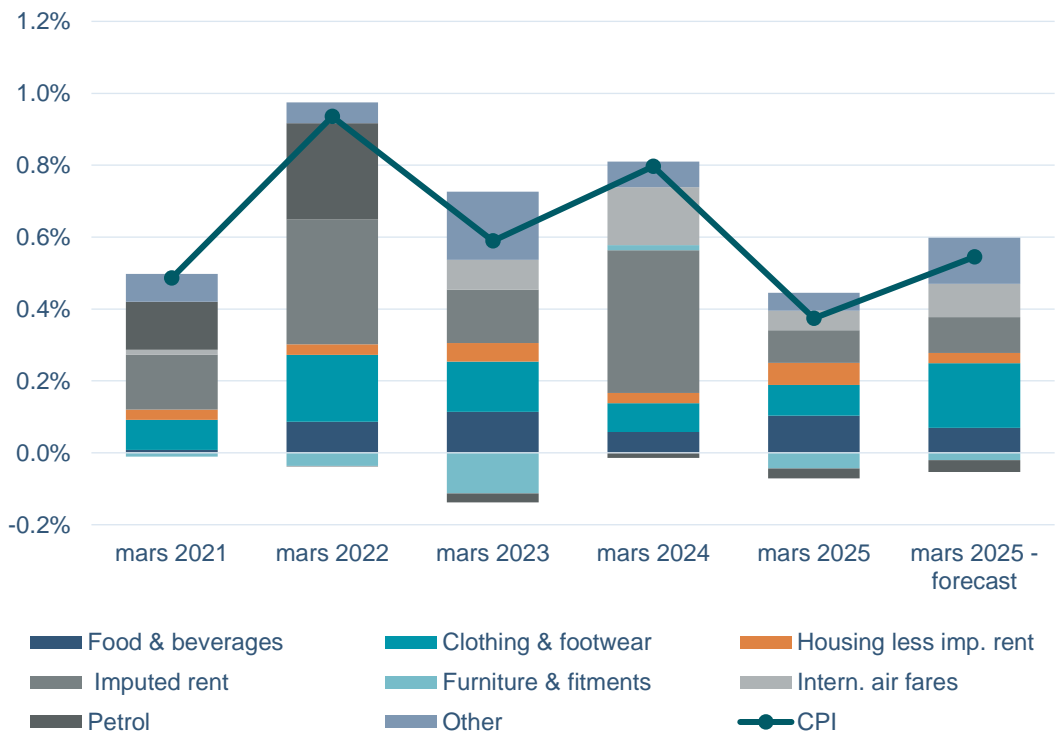
The MoM increase was slightly lower than our forecast of a 0.54% rise in the CPI and that inflation would fall to 3.9%. The main reason for the deviation is that the price of clothing and footwear increased significantly less than we expected and remains below pre-January sale levels. Imputed rent increased in line with our forecast and its lower rate of increase accounts for the majority of the MoM decline in annual inflation.

Contribution of components in March



March measurement of CPI

YoY change and weight of components

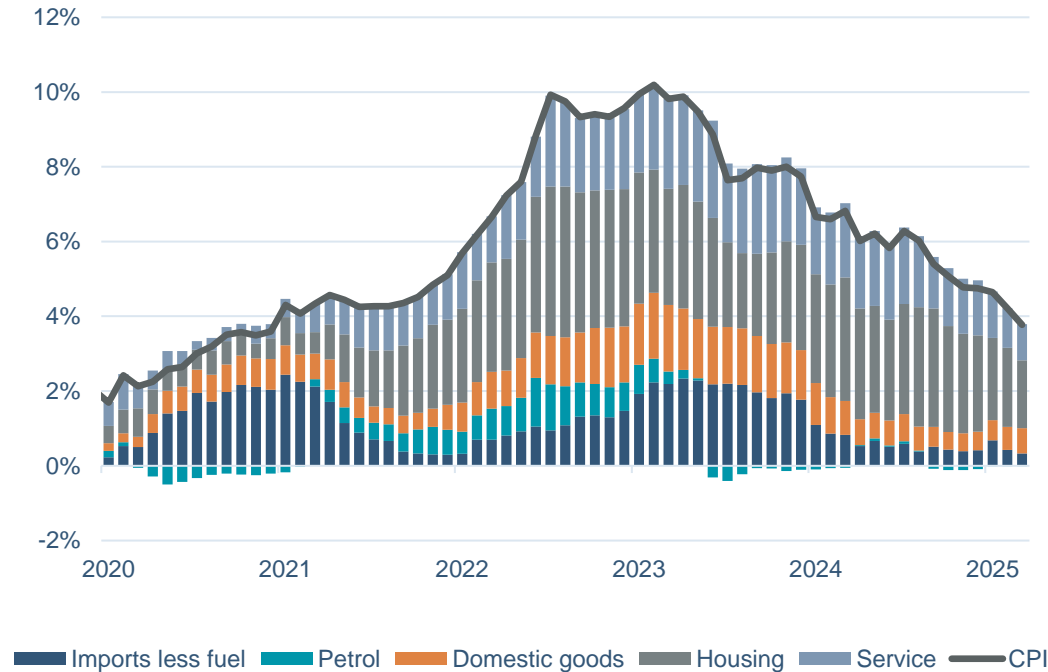


# Composition of 12M inflation

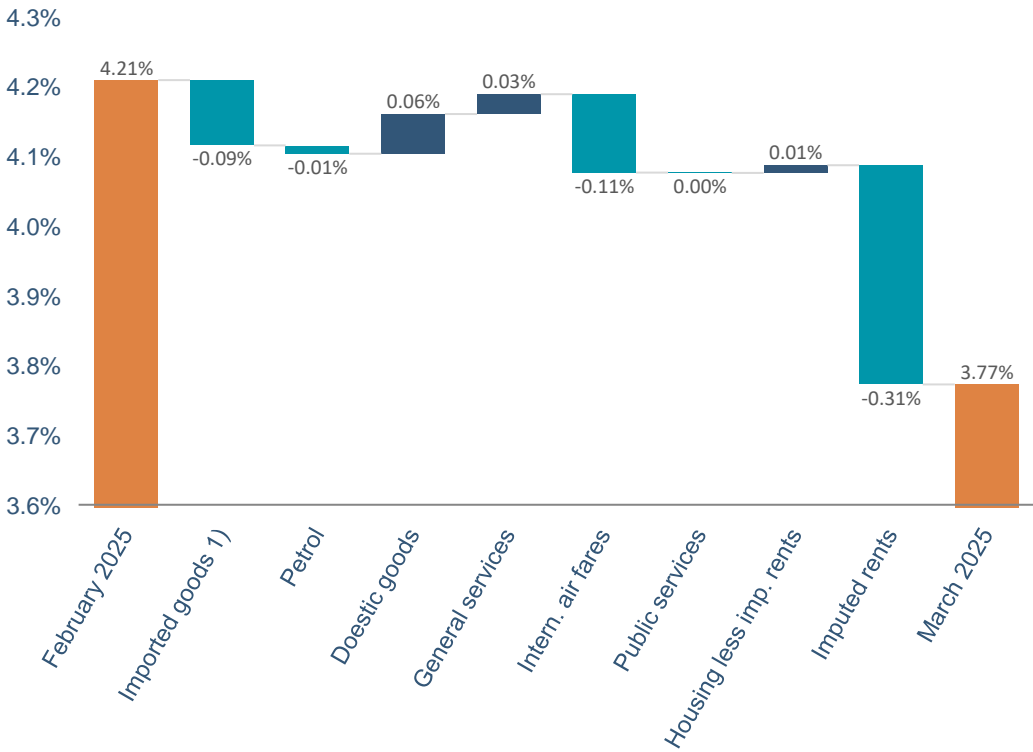
Last year, imputed rent rose significantly MoM in March, much more than this year, resulting in a decline in its contribution to MoM inflation. International airfares also increased less this March compared to the same month last year, likely due to Easter falling earlier last year, which impacted airfares in March. The contribution of imported goods was downward, as the effects of early-year sales have not fully reversed, unlike last year.

## Inflation by type and origin

YoY change and weight of components



## Change in the composition of 12M inflation



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

Source: Statistics Iceland

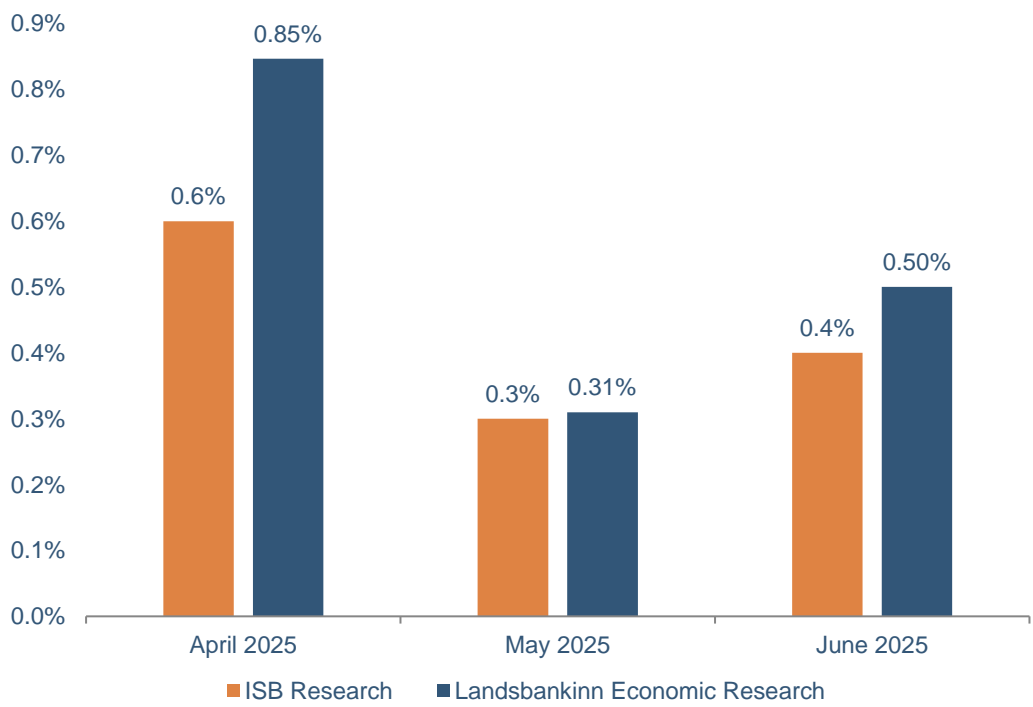


# The outlook for the next months

We now expect the Consumer Price Index (CPI) to increase by 0.85% in April, 0.31% in May and 0.50% in June. If the forecast holds, annual inflation will be 4.1% in April, 3.8% in May and 3.8% in June. The March measurement was lower than we predicted in our last forecast, mainly as a result of January sales not receding fully in March. Instead, we now expect a higher increase of clothing and footwear in April as compared to our previous forecast. We make negligible changes to other components from the previous forecast.

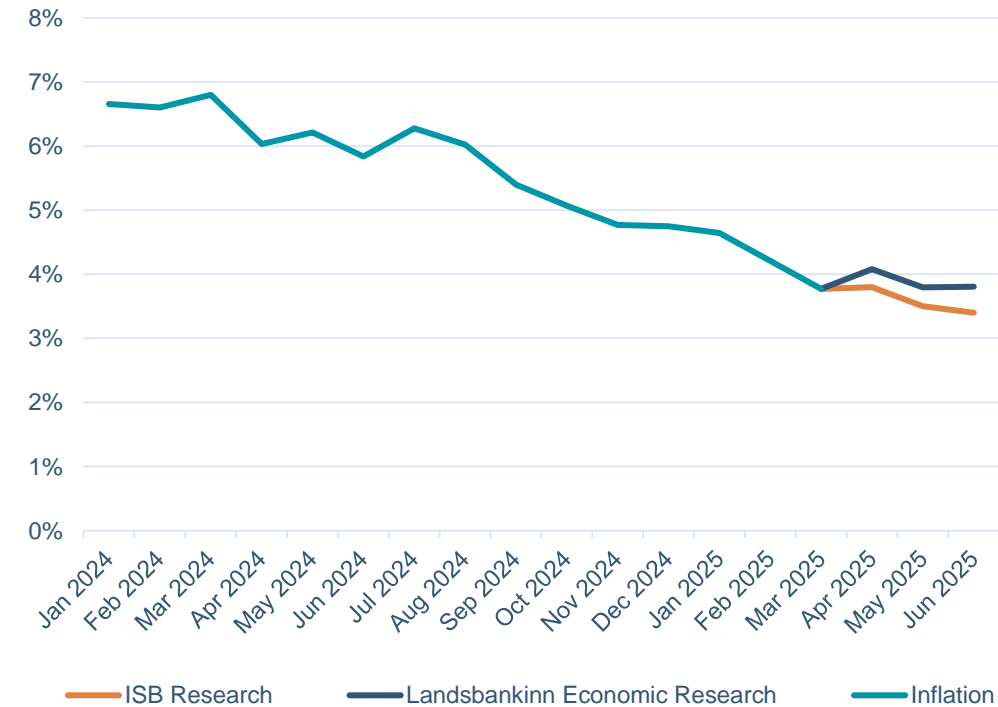
## Inflation forecasts

MoM change



## Inflation forecasts

12M inflation



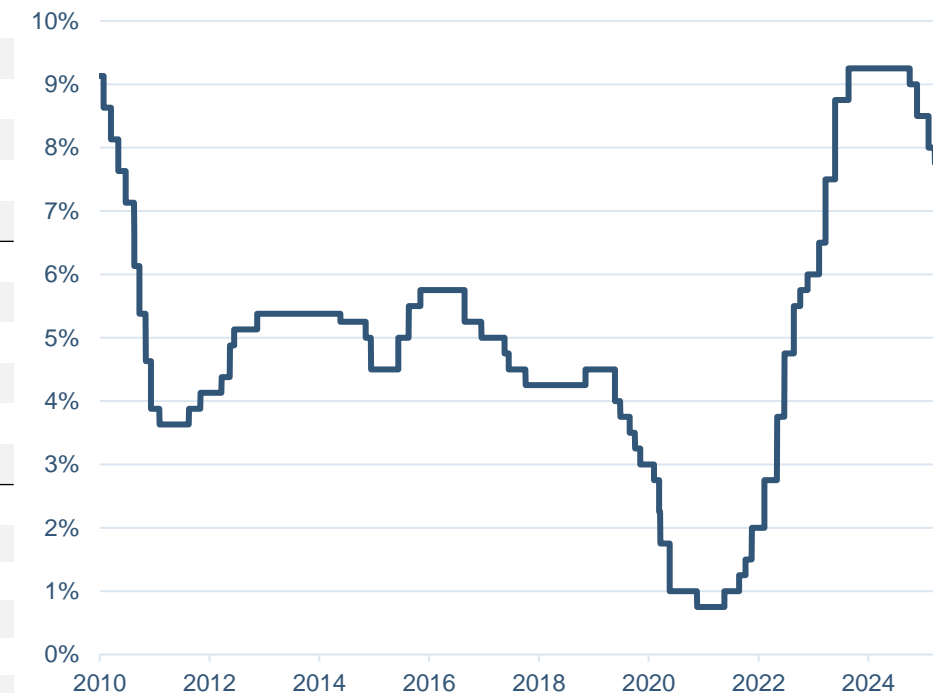
# Policy rate

The Monetary Policy Committee lowered the policy rate by 0.25 pp at its March meeting. The CBI's key interest rate, interest on 7-day term deposits, decreased from 8.00% to 7.75%. The decision was in line with our forecast and was unanimous. The MPC's statement was very similar to the statement issued following its February meeting. Instead of mentioning "the addition of increased uncertainty in the global economy" the MPC now warns of "the addition of great uncertainty in the global economy".

## 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	-0.25%	ÁJ, RS, TB, ÁÓP, HS			-0.25%	7.75%
21 May 2025						
20 Aug 2025						
8 Oct. 2025						
19 Nov. 2025						

## Key interest rate of the Central Bank of Iceland

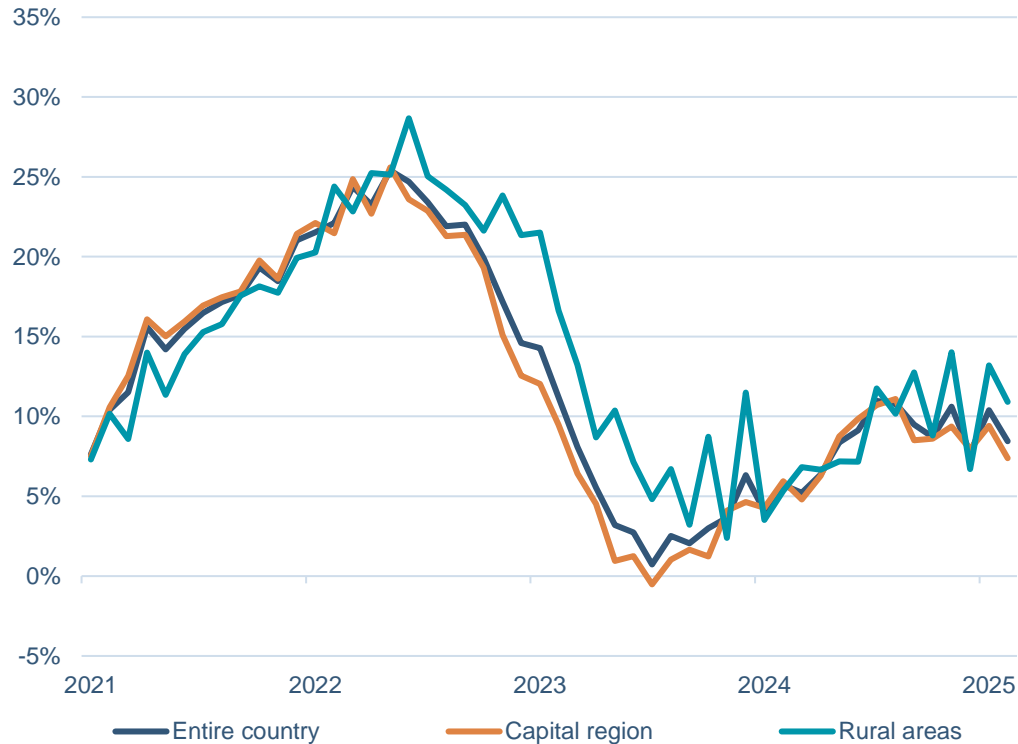


# The real estate market

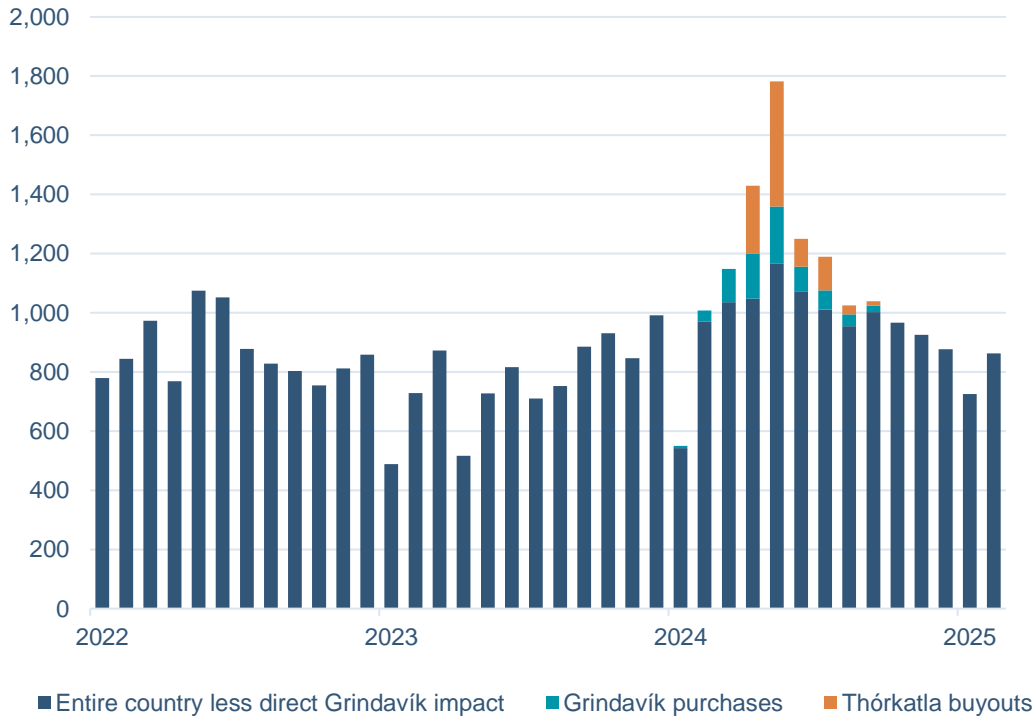
The housing price index rose by 0.09% between months in February. The 12-month increase of the index fell from 10.4% to 8.4% and remains higher than the general price level increase. This time around, the price for multi-family dwelling in the capital region and single-family dwellings in rural Iceland rose while the price of single-family dwellings in the capital region and multi-family dwellings in rural areas fell. A total of 845 purchase contracts were signed in February, rather more than in January. This is the first time since September 2024 that the number of signed contracts increases between months.

## Housing price index

YoY change



## Signed purchase contracts - entire country





# Break-even inflation rate on the bond market

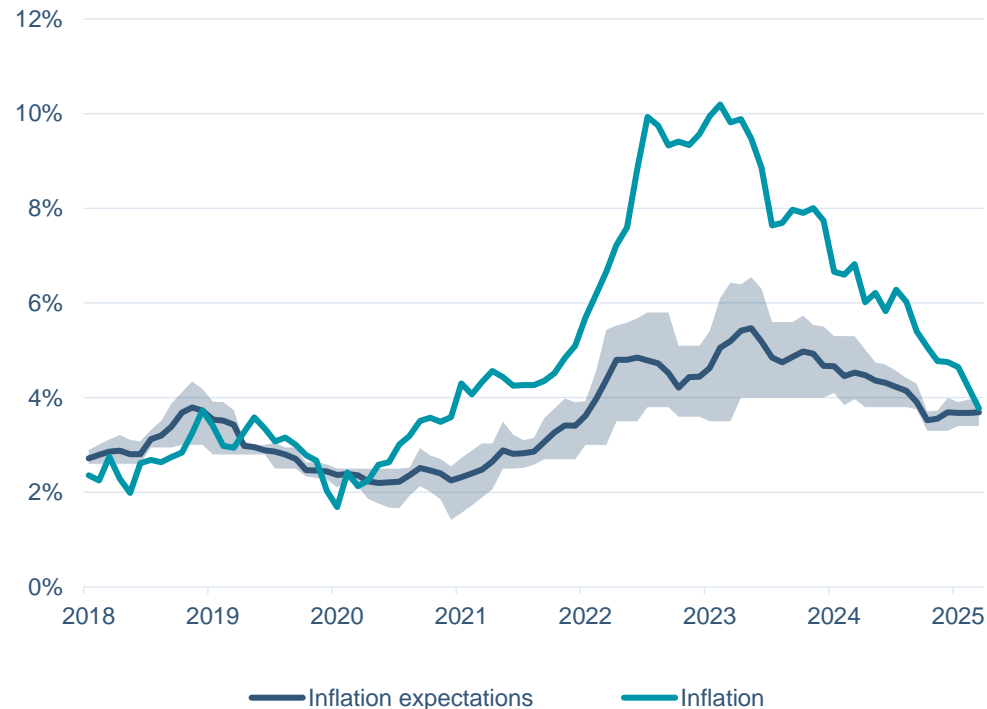
The break-even inflation rate on the bond market is similar for both the short and the long term, around 3.8% for two, five and ten years. The premium for two and five years declined slightly in March, while remaining more or less unchanged for the longer term.



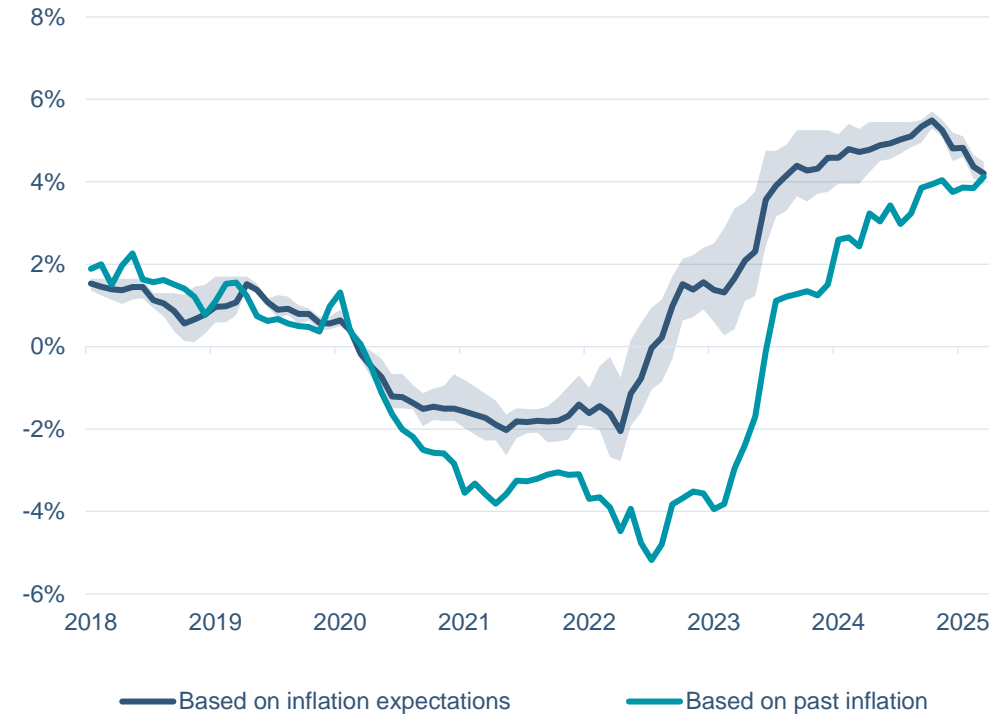
# Real policy rate

The average of key measurements of inflation expectations has remained fairly stable at just under 4% since November 2024, despite decreasing inflation. Monetary policy restraint based on past inflation has also remained more or less unchanged in the past months, but having regard for inflation expectations, restraint has loosened.

## Inflation and inflation expectations

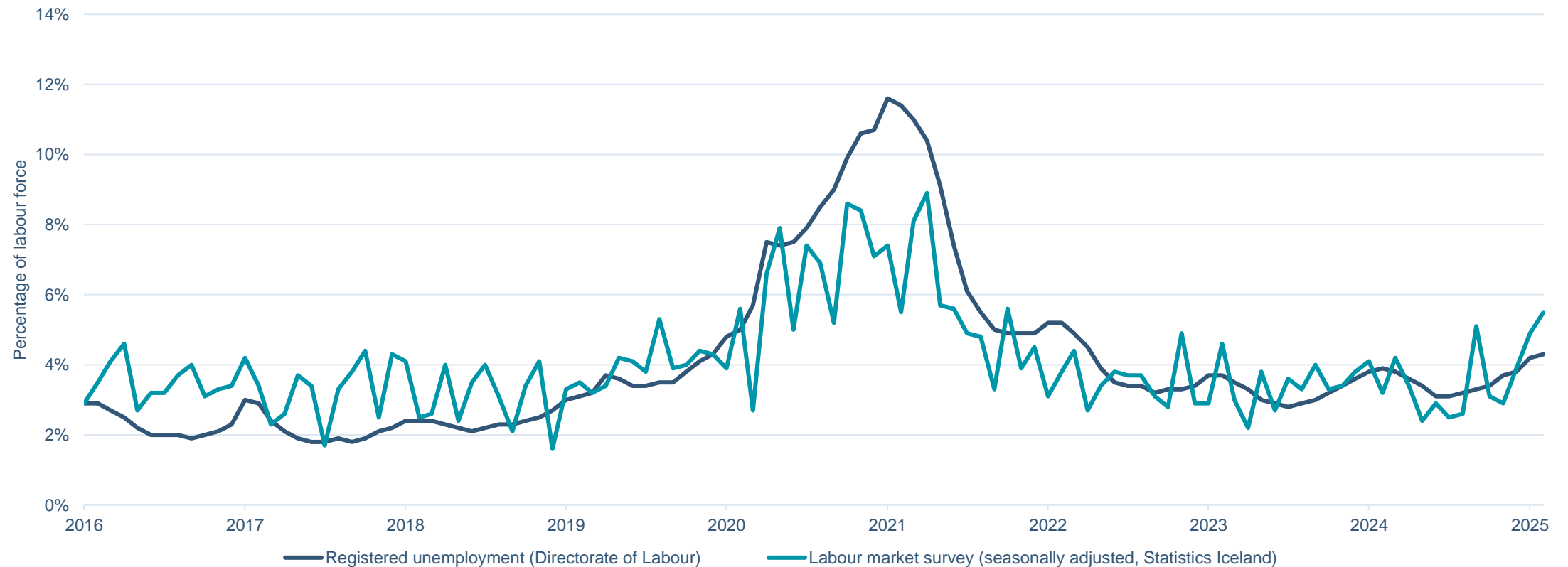


## Real policy rate



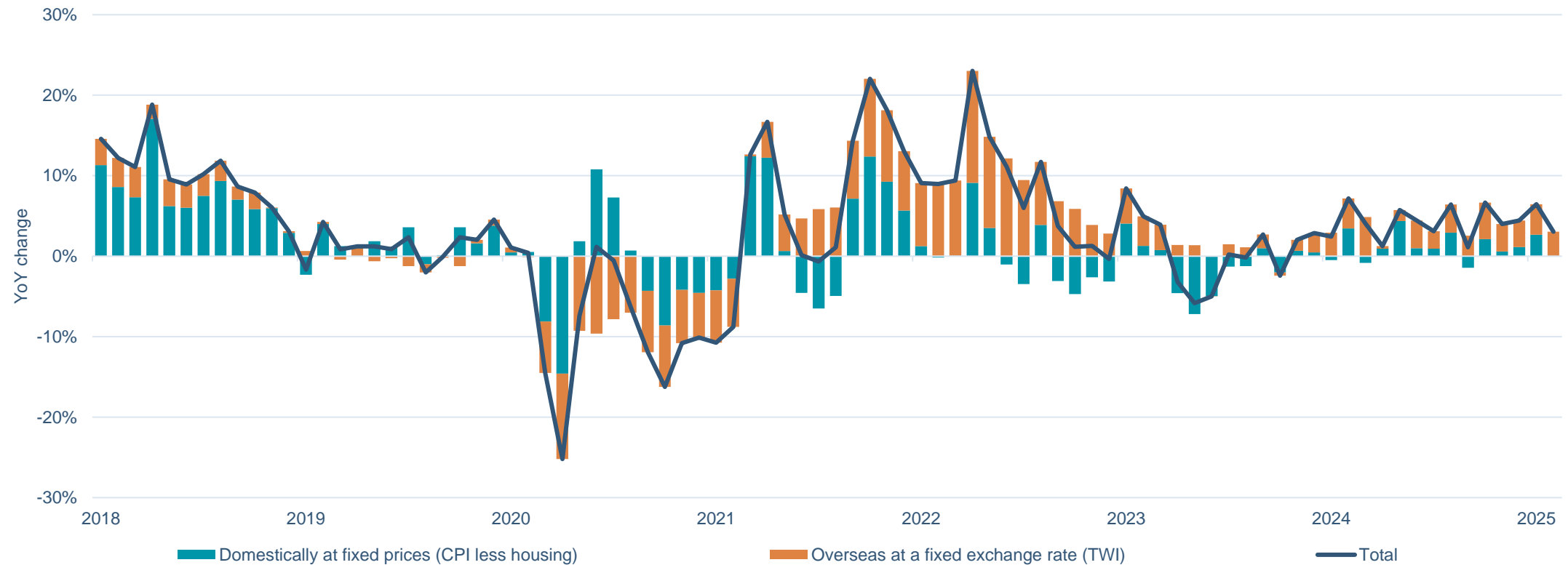
# Unemployment

Registered unemployment with the Directorate of Labour was 4.3% in February, up from 4.2% in January. Unemployment was 0.4 pp higher than the same month last year, for the second month in a row. This YoY difference ranged between 0.2-0.3 pp in the latter half of 2024. Seasonally adjusted unemployment according to the labour market survey of Statistics Iceland was 5.5% in February.



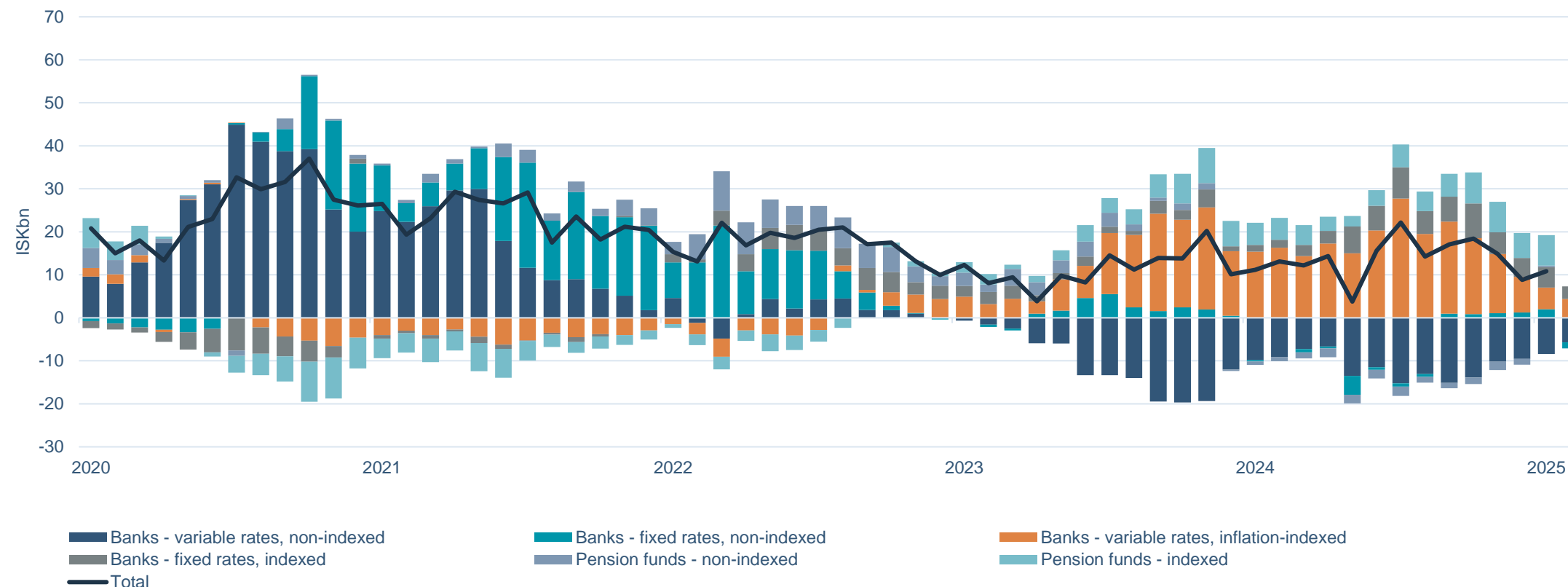
# Payment card turnover of Icelandic households

The total payment card turnover of Icelandic households was ISK 101 bn in February and is up by 3.0% between years, having regard for price and exchange rate changes. International turnover drove the YoY increase. Domestic turnover increased by a mere 0.1% between years and by 14.1% overseas. It should be noted that February of this year was a day shorter than last year because of the leap year.



# Net new housing mortgages

Net new housing mortgages by deposit institutions amounted to just ISK 0.2 bn in February. Of that figure, ISK 7.3 bn represents net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 7.1 bn. Net new lending by the commercial banks has not been lower since April 2023, when repayments outstripped new borrowing.

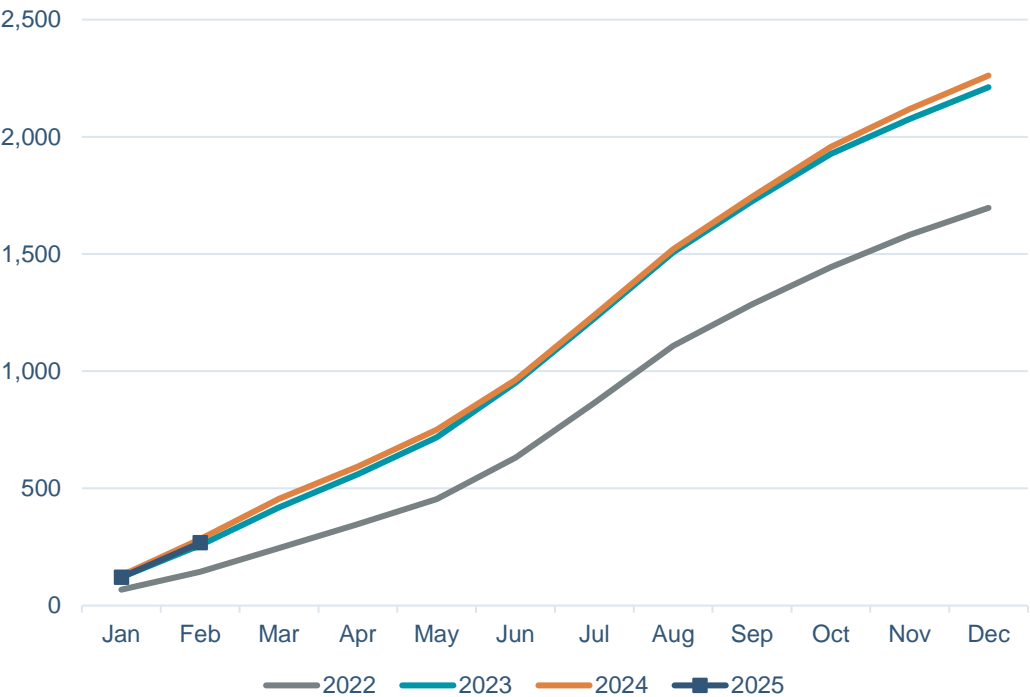


# The travel sector

147,000 foreign travellers departed from Keflavík International Airport in February, which is a 5.6% decrease YoY. This follows on the heels of a 5.8% YoY decrease in tourist arrivals in January. The year is off to a slow start in terms of tourist numbers. Conversely, non-domestic payment card turnover grew by 0.8% between years at fixed prices and by 6.2% at a fixed exchange rate. Each traveller appears to be spending more on average than in 2024.

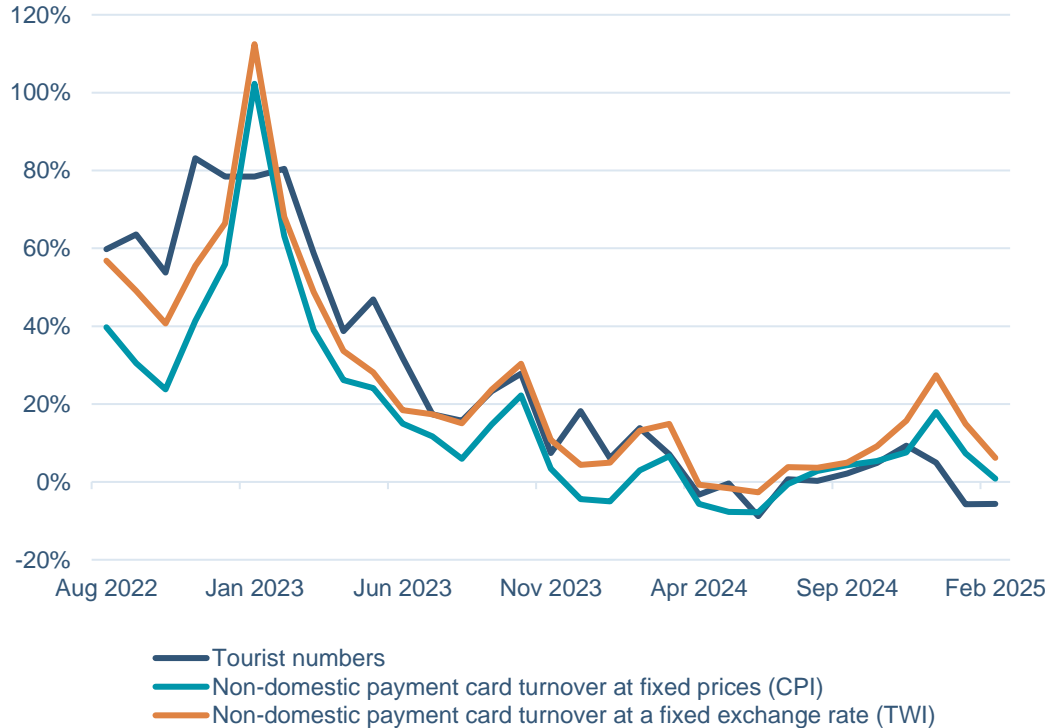
## Acc. tourist numbers

Thousand individuals



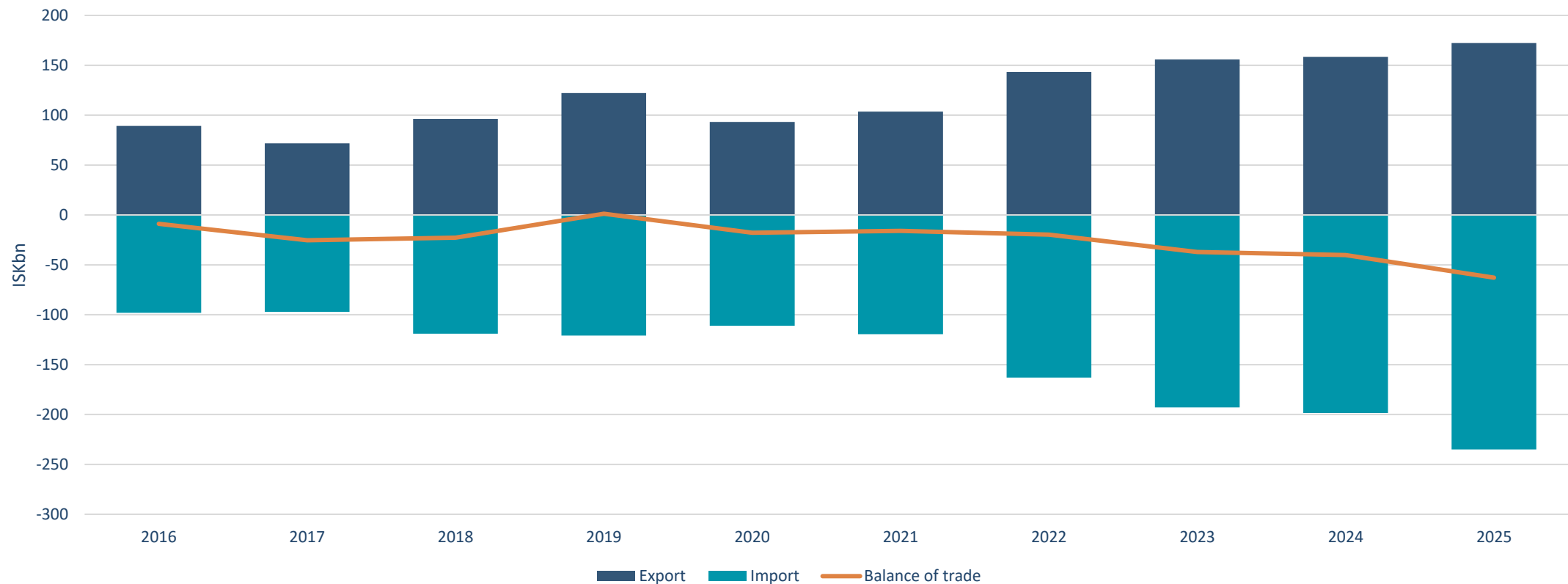
## Development of key indicators

YoY change



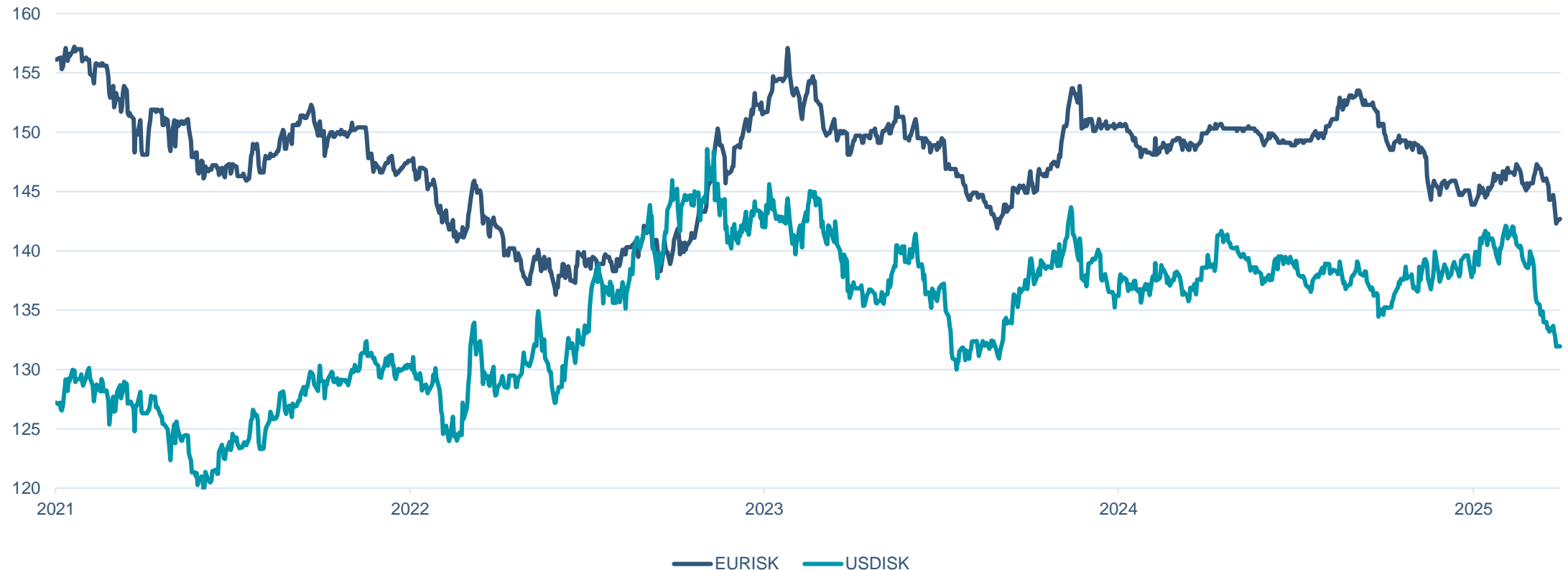
# Trade balance in the first two months of each year

Goods exports have been fairly strong in the first two months of the year, with export value over 10% higher than during the same period last year, taking exchange rate developments into account. There was growth across most export sectors. However, the trade deficit has never been greater, which is primarily due to substantial imports of computer equipment related to data centre investment projects. Around 30% of all goods imports in February consisted of office machines and computer equipment.



# ISK exchange rate

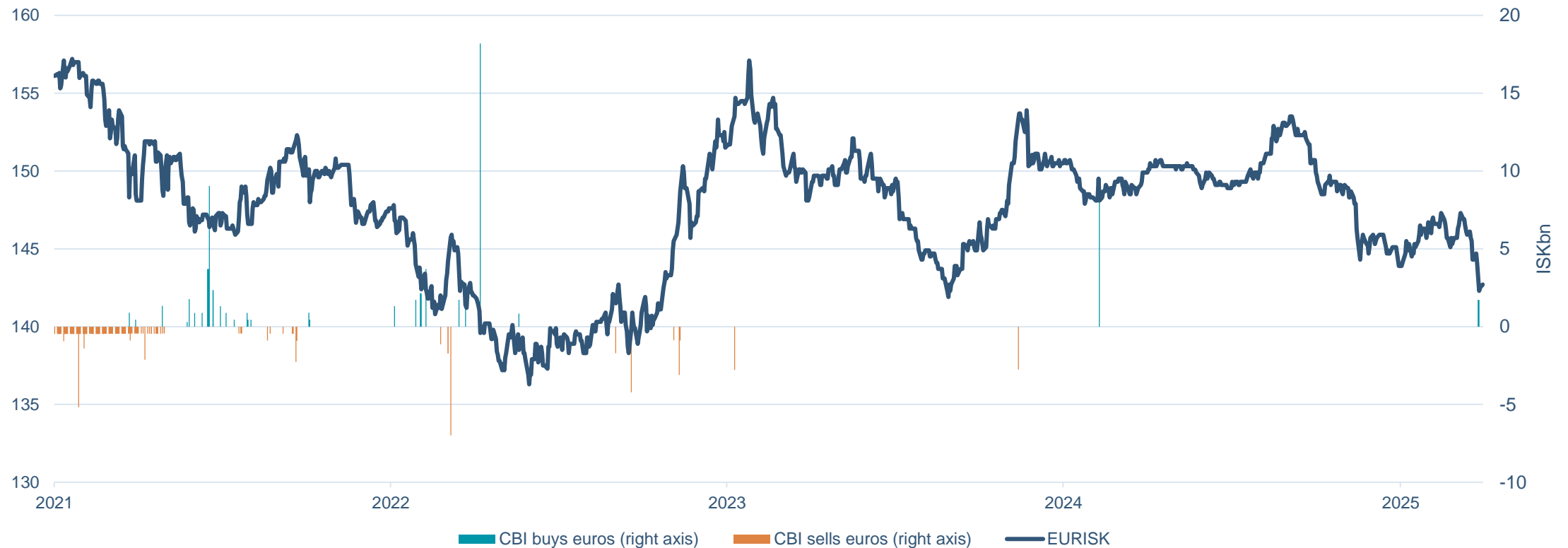
The ISK gained against the euro and the US dollar in March. At the end of the month, the EUR was 142.7 (ISK -3.0 as compared to the end of February) and the USD was 132.0 (ISK -8.0 as compared to the end of February). The ISK has not been as strong against the euro since September of 2023.





# CBI involvement in the FX market

The CBI traded on the FX market on 26 and 27 March. This is its first activity on the market for over a year. On both days, the CBI purchased EUR 4 m from each of the three commercial banks.

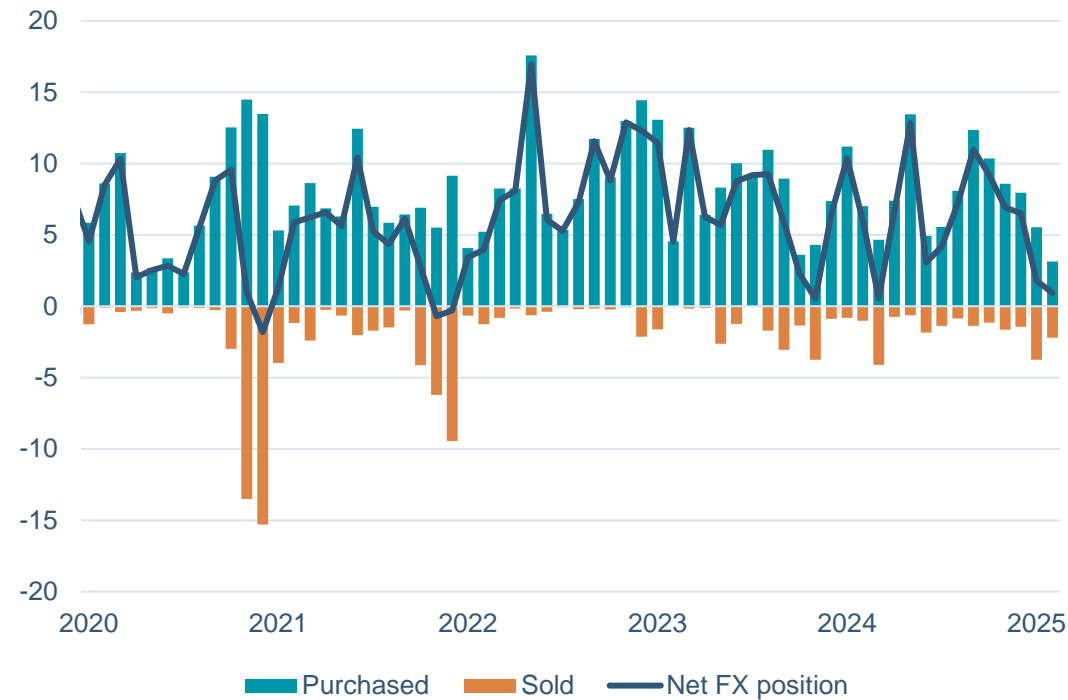


# FX trading by the pension funds

The Icelandic pension funds purchased foreign currency for a net amount of ISK 2.7 bn in the first two months of the year. This is significantly less than in the previous years, presumably due to an inflow of currency linked to the purchase by JBT of Marel and the expectation of even more currency inflow from the dissolution of ÍL fund. Less currency purchases by the pension funds explain part of the ISK appreciation.

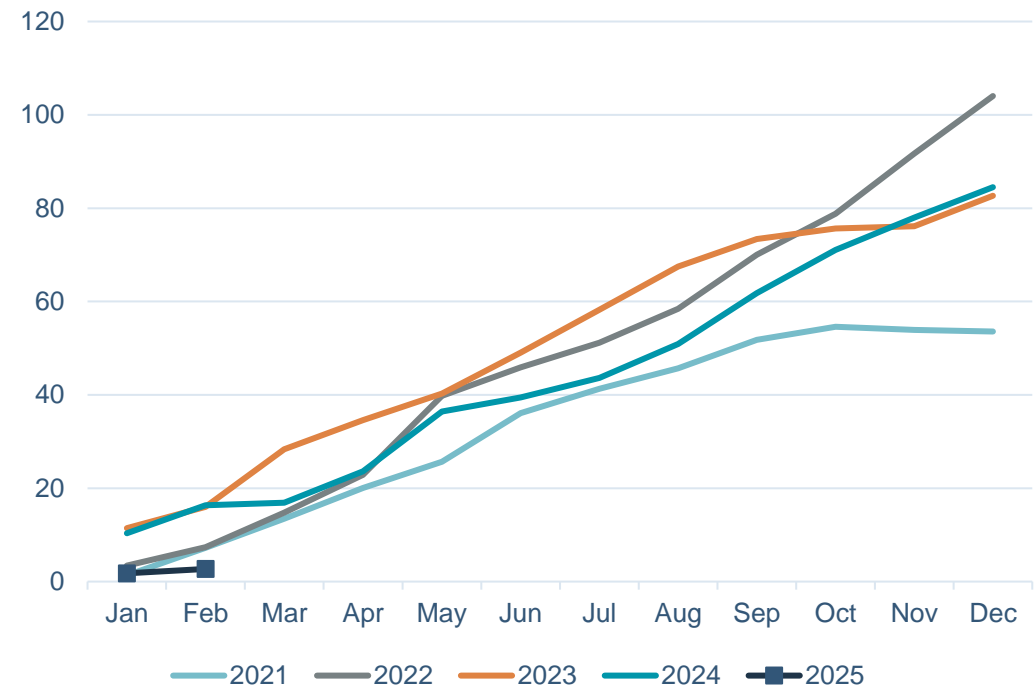
## FX trading by pension funds

ISKbn



## Accumulated annual FX purchases

ISKbn



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