



# Mánaðamót

Monthly newsletter

**2 May 2025**

**Landsbankinn Economic Research**

# Market events – May 2025

Monday	Tuesday	Wednesday	Thursday	Friday
			1	2 US jobs report Inflation in the eurozone
5	6	7 Arion, Kvika and Sýn publish results FED policy rate decision	8 Alvotech, Eik and Íslandsbanki publish results Bank of England policy rate decision	9 Departures from Keflavík International Airport in April (FMST) Registered unemployment in April (VMST)
12 Heimar publish performance report Inflation in the US	13 Eimskip publishes results	14 Market expectations survey (Sí) Amaroq publishes results	15 Reitir and Sjóvá publish results	16 Payment mediation in April (CBI)
19	20 Housing price index in April (HMS)	21 Policy rate decision (CBI) <i>Monetary Bulletin</i> (CBI) Rental price index in April (HMS) Inflation in the UK	22 Monthly report (HMS) Wage index in April (HAG) Síldarvinnslan publishes results	23
26	27 Goods and services balance in Q1 (HAG) Brim and Ísfélagið publish results	28 CPI in May (HAG) Overnight stays in April (HAG) Hampiðjan publishes results	29	30 National accounts for Q1 (HAG)

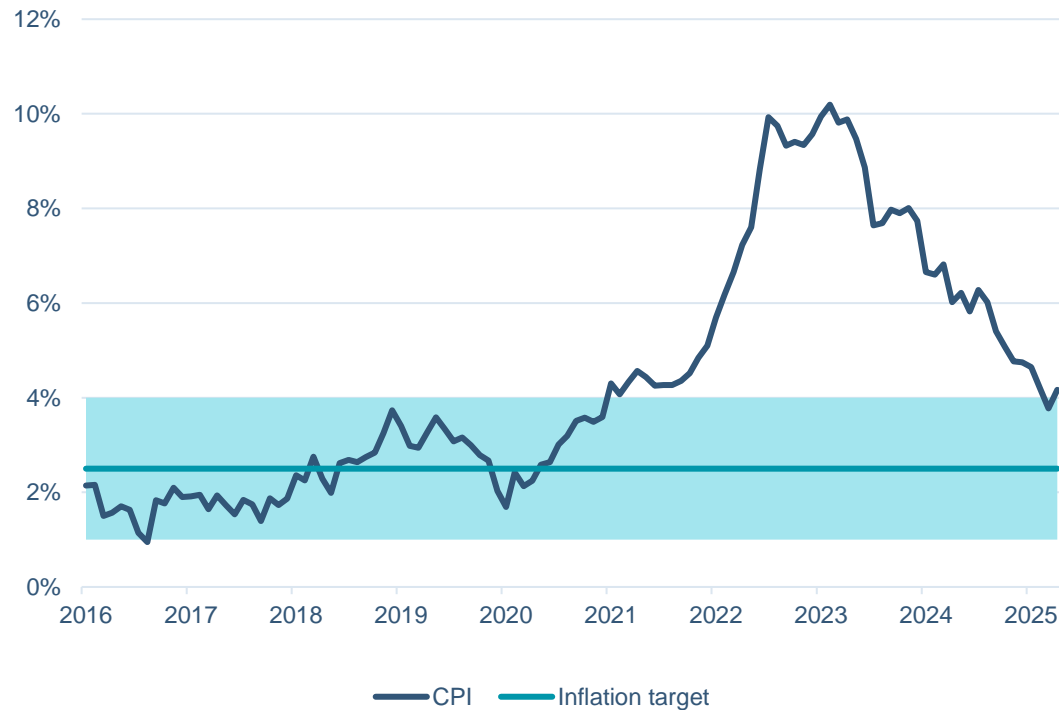


# Inflation

The CPI rose by 0.93% between months in April and inflation rose from 3.8% to 4.2%, above our 4.0% inflation forecast. Inflation has again risen above the upper tolerance limit of the CBI's inflation target, following a month below the limit. Inflation excl. housing increased in April and the same can be said for the annualised increase of all three core indices, which indicates an increase in underlying inflation pressure.

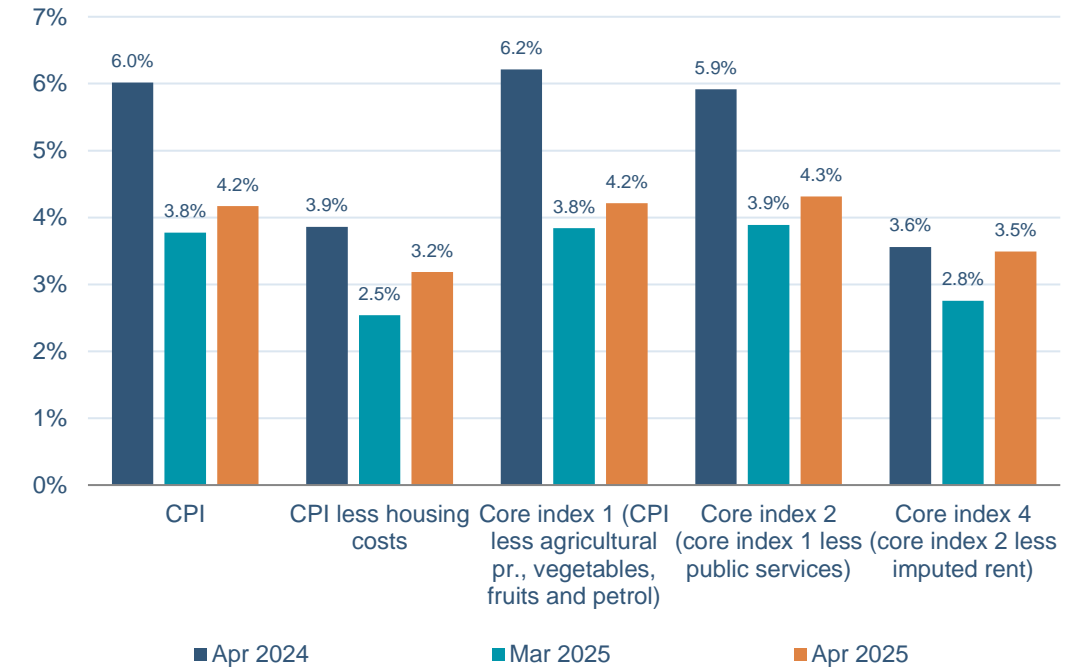
## Consumer price index

YoY change



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

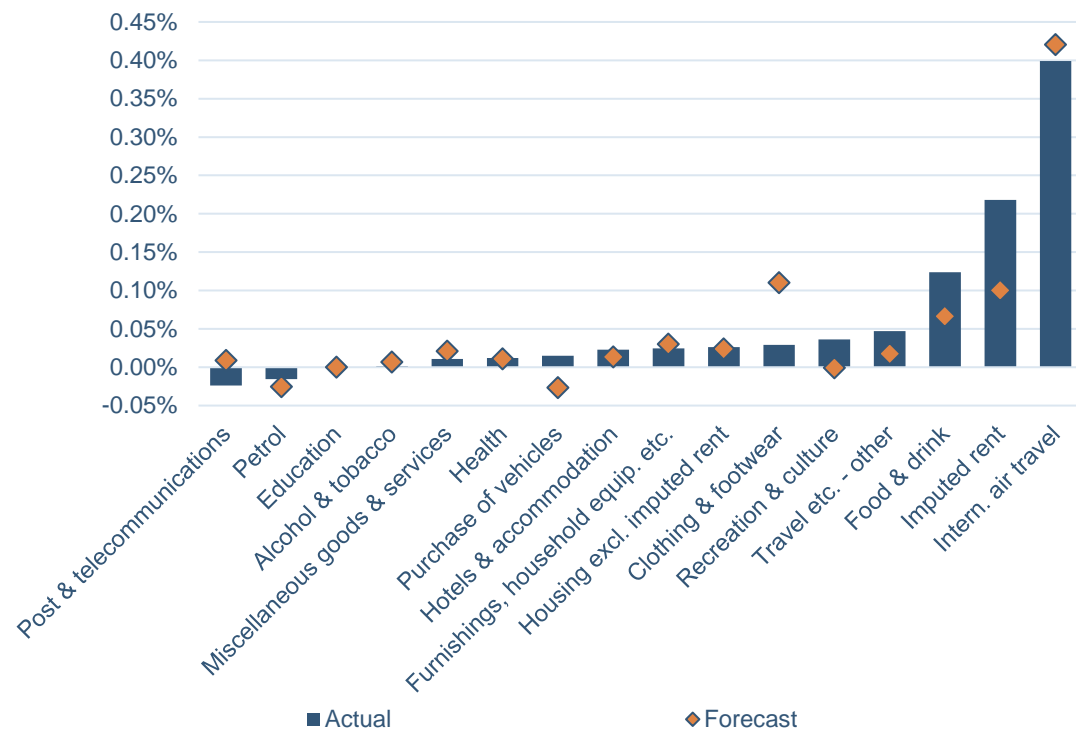
YoY change



# MoM change in the CPI

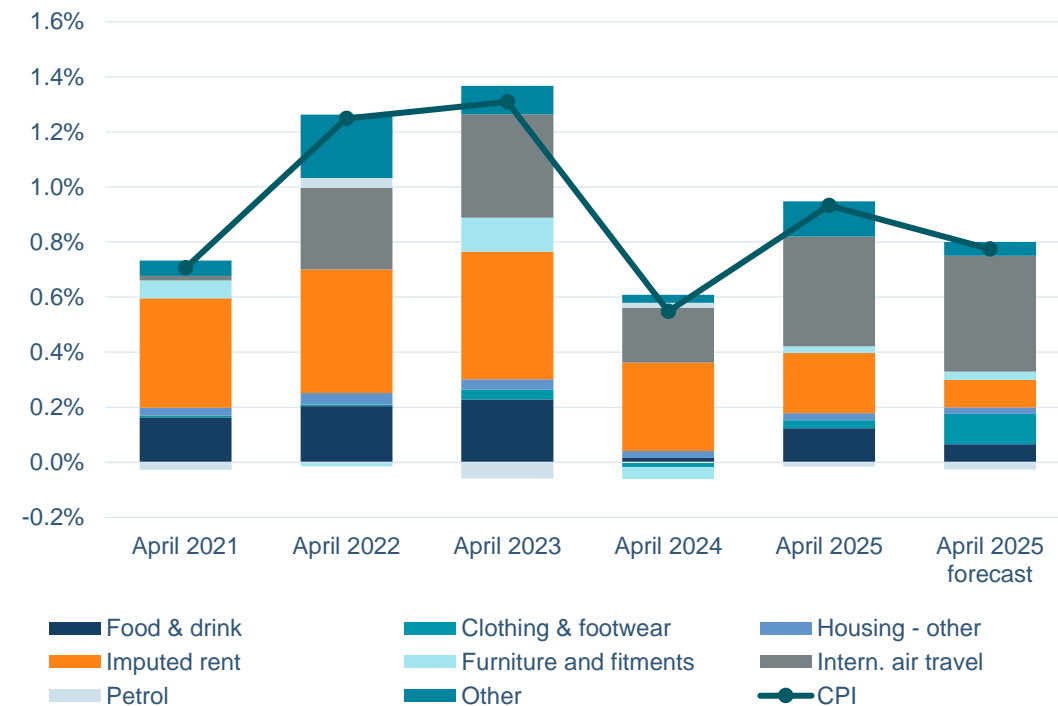
Most surprising in the April measurement was that imputed rent increased more than we expected. The item rose by 1.1% rather than 0.5% as we had predicted. The price of food and beverages also rose more than we had expected, or by 0.8%. The price of clothing and footwear increased less than we expected, and it is of note that prices are still lower than pre-January sales levels.

## Contribution of components in April



## April measurement of the CPI

YoY change and weight of components

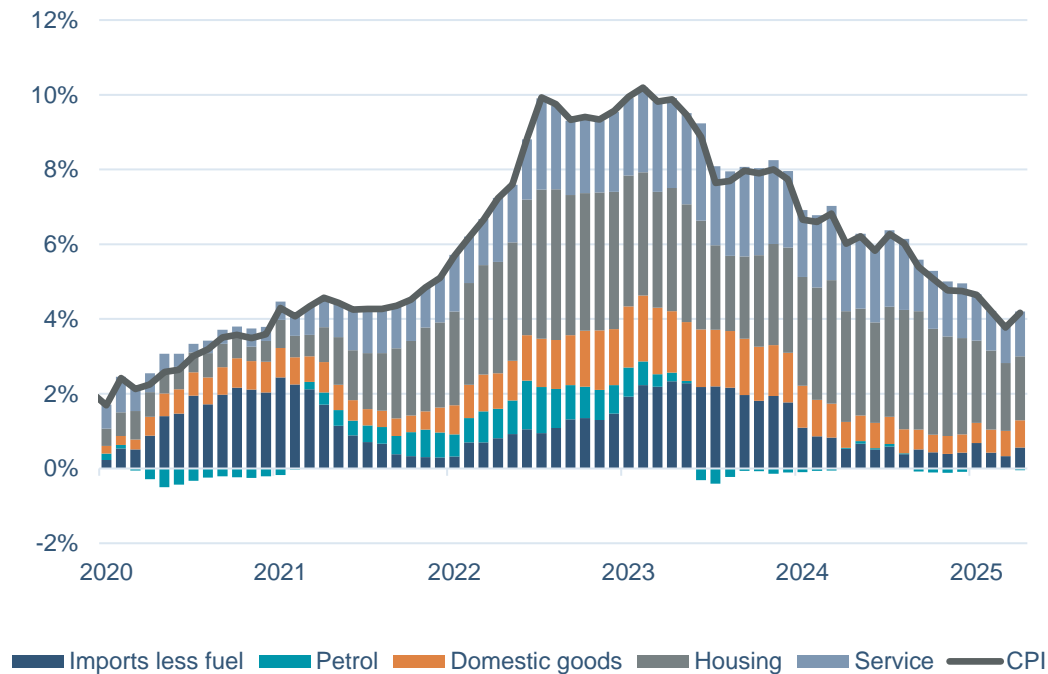


# Composition of 12M inflation

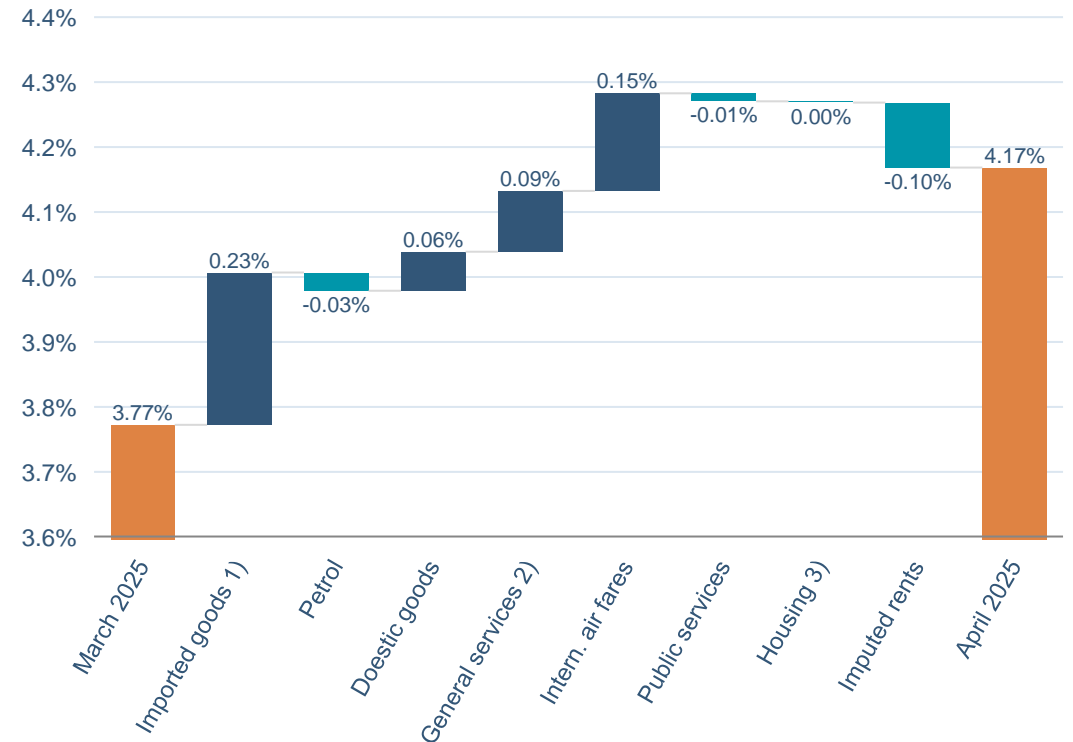
Higher inflation in April is due mostly to the larger impact of imported goods. No single imported product explains the growing impact; rather, the increase appears fairly general. The weight of air fares in 12M inflation also grew somewhat yet that is explained by Easter fare hikes being spread over two months in 2024 and falling entirely on April only this year - air fares had a lowering impact in 12M inflation last month. The weight of imputed rent in 12M inflation decreased since imputed rent grew less than in April of 2024. The item increased by 1.1% this year as compared to 1.7% in April of 2024.

## Inflation by type and origin

YoY change and weight of components



## Changes to 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

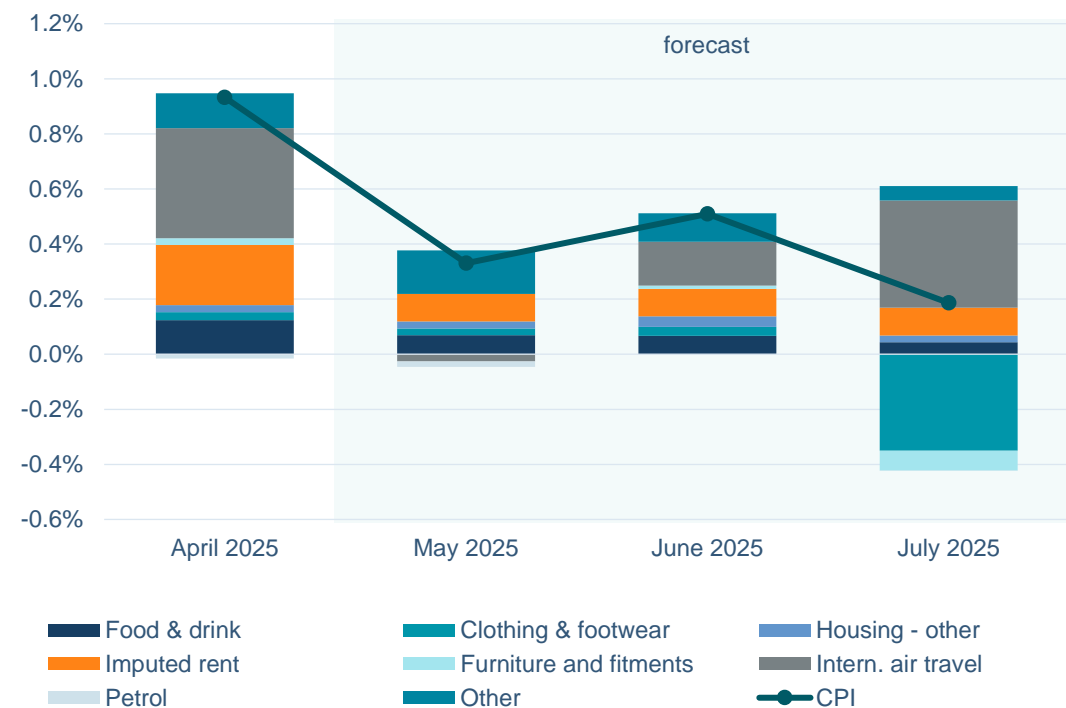


# The outlook for the next months

We now expect the Consumer Price Index (CPI) to increase by 0.33% in May, 0.51% in June and 0.19% in July. If the forecast holds, 12M inflation will be 3.9% in May and June, and 3.7% in July. The forecast now is slightly higher than the one we published in the April measurement week when we expected 3.7% inflation in May and June, and 3.4% in July. The difference is mainly due to a higher April measurement than we anticipated.

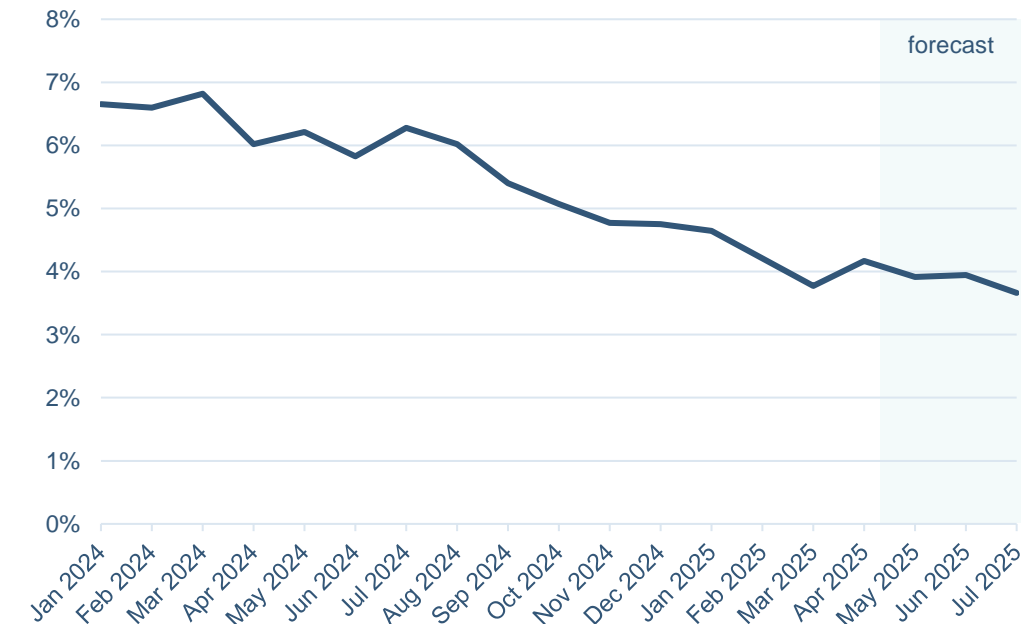
## Inflation forecast

YoY change and weight of components



## Inflation forecast

12M inflation



# Policy rate

The Monetary Policy Committee of the CBI announces its next policy rate decision on 21 May. The policy rate is currently 7.75%. The real policy rate based on past inflation is currently unchanged from the last rate decision. Domestic consumption has continued to grow and real estate prices to rise. In addition, inflation expectations have not declined in the past few months. All things remaining equal, the likelihood of a policy rate cut in May is dwindling.

## 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



# Inflation premium in the bond market

The inflation premium in the bond market increased in April and is 4.2% for two years, 4.0% for five years, and 3.9% for ten years. Inflation expectations have remained relatively stable since the end of last year and have edged slightly upward, despite a notable decline in actual inflation. It is a cause for concern that inflation expectations have not been declining alongside the drop in inflation in recent months. As expected, the inflation premium (for two and five-years) rose slightly when April's inflation figure came in higher than forecast.

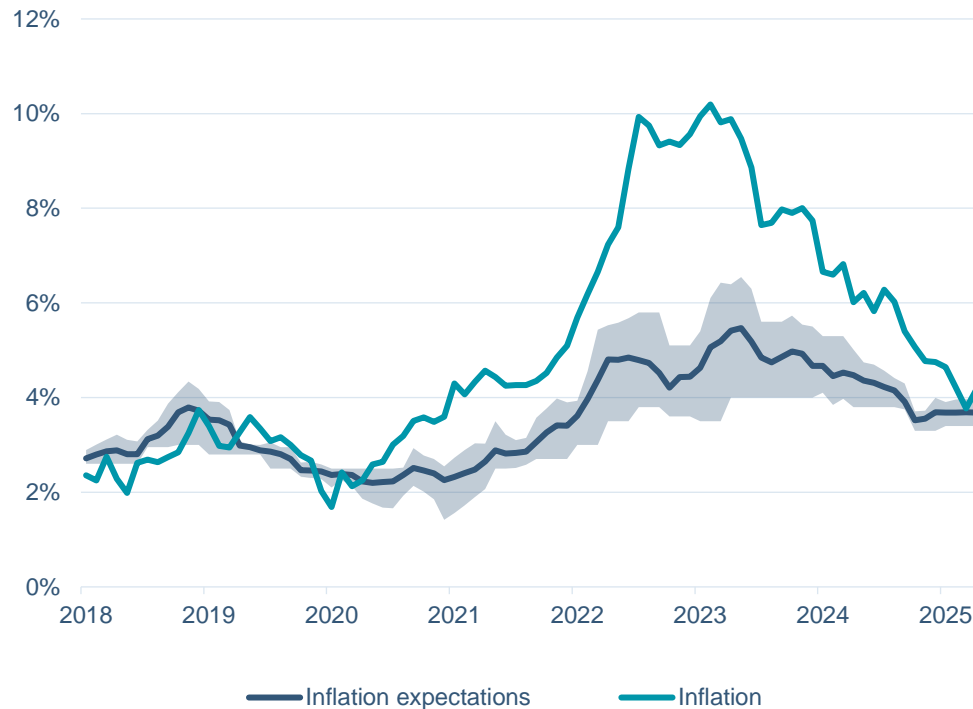




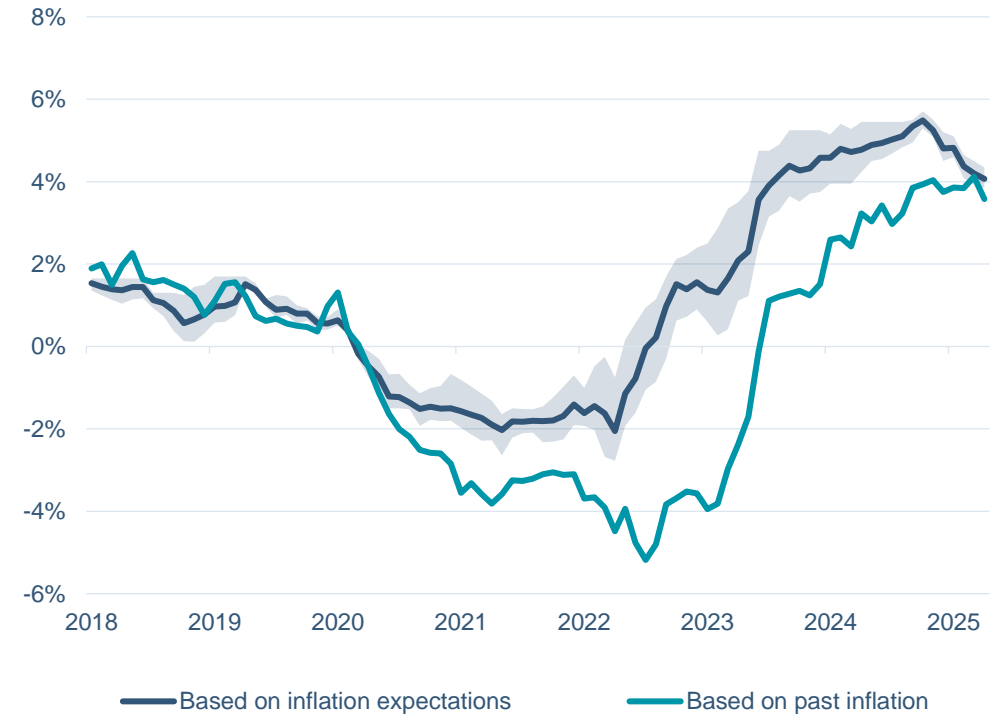
# Real policy rate

The average of key measurements of inflation expectations has remained fairly stable at just under 4% since November 2024, despite declining inflation. Monetary policy restraint based on past inflation has also remained fairly stable in the past months, but compared to inflation expectations, restraint has loosened.

## Inflation and inflation expectations



## Real policy rate

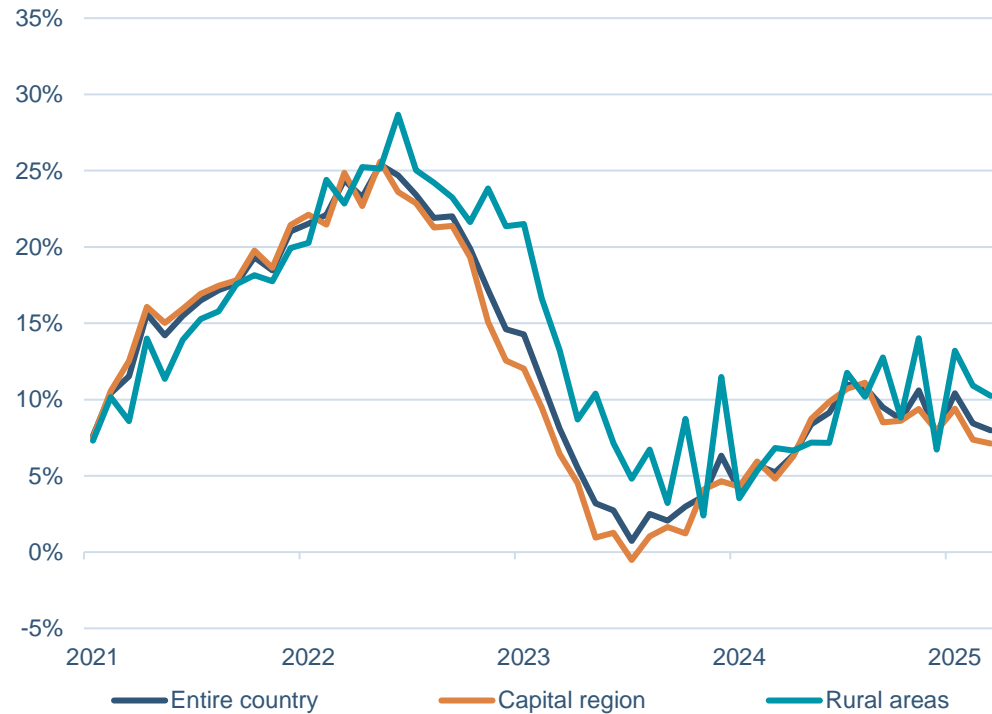


# The real estate market

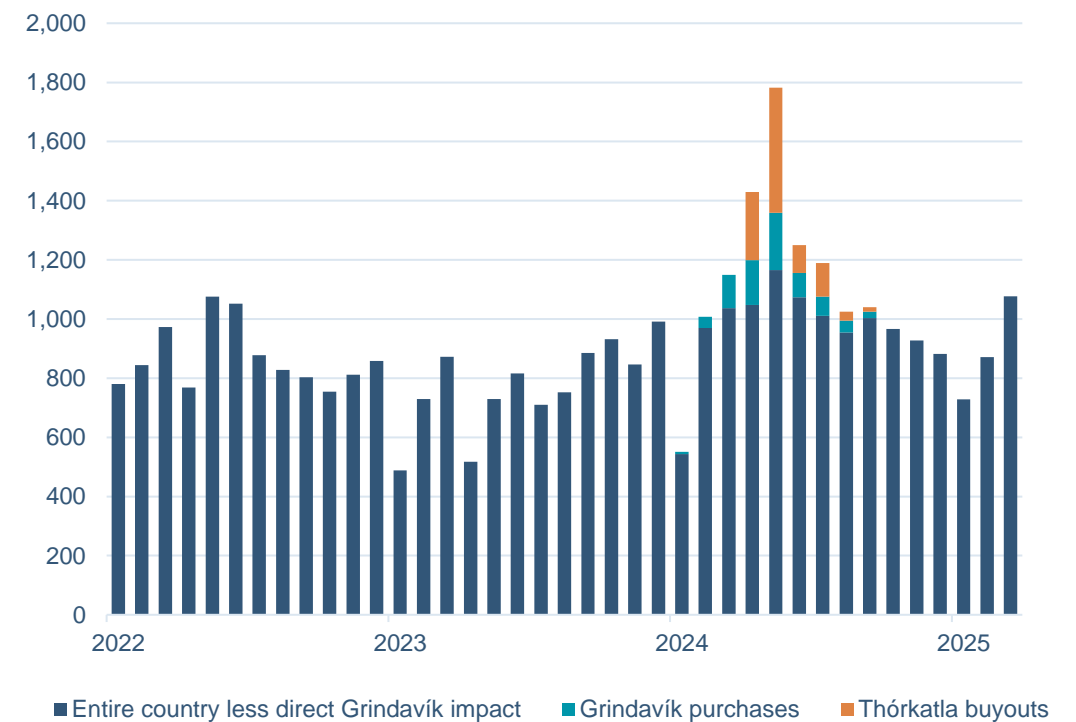
The housing price index rose by 0.36% between months in March. The 12-month increase of the index fell from 8.4% to 8.0% and remains higher than the general price level increase. The increase in March is driven by single-family dwellings in the capital region, which rose by 1.6%, while single-family dwellings in rural areas rose but little, or by 0.1%. The price of multi-family dwellings in rural areas and the capital region fell. A total of 1,049 purchase contracts were signed in March. Concluded contracts are up from the beginning of the year and were slightly more numerous in March of this year than in 2024, leaving aside the Grindavík effect.

## Housing price index

YoY change

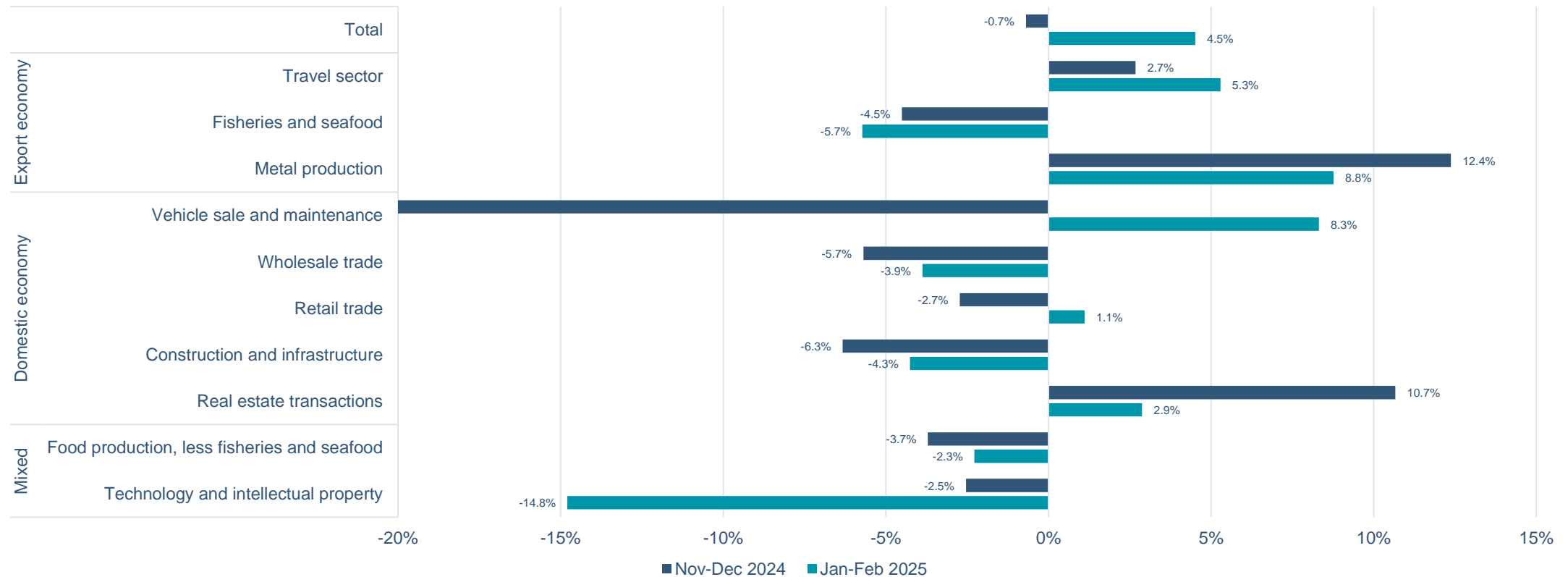


## Signed purchase contracts - entire country



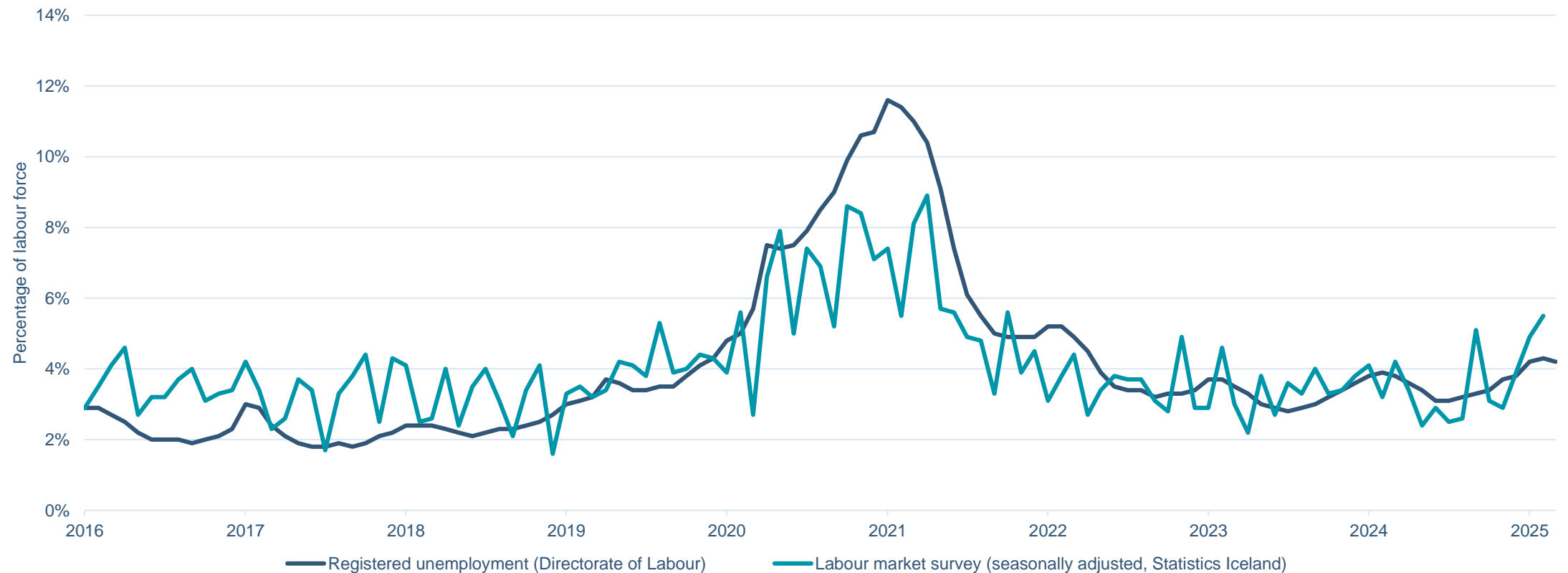
# Turnover based on VAT reports

In the VAT period Jan-Feb, turnover increased between years in real terms following a contraction in the Nov-Dec 2024 period. Despite a decline in foreign tourist arrivals, turnover grew in the travel sector. Increased turnover in metal production year-on-year is explained by higher global aluminium prices. There was a significant turnover in the sale and maintenance of vehicles, which grew between years following a sizeable contraction throughout 2024. The contraction continues in general construction and infrastructure while turnover in specialized construction grew between years. Turnover in technology and intellectual property contracted between years caused by a contraction in the production of medicines and IT services (data processing, warehousing, etc.)



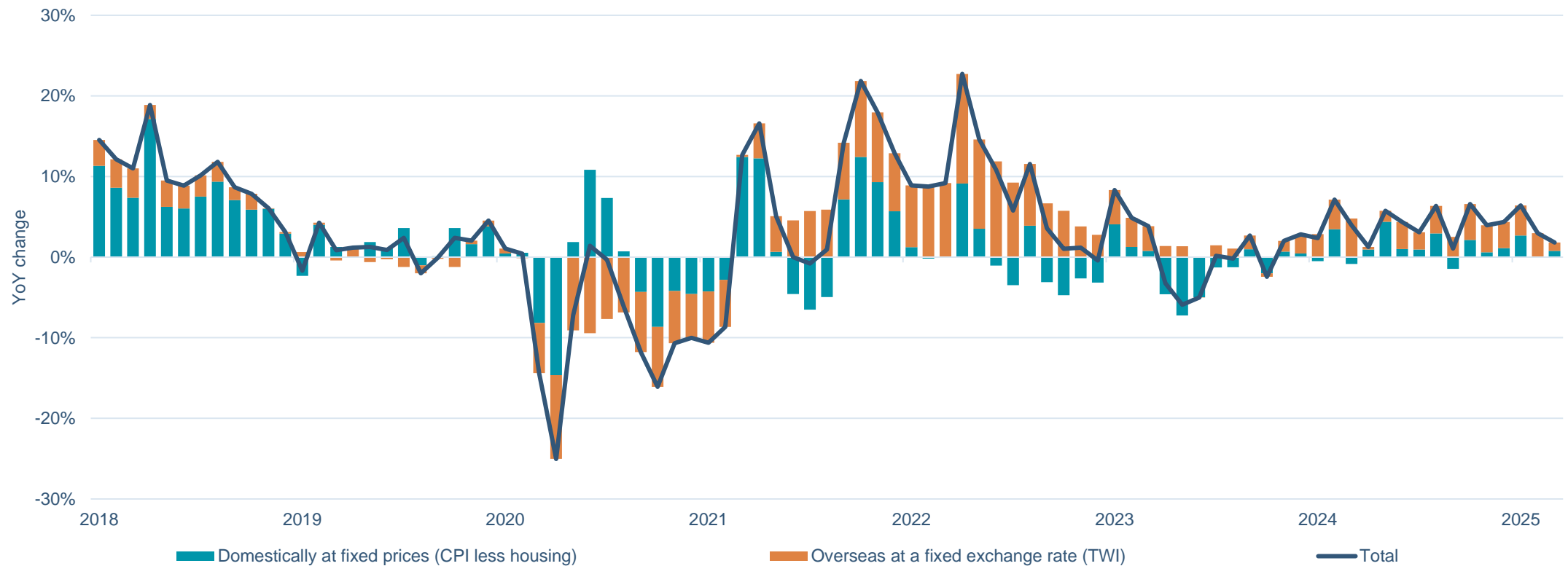
# Unemployment

Registered unemployment with the Directorate of Labour was 4.2% in March, down from 4.3% in February. Unemployment was 0.4 pp higher than the same month last year, for the third 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 3.7% in March.



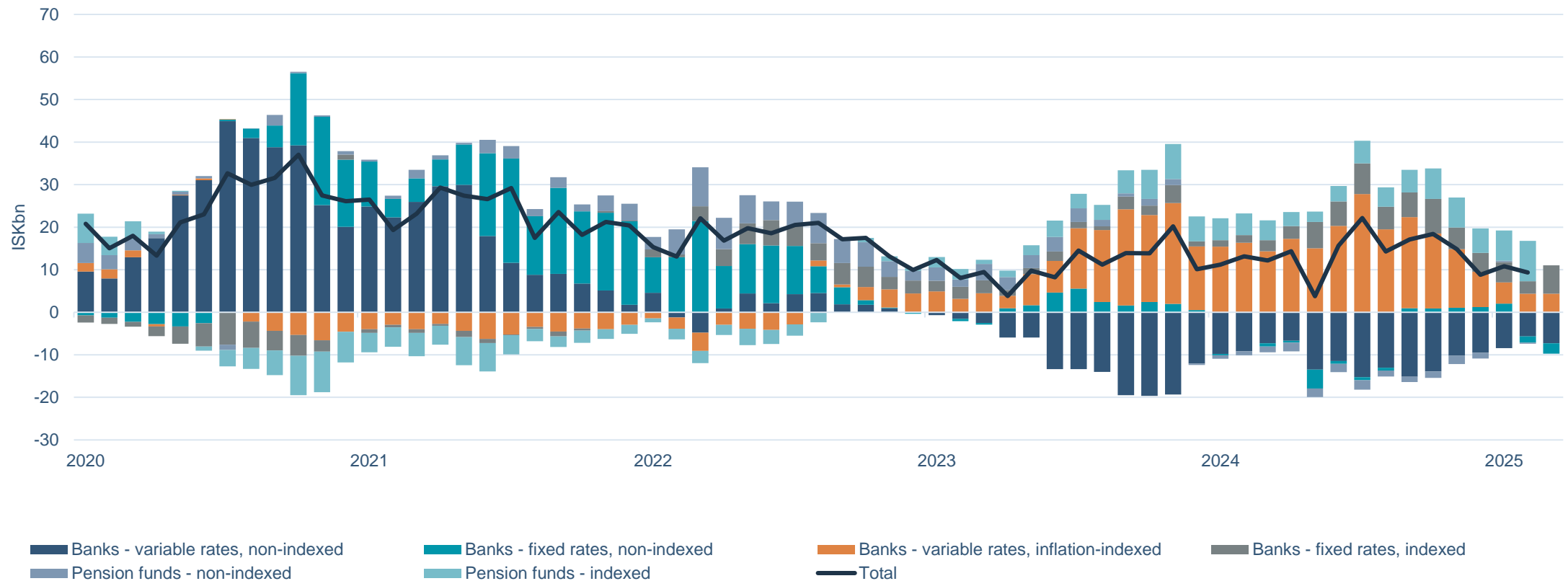
# Payment card turnover of Icelandic households

The total payment card turnover of Icelandic households was ISK 112 bn in March and is up by 1.8% between years, having regard for price and exchange rate changes. As in previous months, payment card turnover overseas drove the increase. Domestic turnover increased by a mere 1.0% between years and by 4.7% overseas.



# Net new housing mortgages

Net new housing mortgages by deposit institutions amounted to just ISK 1.3 bn in March. Of that figure, ISK 11.0 bn represents net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 9.7 bn. Net new lending continues to decrease, and what lending there is are entirely inflation-indexed loans, and net repayment is fairly low.

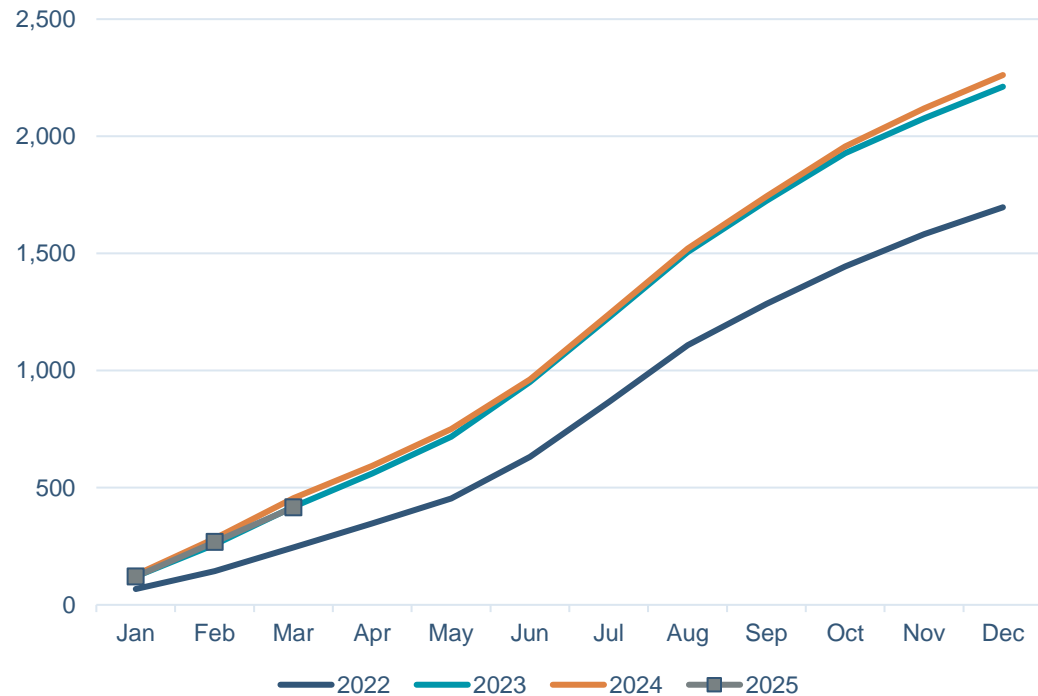


# State of the travel sector

Around 148,000 foreign travellers passed through Keflavík International Airport in March, a 13.8% decrease from March 2024. This year, traveller numbers have declined all months compared to the same month in 2024, and by a total of 8.7% this year to date. Card turnover by foreign tourists in Iceland was 0.5% lower at fixed prices in March this year than March last year yet increased between years at a fixed exchange rate. Card turnover decreases less than the drop in tourist numbers, perhaps indicating that tourists are generally staying longer than last year.

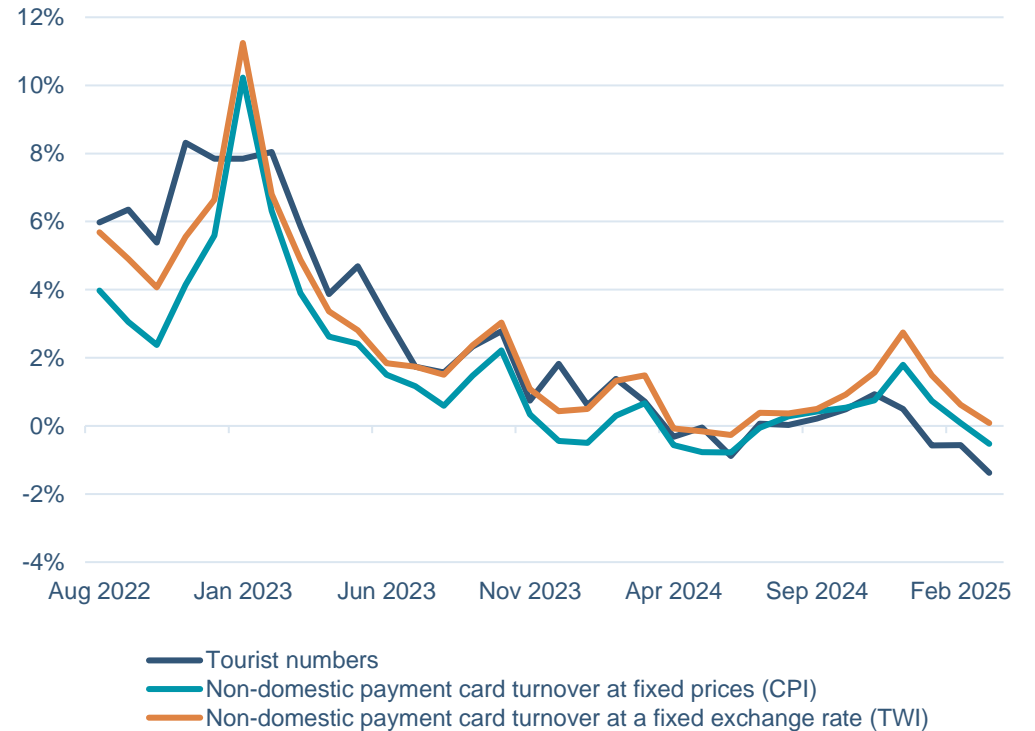
## Acc. tourist numbers

Thousand individuals



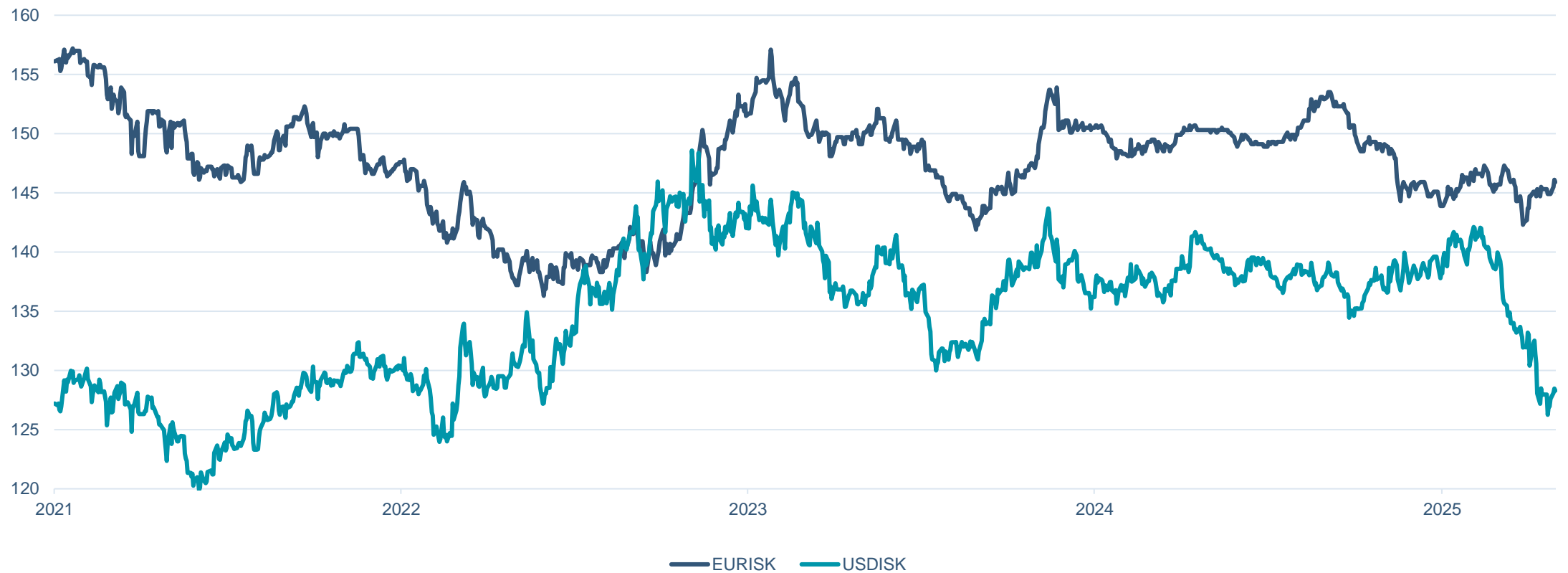
## Development of key indicators

YoY change



# ISK exchange rate

The ISK depreciated against the EUR in April and cost 145.9 at the end of April compared to 142.7 at the end of March (+2.2%). The USD continued to depreciate in April, costing 128.3 at the end of April compared to 132.0 at the end of March (-2.8%). The price of the USD has fallen by 10% since the currency began depreciating around mid-February. It has not been weaker since June 2022.





# CBI involvement in the FX market

Early in the month, the CBI announced its intention to again begin regular currency purchases on the interbank market, in the amount of EUR 6 million per week. In addition to regular purchases, the CBI once intervened on the market in April when it purchased EUR 20 million on 14 April. The CBI purchased a total of EUR 32 million (ISK 4.6 billion) in April.



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