



Mánaðamót

Monthly newsletter

3 June 2025

Landsbankinn Economic Research

Market events – June 2025

Monday	Tuesday	Wednesday	Thursday	Friday
2	3 Inflation in the eurozone	4 Minutes of the Monetary Policy Committee (CBI)	5 Balance of payment, external debt and international investment position in Q1 (CBI) ECB policy rate decision	6 Unemployment in the US
9	10 Registered unemployment in May (VMST)	11 Departures from Keflavík International Airport in May (FMST) Inflation in the US	12	13
16 Payment intermediation in May (CBI)	17 Housing price index in May (HMS)	18 Rental price index in May (HMS) Policy rate decision in the US Inflation in the UK	19 Monthly report (HMS) Bank of England policy rate decision	20
23 Wage index for May (HAG)	24	25 Turnover based on March-April VAT reports (HAG)	26 Overnight stays in May (HAG) Hagar publishes results	27 CPI in June (HAG) Economic indicators (Sí)
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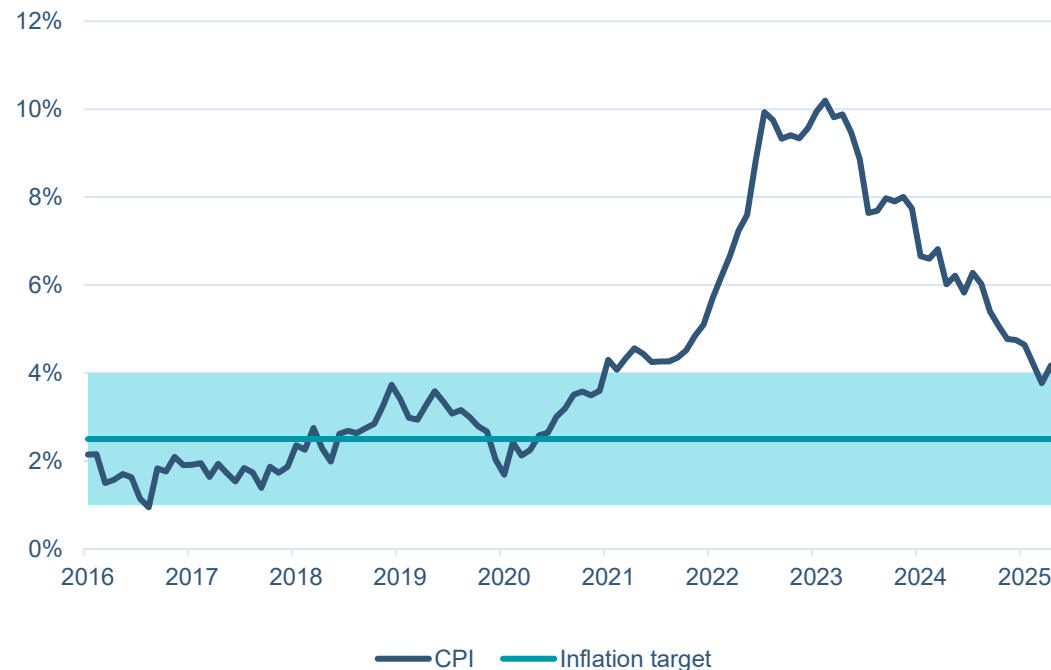


Inflation

The consumer price index (CPI) increased by 0.20% between months in May. Annual inflation fell from 4.2% to 3.8% - we had forecast 3.9% inflation. Inflation has again receded below the 4.0% upper tolerance limit of the CBI's inflation target. Inflation excl. housing decreased in May and the same can be said for the annualised increase of all three core indices, which indicates a decrease in underlying inflation pressure.

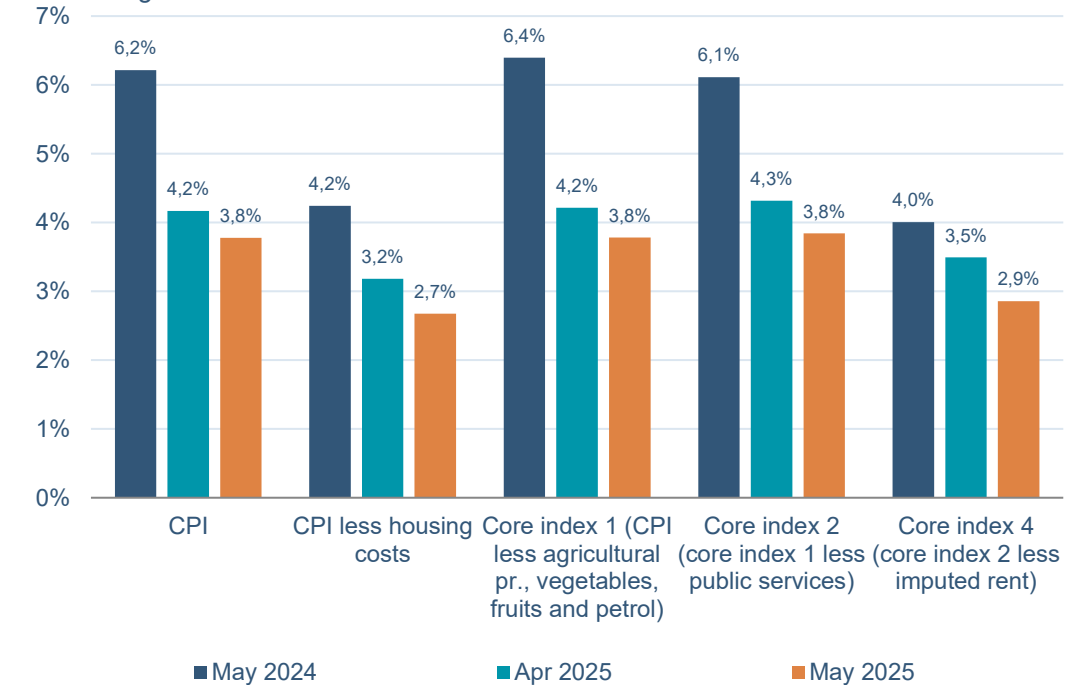
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

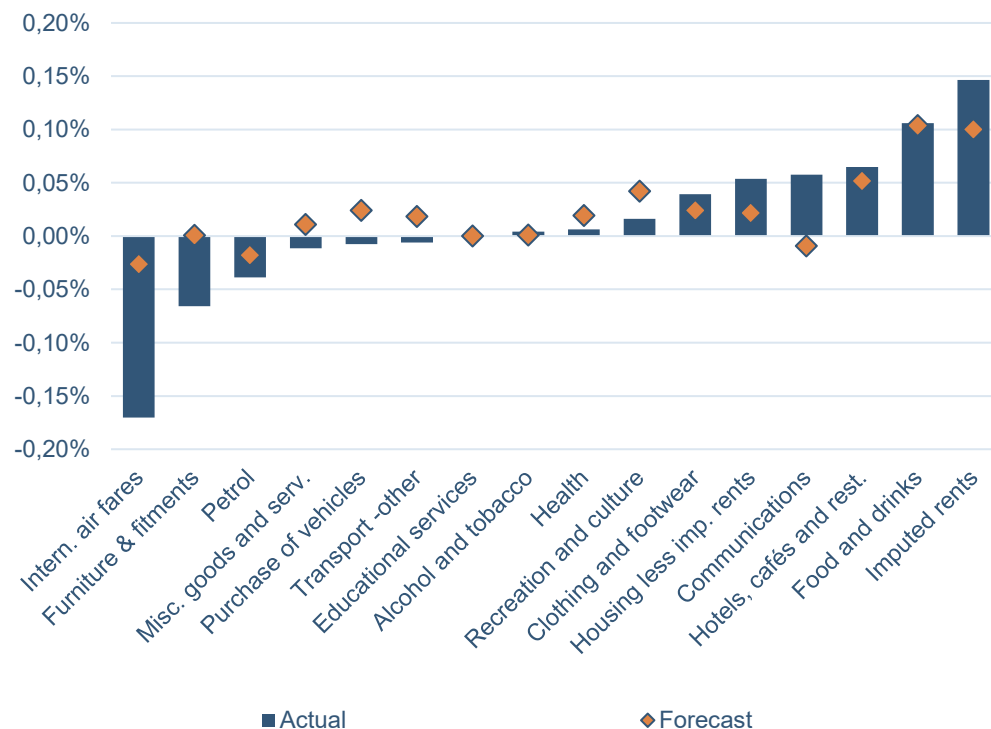
YoY change



MoM change in the CPI

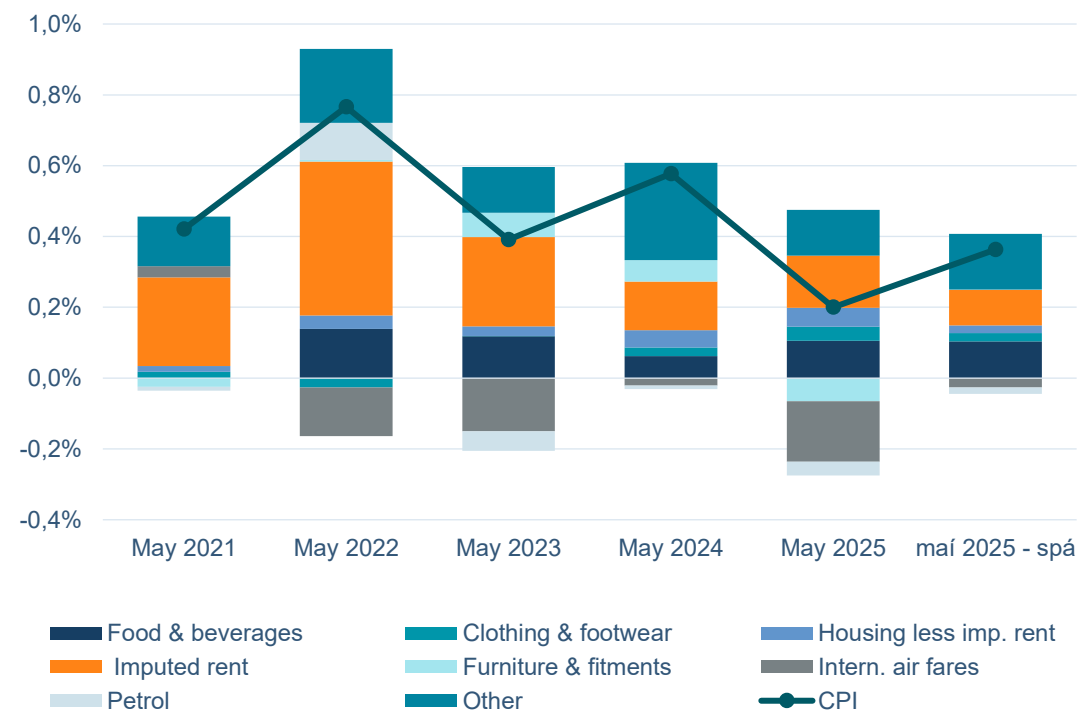
International airfares decreased more in May than we expected, 7.3% rather than 1.1% as we had predicted. The price of post and telecommunications service rose rather unexpectedly by 3.5%, mainly due to a significant increase in internet services in the month. Clothing and footwear rose by 1.1% in the month where we had predicted a 0.7% increase. The price of clothing and footwear is still lower than pre-sales in January and in general, the price pressure on imported goods has decreased, not least due to ISK appreciation. We now expect the price of clothing and footwear to increase steadily leading up to summer sales.

Contribution of components in May



May measurement of CPI

MoM change and weight of components

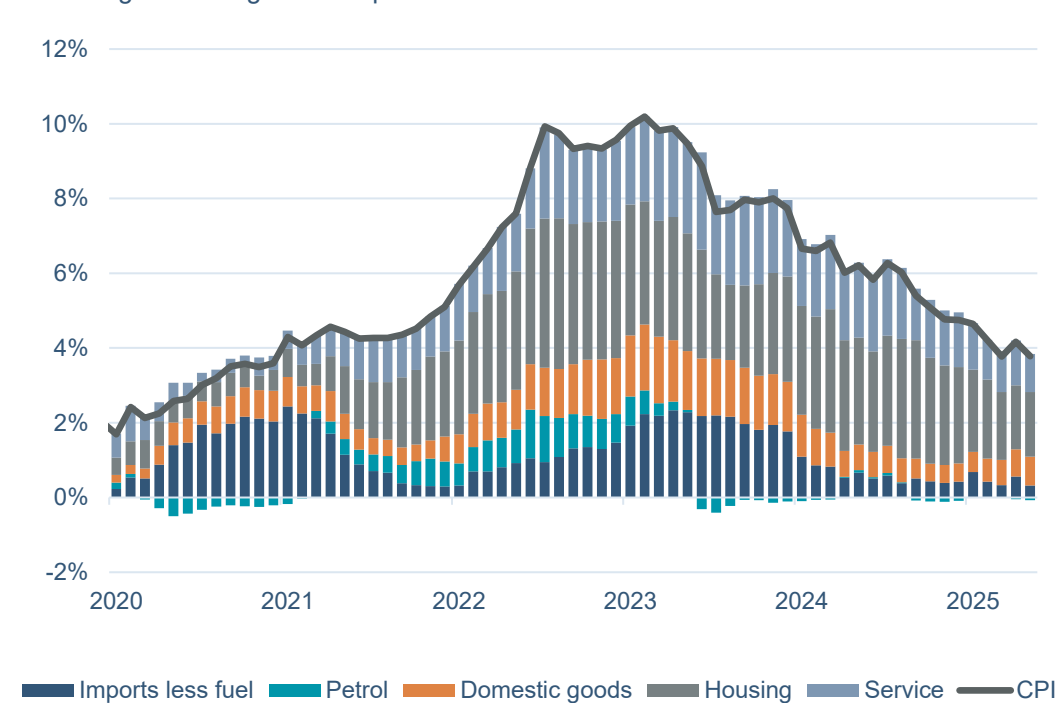


Composition of 12M inflation

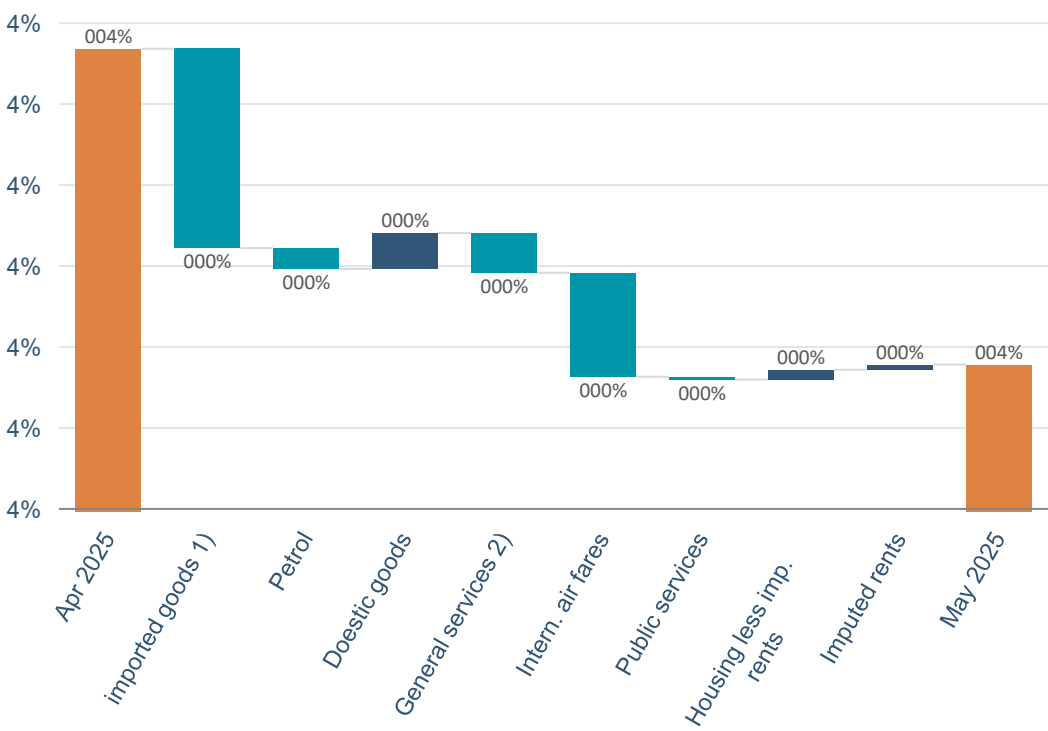
The decrease in inflation in May is largely due to the lower impact of imported goods on annual inflation, especially furniture, household appliances and vehicles. The impact of airfares on annual inflation also receded after an increase in April due to higher demand around Easter. The impact of the housing component is more or less unchanged between months.

Inflation by type and origin

YoY change and weight of components



Changes to the composition of inflation

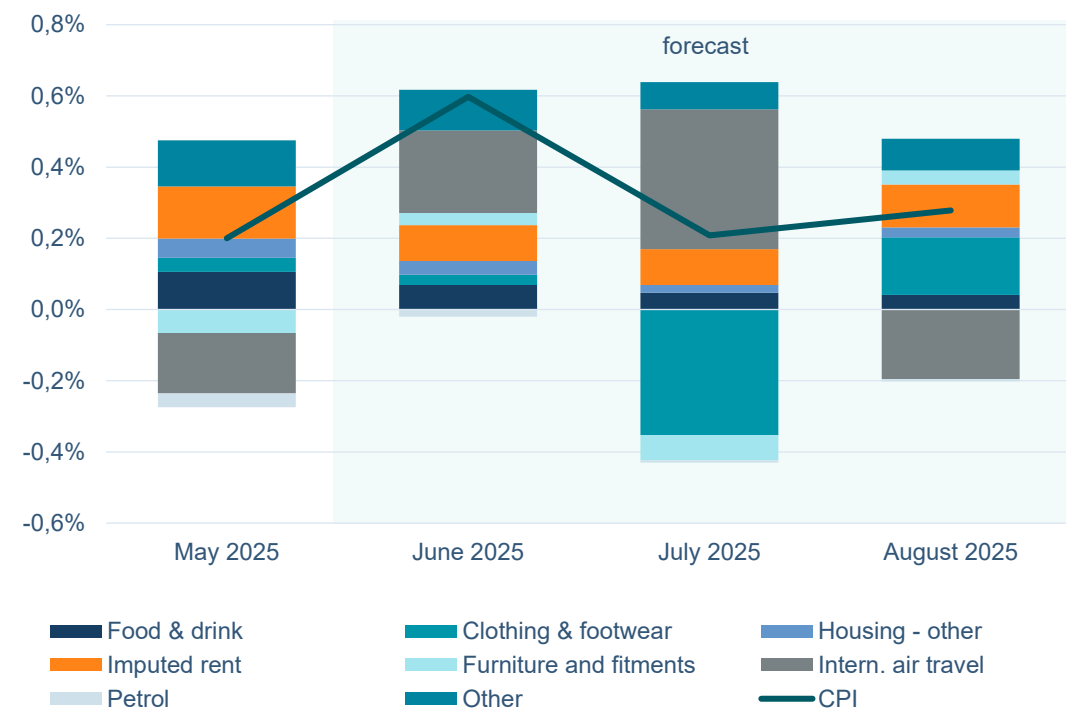


The outlook for the next months

We expect the CPI to increase by 0.60% in June, 0.21% in July and 0.28% in August. If the forecast holds, 12M inflation will be 3.9% in June, 3.6% in July, and 3.8% in August. We expect rather lower inflation than we forecast in the price measurement week in April when we forecast 4.0% inflation in June, 3.7% in July and 3.9% in August. The difference is mainly due to lower inflation in May than we anticipated.

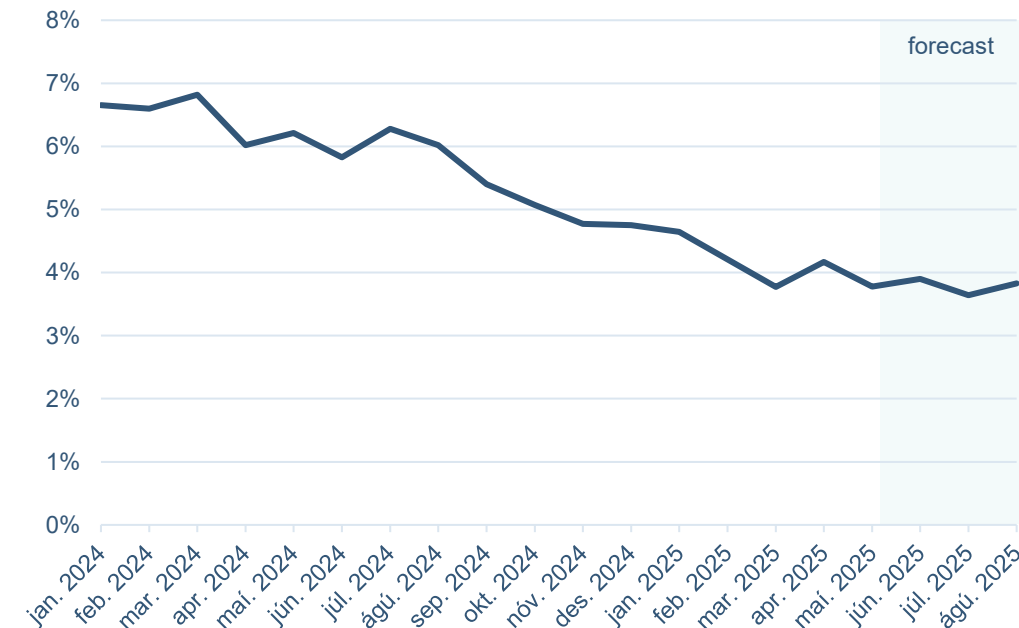
Inflation forecast

YoY change and weight of components



Inflation forecast

12M inflation



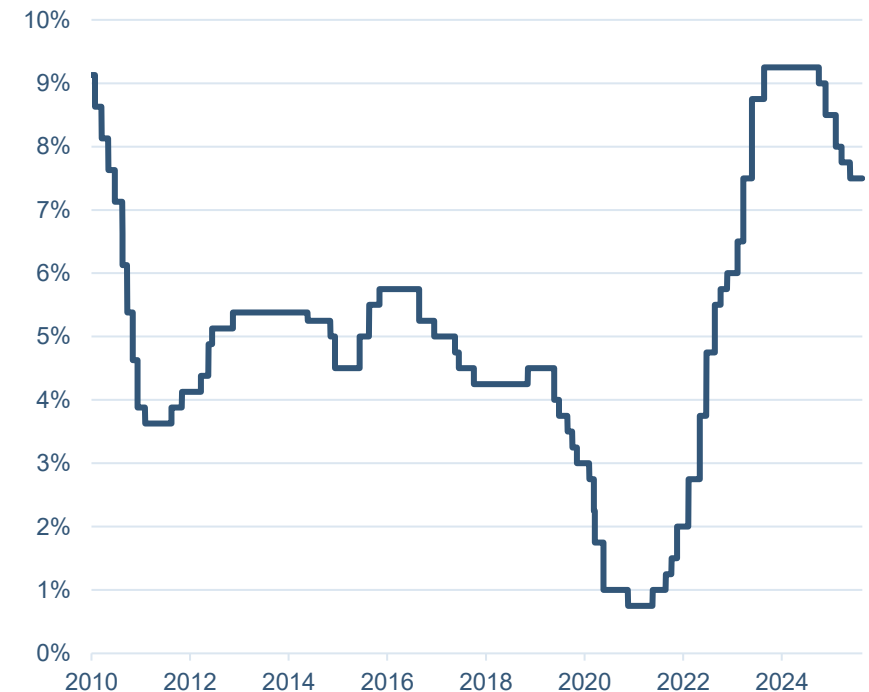
Policy rate

The Monetary Policy Committee lowered the CBI's rate by 0.25 percentage points on 21 May. The CBI's key interest rate, interest on 7-day term deposits, is 7.5%. All members of the MPC supported the decision. According to the statement issued along with the MPC's decision, the MPC does not consider the conditions warrant a slackening of the real policy rate. It states that further rate cuts are contingent on inflation falling closer to the CBI's 2.5% target. The next interest rate decision will be announced on 20 August.

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, ÞGP, TB, ÁÓP, HS			-0.50%	8.00%
19 March 2025	-0.25%	ÁJ, ÞGP, TB, ÁÓP, HS			-0.25%	7.75%
21 May 2025	-0.25%	ÁJ, ÞGP, TB, ÁÓP, HS			-0.25%	7.50%
20 Aug 2025						
8 Oct. 2025						
19 Nov. 2025						

Key interest rate of the Central Bank of Iceland



Inflation premium in the bond market

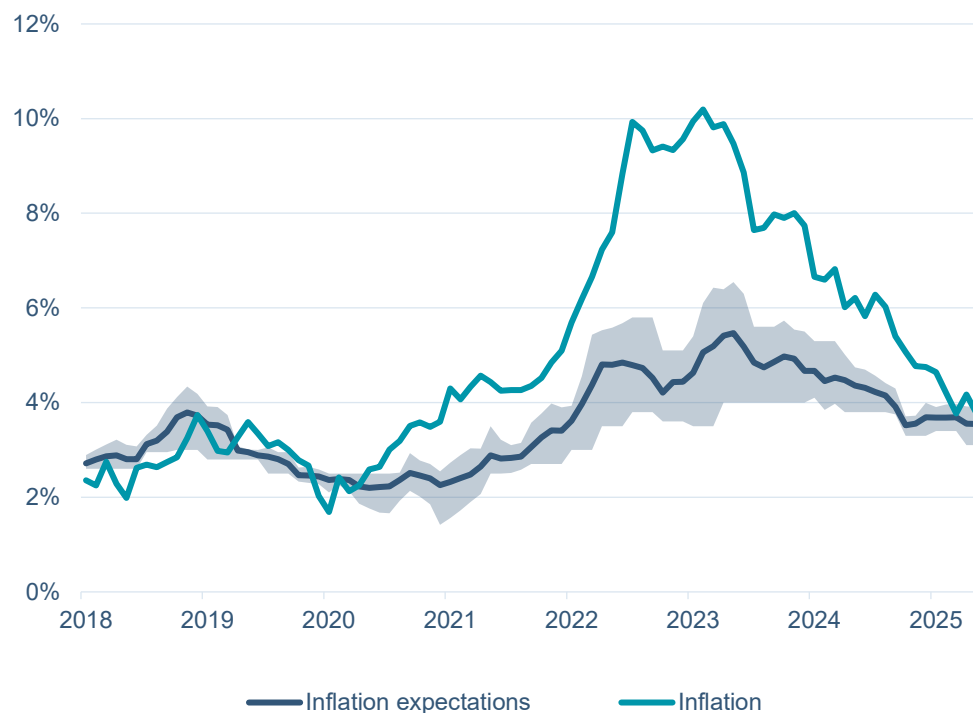
The inflation premium in the bond market decreased slightly in May whether viewed over two years, five years, or ten years. It decreased much less over ten years than over five years, and therefore the five-year forward inflation premium increased. The inflation premium in the bond market should give an indication of market inflation expectations, but it is also influenced by a risk premium, which may have increased recently due to greater uncertainty in international trade, keeping the inflation premium higher than it otherwise would be.



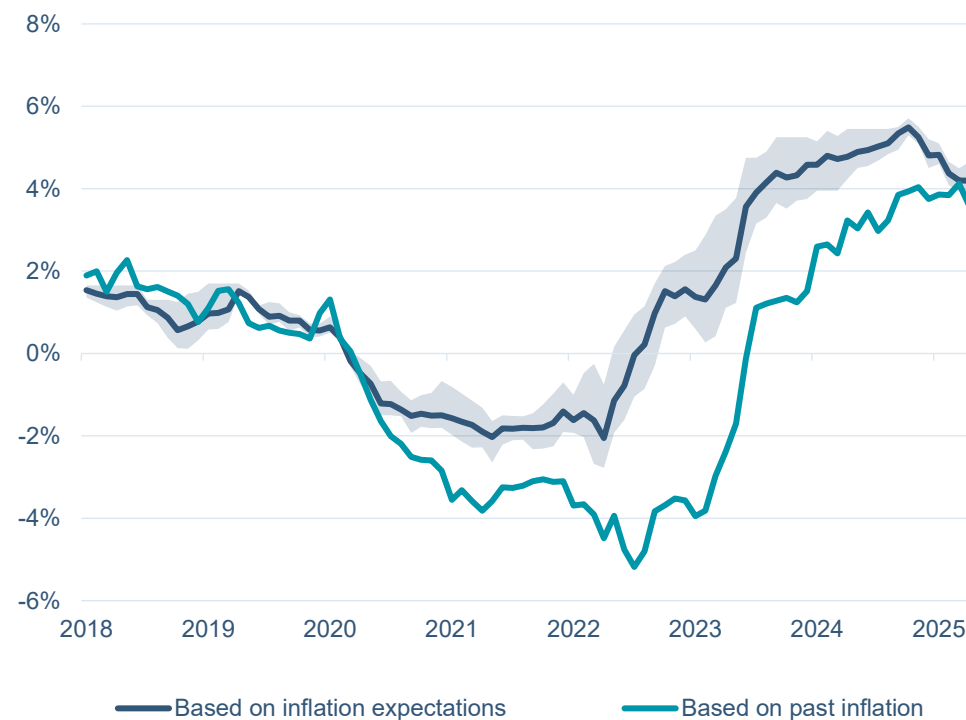
Inflation, inflation expectations and the real policy rate

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 this period, but compared to inflation expectations, restraint has loosened. The real policy rate based on past inflation was slightly higher in May than April. Based on the average of key measurements of inflation expectations, the real policy rate was slightly lower in May than in April.

Inflation and inflation expectations



Real policy rate

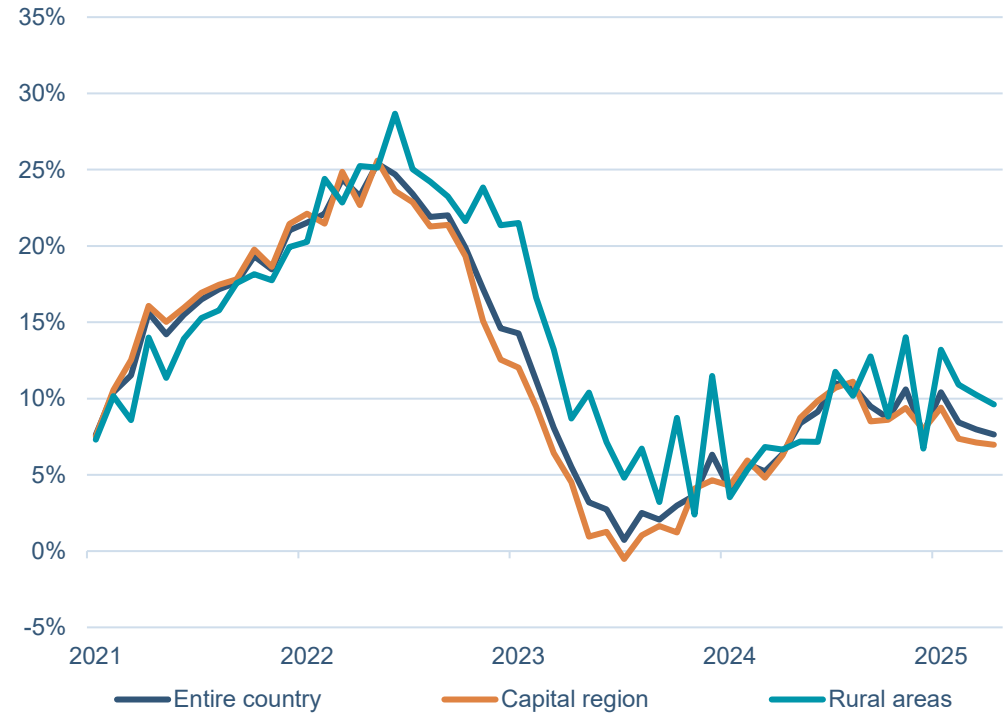


The real estate market

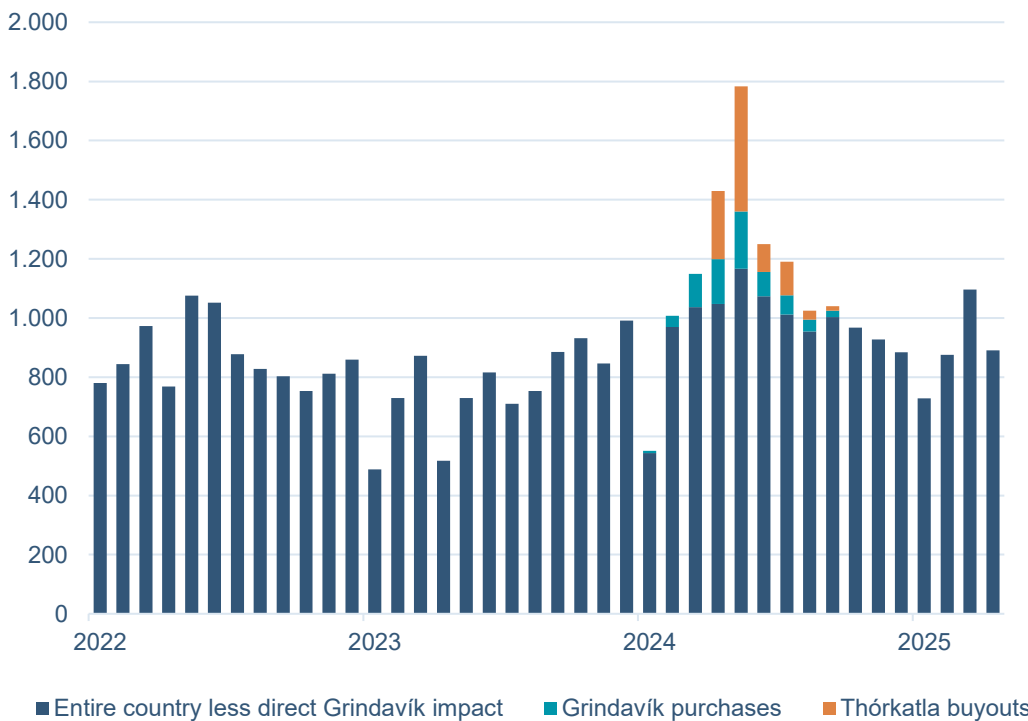
The housing price index rose by 0.45% between months in April. This increase in April was driven by increases in single-family dwellings in the capital region and multi-family dwellings in rural Iceland. The price of multi-family dwellings in the capital region was unchanged between months, according to the Housing and Construction Authority (HMS) index, and multi-family dwellings in rural areas decreased. The 12M increase of the index fell from 8.0% to 7.6% and remains higher than the general price level increase. A total of 891 purchase contracts were signed in April, a considerable decrease as compared with March.

Housing price index

YoY change



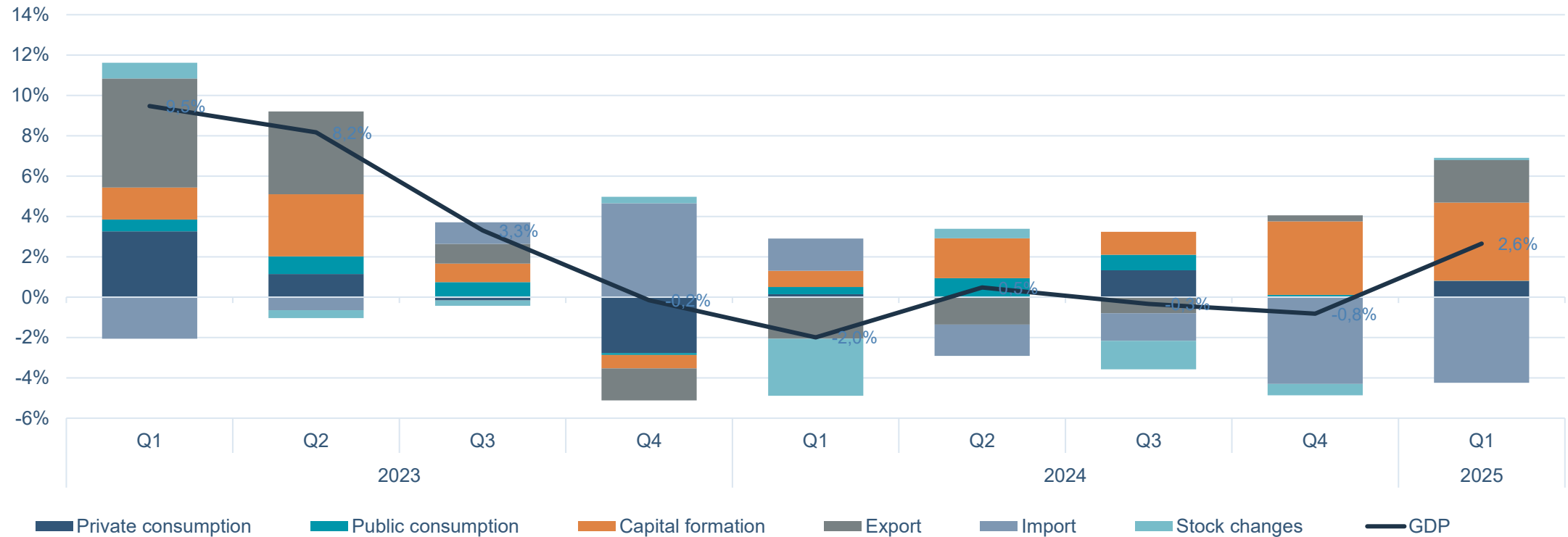
Signed purchase contracts - entire country



Gross domestic product

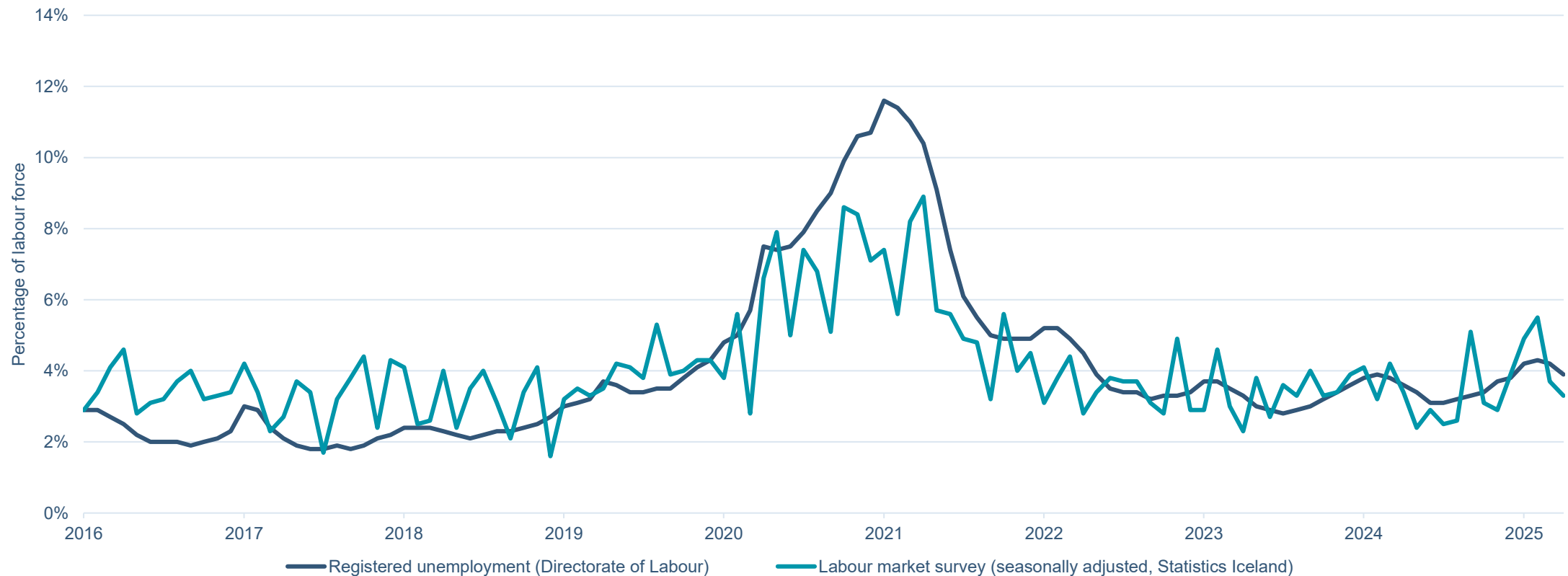
Gross domestic product (GDP) grew by 2.6% between years in the first quarter. This growth is mainly traced to increased business investment linked to data centre development. Data centre development requires considerable imports that lessen GDP growth. Investment in residential housing development and private consumption is also up between years. Icelanders were 1.4% more numerous in the first quarter of this year than the same period in 2024 with the result that growth was 1.3% per capita.

YoY change and weight of main components



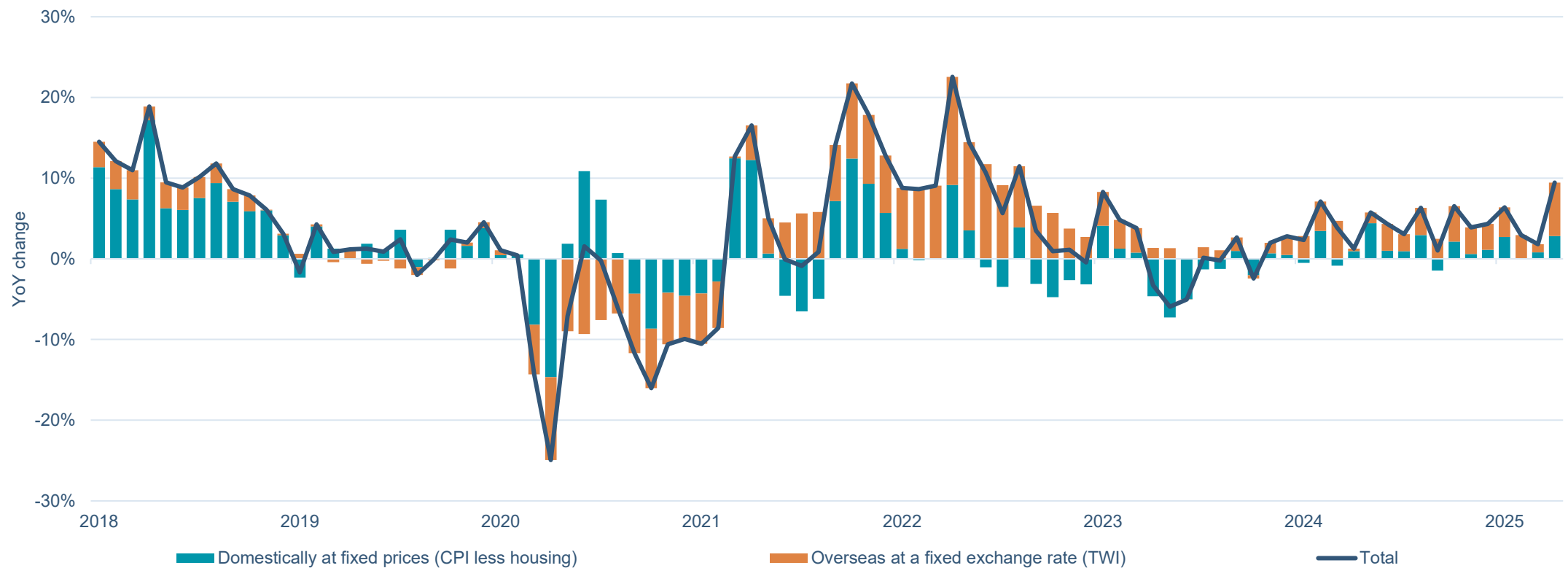
Unemployment

Registered unemployment with the Directorate of Labour was 3.9% in April, down from 4.2% in March. Unemployment generally decreases between months in spring. Unemployment was 0.3 pp higher than in the same month of 2024. Seasonally adjusted unemployment according to the labour market survey of Statistics Iceland was 3.3% in April.



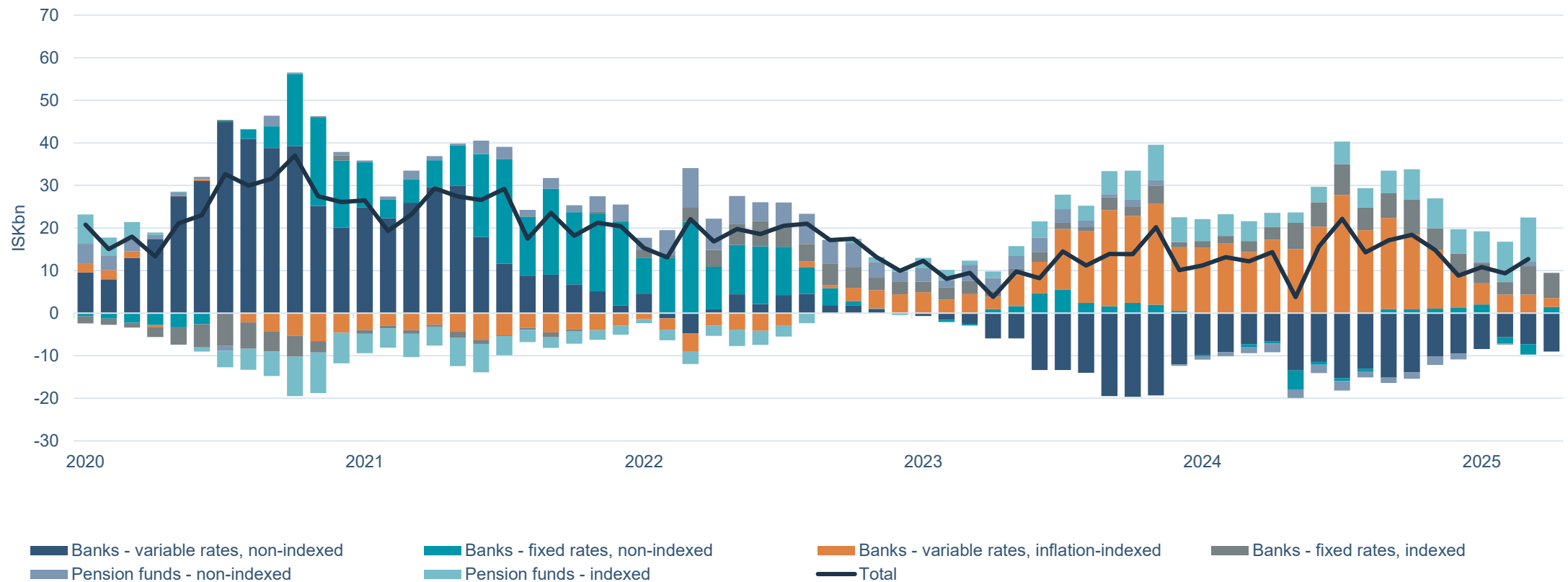
Payment card turnover of Icelandic households

The total payment card turnover of households is up by 9.4% between years in April, having regard for price and exchange rate changes. As is usual, overseas turnover (+32.8% between years) grew far more than domestic use (+3.5% between years). Despite the robust increase in overseas turnover, the increase was proportionally lower than the increase in overseas travel by Icelanders. According to figures from the Icelandic Tourist Board, foreign trips by Icelanders were 80% more in April of this year than in April 2024 and set a record for overseas travel in one month.



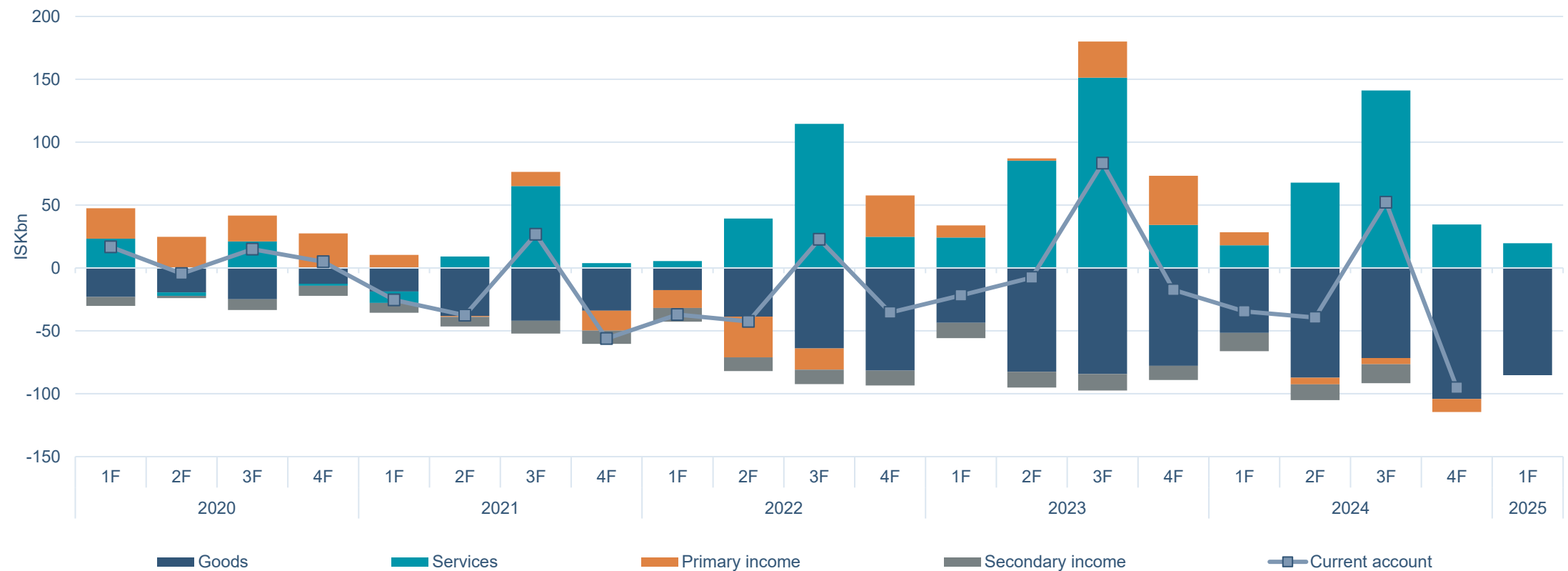
Net new housing mortgages

Net new housing mortgages by deposit institutions amounted to just ISK 0.4 bn in April. Of that figure, ISK 8.0 bn represents net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 7.6 bn. Figures for net new lending by pension funds in April will be released on Friday, 6 June.



Balance of trade

The goods and services balance was negative by ISK 65.5 bn in Q1. The deficit was ISK 29.4 bn higher than in Q1 of 2024, when it was ISK 36.1 bn. The increased deficit is mainly caused by a growing imbalance in the trade of goods, largely due to the increased imports of computers in relation to data centre developments. The services balance changed but little between years.

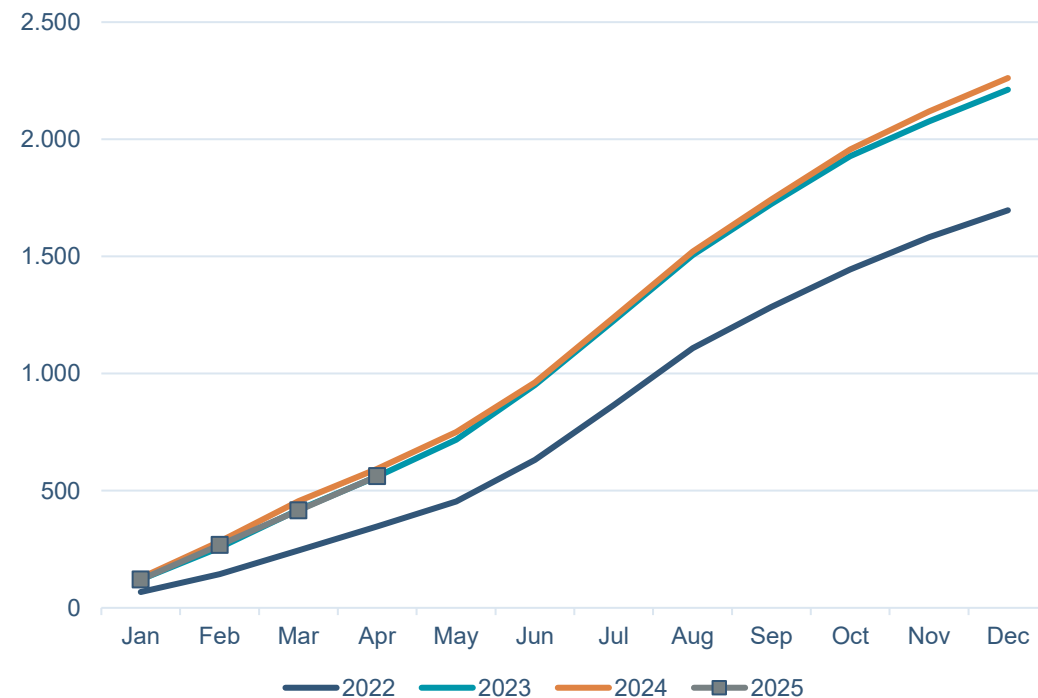


Snapshot of the travel sector

Around 146 thousand non-domestic travellers passed through Keflavik International Airport in April, 6.5% more than in April 2024. This year to date, departures by non-domestic travellers have been 5.2% lower than in the same period of 2024 and, until April, tourist numbers were down between years for all months of the year. Non-domestic payment card turnover grew by 0.6% between years at fixed prices and by 1.6% at a fixed exchange rate.

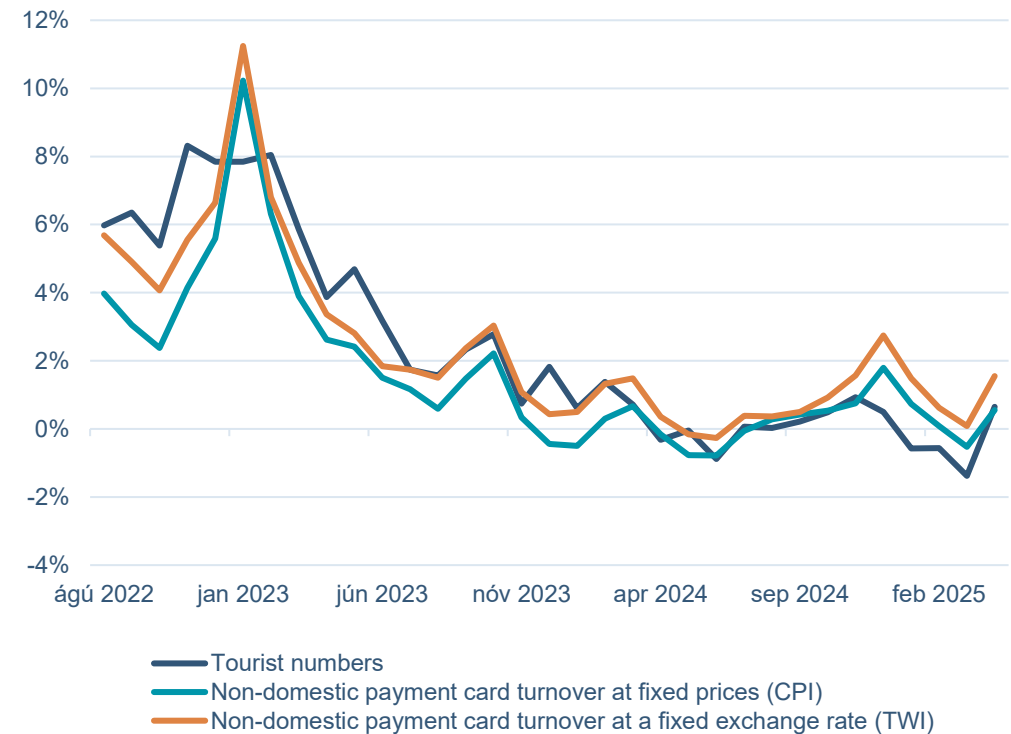
Acc. tourist numbers

Thousand individuals



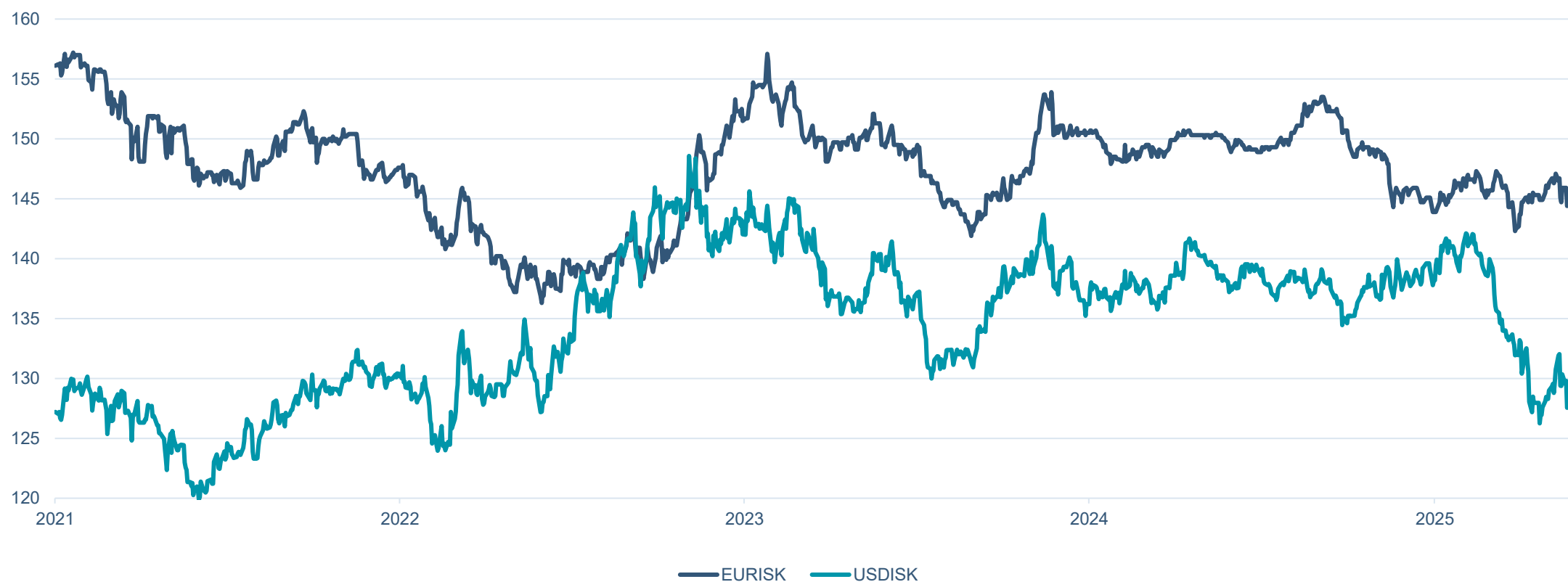
Development of key indicators

YoY change



ISK exchange rate

The ISK gained against the euro and the US dollar in May. At the end of May, the euro cost 144,0 instead of 145,9 as at the end of April and the USD 127.7 instead of 128.3 as at the end of April. Part of the appreciation in May can be traced to the purchase by index funds of shares in Íslandsbanki after the Icelandic state sold its shareholding in the bank.



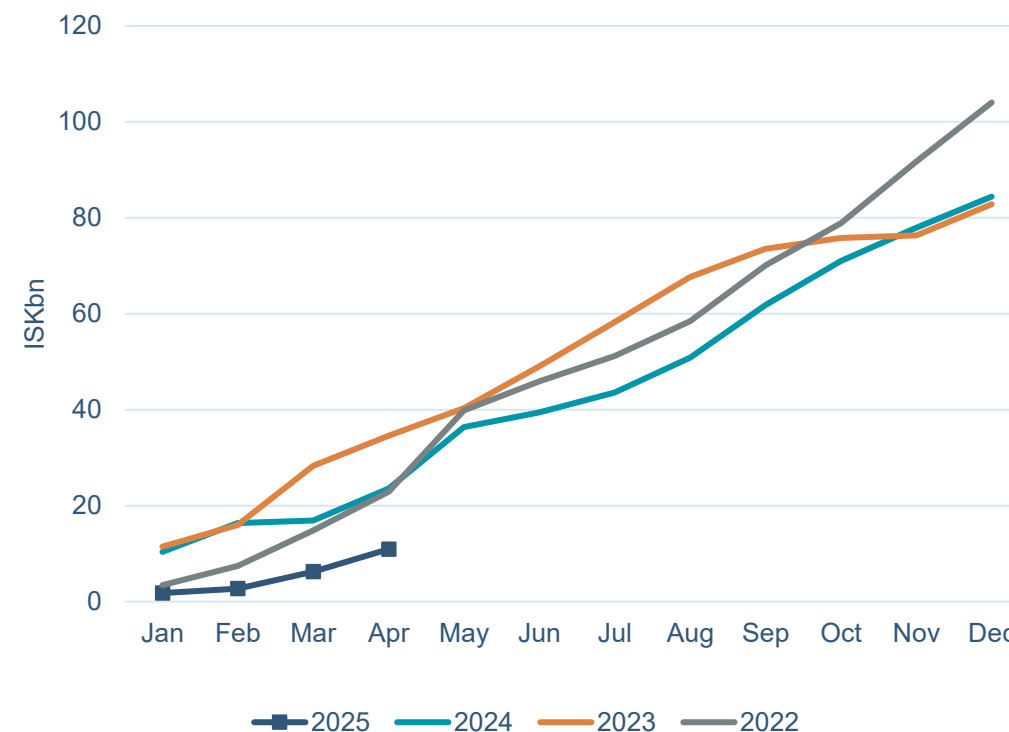
FX trade of the CBI and pension funds

Except for the twice weekly regular FX purchase of EUR 3 million, the CBI did not enter the market in May. The Icelandic pension funds purchased foreign currency for a net amount of ISK 10.9 bn in the first four months of the year, much less than in previous years. This significantly lower volume of the pension funds is due to an inflow of currency linked to the purchase by JBT of Marel and the expectation of more currency inflow from the dissolution of ÍL fund.

Activity by the Central Bank of Iceland



Acc. annual FX purchase of pension funds



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