

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.

Monthly newsletter

1 July 2025

Landsbankinn Economic Research

Market events - July 2025

Monday	Tuesday	Wednesday	Thursday	Friday
30	1. July Inflation in the eurozone	2	3 Unemployment in the US	4
7	8	9	10 Departures from Keflavík International Airport in June (FMST)	11 Registered unemployment in June (VMST)
14	15 Housing price index in June (HMS) Inflation in the US	16 Payment mediation in June (CBI) Rental price index in June (HMS) Inflation in the UK	17 Monthly report (HMS) Icelandair, Landsbankinn, Sjóvá and Skagi publish results	18
21	22	23 Wage index in June (HAG)	24 CPI in July (HAG) ECB policy rate decision	25
28	29 Festi publishes results	30 Overnight stays in June (HAG) Arion Bank publishes results Policy rate decision in the US	31 Íslandsbanki publishes results	

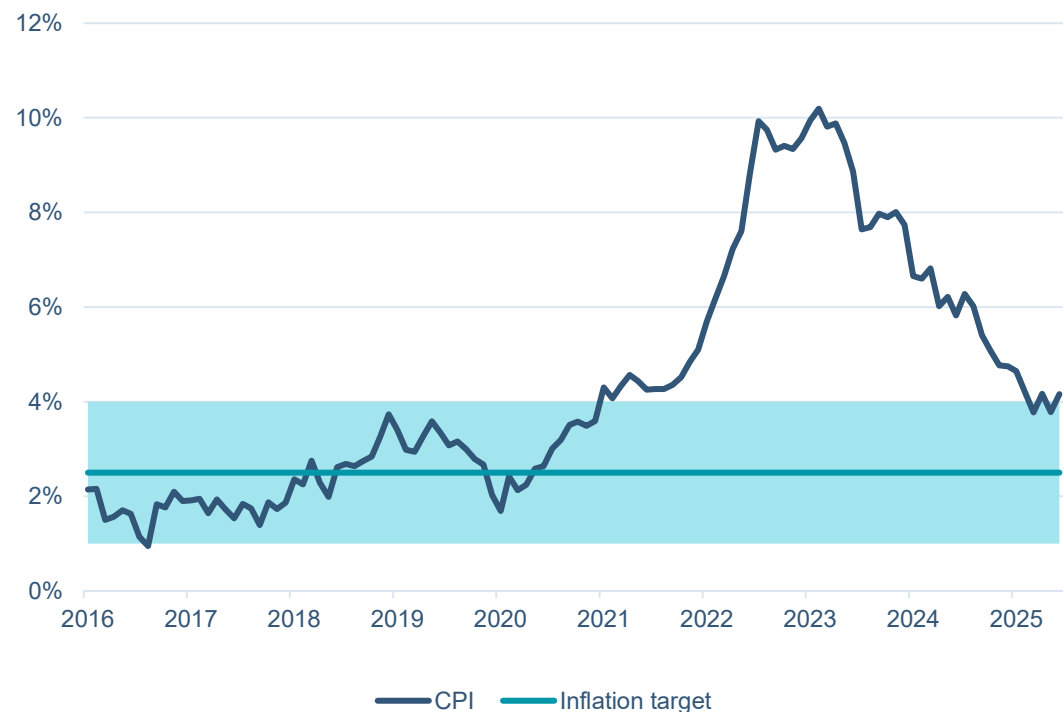


Inflation

The consumer price index (CPI) rose by 0.84% between months in June. Annual inflation grew from 3.8% to 4.2%. This was a sharper increase than we expected - we had predicted a bump to 3.9%. Inflation has again risen above the upper tolerance limit of the CBI's inflation target. Inflation excl. housing increased and the same can be said for the annualised increase of all three core indices, which indicates an increase in underlying inflation pressure.

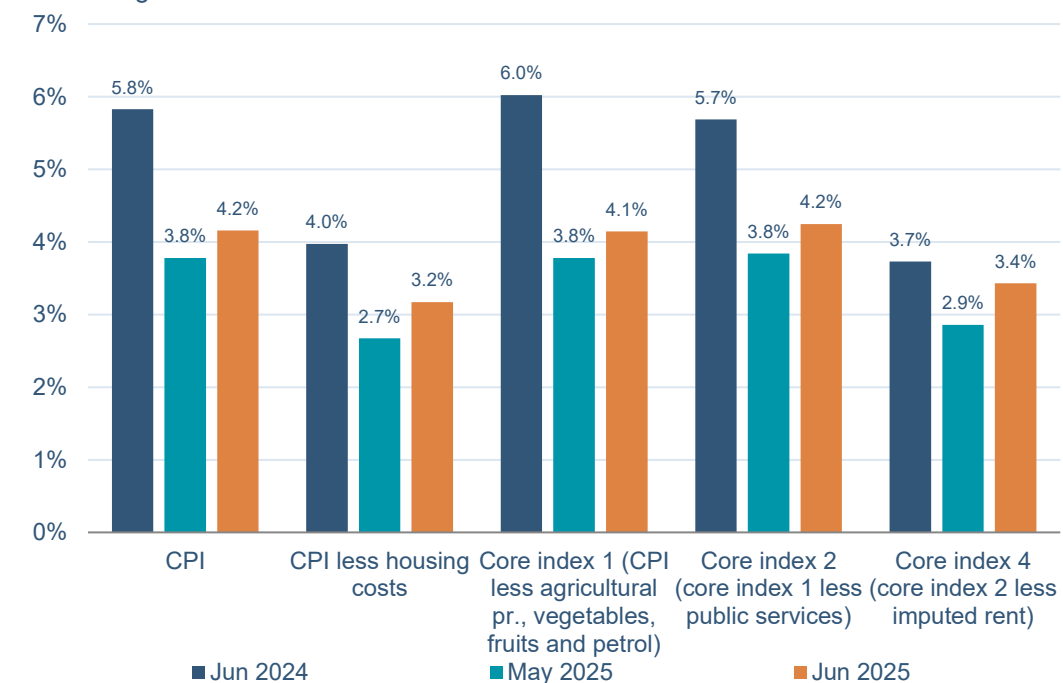
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

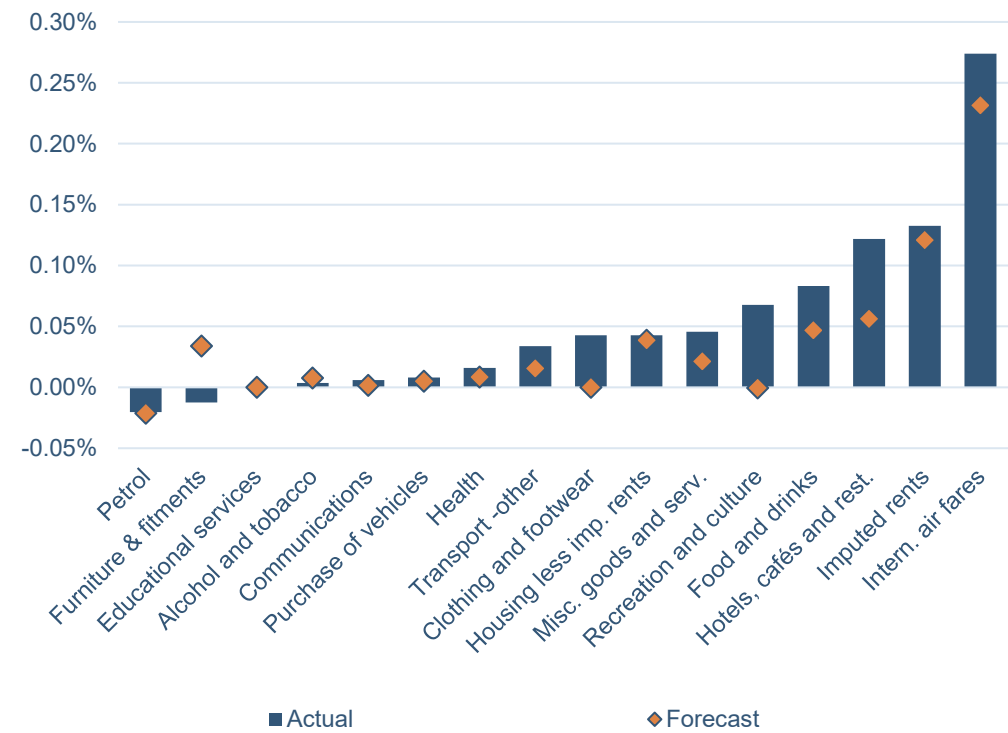
YoY change



MoM change in the CPI

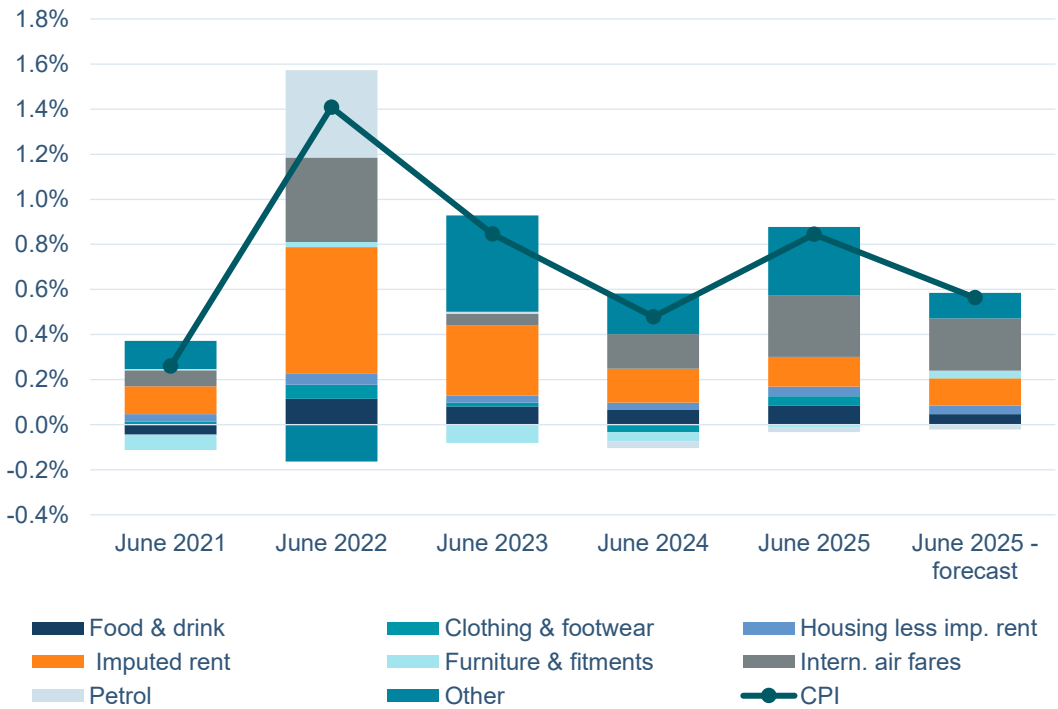
No single component explains the difference between our forecast and the measurement by Statistics Iceland this time around. The price of the food basket increased more than we expected and the same goes for clothing & footwear, recreation & culture, and hotels & restaurants.

Contribution of components in June



June measurement of the CPI

MoM change and weight of components

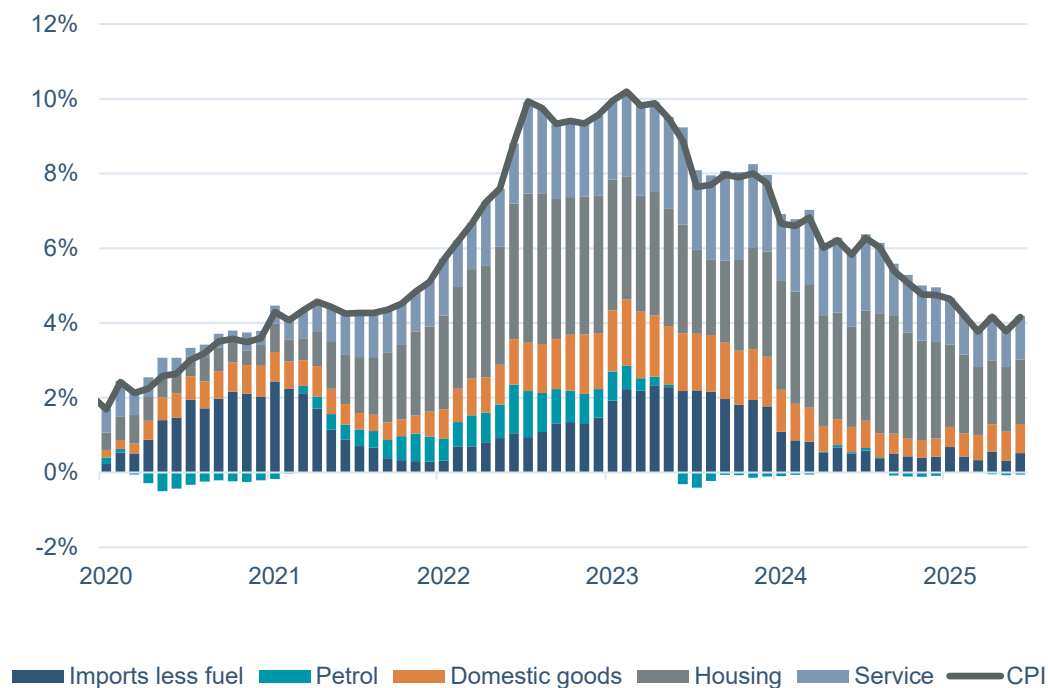


Composition of 12M inflation

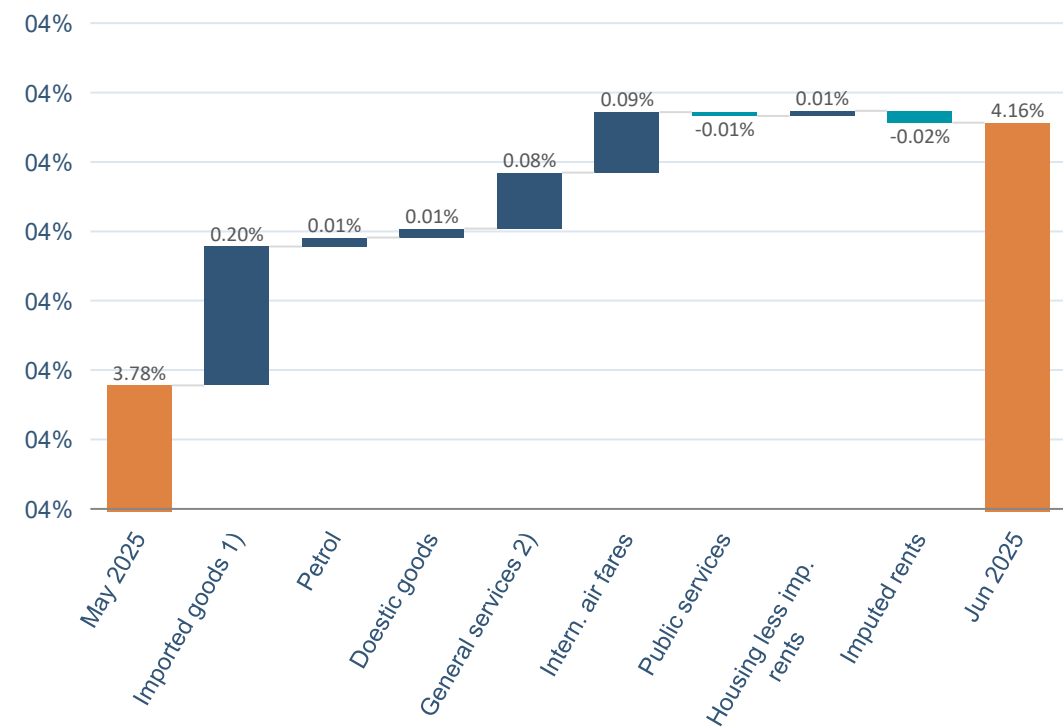
The composition of annual inflation changed somewhat between months and is again very similar to April, when inflation also measured 4.2%. The contribution of imported goods increased by 0.2 percentage points after having decreased in May. This is mainly due to an increased contribution from clothing and footwear, as the contribution of clothing had been lowering annual inflation since the January sales up until now. The contribution of cosmetics, new cars, recreation goods, and household appliances also increased. The contribution of services also increased and is now back to the same level as in April. Half of the increased contribution of services is explained by international airfares.

Inflation by type and origin

YoY change and weight of components



Changes to the composition of inflation



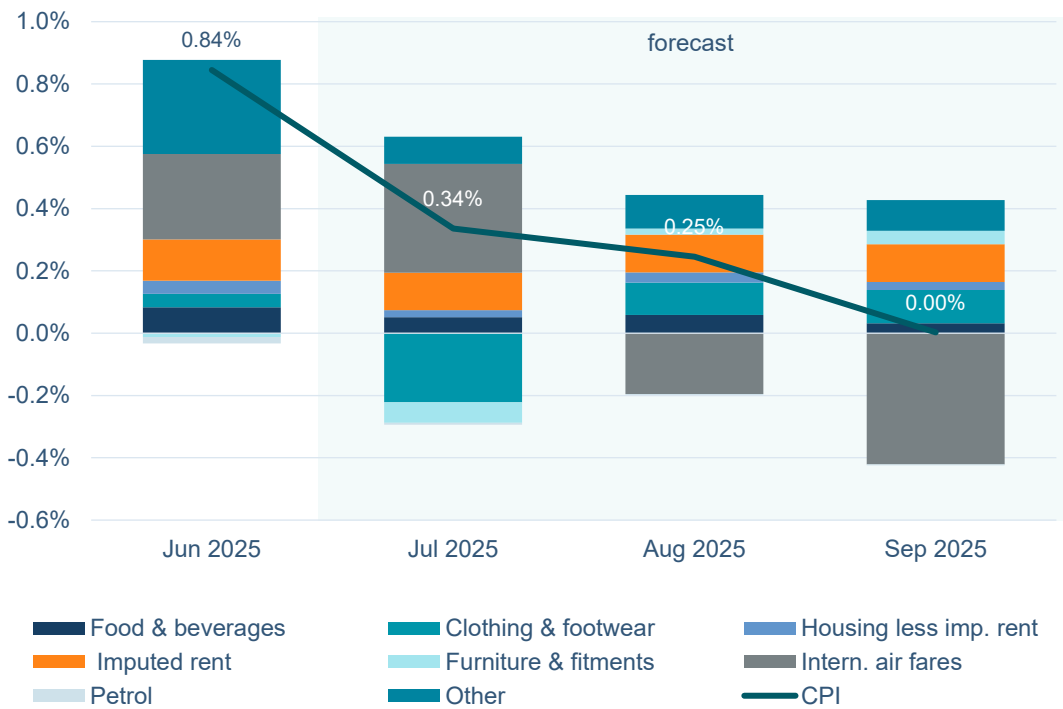
1) Imported goods less petrol. 2) General services less int. airfares. .
Source: Statistics Iceland

Outlook for the next months

We expect 12-month inflation to be 4.0% in July, 4.2% in August and 4.4% in September. In our opinion, the June measurement indicates higher inflationary pressure in the economy than appeared to be the case in spring. Another point to consider is that no single component pressured inflation up; rather, the increase was broadly based. In August and September, one-off items will phase out of 12-month inflation. In August of last year, school fees were cancelled in several universities and school meals in elementary schools were made free of charge in September. These one-off lowering items temporarily pressured inflation down last fall but will now phase out of the comparison data and lead to an increase in measured 12-month inflation.

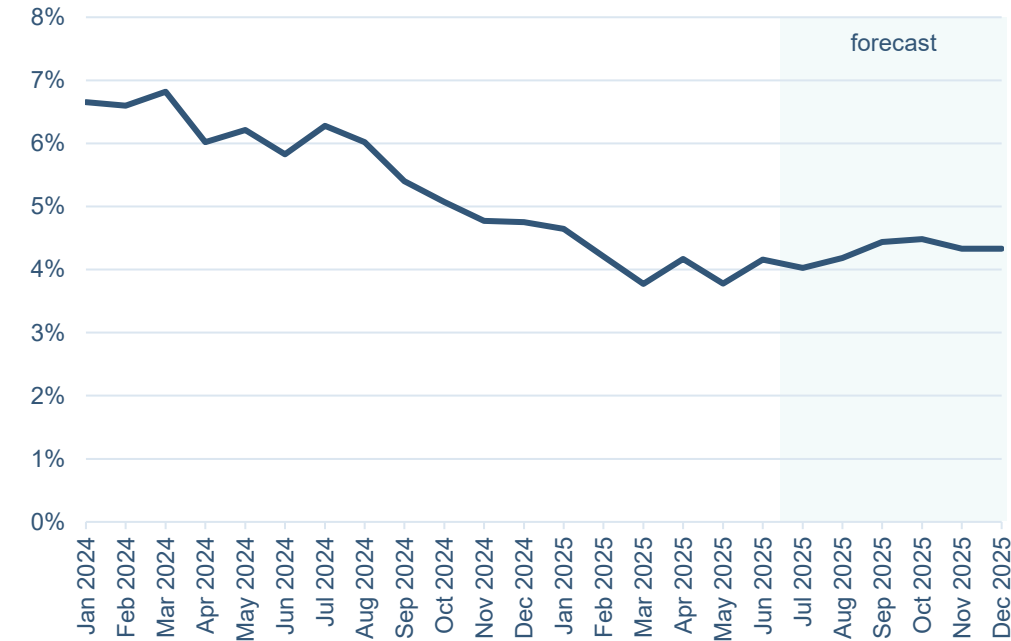
Inflation forecast

YoY change and weight of components



Inflation forecast

12M inflation



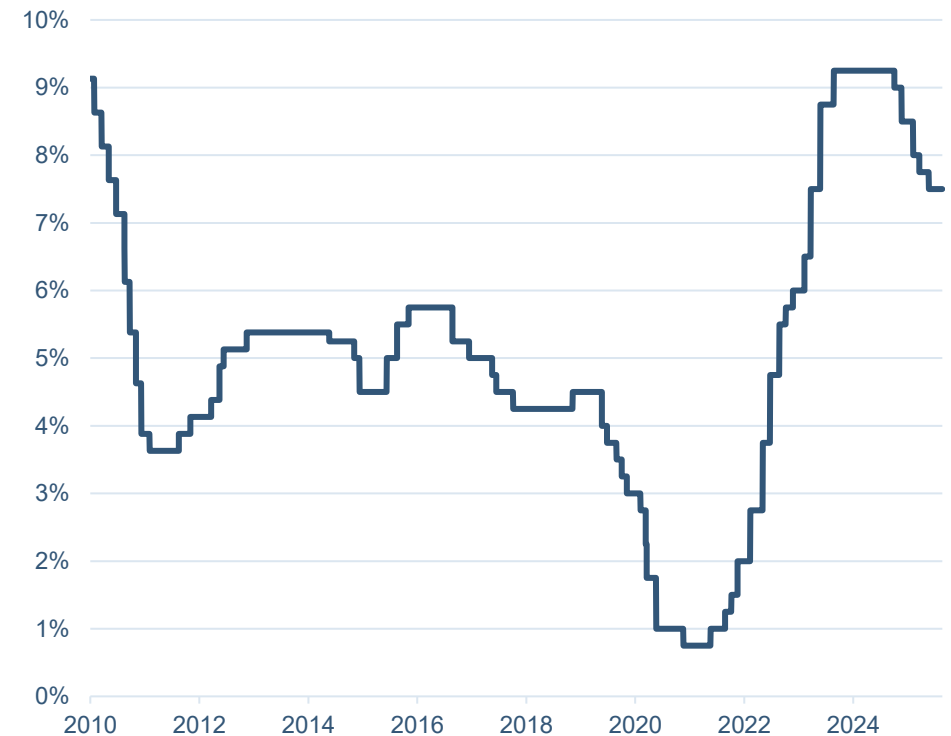
Policy rate

The Monetary Policy Committee lowered the CBI's rate by 0.25 percentage points on 21 May. All members of the MPC supported the decision. The CBI's key interest rate, interest on 7-day term deposits, is 7.5%. According to the statement issued along with the MPC's decision, the MPC does not consider the conditions to 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

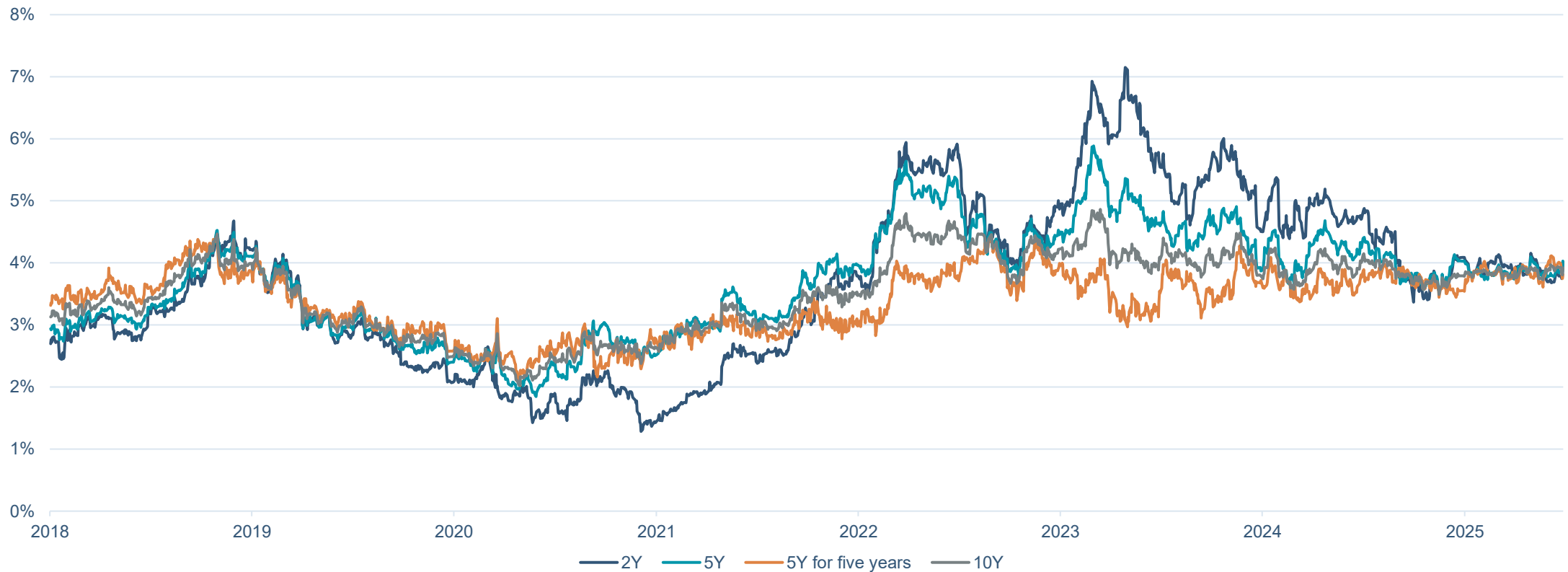
Date	Prop.	For	Against	Other option	Conclusion	Key interest rate
8 Feb. 2023	+0.50%	ÁJ, RS, GJ, GZ, HS		HS (+0.75%)	+0.50%	6.50%
22 March 2023	+1.00%	ÁJ, RS, GJ, ÁÓP, HS			+1.00%	7.50%
24 May 2023	+1.25%	ÁJ, RS, ÁÓP, HS	GJ (+1.00%)		+1.25%	8.75%
23 Aug 2023	+0.50%	ÁJ, RS, ÁÓP, HS	GJ (+0.25%)		+0.50%	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, 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	-0.25%	ÁJ, RS, TB, ÁÓP, HS			-0.25%	7.50%
20 Aug 2025						
8 Oct. 2025						
19 Nov. 2025						

Policy rate



Inflation premium in the bond market

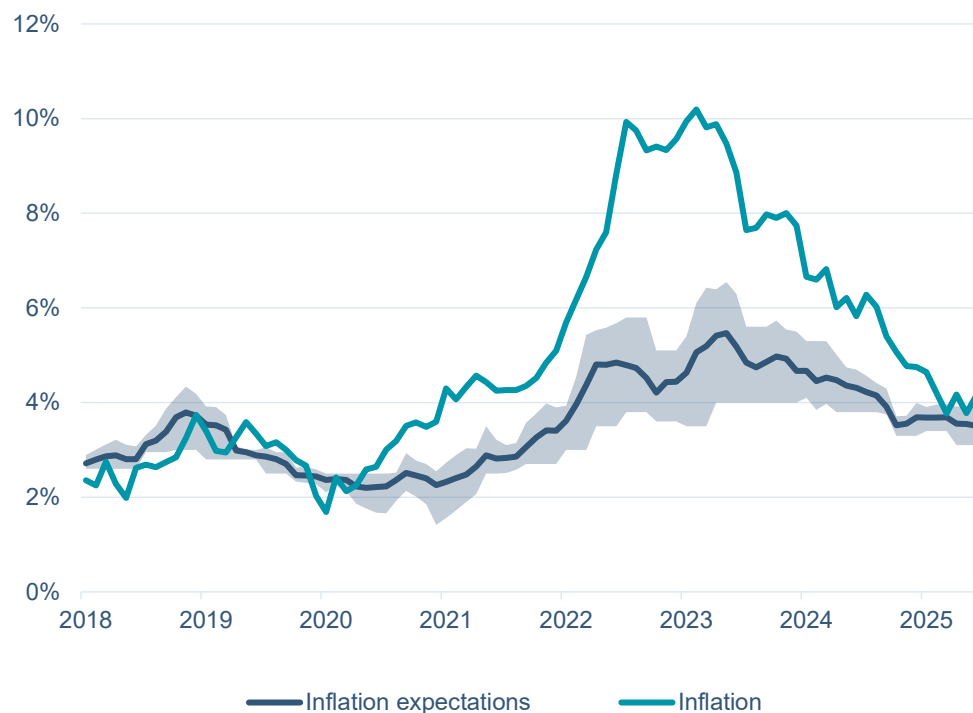
The inflation premium on the bond market increased for two years, five years and ten years in June. The increase was greater in the short term than the long term, resulting in a decrease in five-year forward inflation expectations. The largest rise during the month occurred following the publication of inflation figures on Friday, 27 June, which were higher than expected.



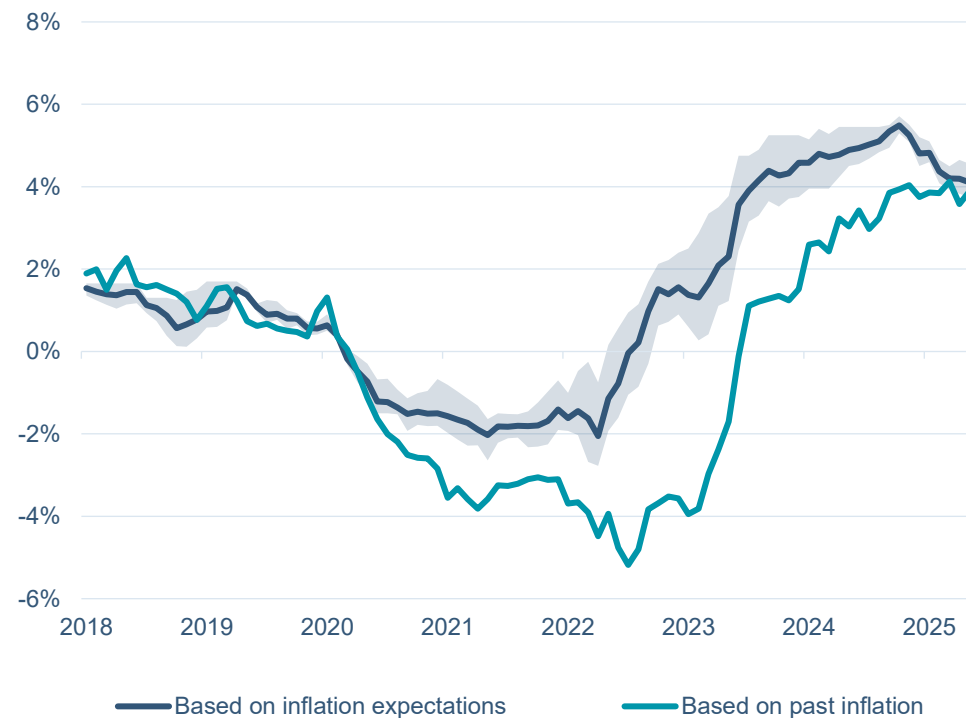
Inflation, inflation expectations and the real policy rate

The average of the main measures of inflation expectations has remained in the range of 3.5% to 4.0% since it fell below 4.0% in September last year. The Central Bank has eased the real interest rate level in recent months, whether looking at past inflation or inflation expectations. Based on past inflation, the real policy rate was 0.8 percentage points lower (3.3%) in June than when it was highest in March last year (4.1%). Based on the average of the main measures of inflation expectations, the real policy rate was 1.5 percentage points lower in June (4.0%) than when it was highest in October last year (5.5%).

Inflation and inflation expectations



Real policy rate

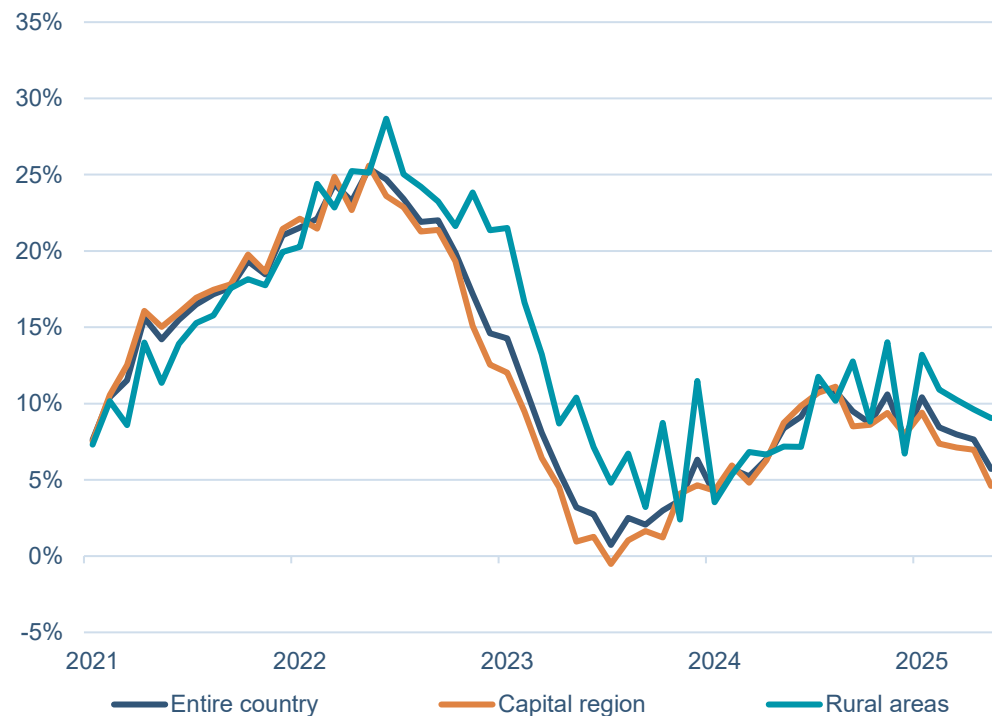


The real estate market

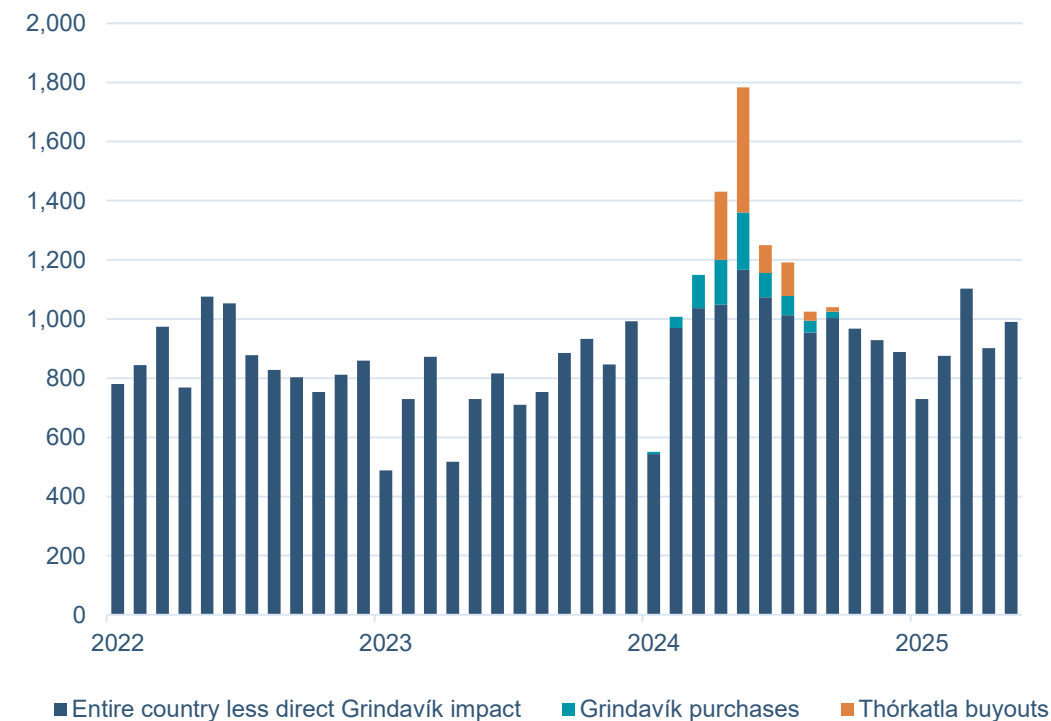
The housing price index fell by 0.45% between months in May. The decrease was driven by a 2.1% decrease in single-family dwellings in the capital region. This is the first time this year that housing prices fall between months. Housing prices have risen by 5.7% in the past twelve months and the 12-month increase was 7.6% in April. The year-over-year change has not been this low since the beginning of last year.

Housing price index

YoY change

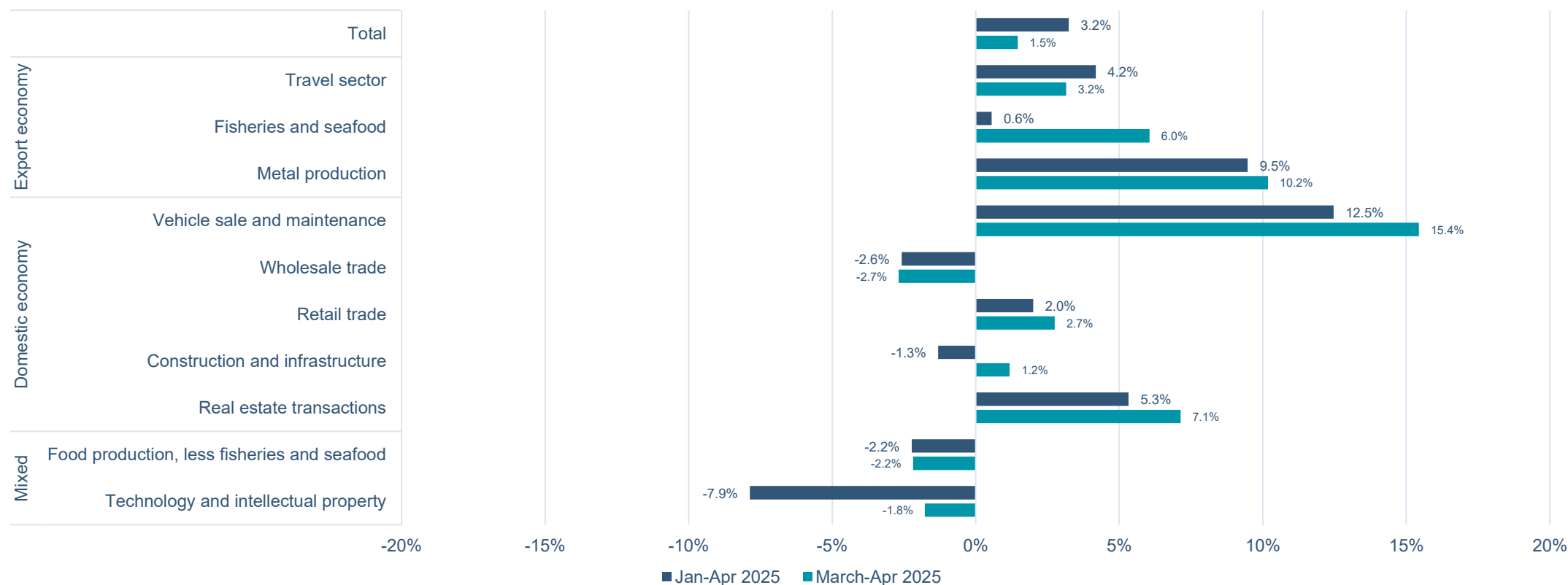


Signed purchase contracts - entire country



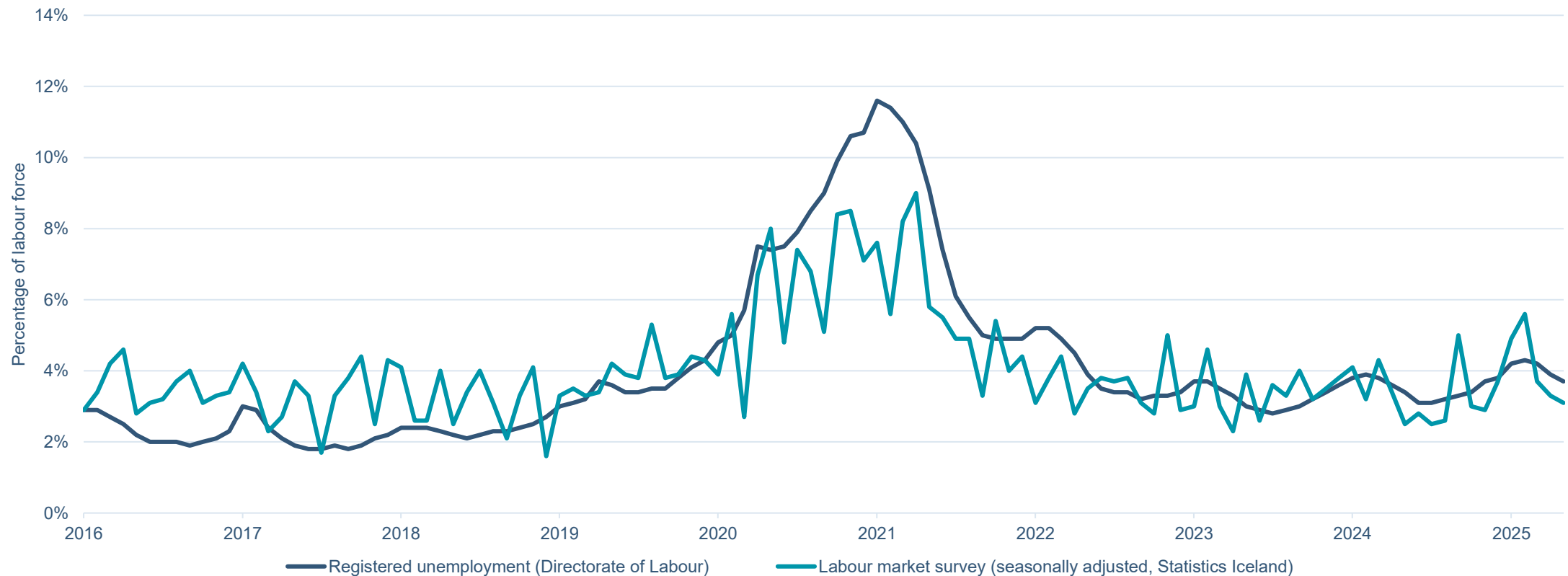
Turnover based on VAT reports

Turnover according to VAT reports grew by 1.5% in real terms in March and April and by 3.2% in the first four months of the year. The turnover figures indicate that the economy is weathering the high interest level fairly well, which is also in line with increased growth at the beginning of the year. This year to date, turnover has increased most in car sales and maintenance but also in exports: aluminium production, fisheries and tourism.



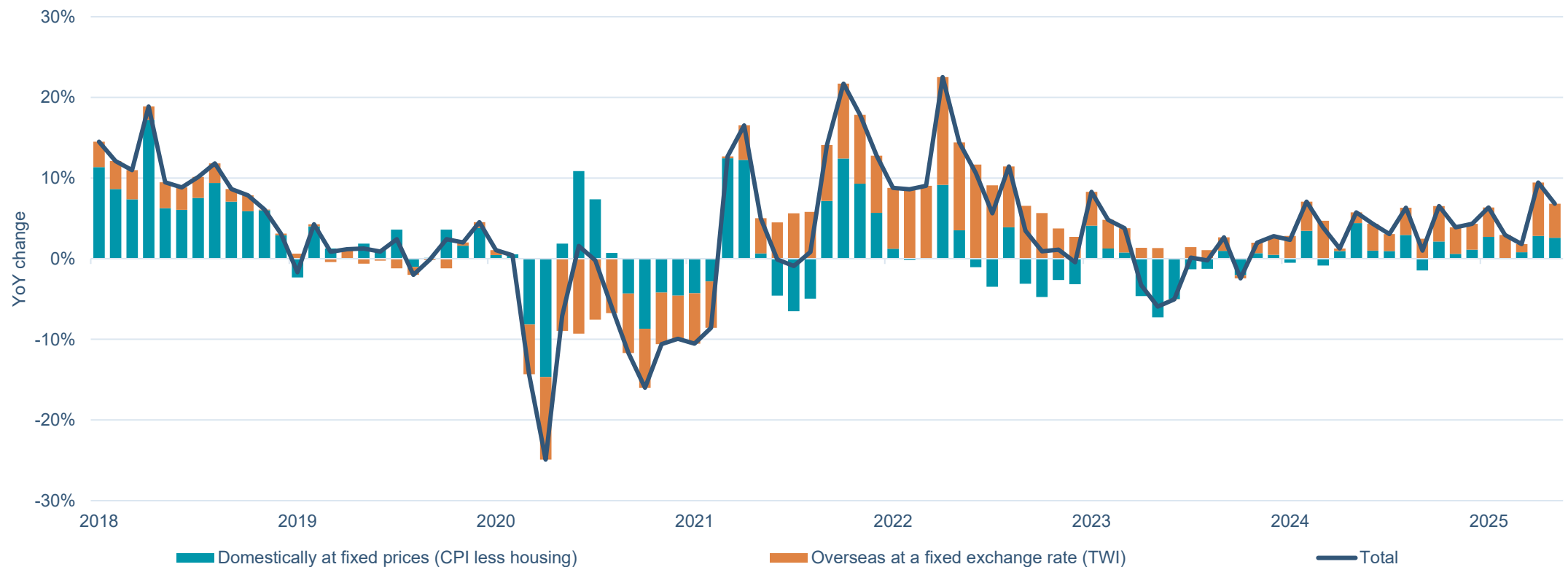
Unemployment

Registered unemployment with the Directorate of Labour was 3.7% in April, down from 3.9% 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 3.1% in April.



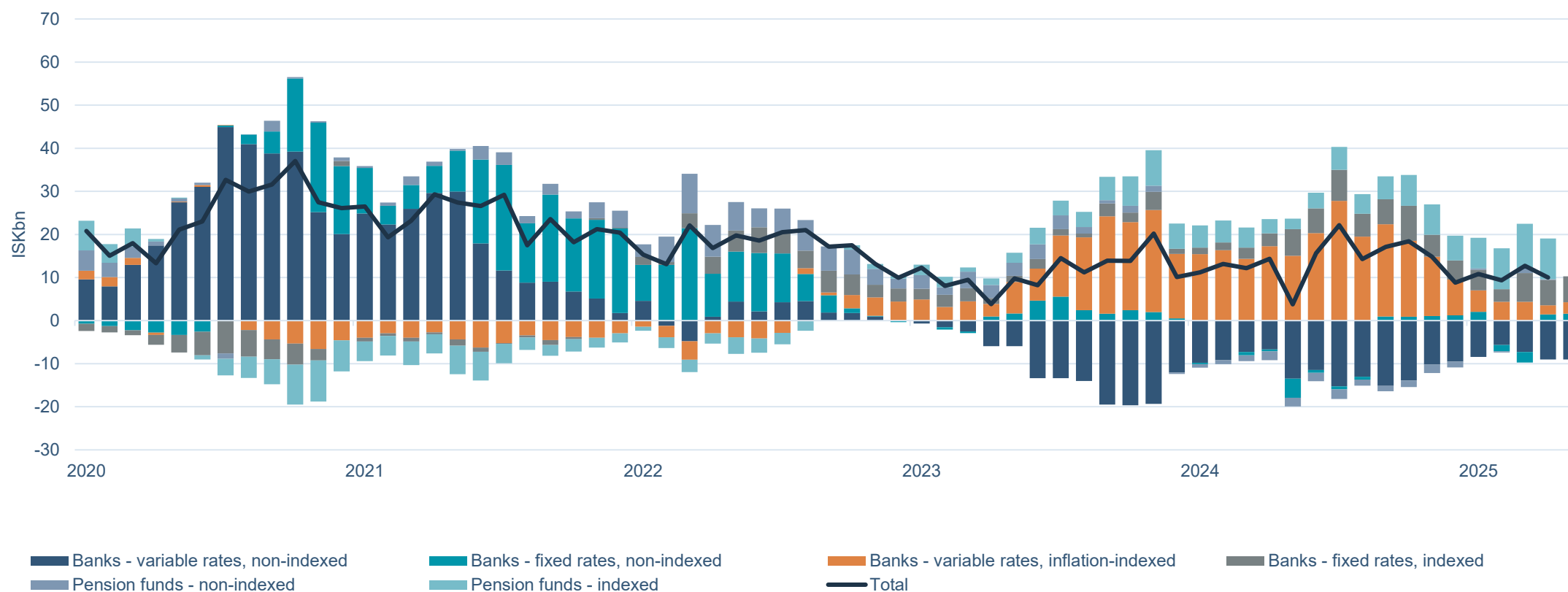
Payment card turnover of Icelandic households

Payment card turnover grew by 6.8% between years in May in real terms, 3.3% domestically and 21% overseas. This significant growth in Icelandic card turnover overseas is in tune with the boom in international travel this year. This year to date, departures by Icelanders have been 29% more numerous than the same time last year. Development of card turnover indicates that the average household has not had to reduce consumption as a result of high interest rates. At the same time that card turnover grows and international travel increases, household deposits have also grown considerably. Overdrafts remain low - another indicator of sound household standing. All these factors indicate that consumption levels can be expected to continue in the coming 1-2 years.



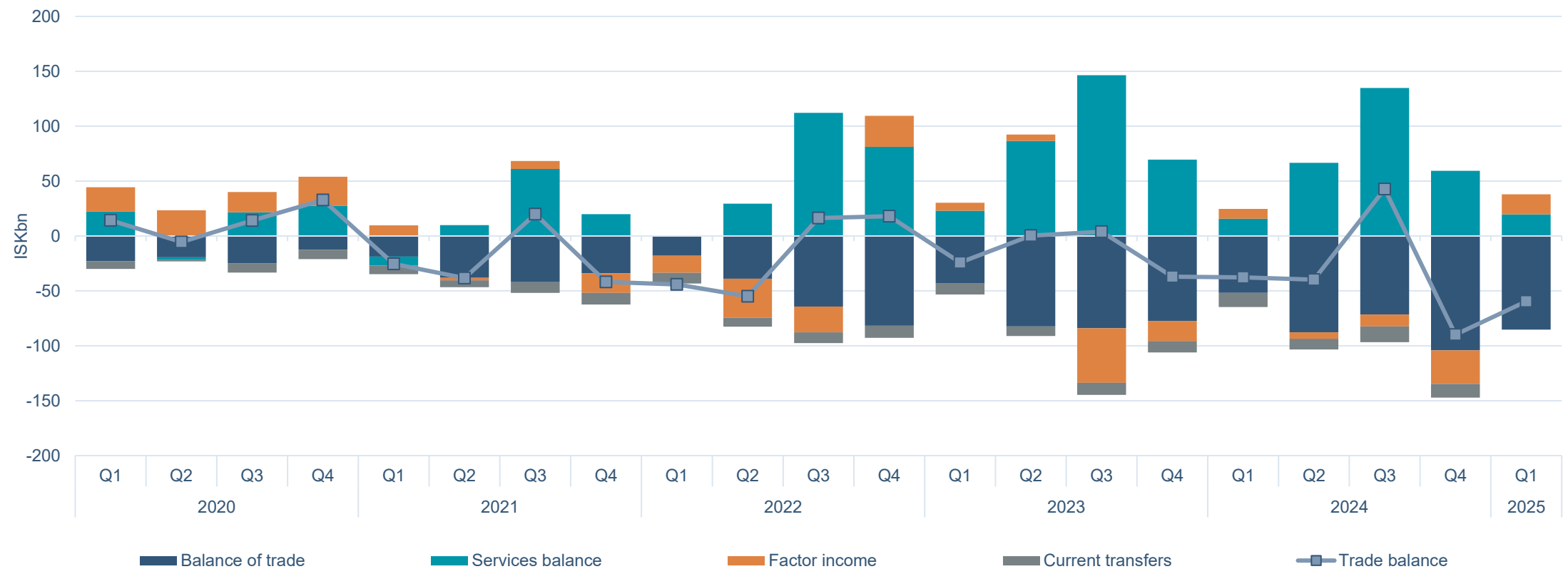
Net new housing mortgages

Net new housing mortgages by the commercial banks amounted to just ISK 1.3 bn in May. Of that figure, ISK 8.7 bn represent net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 7.64 bn. Figures for net new lending by pension funds in May will be released on Friday, 4 July.



Balance of trade

Iceland's trade deficit amounted to ISK 59.5 billion in the first quarter. There was a surplus of ISK 19.7 billion in the services balance and a surplus of ISK 18.3 billion in primary income. On the other hand, there was a deficit of ISK 85.3 billion in goods trade and a deficit of ISK 12.3 billion in current transfers. Iceland's trade deficit has never been as large as it has been over the last two quarters. This is largely explained by the massive import of computer equipment related to the construction of data centres.

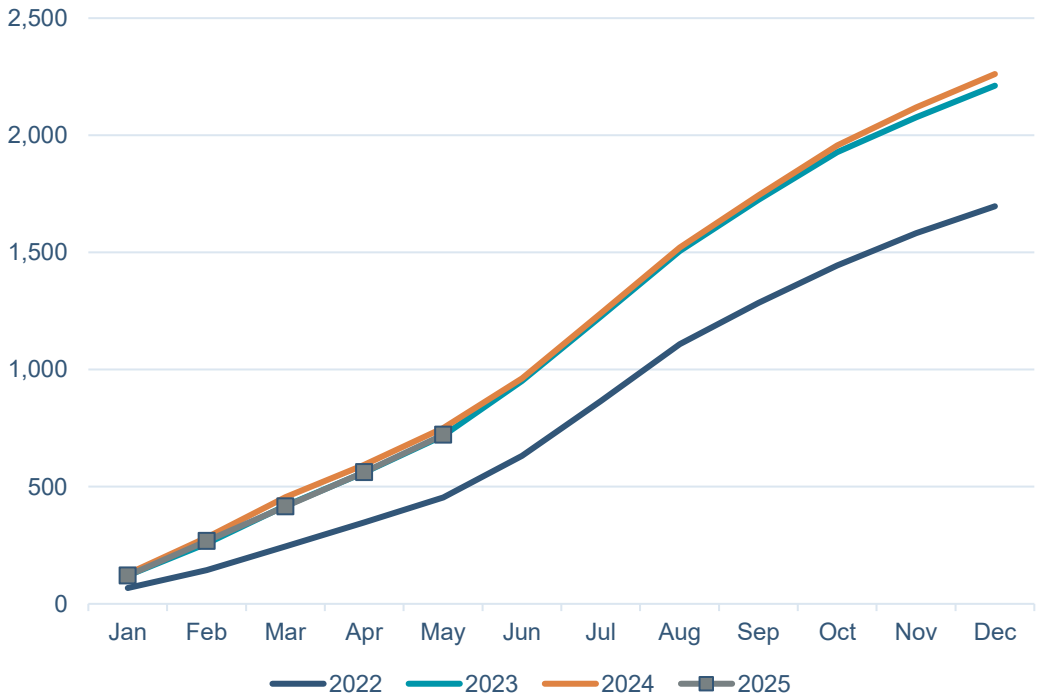


Travel sector

Around 159,000 non-domestic travellers passed through Keflavík International Airport in May, 1.3% more than in May 2024. This year to date, departures by non-domestic travellers have been just under 3.9% fewer than the same time last year. Non-domestic payment card turnover grew by 3.2% between years at fixed prices and by 11.4% at a fixed exchange rate.

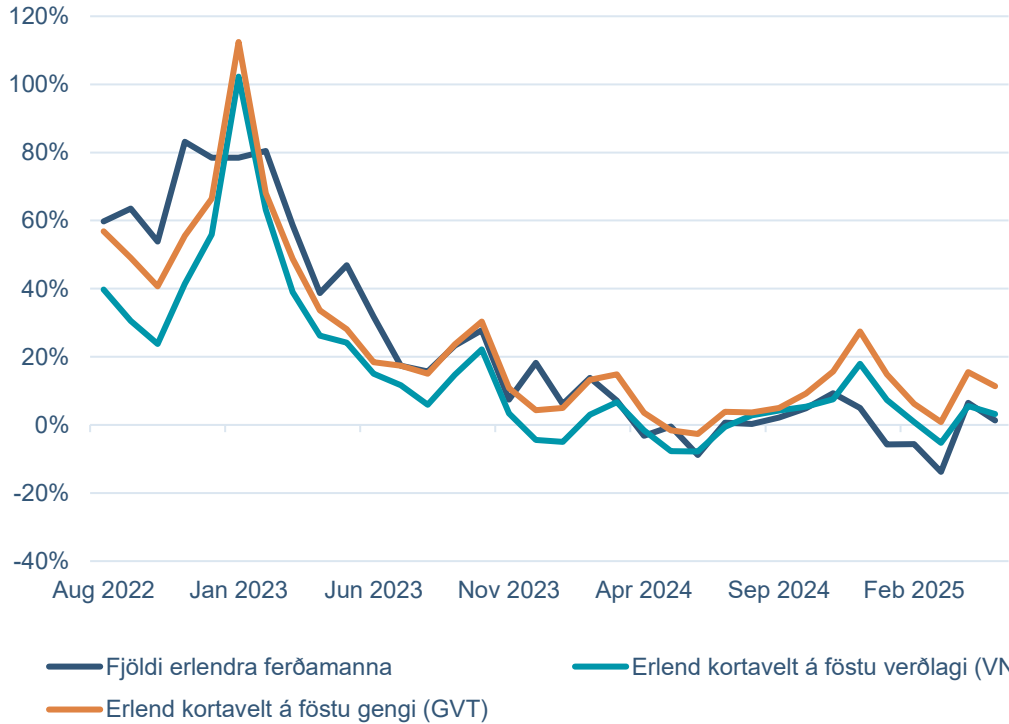
Acc. tourist numbers

Thousand individuals



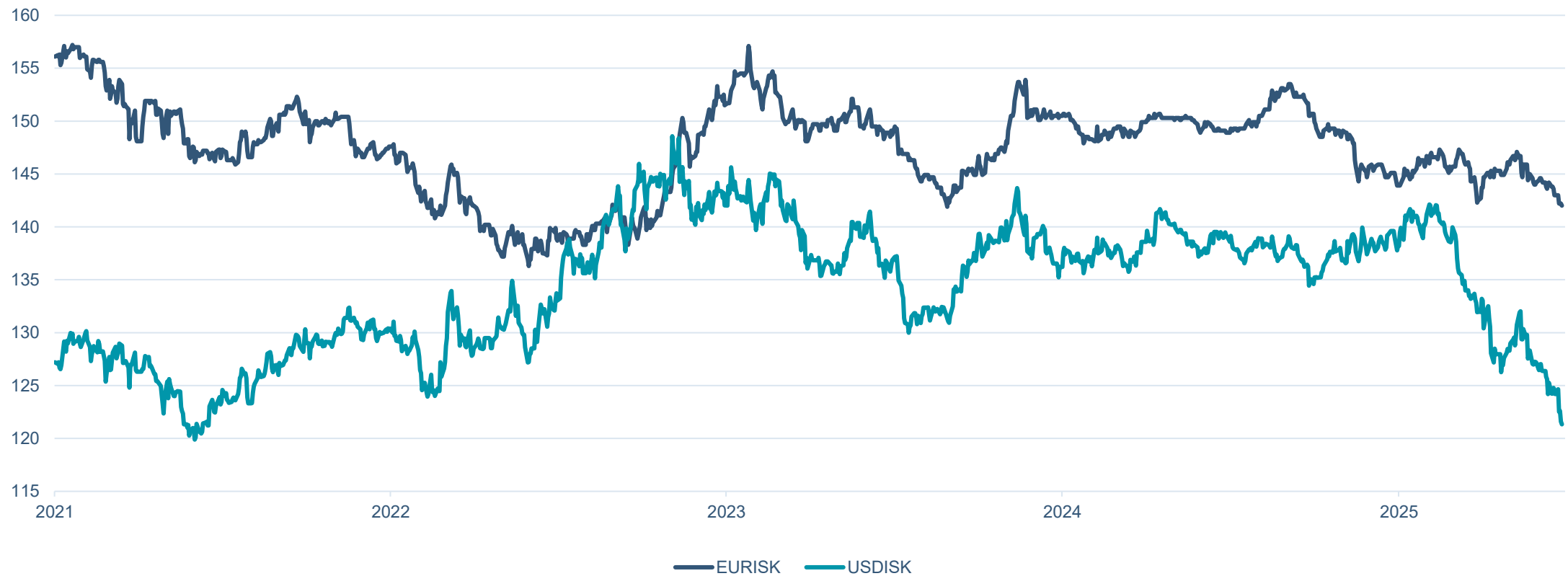
Development of key indicators

YoY change



ISK exchange rate

The ISK gained against the EUR and the US dollar in June. At the end of June, the EUR cost 142,0 instead of 144,2 as at the end of May (ISK -2.0) and the USD 121.3 instead of 127.7 as at the end of May (ISK -5.8). The ISK has not been this strong against the EUR since August 2024 and June 2021 against the USD.



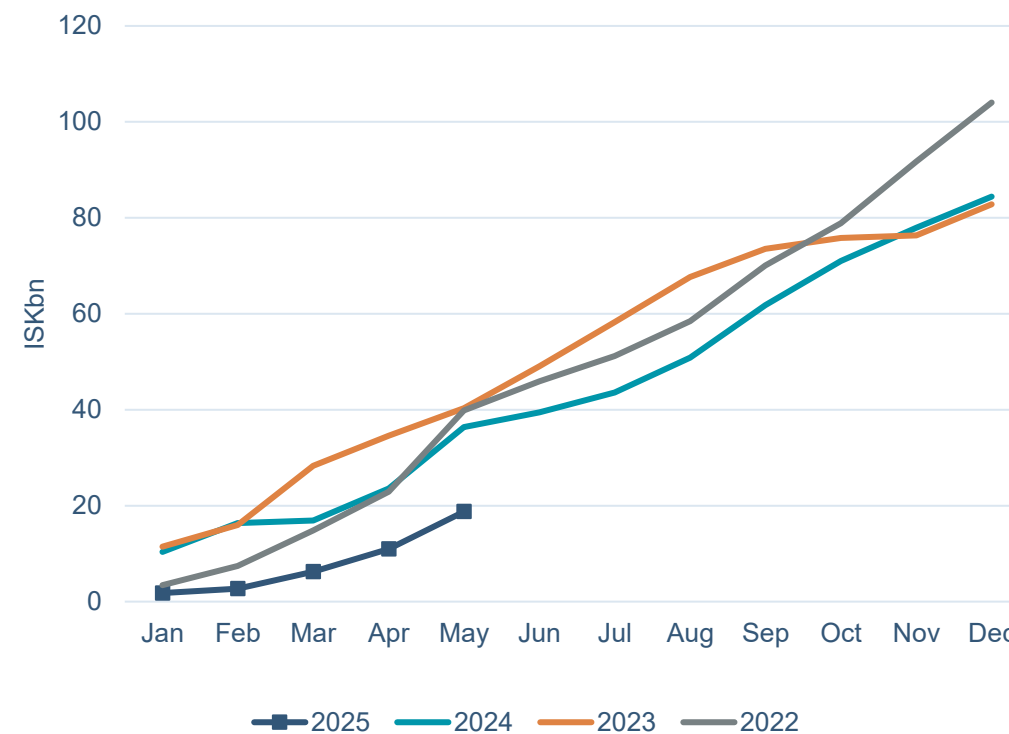
FX trade of the CBI and pension funds

Around the middle of the month, the CBI announced an increase in its regular FX purchase, bringing it up from EUR 3 m to EUR 6 m per week. The CBI purchased euros for ISK 20.3 bn in the period 1-26 June, ISK 5.2bn thereof as part of regular purchases. The pension funds upped their FX purchases slightly in May, buying foreign currency for ISK 7.8 bn in May as compared with an average of ISK 2.3 bn in the first 4 months of the year. In total, the pension funds purchased for ISK 18.7 bn in the first 5 months of the year, much less than the same time last year.

Activity by the Central Bank of Iceland



Acc. annual FX purchases of pension funds



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