



Monthly Newsletter

1 August 2025

Landsbankinn Economic Research

Market events - August 2025

Monday	Tuesday	Wednesday	Thursday	Friday
				1. August Unemployment in the US Inflation in the eurozone
4 JBT Marel publishes results	5	6	7 Bank of England policy rate decision	8
11 Departures from Keflavík International Airport in July (FMST) Registered unemployment in July (VMST)	12 Inflation in the US	13 Arion Bank and Kvika Bank publish results	14 Amaroq, Nova og SKEL fjárfestingafélag publish results	15 Payment mediation in July (CBI)
18	19 Housing price index in July (HMS) Oculus and Síminn publish results	20 Policy rate decision (CBI) <i>Monetary Bulletin</i> (CBI) Rental price index in July (HMS) Inflation in the UK	21 Monthly report (HMS) Heimar and Reitir publish results	22 Wage index in July (HAG)
25 Sýn publishes results	26 Eimskip publishes results	27 Goods and service transactions f. Q2 (HAG) Turnover based on VAT reports f. May-June (HAG) Iceland Seafood publishes results	28 CPI in August (HAG) Overnight stays in July (HAG) Brim, Hampiðjan and Síldarvinnslan publish results	29 National accounts f. Q2 (HAG) Ísfélagið publishes results

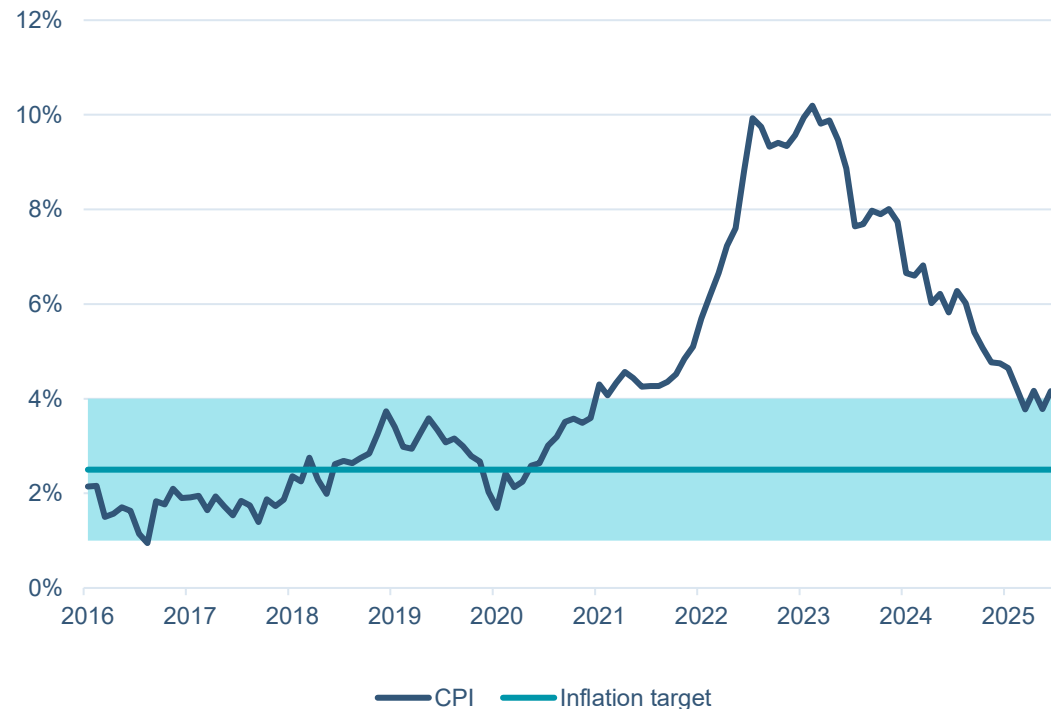


Inflation

The consumer price index (CPI) decreased by 0.32% between months in July. 12M inflation receded from 4.2% to 4.0%. We had forecast a slight dwindling in July, to 4.0%. We do not believe that inflation will fall below the 4.0% upper tolerance limit of the CBI's inflation target this year. Inflation less housing also receded yet the annualised increase of all three core indices remains unchanged between years.

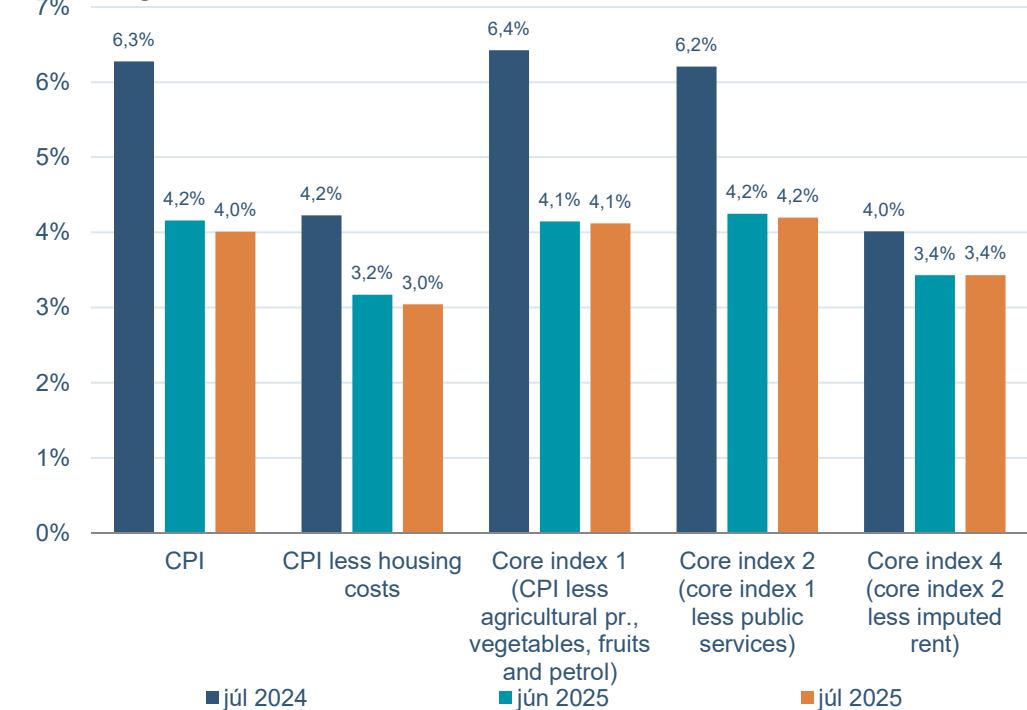
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

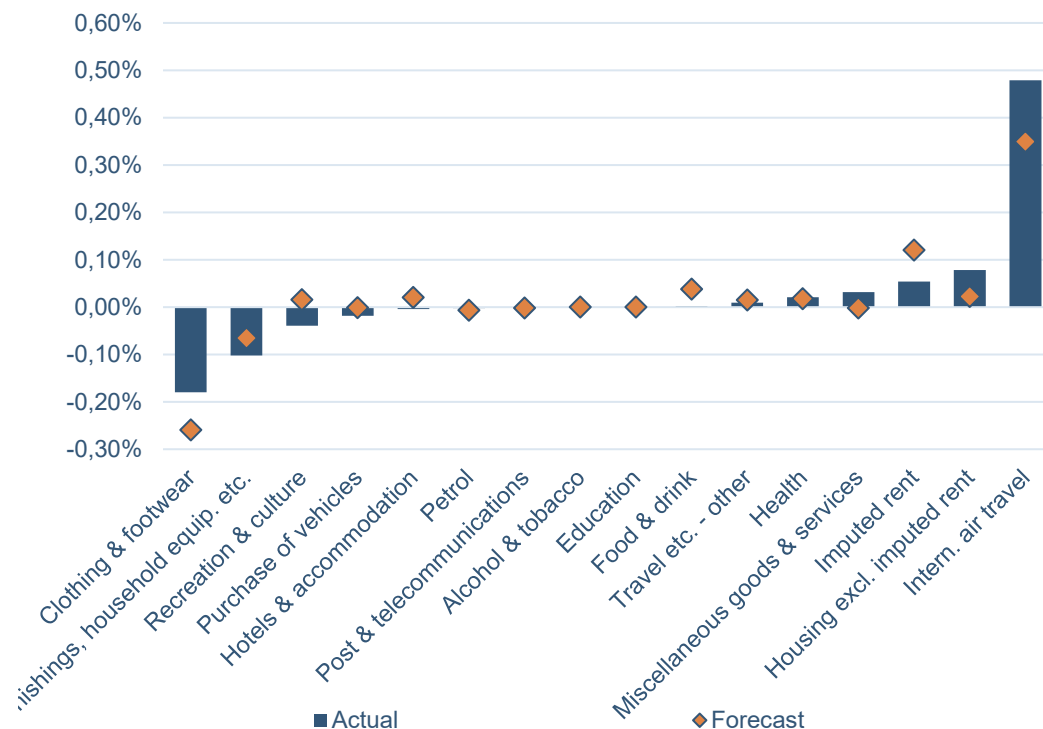
YoY change



MoM change in the CPI

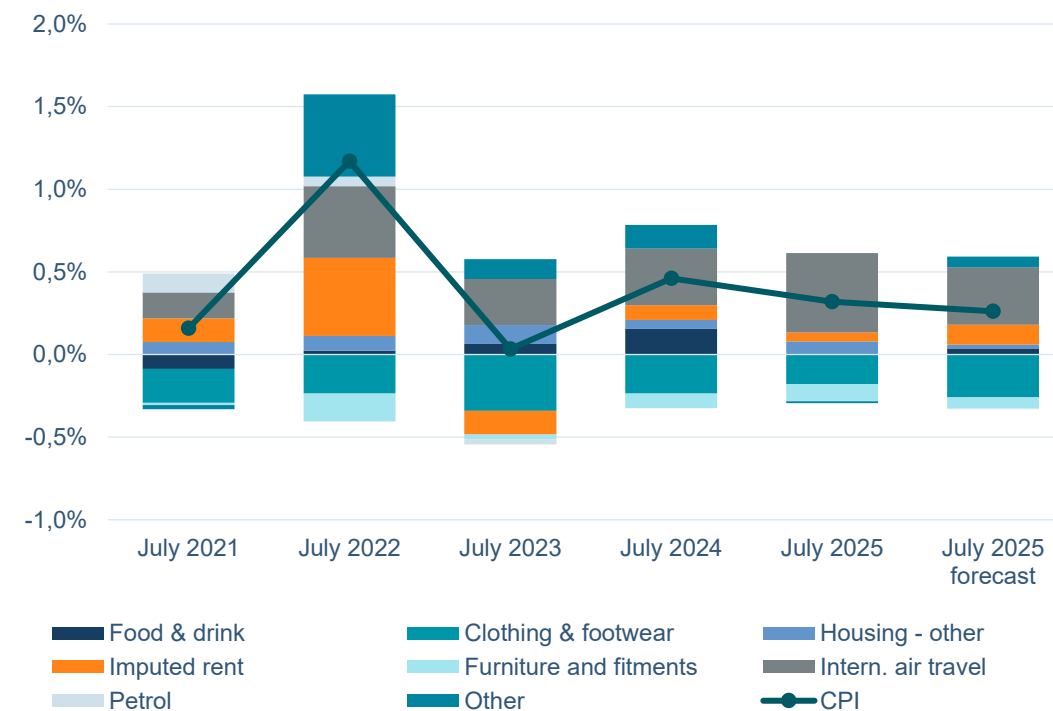
No single component explains the difference between our forecast and the measurement by Statistics Iceland this time around - our forecast is fairly close to the actual measurement. International airfares rose more than we anticipated, while imputed rent increased less and summer sales on clothing and footwear were weaker than we expected.

Contribution of components in July



July measurement of the CPI

MoM change and weight of components

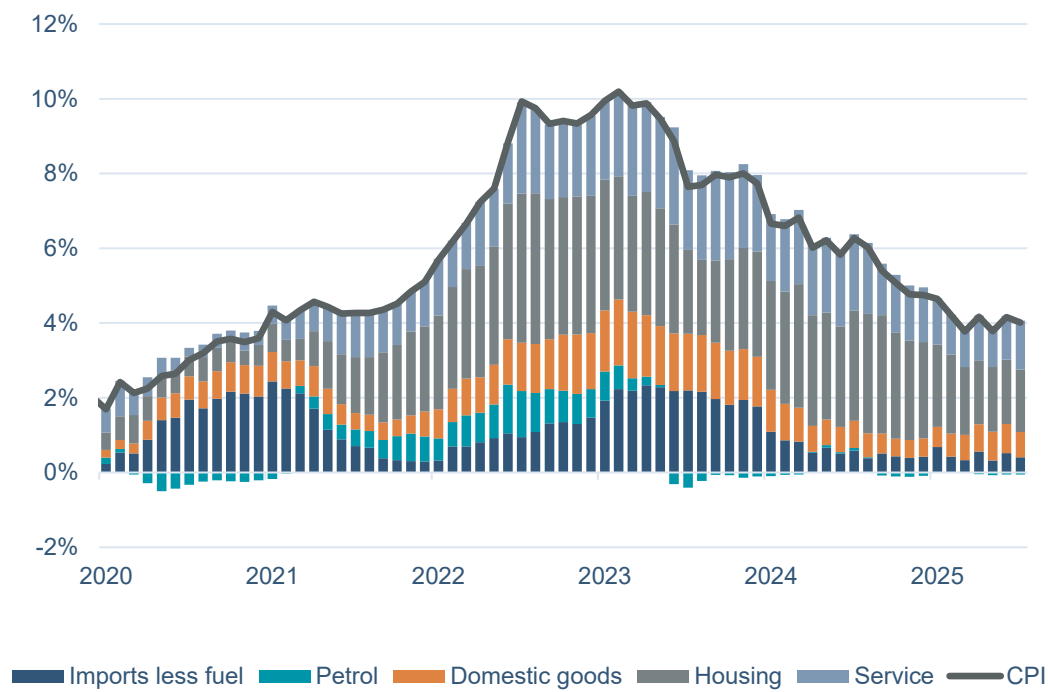


Composition of 12M inflation

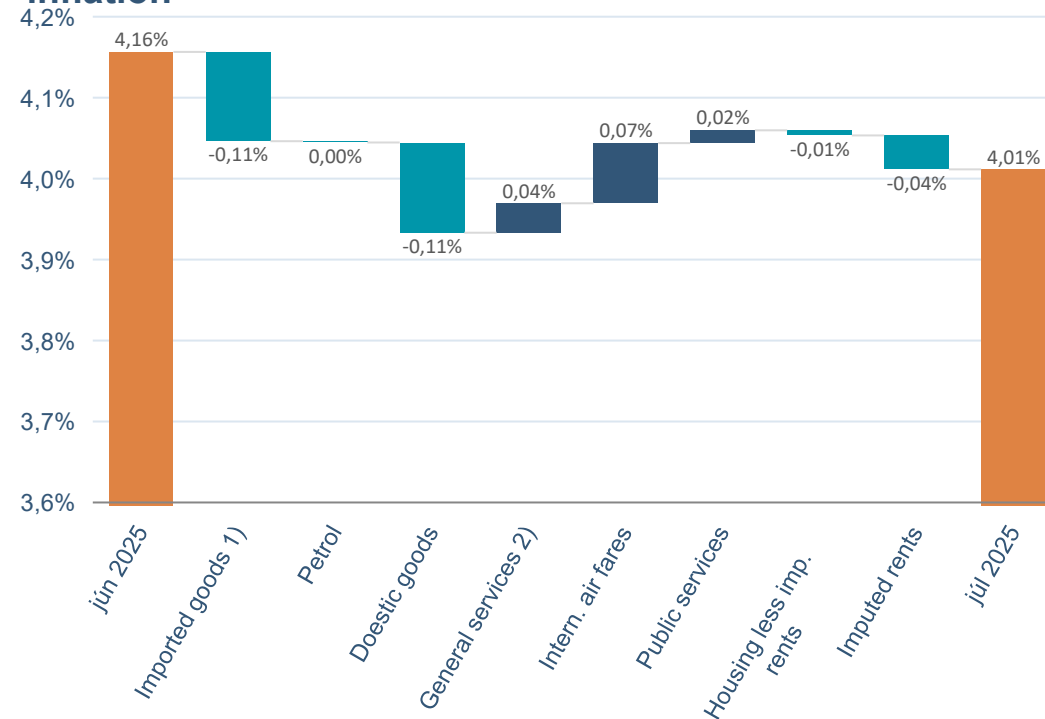
The decrease in inflation in July is due largely to the lower impact of product prices, with the impact of both imported and domestic goods declining between months. The impact of services, most notably international airfares grew and explains for the most part the increased impact of service in 12M inflation.

Inflation by type and origin

YoY change and weight of components



Changes to the composition of 12-month inflation



1) Imported goods less petrol. 2) General services less int. airfares. 3) Housing less imputed rent.
Source: Statistics Iceland

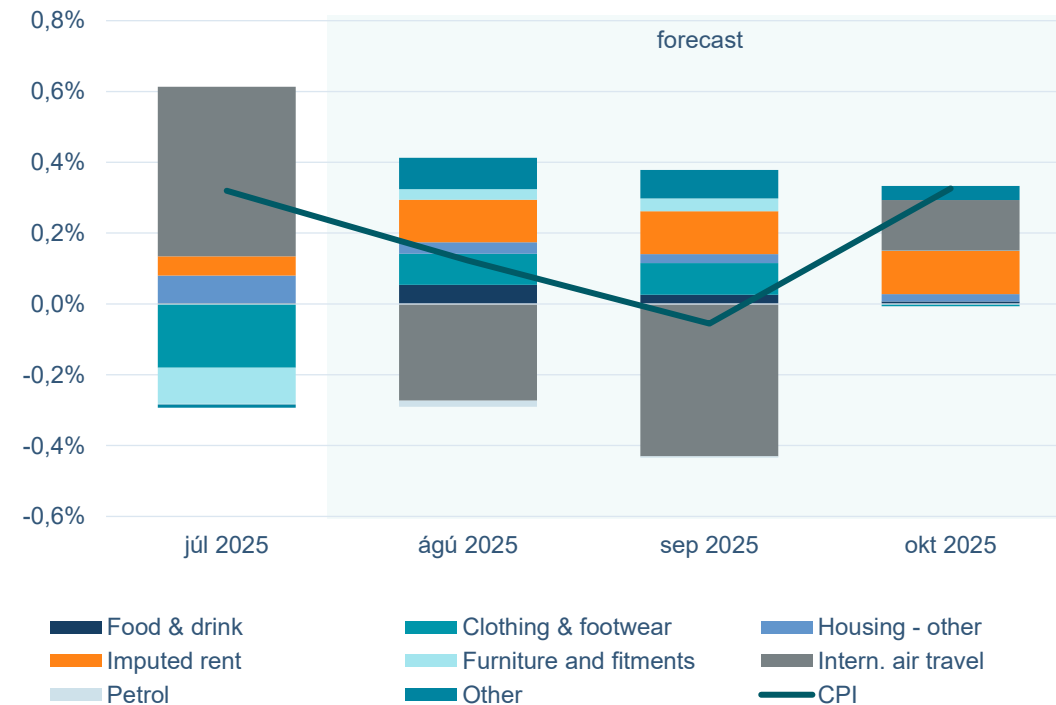


Outlook for the next months

We expect 12M inflation to be 4.0% in August, 4.2% in September and 4.3% in October. School fees were cancelled in several universities in August 2024 and school meals in elementary schools were made free of charge in September. These one-off lowering impacts temporarily pressured inflation down last fall but will now phase out of the comparison data and lead to an increase in measured 12M inflation. We do not expect inflation to fall below the upper tolerance limit of the inflation target of the CBI this year but to remain between 4.0% to 4.3% and stand at 4.1% at the end of the year.

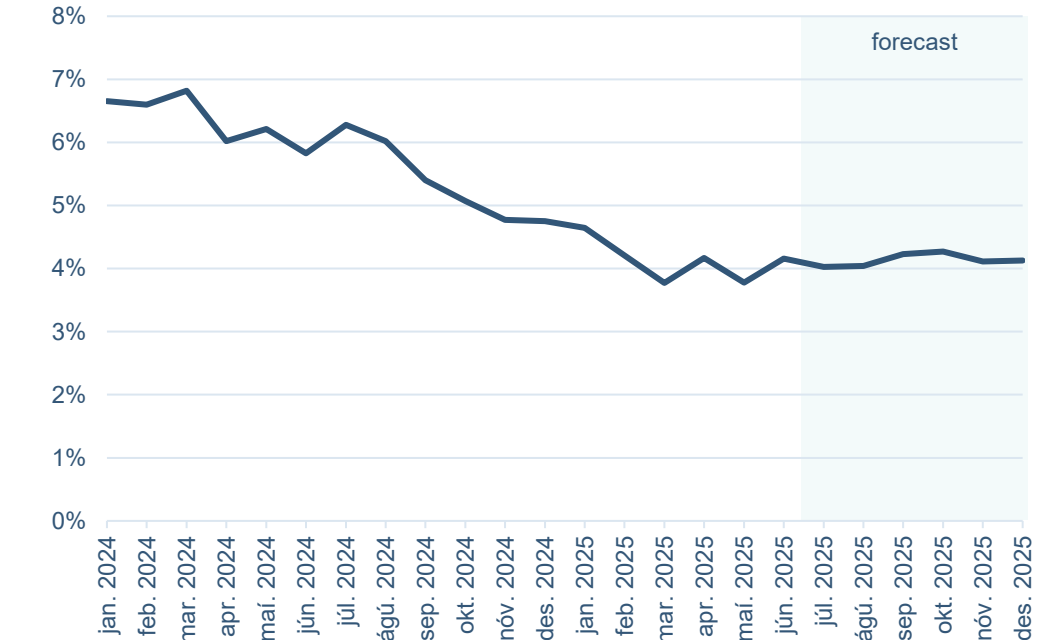
Inflation forecast

YoY change and weight of components



Inflation forecast

12M inflation



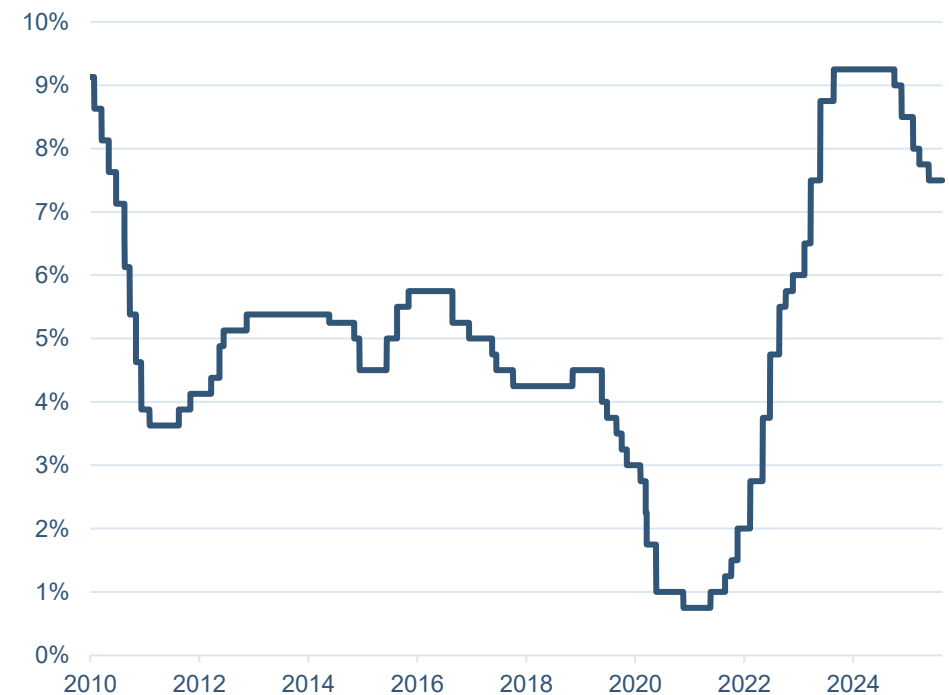
Policy rate

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%. According to the statement issued along with the MPC's decision, the MPC did not consider the conditions to warrant a slackening of the real policy rate. It stated 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 and it is unlikely that the rate will be lowered.

MPC interest rate decisions

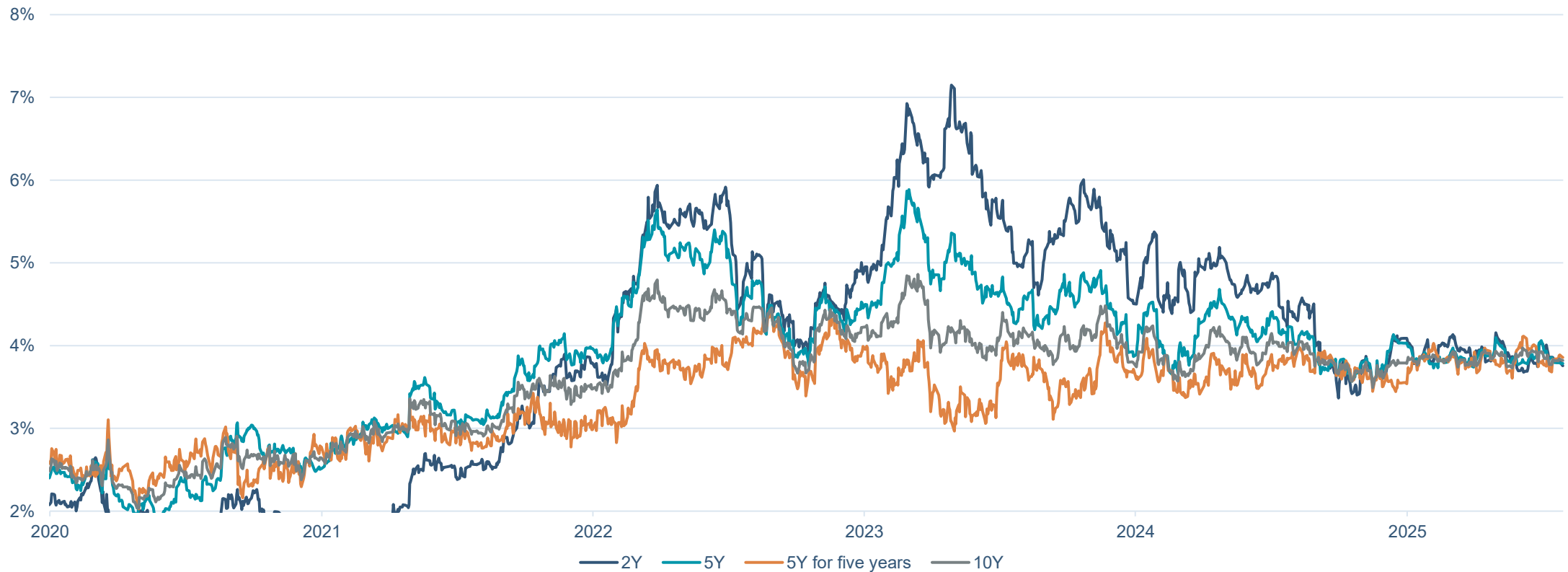
Date	Prop.	For	Against	Other option	Conclusion	Key interest rate
8 Feb. 2023	+0.50%	ÁJ, RS, GJ, GZ, HS		HS (+0.75%)	+0.50%	6.50%
22 March 2023	+1.00%	ÁJ, RS, GJ, ÁÓP, HS			+1.00%	7.50%
24 May 2023	+1.25%	ÁJ, RS, ÁÓP, HS	GJ (+1.00%)		+1.25%	8.75%
23 Aug 2023	+0.50%	ÁJ, RS, ÁÓP, HS	GJ (+0.25%)		+0.50%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

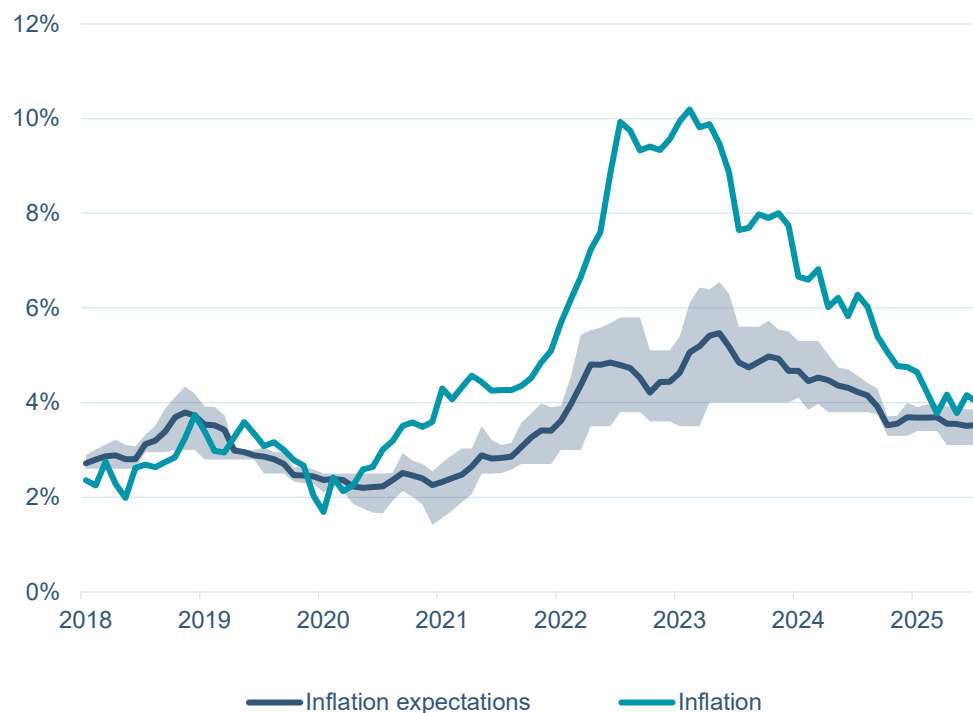
The inflation premium on the bond market increased for two years, five years and ten years in July. The increase was greater in the short term than the long term, resulting in a decrease in five-year forward inflation expectations.



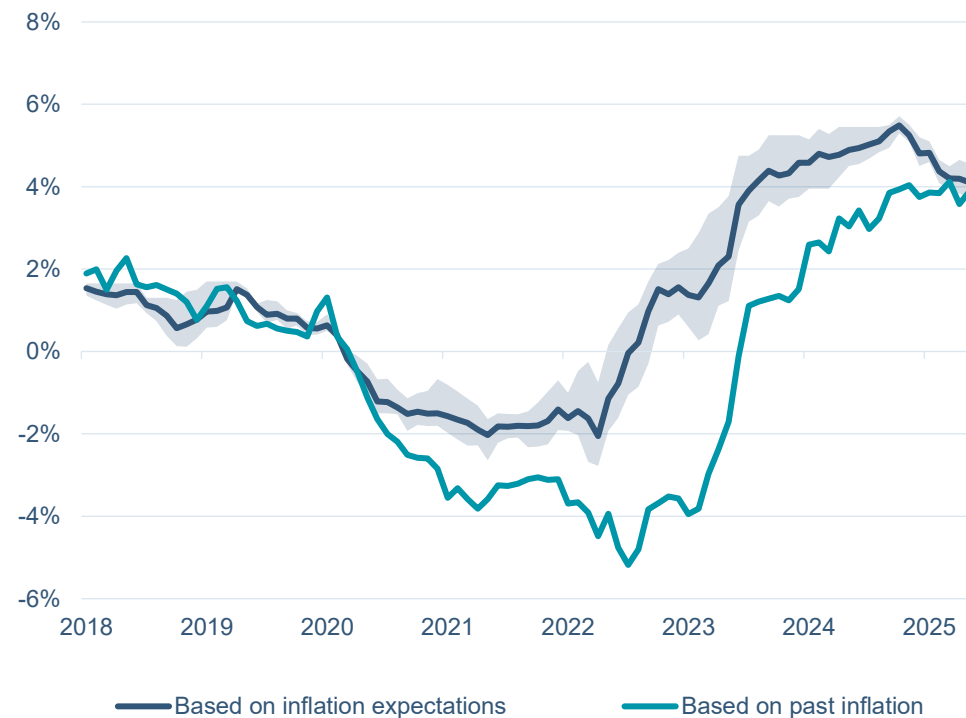
Inflation, inflation expectations and the real policy rate

The average of key measures of inflation expectations has remained between 3.5-4.0% since falling under 4.0% in September 2024. The CBI has relaxed real interest rate levels in the past few months, both as regards past inflation and inflation expectations. Based on past inflation, real interest rates were 0.6 percentage points lower in July (3.5%) than at their peak in March (4.1%). Based on the average of key measures of inflation expectations, real interest rates were 1.5 percentage points lower in July (4.0%) than when they were at their highest in October last year (5.5%).

Inflation and inflation expectations



Real policy rate

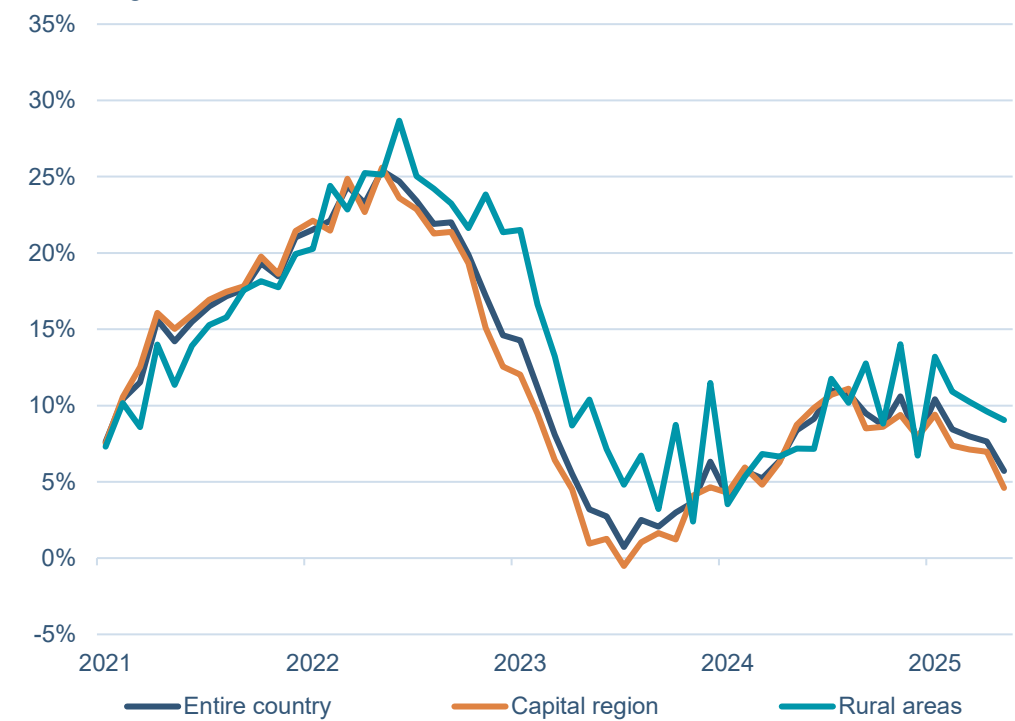


The real estate market

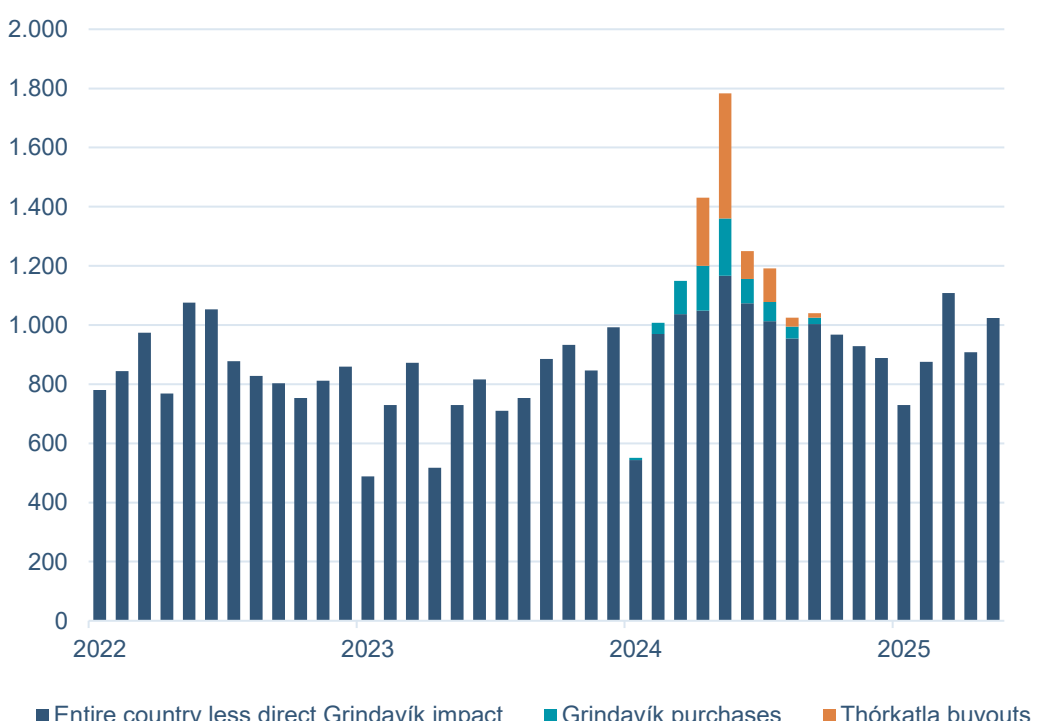
The housing price index rose by 0.45% between months in June. The increase was driven by a 2.3% increase in single-family dwellings in the capital region. Housing prices have risen by 4.7% in the past twelve months and the 12M increase was 5.7% in May. The 12M change has not been this low since the beginning of last year.

Housing price index

YoY change

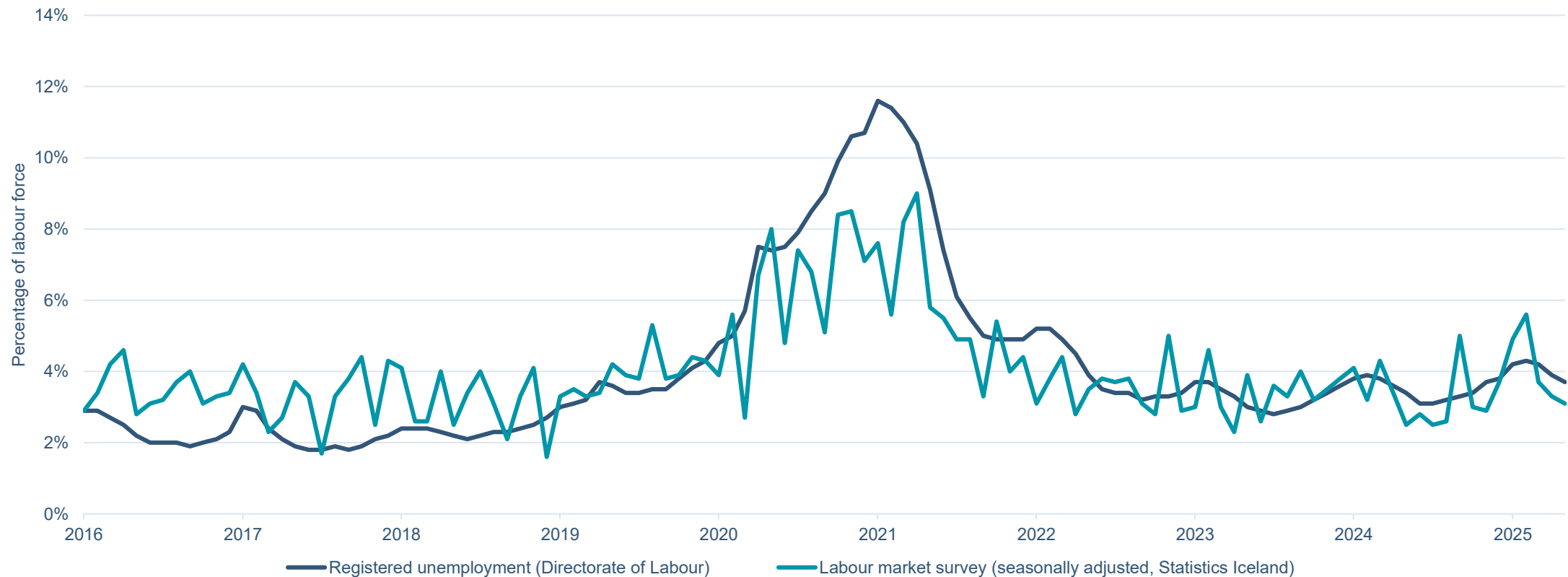


Signed purchase contracts - entire country



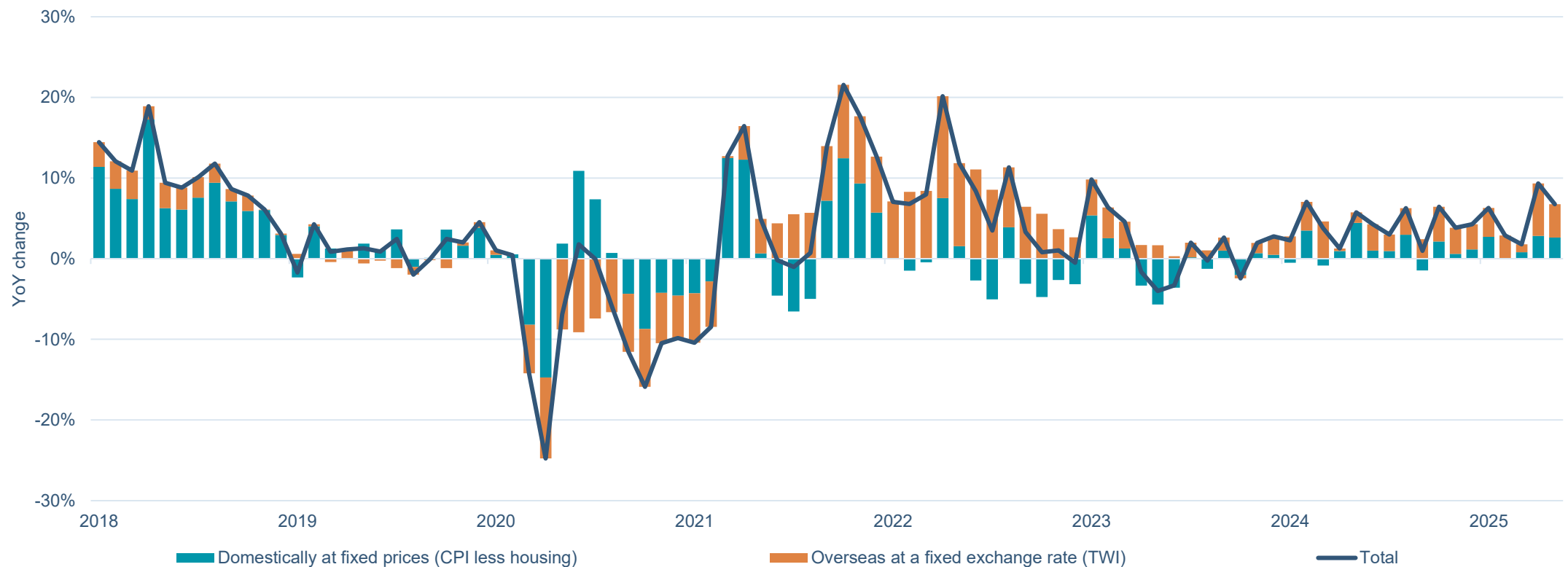
Unemployment

Registered unemployment with the Directorate of Labour was 3.4% in June, down from 3.7% in May. Unemployment was 0.3 percentage points higher than in the same month of 2024. Seasonally adjusted unemployment according to the June labour market survey of Statistics Iceland will be published 7 August.



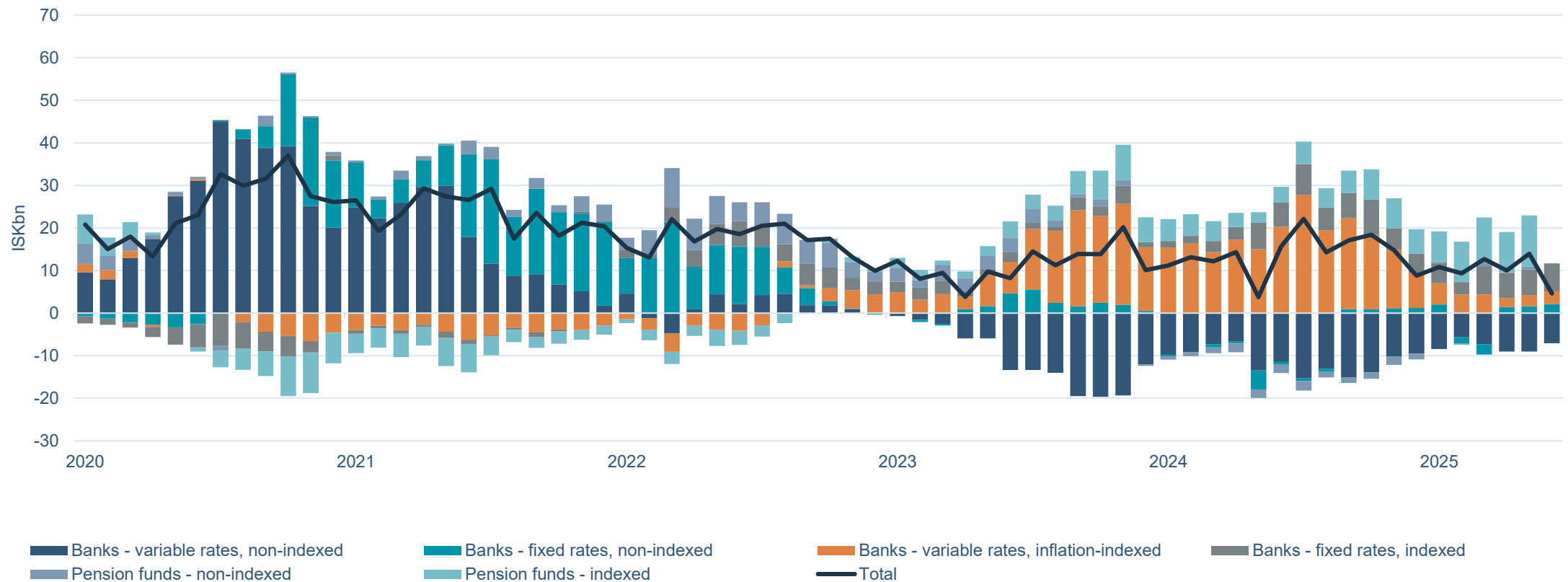
Payment card turnover of Icelandic households

Payment card turnover grew by 3.1% between years in June in real terms, falling 0.3% domestically and growing 14.6% 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 25% 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 deposit institutions amounted to just ISK 4.6 bn in June. Of that figure, ISK 9.5 bn represent net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 4.9 bn. Figures for net new lending by pension funds in May will be released on Thursday, 7 August.

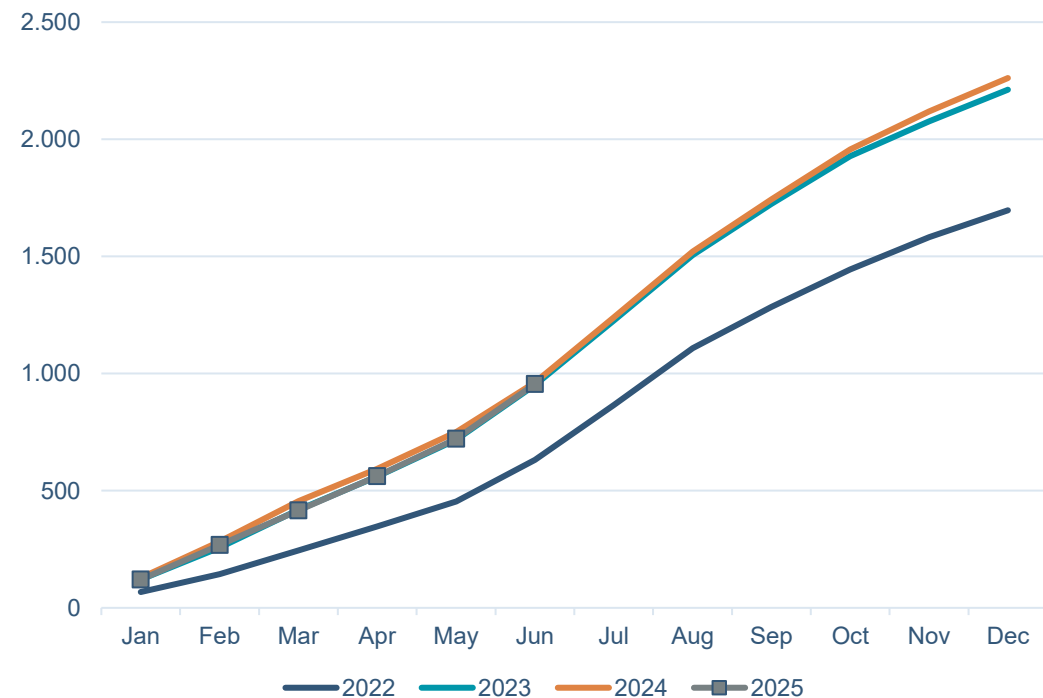


State of the travel sector

Around 234,000 non-domestic travellers passed through Leifsstöð International Airport in June, 10.1% more than in June 2024. This year to date, departures by non-domestic travellers have been just under 0.8% fewer than the same time last year. Non-domestic payment card turnover grew by 5.7% between years at fixed prices and by 16.7% at a fixed exchange rate.

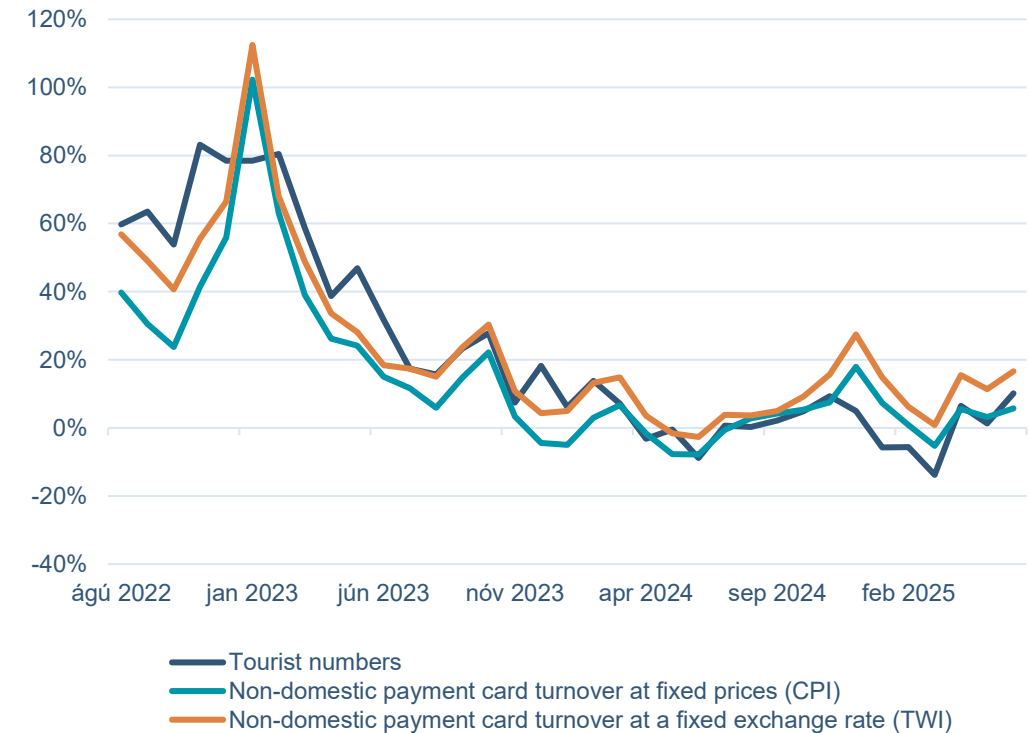
Acc. tourist numbers

Thousand individuals



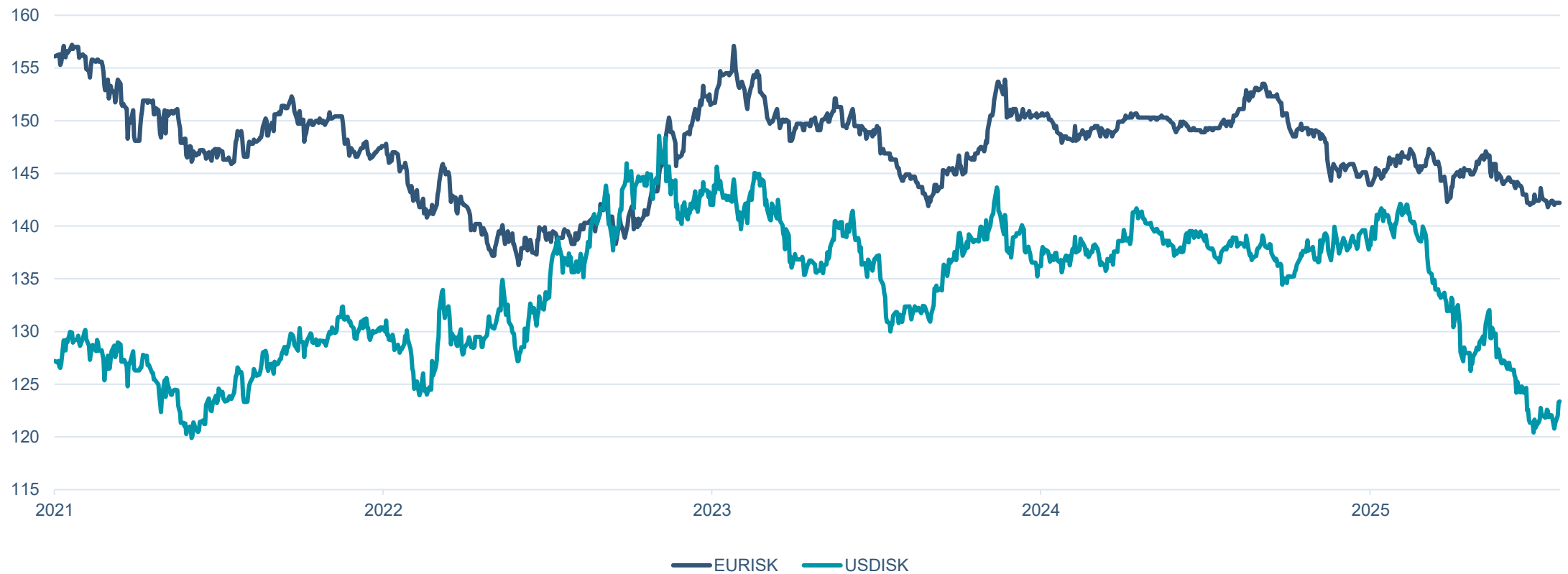
Development of key indicators

YoY change



ISK exchange rate

The ISK depreciated against the USD and remained unchanged against the EUR in July. At the end of the month, the EUR cost 142.2 the same as the end of June and the USD 124.2 instead of 121.3 as at the end of June (ISK 2.9).



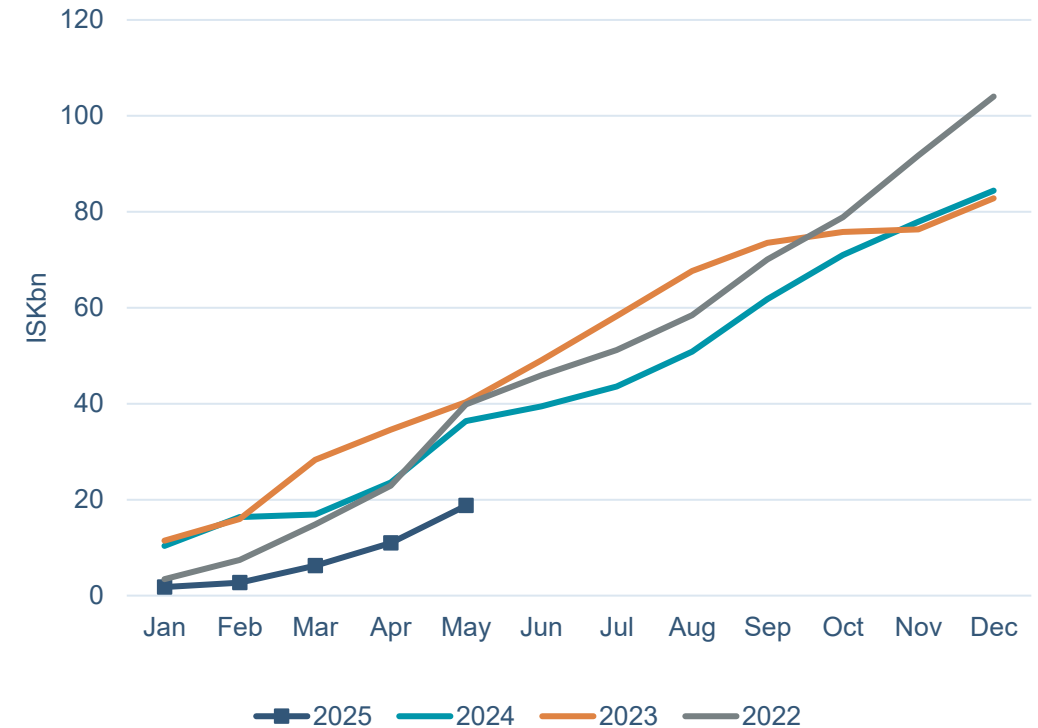
FX trade of the CBI and pension funds

The CBI purchased EUR for ISK 6.8 bn in the period 1-25 July. These regular purchases were the CBI's only activity on the FX market in the period. 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.

Activity by the Central Bank of Iceland



Acc. annual FX purchases of pension funds



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