



Monthly Newsletter

2025-09-01

Landsbankinn Economic Research

Market events - September 2025

Monday	Tuesday	Wednesday	Thursday	Friday
1 September	2 Inflation in the eurozone	3 Minutes of the Monetary Policy Committee (CBI)	4 Balance of payments and net foreign balance in Q2 (CBI)	5 Unemployment in the US
8	9	10 Departures from Keflavík International Airport in August (FMST) Registered unemployment (Directorate of Labour)	11 Inflation in the US Policy rate decision in the eurozone	12
15	16 Housing price index in August (HMS)	17 Payment mediation in August (CBI) Rental price index in August (HMS) Policy rate decision in the US Inflation in the UK	18 Monthly report (HMS) Bank of England policy rate decision	19
22	23 Wage index in July (HAG)	24 Statement of the Monetary Policy Committee and publication of the financial stability report.	25 CPI in September(HAG)	26 Economic indicators (Sí)
29	30 Overnight stays in August (HAG)			

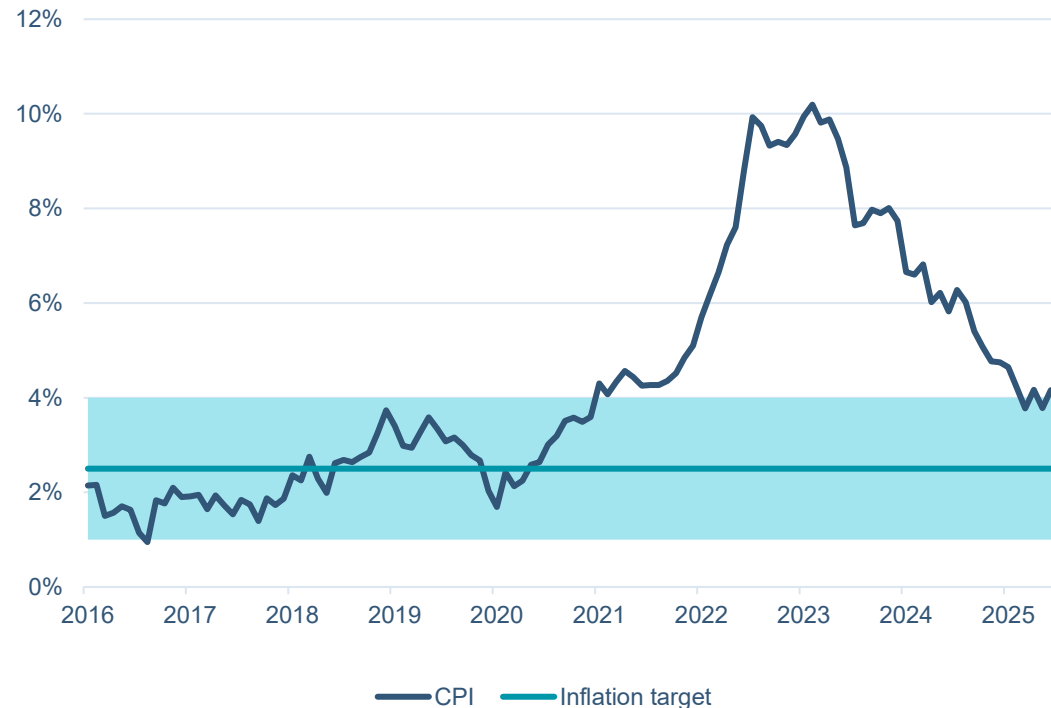


Inflation

The consumer price index (CPI) decreased by 0.15% between months in August. 12M inflation receded from 4.0% to 3.8% and has again fallen below the upper tolerance limit of the CBI's inflation target. We had forecast a slight rise in inflation in August, by 0.07% between months, and that inflation would be 4.0%. Inflation excl. housing decreased and the same can be said for the annualised increase of all three core indices, which indicates a decrease in underlying inflation pressure.

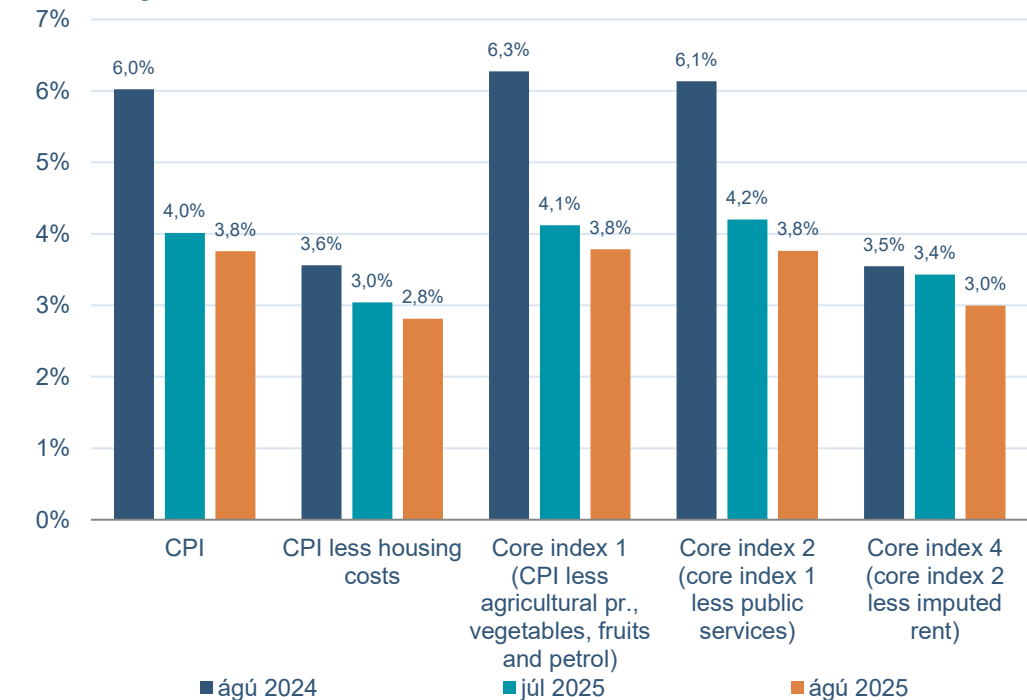
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

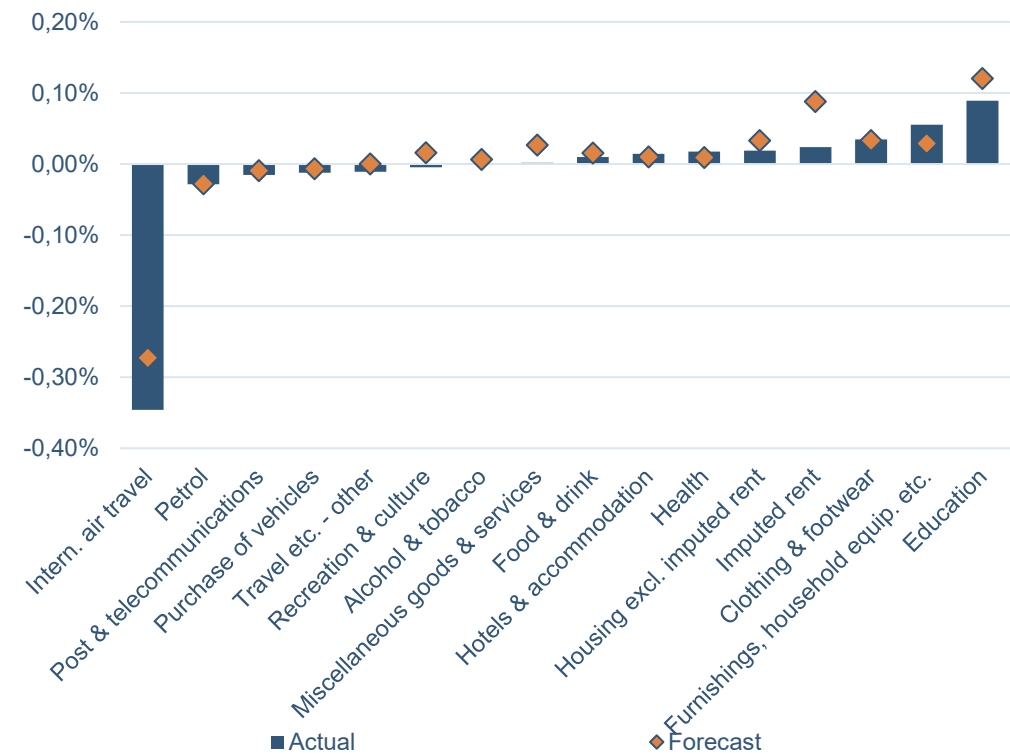
YoY change



MoM change in the CPI

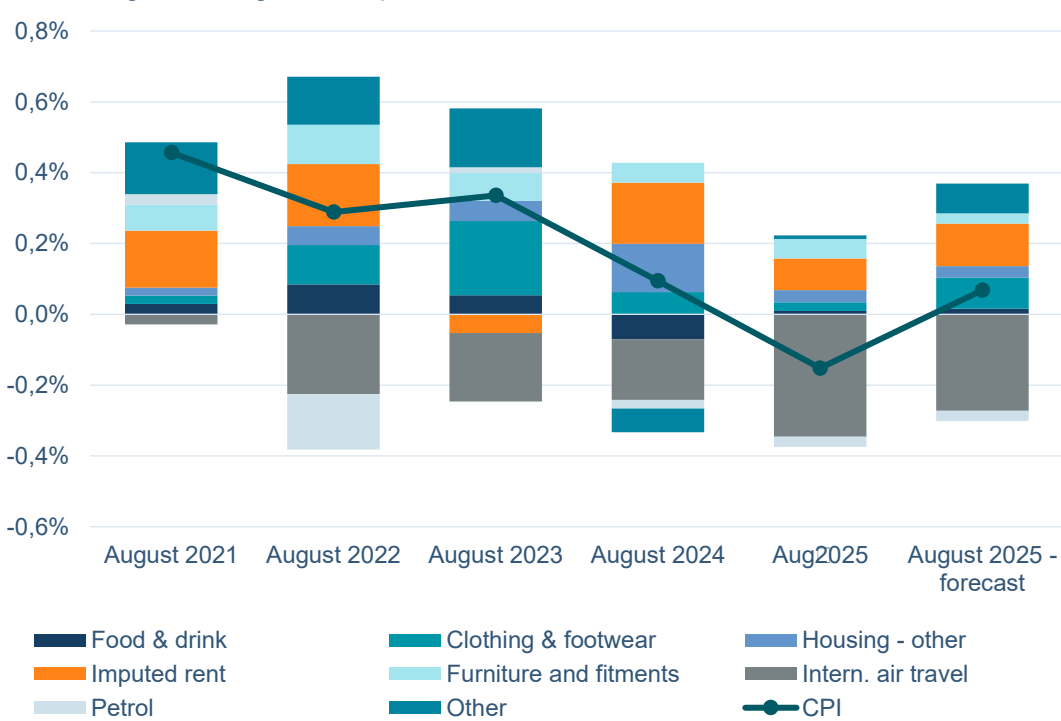
The main difference between the forecast and the measurement is that international airfares decreased more than anticipated and that sales of clothing and footwear receded slower. On the other hand, sales on furniture and fittings receded faster than we expected.

Contribution of components in August



August CPI measurements

MoM change and weight of components

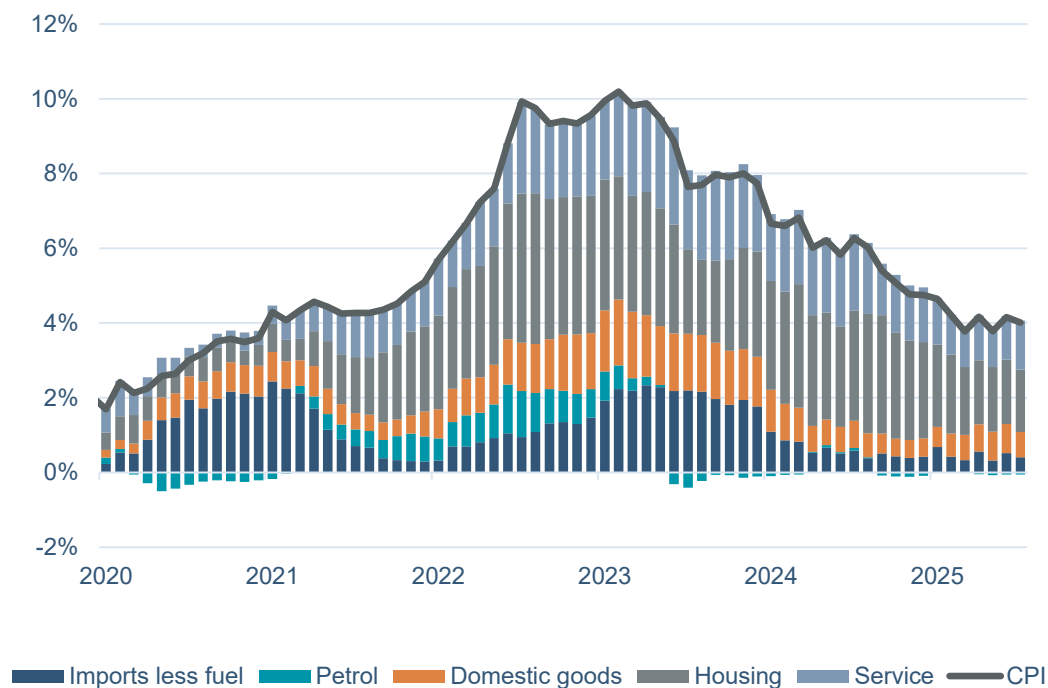


Composition of 12M inflation

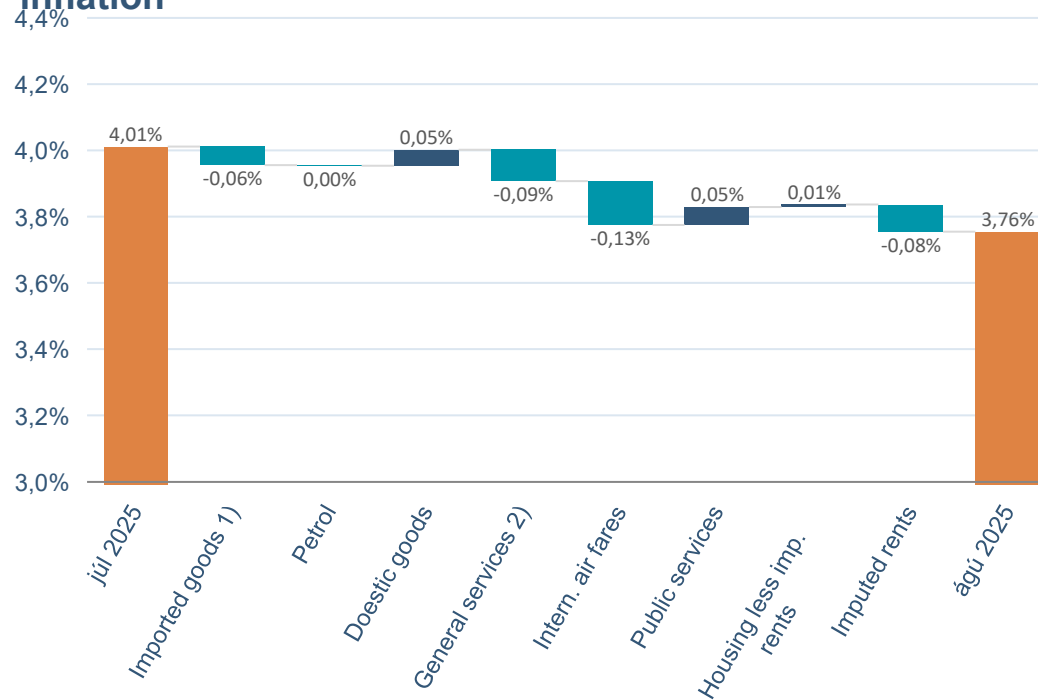
The contribution of most components to 12M inflation decreased between months in August, with the exception of domestic goods. Decreased inflation in August is due mainly to the lower contribution of airfares, with other services also contracting considerably between months. The weight of domestic goods increases between months, mostly due to the price of food.

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. airfares. 3) Housing less imputed rent.
Source: Statistics Iceland

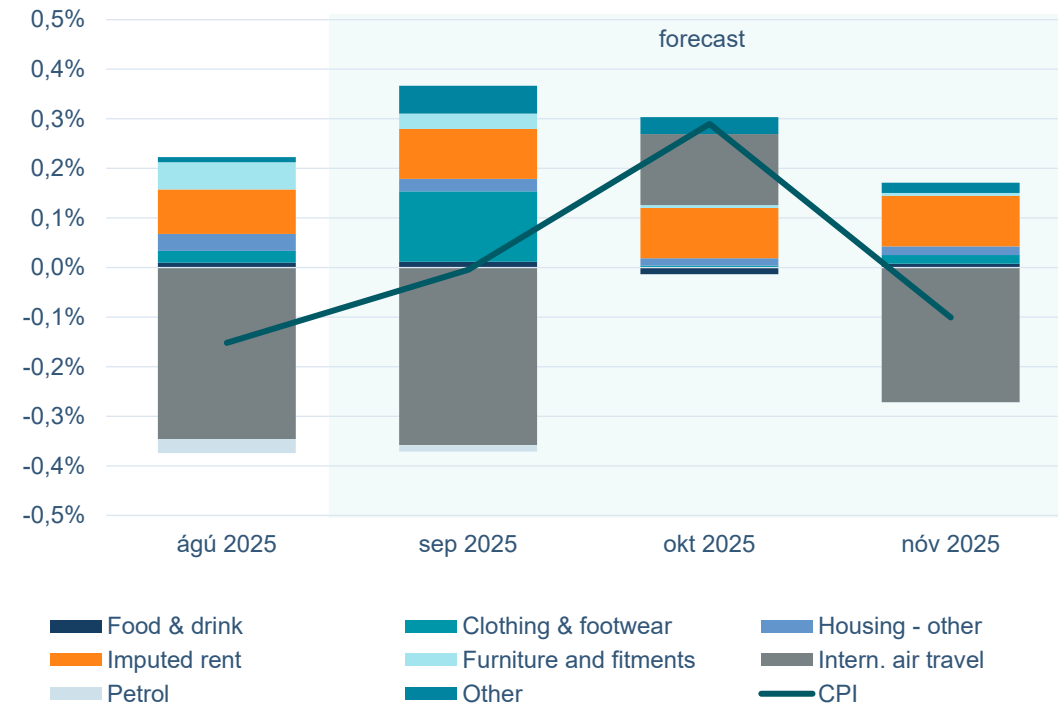


The outlook for the next months

We expect 12M inflation to be 4.0% in September and October and to fall to 3.8% in November. 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 items temporarily pressured inflation down last fall but will now phase out of the comparison data.

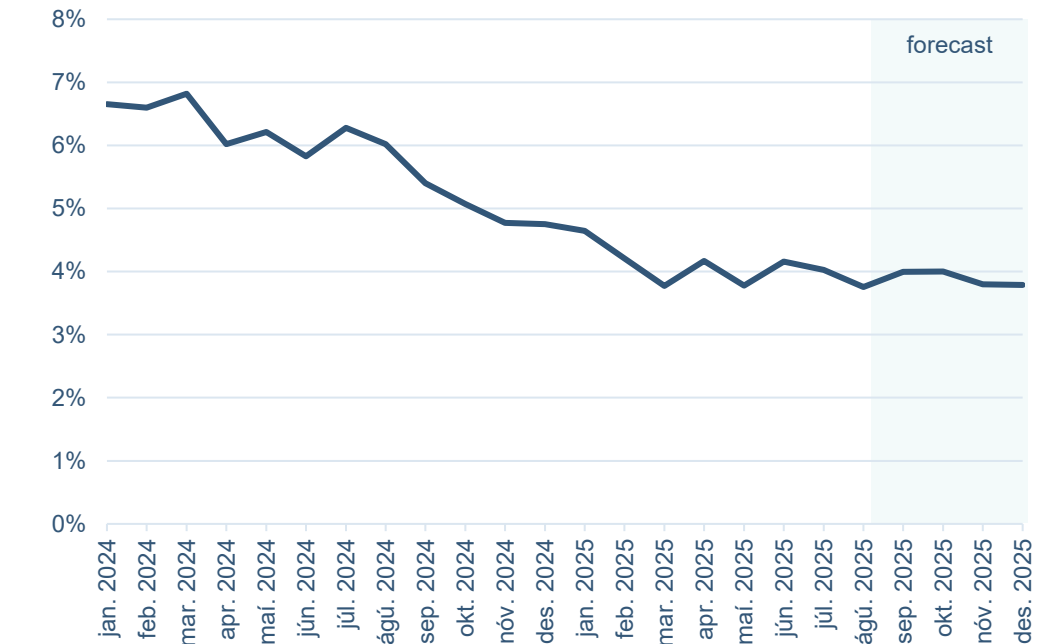
Inflation forecast

YoY change and weight of components



Inflation forecast

12M inflation



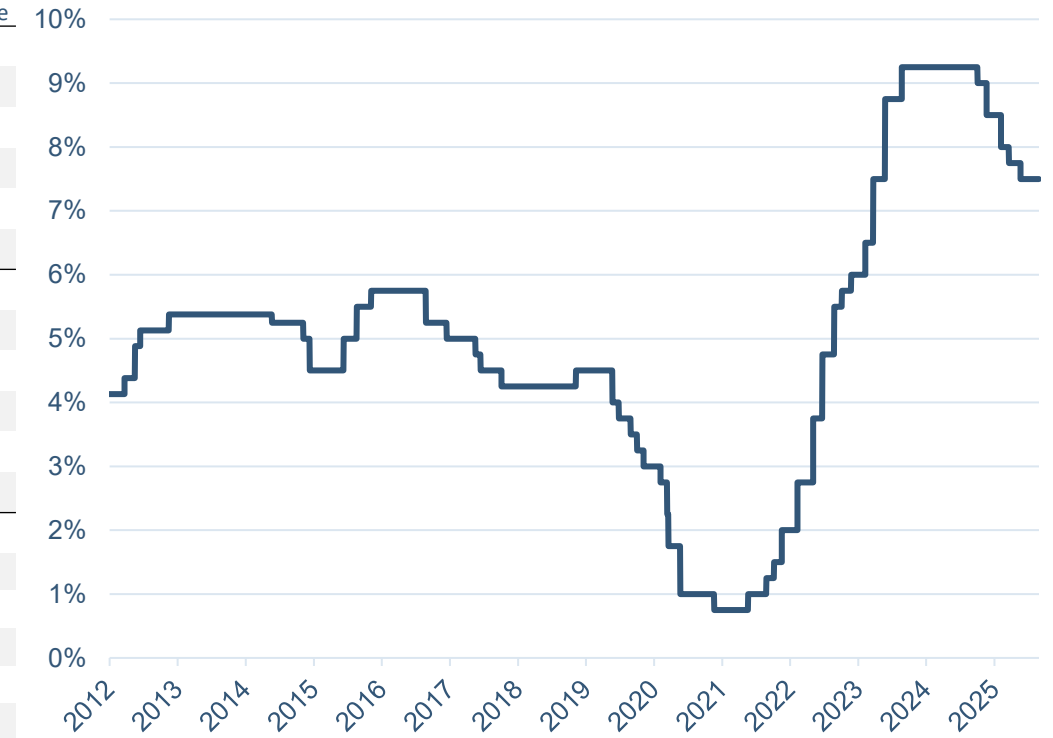
Policy rate

The Monetary Policy Committee of the Central Bank of Iceland maintained an unchanged policy rate at its meeting on 20 August. The CBI's key interest rate, interest on 7-day term deposits, remains 7.5%. The MPC's statement was more or less the same as following the previous decision. It says that conditions do not yet warrant further slackening of the real policy rate and that any future rate cuts depend on inflation falling closer to the CBI's 2.5% target. The next interest rate decision will be announced on 8 October.

MPC interest rate decisions

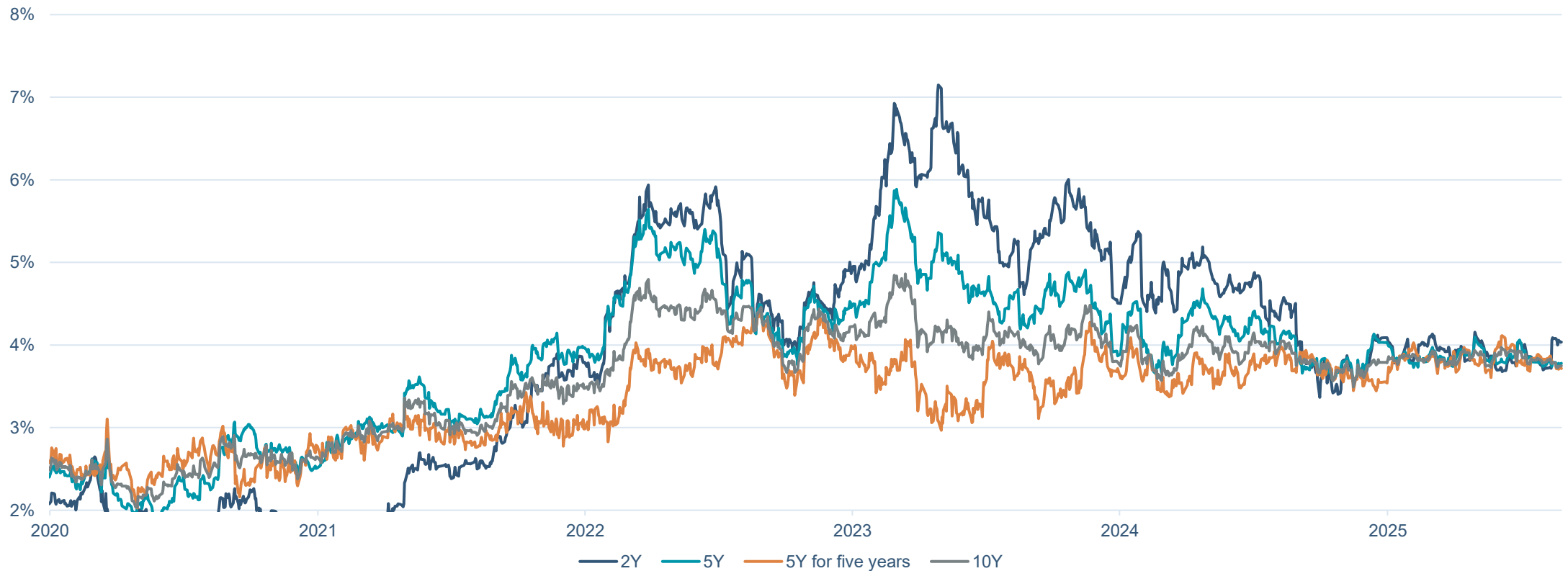
Date	Prop.	For	Against	Other option	Conclusion	Key interest rate
8 Feb. 2023	+0.50%	ÁJ, RS, GJ, GZ, HS		HS (+0.75%)	+0.50%	6.50%
22 March 2023	+1.00%	ÁJ, RS, GJ, ÁÓP, HS			+1.00%	7.50%
2023-05-24	+1.25%	ÁJ, RS, ÁÓP, HS	GJ (+1.00%)		+1.25%	8.75%
23 Aug 2023	+0.50%	ÁJ, RS, ÁÓP, HS	GJ (+0.25%)		+0.50%	9.25%
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%
2024-05-08	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%
2025-05-21	-0.25%	ÁJ, ThGP, TB, ÁÓP		HS (Unch.)	-0.25%	7.50%
20 Aug 2025	Unch.	ÁJ, RS, TB, ÁÓP, HS			Unch.	7.50%
8 Oct. 2025						
19 Nov. 2025						

Key interest rate of the Central Bank of Iceland



Inflation premium in the bond market

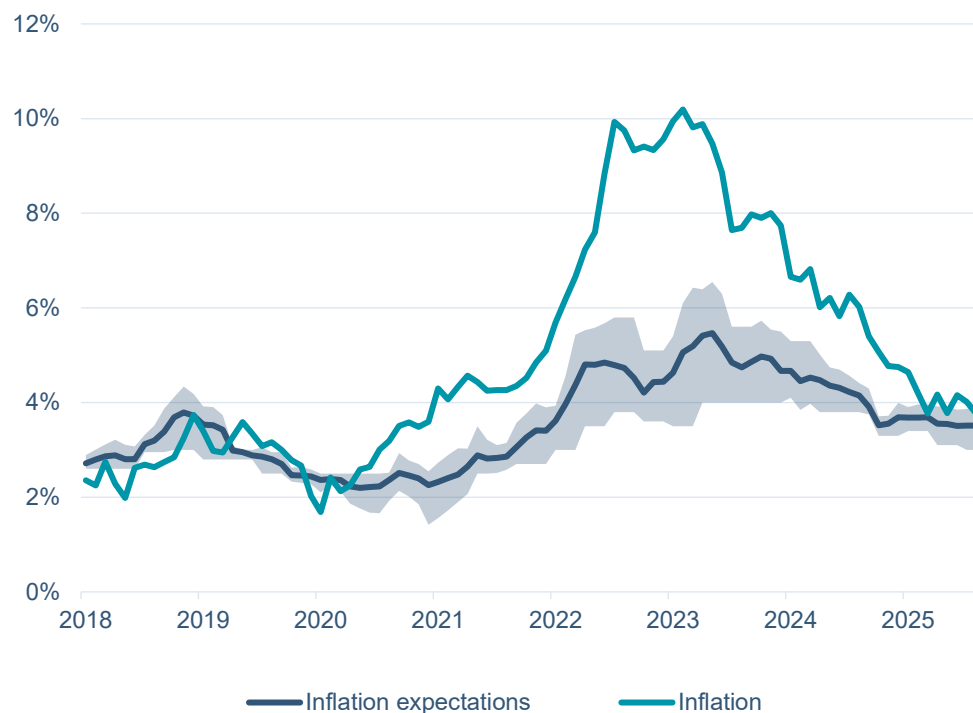
The inflation premium on the bond market increased for two years and five years while decreasing for ten years in August. The premium rose for five years while decreasing for ten years, resulting in a decrease in the five-year forward.



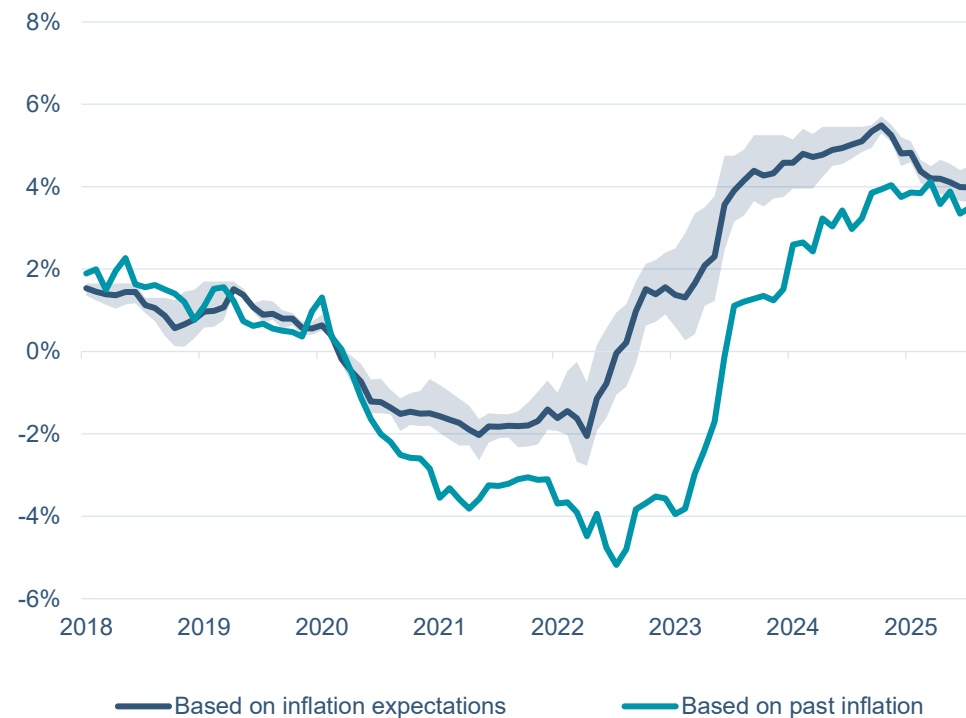
Inflation, inflation expectations and the real policy rate

The average of key measures of inflation expectations has remained between 3.5-4.0% since it fell 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 0.4 percentage points lower in July (3.7%) 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

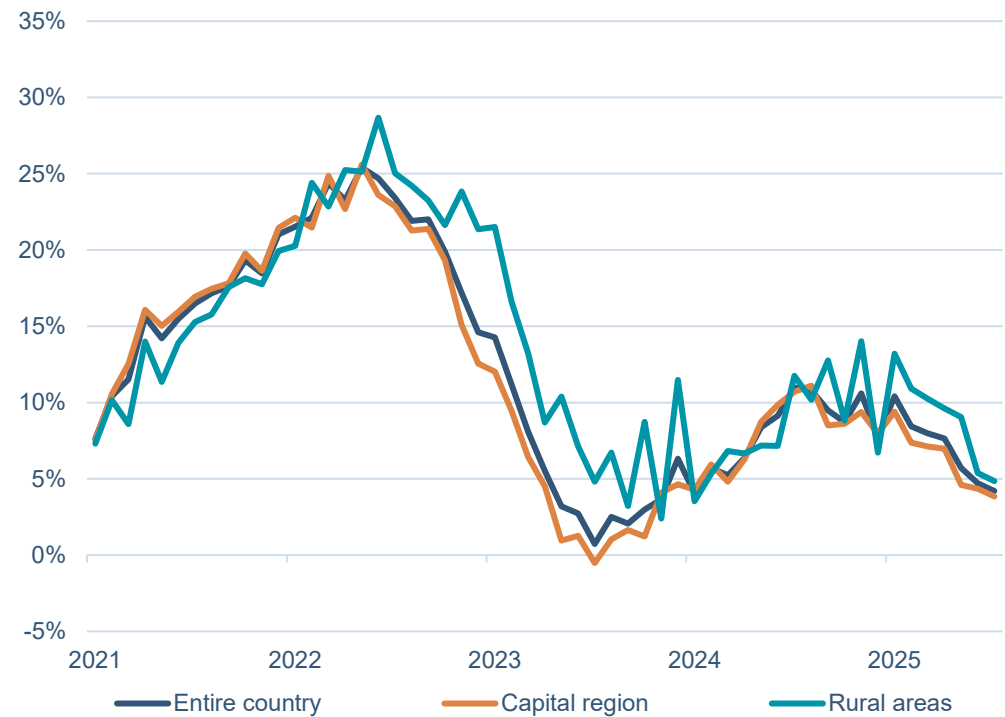


The real estate market

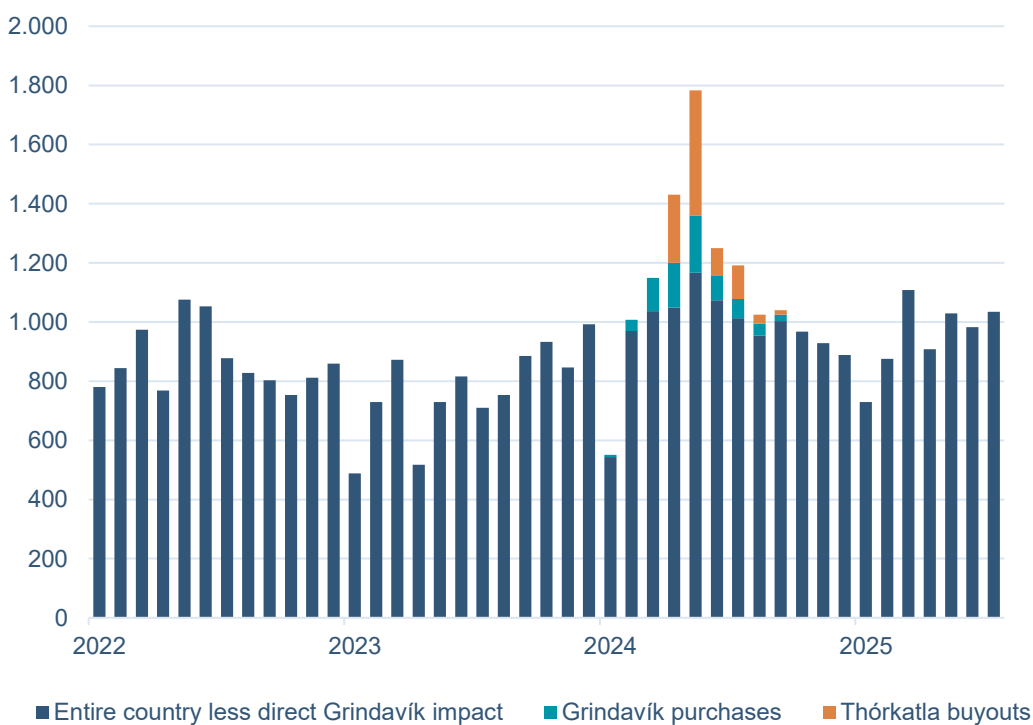
The housing price index rose by 0.27% between months in July. The increase was driven by a 1.5% increase in single-family dwellings in rural regions. The 12M increase continues to slow, dwindling from 4.7% in June to 4.2% in July.

Housing price index

YoY change



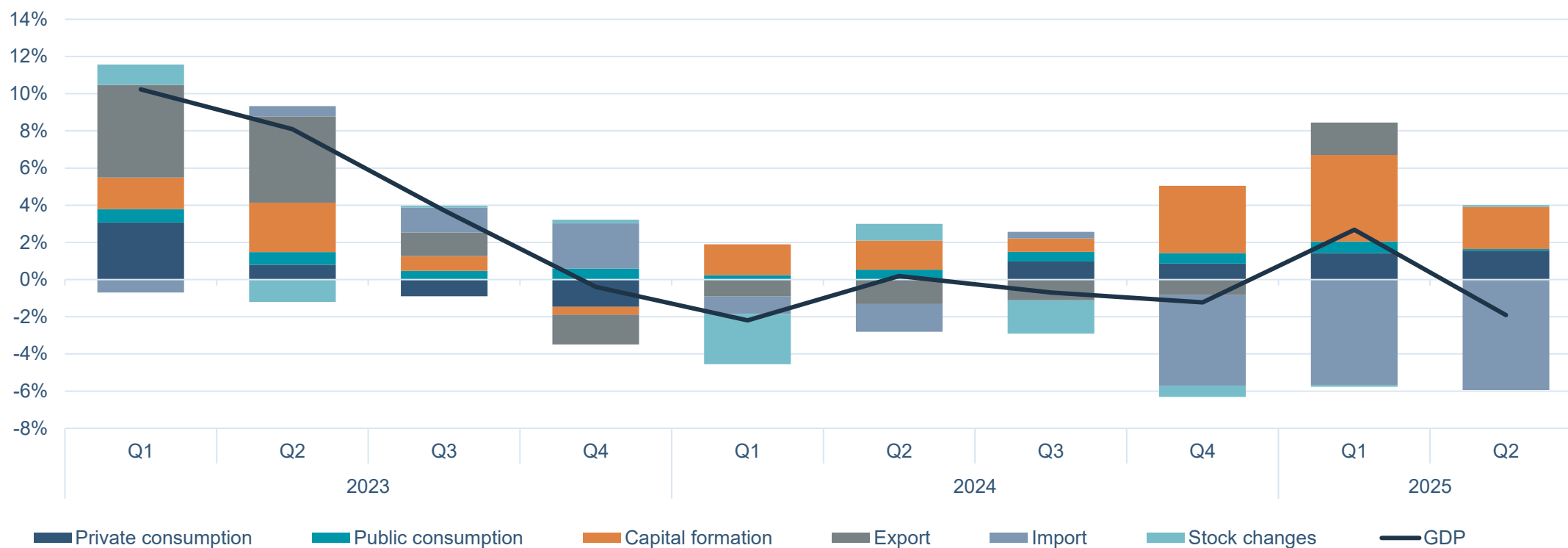
Signed purchase contracts - entire country



Gross domestic product

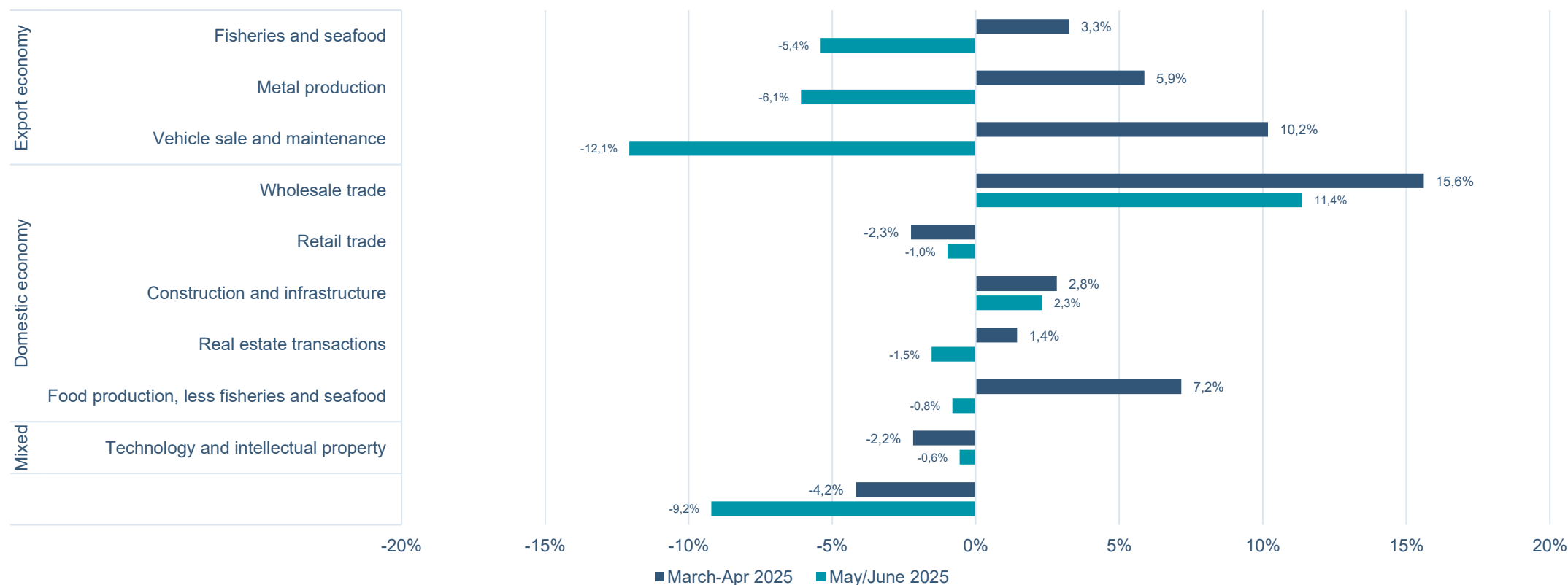
GDP contracted by 1.9% between years in the second quarter. The contraction is mainly due to current transactions, with a much higher deficit on goods and service transactions than in Q2 of 2024. Domestic demand grew between years, counteracting the recognised contraction caused by increased import. There was a robust increase in investment, around 8.3% in total. Increased investment is for the most part due to increased business investment which, like in previous quarters, is driven by the development of data centres.

YoY change and weight of main components



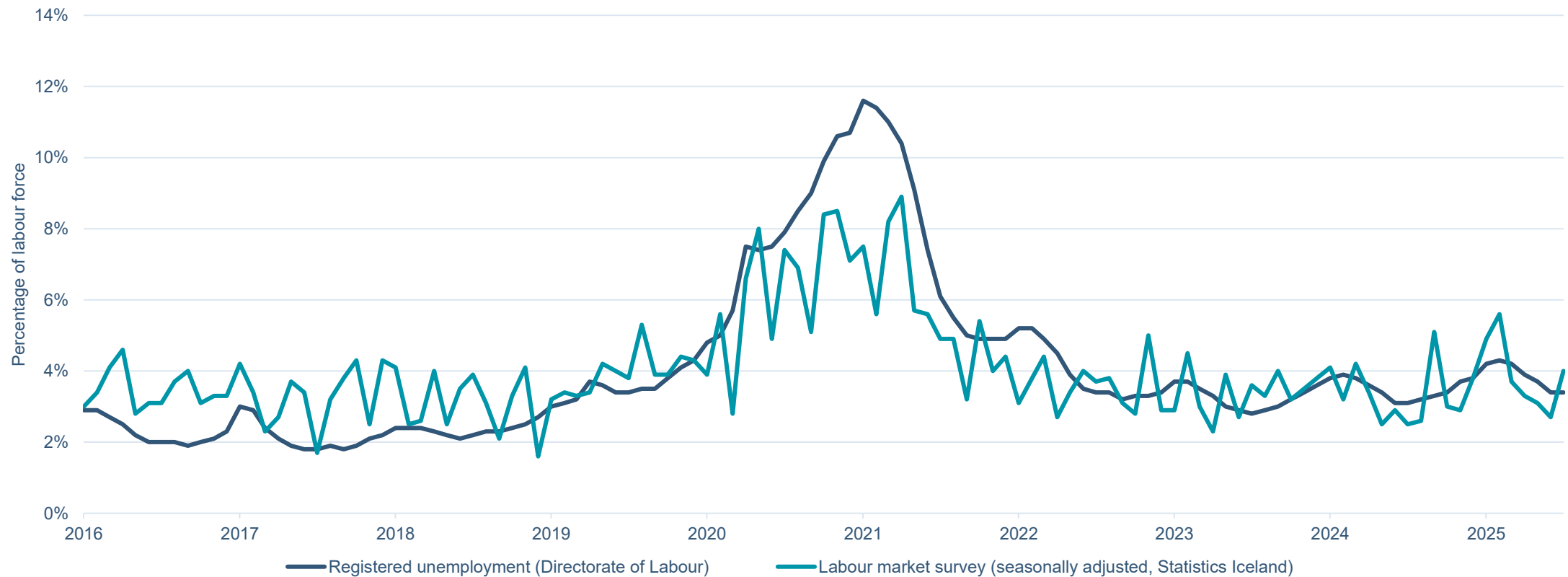
Turnover based on VAT reports

Turnover based on VAT reports shows a sharp decrease in turnover in most sectors in May and June compared to the same time last year. Turnover in sectors such as seafood and fisheries, metal production and the sale and maintenance of vehicles contracted between years in May and June following a year-over-year increase in March and April. Statistics Iceland has yet to publish the final turnover figure as work on revision is currently under way.



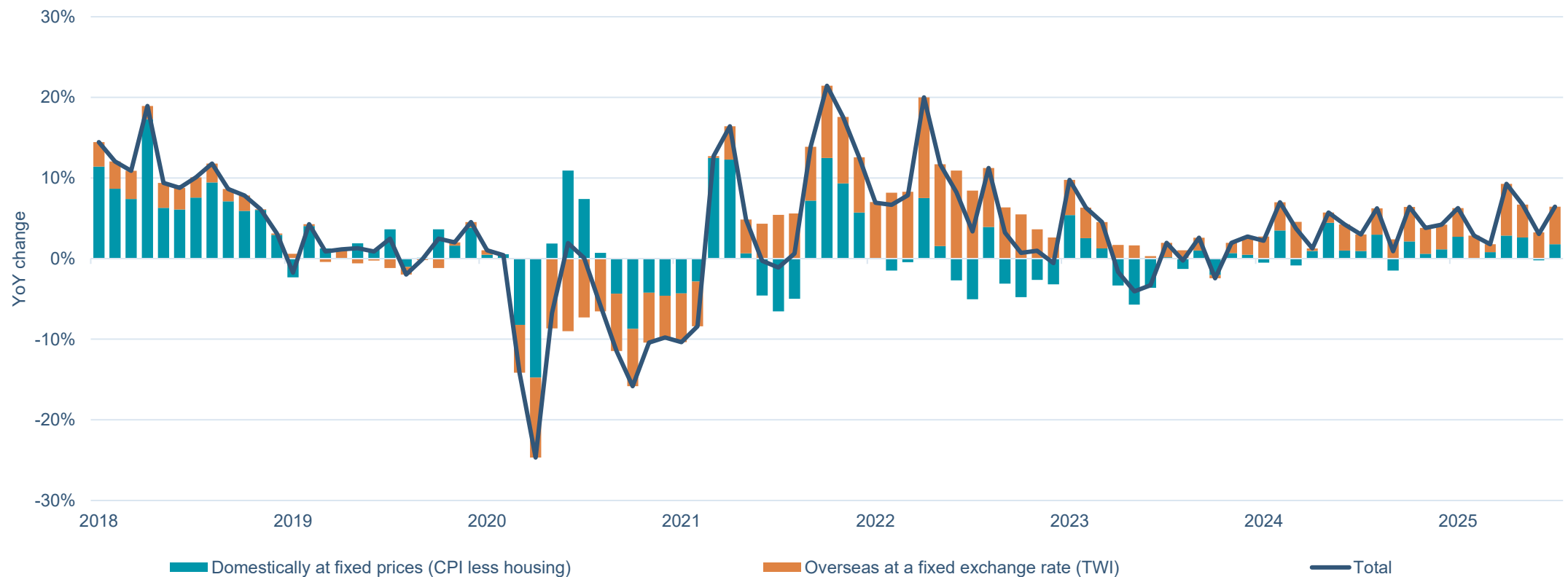
Unemployment

Unemployment was 0.3 percentage points higher in July than in the same month of 2024. This is the fourth month in a row that unemployment measures 0.3 pp higher than the previous year.



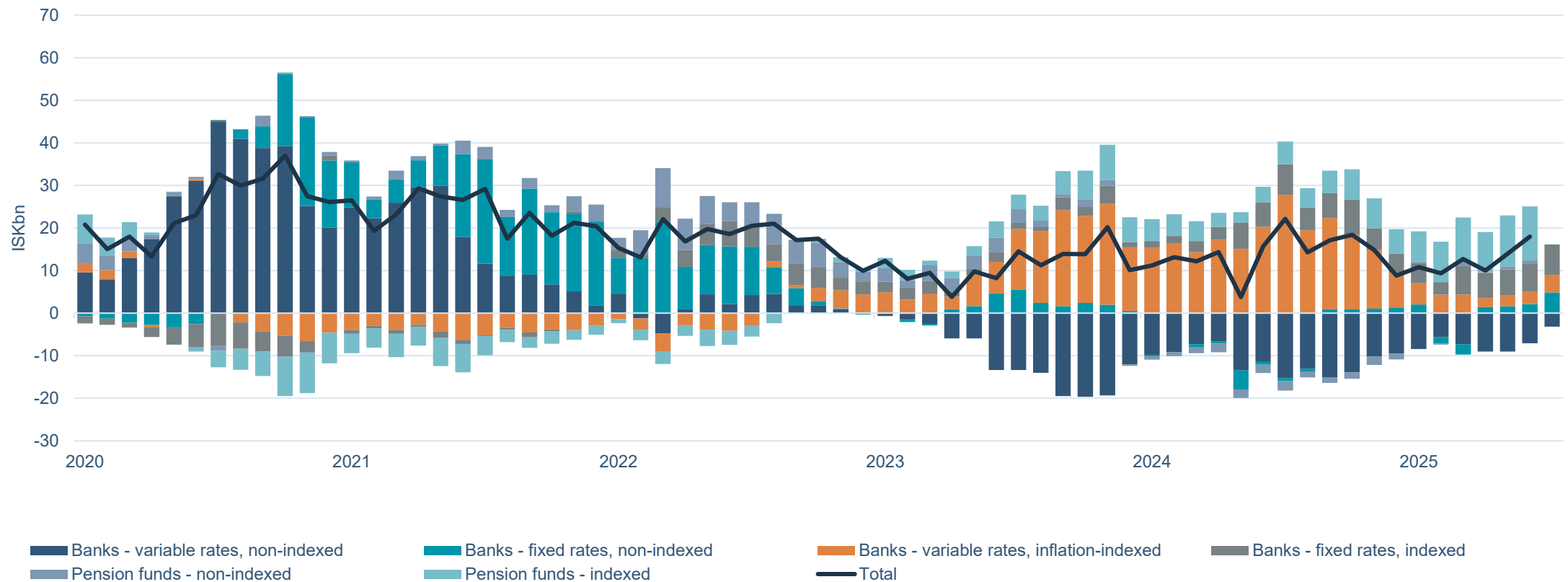
Payment card turnover of Icelandic households

Payment card turnover grew by 6.5% between years in July in real terms, 2.3% domestically and 21.1% 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 22% 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 12.9 bn in July. Of that figure, ISK 11.3 bn represent net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 1.7 bn. Figures for net new lending by pension funds in July will be released on Thursday, 4 September.

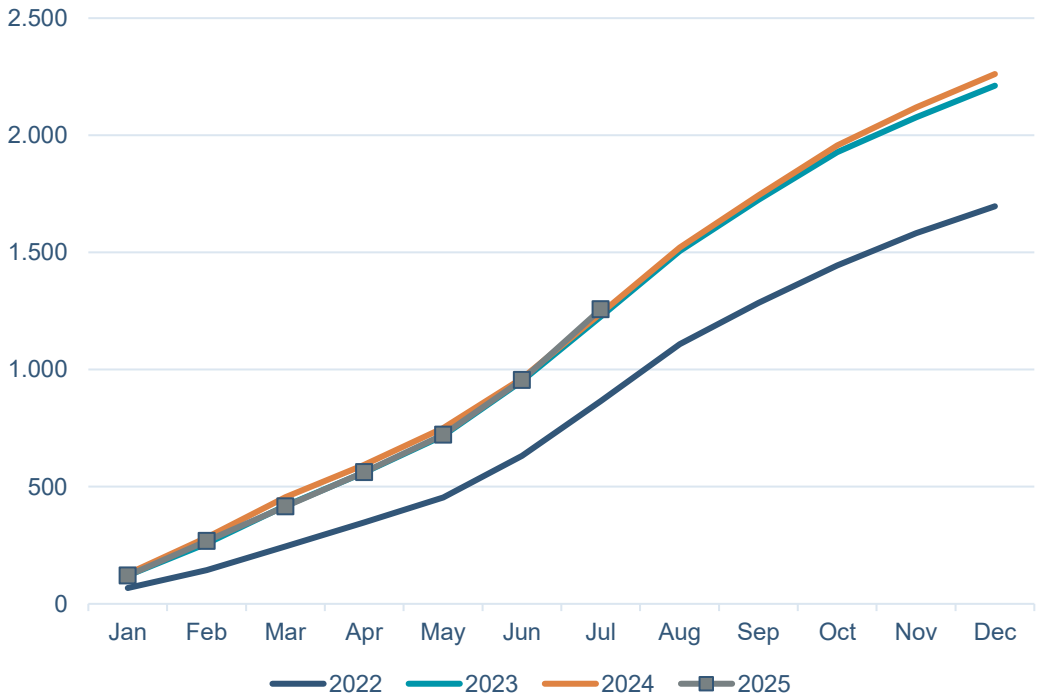


The travel sector

Around 301,000 non-domestic travellers passed through Leifsstöð International Airport in July, 9.1% more than in July 2024. This year to date, departures by non-domestic travellers have grown by around 1.4% compared to the same time last year. Non-domestic payment card turnover grew by 2.3% between years at fixed prices and by 14.0% at a fixed exchange rate.

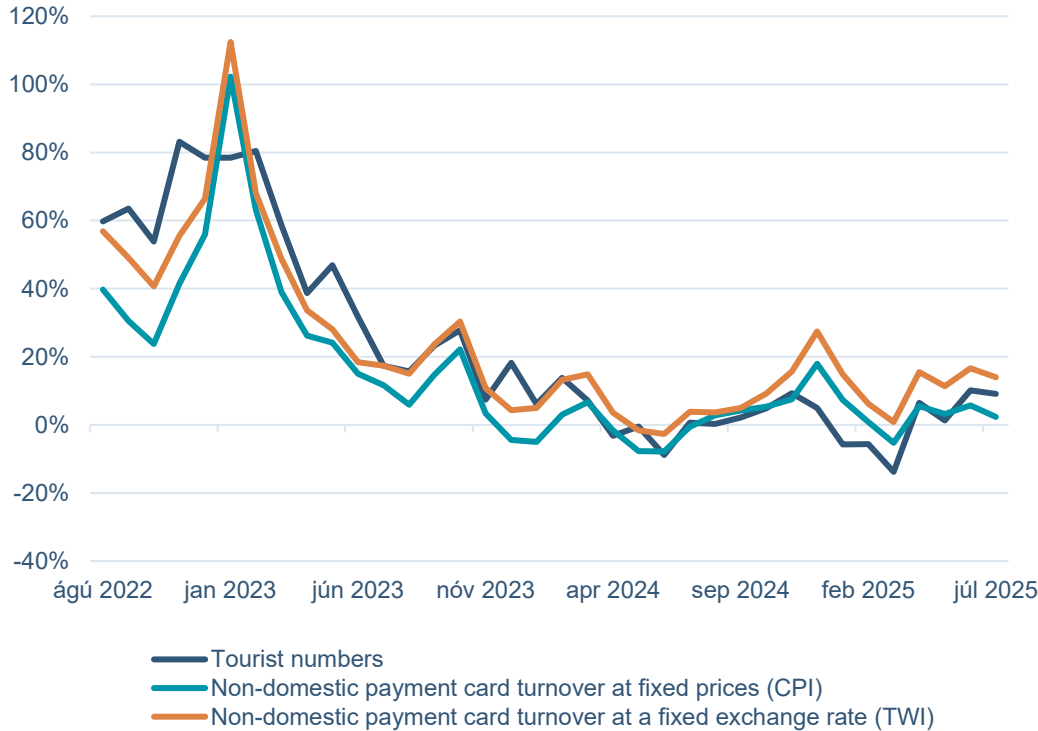
Acc. tourist numbers

Thousand individuals



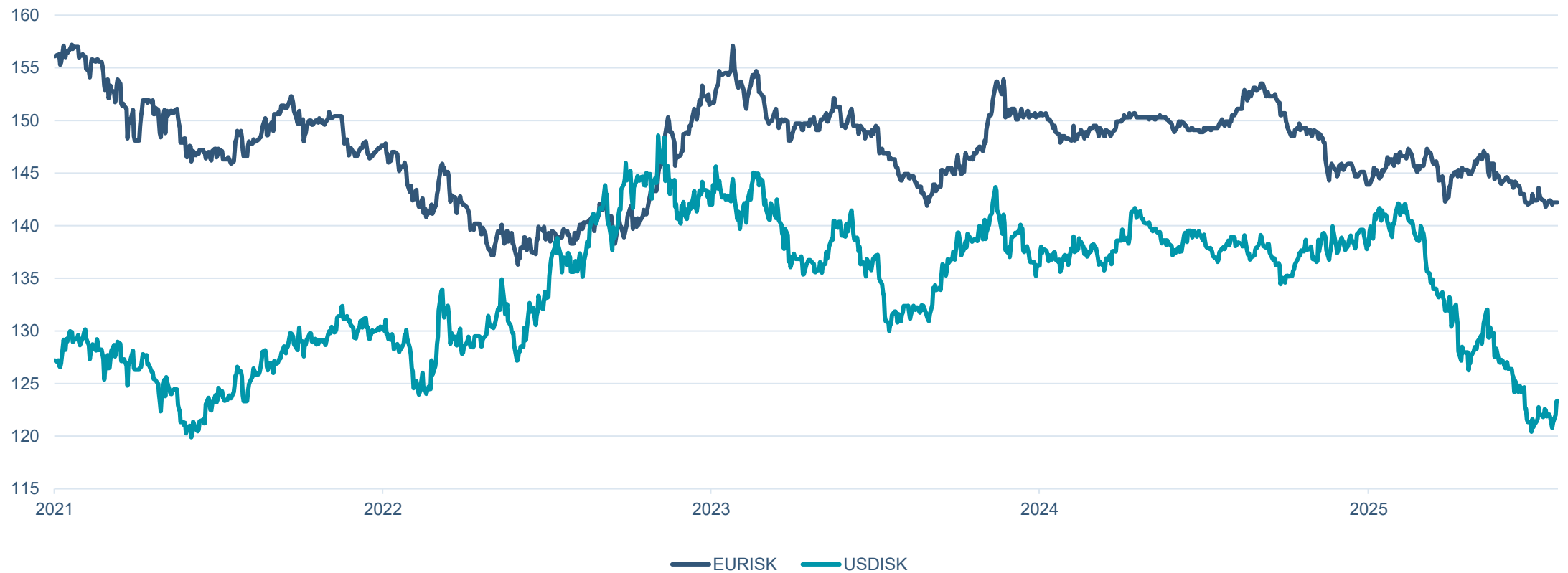
Development of key indicators

YoY change



ISK exchange rate

The ISK appreciated against the USD while depreciating against the EUR in August. At the end of the month, the EUR cost 143 instead of 142.2 (ISK +0.8) and the USD 122.7 instead of 124.2 as at the end of July (ISK -1.5).



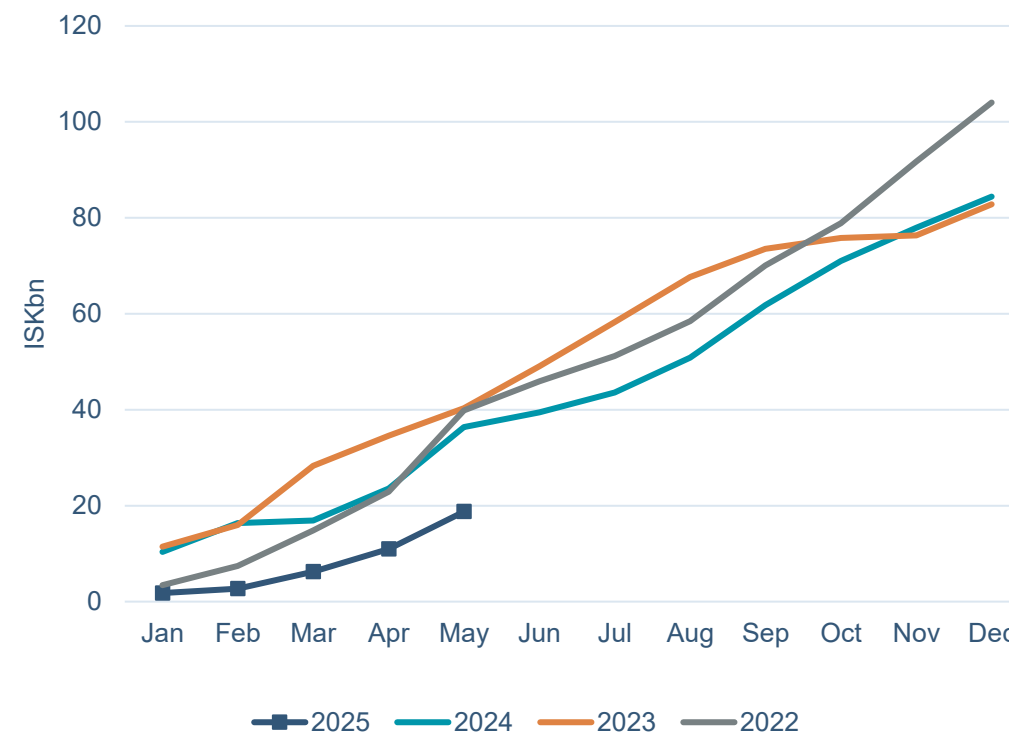
FX trade of the CBI and pension funds

The CBI purchased EUR for ISK 6.0 bn in the period 1-26 August. 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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