



Monthly Newsletter

1 July 2026

Landsbankinn Economic Research

Market events - July 2026

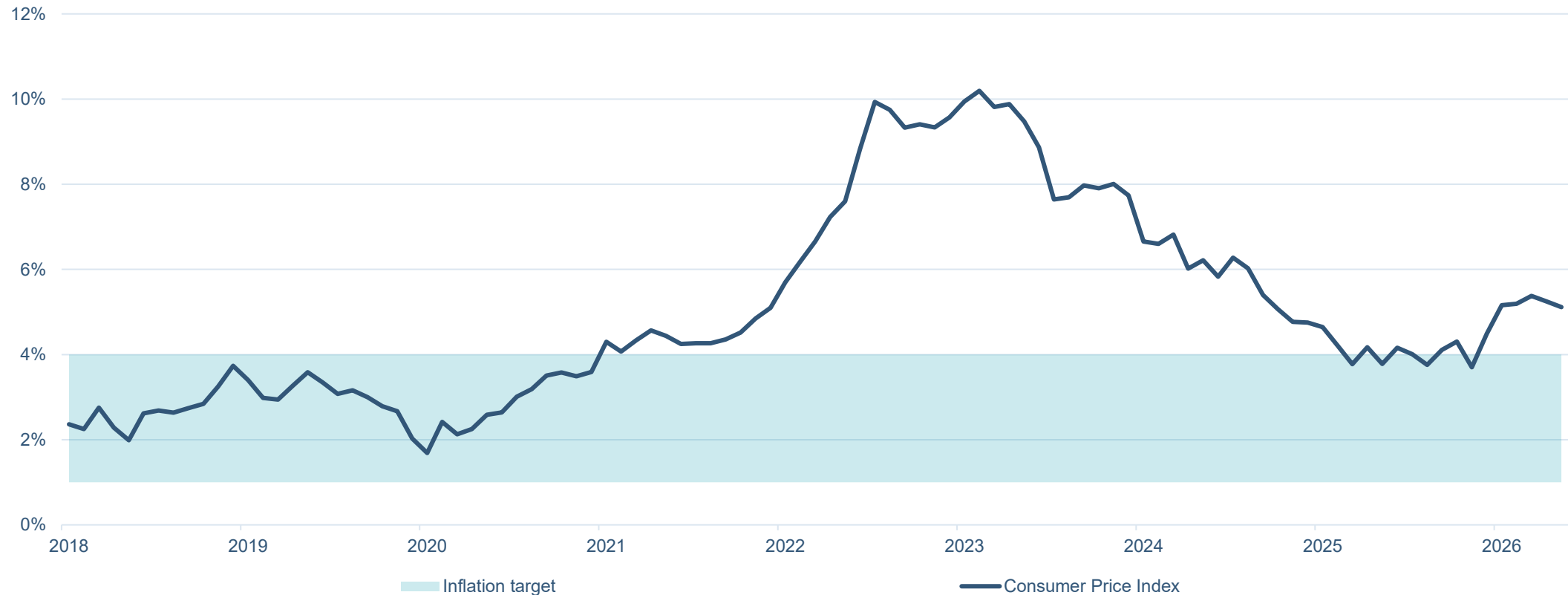
Monday	Tuesday	Wednesday	Thursday	Friday
29	30	1 July Inflation in the eurozone	2 Unemployment in the US	3
6	7	8	9	10 Departures from Keflavík International Airport in June (FMST) Registered unemployment in June (VMST) End of price measurement week (HAG)
13	14 Inflation in the US	15 Skagi publishes results	16 Employed workers in May (HAG) Amaroq and Sjóvá publish results	17 Payment mediation in June (CBI)
20	21 Housing price index in June (HMS) Icelandair publishes results	22 Rental price index in June (HMS) Inflation in the UK	23 CPI in July (HAG) Wage index in June (HAG) Monthly report (HMS) Landsbankinn publishes results Policy rate decision in the eurozone	24
27	28 Festi publishes results	29 Arion Bank and Íslandsbanki publish results Policy rate decision in the US	30 Overnight stays in June (HAG) Policy rate decision in the UK Inflation in the eurozone	31

(HAG) Statistics Iceland, CBI: Central Bank of Iceland, VMST: Directorate of Labour, FMST: Icelandic Tourist Board, HMS: The Housing and Construction Authority.



Inflation

The CPI rose by 0.94% between months in June and inflation rose from 5.1% to 5.2%. We had forecast a 0.81% increase between months and that inflation would hold steady at 5.1%. June is the seventh month in the row with inflation over the CBI's 4.0% upper tolerance limit.

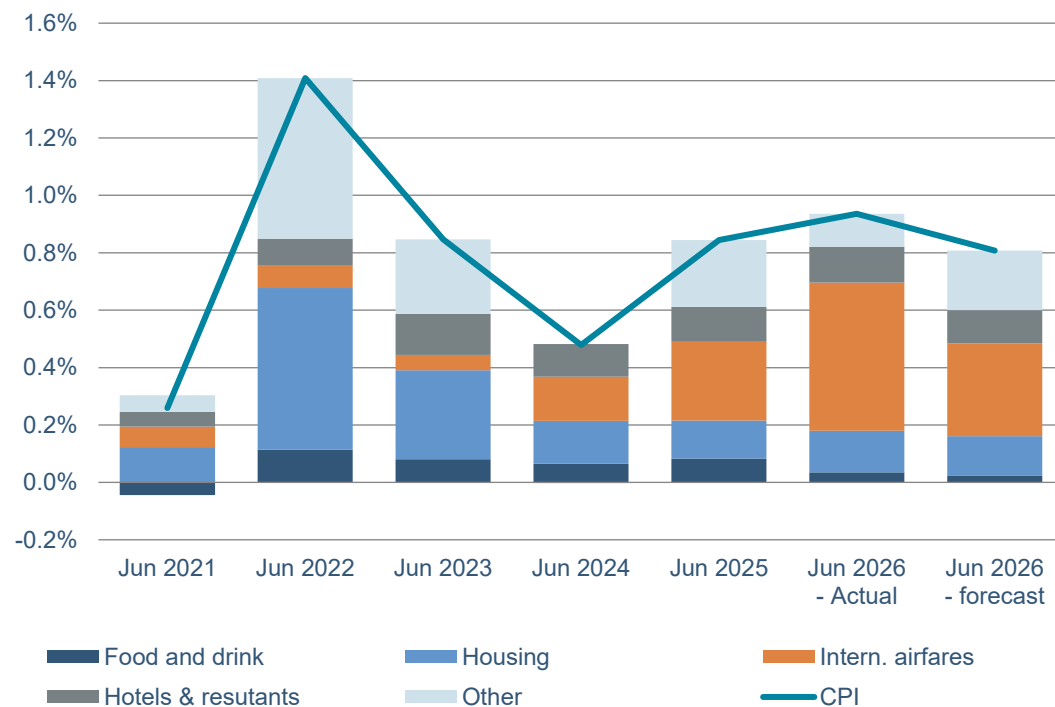


MoM change in the CPI

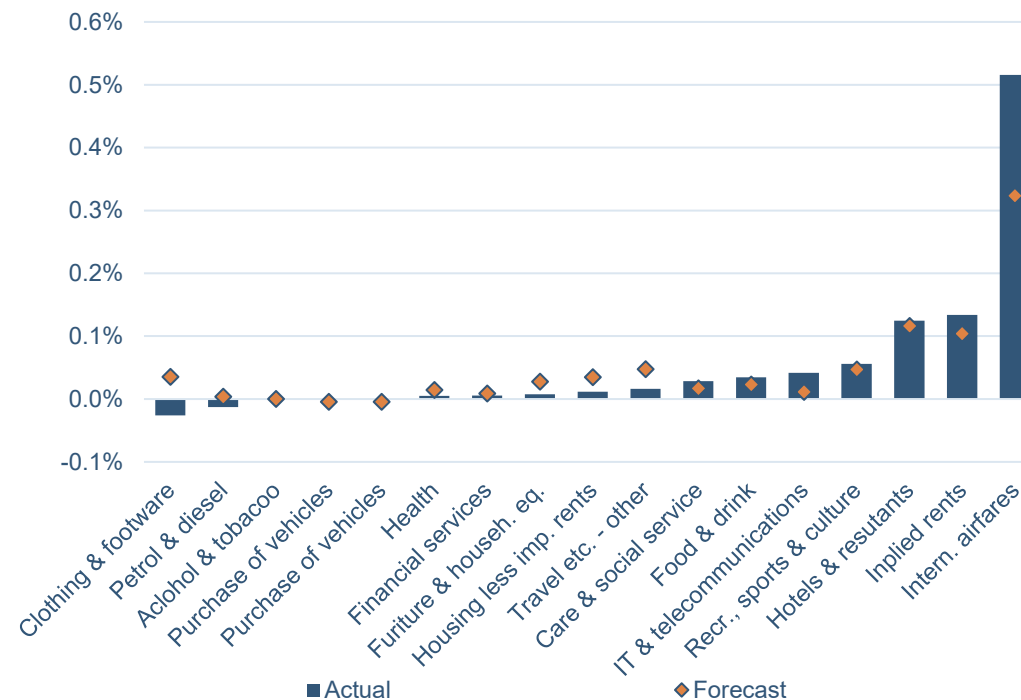
The largest contribution to the monthly increase this month came from airfares, with international airfares increasing by over 20%. International airfares are now 28% higher than a year ago. Imputed rent increased by 0.6%. We continue to expect this component to rise by around 0.5% between months on average going forward. The food basket increased by 0.23%, slightly more than we had forecast. Clothing and footwear prices fell by 0.74% and are now 1.2% lower than a year ago. Fuel prices declined modestly over the month, falling by 0.5%.

June measurement of the CPI

MoM change and contribution of components

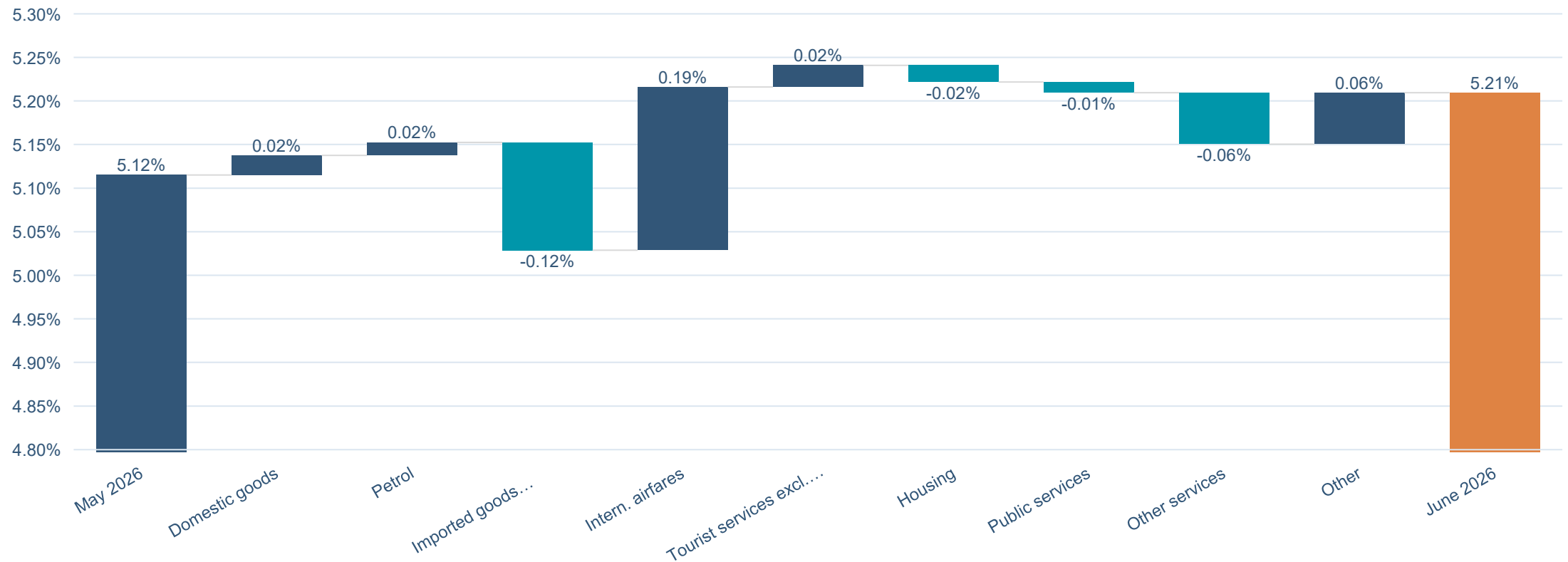


Contribution of components in June



Changes to the composition of 12M inflation

International airfares were by far the largest driver of the increase in annual inflation between months. The contribution from tourism excluding airfares also increased. The contribution of imported goods excluding petrol declined between months, as did the contribution from housing, which edged down slightly.

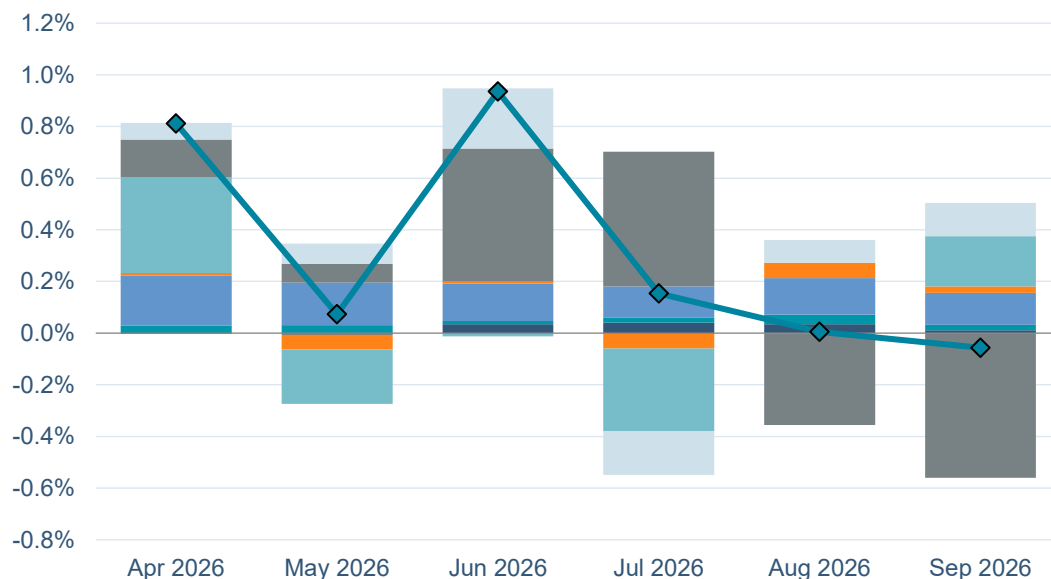


The outlook for the next months

Our forecast for the coming months is for the CPI to increase by 0.15% between months in July, 0.01% in August and decline by 0.06% in September. If the forecast holds, 12-month inflation will be 5.0% in July, 5.2% in August and 5.0% in September. Although the June inflation measurement came in slightly higher than we had expected, we have revised our inflation forecast downward for the coming months. This lower forecast reflects two main factors. First, we have revised our assumptions regarding oil prices in light of recent developments and increased optimism that shipping through the Strait of Hormuz will return to normal. Second, we now expect a smaller increase in international airfares in July, following the sharp rise recorded in June.

Inflation forecast

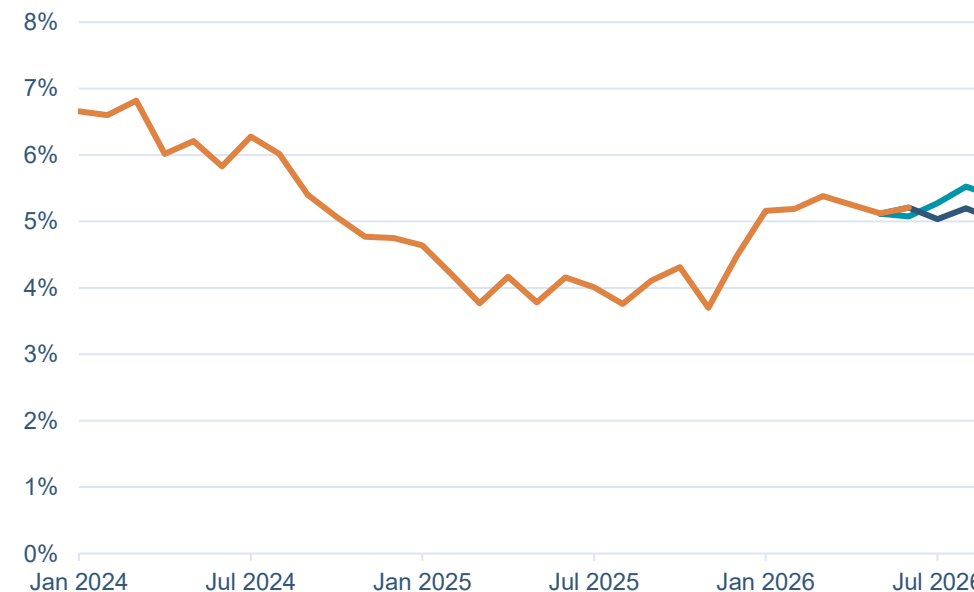
MoM change and contribution of components



- Food & drink
- Furniture & househ. eq.
- Other
- Clothing & footwear
- Petrol & diesel
- Housing
- Intern. airfares
- ◆ CPI

Inflation forecast

12-month inflation



- Previous forecast (publ. 11 June)
- Current forecast (publ. 26 June)



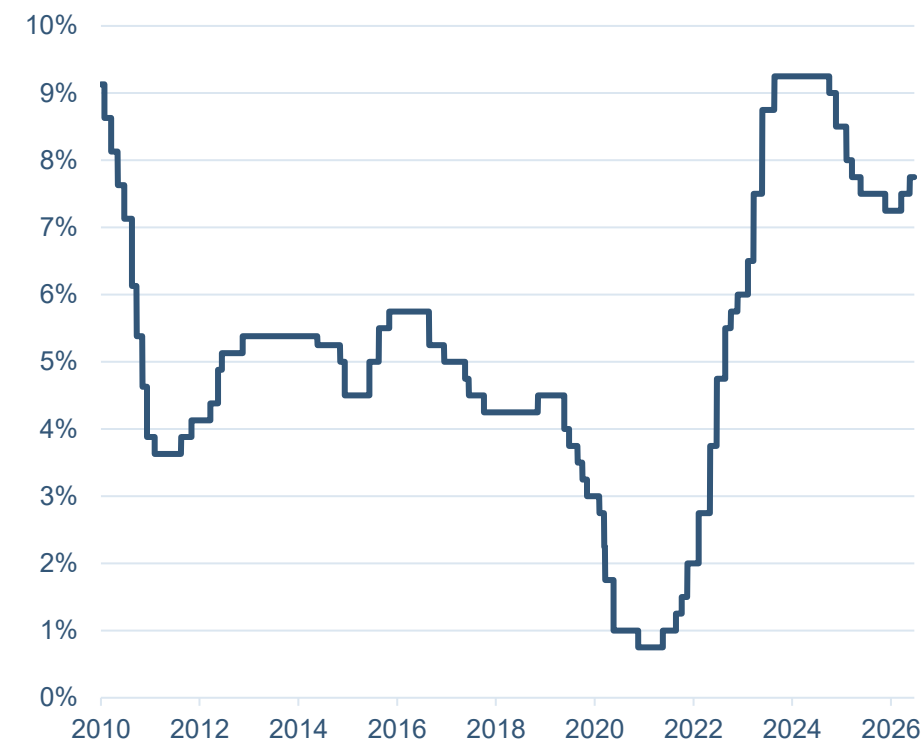
Policy rate

In May, the Monetary Policy Committee raised the policy rate by 0.25 percentage points, in line with our expectations. The decision was unanimous. The Committee also signalled clearly that it is prepared to raise rates further, if necessary, despite the risk of further cooling the economy. The next interest rate decision is scheduled for 19 august, 13 weeks after the May decision.

MPC interest rate decisions

Date	Weeks from previous	Decis.	For	Against	Other option	Key interest rate
7 Feb. 2024	11	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		9.25%
20 March 2024	6	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		9.25%
2024-05-08	7	Unch.	ÁJ, RS, ÁÓP, HS	AS (-0.25%)		9.25%
21 Aug 2024	15	Unch.	ÁJ, RS, TB, ÁÓP, HS			9.25%
2 Oct. 2024	6	-0.25%	ÁJ, RS, TB, ÁÓP, HS		HS (Unch.)	9.00%
20 Nov. 2024	7	-0.50%	ÁJ, RS, TB, ÁÓP, HS			8.50%
5 Feb. 2025	11	-0.50%	ÁJ, RS, TB, ÁÓP, HS			8.00%
19 March 2025	6	-0.25%	ÁJ, RS, TB, ÁÓP, HS			7.75%
2025-05-21	9	-0.25%	ÁJ, ThGP, TB, ÁÓP		HS (Unch.)	7.50%
20 Aug 2025	13	Unch.	ÁJ, RS, TB, ÁÓP, HS			7.50%
8 Oct. 2025	7	Unch.	ÁJ, RS, TB, ÁÓP, HS			7.50%
19 Nov. 2025	6	-0.25%	ÁJ, RS, TB, ÁÓP, HS			7.25%
4 Feb. 2026	11	Unch.	ÁJ, RS, TB, ÁÓP, HS			7.25%
18 March 2026	6	+0.25%	ÁJ, ThGP, TB, ÁÓP, HS (+0.50%)			7.50%
20 May 2026	9	+0.25%	ÁJ, RS, TB, ÁÓP, HS			7.75%
19 Aug 2026	13					
7 Oct. 2026	7					
18 Nov. 2026	6					

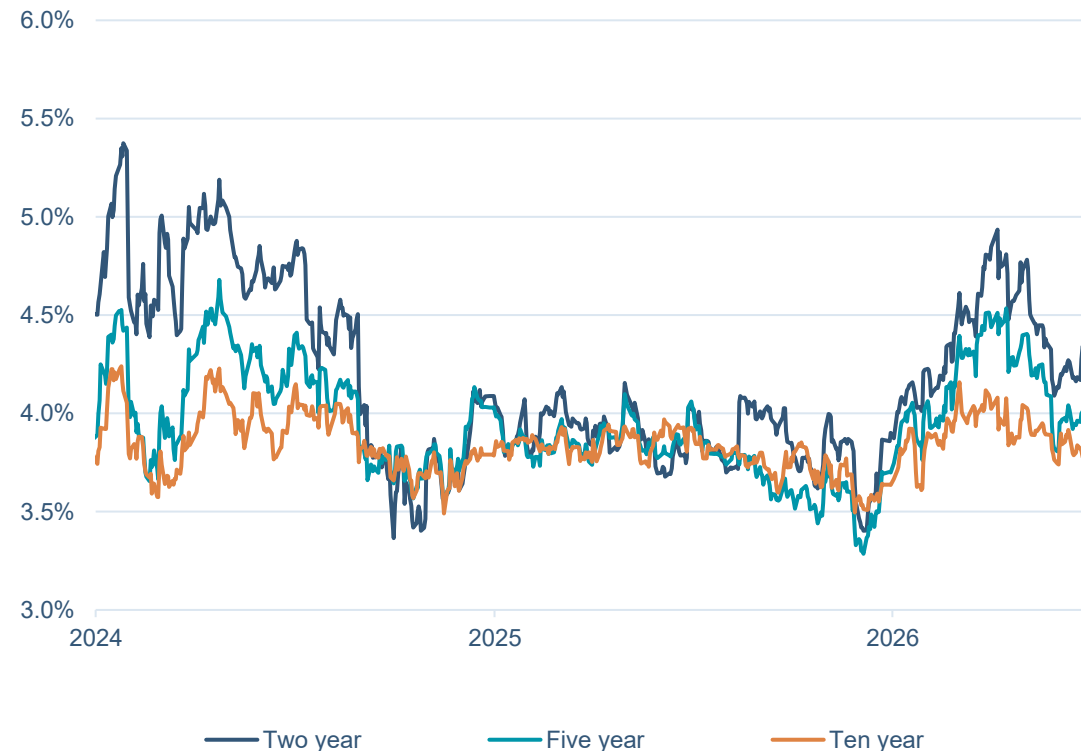
Key interest rate



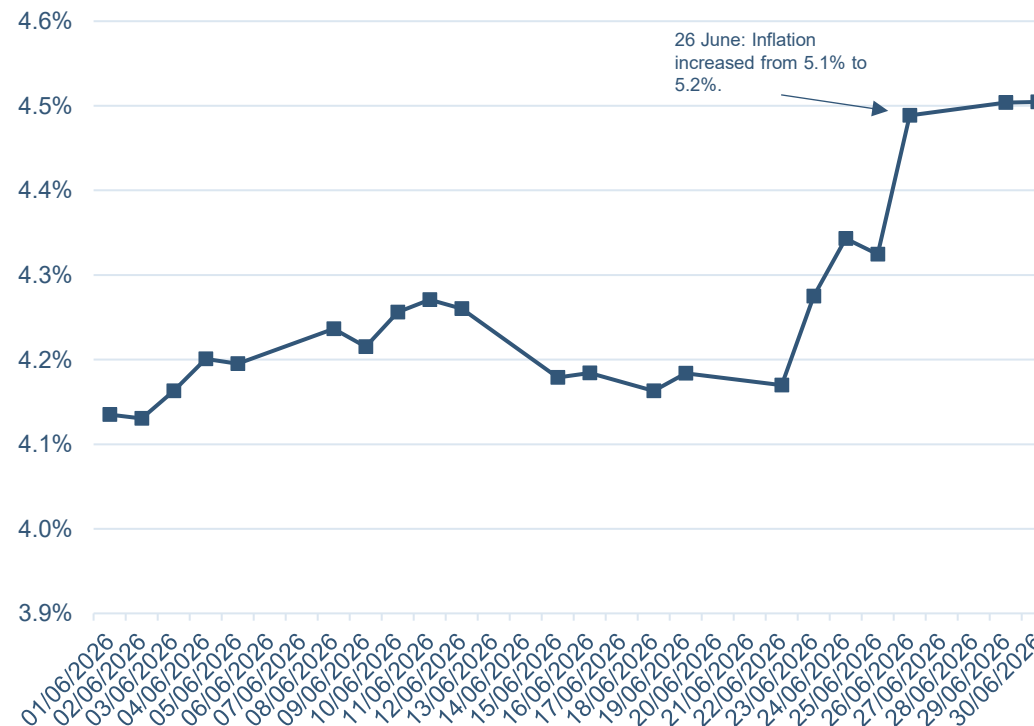
Inflation breakeven rates

Inflation breakeven rates in the bond market increased over the course of June across all maturities: to 4.5% for the two-year horizon (+0.4 percentage points during the month), 4.1% for the five-year horizon (+0.3 percentage points), and 3.8% for the ten-year horizon (+0.1 percentage points).

Inflation breakeven rates in the bond market



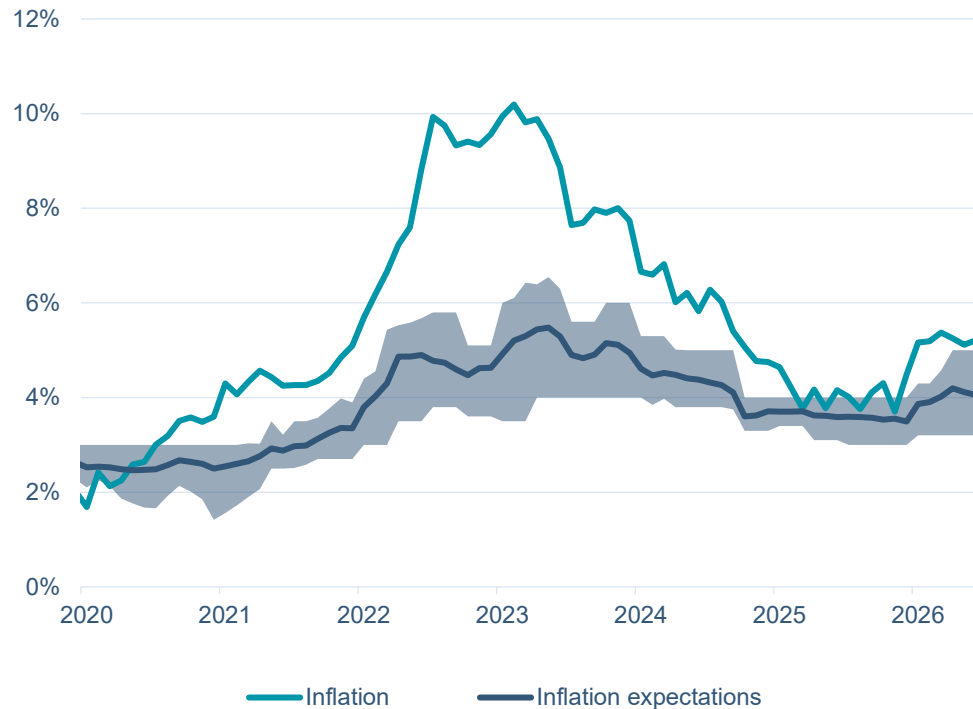
Two year breakeven rate



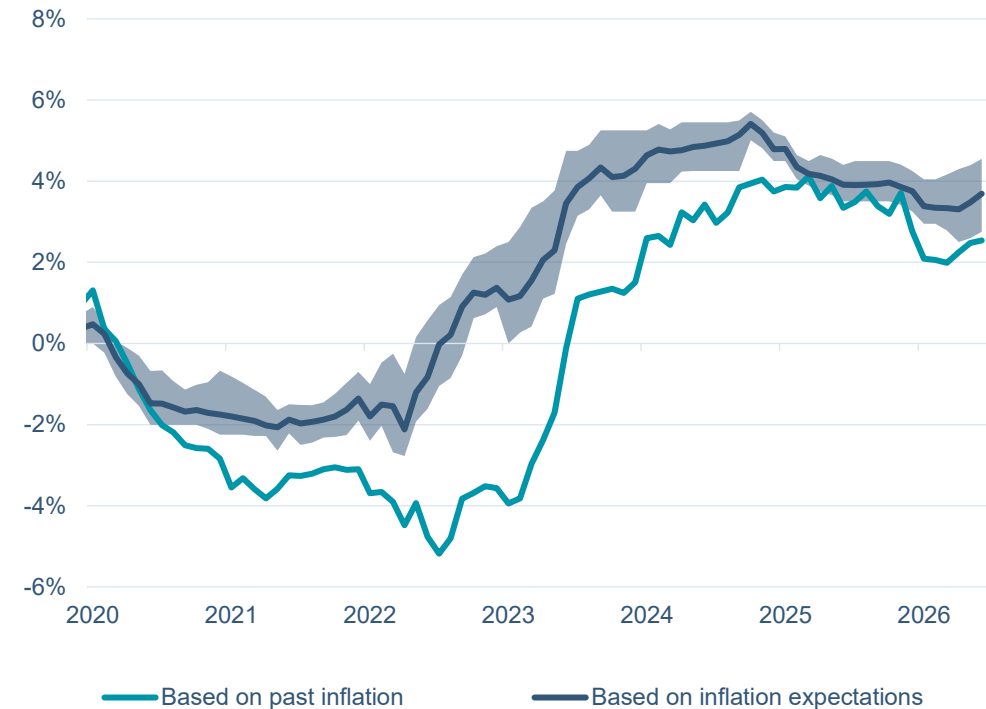
Inflation, inflation expectations and the real policy rate

The average of the main measures of inflation expectations was 4.1% in June (unchanged MoM). The real policy rate, based on past inflation, was 2.5% (unchanged MoM). Based on the average of the main measures of inflation expectations, the real policy rate was 3.7% (+0.2 pp MoM).

Inflation and inflation expectations



Real policy rate

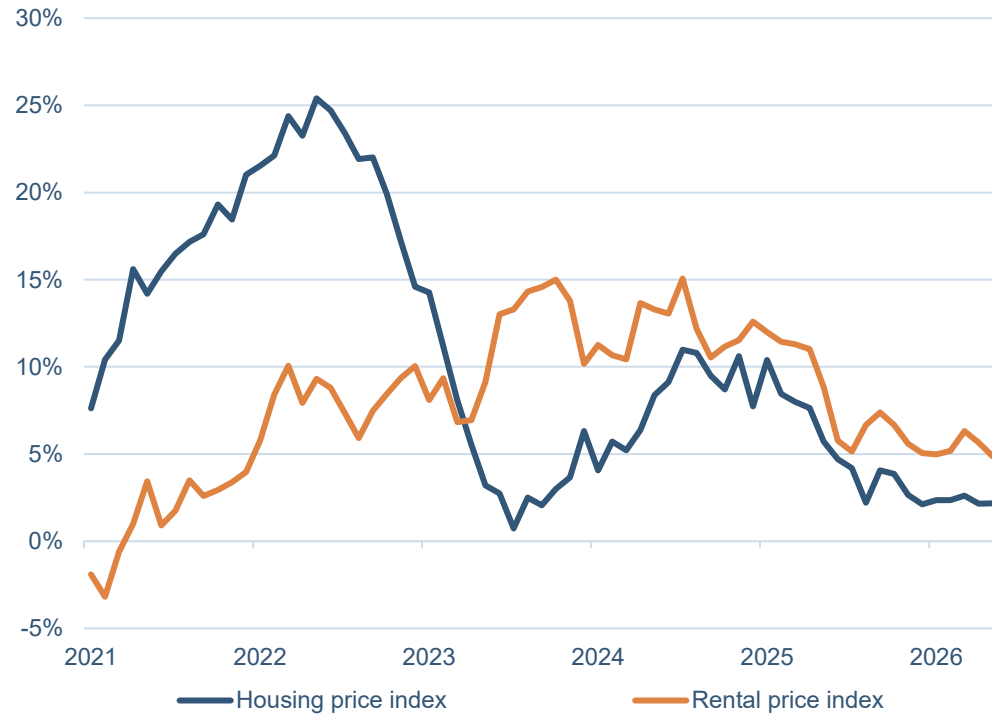


The real estate market

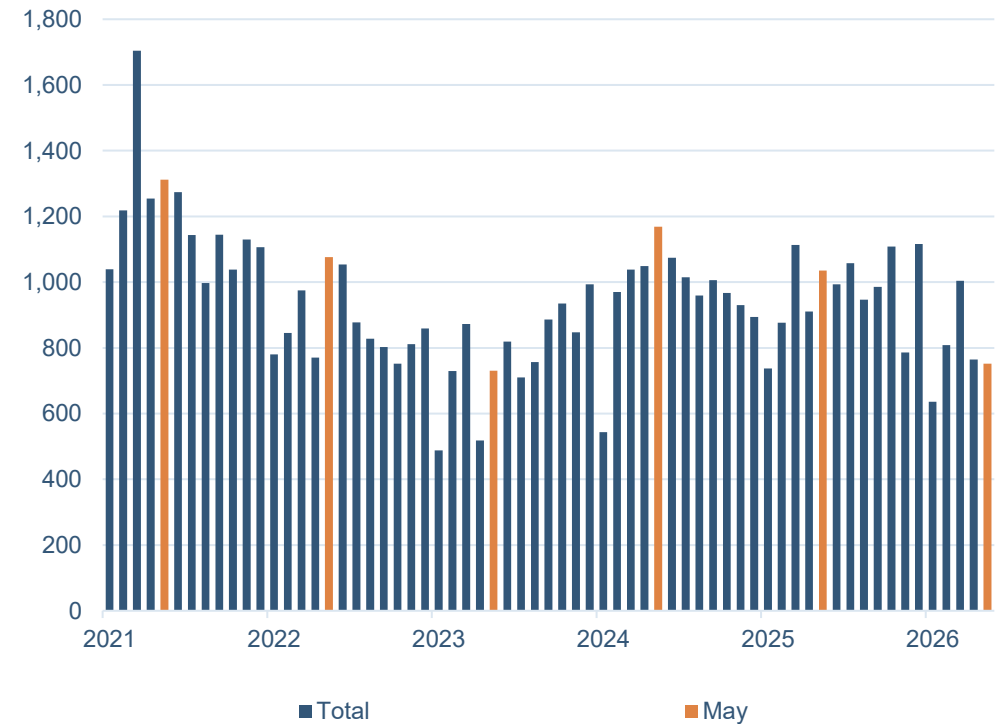
The housing price index fell by 0.4% between months in May and the annualised increase now measures 2.2%. Real housing prices have now decreased seven months in a row. If the housing price index is adjusted for general prices (the CPI excl. housing), the decrease in May amounts to 2.4% YoY. A total of 750 real estate purchase contracts were signed in May. This is a considerable decrease between years, or 27% compared with May 2025.

Housing and rental price index

YoY change



Signed purchase contracts *)

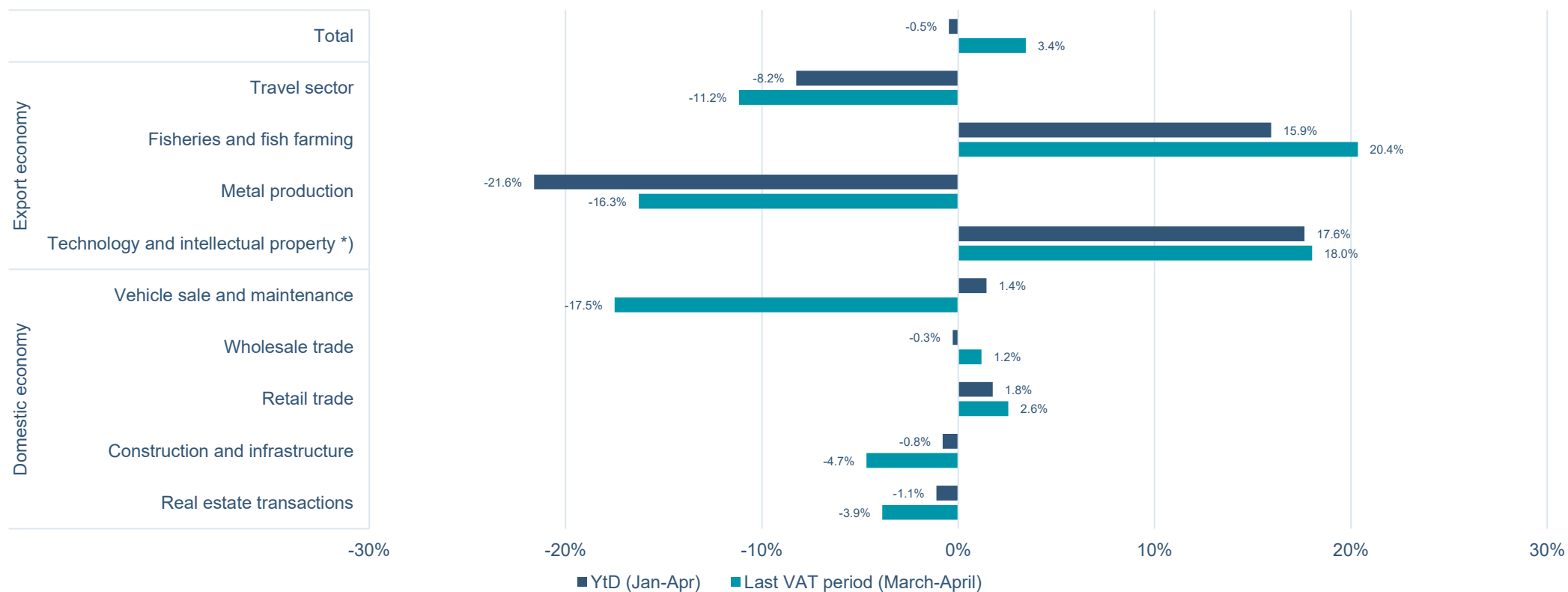


*) January 2024 to September 2024 is less Þórkatla buy-ups and purchases by the Grindavík populace
Source: The Housing and Construction Authority



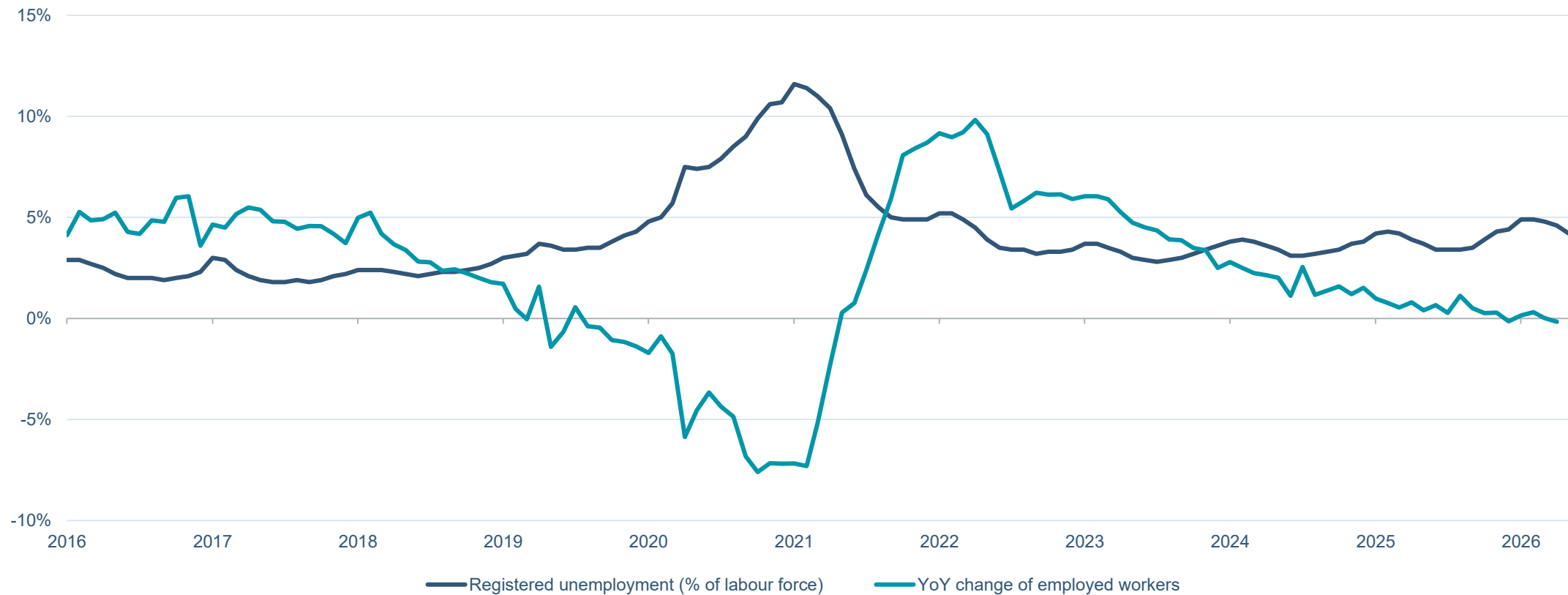
Turnover based on VAT reports

Turnover based on VAT reports contracted between years in real terms for the VAT period March- April because of capelin fisheries and aquaculture. Turnover grew in exports of technology and intellectual property, driven by expanded data centre operations. Turnover contracted in the travel sector, mainly as a result of lower turnover in air passenger transport through such factors as Play ceasing to operate last fall. Turnover also contracted in metal production due to a malfunction at Norðurál. Domestically there was a contraction in turnover in the vehicle sales - turnover was very high around the turn of the year due to changes in public levies. There was growth in both wholesale and retail, indicating that private consumption was still strong during the period. The contraction in construction and infrastructure is due mainly to lower turnover in projects under development.



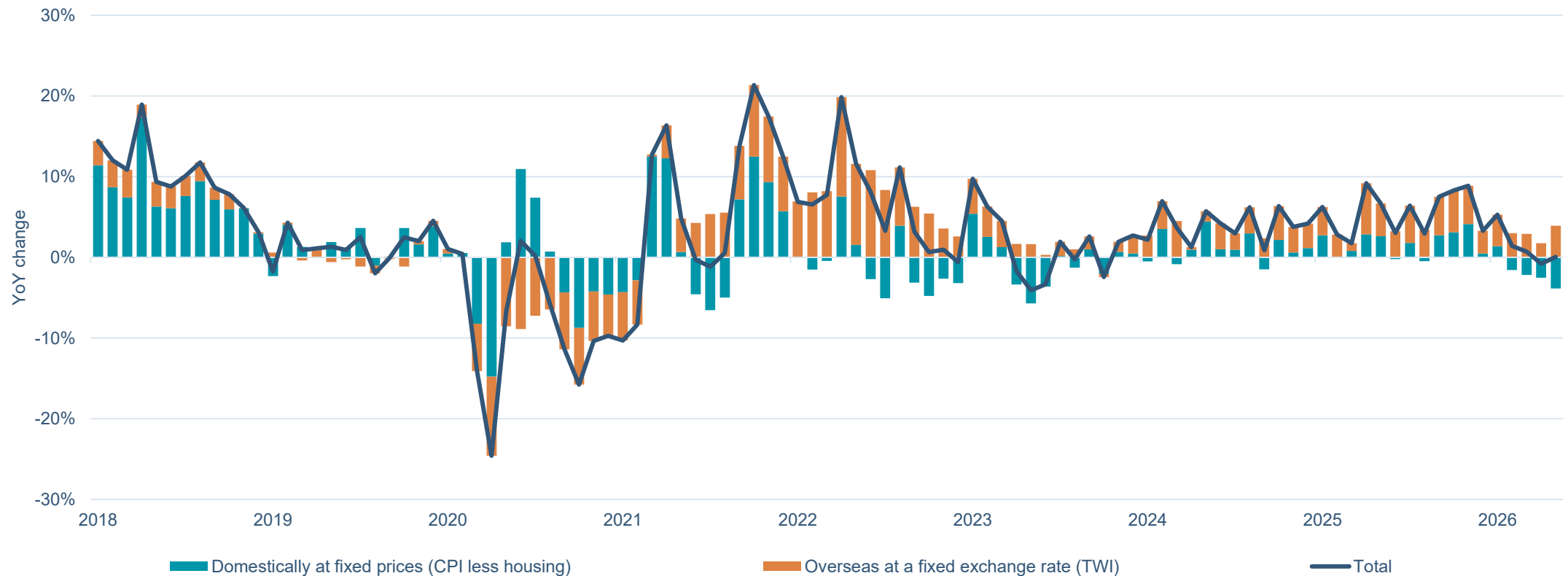
Unemployment and employed workers

Both figures on unemployment and employed workers based on tax register indicate that the labour market is slowing down. Registered unemployment was 4.2% in May, 0.5 percentage points higher than the same month last year. Registered employed workers are down by 0.2% between years in April. Statistics Iceland publishes employed workers in May on Friday, 16 July.



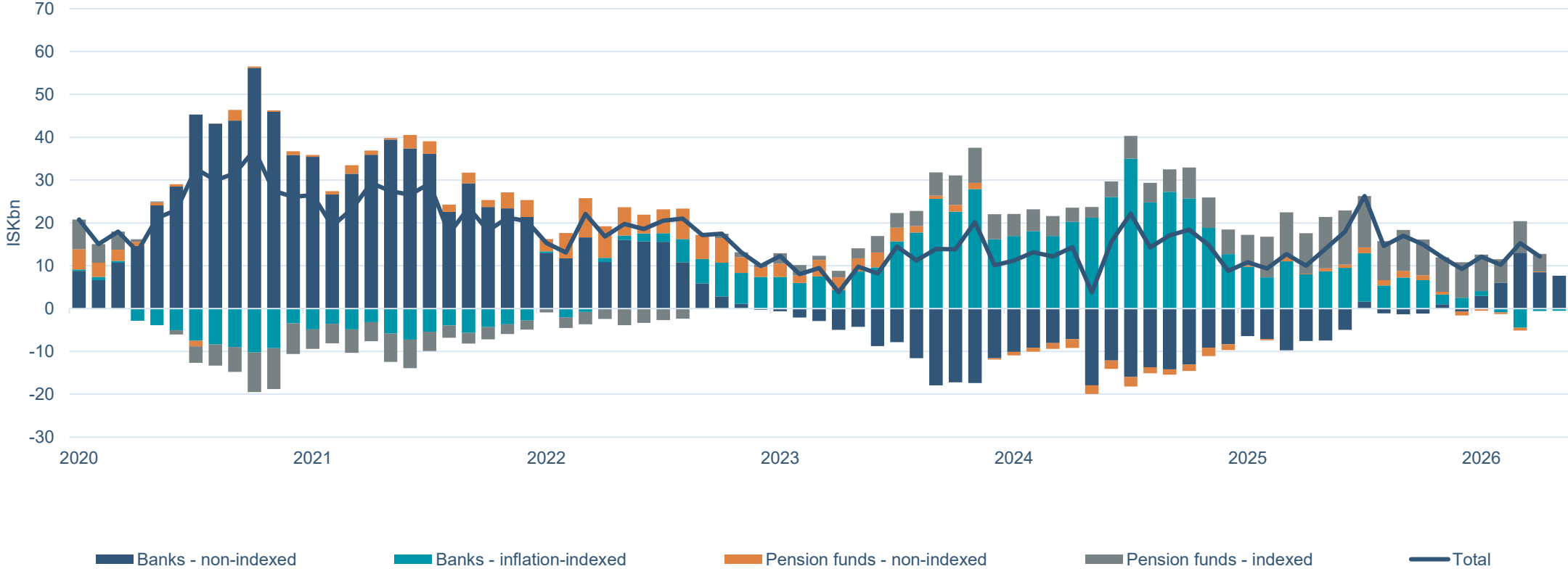
Payment card turnover of Icelandic households

The total payment card turnover of Icelandic households was ISK 130 bn in May and is up by 0.1% between years, having regard for price and exchange rate changes. The previous update reported a sharp contraction in payment card turnover in April, but the figures were revised when the May data were added. Domestic turnover contracted by 5% in May, more than at any other point since May 2023. This is the fourth month in a row that shows a contraction in domestic turnover but the contraction now was less than in the previous months. Overseas turnover grew by quite a bit, or by 18%, which is considerably more than in recent months.



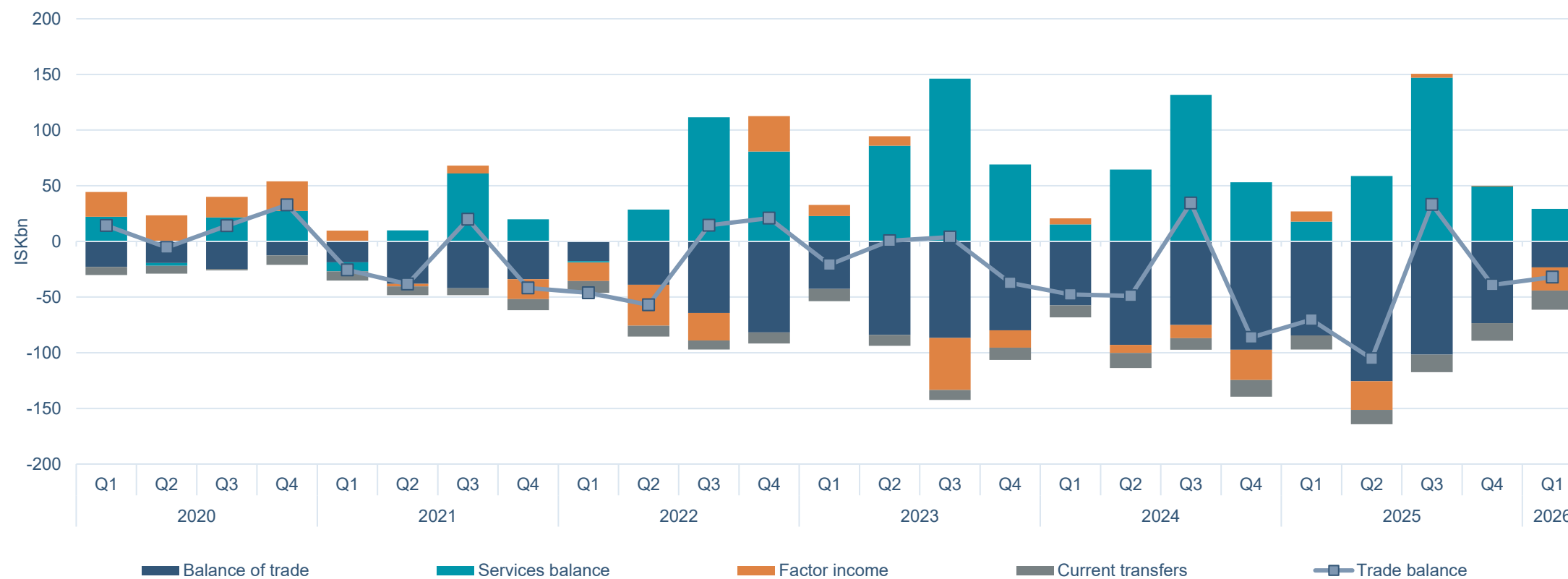
Net new housing mortgages

Net new mortgages by the commercial banks amounted to ISK 7.2 bn in May, whereof net new non-indexed mortgages were ISK 7.7 bn and net retirement of inflation-indexed mortgages were ISK 0.5 bn. May is the fifth month in a row where household borrowing from commercial banks is mainly non-indexed. Figures for net new lending by pension funds in May will be released on Tuesday, 7 July.



Balance of trade

In the first quarter, there was an ISK 32.1 bn deficit on the balance of trade, a considerable improvement on the same quarter in 2025, when the deficit measured over ISK 70 bn. The trade in goods deficit contracted between years and the surplus on the services balance increased. There was a deficit on factor income in Q1 of this year compared to a surplus in the same period last year.

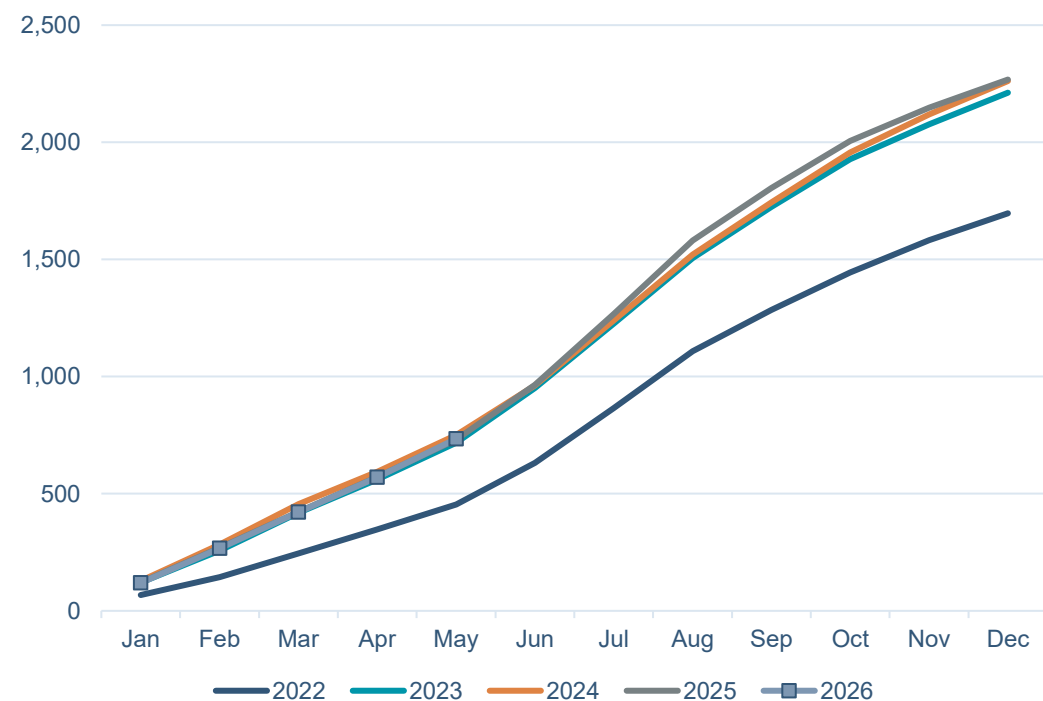


The travel sector

Around 164.000 non-domestic travellers passed through Leifsstöð International Airport in May, 2.7% more than in May 2025. The number of foreign travellers this year to date is almost the same as in the same period last year, or 0.4% higher. Non-domestic payment card turnover contracted by 2.1% between years at fixed prices but increased by 4.4% at a fixed exchange rate in May. Overnight hotel stays by foreigners increased by 1.8% between years.

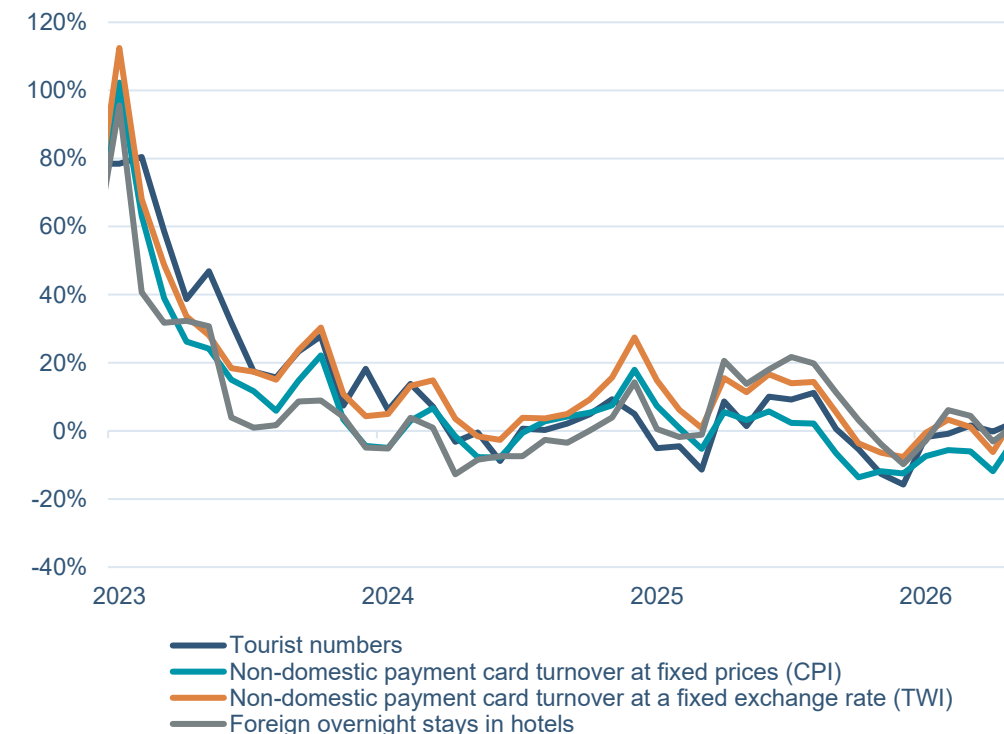
Acc. tourist numbers

Thousand individuals



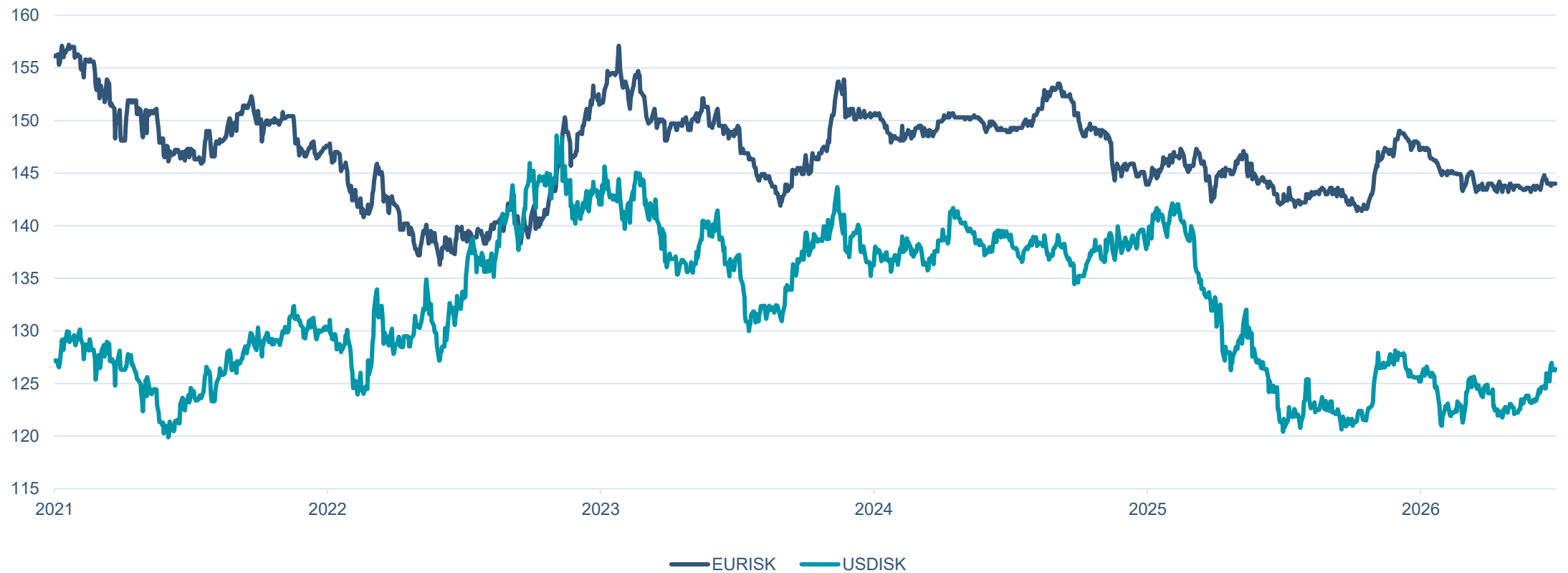
Development of key indicators

YoY change



ISK exchange rate

The Icelandic króna has remained very stable against the euro in recent months. The króna depreciated slightly against the euro in June, with the euro trading at ISK 144.0 at the end of the month (+ISK 0.6 over the month). The króna depreciated much more against the U.S. dollar, which stood at ISK 126.4 at the end of the month (+ISK 3.2 over the month).



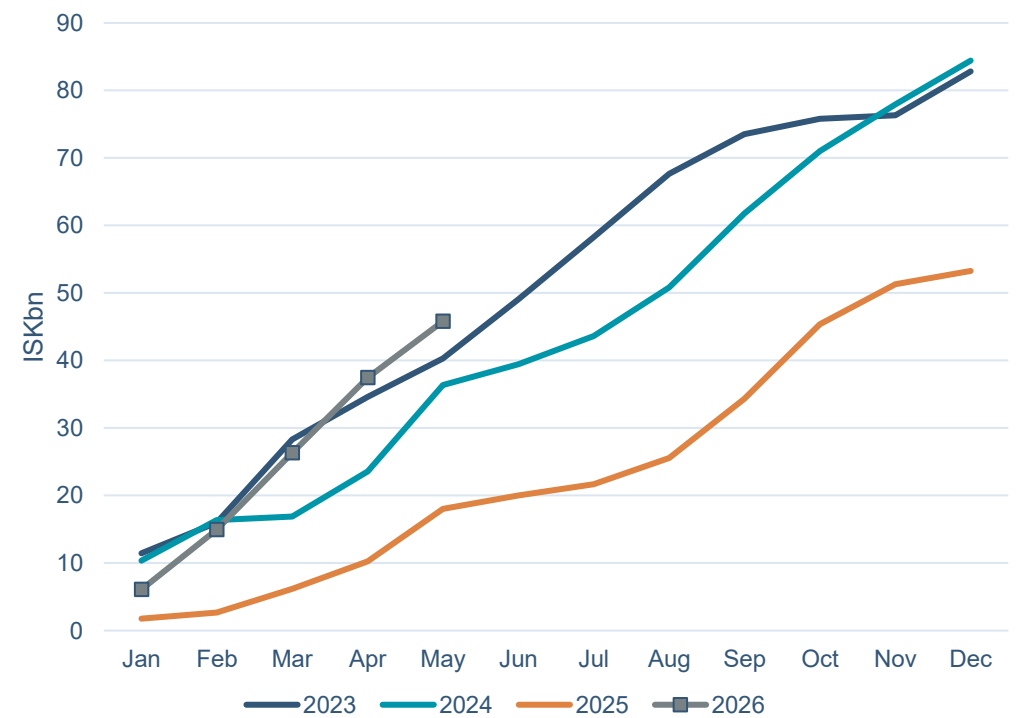
FX trade of the CBI and pension funds

Apart from its regular foreign exchange purchases, the Central Bank did not intervene in the foreign exchange market in June. Pension funds purchased ISK 45.8 bn in foreign currency during the first five months of the year, the highest amount they have purchased over this period since 2019.

Activity by the Central Bank of Iceland



Acc. annual FX purchases of pension funds



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