



INFLATION FORECAST

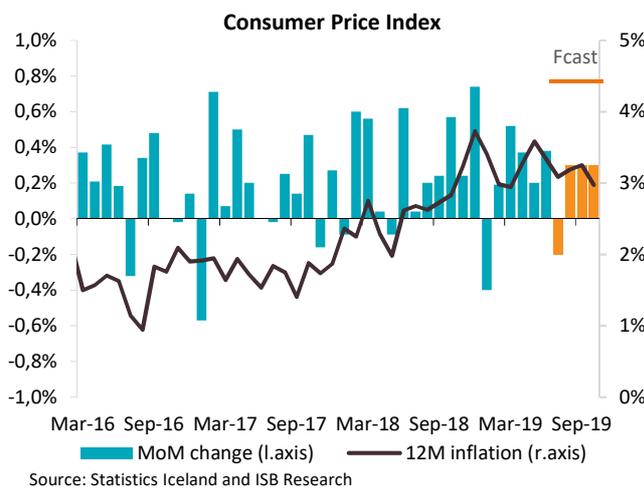
10.7.2019 | Íslandsbanki Research

Summary

- We forecast a 0.2% decline in the CPI in July
- Headline inflation to measure 3.1% in July, down from 3.3% in June
- Summer sales push downwards
- Seasonal rise in airfares pushes upwards
- Disinflation expected in coming quarters
- Inflation projected at 2.7% by end-2019 and 2.8% by end-2020

	1m	3m	6m	12m	24m
Change in the CPI	-0.2%	0.4%	1.4%	2.8%	5.9%
Annualised	-2.4%	1.6%	2.9%	2.8%	2.9%
	2018			2019	2020
Inflation at yr-end (Dec-Dec)	3.7%			2.7%	2.8%
Average YoY inflation	2.7%			3.1%	3.0%
Average YoY wage rise	6.0%			5.6%	5.0%
Imputed rent (owner-occupied housing costs), YoY rise	6.5%			2.6%	3.5%
Trade-weighted exchange rate index (TWI) (yearly average)	166.7			182.8	185.0

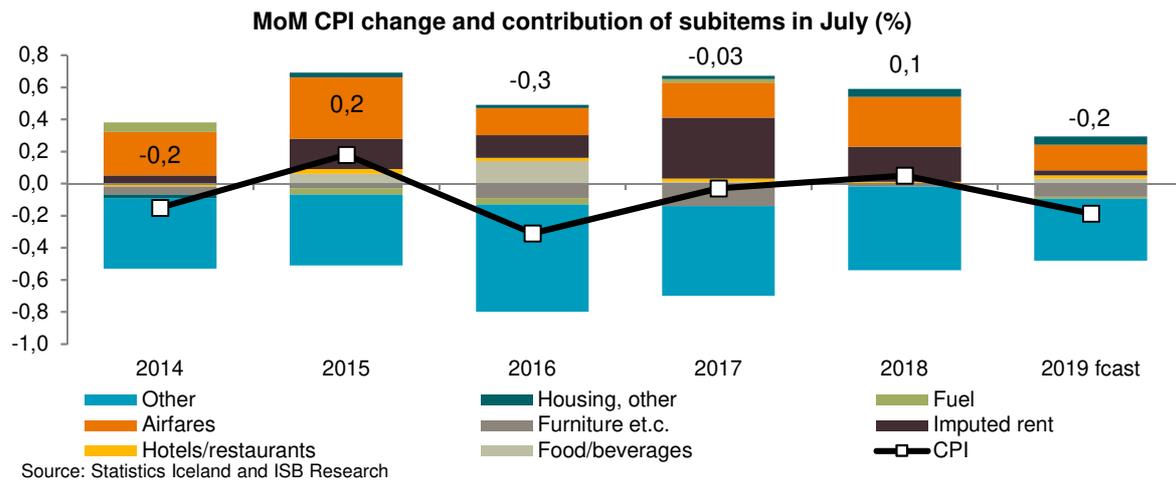
We forecast a 0.2% decline in the CPI in July



We project that the consumer price index (CPI) will fall 0.2% month-on-month in July, and that twelve-month inflation will fall correspondingly, from 3.3% in June to 3.1% in July. The outlook is for inflation to ease somewhat in coming quarters, owing to a slowdown in house price inflation and a more favourable outlook for wage developments. We expect it to measure 2.7% at year-end 2019 and 2.8% at the end of 2020 and 2021. Statistics Iceland (SI) will publish the July CPI at 9:00 hrs. on 22 July.

Summer sales the main driver of disinflation

Seasonal sales are in full swing at the moment and have a strong downward impact the CPI in July. The most prominent single downward-pushing item is clothing and footwear prices, which we project to fall 11% MoM (-0.5% CPI effect), about the same as during the past few summers. In addition, we expect furniture and housewares prices to fall by about 2% (-0.01%), and we expect petrol prices to fall as well between months, lowering the CPI by another 0.01%.



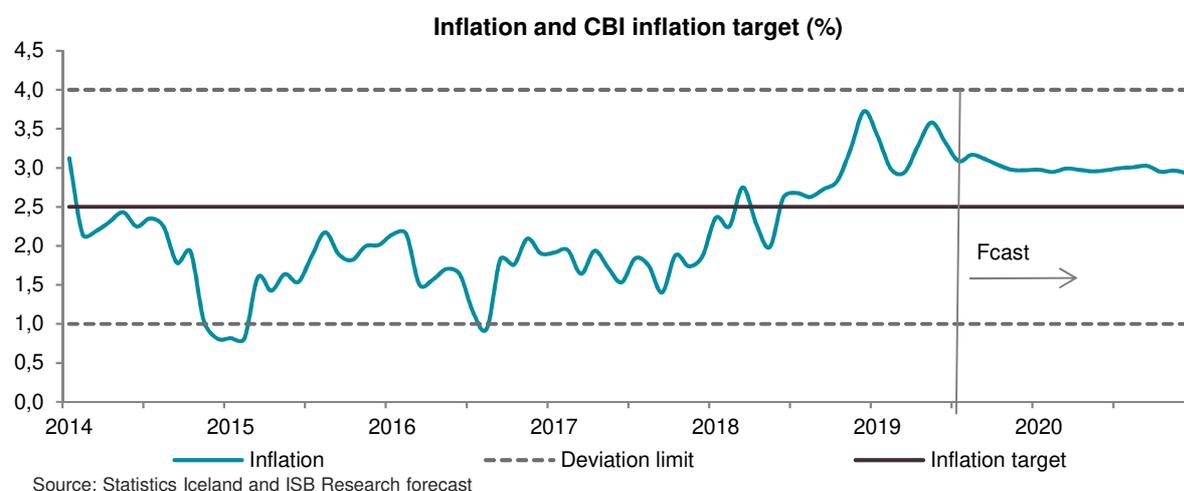
The main upward-pushing item this month is international airfares, which have a tendency to spike during the peak summer season. Our measurements suggest that air transport prices will rise 9% in July (0.2% CPI effect), well below the five-year average July increase of 21%.

Housing market in equilibrium?

We forecast that the housing component of the CPI will rise by 0.30% MoM in July (0.08% CPI effect), with imputed rent — mainly a reflection of house prices — rising by 0.20% (0.03%) and paid rent by 0.40% (0.02%). House price inflation has been much more modest in 2019 to date than it was beforehand. The supply of residential housing has been increasing steadily, and demand has eased. This indicates that the residential housing market may be reaching a sort of balance that will presumably prevail in coming months.

Inflation outlook clearing up

We think that inflation has peaked for the present and that the inflation outlook is likely to improve in the near future. We forecast that the CPI will rise by 0.3% in August, 0.3% in September, and 0.3% in October, leaving headline inflation at 3.0% in October. End-of-sale effects will make an impact on the CPI in August and September, but we expect this to be offset to a degree by a seasonal drop in airfares.





Thereafter, we expect inflation to ease in Q4/2019, measuring 2.7% – within striking distance of the CBI inflation target – at the year-end. We then expect it to measure 2.8% at the end of both 2020 and 2021. There are two main uncertainties in our forecast: a potential depreciation of the ISK and wage demands in still-outstanding labour market negotiations. On the other hand, developments in house prices could lead to lower inflation than we have forecast here.

Umsjón og tengslaupplýsingar

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Lagalegur fyrirvari

Skýrsla þessi er tekin saman af Greiningu Íslandsbanka hf. (Íslandsbanki).

Upplýsingar í skýrslu þessari eru upprunnar frá innlendum og erlendum upplýsinga- og fréttaveitum, sem taldar eru áreiðanlegar, ásamt opinberum upplýsingum, eigin úrvinnslu Greiningar og mati á hverjum tíma. Upplýsingarnar hafa ekki verið kannaðar sjálfstætt af Íslandsbanka og ábyrgist bankinn ekki nákvæmni upplýsinganna, áreiðanleika eða réttmæti þeirra. Skoðanir höfunda geta breyst án fyrirvara og ber Íslandsbanka ekki skylda til að uppfæra, lagfæra eða breyta skýrslunni við breyttar forsendur.

Skýrslan er einungis birt í upplýsingaskyni og skal því ekki litið á hana sem ráðleggingu/ráðgjöf um að ráðast eða ráðast ekki í tiltekna fjárfestingu eða tilboð um að kaupa, selja eða skrá sig fyrir tilteknum fjármálagerningum. Íslandsbanki og starfsmenn bankans bera ekki ábyrgð á viðskiptum sem kunna að vera gerð á grundvelli þeirra upplýsinga sem fram koma í skýrslunni. Þeim aðilum sem hafa hug á viðskiptum er bent á að leita sér sérfræðilegrar ráðleggingar og kynna sér vel hina ýmsu fjárfestingarkosti sem í boði eru. Fjárfestingum fylgir ávallt fjárhagsleg áhætta og ber m.a. að hafa í huga áhættu vegna alþjóðlegra fjárfestinga og gengisflökts gjaldmiðla. Fjárfestingamarkmið og fjárhagsstaða fjárfesta er mismunandi. Bent skal á að árangur í fortíð er ekki trygging um árangur í framtíð.

Skýrslur og aðrar upplýsingar sem berast frá Íslandsbanka eru einungis ætlaðar til einkanota. Hvorki má afrita efnið, vitna í það né dreifa því, í heild eða að hluta, án skriflegs leyfis frá Íslandsbanka.

Skýrsla þessi er stutt samantekt og ber ekki að líta svo á að í henni sé að finna allar tiltækar upplýsingar um þau viðfangsefni sem hún fjallar um.

Eftirlitsaðili: Fjármálaeftirlitið (www.fme.is).

BANDARÍKIN

Skýrslu þessari eða afritum hennar má ekki dreifa í Bandaríkjunum eða til viðtakenda sem eru bandarískir ríkisborgarar í andstöðu við takmarkanir sem kveðið er á um í bandarískum lögum. Dreifing skýrslunnar í Bandaríkjunum kynni að teljast brot á þeim lögum.

KANADA

Upplýsingarnar í skýrslu þessari eru ekki ætlaðar til dreifingar eða útbreiðslu með neinum hætti í Kanada og því ber ekki að líta á þær sem fjármálaráðgjöf eða ráðleggingu um fjárfestingar í skilningi kanadískra verðbréfalaga.

ÖNNUR LÖND

Lög og reglugerðir í öðrum löndum kunna einnig að takmarka dreifingu skýrslu þessarar.