Economic indicators

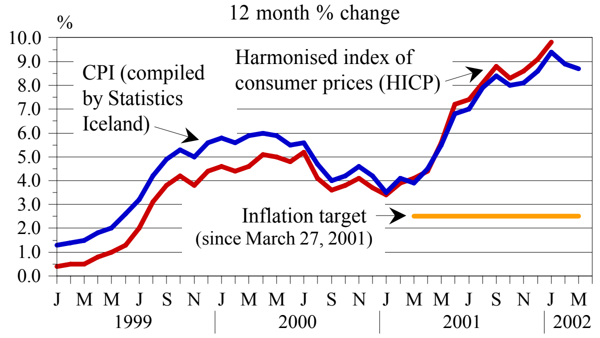
Central Bank of Iceland
March 2002

I Inflation

Fig. 1

Consumer prices

12 month % change

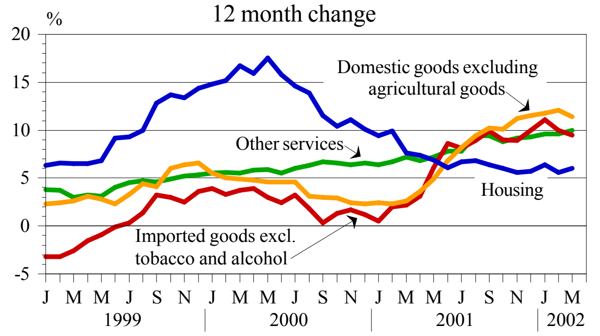


The CPI rose by 8.7% over twelve months to March. The HICP rose 9.8% in the 12 months to January.

Fig. 2

CPI by origin

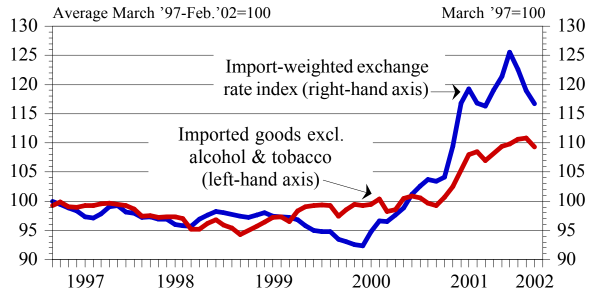
12 month change



Prices of domestic goods excluding agricultural products rose by 11.4% during the twelve months to March, prices of imported goods rose by 9.7%, residential housing prices by 6% and prices of private sector services by 10%.

Fig. 3

Price of imported goods in the CPI and import-weighted exchange rate of the króna



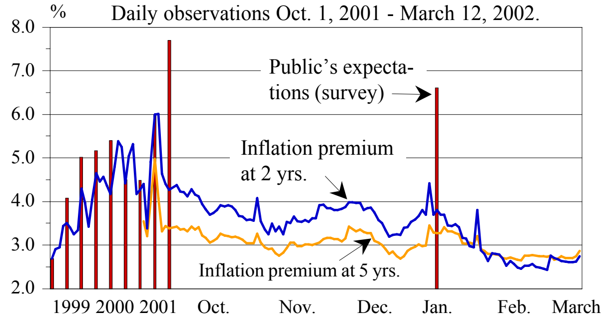
Last year, price increases of imported goods did not fully reflect the depreciation of the króna, but following recent appreciation of the króna the gap is closing rapidly.

Fig. 4

Inflation expectations

At month-end 1999- Sept. 2001.

Daily observations Oct. 1, 2001 - March 12, 2002.



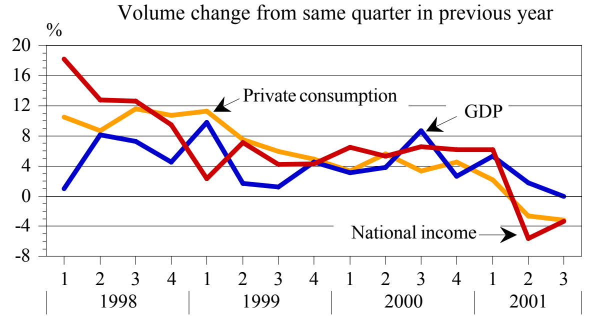
In February, the inflation premium on 2-year non-indexed treasury bonds was on average 2.6% and 2.8% on 5-year bonds. In January, the public expected an inflation of 6½% on average.

II Production and turnover

Fig. 5

Quarterly national accounts data

Volume change from same quarter in previous year

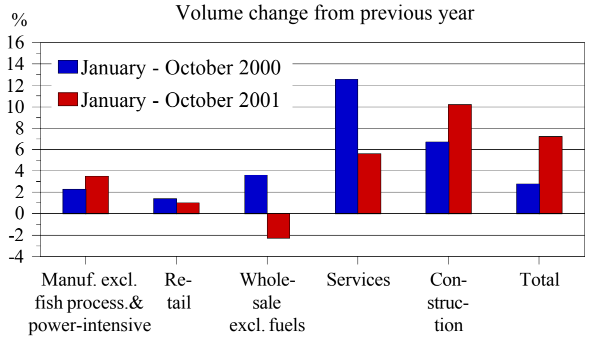


Economic growth in the Q3 had slowed significantly down from Q1. GDP was unchanged from year ago. National expenditures contracted by 3.3% and imports by 4.5%. Exports expanded by 3.6%.

Fig. 6

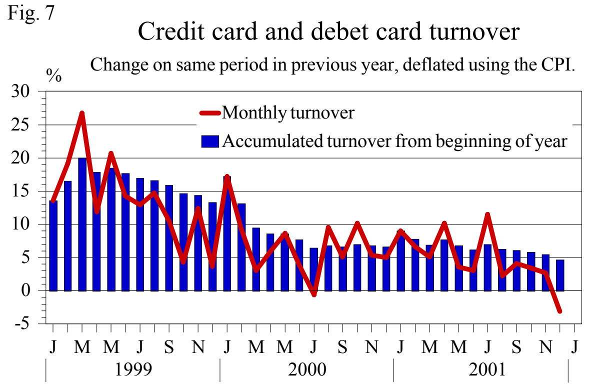
Turnover according to VAT-statements

Volume change from previous year



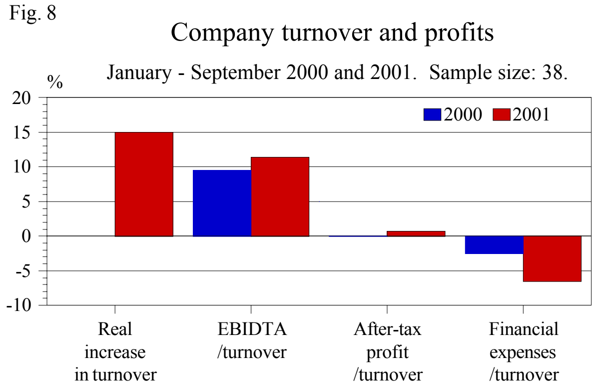
In the first ten months of last year the total turnover in the economy was 7.2% higher in real terms than in the same period 2000. This is to a large extent explained by a large increase in turnover in the export industry (12.7%). Turnover in the domestic sectors, on the other hand, rose only 2.3% in real terms. Total turnover in Sept.-Oct. 2001 rose 9.5% in real terms from year ago, turnover in the export industry by 16.5%, but in the domestic sector turnover fell.

Fig. 7



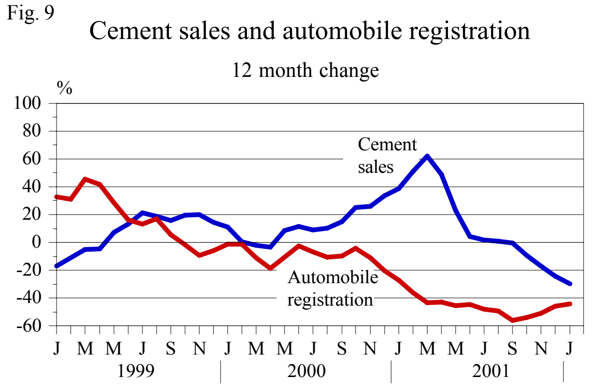
Credit card turnover rose 4% in real terms between 2000 and 2001. Turnover in domestic transactions rose by 5.4% in real terms, but foreign turnover fell by 16.3%. In December 2001, turnover was 2.5% lower in real terms than year ago.

Fig. 8



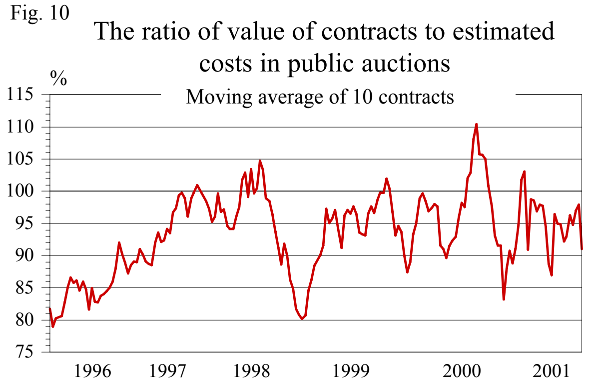
According to the financial statements of all plc companies for Q1-Q3 of 2001, their performance measured in terms of operating profit before depreciation (EBITDA) turned out better than anticipated. After tax profit were in the red in 2000 but were slightly positive in 2001. The turnover of the plc companies rose by 20% and by 15% in real terms.

Fig. 9



The sale of cement has declined from its year ago level. In January sales were one-third lower than in January 2001. Cars imports in January were 36% lower than year ago. The rate of decline, however, has moderated.

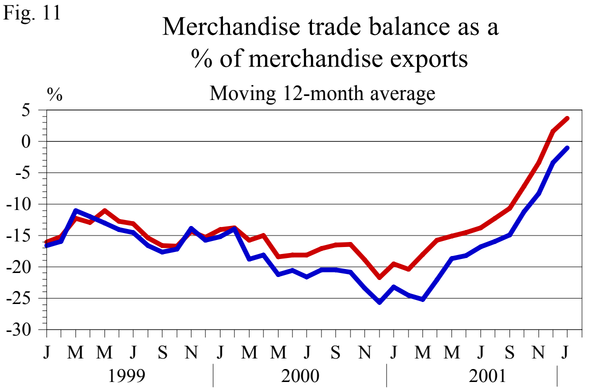
Fig. 10



Negotiated prices have recently been 5%-10% below cost estimates.

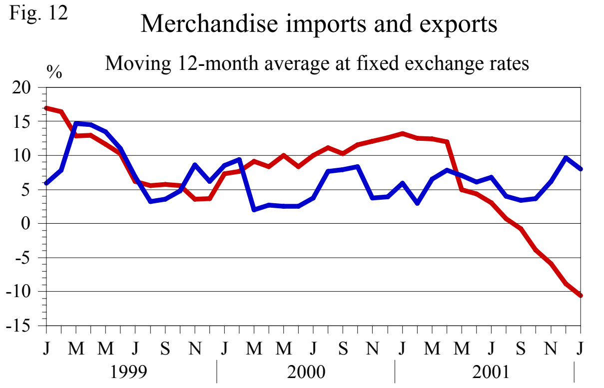
III Foreign trade and external conditions

Fig. 11



In 2001, the merchandise trade deficit was 6.7 billion króna compared to 38 billion the year before. Excluding ships and aircraft the deficit was 3 billion króna.

Fig. 12



In 2001, exports grew by 10% at fixed exchange rate, but imports contracted by 10%.

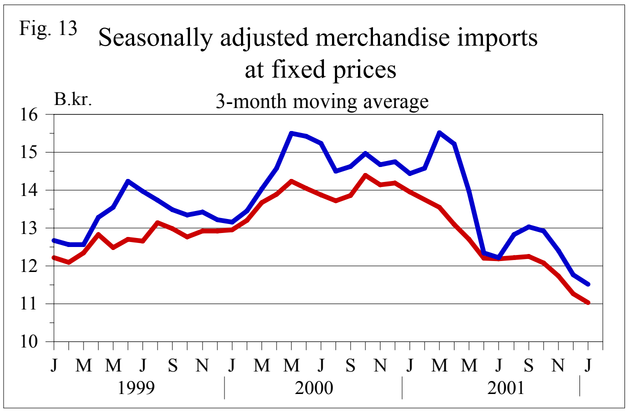


Fig. 13 Seasonally adjusted merchandise imports at fixed prices

Abstracting from volatile trade in aircraft and vessels, seasonally adjusted imports have been on a declining trend for over a year.

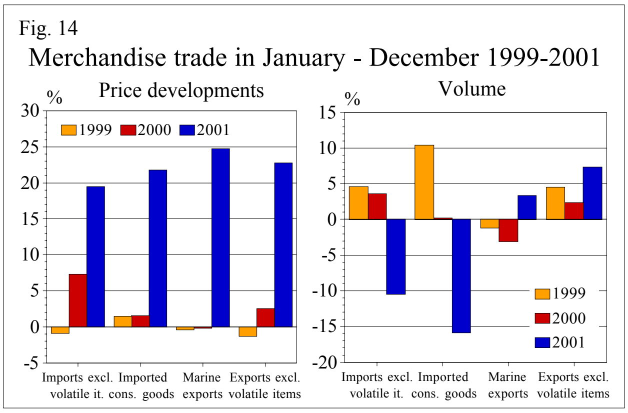


Fig. 14 Merchandise trade in January - December 1999-2001

Last year the volume of export rose by slightly less than 7% and prices by 23%, mainly due to depreciation of the króna. Export of marine goods rose by 3½% and export of manufactured goods by 16%. The volume of consumer imports contracted by 16%.

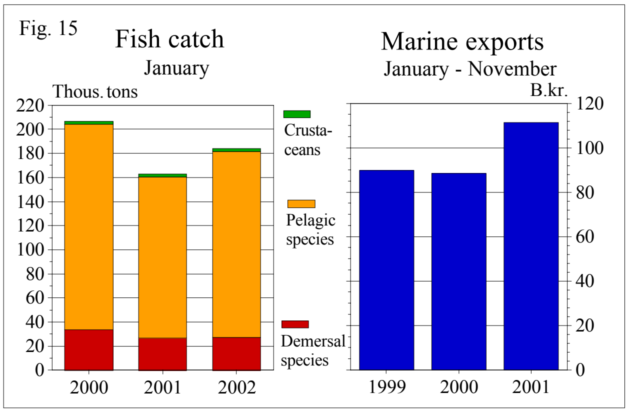


Fig. 15

The fish catch in January was fairly good, about 13% higher than in January 2001. The ground fish catch increased slightly and the catch of capelin surged. Seemingly, the entire capelin quota will be harvested this season.

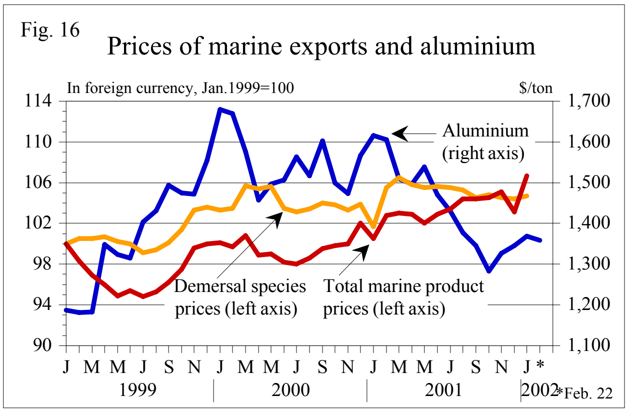


Fig. 16 Prices of marine exports and aluminium

Prices of marine products are strong and have been gathering strength in recent months. Ground fish prices measured in terms of foreign currency were 3% higher in January than year ago, the prices of fish meal and oil were 36% higher and herring product prices (salted and frozen fillets) about 48% higher. Aluminium prices have recently been 10-15% higher than at the low in late autumn.

IV Labour market

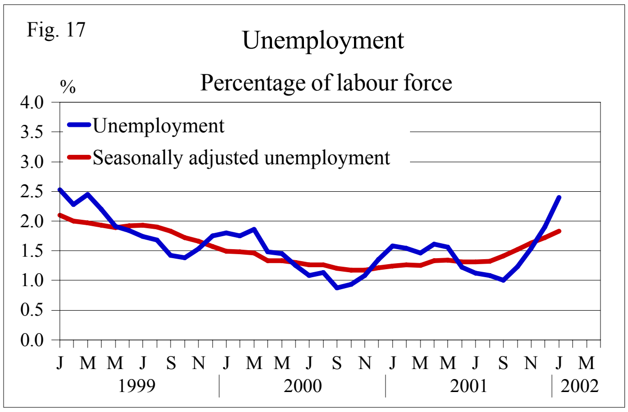


Fig. 17 Unemployment

In 2001, unemployment was on average 1.4% and 2.4% in January 2002. Seasonally adjusted unemployment has risen gradually since late 2000 and was 1.8 in January.

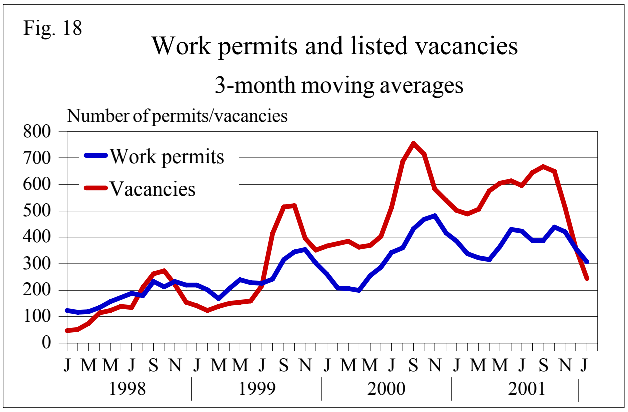
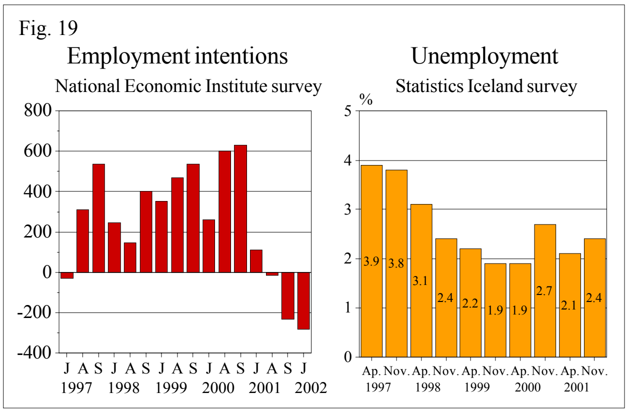
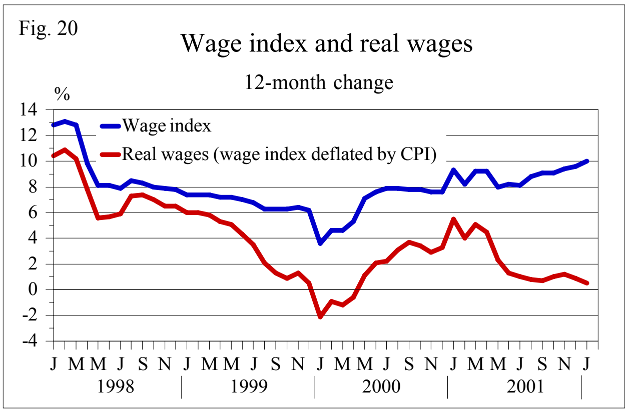


Fig. 18 Work permits and listed vacancies

Number of work permits (particularly new ones) and listed vacancies at employment agencies has declined in the second half of last year.

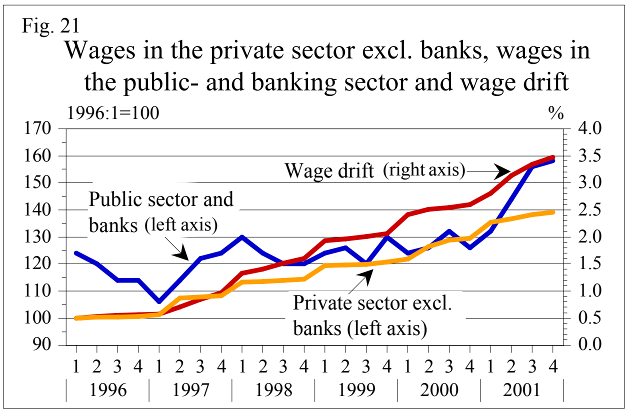


The recent labour market survey conducted by the National Economic Institute indicates that the labour market is getting less tight. The number of workers employers want to lay off, according to the January survey, amounts to 0.4% of the estimated labour force.

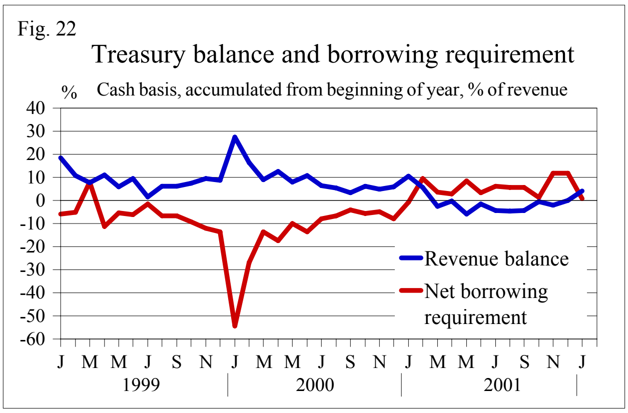


The wage index rose by 10% over twelve months to January 2002, which implies an increase in real wages of ½%.

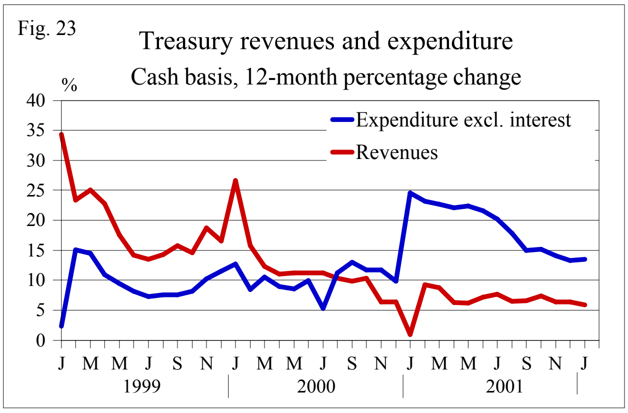
V Public finances



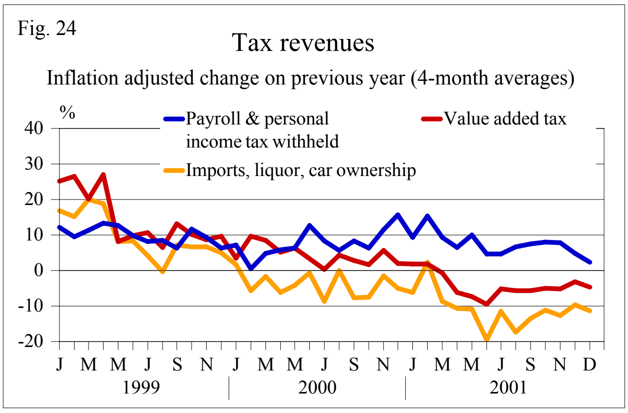
The wage index for public sector and bank employees rose by 12.3% in one year to the fourth quarter of 2001. Wages in the non-financial private sector rose by 7.3%. Wage drift in the non-financial private sector measured 3.4% over the same period.



Payments on outlays exceeded revenue collections by half a billion in 2001. Ignoring privatisation receipts, a 11½ b.kr. surplus in 2000 turned to deficit of 1½ b.kr in 2001. In November, 25 b.kr. were placed with the Central Bank to shore up reserves, accounting for the bulk of a 25½ b.kr. net borrowing requirement. Net foreign borrowing of 34 b.kr. was used to lower domestic claims and public sector pension claims.



Revenue collection in 2001 was 6½ per cent higher in nominal terms than in 2000. Personal income- and payroll taxes were up by 14%, other wealth and income taxes by 8%, but taxes on consumption and imports were unchanged in spite of 6½% higher consumer prices. Nominal spending was up by 13%, compared to a budgeted increase of 8%. Two thirds of the excess can be attributed to higher inflation, the rest mostly to a court decision on minimum pension rights.



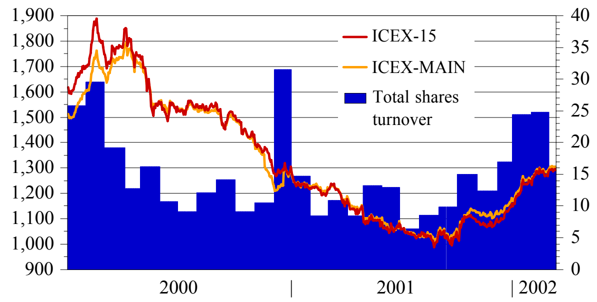
Import-related taxes keep falling sharply, even if somewhat slower than in mid-2001. The decline in real VAT-receipts is milder but clear, and the rise in inflation-adjusted personal income- and payroll taxes seems to be grinding to a halt.

VI Exchange rates and asset prices

Fig. 25

The equity market

Monthly turnover and daily equity prices on ICEX

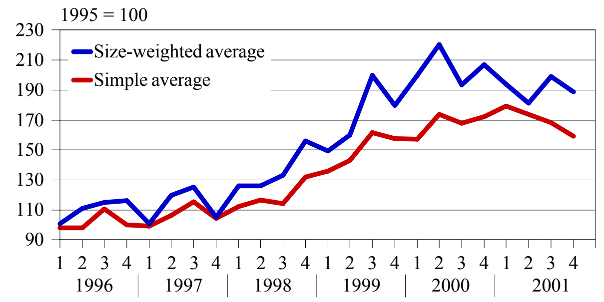


There has been a marked shift on the equity market in recent weeks. Prices are up by 12% since the beginning of the year and by 30% from the low in September 2001. The turnover was nearly 140% higher in the first 70 days of this year than year ago. This is explained by improving financial performance of the plc companies, especially in the export sector and banking, as well as growing optimism concerning exchange rate stability.

Fig. 26

Commercial property prices

Quarterly, inflation-adjusted prices in Greater Reykjavík Area

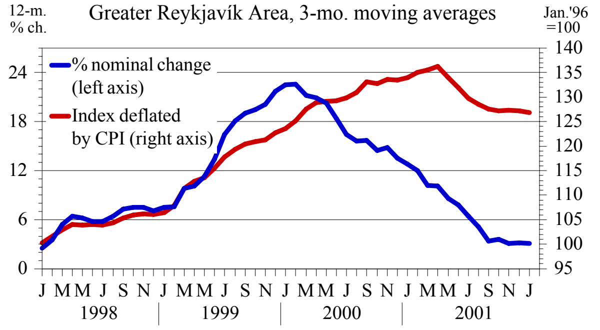


There are signs that the rise in inflation-adjusted prices of commercial real estate in the Reykjavík region is reversing. However, the number of observations in each quarter is very low. Hence, small changes should be interpreted with care.

Fig. 27

Residential housing prices

Greater Reykjavík Area, 3-mo. moving averages

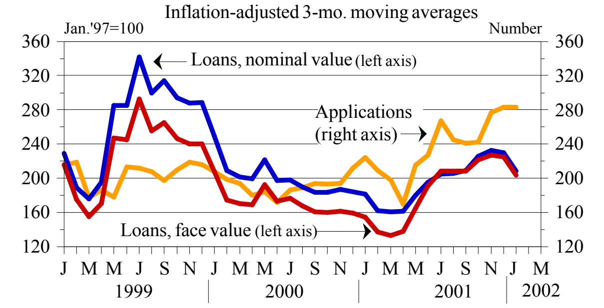


The rate of increase in house prices has moderated in the last two years. The three months moving average of residential housing prices in the Capital area rose by 4.5% in twelve months to January.

Fig. 28

Housing Financing Fund: Value of granted loans and the number of loan applications for new and renewed housing

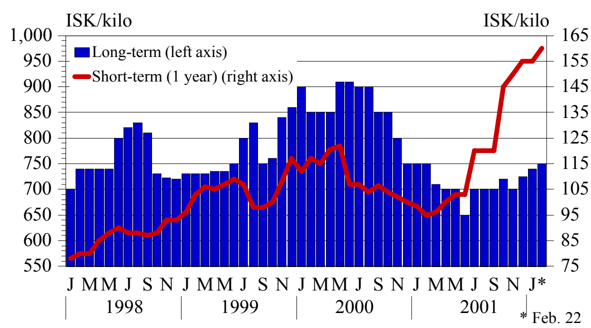
Inflation-adjusted 3-mo. moving averages



The number of granted housing loans for new homes and renovations is higher in recent months than last year. The value of housing bonds issued has also increased in recent months due to rising number of sales.

Fig. 29

Price of long-term and short-term cod quota

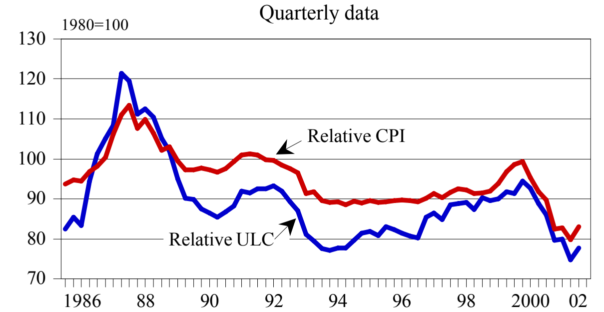


The price of short-term quota has recently been more than 1/3 higher than on average in 2001 and the price of long-term quota 6% higher. Turnover is however low due the uncertainty on the transferability of quotas in the future, foul weather and poor catch in the last 2-3 weeks.

Fig. 30

Real exchange rate of the króna 1986:I-2002:I

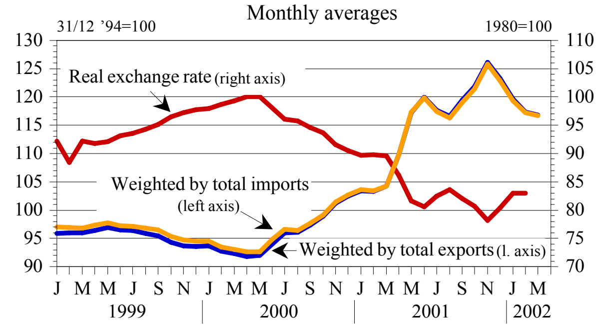
Quarterly data



In the fourth quarter of 2001, the real effective exchange rate of the króna (relative CPI) had declined 11% from year ago and was 14% below ten-years average.

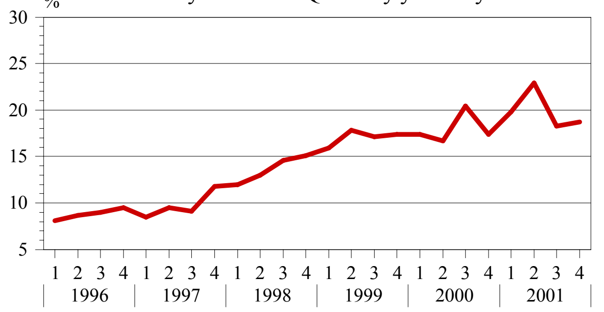
VII Monetary aggregates, credit and interest rates

Fig. 31
Nominal and real effective exchange rate of the króna
Monthly averages



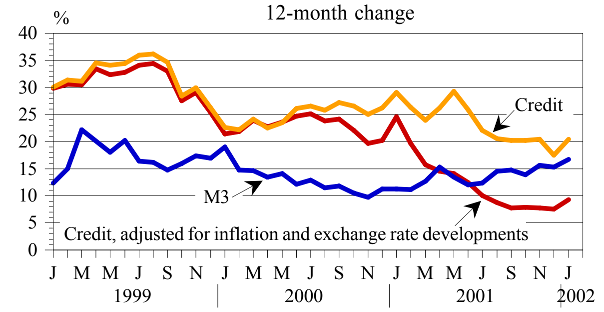
The exchange rate of the króna was on average 17% lower in 2001 than 2000 and depreciated by slightly less than 15% from beginning to end of 2001. Recently, the exchange rate of the króna has been approximately 3% higher than at the end of 2001 and roughly 9% higher than at the low point in late November.

Fig. 32
Credit growth
Credit system total. Quarterly year on year.



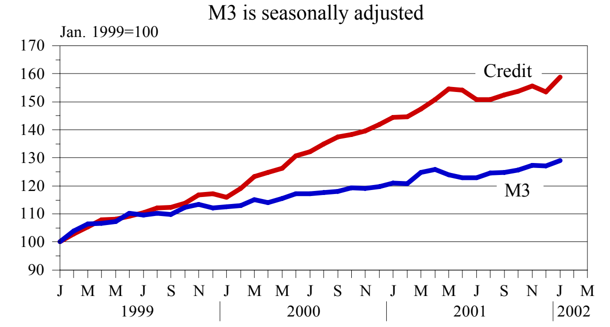
The 12-month growth of lending by the credit system increased marginally between September and December 2001, despite significant decline in bank credit. Total credit grew by 18.7% in 2001. Robust growth of housing loans during the last three months of the year and increasing credit of public loan funds are the main reasons.

Fig. 33
Growth of M3 and bank credit
(excluding marketable securities)
12-month change



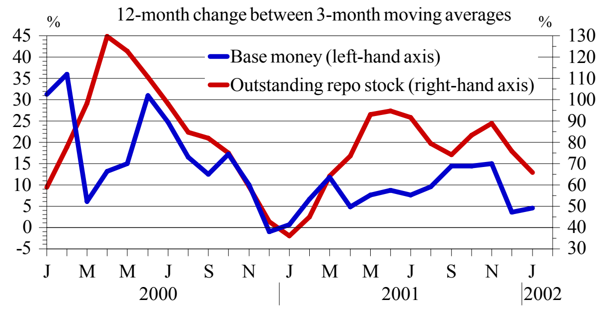
Change to January 2002 (%)		Credit	
	M3	non-adj.	adjusted
Last change (M3 seasonally adjusted):	2.1	0.8	1.0
Change over 3 months, annualised (M3 seasonally adjusted):	19.8	11.2	14.5
Change over 12 months:	16.7	18.5	9.3

Fig. 34
Real growth of M3 and bank credit
M3 is seasonally adjusted



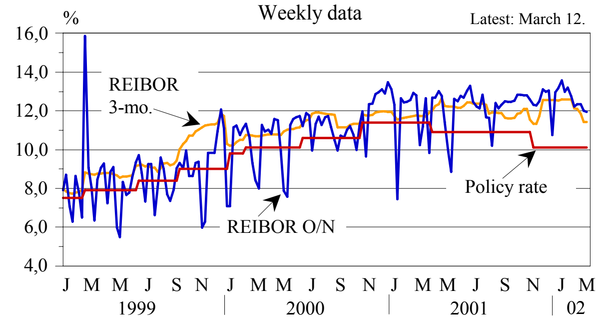
Change to January 2002 (%)	M3	Credit
Last change (M3 seasonally adjusted):	1.5	3.4
Change over 3 months, annualised (M3 seasonally adjusted):	11.3	13.8
Change over 12 months:	6.7	10.0

Fig. 35
Base money and repurchase agreements with the Central Bank
12-month change between 3-month moving averages



In January, the 12-month increase in the Bank's base money was 4½% (three month moving averages). Over the same period, repurchase agreements increased by more than 65%. The difference is explained by decreasing reserves of financial institutes at the Bank. The rate of growth in base money and repurchase agreements, which broadly follow each other, has fallen somewhat during the last few months.

Fig. 36
The Central Bank repo rate and interbank interest rates
Weekly data



The repo rate was lowered by 0.8 percentage point in November last year. The overnight interbank rate and the three month interbank rate did not follow, but have declined by roughly 1 percentage point since the Bank's last inflation forecast.

Fig. 37
Short-term interest rates and interest rate spread

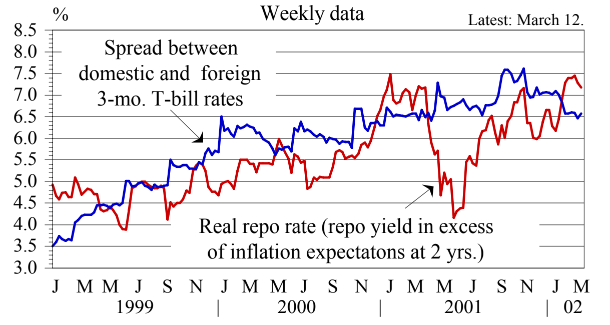
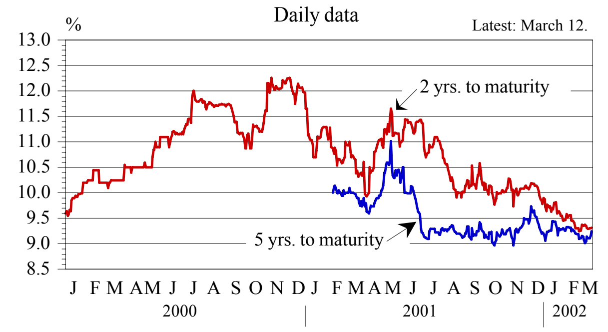


Fig. 38
Long-term nominal treasury bond yields



The real repo rate (using the inflation premium) was 7.2% on March 12, which is identical to the rate on March 27 last year, when the monetary policy regime was changed, and about 0.7 percentage point higher than on 21 January, when the Bank's last inflation forecast was published. The short term interest rate differential vis-à-vis abroad was on March 12 6.6% and had fallen by roughly ½ percentage point since January 21.

The yield on two years non-indexed government bonds has fallen somewhat during the last few months but the yield on five year bonds is roughly unchanged. Recently, the yield on both types of bonds has been around 9.3%. The yield on two year bonds has fallen by 1.3 percentage points since the monetary policy regime was changed on March 27 last year, but the yield on five year bonds by 0.7 percentage point. Since the Bank's last inflation forecast, the yield on two year bonds has fallen slightly but the yield on five year bonds remains broadly unchanged.

Fig. 39
The term structure of nominal interest rates
March 14, 2002

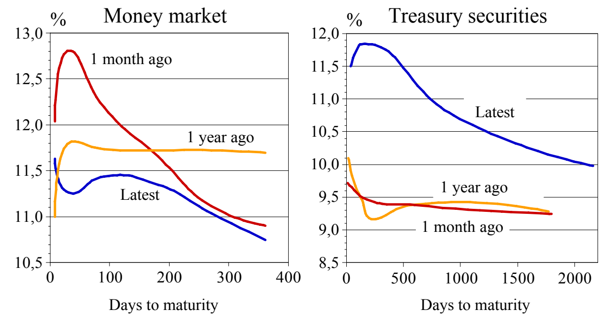
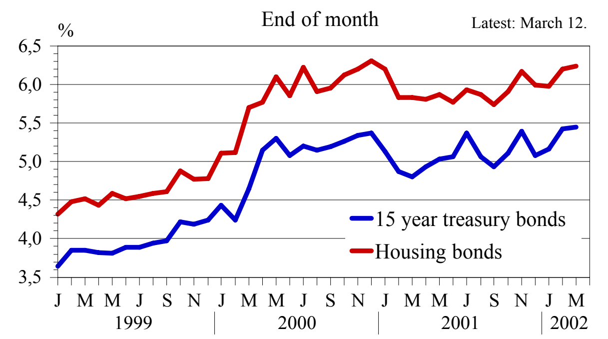


Fig. 40
Yields on indexed long-term bonds



The yield curve for interbank interest rates has been downward sloping for some time and the slope has increased from year ago, indicating enhanced market confidence in decreasing inflation and declining interest rates in the coming months. The yield curve for treasury bills has also been downward sloping for some time. The curve has shifted upwards and is more downward sloping than last year.

The yield on indexed government and household bonds has risen recently, but is slightly below the year ago level. On March 12, the real yield on 15 year government bonds was 5.5% or 0.7 percentage point lower than year ago. The real yield on 25 year housing bonds was 6.3%, also slightly lower than year ago.