

# Economic indicators



Central Bank of Iceland  
January 2003



# Highlights from economic indicators January 2003

## I Inflation and inflation expectations

CPI inflation declined in January to 1.4%. Inflation was only 0.3% excluding housing cost. Core inflation fell below the inflation target for the first time since the publication of the core index commenced, regardless of which index of core inflation is applied. The drop in inflation between December 2002 and January 2003 is largely explained by base effect. Prices of goods, imported as well as domestic, have declined on average. The rise in the index in the course of 2002 is entirely explained by rising housing and services costs. In December, inflation measured in terms of HICP was lower than on average in the European Economic Area or the EU.

In January, the public expected, on average, an inflation of 3.6% over the coming 12 months. The median expected inflation was 3%. Notwithstanding abating inflation and expectations of financial markets, expectations among the public have not declined since October. This reflects the public's continuing over-assessment of the current inflation, which stood at 3.2%.

## II Output and demand

GDP contracted by 1.6% year-on-year in 2002 Q3. Slowdown in export growth was the main reason for the weakness in Q3. National expenditure contracted by 3.8%. While private consumption stabilised compared to the corresponding quarter 2001, the contraction of gross fixed investment reached a new low.

According to VAT returns, turnover in the period September-October, in seasonally adjusted real terms, was up by 4.8% from the prior 2 month period and 1.9% year-on-year. Domestic market turnover rose by 0.8% from the prior 2 month and was down 2.1% from year ago. Groceries turnover for November and December 2002 rose 5½% year-on-year in real terms and the corresponding figure for credit and debit

card turnover in December was 6%. This can largely be attributed to a base effect. Car registrations have recovered somewhat in October and November from last year's depressed levels.

The Index of consumer sentiment fell by 8 points in December.

## III Foreign trade and external conditions

The export volume of marine products for the period January to November 2002 was up by 6% from year ago. The price of ground fish products has recovered in October and November, leading to some increase in prices of marine products, following a period of decline. Aluminium prices are still relatively low, but have turned out to be more resilient than expected.

The merchandise trade balance was in surplus of 2.3 billion krónur in November and 14.2 billion krónur for the first 11 months of 2002.

The real effective exchange rate of the króna, in terms of relative CPI, had risen by 12% in 2002 Q4 from year ago – to a level slightly below a 10 year average. In terms relative ULC the real effective exchange rate had risen by 17%.

## IV Labour market and income

According to a November labour market survey, the average working day was ½ hour longer than year ago. However, employment had declined by 2.5%, causing a 1.7% drop in the number of hours worked.

Seasonally adjusted registered employment was stable between October and December, but other indicators, such as vacancies at employment agencies and new working permits for foreigner, point to a still weakening labour market. Furthermore, a survey conducted by the Confederation of Icelandic Employers showed that businesses intend to reduce their work force by 1.6%, a significant increase from earlier surveys.

Wages in the non-financial private sector rose by 4½% year-on-year in 2002 Q4, equivalent to 2½% increase in real terms.

#### V Public finances

The Treasury balance January to November 2002 was in deficit by 15 billion krónur on cash basis and by 18 billion krónur, excluding revenue from privatisation. From the same period last year the balance has deteriorated by 14 billion krónur.

Revenue from VAT and payroll & personal income tax withheld was down year on year in the 4 months to November.

#### VI Asset markets

Stock prices are still on the rise. Stocks in pharmaceutical and transportation companies have risen by 38% over 12 months, stocks in commerce, services and oil companies by roughly 20% and fisheries stocks by 16%.

The price of long-term cod quota has increased by 60% in the last 12 months. Favourable market conditions for marine products, growing confidence in the ITQ-system and anticipated increase in the cod quota in the fisheries year starting on September 1 2003 are among potential explanations. Residential hous-

ing prices keep on rising. The housing price index rose by 6.2% between October 2001 and October 2002. Housing prices as measured in the CPI rose by 1.5% between December 2002 and January this year and were up by 7% from January 2002.

#### VII Financial markets

In December 2002, repurchase agreements with the Central Bank were up by almost 16% from year ago (three-month moving averages).

On December 17 the Central Bank reduced its policy rate from 6.3% to 5.8%. In recent weeks, however, the yield on non-indexed bonds have risen, reflecting expectations of higher inflation and policy rate increases in the wake of upcoming large investment projects. This is also reflected in an upward shift in the yield curve for interbank interest rates. The real policy rate, using the inflation premium on 4½ -year non-indexed treasury bonds, was 3% on January 17. The short term interest rate differential vis-à-vis abroad was down to 3.3% on January 20.

The yield on indexed treasury and household bonds has continued to fall as a result of policy rate reductions during 2002, but reflects also an increased demand for indexed bonds.

## Overview of economic indicators

	Latest period	Latest value	Change (%)			Contribution to inflation (%)	12-mo. ch. 1 year ago (%)
			on prev. month	over 6 months <sup>2</sup>	over 12 months		
<b>I Inflation and inflation expectations<sup>1</sup></b>							
Consumer price index.....	Jan. '03	224,7	0.4	1.5	1.4	-	9.4
Core index 1 (CPI less agric. prod., vegetables, fruits and petrol)	Jan. '03	126.7	0.1	1.9	2.1	1.9	9.8
Core index 2 (core index 1 less public services.....)	Jan. '03	127.3	-0.2	1.2	2.0	1.6	10.4
Domestic goods less agricultural products and vegetables.....	Jan. '03	126.8	0.5	-2.3	-0.9	-0.1	11.8
Agricultural product and vegetables.....	Jan. '03	117.8	1.6	-2.7	-4.4	-0.3	7.3
Imported goods less alcohol and tobacco.....	Jan. '03	108.4	-1.0	-5.5	-2.9	-0.9	11.2
- food and beverages.....	Jan. '03	127.6	3.1	-3.2	-9.9	-0.3	27.7
- cars and spare parts.....	Jan. '03	113.9	0.0	0.3	-2.1	-0.2	14.8
- petrol.....	Jan. '03	122.1	2.6	1.4	2.2	0.1	0.4
- imported goods less food and beverages.....	Jan. '03	99.0	-2.8	-9.5	-2.6	-0.5	8.7
Housing.....	Jan. '03	159.4	1.1	9.8	7.4	1.1	6.4
Public services.....	Jan. '03	125.8	3.0	10.7	4.8	0.3	6.4
Private services.....	Jan. '03	136.3	0.5	4.4	4.9	1.2	9.7
Groceries (perishable items).....	Jan. '03	123.5	1.0	-3.6	-4.7	-0.9	-
Weighted import exchange rate index (Dec. 31 1994=100).....	Dec 31 '02	106.0	-2.7	-6.4	-12.0	-	13.7
	Latest period	Expected 12 mo. inflation	Change on prev. survey	Exp. 12-mo inflation 1 year ago	Expected annual inflation over next 24 mo. 36 mo.	Perceived inflation in past 12 mo.	
Inflation premium on treasury bonds <sup>3</sup> .....	Jan. 21 '03	1.3	-	-	2.0 2.3	-	
Employers' inflation expectations.....	Sept. '02	2.6	-	-	2.4	-	
Public's inflation expectations.....	Oct. '02	3.6	0.1	6.6	-	-	3.2

1. Index base periods: Consumer price index: May 1988=100; other price indices: March 1997=100. 2. Annualised inflation. 3. Inflation premium at 1, 2, and 3 years maturity, based on the differential between non-indexed and indexed treasury bond yields.

	Latest period	Latest value	Value 1 year ago	%change <sup>1</sup> on		From beginn. of year	
				previous period	previous year	Value	Change on prev. year (%) <sup>1</sup>
<b>II Output and demand</b>							
GDP (b.kr.).....	Q3 '02	192.1	189.6	-	-1.6	352.9	-0.3
National expenditures (b.kr.).....	Q3 '02	187.2	189.4	-	-3.7	348.0	-4.3
Private consumption (b.kr.).....	Q3 '02	104.6	102.8	-	0.0	204.7	-2.1
Public consumption (b.kr.).....	Q3 '02	48.5	42.9	-	6.5	72.1	2.5
Gross fixed investment (b.kr.).....	Q3 '02	33.3	43.1	-	-22.9	71.4	-17.1
Exports (b.kr.).....	Q3 '02	80.3	84.3	-	1.5	142.5	5.0
Imports (b.kr.).....	Q3 '02	75.4	84.1	-	-3.8	137.6	-5.6
Turnover according to VAT statements (b.kr.).....	Sept.-Oct. '02	228.8	217.9	4.8	1.9	1,067.0	0.0
Turnover in groceries stores (b.kr.).....	Dec. '02	143.2	136.9	36.5	4.6	-	-
Credit and debit card turnover (b.kr.).....	Dec. '02	45.3	42	18.1	6.3	472.3	-1.2
Turnover of publicly listed companies on ICEX (b.kr.).....	Jan.-Sept. '02	341.1	317.0	-	-	341.1	5.0
Sement sales (thous. tons).....	Dec. '02	6.9	6.8	-36.5	1.2	114.8	-26.1
Automobile registration (number).....	Nov. '02	573	514	-29.3	11.5	7.997	-7.2

1. Change between periods is presented in real terms.

	Latest period	Latest value	Value 1 year ago	%change on		From beginn. of year	
				previous period	previous year	Value	Change on prev. year (%)
<b>III Foreign trade and the external economic conditions</b>							
Price of marine products in foreign currency (Jan.1999=100)...	Nov. '02	98.7	103.1	-0.1	-4.3	102.0	0.7
Price of aluminium, LME cash price \$/t.....	Dec. '02	1,375	1,345	0.0	2.2	1,351	-6.5
Price of crude oil (Brent) \$/b.....	Jan. '03	31.8	18.1	12.4	75.4	27.2	50.0
Groundfish (1000 tonnes).....	Dec. '02	30.2	32.5	-	-7.1	471.2	1.9
Pelagics (1000 tonnes).....	Dec. '02	68.1	56.7	-	20.1	1,616.6	8.9
Merchandise exports (b.kr.).....	Nov. '02	17.5	19.6	-6.3	-11.0	191.0	-2.8
- marine products (b.kr.).....	Nov. '02	10.5	12.1	-9.7	-13.8	119.9	-1.6
- aluminium (b.kr.).....	Nov. '02	3.2	3.0	-5.9	7.0	36.3	-7.7
- other industrial products (b.kr.).....	Nov. '02	5.9	6.6	-7.5	-11.3	63.2	-0.4
Merchandise imports (b.kr.).....	Nov. '02	15.2	17.8	-10.8	-14.7	176.8	-12.9
Merchandise trade balance (b.kr.).....	Nov. '02	2.3	1.8	3.8	0.5	14.2	25.0
Services exports (b.kr.).....	Q3 '02	32.6	36.6	32.9	-3.8	81.0	-0.5
Services imports (b.kr.).....	Q3 '02	27.9	31.3	7.7	-3.7	78.2	-2.6
Real effective exchange rate (relative CPI) (1980=100).....	Q4 '02	90.2	80.0	-0.1	12.8	88.3	5.7

Note: In the case of volumes and values, "From beginning of year" refers to cumulated figures to date, but in the case of prices or indices it refers to the average price or index.

	Latest period	Latest value	Value 1 year ago	Change from <sup>1</sup>		From beginn. of year <sup>3</sup>	
				previous period	previous year	Value <sup>2</sup>	Change on prev. year (%)
<i>IV Labour market and wages</i>							
Number of unemployed listed at employment agencies.....	Dec. '02	4,483	2,707	406	1,776	3,631	80.7
Registered unemployment, s.a. (% of total estim. labour force)	Dec. '02	2.9	1.8	0.0	1.2	2.5	1.1
Unemployment rate, labour force survey (biannual).....	Nov. '02	3.2	2.4	0.0	0.8	.	.
Total hours worked per week, labour force survey .....	Nov. '02	6,340	6,452	1.1	-1.7	.	.
Listed vacancies at employment agencies .....	Dec. '02	133	214	-16.9	-37.9	221	-58.9
New work permits issued.....	Dec. '02	61	92	15.1	-33.7	1,008	-50.5
Work permits issued, total.....	Dec. '02	260	286	-6.1	-9.1	3,637	-19.0
Wage index (december 1988=100).....	Dec. '02	228.7	217.0	0.3	5.4	226.4	7.2
Real wages (wage index deflated by CPI).....	Dec. '02	127.6	123.5	0.2	3.3	127.1	1.9

1. Change from previous period refers to change in the number of unemployed, change in the rate of unemployment and percentage changes in number otherwise. 2. Average monthly number of unemployed; average unemployment ratio; cumulated number of work permits. 3. Change on previous year refers to % change in the average number of unemployed and change in the unemployment ratio, but % change in value otherwise.

	Latest period	Latest value	Value 1 year ago	%-change on		From beginn. of year	
				previous period	previous year	Value	Change on prev. year (%)
<i>V Public finances</i>							
Treasury revenue balance (billion kr.) .....	Nov. '02	-13.9	-4.7	-9.2	-9	-2.5	-6.5
- as a percentage of revenue (%) .....	Nov. '02	-7.8	-3	-	-4.4	-0.9	-
Net borrowing requirement (billion kr.) .....	Nov. '02	22.9	10.4	12.5	5.4	5.9	0.5
- as percentage of revenue (%) .....	Nov. '02	5.6	6	-	3.4	5.2	-
Treasury revenue (b.kr.).....	Nov. '02	17.5	17.1	-0.2	188.4	182	-1.9
- from VAT (b. kr.) .....	Nov. '02	6.5	6.6	-0.9	66.8	60.8	-1.1
- from payroll & personal income tax withheld (b.kr.) .....	Nov. '02	5.7	5.9	-2.2	67.3	58.8	2.8
- from imports, liquor, car ownership (b.kr.).....	Nov. '02	1.3	1.4	-3.9	14.2	14.6	-10.6
Treasury expenditures (b.kr.) .....	Nov. '02	19.9	18	6.9	221.4	200.4	-10.6

Note: All figures except for the last two columns are based on moving 4-month averages.

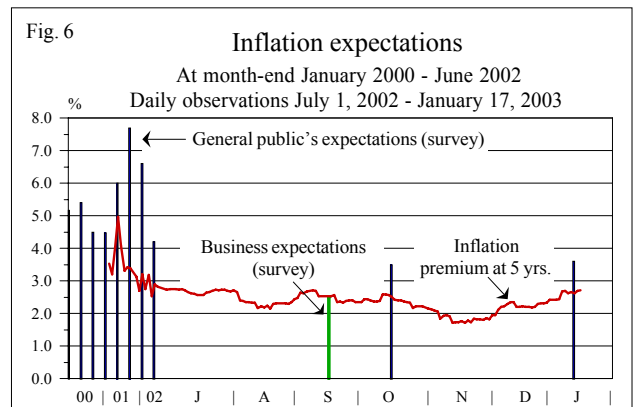
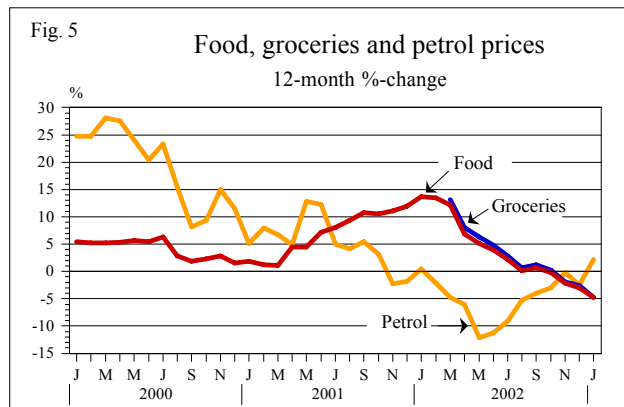
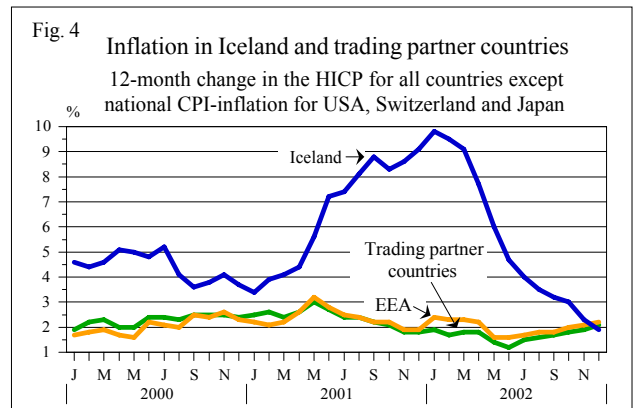
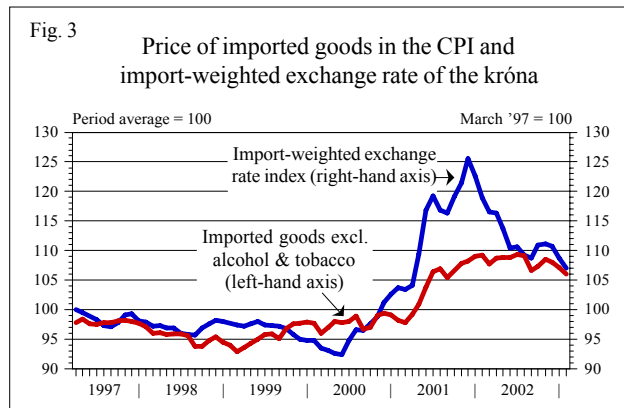
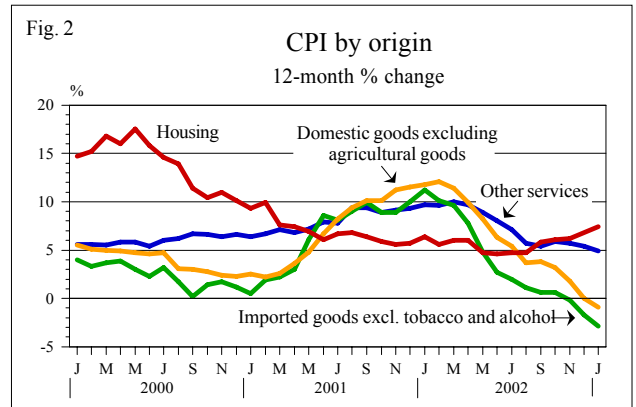
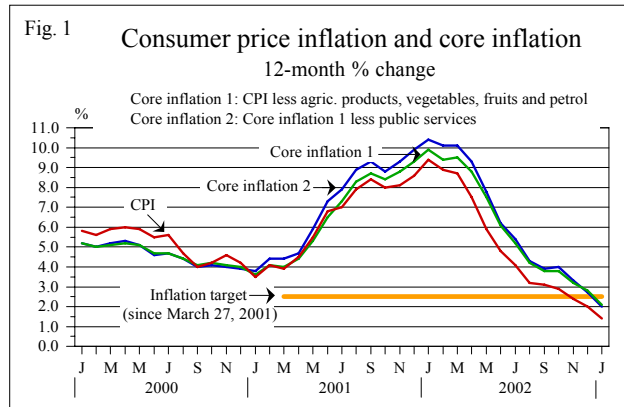
	Latest period	Latest value	Value 1 year ago	%-change on		From beginn. of year	
				previous period	previous year	Average <sup>2</sup>	Change on prev. year (%)
<i>VI Asset markets</i>							
ICEX-15 monthly average (Dec. 1997=100).....	Dec. '02	1,326.4	1,116.6	0.8	18.8	1,287.9	16.0
ICEX Main monthly average (Dec. 1997=100) .....	Dec. '02	1,407.6	1,142.4	1.6	23.2	1,332.1	18.7
Turnover on Iceland Stock Exchange (ICEX), monthly (b.kr.)	Dec. '02	26.6	17.0	16.8	56.7	321.3	133.4
Residential housing price index <sup>1</sup> (Jan. 1996=100).....	Dec. '02	170.2	159.5	1.0	6.7	163.5	3.6
Real residential housing prices <sup>1</sup> (Jan. 1996=100).....	Dec. '02	132.6	127.3	0.9	4.1	128.4	-2.1
Price of long-term cod quota (kr./kg.) .....	Dec. '02	1,070	725	7.0	47.6	930	31.2

1. In Greater Reykjavík Area. 2. Except for turnover which is cumulated to date.

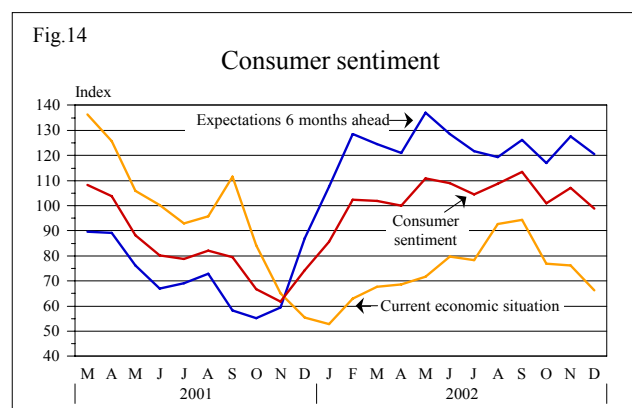
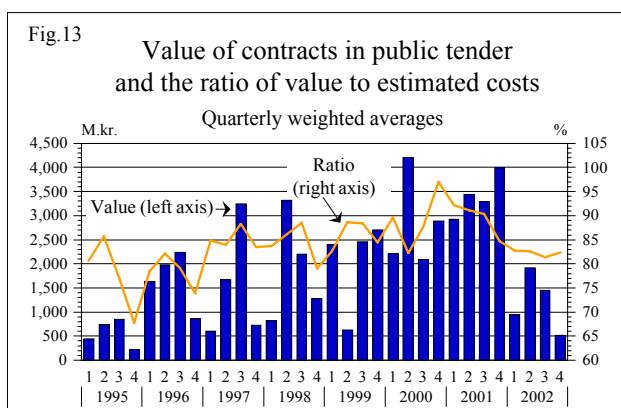
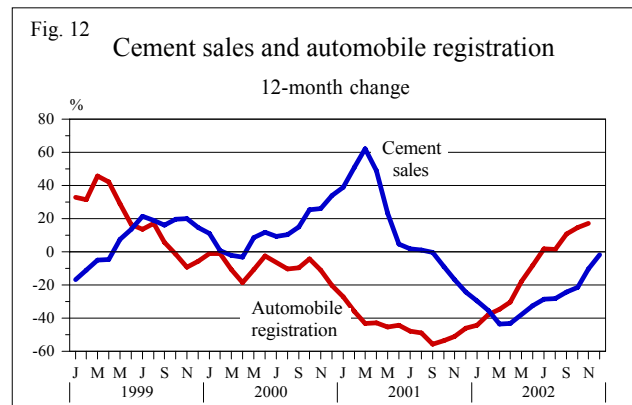
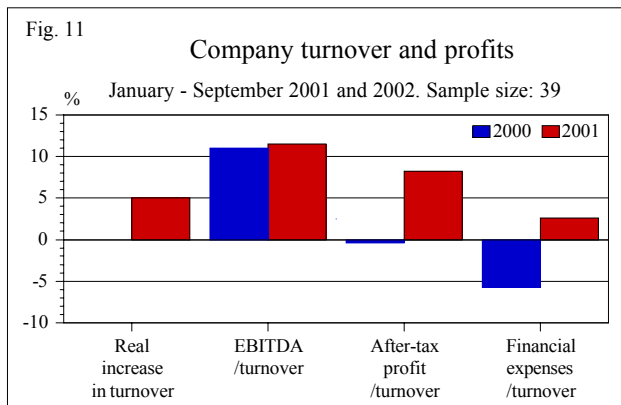
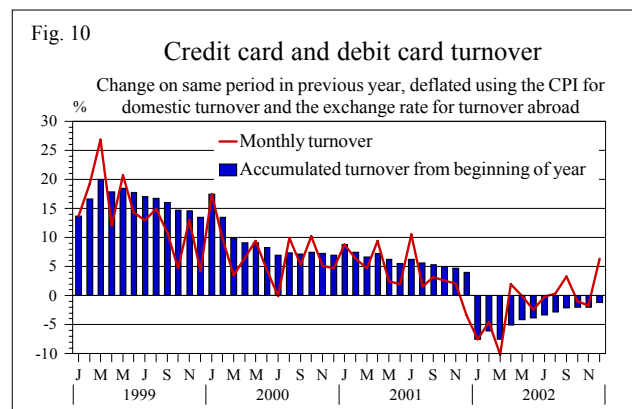
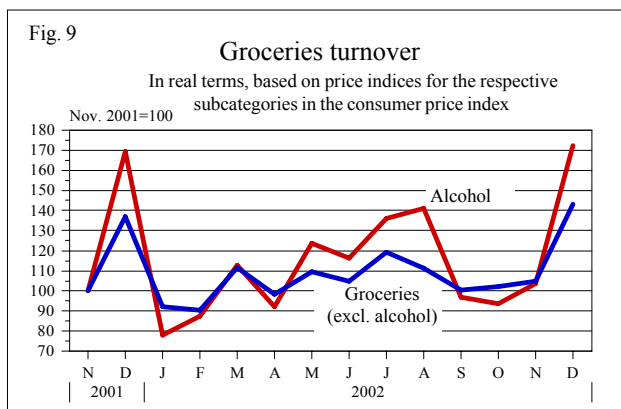
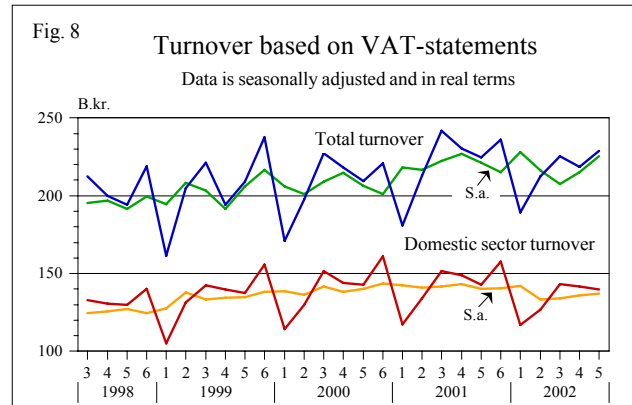
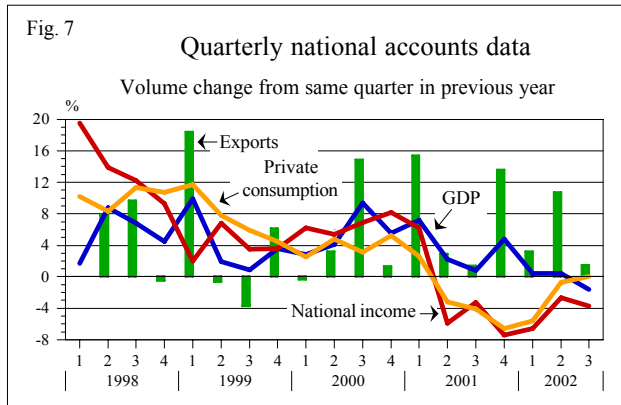
	Latest period	Latest value <sup>1</sup>	Value 1 year ago <sup>1</sup>	%-change on		From beginn. of year	
				previous period	previous year	Average	Change on prev. year (%)
<i>VII Financial markets</i>							
Bank lending to domestic sector (b.kr.).....	Nov. 30 '02	698.3	685.0	0.4	1.9	-	-
- adjusted for estimated indexation effects on inflation- and exchange rate-linked loans (index) .....	Nov. 30 '02	163.1	153.2	0.9	6.4	-	-
- in real terms (January 1999=100) .....	Nov. 30 '02	149.2	151.8	0.5	-1.7	-	-
Credit system total lending (b.kr.) .....	Sept 30 '02	1,970.9	1,863.4	2.1	5.8	-	-
M3 (b.kr.) .....	Nov. 30 '02	393.6	343.3	2.9	14.7	-	-
Central Bank policy interest rate (%) .....	Jan. 17 '03	5.8	10.1	0.0	-4.3	8.4	-2.5
Money market yield, 3-mo. (%) .....	Dec. '02	6.1	12.5	-0.2	-6.3	9.0	-3.0
Treasury bill yield, 3-mo. (%) .....	Dec. '02	5.9	10.0	-0.4	-4.1	7.7	-3.3
Treasury bill real yield, 3-mo., based on inflation premium (%)	Dec. '02	3.7	6.8	-0.7	-3.1	5.7	-1.1
Yield on Treasury notes (4 yrs., RIKB 07 0209) (%).....	Dec. '02	6.9	9.4	0.1	-2.5	8.0	-1.8
Yield on Treasury notes (10½ yrs., RIKB 13 0517) (%).....	Dec. '02	7.6	.	0.1	.	4.8	.
Real yield on housing bonds (25 yrs., IBH 26 0315) (%).....	Dec. '02	5.2	6.0	-0.1	-0.8	5.6	-0.2
Real yield on housing bonds (40 yrs., IBH 41 0315) (%).....	Dec. '02	5.2	5.6	0.0	-0.4	5.4	-0.1
Real yield on treasury bonds (5 yrs., RIKS 05 0410) (%).....	Dec. '02	4.6	5.8	-0.3	-1.2	5.3	-0.6
Real yield on treasury bonds (15 yrs., RIKS 15 1001) (%).....	Dec. '02	5.0	4.9	0.0	0.0	5.2	0.1
Average bank lending rate, non-indexed loans (%).....	Dec. '02	12.9	17.4	-0.3	-4.5	15.4	-2.6
Average bank lending rate, indexed loans (%).....	Dec. '02	9.7	10.2	-0.1	-0.5	10.1	-0.1
Exchange rate index of króna (Dec 31 1991=100).....	Dec. '02	126.6	144.6	-1.9	-12.4	131.5	-2.8

1. Yields, bank lending rates and the exchange rate are expressed as monthly averages.

# I Inflation and inflation expectations

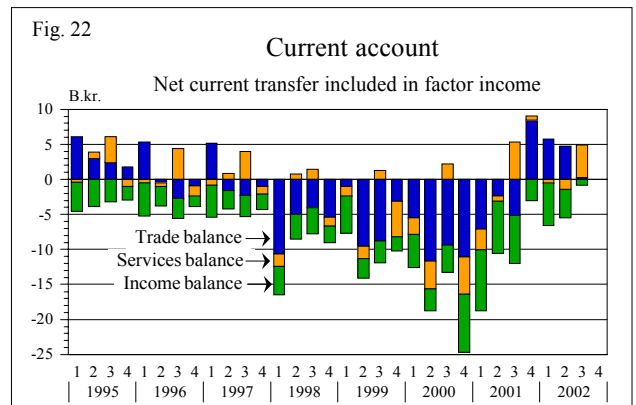
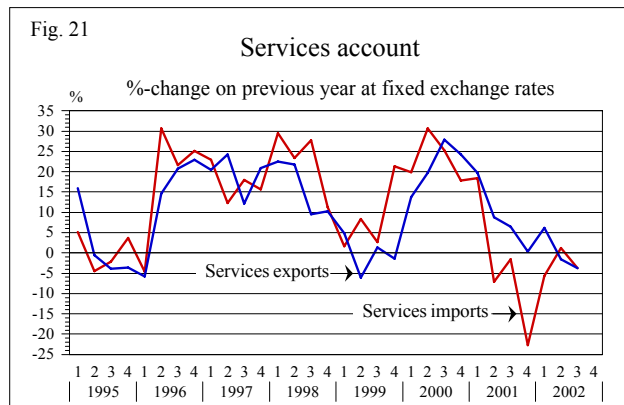
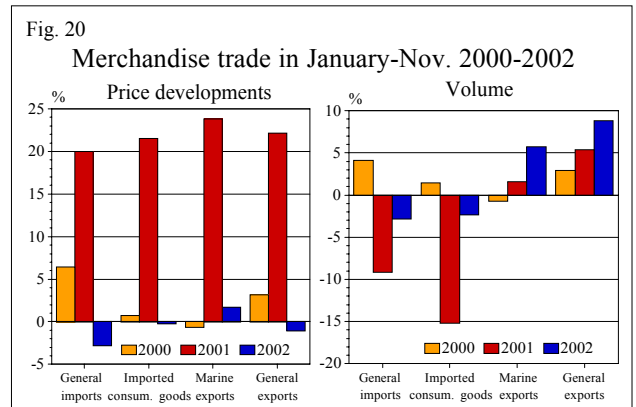
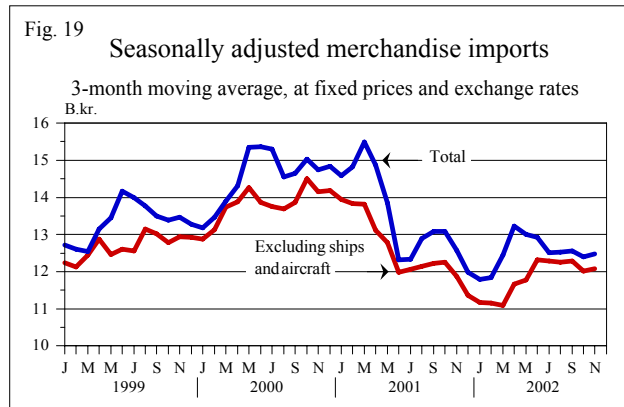
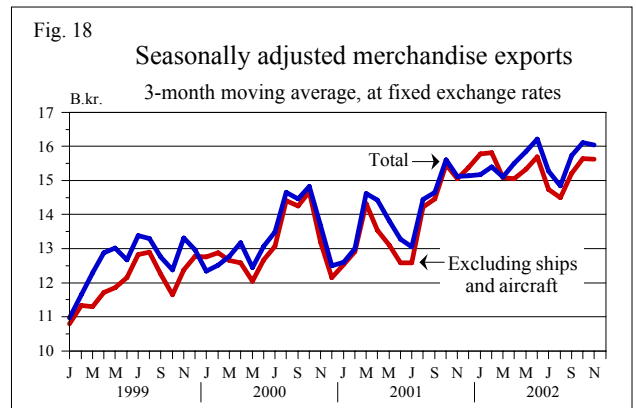
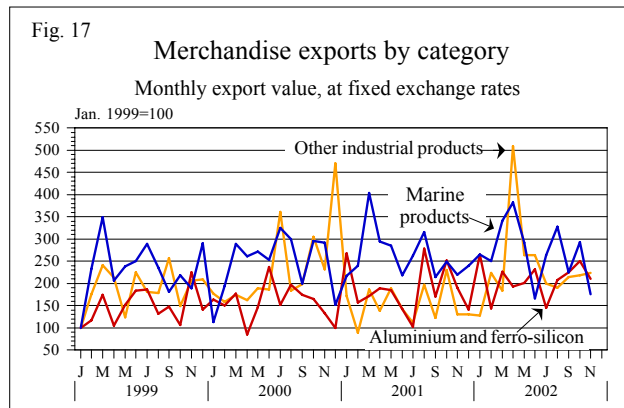
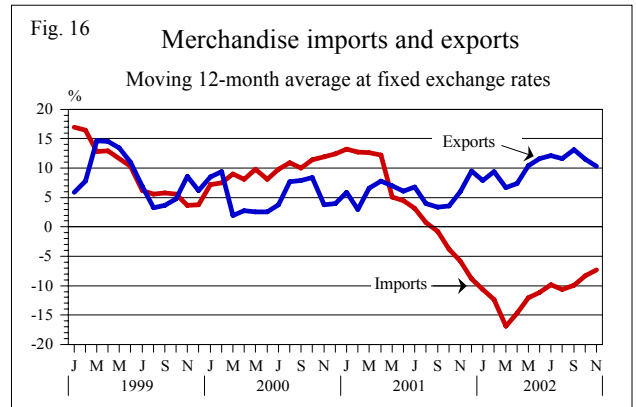
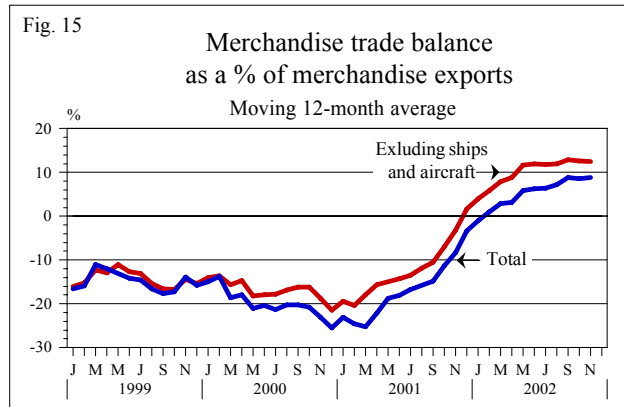


## II Output and demand

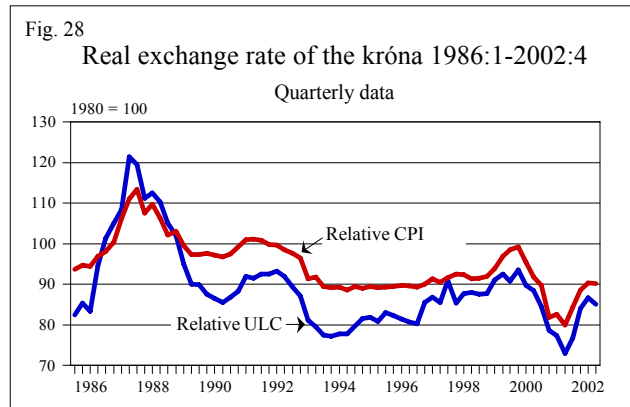
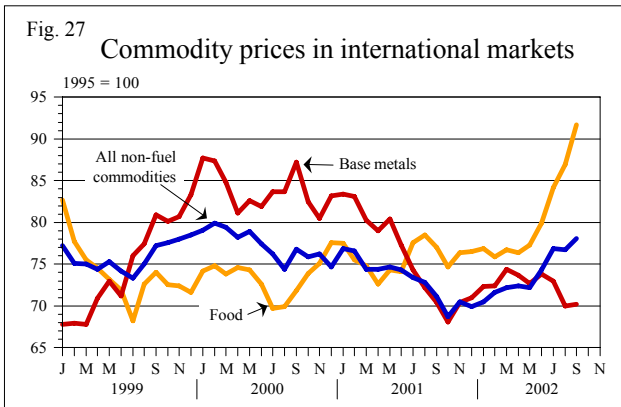
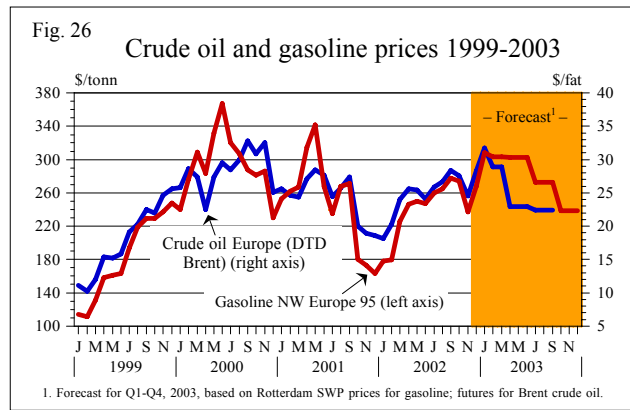
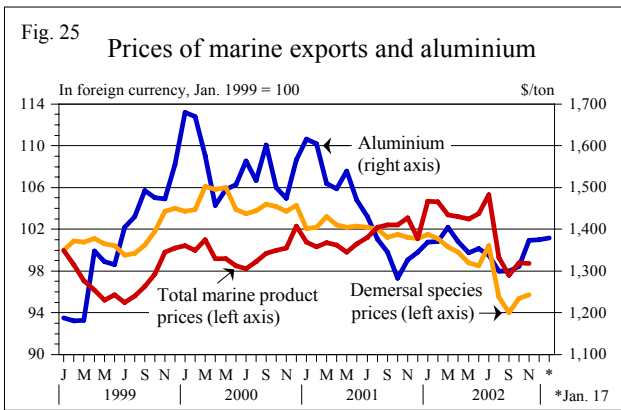
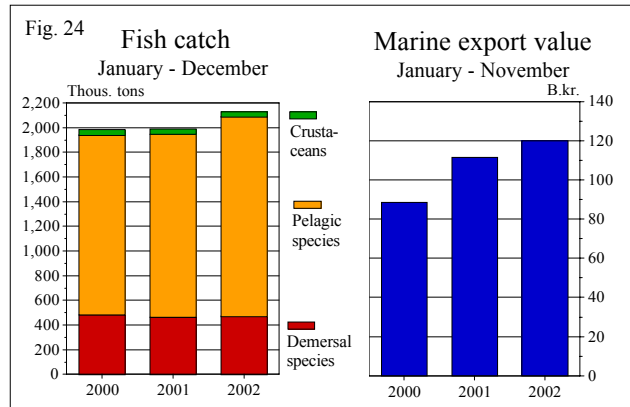
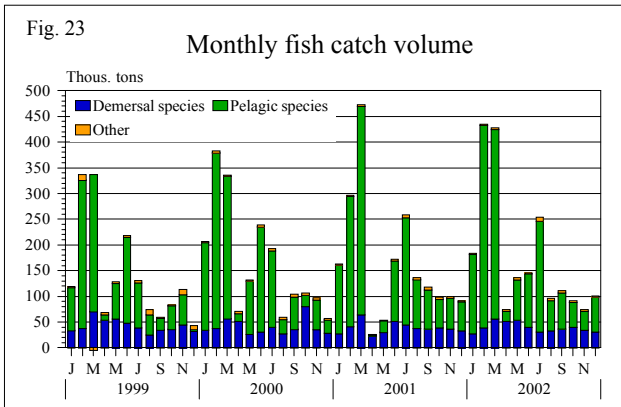




### III Foreign trade and the external economic conditions



### III Foreign trade and the external economic conditions (cont.)



## IV Labour market and wages

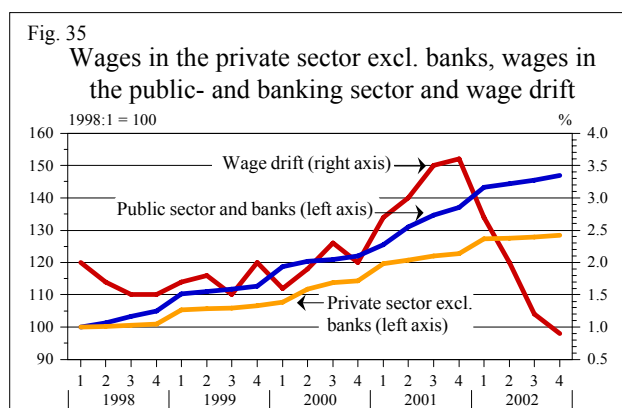
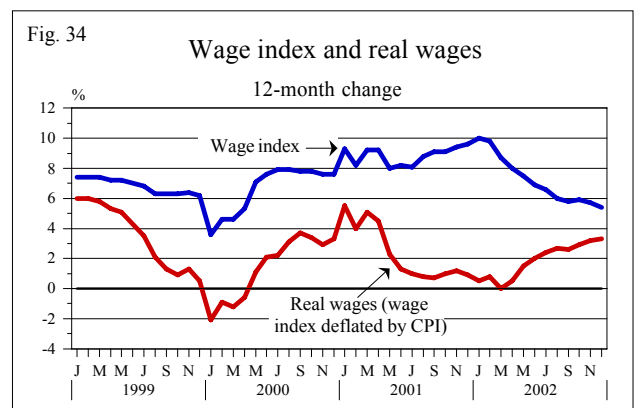
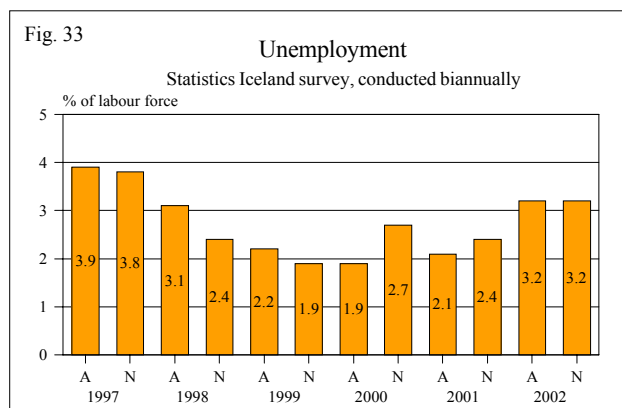
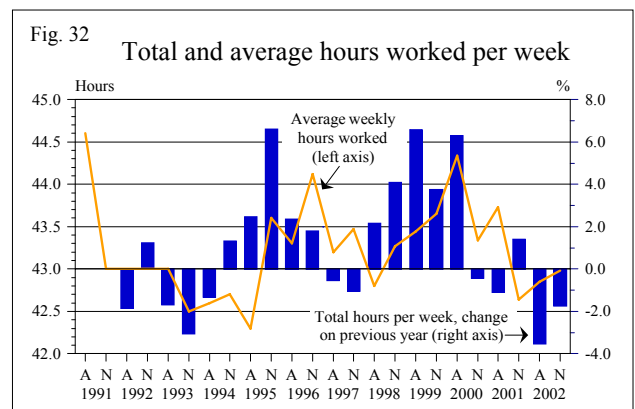
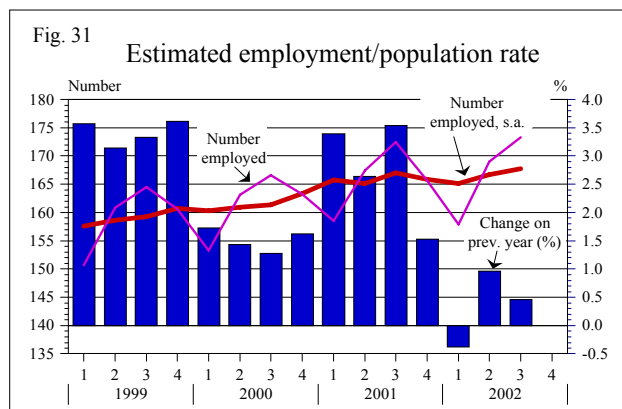
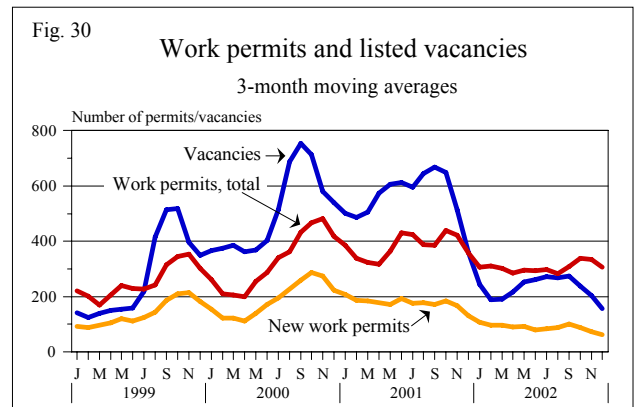
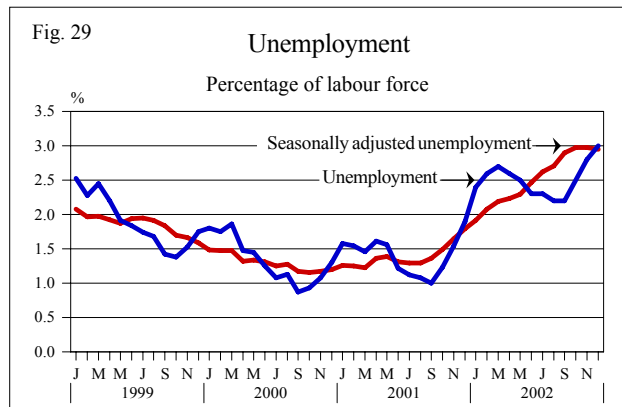


Fig. 36 Treasury balance and borrowing requirement

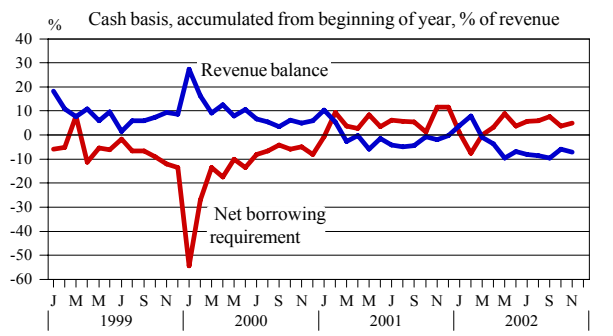


Fig. 37 Treasury revenues and expenditure

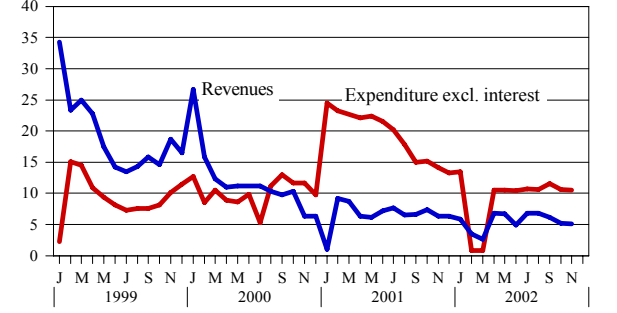
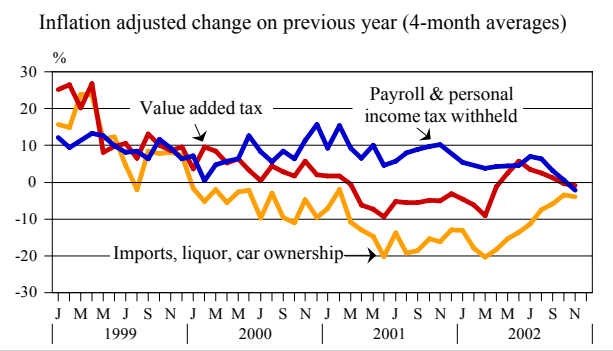
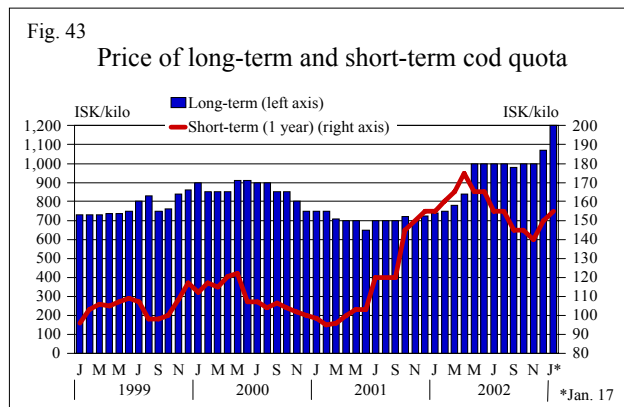
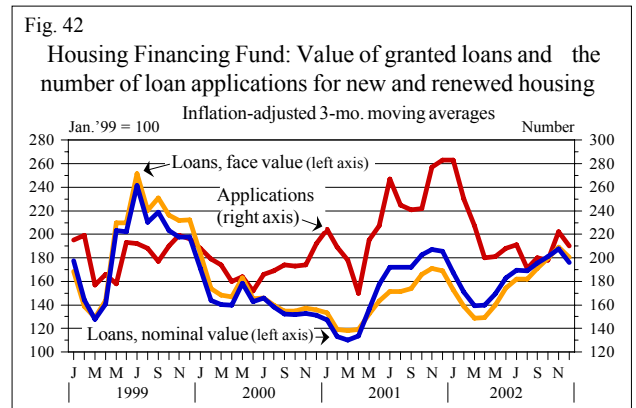
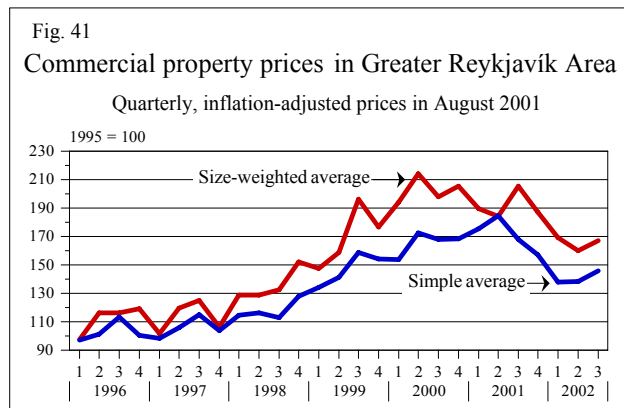
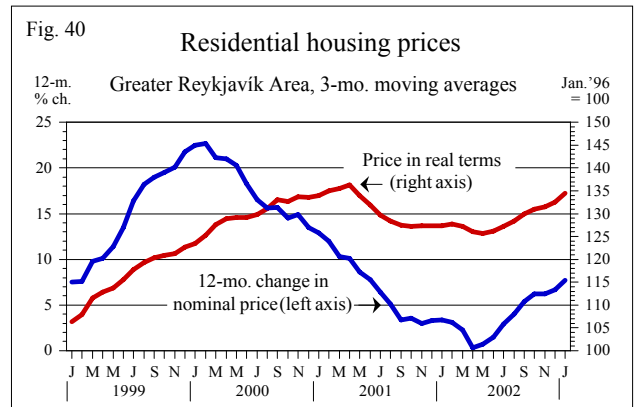
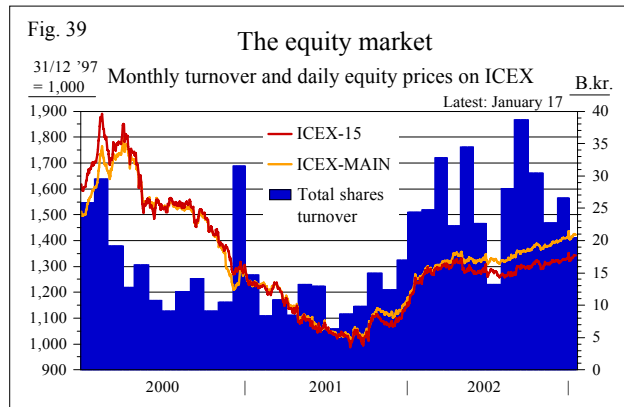


Fig. 38 Tax revenues





## VII Financial markets

Fig. 44

### Credit growth

Credit system lending, quarterly change on previous year

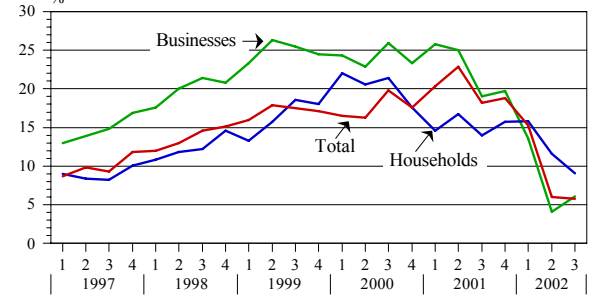


Fig. 45

### Growth of M3 and bank credit

(excluding marketable securities)

12-month change

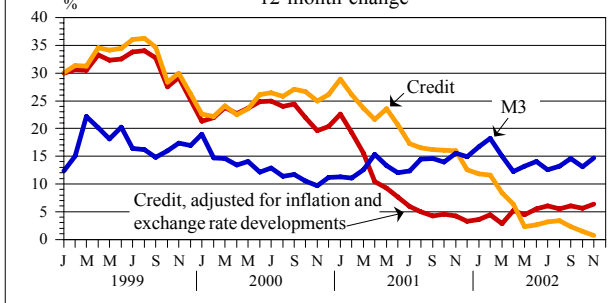


Fig. 46

### Real growth of M3 and bank credit

M3 is seasonally adjusted

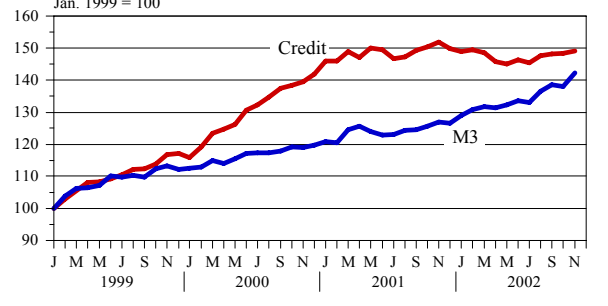


Fig. 47

### Base money and repurchase agreements with the Central Bank

12-month change between 3-month moving averages

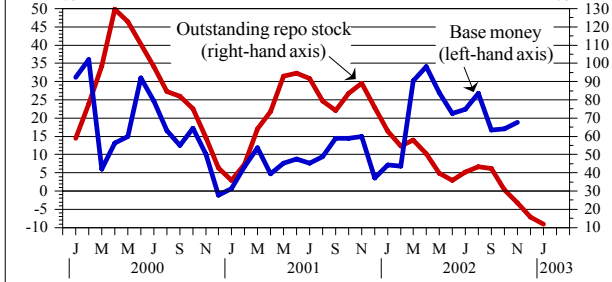


Fig. 48

### The Central Bank repo rate and interbank interest rates

Weekly data

Latest: Jan. 17

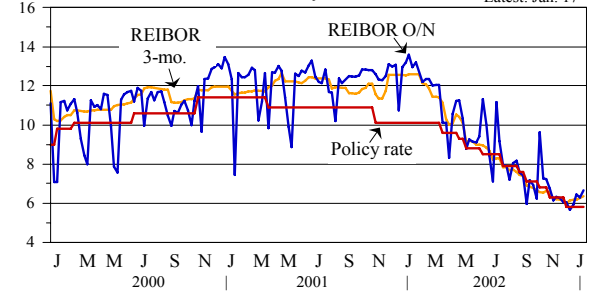


Fig. 49

### Short-term interest rates and interest rate spread

Weekly data

Latest: Jan. 17

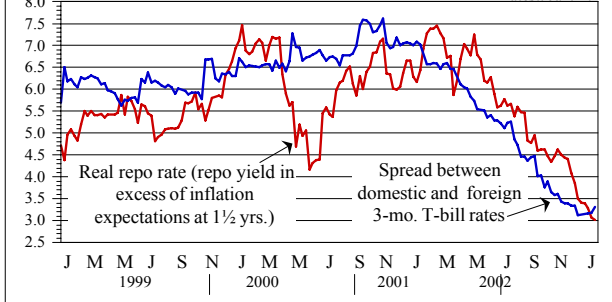


Fig. 50

### Long-term nominal treasury bond yields

Daily data

Latest: Jan. 17

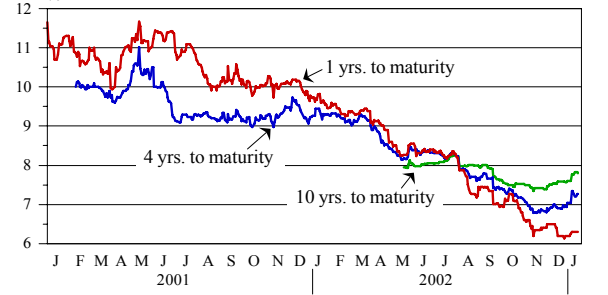
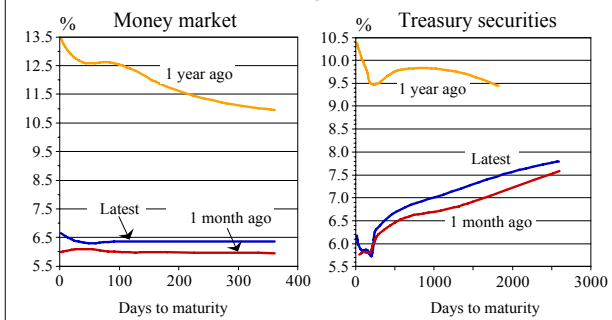


Fig. 51

### The term structure of nominal interest rates

January 17, 2002



## VII Financial markets (cont.)

