

Economic indicators



Central Bank of Iceland
April 2003

Highlights from economic indicators April 2003

I Inflation and inflation expectations

CPI inflation rose in March to 2.2%. Excluding housing cost the inflation was 0.9%. Core inflation was slightly higher and CPI less agricultural products, vegetables, fruits and petrol showed an inflation of 2.6%, and excluding public services as well the inflation was 2.3%. The inflation over the past 12 months has been driven by housing cost, petrol and services. Housing cost rose by 8.8%, petrol by 8.1%, public services by 6.6% and private services by 3.3%. The price of imported goods other than petrol and domestic goods prices as well declined somewhat. In February, inflation measured in terms of HICP was only half of the average inflation in the EEA or 1.1%. This difference is expected to diminish in March, because of base effects and price increase in March 2003.

According to a February survey of the 400 largest companies, businesses expected 2.1% inflation for the next 12 months and an annual inflation of 2.4%, on average, for the next two years. This is broadly in line with inflation expectations in the financial market in late March (based on the implicit inflation premium on treasury notes), where an annual inflation of 2.1% was expected for the next 3 years, 2.6% over a 5 year period and 3.1% over a 7 year period.

II Output and demand

In Q4 2002, GDP contracted by 3% from year ago. In 2002 as a whole, GDP contracted by ½%. National expenditures were broadly unchanged, exports contracted by 2½%, but imports rose 7%. Private consumption in Q4 was slightly higher than year ago, but contracted for the whole year.

According to VAT reports, turnover in the final two months of 2002 declined in real terms by 5% from year ago. Turnover in grocery stores

and credit and debit card turnover indicate that private consumption was on the rise in the first two months of 2003. A surge in car registrations and car imports as well as imports of other consumer durables (see later) points in the same direction. Cement sales have also recovered sharply from last year slump.

Gross profits (EBITDA) of companies listed on the ICEX in 2002 amounted to 11% of turnover, broadly unchanged from 2001. Profits after tax surged to 11% of turnover, helped by appreciation of the króna.

III Foreign trade and external conditions

Merchandise exports in the first two months of 2003 were up by 4½% at constant exchange rate from year ago. Exports of marine products changed little, aluminium export rose by 10% and exports of other industrial products were down by 7.5%.

Merchandise imports were up by 5%, at constant exchange rates. Imports of durables and other consumer goods increased markedly. Car imports rose by 87% from year ago and other consumer durables by 29%. Imports of raw materials, on the other hand, contracted substantially.

There was a considerable decline in the catch volume of all major species in the first two months of this year. Ground fish catch declined by 4.5%, and the catch of crustaceans and pelagics fell even more. In constant value terms the overall y.o.y decline was around 7%.

The real effective exchange rate of the króna (in terms of relative CPI) rose by 13% in Q1 2003 from year ago to a level about 5% over a 10 year average.

IV Labour market and income

After being roughly stable since September, seasonally adjusted registered unemployment rose

by 0.2% to 3.2% in February. On the other hand, vacancies at employment agencies rose in February, and might herald a turnaround in the labour market, although the three-month average is still indicating a weak labour market.

A survey conducted in February among the 400 largest companies indicated that the firms will not change their staffing considerably for the next half year. This contrasts with other surveys, conducted some months earlier, which had pointed to continued fall in employment.

Wage index for the whole economy rose by 3.8% in the first two months of this year, mainly driven by a contractual increase in January, but reflected also some wage drift. In February the wage index for the whole economy was up by 4% in real terms from year ago.

V Public finances

The treasury's 2002 preliminary outcome on cash basis shows cash from operations (revenues minus capital gains minus outlays) at -16 billion krónur or -2% of GDP compared to -2 billion in 2001. Tax revenue rose by 4 per cent while outlays grew by 11%. Asset sales and other financial transactions were in surplus by 12 billion, giving a net financial balance of -4 billion krónur or -½ per cent of GDP, compared to -26 billion in 2001. This and a 9 billion krónur prepayment of civil service pension liabilities was mostly financed by borrowing from abroad.

In the first two months of 2003 cash from operations was positive by 1½ billion krónur. Financial transactions reflect asset sales at the end of 2002. Net financial balance was in surplus of 2½ billion krónur. In the four months through February, there has been an up tick in VAT collections and import taxes, contributing to an increase in tax revenue by 6% in real terms, compared to around 10% rise in non-interest outlays. Payroll taxes and income tax withholding, however, have been flat in real terms.

VI Asset markets

Stock market prices keep on rising. ICEX-15 is

up by 6% this year and ICEX-Main by 4.5%. Turnover in March was the highest in the history of the ICEX. This is to be explained by relatively good profitability of listed companies last year.

The price of long-term cod quota is still at a very high level but the price of leased quota (one-year quota) is falling due to poor catch and lower prices of wet fish.

Residential housing prices keep on rising, last December y.o.y. increase in housing prices in the Greater Reykjavík area was 6.5%. It is estimated that the price level of residential housing was approximately 7% higher in February than year ago.

VII Financial markets

Credit growth continued to slow down in Q4 2002. Over a 12-month period to the end of December 2002 it had slowed down to 3½%. Credit to the business sector grew by just over 1% while the growth in housing loans was more robust, up by 7%.

On February 10 the Central Bank lowered its policy rate from 5.8% to 5.3%.

The policy rate in real terms, using the inflation premium on 4-year non-indexed treasury bonds, was 2.7% on March 24. The short-term interest rate differential vis-à-vis abroad was at the same time 2.8% and had fallen by almost a percentage point since the end of December 2002.

The difference between short- and long-term yields on treasury bonds has increased since December, reflecting higher expected inflation and expected policy rate increases in response to upcoming large investment projects. On March 24, the yield on 13-year treasury bonds had increased by 0.3 percentage points since the beginning of December 2002. At the same the yield on shorter term non-indexed treasury bonds and on indexed treasury and housing bonds had either fallen or been broadly unchanged.

Overview of economic indicators

	Latest period	Latest value	Change (%)			Contribution to inflation (%)	12-mo. ch. 1 year ago (%)
			on prev. month	over 6 months ²	over 12 months		
I Inflation and inflation expectations¹							
Consumer price index.....	Mar. '03	226.7	1.1	3.4	2.2	-	8.7
Core index 1 (CPI less agric. prod., vegetables, fruits and petrol)	Mar. '03	127.9	1.0	4.0	2.6	2.3	9.5
Core index 2 (core index 1 less public services).....	Mar. '03	128.5	1.1	3.7	2.3	1.9	10.1
Domestic goods less agricultural products and vegetables.....	Mar. '03	127.6	0.2	-0.3	-0.5	-0.1	11.4
Agricultural product and vegetables.....	Mar. '03	117.3	-0.4	-3.2	-4.2	-0.3	7.5
Imported goods less alcohol and tobacco.....	Mar. '03	110.0	2.8	0.5	-1.0	-0.3	9.6
- food and beverages.....	Mar. '03	124.2	-0.4	-5.3	-7.2	-0.2	20.4
- cars and spare parts.....	Mar. '03	114.3	0.0	1.1	-1.2	-0.1	13.2
- petrol.....	Mar. '03	127.7	5.0	6.1	8.1	0.3	-4.8
- imported goods less food and beverages.....	Mar. '03	101.0	4.1	0.0	-1.7	-0.3	9.7
Housing.....	Mar. '03	162.5	1.0	10.5	8.8	1.3	6.0
Public services.....	Mar. '03	126.6	0.4	8.2	6.6	0.4	5.5
Private services.....	Mar. '03	136.5	0.0	3.0	3.3	0.8	10.0
Groceries (perishable items).....	Mar. '03	123.3	-0.1	-3.0	-3.7	-0.7	-
Weighted import exchange rate index (Dec. 31 1994=100).....	Feb. 28 '03	103.1	0.1	-13.3	-11.1	-	11.9
	Expected Latest period	Expected 12 mo. inflation	Change on prev. survey	Exp. 12-mo inflation 1 year ago	Expected annual inflation over next 2 yrs.	Expected annual inflation over next 3 yrs.	Perceived inflation in past 12 mo.
Inflation premium on treasury bonds ³	Mar. 25 '03	1.3	-	-	1.8	2.14	-
Employers' inflation expectations.....	Feb. '03	2.1	0.5	-	2.4	-	-
Public's inflation expectations.....	Jan. '03	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 ¹ on		From beginn. of year	
				previous period	previous year	Value	Change on prev. year (%) ¹
II Output and demand							
GDP (b.kr.).....	Q4 '02	196.6	202.3	-	-3.0	774.4	-0.6
National expenditures (b.kr.).....	Q4 '02	195.6	193.0	-	0.2	760.6	-2.6
Private consumption (b.kr.).....	Q4 '02	109.4	108.2	-	1.3	419.5	-1.2
Public consumption (b.kr.).....	Q4 '02	51.1	46.6	-	4.7	194.7	3.1
Gross fixed investment (b.kr.).....	Q4 '02	34.9	38.2	-	-8.5	146.5	-13.0
Exports (b.kr.).....	Q4 '02	72.1	82.7	-	-2.6	307.3	2.9
Imports (b.kr.).....	Q4 '02	-71.1	-73.5	-	6.8	-293.5	-2.4
Turnover according to VAT statements (b.kr.).....	Nov.-Dec. '02	224.8	231.4	-1.7	-2.8	1,293.3	0.0
Turnover in groceries stores (b.kr.).....	Feb.'03	95.7	91.8	-4.9	4.3	-	-
Credit and debit card turnover (b.kr.) ²	Feb.'03	39.6	36.4	2.6	7.9	74.6	7.2
Turnover of publicly listed companies on ICEX (b.kr.).....	Jan.-Dec.'02	362.4	330.5	-	-	362.4	9.7
Sement sales (thous. tons).....	Feb. '03	6.2	4.6	-8.6	34.6	13.1	11.8
Automobile registration (number).....	Feb. '03	792	509	5.3	55.6	1,544	50.3

1. Change between periods is presented in real terms. 2. Change in seasonally adjusted values.

	Latest period	Latest value	Value 1 year ago	%change on		From beginn. of year	
				previous period	previous year	Value	Change on prev. year (%)
III Foreign trade and the external economic conditions							
Price of marine products in foreign currency (Jan. 1999=100)...	Dec. '02	100.0	101.1	1.3	-1.1	101.8	0.6
Price of aluminium, LME cash price \$/t.....	March '03	1,371	1,405	-3.6	-2.4	1,391	2.9
Price of crude oil (Brent) \$/b.....	March '03	25.9	24.0	-20.7	7.9	29.9	44.0
Groundfish (1000 tonnes).....	Feb.'03	34.6	37.8	21.0	-8.9	62.9	-4.5
Pelagics (1000 tonnes).....	Feb.'04	248.5	399.6	9.3	-37.8	475.9	-14.1
Merchandise exports (b.kr.) ¹	Feb. '03	16.8	16.1	5.9	15.7	32.9	4.5
- marine products (b.kr.) ¹	Feb. '03	9.8	9.8	12.7	10.8	18.6	1.4
- aluminium (b.kr.) ¹	Feb. '03	3.5	2.6	1.2	51.0	7.0	10.5
- other industrial products (b.kr.) ¹	Feb. '03	6.2	5.6	-1.2	24.7	12.6	10.5
Merchandise imports (b.kr.) ¹	Feb. '03	14.0	13.4	25.1	16.8	25.5	5.2
Merchandise trade balance (b.kr.) ¹ (changes are in b.kr.).....	Feb. '03	2.7	2.7	-2.0	0.0	7.4	-0.7
Services exports (b.kr.) ¹	Q4 '02	23.5	24.7	-27.2	4.8	103.9	-2.9
Services imports (b.kr.) ¹	Q4 '02	24.6	24.1	-12.0	-2.0	102.8	-1.9
Real effective exchange rate (relative CPI) (1980=100).....	Q1 '03	95.2	84.3	5.8	13.0	95.2	13.0

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. 1. Changes are calculated at constant exchange rates.

	Latest period	Latest value	Value 1 year ago	Change ¹ from previous		From beginn. of year ²	
				period	previous year	Average	Change on prev. year (%)
<i>IV Labour market and wages</i>							
Number of unemployed listed at employment agencies.....	Feb. '03	5,758	3,556	550	2,202	5,483	59.8
Registered unemployment, s.a. (% of total estim. labour force)	Feb. '03	3.2	2.1	0.2	1.2	3.2	1.2
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	Feb. '03	170	167	27	2	152	-12.9
New work permits issued.....	Feb. '03	35	85	-29	-59	84	-57.1
Work permits issued, total.....	Feb. '03	169	304	-21	-44	382	-40.8
Wage index (december 1988=100).....	Feb. '03	237.5	224.8	0.2	5.6	237.3	5.6
Real wages (wage index deflated by CPI).....	Feb. '03	132.3	127.1	0.4	4.0	132.0	4.0

1. Change from previous period refers to change in the number of unemployed and change in the rate of unemployment; percentage changes otherwise. 2. Average from beginning of year except for work permits where the cumulated number of permits is shown. Change on previous year refers to change in the average number of unemployed and change in the unemployment ratio; percentage changes otherwise.

	Latest period	Latest value	Value 1 year ago	%-change on previous		From beginn. of year	
				period	previous year	Value	Change on prev. year (%)
<i>V Public finances</i>							
Treasury revenue balance (billion kr.)	Feb. '03	0.0	1.0	-	-	1.9	-
- as a percentage of revenue (%)	Feb. '03	0.0	5.1	-	-	4.3	-
Net borrowing requirement (billion kr.)	Feb. '03	-1.4	5.1	-	-	-2.5	-
- as percentage of revenue (%)	Feb. '03	-6.5	25.3	-	-	-5.6	-
Treasury revenue (b.kr.)	Feb. '03	21.7	20.2	2.3	7.5	44.2	6.4
- from VAT (b. kr.)	Feb. '03	6.4	5.9	1.9	8.0	13.4	11.9
- from payroll & personal income tax withheld (b.kr.)	Feb. '03	6.4	6.2	0.8	3.0	13.0	3.5
- from imports, liquor, car ownership (b.kr.).....	Feb. '03	1.3	1.2	0.2	9.0	2.5	18.5
Treasury expenditures (b.kr.)	Feb. '03	21.7	19.2	6.1	13.2	42.3	10.7

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

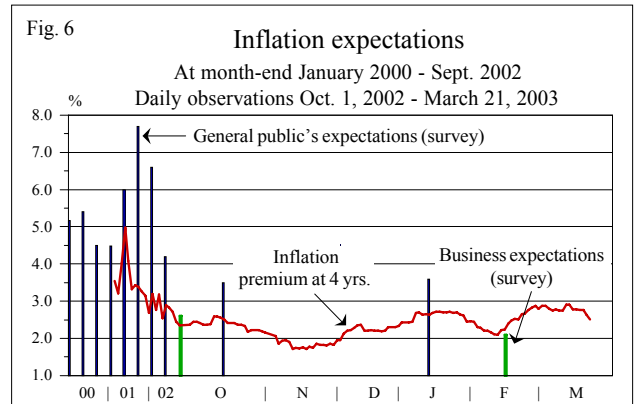
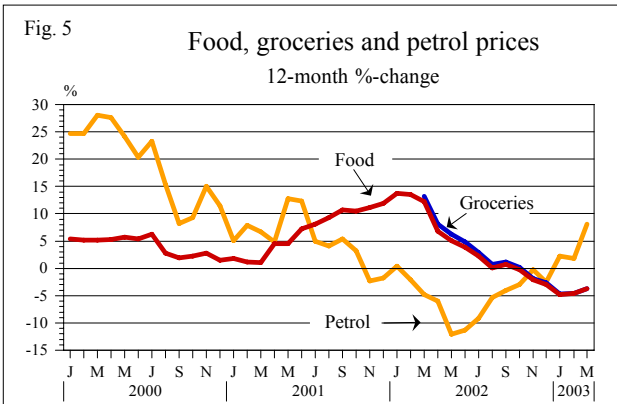
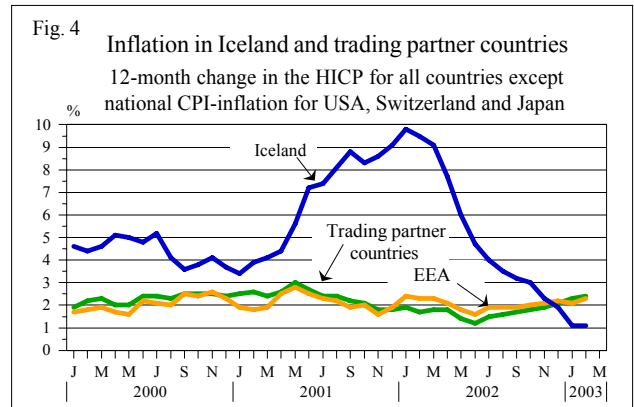
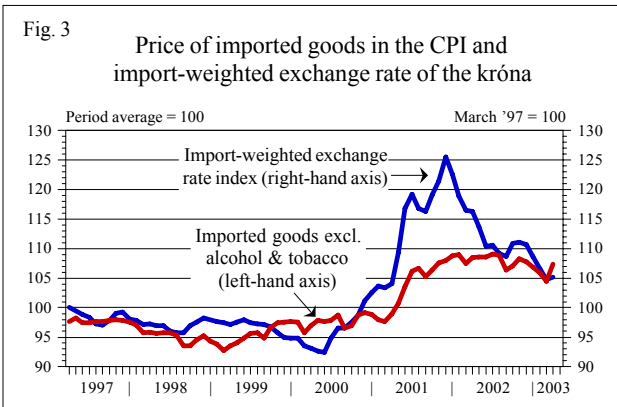
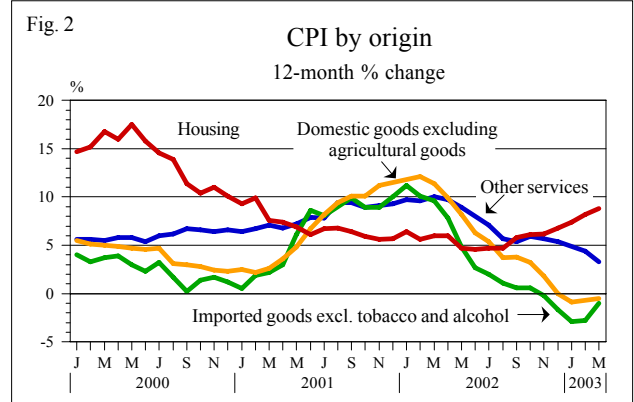
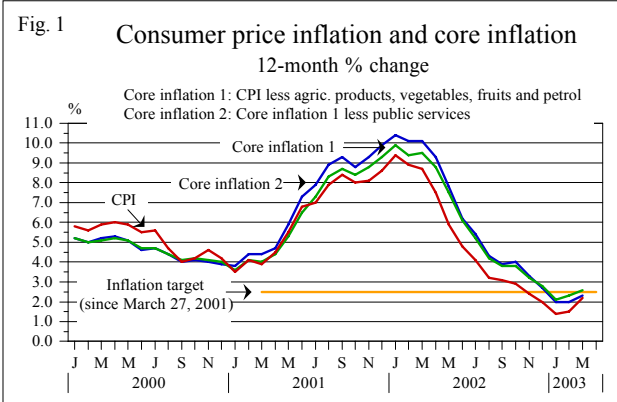
	Latest period	Latest value	Value 1 year ago	%-change on previous		From beginn. of year	
				period	previous year	Average	Change on prev. year (%)
<i>VI Asset markets</i>							
ICEX-15 monthly average (Dec. 1997=100).....	Feb. '03	1,364.0	1,275.2	1.8	7.0	1,351.9	8.6
ICEX Main monthly average (Dec. 1997=100)	Feb. '03	1,437.3	1,284.0	1.1	11.9	1,429.3	13.8
Turnover on Iceland Stock Exchange (ICEX), monthly (b.kr.)	Feb. '03	37.0	24.8	27.5	49.5	66.1	34.3
Residential housing price index ¹ (Jan. 1996=100)	Feb. '03	173.8	161.5	0.9	7.6	173.0	7.5
Real residential housing prices ¹ (Jan. 1996=100)	Feb. '03	135.2	127.7	0.8	5.8	134.6	5.6
Price of long-term cod quota (kr./kg.)	Feb. '03	1,250	780	4.2	60.3	1,217	60.8

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

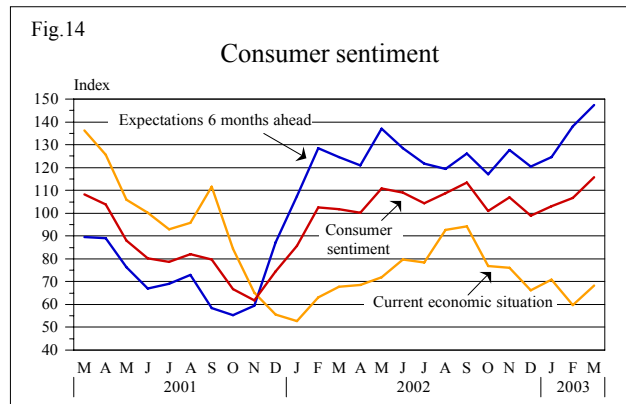
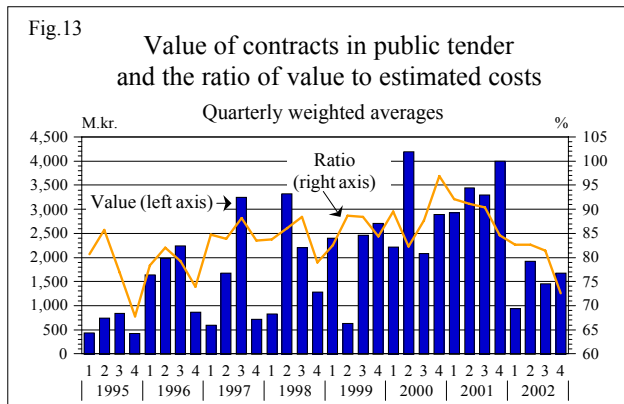
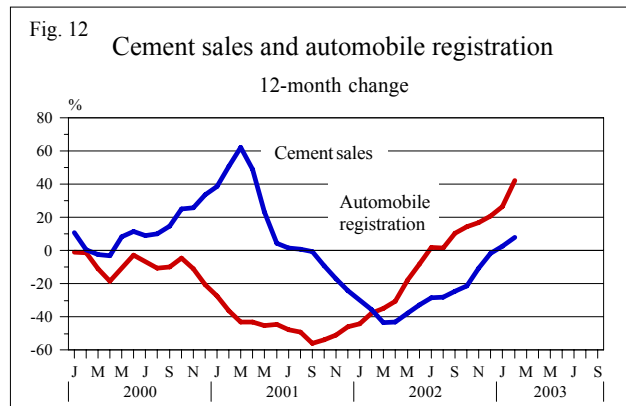
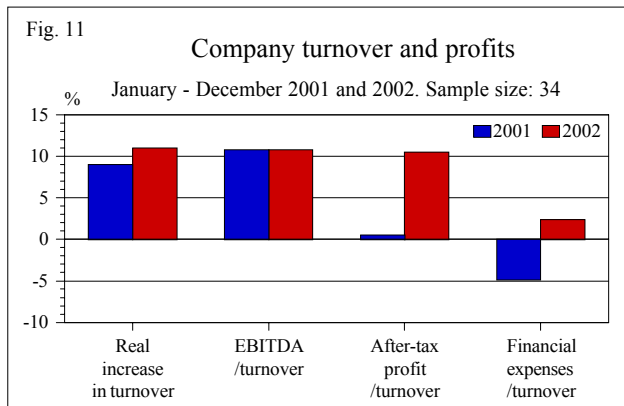
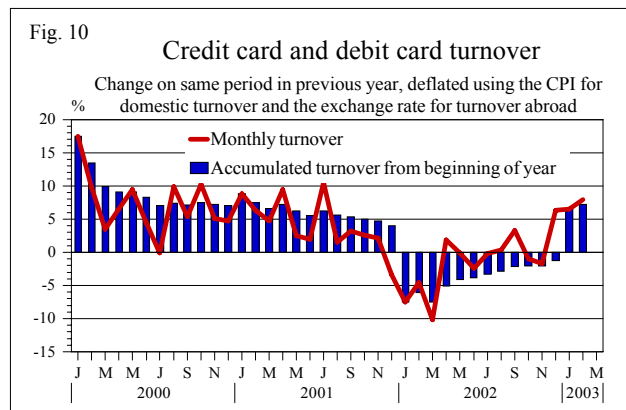
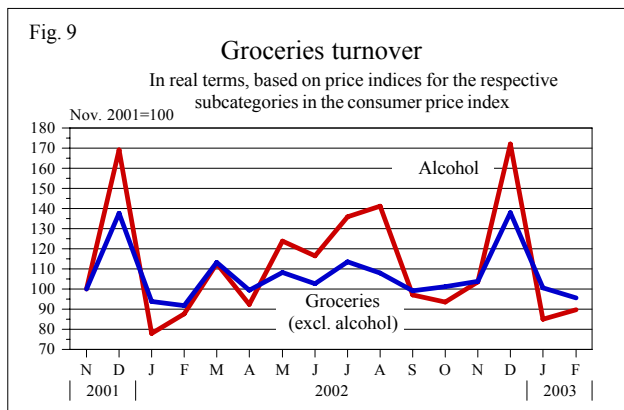
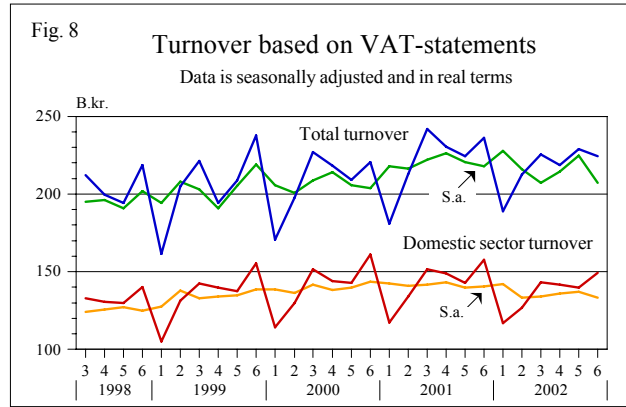
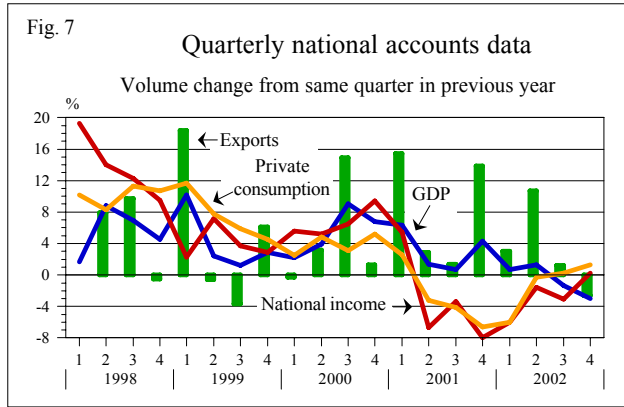
	Latest period	Latest value	Value 1 year ago	%-change on previous		From beginn. of year	
				period	previous year	Average	Change on prev. year (%)
<i>VII Financial markets</i>							
Bank lending to domestic sector (b.kr.).....	Feb. 28 '03	703,7	690,9	2,8	1,9	-	-
- adjusted for estimated indexation effects on inflation-							
and exchange rate-linked loans (index)	Feb. 28 '03	166,7	156,8	3,0	6,3	-	-
- in real terms (January 1999=100)	Feb. 28 '03	120,9	128,1	-3,7	-5,7	-	-
Credit system total lending (b.kr.)	Dec. 31 '02	1,985,0	1,918,3	0,5	3,5	-	-
M3 (b.kr.)	Feb. 28 '03	393,2	350,2	1,2	12,3	-	-
Central Bank policy interest rate (%)	Mar. 21 '03	5,3	10,1	0,0	-4,8	5,5	-4,6
Money market yield, 3-mo. (%) ¹	Mar. 21 '03	5,4	11,6	-0,4	-6,2	5,8	-6,4
Treasury bill yield, 3-mo. (%) ¹	Mar. 21 '03	5,3	9,6	-0,1	-4,4	5,5	-3,5
Treasury bill real yield, 3-mo., based on inflation premium (%) ¹	Mar. 21 '03	2,5	7,1	-0,7	-4,6	2,9	-4,1
Yield on Treasury notes (4 yrs., RIKB 07 0209) (%) ¹	Mar. 21 '03	7,1	9,2	0,2	-2,0	7,1	-1,5
Yield on Treasury notes (10½ yrs., RIKB 13 0517) (%) ¹	Mar. 21 '03	7,8	.	0,3	.	7,7	.
Real yield on housing bonds (25 yrs., IBH 26 0315) (%) ¹	Mar. 21 '03	4,9	6,1	0,0	-1,2	5,0	-0,6
Real yield on housing bonds (40 yrs., IBH 41 0315) (%) ¹	Mar. 21 '03	4,9	5,8	0,0	-0,8	4,9	-0,3
Real yield on treasury bonds (5 yrs., RIKS 05 0410) (%) ¹	Mar. 21 '03	4,2	6,2	-0,2	-1,9	4,4	-1,2
Real yield on treasury bonds (15 yrs., RIKS 15 1001) (%) ¹	Mar. 21 '03	4,8	5,4	0,0	-0,6	4,8	-0,1
Average bank lending rate, non-indexed loans (%) ¹	Mar. 21 '03	12,0	17,4	-0,5	-5,4	12,3	-5,1
Average bank lending rate, indexed loans (%) ¹	Mar. 21 '03	9,2	10,2	-0,2	-1,0	9,4	-0,8
Exchange rate index of króna (Dec 31. 1991=100) ¹	Mar. 21 '03	122,1	137,4	0,2	-15,3	122,6	-16,0

1. All figures except for two last columns are based on 4-week averages.

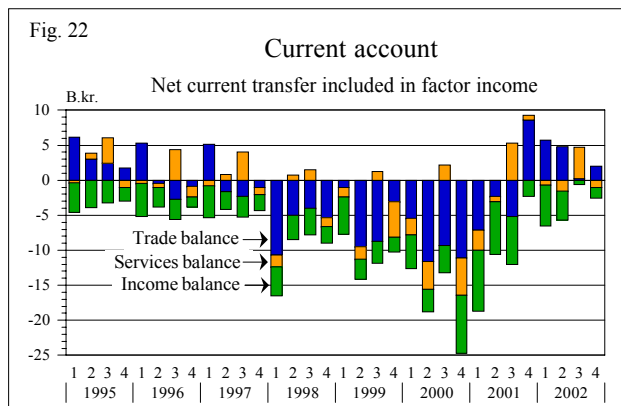
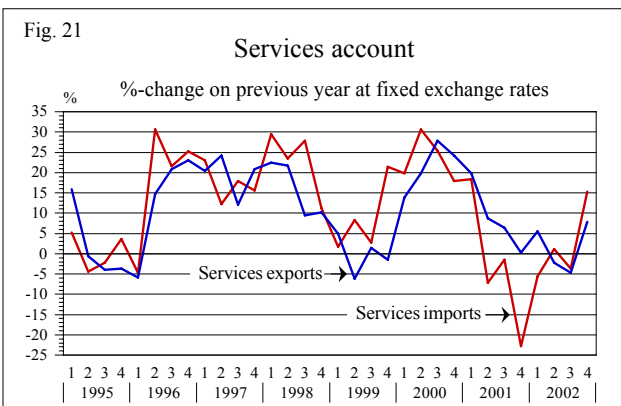
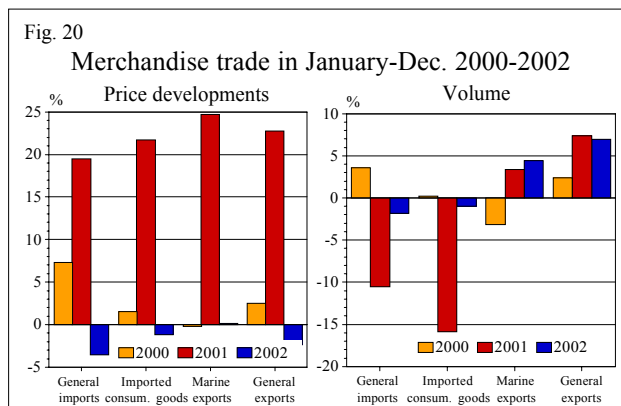
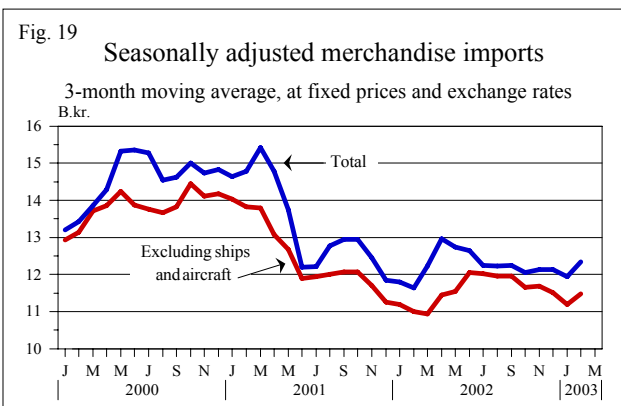
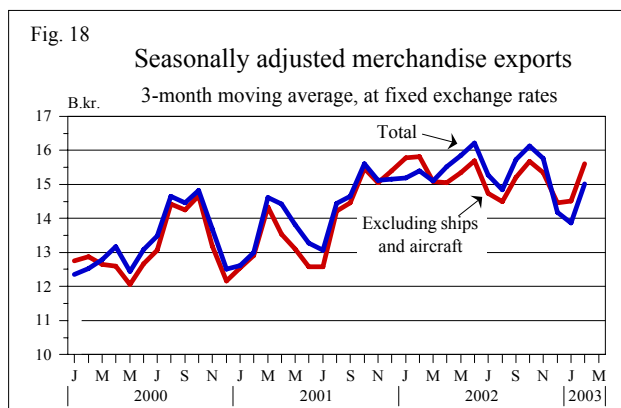
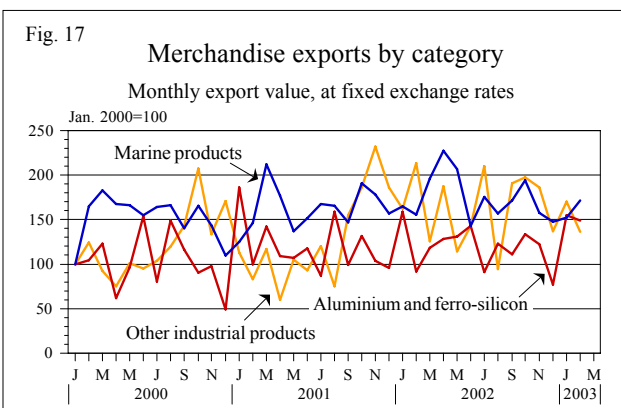
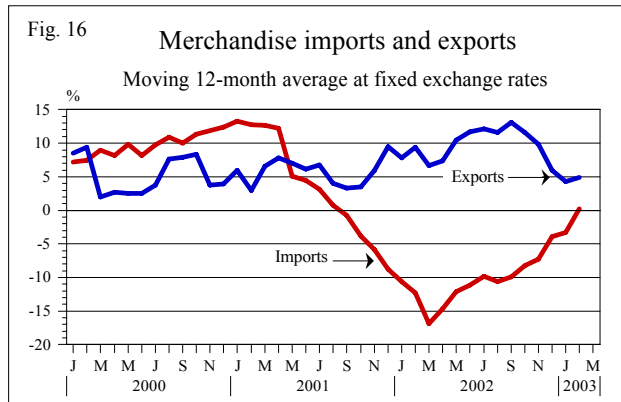
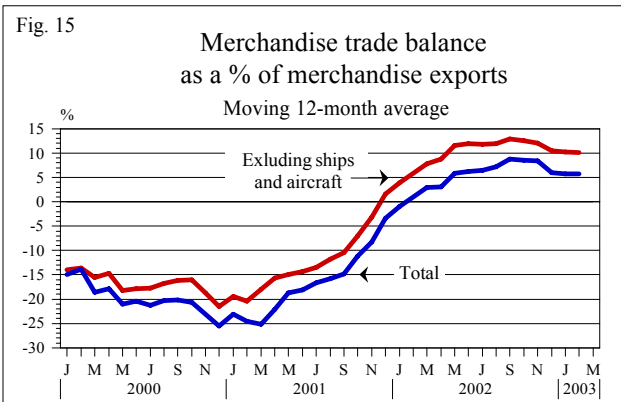
I Inflation and inflation expectations



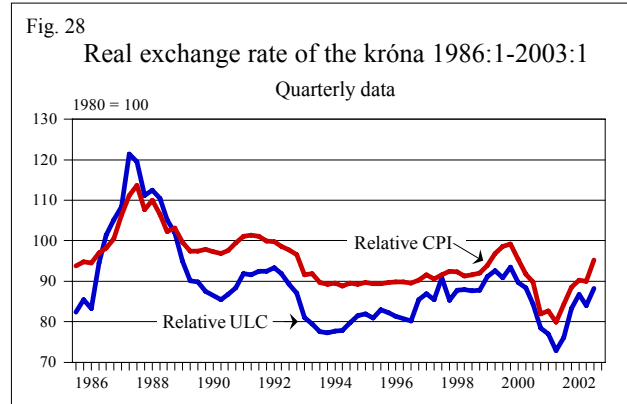
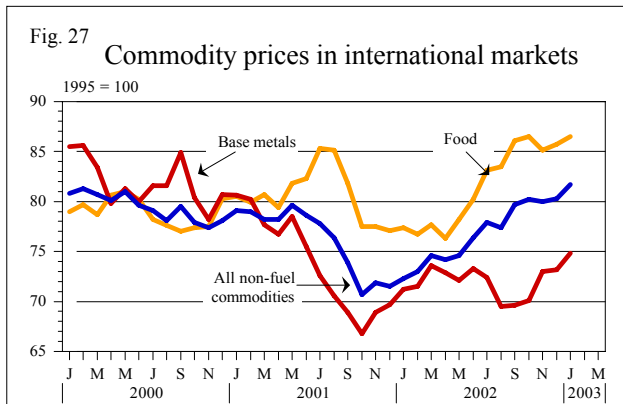
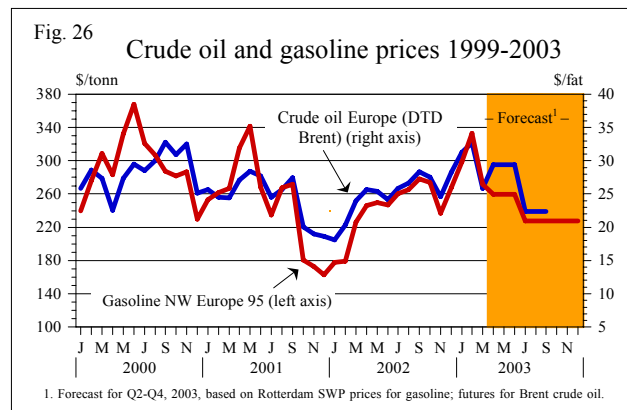
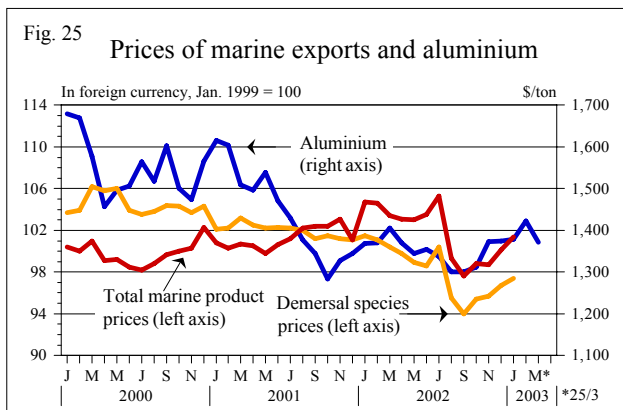
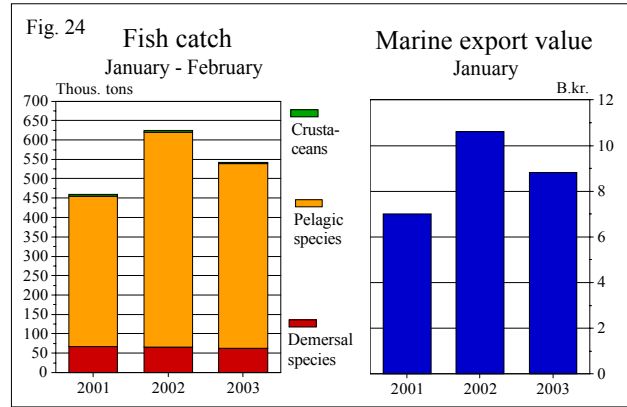
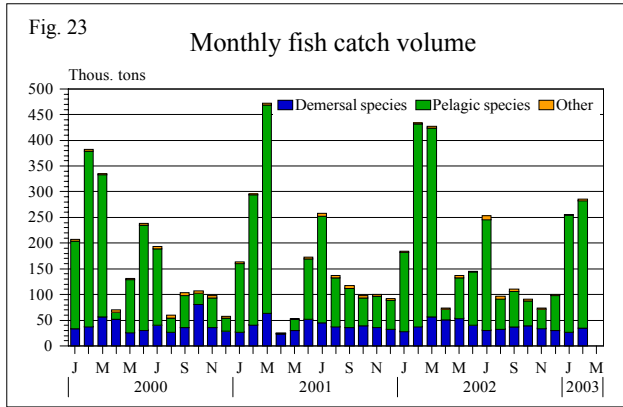
II Output and demand



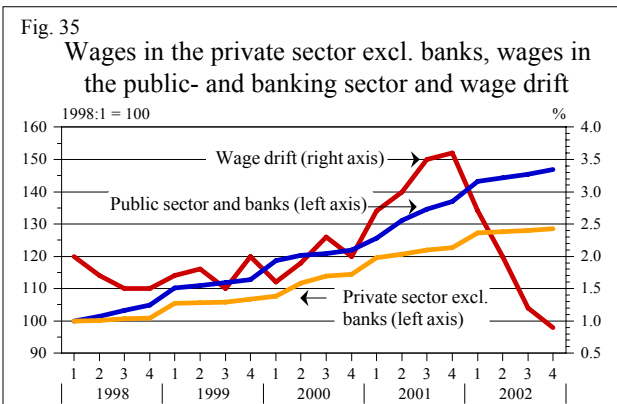
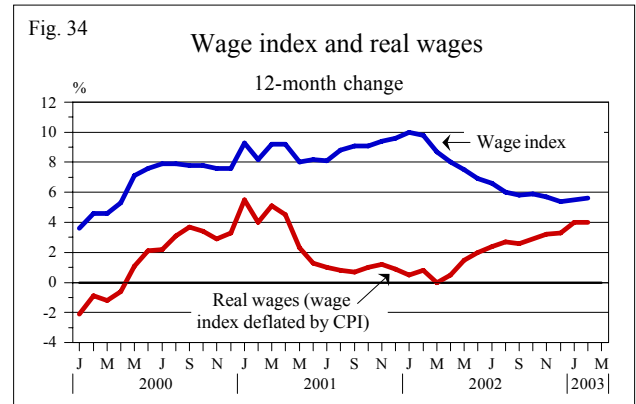
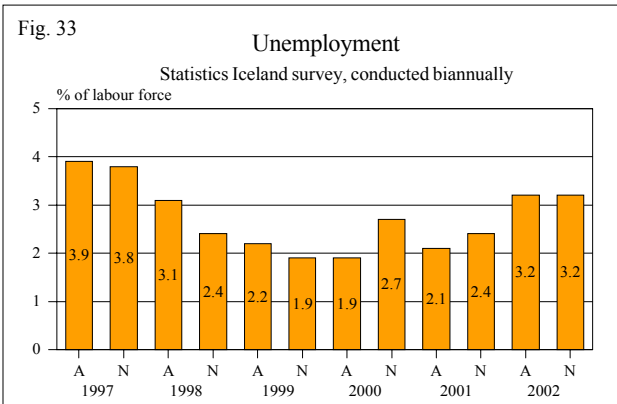
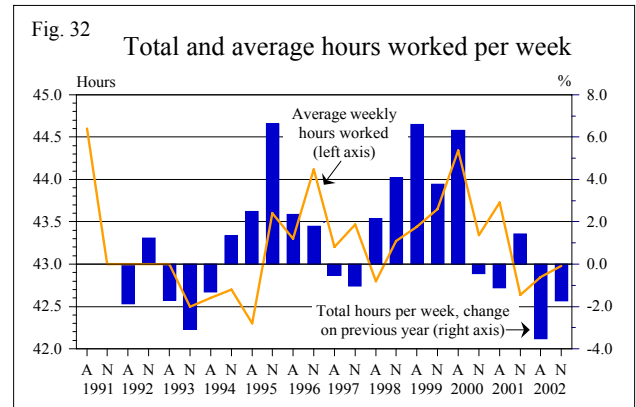
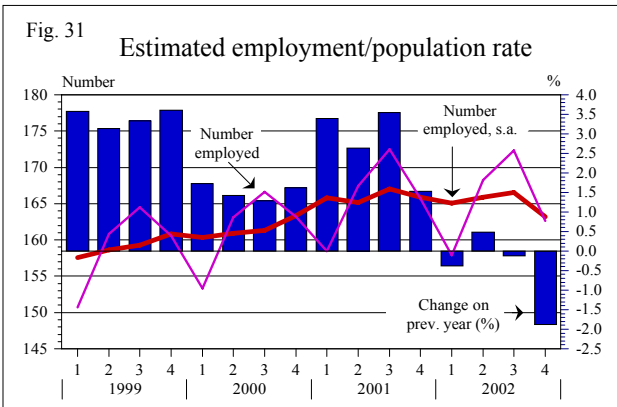
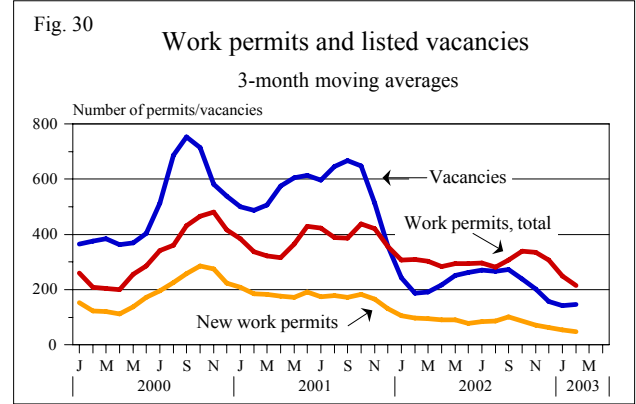
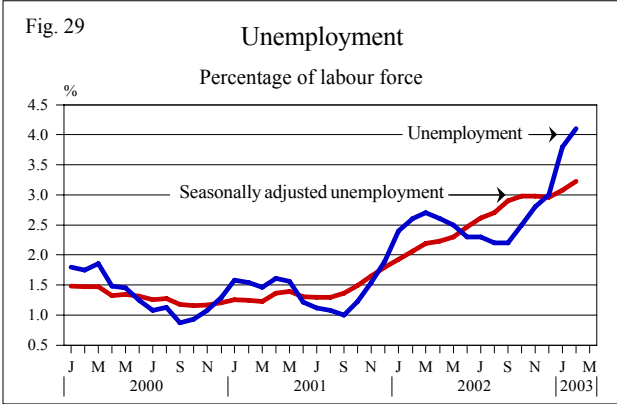
III Foreign trade and the external economic conditions

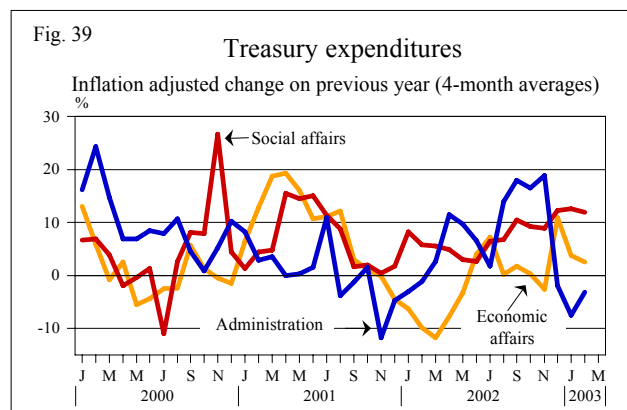
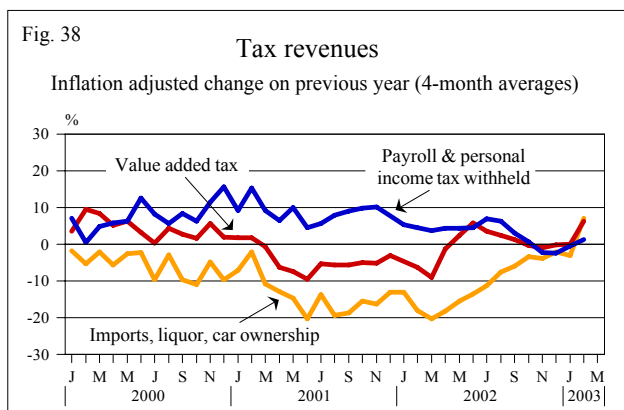
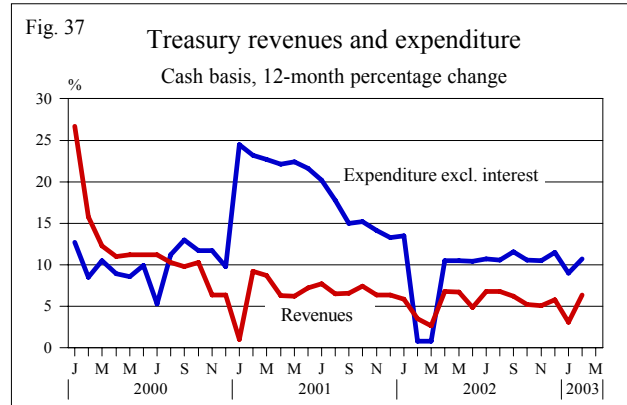
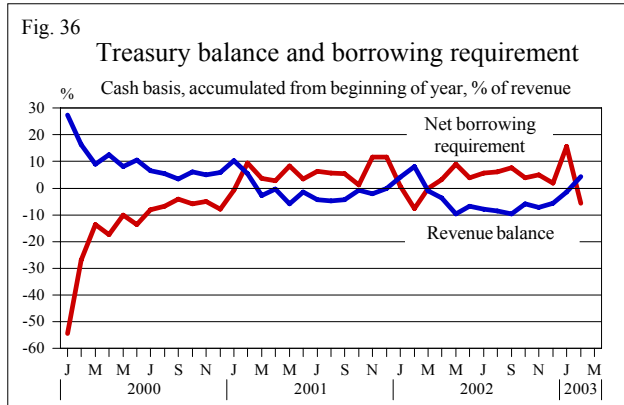


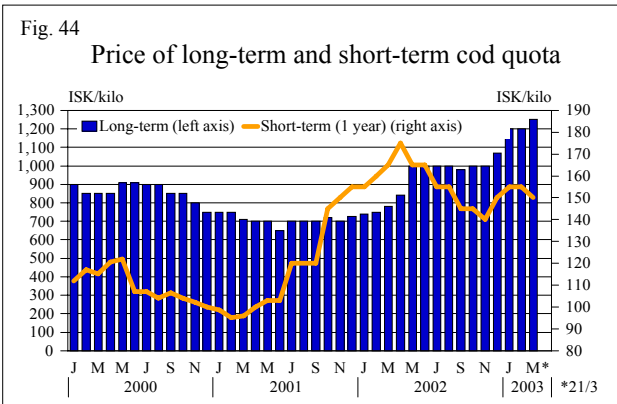
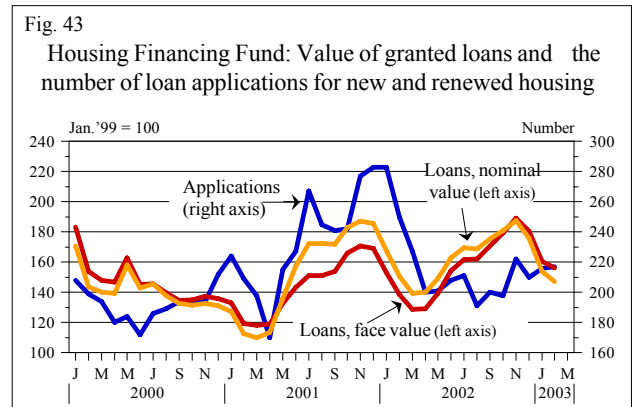
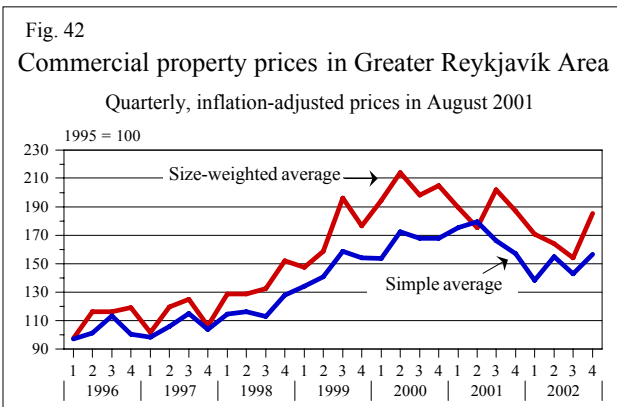
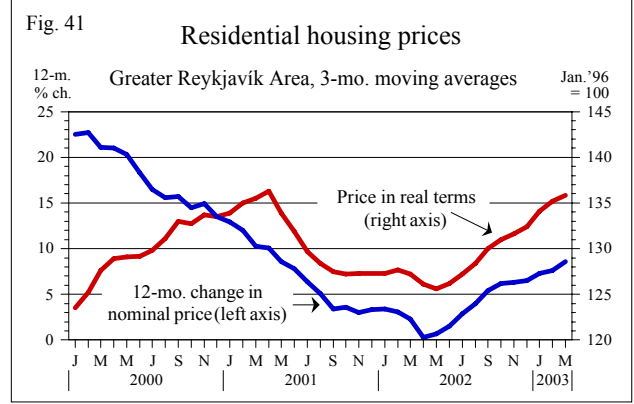
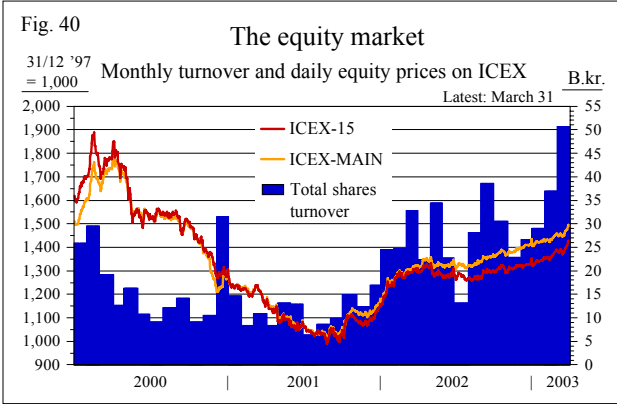
III Foreign trade and the external economic conditions (cont.)

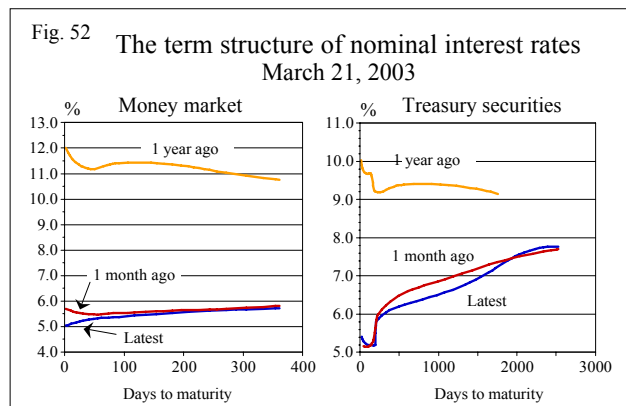
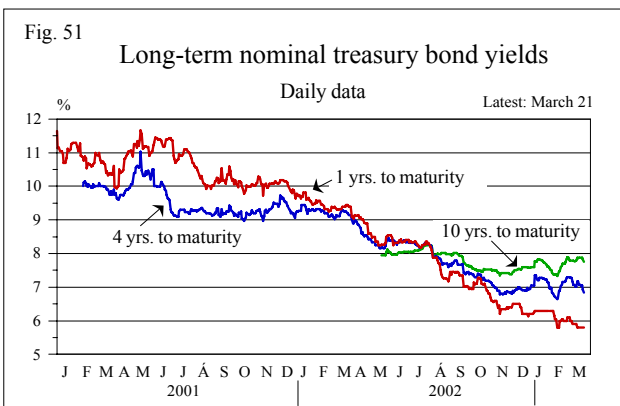
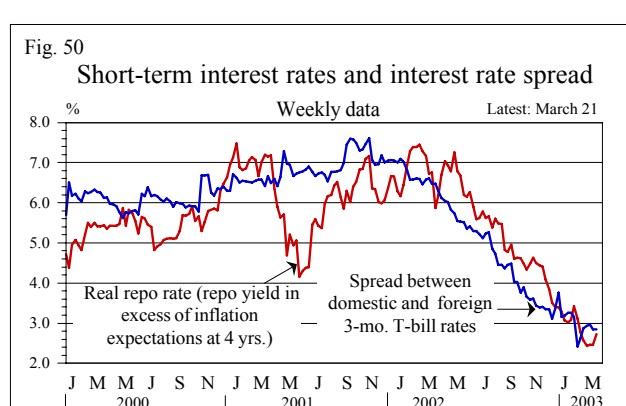
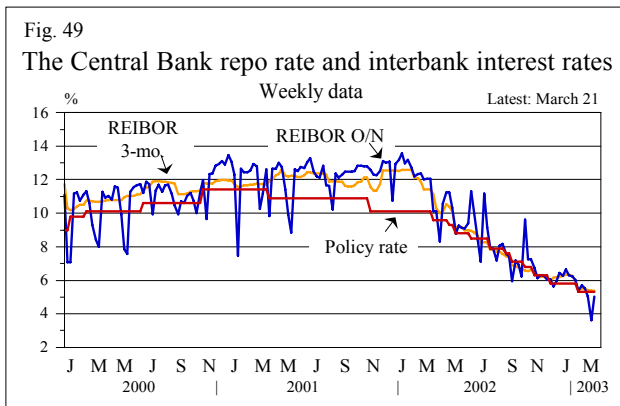
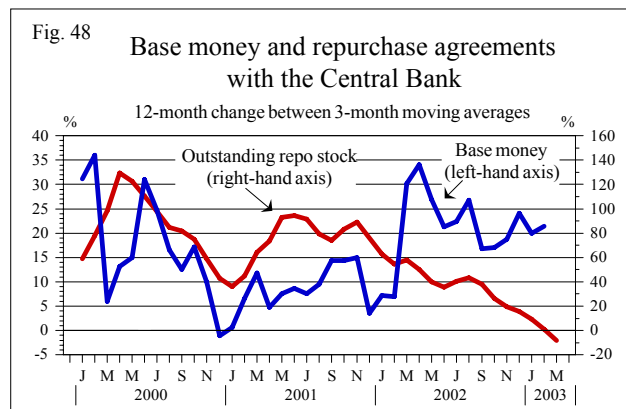
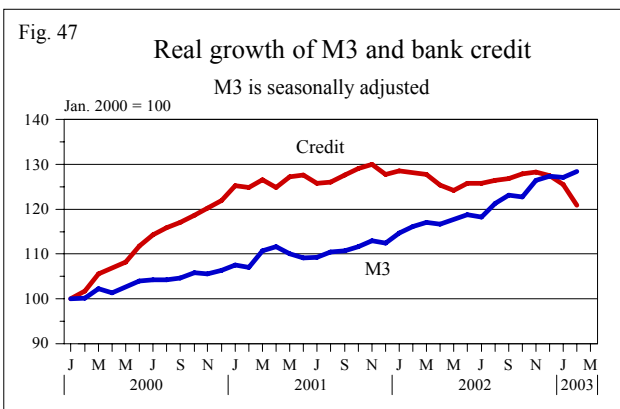
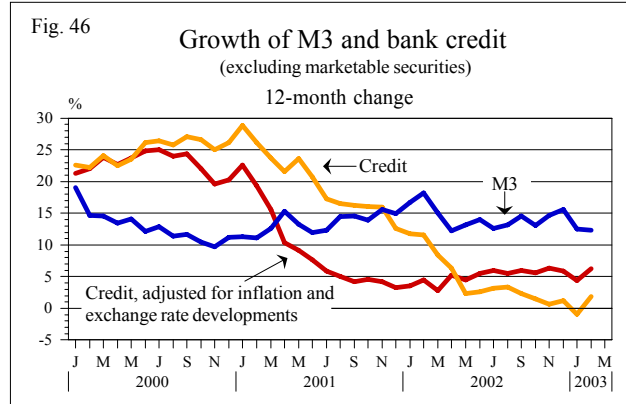
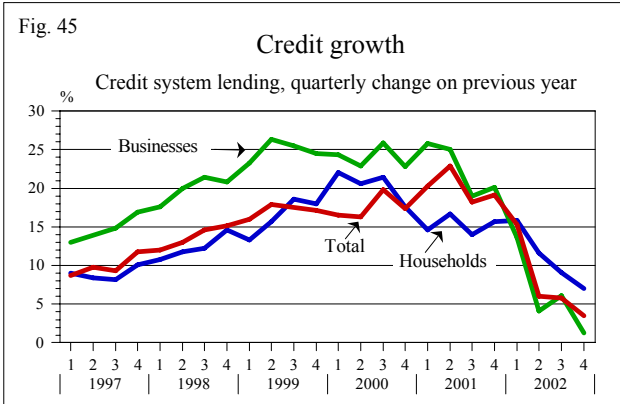


IV Labour market and wages









VII Financial markets (cont.)

