

The Cyprus Composite Leading Economic Index (CCLEI)

"Improved prospects for economic recovery, depending however, on the evolution of the pandemic"

What is a Composite Leading Economic Index (CLEI)?

The CLEI is designed to provide early warning signals for the turning points of business cycles i.e., early evidence of the turns in economic activity. This index comprises of a number of leading economic activity variables whose changes tend to lead the changes in the overall economic activity and which are evaluated on a regular basis.

What are the components of the Cyprus Composite Leading Economic Index (CCLEI)?

The leading variables which have been carefully selected from a large pool of local and international leading indicators currently are: the Brent Crude oil price, the euro area Economic Sentiment Indicator (ESI), the total property sales of contracts, the tourists' arrivals, the value of visa card transactions, the retail trade sales turnover volume index, and the volume index of electricity production.

The Cyprus Composite Leading Economic Index¹ (CCLEI) recorded a year-over-year decrease of 0.1% in March² 2021 reaching a level of 103.4, after the year-over-year reductions of 4.8% in February and 5.1% in January (based on the latest and revised data).

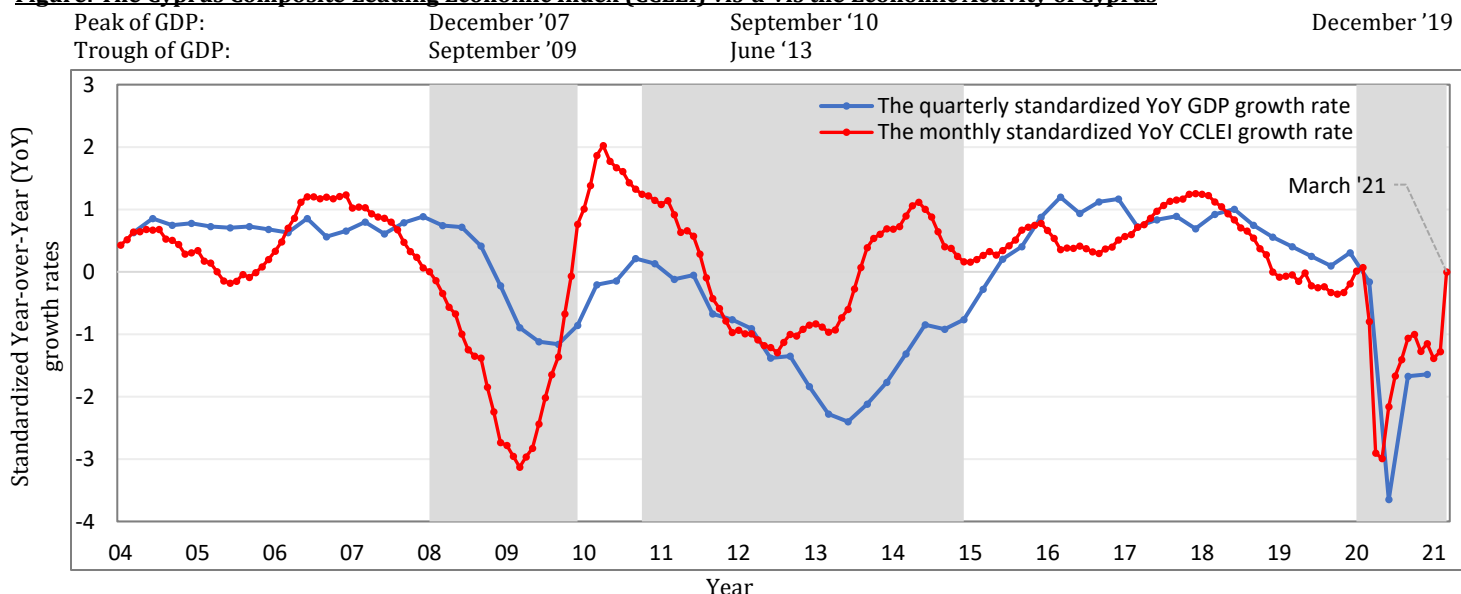
The recovery of the CCLEI in March 2021 reflects the extensive vaccination campaigns and the gradual lifting of the restrictive measures against the COVID-19 pandemic, which have helped to form improved economic growth expectations and conditions. More specifically, the Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, strengthened significantly in March 2021. It is worth mentioning that the ESI in Cyprus does not record the sharp increase of the corresponding euro area ESI due to the fact that the business climate in Cyprus, in contrast to that of the euro area, declined in March 2021. At the same time, the gradual lifting of restrictive measures contributes positively to the domestic economy's growth. In particular, preliminary estimates indicate a positive year-over-year growth rate in March 2021 for the volume of electricity production, after the significant year-over-year reductions recorded in February and January 2021. The total number of property sales contracts in March 2021 also records a significant year-over-year increase. In addition, the positive year-over-year growth rates of credit card transactions continue given that electronic payments are also a precautionary measure against the pandemic. On the other hand, oil prices (Brent Crude), which are close to pre-pandemic levels, as well as the significantly reduced tourist arrivals, contribute negatively to the year-over-year growth rate of the CCLEI. Furthermore, although the retail trade is among the sectors affected by the restrictive measures, it showed an improvement in March 2021.

In summary, the recovery of the CCLEI in March 2021 indicates the prospects of recovery of the Cypriot economy - the realization of which, however, lies in the evolution of the COVID-19 pandemic, but also the speed of vaccination campaigns. Further information regarding the methodology of constructing the CCLEI can be found at: [Cyprus Composite Leading Economic Index \(CCLEI\)](#)

Notes:

1. The CCLEI Index was estimated based on the econometric model of Aruoba, Diebold and Scotti (ADS) (2009).
2. The CCLEI for March 2021 is constructed based on the availability of the Brent Crude oil price, the euro area Economic Sentiment Indicator, the total number of property sales contracts, as well as the high frequency data of the passengers' arrivals and the volume of electricity production for March, while its other components are estimated based on the latest available information in a series of various economic indicators.

Figure: The Cyprus Composite Leading Economic Index (CCLEI) vis-à-vis the Economic Activity of Cyprus



Source: Economics Research Centre (ERC) - Department of Economics, University of Cyprus (UCY).

Note that for comparison purposes, the quarterly Year-over-Year (YoY) growth rate of the Gross Domestic Product (GDP) vis-à-vis the monthly YoY growth rate of the CCLEI are presented in a standardized format in the graph. Shaded areas represent recession periods defined following the CERP Euro Area Business Cycle Dating Committee in combination with the conventional recession definition of at least two consecutive quarters of negative YoY growth rate of the GDP.