

The Cyprus Composite Leading Economic Index (CCLEI)

"Small Reversal of the November flash estimated CCLEI in the midst of the new pandemic wave"

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 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 4.1% in October 2020 reaching a level of 103.2, after the year-over-year reductions of 4.3% in September and 5.4% in August (based on the latest and revised data).

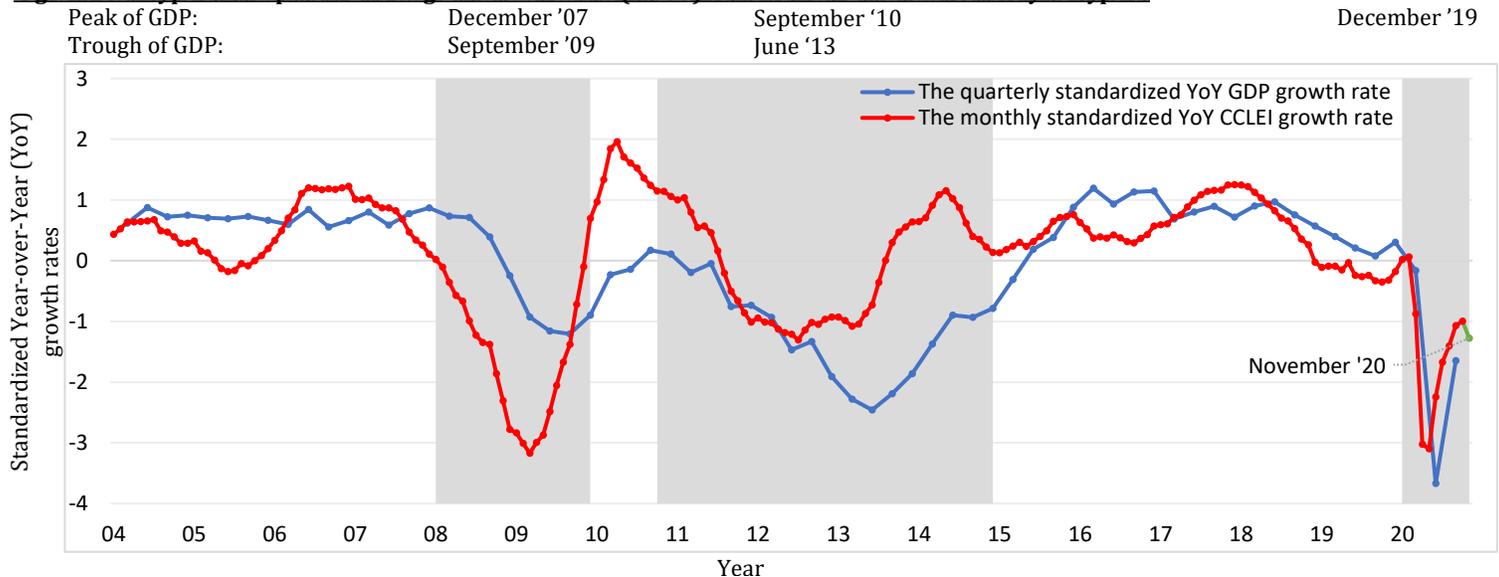
The continued recovery of the CCLEI from the historically low levels of the crisis appears to have come to a halt since in October of 2020 the year-over-year growth rate of the Index remains around at that of September while the flash estimate of the CCLEI in November 2020² (year-over-year) growth rate records a decline from the previous month. The year-over-year growth rate of the CCLEI in October, as well as the fall of the year-over-year growth rate of the November flash estimated CCLEI, are attributed to the uncertainty of the second wave of the pandemic both in Cyprus and internationally, which in any case is lower compared to March of 2020. More precisely, in October the Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, remained at the same level as in September while in November it decreased. In addition, despite its seasonality, tourism continues to be a brake on the recovery of the CCLEI, since for the months of October and especially November of 2020 tourist arrivals continued to be significantly reduced compared to the corresponding months of the previous year. Moreover, the year-over-year improvement in electricity production seems to be slowing down, reflecting both the recent anti-pandemic measures and the extremely high temperatures recorded in recent months. Nevertheless, a number of domestic variables have a positive effect on the CCLEI. In particular, preliminary estimates of the year-over-year growth rates indicate the year-over-year improvement in the volume of retail sales in October 2020 compared to the previous months, as well as a significant year-over-year improvement in the total number of sales contracts in October. Furthermore, credit card transactions show a significant year-over-year improvement, reflecting, in part, the increasing shift to electronic means of payment.

Concluding, the year-over-year growth rate of the CCLEI in October and the fall of the year-over-year growth rate of the November flash estimated CCLEI reflect the uncertain economic environment due to the dynamic evolution of the pandemic locally and internationally. Further information regarding the methodology of constructing the CCLEI Index can be found at: <http://www.ucy.ac.cy/erc/el/publications/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 flash estimate of the CCLEI for November 2020 is constructed based on the availability of the euro area Economic Sentiment Indicator, the Brent Crude oil price and the high frequency data of the volume of electricity production and passengers' arrivals for November, while its other components are estimated by the Economics Research Centre (ERC) of the University of Cyprus based on the latest available information in a series of various 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 YoY GDP growth rate vis-à-vis the monthly YoY CCLEI growth rate are presented in a standardized format in the graph. Shaded areas represent recessions 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 GDP growth rate.