The Cyprus Composite Leading Economic Index (CCLEI)

*"The improvement of the CCLEI continues but remains lower
than the pre-pandemic levels"*

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 Index[1] (CCLEI) recorded a decrease of 5.4% (from year to year) in August 2020 reaching a level of 102.3, after year-over-year reductions of 6.4% in July and 8.3% in June (based on the latest and revised data).

The recovery of the CCLEI continues in August and September 2020 from the historically low levels of the crisis. As in previous months, the improvement of the CCLEI is attributed to a series of variables, mainly domestic, which record a year-over-year improvement in August and September 2020 compared to the previous months. Specifically, the preliminary estimates indicate the year-over-year improvement in the volume of retail sales and electricity production in August and September 2020, as well as for the total actual number of sales contracts in August. In addition, credit card transactions continue to grow, having a positive effect on the Index, even though this year-over-year growth rate is lower compared to the previous months. Similarly, the Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, recorded an improvement in the third quarter of 2020. Despite the improvement recorded in recent months, the economic environment is still characterized by uncertainty which is related to the epidemiological data both in Cyprus and abroad. A brake on the recovery of the Index is tourism, which is being hit hard by the pandemic. During August and September of 2020, tourist arrivals were overwhelmingly lower than the corresponding months of the previous year.

In conclusion, the recovery of the CCLEI in August as well as of the flash estimate of the Index in September 2020[2] indicate the continuing gradual improvement of the economy from its historically low levels of growth. However, the economic environment of the Cypriot economy remains uncertain, due to the unpredictable evolution of the pandemic and its consequences. 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 index for September 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 September, 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

Peak of GDP:	December '07	September '10	December '19
Trough of GDP:	September '09	June '13	
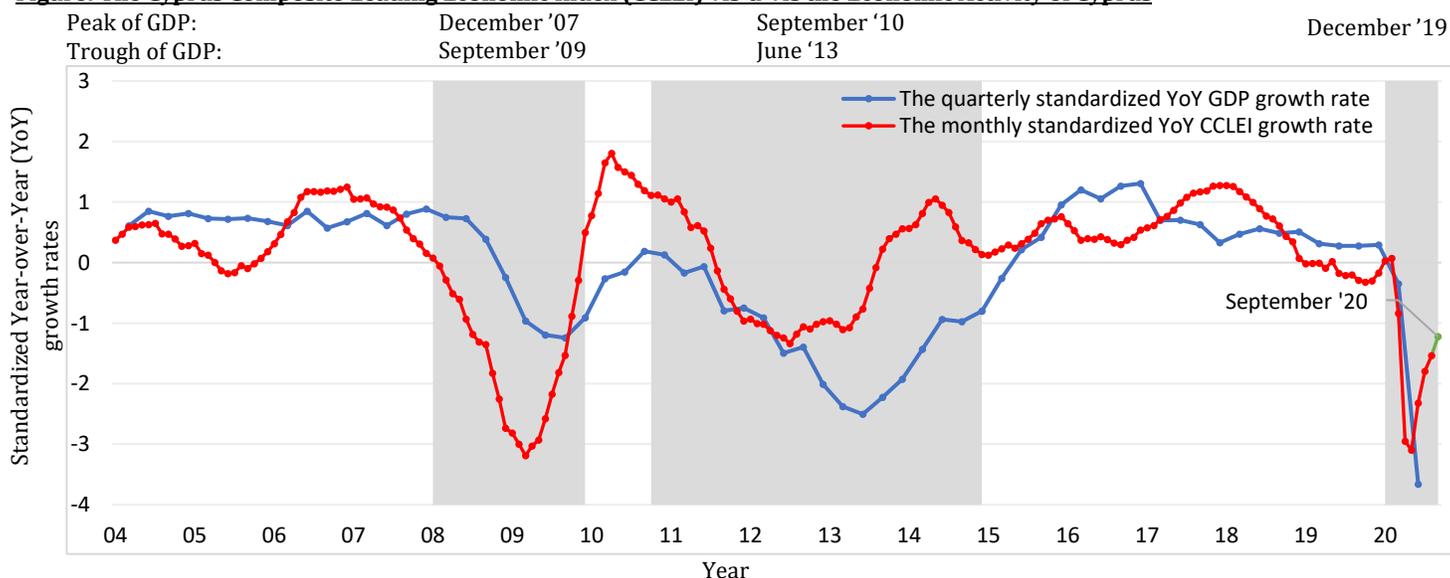
Source: Economics Research Centre (ERC) - Department of Economics, University of Cyprus (UCY).
Note that for comparison purposes, the quarterly YoY GDP growth rate vis-à-vis the monthly YoY CCLEI growth rate are presented in a standardized format in the graph. Shaded areas represent recessions defined 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.