



The Cyprus Composite Leading Economic Index (CCLEI)

The Index continues to decline but at a slower pace amid reduced economic uncertainty

What is a Composite Leading Economic Index (CCLEI)?

The index that is designed to provide early signals of turning points in business cycles i.e., early evidence of the turns in economic activity. This index comprises of a number of leading economic activity variables which tend to lead changes in the overall economic activity.

What are the components of the CCLEI?

The CCLEI is the combination of multiple leading indicators which have been carefully selected from a large number of international and local variables. Currently, the components are the Brent Crude Oil price, the Euro Area Economic Sentiment Indicator, the tourists' arrivals, the value of visa card transactions, the retail trade sales turnover volume index, the volume index of electricity production, and the number of authorized building permits. The leading properties of these variables are assessed on a regular basis.

Performance of the Index in December 2019

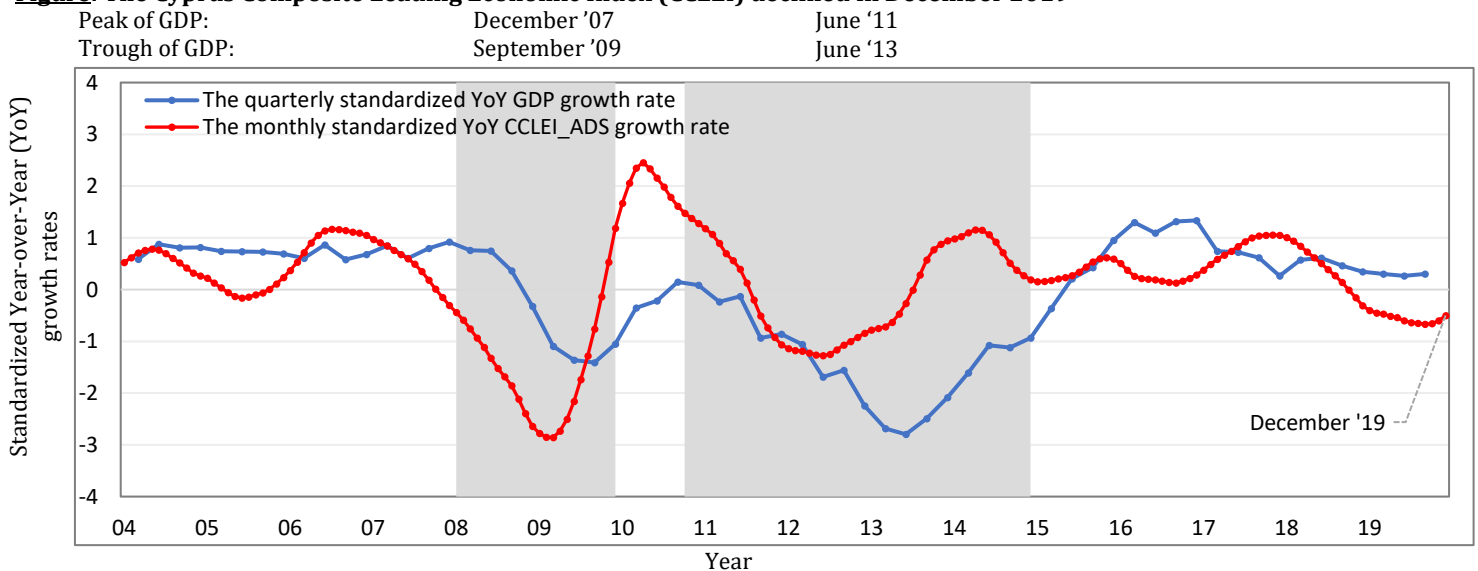
The Cyprus Composite Leading Economic Index (CCLEI) based on the Aruoba, Diebold, and Scotti (ADS) (2009) model approach (CCLEI_ADS), exhibited a Year-over-Year (YoY) decrease of 2.8% in December 2019 reaching a level of 110.6, following decreases of 3.5% in November, and 4.0% in October (using the updated data) and thus suggests a subdued, although moderated growth in the near term.

The negative trend in the CCLEI is mainly due to external pressures, which are reflected in the index through the YoY reduction in the Euro Area Economic Sentiment Indicator (EAESI) and the YoY increase in the Brent Crude Oil price. Although the CCLEI seems to incorporate the recent positive developments, including the improvement of the EAESI in the last two months, its expansion rate continues to be negative, reflecting the ongoing, albeit relatively weaker, challenges in the external environment (e.g. international trade disputes despite favorable developments between US-China trade relations, Brexit, the coronavirus epidemic). Concerning the domestic economic environment, the local electricity production growth rate has marked a 2.2% YoY decrease in November 2019, following a relatively small YoY negative growth rate in October 2019. In contrast, the YoY positive performance of the rest of the domestic indicators, in particular, credit card transactions and tourist arrivals through December 2019, and the retail sales volume and authorized building permits through November and October 2019, respectively, restrain the YoY reduction of the Index.

In summary, the recent downward trends in the CCLEI are mostly due to the uncertain external environment, which in conjunction with the deceleration in the YoY reduction of the EAESI and the YoY positive performance of most of the domestic variables, suggest an expanding but at slower rate growth economy.

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>

Figure: The Cyprus Composite Leading Economic Index (CCLEI) declined in December 2019



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.