

The Cyprus Composite Leading Economic Index (CCLEI)

"Deterioration of the January CCLEI due to the new restrictive measures against 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 3.9% in January² 2021 reaching a level of 101.5, after the year-over-year reductions of 3.2% in December and 3.3% in November 2020 (based on the latest and revised data).

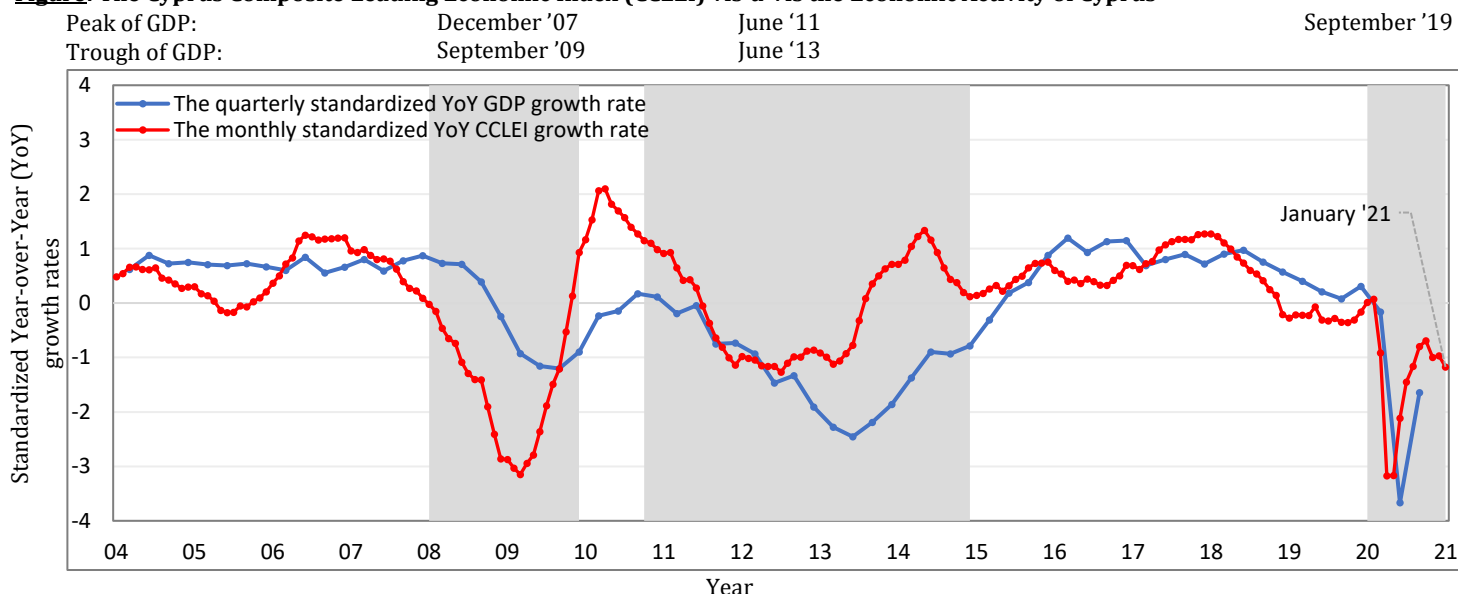
The deterioration of the CCLEI in January 2021 reflects the effects of the new restrictive measures to curb the spread of the coronavirus, both domestically and internationally. More specifically, although the Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, recorded an improvement in December compared to November 2020, in January 2021 it deteriorated, contributing negatively to the year-over-year growth rate of the CCLEI. Tourism also contributed in this direction, as in January 2021 tourist arrivals continued to be significantly reduced compared to the corresponding month of the previous year. In addition, the stricter restraint measures taken in Cyprus since the beginning of January, have adversely affected most sectors of the domestic economy. In particular, preliminary estimates indicate the recording of negative year-over-year growth rates in December 2020 and January 2021 for the volume of retail sales, as well as electricity production. Moreover, the negative year-over-year growth rate for the total number of property sales contracts continues in January 2021. In contrast, the year-over-year increase in credit card transactions and the negative year-over-year growth rate of oil price (Brent Crude) have a positive effect on the Index but their effect is offset by the fall of the other components of the CCLEI.

In conclusion, the deterioration of the year-over-year growth rate of the CCLEI in January 2021 reflects both the effects of the new restrictive measures against the spread of the coronavirus, but also the uncertain economic environment caused by the coronavirus pandemic. Further information regarding the methodology of constructing the CCLEI 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 CCLEI for January 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 January, 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.