



The Cyprus Composite Leading Economic Index (CCLEI)

Reversal of the Index's downward trend

January 2020

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 January 2020

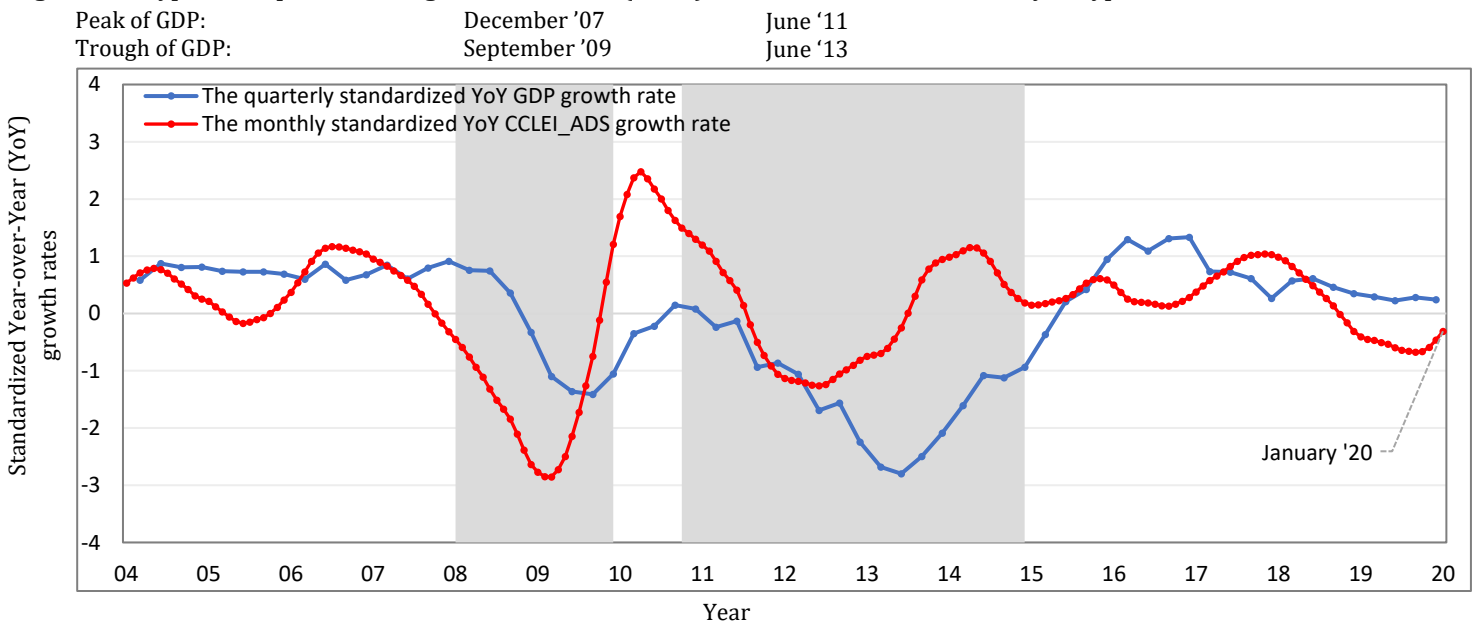
The Cyprus Composite Leading Economic Index (CCLEI) based on the Aruoba, Diebold, and Scotti (ADS) (2009) model approach (CCLEI_ADS), exhibited a Year-over-Year (YoY) decrease of 1.3% in January 2020 reaching a level of 110.9, following decreases of 2.5% in December, and 3.5% in November (based on the updated data).

The downward trend of the CCLEI Index appears to be reversed mainly due to the external factors and more precisely to the improvement of the Euro Area Economic Sentiment Indicator (EAESI) during the last three months, as well as the YoY negative performance of the Brent Crude Oil price in January. The risks surrounding the euro area's growth prospects which are linked to geopolitical factors, rising protectionism and vulnerabilities in developing markets continue but with less intensity as uncertainties surrounding international trade appear to subside. However, the outbreak of the coronavirus epidemic has created another source of international uncertainty. As a consequence, the ongoing challenges in the external environment, albeit diminished, are reflected in the negative YoY growth rate of the EAESI and subsequently in the negative - but at a slower pace - YoY growth rate of the CCLEI. Moreover, within the domestic economic environment, the local electricity production has exhibited a negative YoY growth rate in the last three months contributing in part to the negative YoY growth rate of the CCLEI Index. On the other hand, the YoY positive performance of the rest of the domestic indicators (credit card transactions, tourist arrivals, retail sales volume) and especially of the number of authorized building permits restrain the YoY reduction of the Index.

In summary, although the YoY downward trend of the CCLEI Index continues, recent facts indicate its reversal even though uncertainty in the external environment *hasn't been eradicated*. The YoY positive performance of most of the domestic variables offsets the downward trending suggesting an expanding but at slower pace growth economy in the near term.

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) 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.