



The Cyprus Composite Leading Economic Index (CCLEI)

"From the closing to the gradual restart of the economy"

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.

The Cyprus Composite Leading Economic Index (CCLEI) based on the Aruoba, Diebold, and Scotti (ADS) (2009) model approach (CCLEI_ADS), showed one of its most significant Year-over-Year (YoY) reductions in April 2020 (7.6%) reaching a level of 104.4 (based on the latest data).

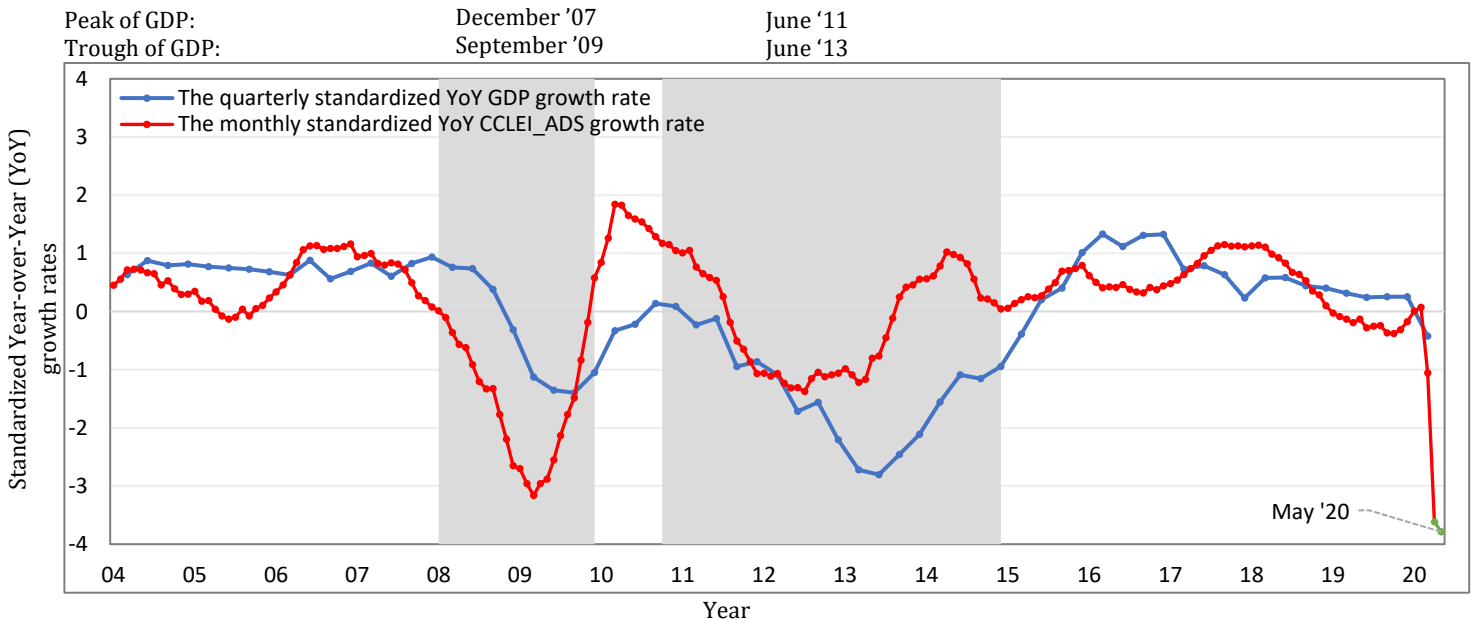
The CCLEI Index recorded one of its most significant negative Year-over-Year growth rates in April 2020. This significant drop is due to the temporary lockdown and restrictive economic activity measures both domestically and internationally. Within the domestic economic environment, preliminary estimates suggest significant negative YoY growth rates in March and April 2020 for both the volume of retail sales and electricity production. In addition, among the restrictive measures taken, the ban on entry into the Republic of Cyprus resulted in zero tourist arrivals and, consequently, no income from tourism for those particular months. *Nevertheless*, with the lifting of measures and the gradual transition to normalcy, the Economic Sentiment Indicator in the euro area, which recorded its strongest monthly decline in April 2020, appears to show some signs of improvement in May 2020. At the same time, increased credit card transactions combined with low year-over-year oil price growth rates in April and May 2020 signal the gradual restart of the economy.

In summary, the "closing" of the Cyprus economy led to the recording of one of the most important negative year-over-year pressures of the CCLEI Index in April 2020, which is expected to be particularly noticeable in the second quarter of 2020. However, this significant impact will begin to weaken with the gradual lifting of the restrictive measures, as shown by the flash estimate of the index in May 2020¹. 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>

Note:

1. The flash estimate of the CCLEI index for May 2020 is constructed based on the availability of the the euro area Economic Sentiment Indicator, the Brent Crude price and the high frequency data of the volume of electricity production for May, while its other components are estimated by the ERC 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.