



The Cyprus Composite Leading Economic Index (CCLEI)

The Cyprus economy facing a significant contraction

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.

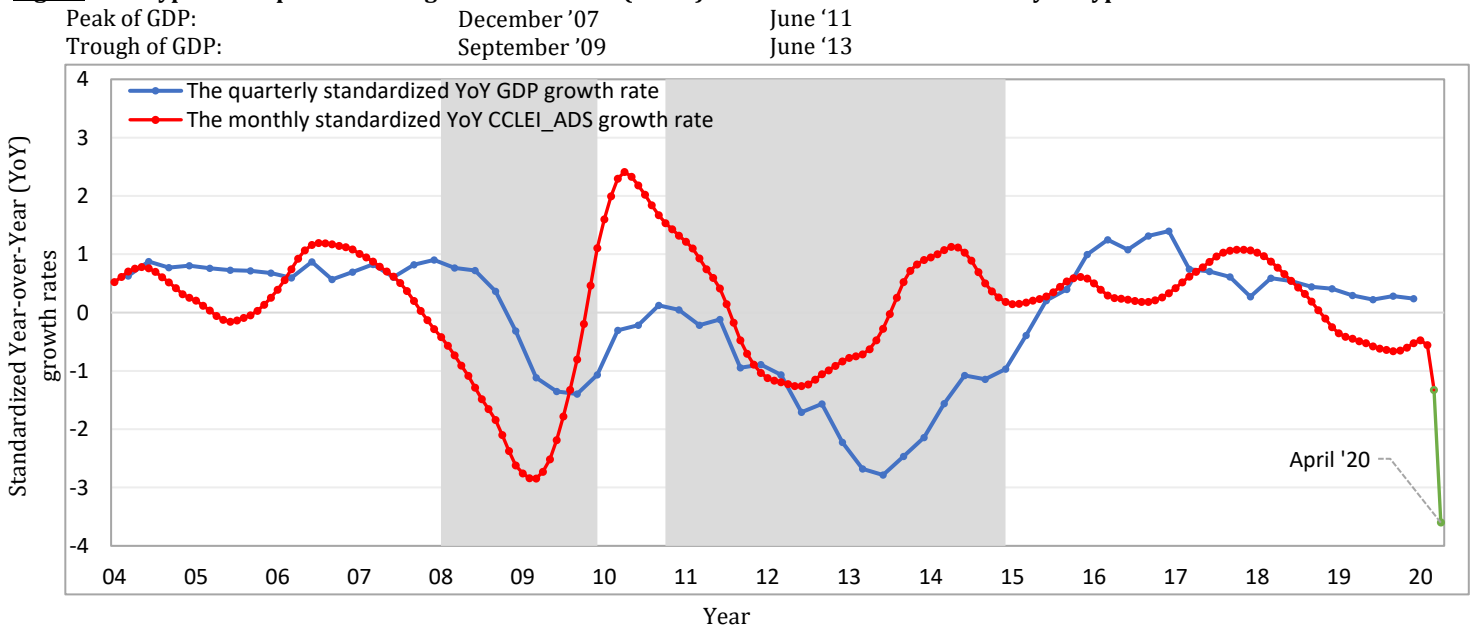
The Cyprus Composite Leading Economic Index (CCLEI) based on the Aruoba, Diebold, and Scotti (ADS) (2009) model approach (CCLEI_ADS), exhibited a Year-over-Year (YoY) decrease of 4.0% in March 2020 reaching a level of 112.9, following decreases of 2.1% in February, and 1.5% in January (based on the updated data).

The sharp drop in the CCLEI index is attributed to the sudden interruption of business activity and the parallel reduction in consumption as a result of the global pandemic of coronavirus. In particular, the Economic Sentiment Indicator (ESI) in the euro area recorded its strongest monthly decline in April 2020 amid a sharp decline in both consumer confidence and all business sectors. In addition, strict lockdown measures in the domestic economy have adversely affected most of its sectors. Both tourist arrivals and credit card transactions showed strong Year-over-Year declines in March and April 2020. Moreover, preliminary estimates suggest negative YoY growth rates in March and April 2020 for both the volume of retail sales and electricity production, while the YoY growth rate of the authorized building permits is expected to remain negative. It is noted that the "free fall" of the price of oil has a positive effect on the index but its positive impact is offsetted by the reductions observed on all remaining components of the Index. Therefore, estimating the flash estimate of the CCLEI Index for April 2020¹ (as shown in the diagram with the green line), is presented to record a dramatic decrease anticipating the significant contraction of the Cyprus 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>
Note:

1. The flash estimate of the CCLEI index for April 2020 is constructed based on the availability of the the euro area Economic Sentiment Indicator and the Brent Crude price for April, 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.