

The Cyprus Composite Leading Economic Index (CCLEI)

«Contraction and signs of improvement»

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), recorded its most significant Year-over-Year (YoY) reduction in May 2020 (11.8%) reaching a level of 95.5 (based on the latest and revised data).

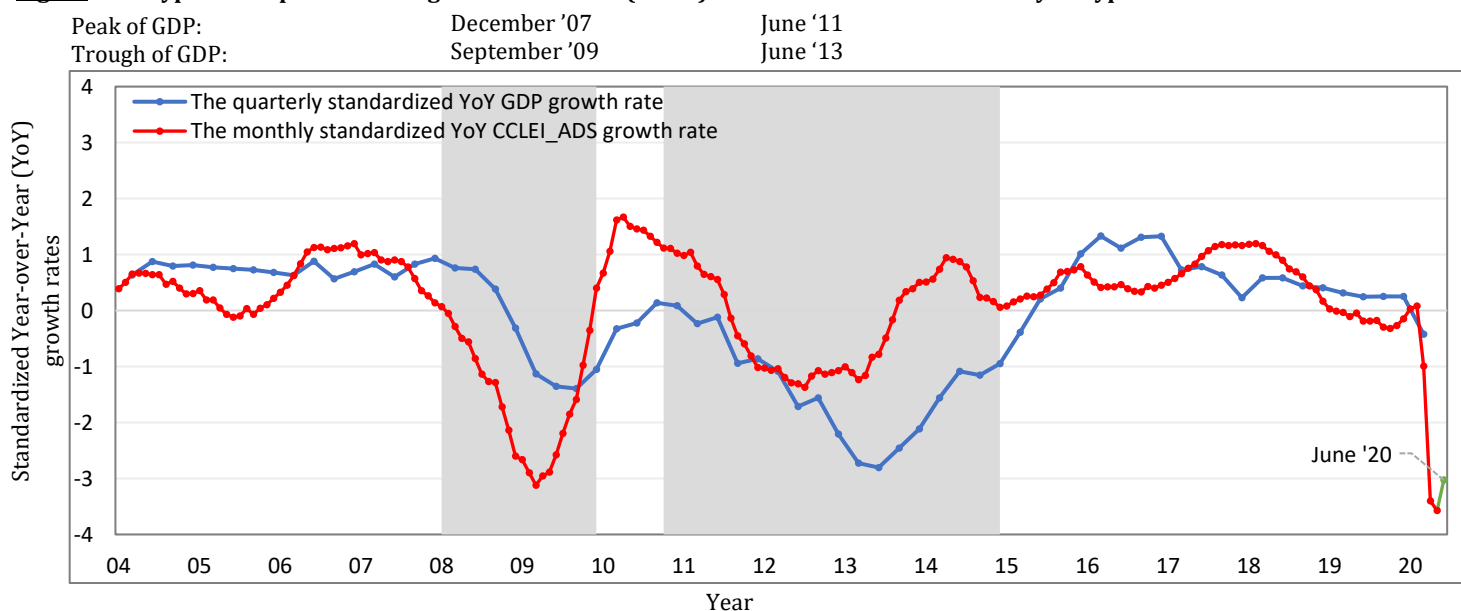
The negative year-over-year growth rate of the CCLEI in May 2020 confirms that the domestic economy was faced with an unprecedented contraction attributed to the temporary closure of the economy. In particular, among the measures taken, the ban on entry into the Republic of Cyprus resulted in zero tourist arrivals in May 2020, while the number of tourists in June 2020 is considerably lower relative to June last year. In addition, preliminary estimates indicate the negative year-over-year growth rates for the volume of retail sales and electricity production in May and June 2020. Nevertheless, the gradual recommencement of economic activity foreshadows the recovery of the Cypriot economy, which is expected to be particularly noticeable in the second half of 2020. The Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, has already shown signs of improvement in May and June 2020. In addition, the Brent Crude oil prices have recently recovered as restrictive measures in most countries have been eradicated. It is also noted that, the value of credit card transactions has increased, which reflects both the restart of the economy, as well as the preference for electronic payments as a precautionary measure against the coronavirus pandemic.

In summary, the impact of the coronavirus pandemic led to a negative year-over-year growth rate of the CCLEI Index in May 2020, confirming the signs of contraction in the Cypriot economy. However, these effects are expected to subside as the economy is expected to begin to recover in the third quarter of 2020, as shown by the flash estimate of the index in June 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 June 2020 is constructed based on the availability of the euro area Economic Sentiment Indicator, the Brent Crude price and the high frequency data of the volume of electricity production for June, while its other components are estimated by the Economics Research Centre (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.