

The Cyprus Composite Leading Economic Index (CCLEI)

“Continuation of CCLEI's downward trajectory in December 2022”

What is a Composite Leading Economic Index (CLEI)?

The CLEI Index 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 have been selected from a large pool of domestic and international leading indicators and are: the Brent Crude oil price (€), the Economic Sentiment Indicator (ESI) in Cyprus and the euro area, the total number of property sales contracts, the tourist arrivals, the value of credit 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 4.5% in December² 2022, following the year-over-year decreases of 4.8% in November and 4.7% in October 2022 (according to recent and revised data).

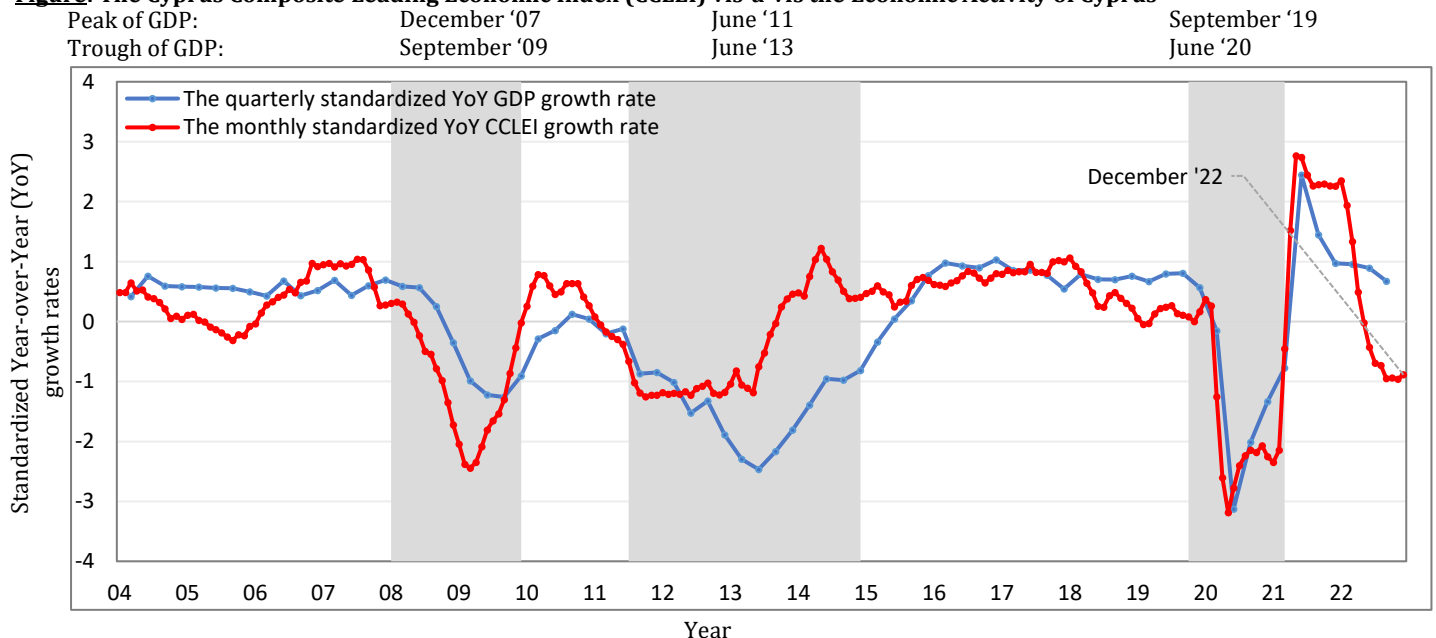
The continuation of the negative year-over-year growth rate of CCLEI also in December 2022 indicates that the recent events (of increased geopolitical uncertainty, high inflation, restrictive monetary policy) in the European and international economy will continue to burden the growth prospects of the Cypriot economy in the short term. In particular, the Economic Sentiment Indicators (ESIs) in the euro area and in Cyprus recorded a decline in December 2022 compared to the corresponding month of 2021, with the business climate showing the greatest deterioration in the industry and in the services sector in the euro area and Cyprus, respectively. At the same time, the international Brent Crude oil price continues contributing to the negative year-over-year growth rate of the CCLEI, recording an increase in its year-over-year growth rate also in December 2022. *On the contrary*, the acceleration recorded in the year-over-year growth rate of the remaining domestic components of the CCLEI in December contributes to restraining the further decline of the Index, and thus to the short-term support of the Cypriot economy.

In conclusion, the drop in the CCLEI in December largely reflects the ongoing uncertainty and slowdown in the European economy which inevitably affects the outlook for the Cypriot economy. Further information regarding the methodology of constructing the CCLEI can be found at: [CCLEI](#).

Notes:

1. The CCLEI is estimated based on the econometric model of Aruoba, Diebold and Scotti (2009).
2. The CCLEI for December 2022 is estimated based on the availability of the Brent Crude oil price, the Economic Sentiment Indicators (ESIs) in the euro area and in Cyprus, the total number of property sales contracts, the value of credit card transactions, the tourist arrivals, as well as the high frequency data of the temperature-adjusted volume of electricity production, while the retail sales volume is 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.