

## The Cyprus Composite Leading Economic Index (CCLEI)

*"The recovery of the CCLEI continues but remains significantly lower than pre-pandemic levels"*

### What is a Composite Leading Economic Index (CLEI)?

The CCLEI 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 which have been carefully selected from a large pool of local and international leading indicators currently are: the Brent Crude oil price, the euro area Economic Sentiment Indicator (ESI), the total sales of contracts, the tourists' arrivals, the value of visa card transactions, the retail trade sales turnover volume index, and the volume index of electricity production.

The Cyprus Composite Leading Economic Index<sup>1</sup> (CCLEI) recorded a decrease of 6.0% (from year to year) in July 2020 reaching a level of 100.6, after year-over-year reductions of 8.0% in June and 11.1% in May (based on the latest and revised data).

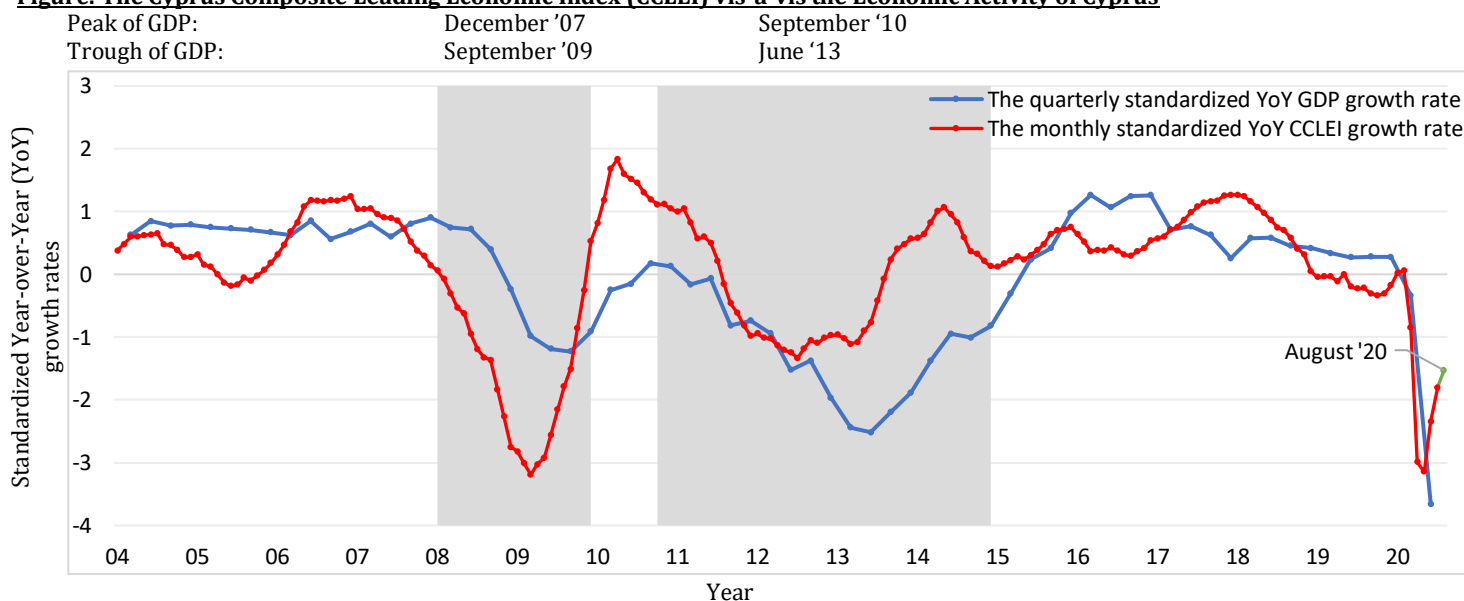
*The recovery of the CCLEI continues in July and August 2020 from the historically low levels of the crisis.* The recovery of the CCLEI is attributed to a series of variables, mainly domestic, which record an improvement in July and August 2020 compared to previous months. In particular, preliminary estimates indicate an improvement in the volume of retail sales and electricity production in July and August 2020, as well as for the total number of sales contracts in August. The year-over-year growth rate of credit card transactions also has a positive effect on the Index, even though this rate is lower compared to previous months. Similarly, the Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, continued to improve in August 2020, but remained below its long-term average, indicating a precarious economic environment. On the other hand, the effects of the pandemic are still particularly noticeable in tourism in July and August 2020 as tourists arrivals were overwhelmingly lower than in the corresponding months of the previous year.

In summary, the recovery of the CCLEI in July as well as of the flash estimate of the Index in August 2020<sup>2</sup> indicate the continuing gradual improvement of the economy. However, the economic environment of the Cypriot economy remains uncertain, due to the unpredictable development of the pandemic and its consequences. 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>

#### Notes:

1. The CCLEI Index was estimated based on the econometric model of Aruoba, Diebold and Scotti (ADS) (2009).
2. The flash estimate of the CCLEI index for August 2020 is constructed based on the availability of the euro area Economic Sentiment Indicator, the Brent Crude oil price and the high frequency data of the volume of electricity production and passengers' arrivals for August, while its other components are estimated by the Economics Research Centre (ERC) of the University of Cyprus 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. Shade areas refer to 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 GDP growth rate (2008M01-2009M12 & 2010M10-2014M12).