The Cyprus Composite Leading Economic Index (CCLEI)

"Improvement of the December CCLEI in the midst of the arrival of new vaccines against the pandemic"

What is a Composite Leading Economic Index (CLEI)?

The CLEI 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 property 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[1] (CCLEI) recorded a year-over-year decrease of 4.3% in December[2] 2020 reaching a level of 101.9, after the year-over-year reductions of 4.7% in November and 3.7% in October (based on the latest and revised data).

The decline of the Index recorded in November does not seem to continue in December amid the improved expectations created internationally by the arrival of vaccines against the pandemic. More specifically, although the Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, deteriorated in November compared to October 2020, in December it recorded a year-over-year improvement, contributing positively to the year-over-year growth rate of the CCLEI. In the domestic environment, credit card transactions continue to show a significant year-over-year increase, reflecting, in part, the increasing shift to electronic payment methods. In this direction also contributed the improvement of the volume of retail sales that seems to record according to preliminary estimates in November and December 2020 compared to the previous months. On the contrary, a number of domestic variables have a negative impact on the CCLEI. In particular, despite its seasonality, tourism is still a brake on the recovery of the CCLEI, since in November and December 2020 tourist arrivals continued to be significantly reduced compared to the corresponding months of the previous year. In addition, the year-over-year improvement in electricity production appears to be slowing down, reflecting both the recent anti-pandemic restraint measures and the extremely high temperatures recorded in the previous quarter. Finally, the significant year-over-year increase in the total number of property sales contracts recorded in October is reversed, as negative year-over-year growth rates are recorded in November and December 2020.

In conclusion, the improvement in the year-over-year growth rate of the CCLEI in December 2020 reflects the reduction of uncertainty amid the arrival of new vaccines against the pandemic. Despite this fact, uncertainty remains at high levels as many countries seem to impose new restrictions also in January. 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 CCLEI for December 2020 is constructed based on the availability of the Brent Crude oil price, the euro area Economic Sentiment Indicator, the total number of property sales contracts, as well as the high frequency data of the passengers' arrivals and the volume of electricity production for December, while its other components are estimated based on the latest available information in a series of various economic indicators. It is noted that, the verification of the November flash estimated CCLEI which is recorded in the previous publication of November 2020 has been preceded.

Figure: The Cyprus Composite Leading Economic Index (CCLEI) vis-à-vis the Economic Activity of Cyprus
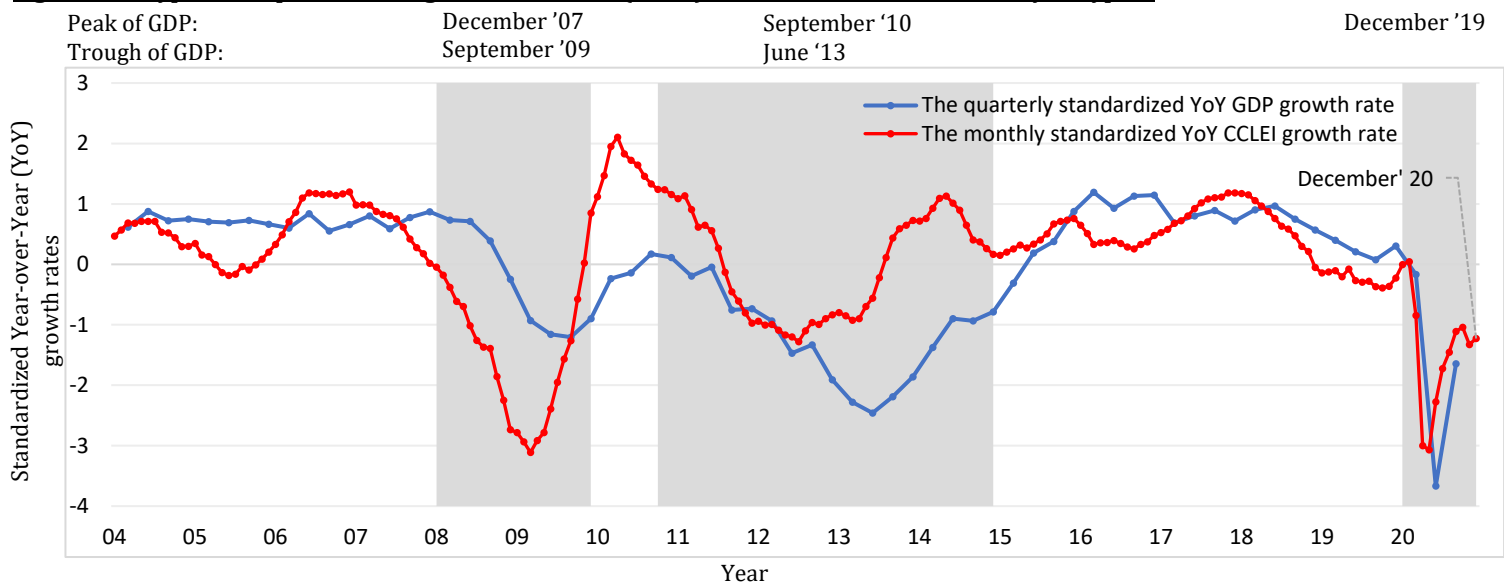
Source: Economics Research Centre (ERC) - Department of Economics, University of Cyprus (UCY).
Note that for comparison purposes, the quarterly YoY GDP growth rate vis-à-vis the monthly YoY CCLEI growth rate are presented in a standardized format in the graph. Shaded areas represent recessions defined 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.