

The Cyprus Composite Leading Economic Index (CCLEI)

"The October flash estimate of the CCLEI remains at the same level as in September amid uncertainty"

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 Index¹ (CCLEI) recorded a decrease of 3.9% (from year to year) in September 2020 reaching a level of 102.3, after year-over-year reductions of 5.1% in August and 6.1% in July (based on the latest and revised data).

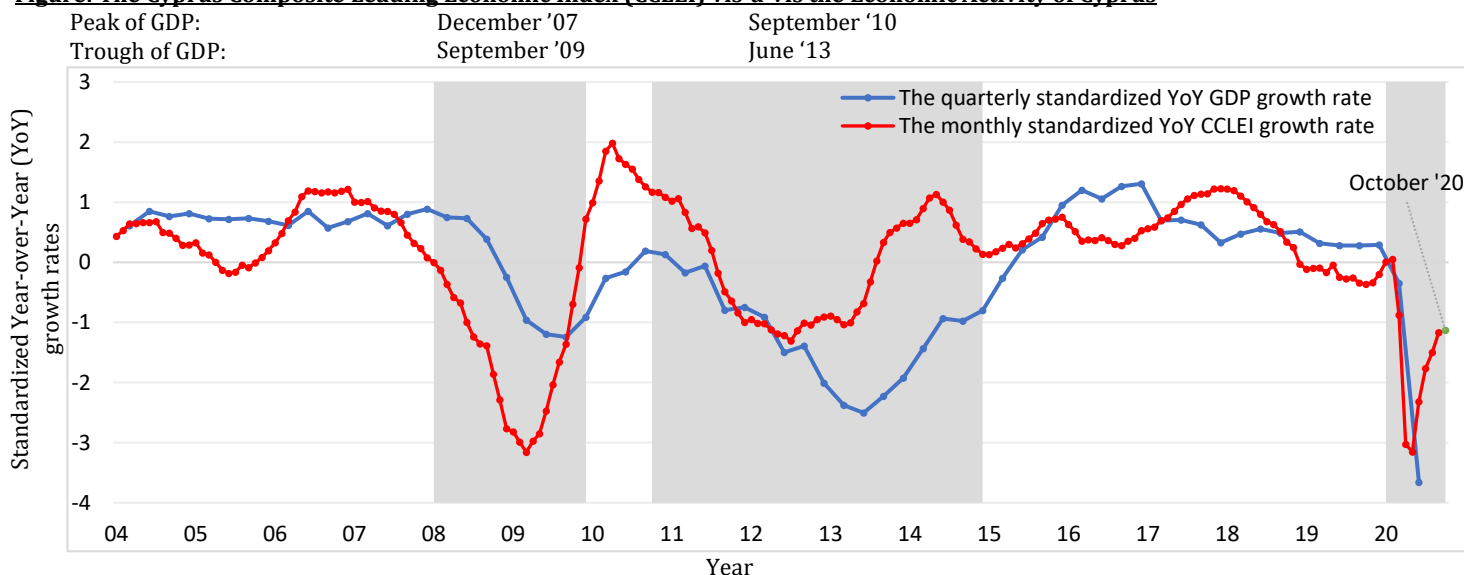
The recovery of the CCLEI continues in September and October 2020 from the historically low levels of the crisis, with its year-over-year growth rate remaining relatively stable in October compared to September. The year-over-year growth rate of the CCLEI flash estimate in October remained at the same level of the year-over-year growth rate in September reflecting the uncertain economic environment and in particular the pandemic's resurgence internationally. More specifically, although the Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, improved in the third quarter of 2020 compared to the previous quarter, it remained at the same levels in October and September. In addition, despite its seasonality, tourism continues to be a brake on the recovery of the CCLEI, since in September and October 2020 tourist arrivals continued to be significantly reduced compared to the corresponding months of the previous year. A number of domestic variables continue to have a positive effect on the CCLEI, as in previous months, showing a positive year-over-year change in September and October 2020 compared to previous months. In particular, preliminary estimates indicate the year-over-year improvement in the volume of retail sales and electricity production in September and October 2020, as well as in the total number of sales contracts in September. In addition, credit card transactions show a year-over-year improvement reflecting both the gradual improvement in economic activity and the continuing shift to electronic payments as a precautionary measure against the pandemic.

Concluding, the improvement of the CCLEI in September indicates the continuing gradual improvement of the economy from its historically low levels of growth, while the fact that the flash estimate of the Index in October 2020² remained at the same level as in September reflects the uncertain economic environment due to the dynamic evolution of the pandemic. 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 October 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 October, 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).