

The Cyprus Composite Leading Economic Index (CCLEI)

"Recovery of the CCLEI from the historically low levels of the crisis - Uncertainty remains"

What is a Composite Leading Economic Index (CLEI)?

The index that 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 8.5% (from year to year) in June 2020 reaching a level of 99.6, after year-over-year reductions of 11.3% in May and 10.6% in April (based on the latest and revised data).

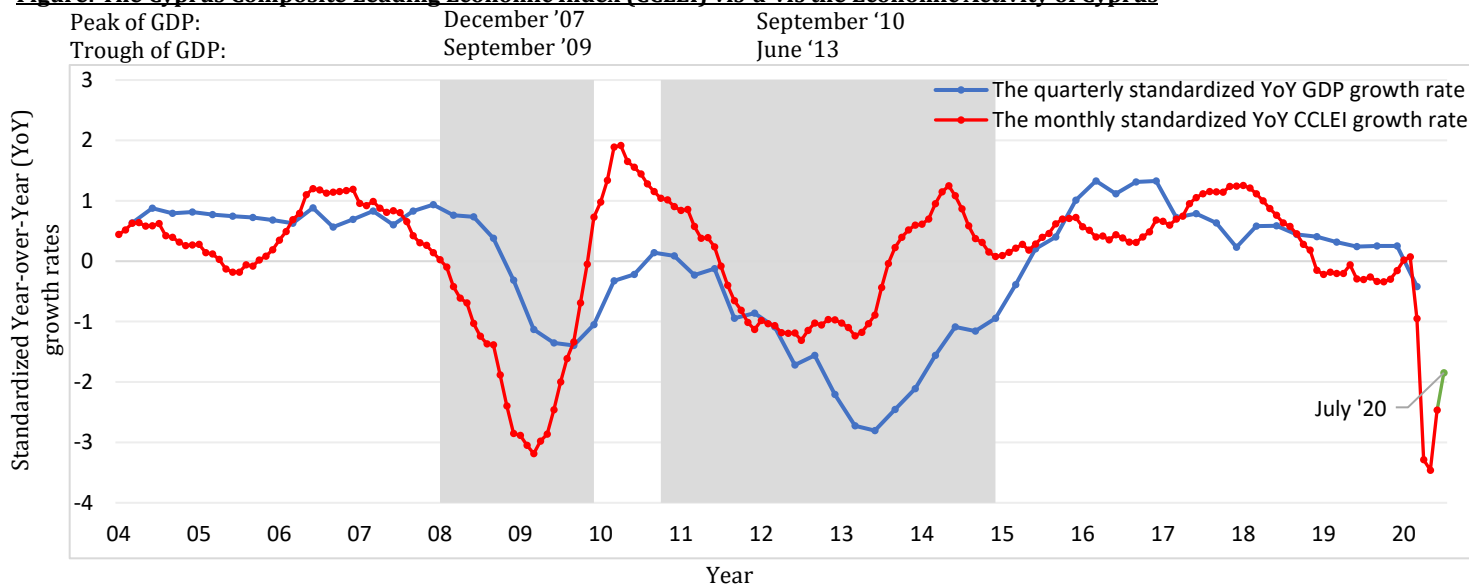
The negative year-over-year growth rate of the CCLEI in June 2020 reflects the uncertain environment caused by the pandemic and its effects. Tourism which is one of the main drivers of the Cypriot economic activity, has been significantly affected by the restrictive measures taken by the Cypriot Government as well as other countries, with the tourists' arrivals in June and July of 2020 being considerably lower compared to the corresponding months last year. In contrast, the drop of the Index is restrained mainly by a number of domestic variables that record significant improvement in June and July compared to the previous months. In particular, although preliminary estimates indicate negative year-over-year growth rates for the volume of retail sales and electricity production in June and July 2020 as well as for the total number of sales contracts in July, these year-over-year reductions are much smaller than the year-over-year reductions recorded in previous months. Moreover, the improvement of the Economic Sentiment Indicator (ESI) in the euro area, including Cyprus, combined with the fact that the value of visa card transactions continues to increase, reflects the gradual improvement of the economy as well as the transition to electronic methods of payment as a precautionary measure against the coronavirus pandemic.

In summary, the reversal of the downward trend of the CCLEI for June as well as of the flash estimate of the Index for July 2020² indicate some improvement in economic activity. It should be noted that, the outlook of economic activity in Cyprus is subject to extremely high uncertainty 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 July 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 for July, 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).