

The Cyprus Composite Leading Economic Index (CCLEI)

“The impact of heightened geopolitical tensions on the October CCLEI”

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 several 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), constructed by the Economics Research Centre (ERC) of the University of Cyprus, recorded a year-over-year increase of 1.5% in October² 2023, following the year-over-year increases of 1.9% and 2.1% recorded in September and August 2023, respectively (based on recent and revised data).

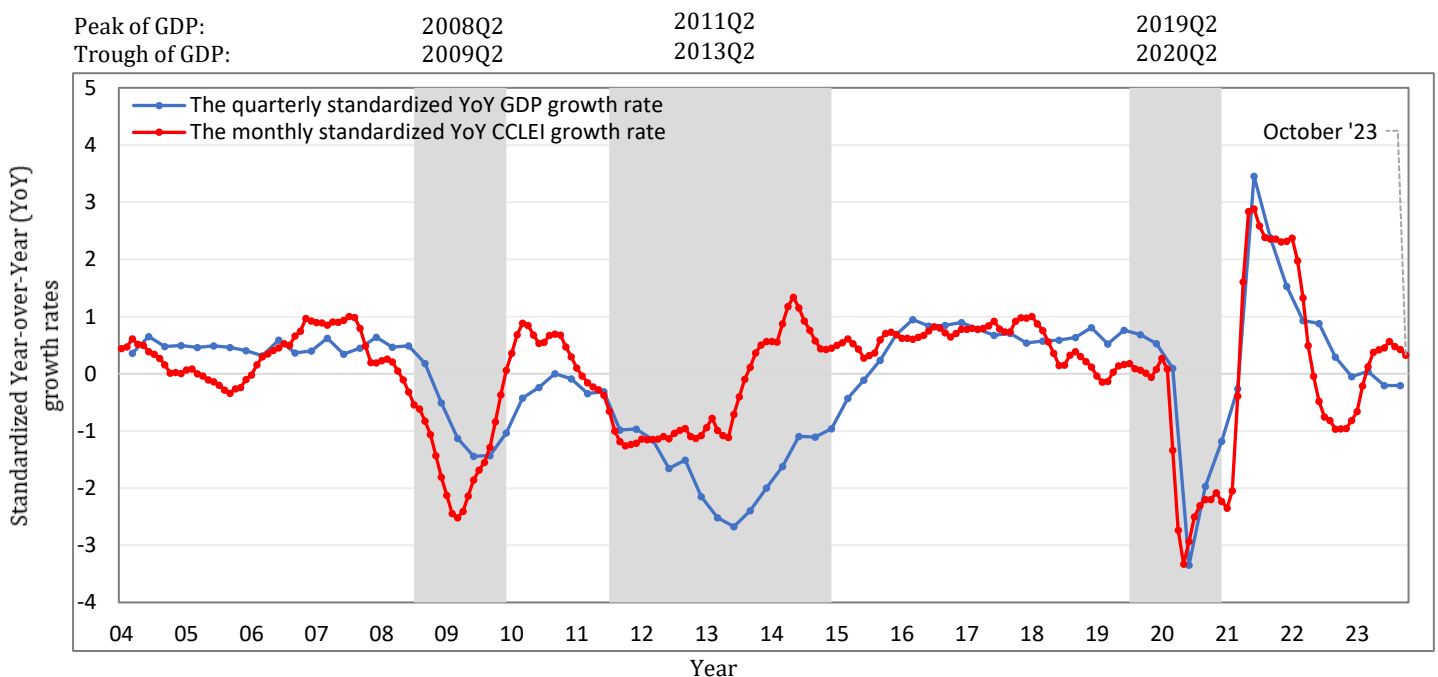
The recent military conflicts in Israel further burdened the already strained international geopolitical environment, negatively affecting the October CCLEI. More specifically, the increased geopolitical tensions have reignited economic uncertainty, with the Economic Sentiment Indicator (ESI) in the euro area deteriorating throughout the entire year of 2023. In addition, the upward trajectory of the CCLEI is restrained by the temperature-adjusted volume of electricity production, which continues to record a year-over-year decrease since May 2023. Nevertheless, the growth of various domestic sectors, including tourism, retail trade, and real estate, as well as subdued oil prices offset the above negative developments with the October CCLEI recording a positive year-over-year growth rate.

In summary, the year-over-year growth rate of the CCLEI in October 2023 remains positive, albeit decelerating. The drop in the year-over-year CCLEI growth rate to lower levels than in previous months reflects the uncertain geopolitical and volatile economic environment prevailing, which inevitably negatively affects the growth prospects of 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 October 2023 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 tourist arrivals, the value of credit card transactions, as well as the high-frequency data of the temperature-adjusted volume of electricity production. On the other hand, 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.