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Iceland Leading Indicator – CLI unchanged but signal of lower growth intact

The Iceland Composite Leading Indicator (CLI) remained unchanged in July following consecutive declines for the past 11 months. However, it is still too early to conclude that the economic outlook is changing from the prior indication of slower growth or a recession ahead.

Four out of six CLI components rise on the previous month. Those that fall are real domestic debit card spending at domestic retailers end merchandise imports volume. The War in Ukraine remains a source of considerable uncertainty. The developments in financial markets are also a risk factor in view of high inflation and monetary tightening of various central banks. However, international equity markets seem to be recovering.

Turning points of the CLI tend to precede turning points in economic activity relative to trend by approximately six months. Economic activity in terms of GDP is measured by Statistics Iceland. The calculation of Analytica’s CLI is based on methodology adopted by the OECD.

Chart 1. GDP and Analytica’s CLI – Trend Adjusted

Long term trend = 100

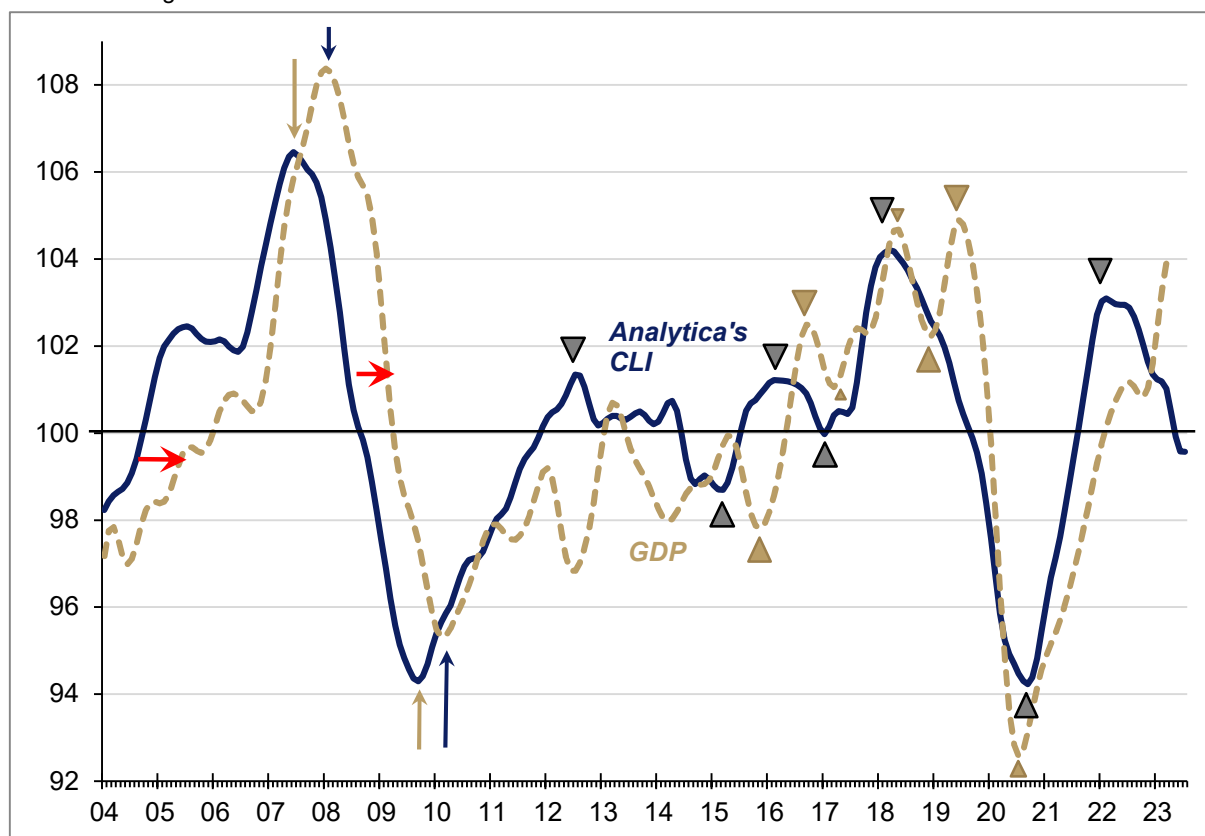
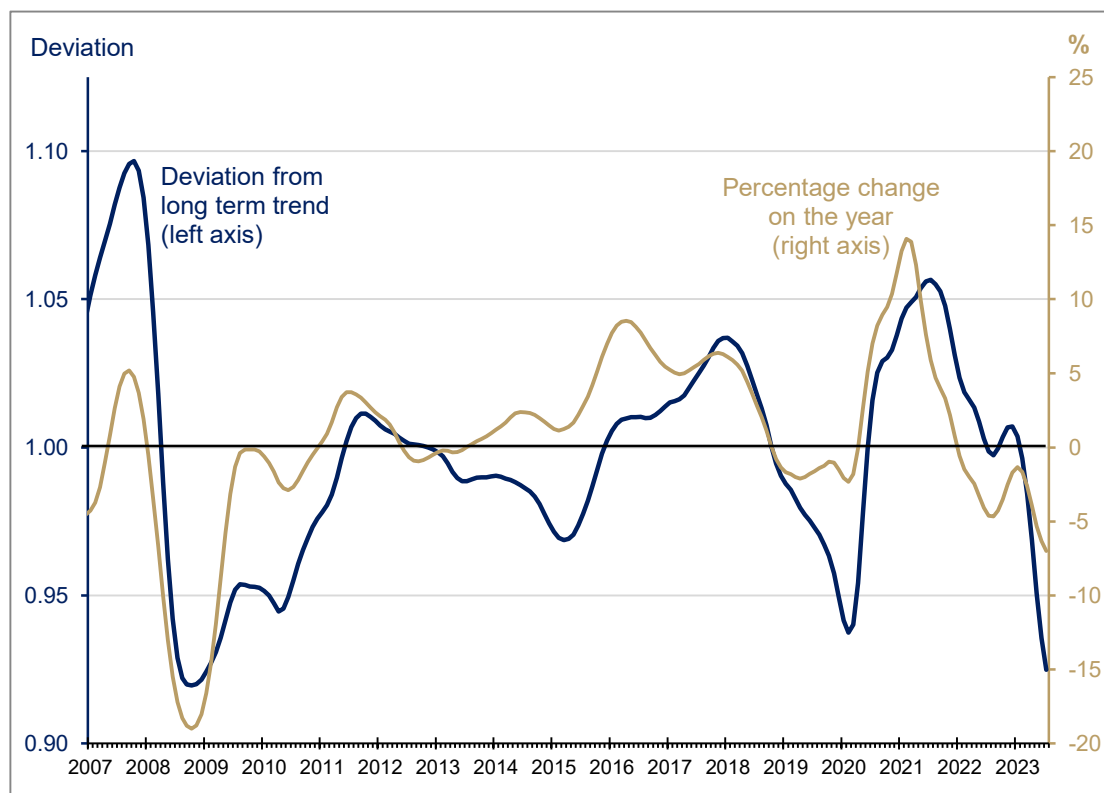


Chart 1 depicts Analytica’s CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

Chart 2 depicts the development of domestic debit card turnover at domestic retailers for the period 2007-2023. The figures are at fixed prices and seasonally adjusted and smoothed. Debit card turnover is one of the CLI components and empirically it provides an early indication of the business cycle. This means that turning points in debit card turnover tend to appear earlier than the CLI turning points but with less reliability.

The dark blue curve in chart 2 shows the deviation of debit card turnover from the long-term trend whereas the brown curve depicts the debit card turnover year on year change. A sharp decline in real domestic debit card spending is evident both month-on-month and year-on-year.

Chart 2. Debit card turnover – Deviation from long term trend and YoY %-change
Seasonally adjusted and smoothed at fixed prices



The same curves as shown in chart 2 are depicted in the Appendix charts A1 and A2. The purpose of chart 2 is to highlight developments of the index.

There are six components of Analytica's CLI. These are: Fish catches, inflation adjusted debit card turnover, number of tourists visiting Iceland, the MSCI World equities index, inflation adjusted imports and the Gallup Index of Consumer Confidence. For the month of July, five out of six underlying components decline year on year. However, four out of six components rise on the previous month. See Appendix, Charts A1 and A2.¹

Some revisions to the CLI values have taken place. This is a result of component revisions and in part a result of the methodology employed, including the long-term trend estimate.

¹ The series in chart A2 are now shown in a standardized form, i.e. all series adjusted for mean=0, standard deviation=1.

Table 1 shows the development of the CLI during the past twelve months. The index for July remains unchanged on the month and takes the value of 99.6. This serves as an indicator to economic activity six months into the future, i.e. January 2024. A value of 100 indicates GDP in line with its long-term trend.

Table 1. Analytica's CLI 2022-2023

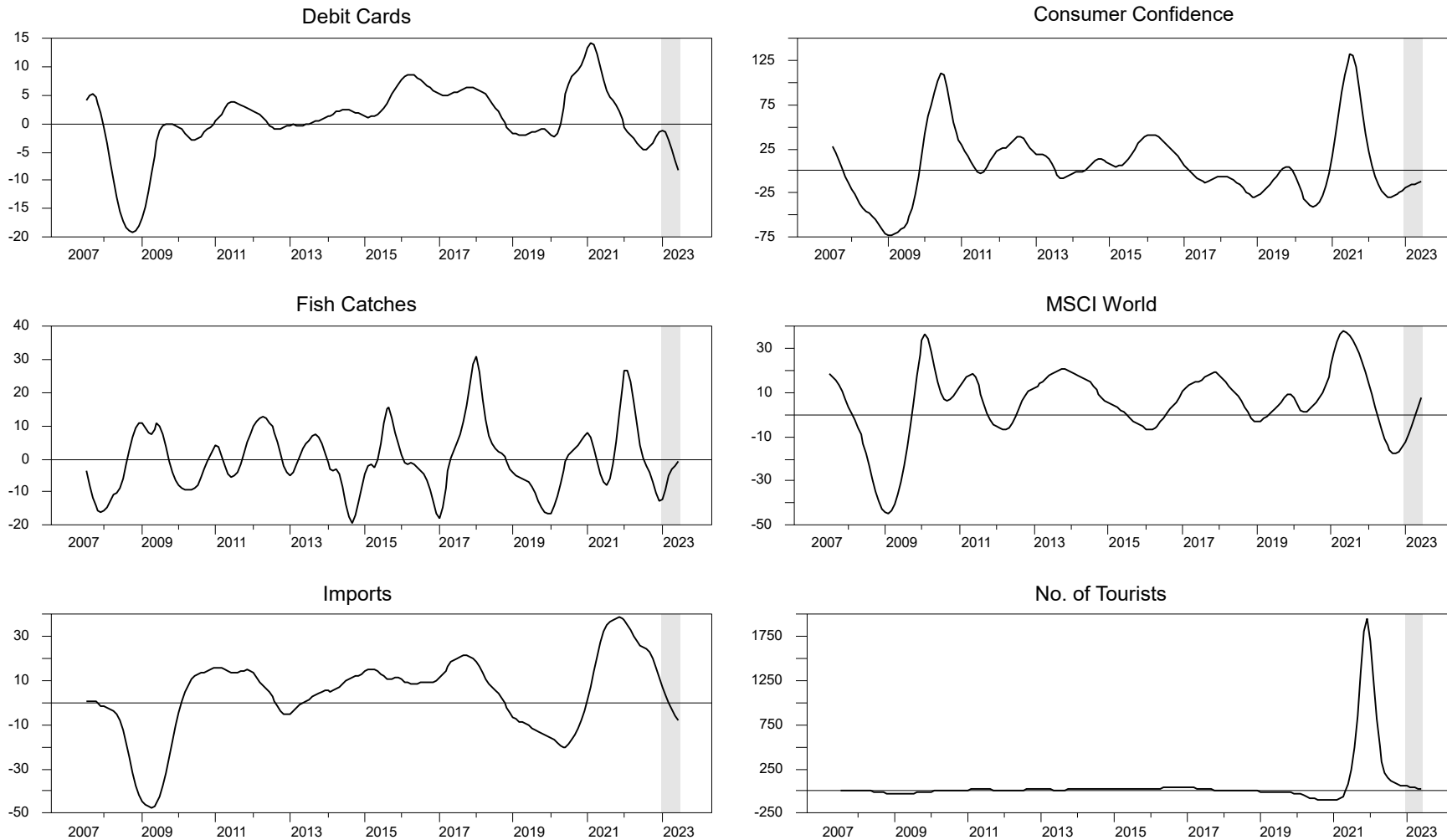
	Index	Change in %		Indication for month
		on month	YOY	
2022				
July	102.9	-0.1%	3.4%	Jan. 2023
August	102.7	-0.2%	2.6%	Feb.
September	102.4	-0.3%	1.6%	March
October	102.0	-0.4%	0.5%	April
November	101.6	-0.4%	-0.5%	May
December	101.4	-0.3%	-1.3%	June
2023				
January	101.2	-0.1%	-1.7%	July
February	101.2	0.0%	-1.8%	August
March	101.0	-0.2%	-2.0%	Sept.
April	100.5	-0.5%	-2.4%	Oct.
May	99.9	-0.6%	-2.9%	Nov.
June	99.6	-0.3%	-3.3%	Dec.
July	99.6	0.0%	-3.2%	Jan. 2024

The August Composite Leading Indicator is scheduled for release on September 19, 2023.

**Further information is provided by Analytica's CEO, Mr. Yngvi Hardarson
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Chart A1 - Analytica's Leading Indicator - Individual Components

*Per cent Change Year on Year **



Notes:

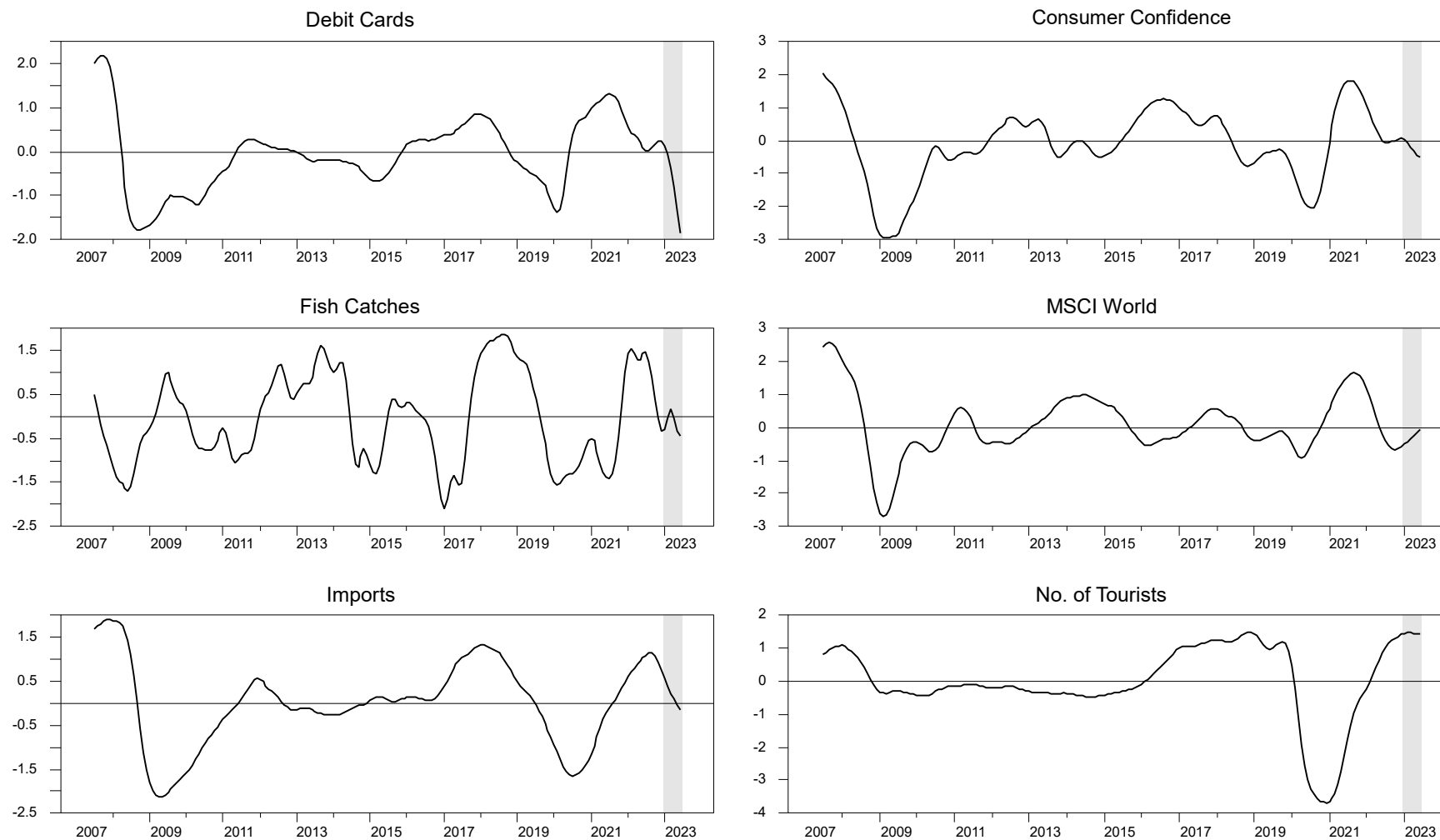
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. * Not Trend Adjusted
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals at Keflavik Airport.
 All figures are seasonally adjusted and smoothed. – Shadow on charts covers latest six months data.

Sources:

Gallup Iceland, Statistical Bureau of Iceland, Central Bank of Iceland, Refinitiv, Analytica’s calculations.

Chart A2 - Analytica's Leading Indicator - Individual Components

Trend Adjusted - Trend=1.0

**Notes:**

Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports.
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals at Keflavik Airport.
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About Analytica

Analytica provides independent and value added financial advisory services. The company specializes in treasury and risk management services provided to qualifying investors. The company's position is based on decades of experience and expertise.

The CEO and founder of Analytica is Mr. Yngvi Hardarson.

Mr. Hardarson was born in 1960 and holds an MA degree in Economics from Queen's University of Kingston Canada, with specialization in Econometrics and Monetary Economics. In addition, he holds a certificate in international trade and resource allocation from the Yrjö Jahnesson Foundation in Helsinki, Finland and a CMT designation by the CMT Association in NY.

Mr. Hardarson started his career as an economist at the National Economic Institute in 1988. In 1990 he became the Chief Economist at the Federation of Icelandic Industries. In 1993 he co-founded Economic Consulting and Forecasting Ltd. In 2007 and until the summer of 2010 Mr. Hardarson was employed as a Managing Director at Askar Capital hf. Investment Bank. In the period 1993-2008 Mr. Hardarson also served as the editor of Gjaldeyrismál (FX-mail), a daily and subsequently weekly newsletter on FX, money markets and global economics.

Further information is provided on Analytica's web page <http://www.analytica.is>