

News release no. 2/2024

2024.02.22

Iceland Leading Indicator – The impact of slower tourism growth and less catches

The Iceland Composite Leading Indicator (CLI) continued falling in January. The development of individual components has become clearer, indicating slower growth or a recession ahead. The third quarter 2023 GDP figures from Statistics Iceland indicate that the signal of slower growth or a potential contraction ahead is materializing.

Four out of six CLI components fall on the previous month. A decrease in fish catches has the greatest impact this month but the impact of slower tourism growth is also felt. International political developments continue as a source of considerable uncertainty as does uncertainty regarding global economic developments.

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

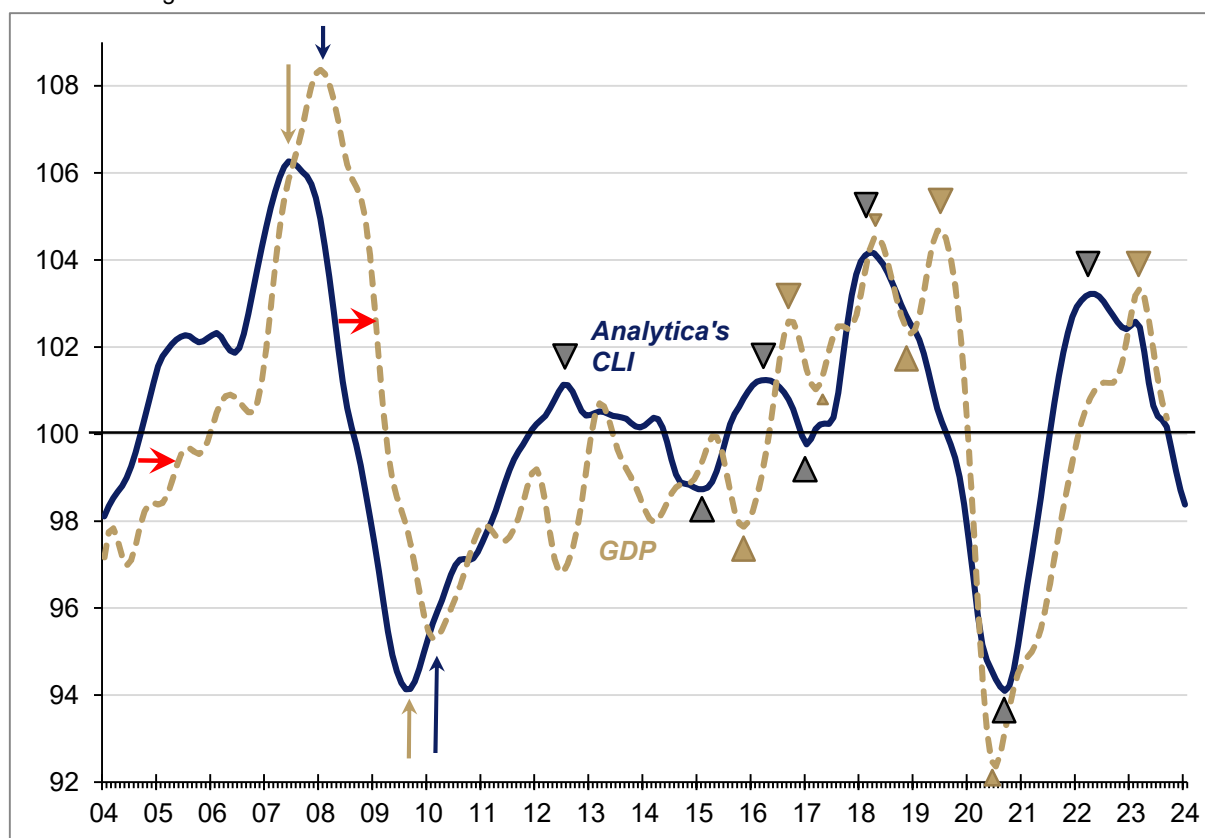
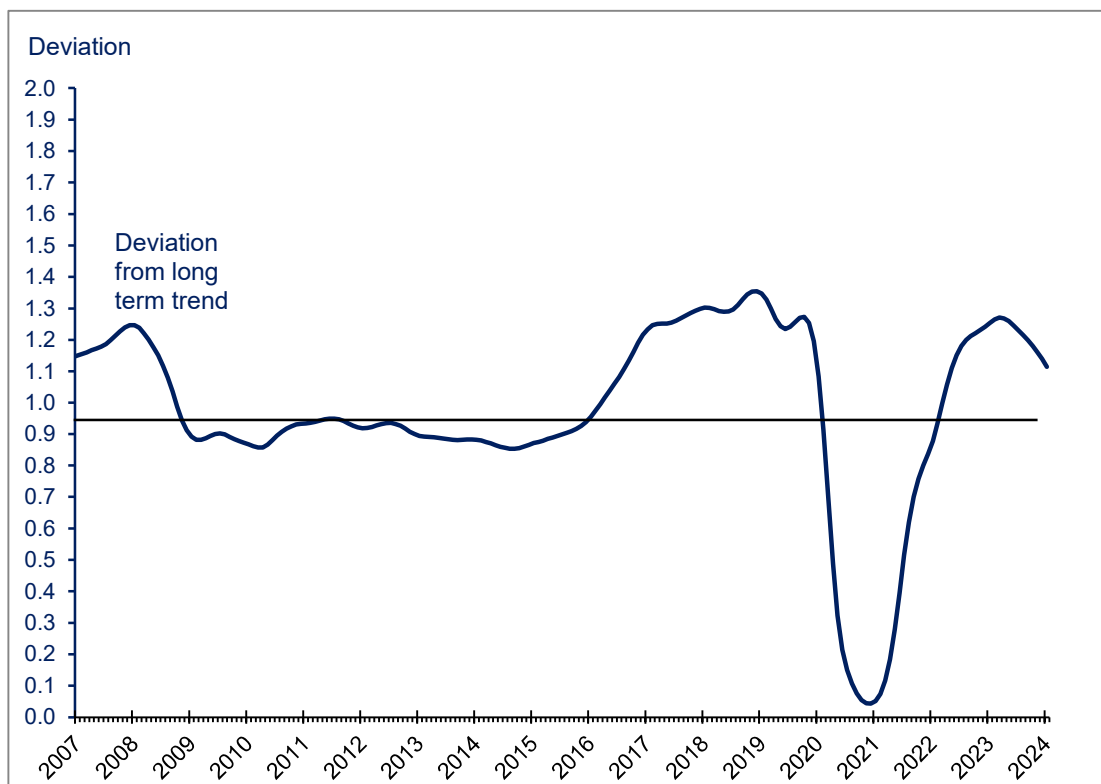


Chart 1 depicts Analytica’s CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

Chart 2 depicts the developments of tourist arrivals to Keflavík International Airport seasonally adjusted and smoothed for the period 2007-2024. This is one of the CLI components albeit one of the less leading components.

The dark blue curve in chart 2 shows the deviation of the number of tourist arrivals from the long-term trend. Seasonally adjusted tourist arrivals have started to decline relative to the long-term trend. This is one of the components driving the decline of the CLI for the month of January. The decline in this component was initially highlighted back in February 2023 but now the signal is clearer including a turning point in March 2023.

Chart 2. Tourist arrivals at Keflavik Int. Airport – Deviation from long term trend
Seasonally adjusted and smoothed



The same curve as shown in chart 2 is depicted in the Appendix chart A2. The purpose of chart 2 is to highlight the developments of tourist arrivals.

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 January, four out of six underlying components decline year on year. Also, four out of six components fall 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 January declines on the month and takes the value of 98.4. This serves as an indicator to economic activity six months into the future, i.e. July 2024. A value of 100 indicates GDP in line with its long-term trend.

Table 1. Analytica's CLI 2023-2024

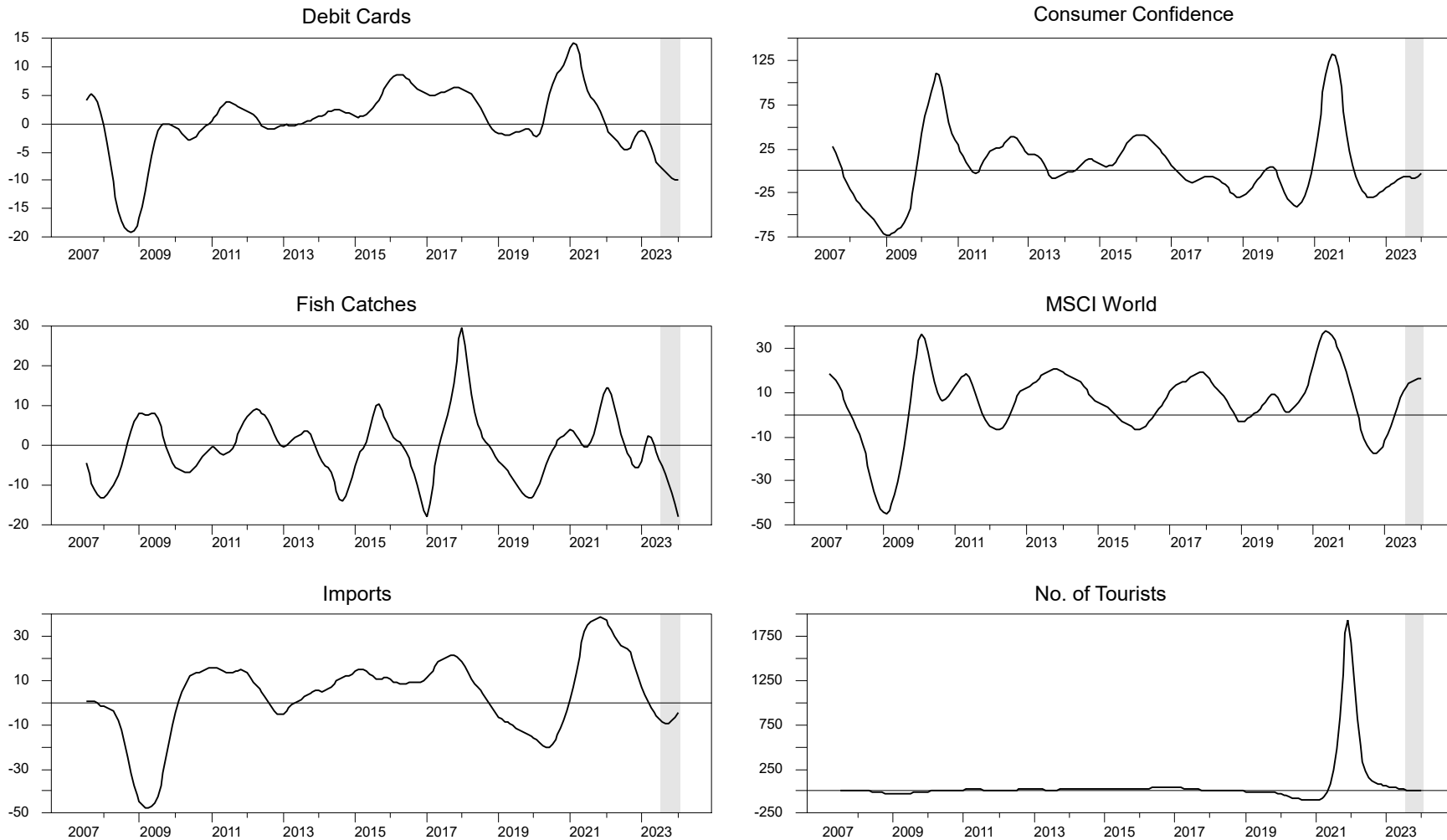
| | Index | Change in % | | Indication for month |
|-------------|-------|-------------|-------|-------------------------|
| | | on month | YOY | |
| 2023 | | | | |
| January | 102.5 | 0.1% | -0.4% | July 2023 |
| February | 102.6 | 0.1% | -0.5% | August |
| March | 102.5 | -0.1% | -0.7% | Sept. |
| April | 101.9 | -0.6% | -1.3% | Oct. |
| May | 101.2 | -0.7% | -2.0% | Nov. |
| June | 100.7 | -0.5% | -2.4% | Dec. |
| July | 100.4 | -0.2% | -2.6% | Jan. 2024 |
| August | 100.3 | -0.1% | -2.5% | Feb. |
| September | 100.2 | -0.2% | -2.5% | March |
| October | 99.7 | -0.5% | -2.8% | April |
| November | 99.2 | -0.5% | -3.2% | May |
| December | 98.7 | -0.4% | -3.6% | June |
| 2024 | | | | |
| January | 98.4 | -0.3% | -4.0% | July |

The February Composite Leading Indicator is scheduled for release on March 20, 2024.

Further information is provided by Analytica's CEO, Mr. Yngvi Hardarson
 Tel. +354 5278890 - email: yngvi@analytica.is

Chart A1 - Analytica's Leading Indicator - Individual Components

*Per cent Change Year on Year **



Notes:

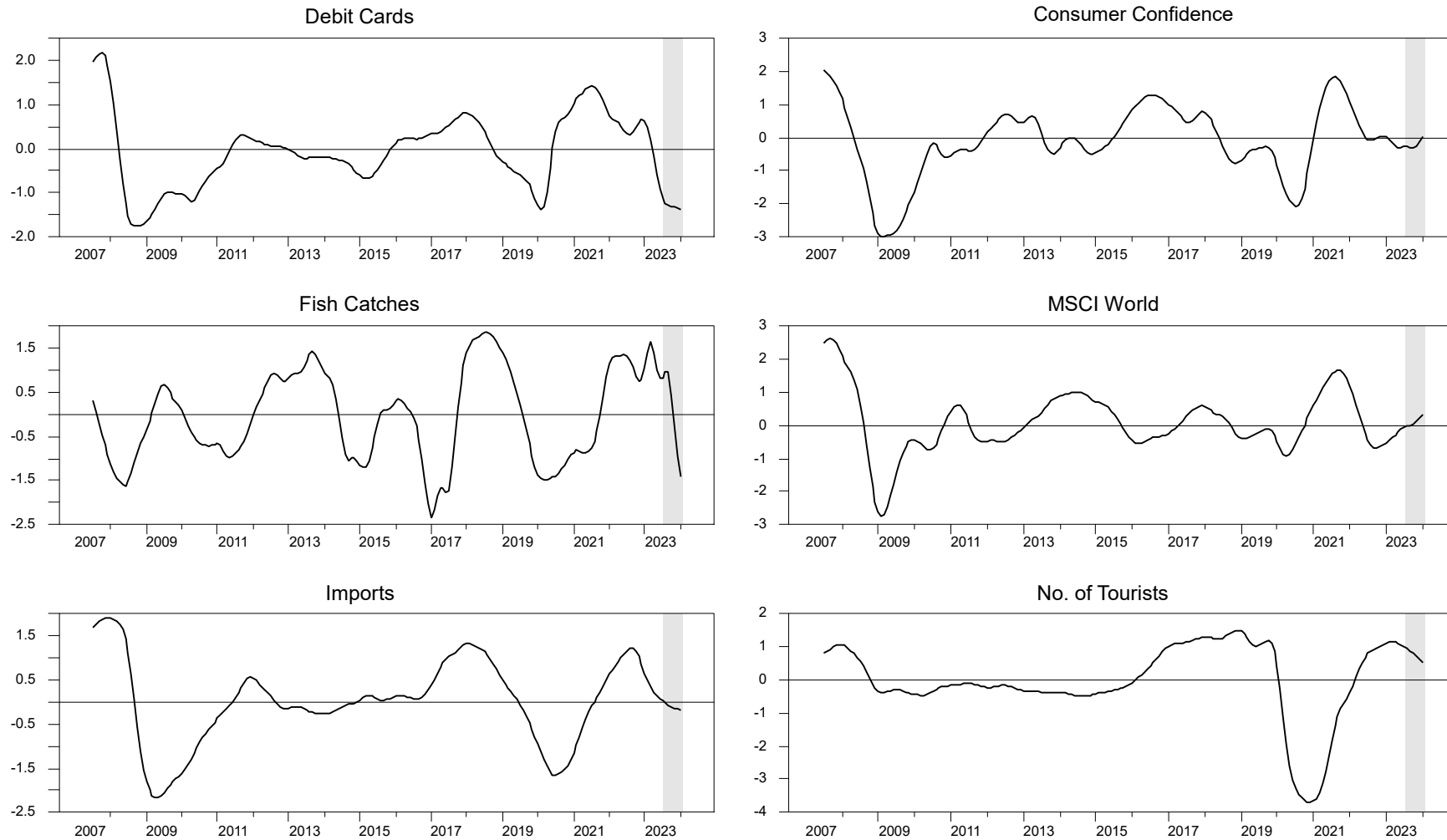
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. * Not Trend Adjusted
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals 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, MSCI, 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.
 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, MSCI, Analytica's calculations.

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>