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Iceland Leading Indicator – CLI improves but insignificantly

The Analytica Composite Leading Indicator (CLI) for Iceland rose slightly in September. However, the rise is currently deemed as insignificant. The development of individual components has become clearer, indicating slower growth or a recession ahead. The length of the contractionary period indicates dimmer outlook for the coming months. Furthermore, the recent preliminary GDP figures indicate that the signal of slower growth or a potential contraction ahead is materializing.

Three out of six CLI components fall on the previous month. A decline in the real domestic debit card turnover, a contraction in the import volume of merchandise and a decline in the Gallup index of consumer confidence arrivals have the largest impact. 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

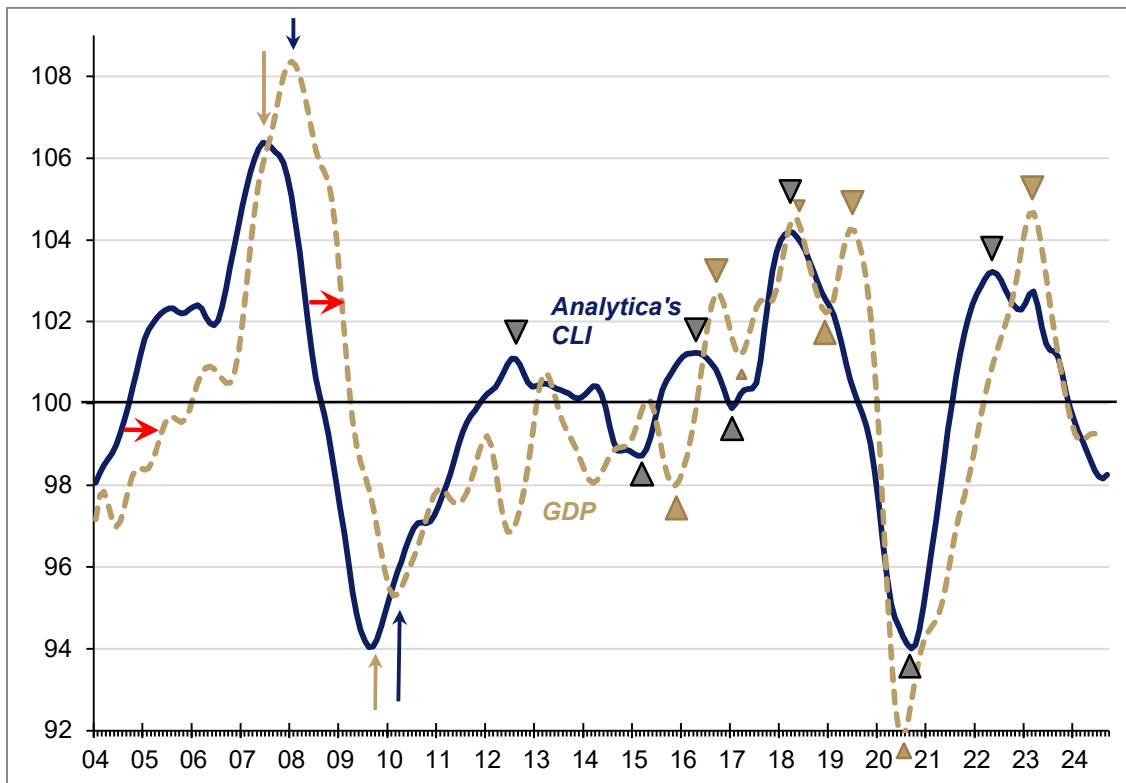
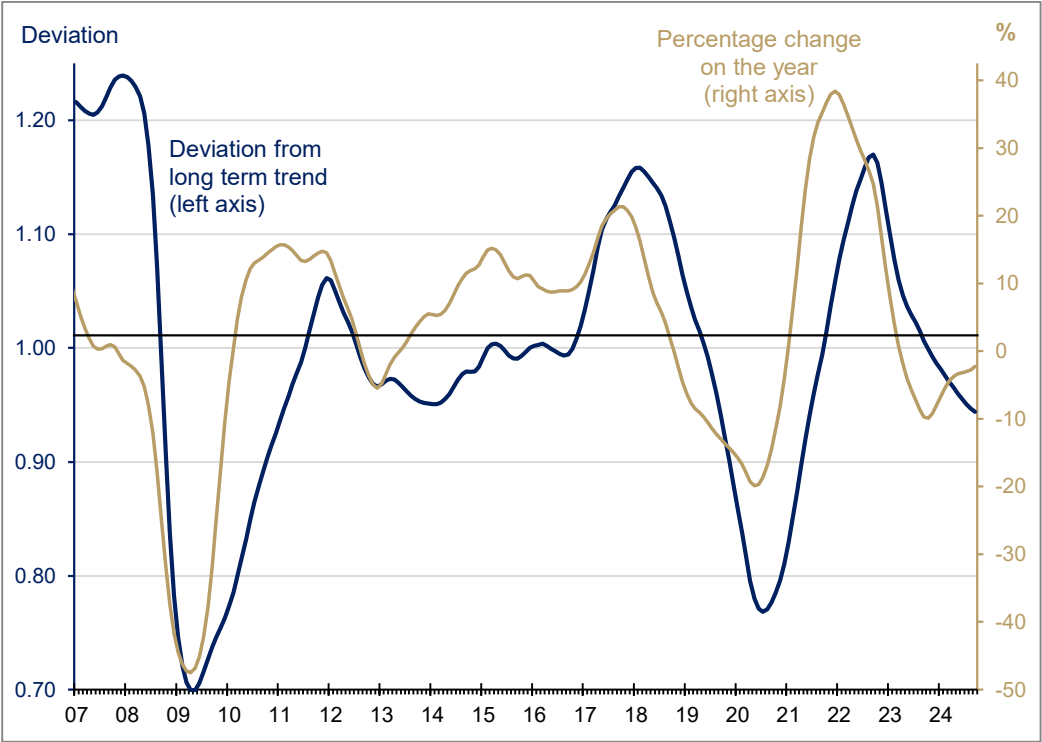


Chart 1 depicts Analytica's CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

Chart 2 depicts the developments of inflation adjusted merchandise imports for the period 2007-2024. The figures are seasonally adjusted and smoothed. This is one of the CLI components and empirically it provides an early indication of the business cycle.

The dark blue curve in chart 2 shows the deviation of merchandise imports from the long-term trend whereas the brown curve depicts the year-on-year change. It may be expected that this component will continue to lead in the next months in relation to i.a. activity in the construction sector and in tourism. However, it can also be expected that the impact of foreign price changes will be noted relative to the Icelandic CPI. This CLI component indicates that merchandise imports are decreasing in volume.

Chart 2. Merchandise imports – Deviation from long term trend and YoY %-change
 Fixed price, basis Icelandic CPI - Seasonally adjusted and smoothed



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 September, five out of six underlying components decline year on year. However, three out of six components decline on the previous month. See Appendix, Charts A1 and A2.¹

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

Table 1 shows the development of the CLI during the past twelve months. The index for September rises slightly on the month and takes the value of 98.3. This serves as an indicator of economic activity six months into the future, i.e. March 2025. A value of 100 indicates GDP in line with its long-term trend.

Table 1. Analytica's CLI 2023-2024

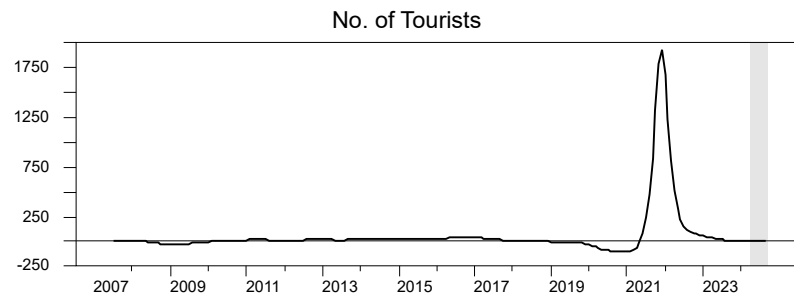
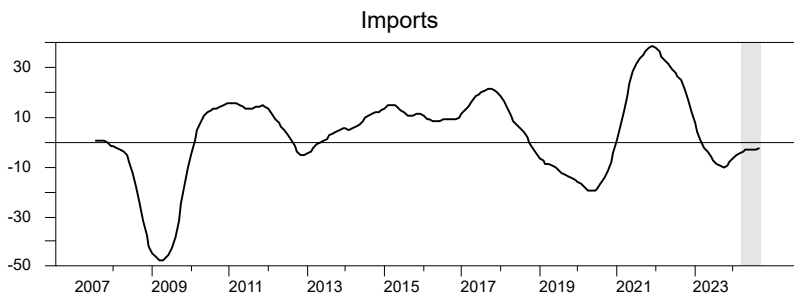
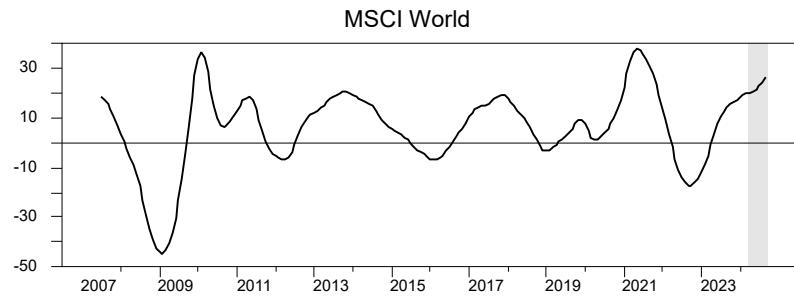
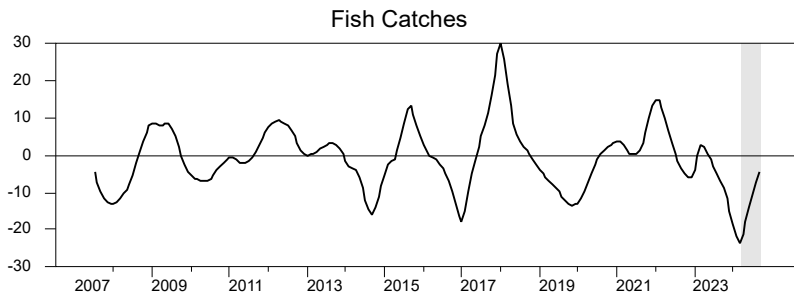
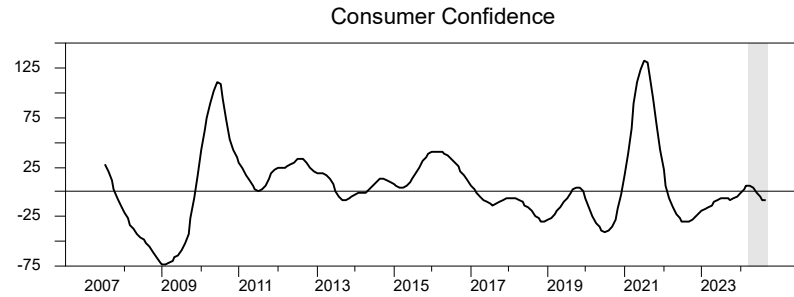
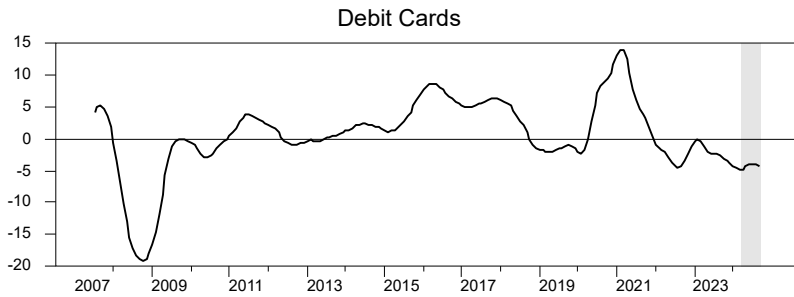
	<u>Index</u>	<u>Change in %</u>		<u>Indication for month</u>
		<u>on month</u>	<u>YOY</u>	
2023				
September	101.2	-0.1%	-1.4%	March 2024
October	100.7	-0.4%	-1.7%	April
November	100.2	-0.5%	-2.0%	May
December	99.9	-0.4%	-2.4%	June
2024				
January	99.6	-0.3%	-2.8%	July
February	99.3	-0.3%	-3.3%	August
March	99.1	-0.2%	-3.6%	Sept.
April	98.8	-0.2%	-3.5%	Oct.
May	98.6	-0.2%	-3.2%	Nov.
June	98.4	-0.2%	-3.1%	Dec.
July	98.2	-0.2%	-3.1%	Jan. 2025
August	98.2	0.0%	-3.1%	Feb.
September	98.3	0.1%	-2.9%	March

The October Composite Leading Indicator is scheduled for release on November 21, 2024.

**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:

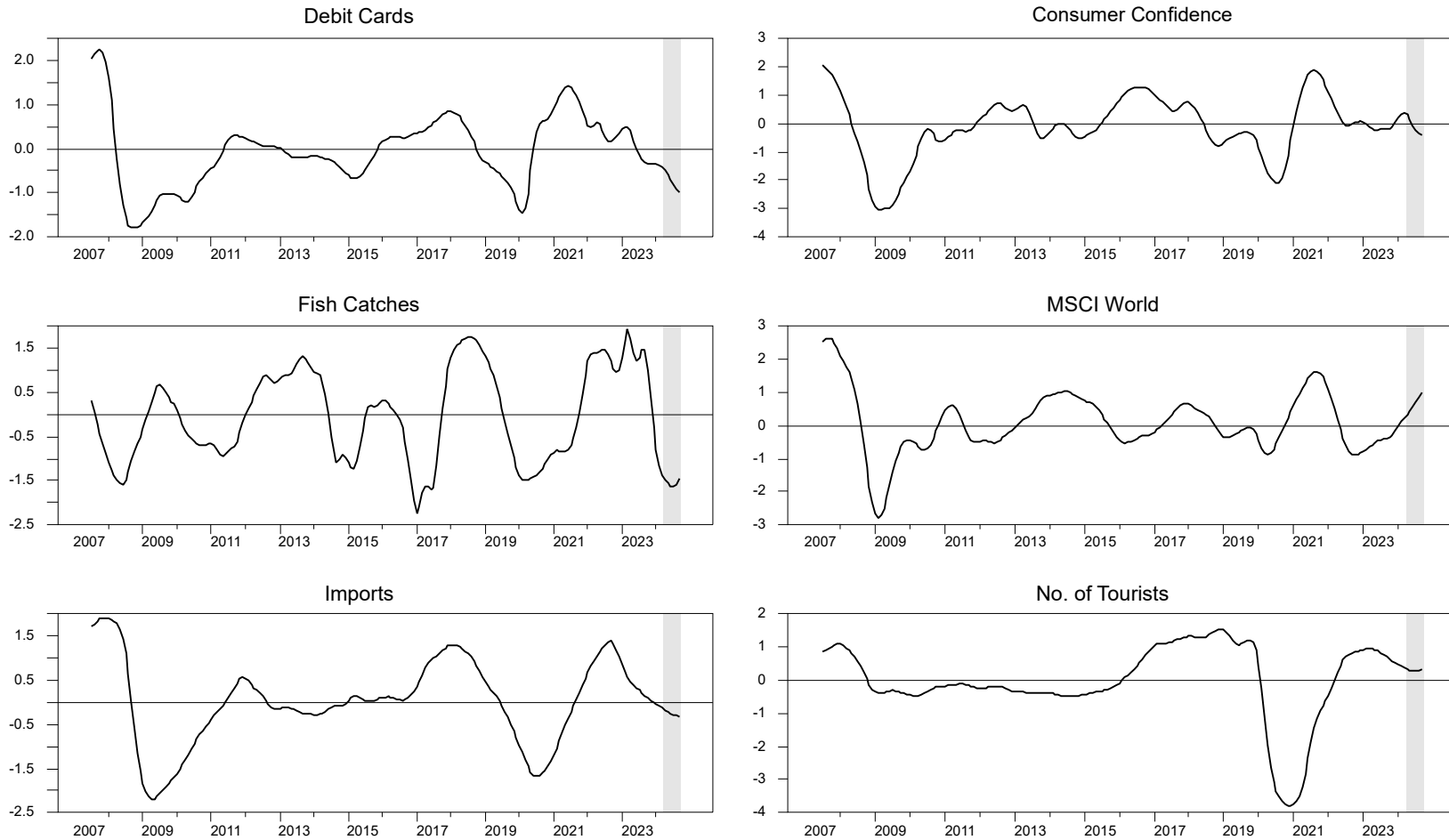
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. * Not Trend Adjusted
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals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