



News release no. 9/2017

2017.09.19

Iceland Leading Indicator – Fish catches lead the push higher

The Iceland Composite Leading Indicator (CLI) rose in August by 0.3 per cent. This follows a contraction for the past four consecutive months. The values for February through August were revised downwards. The CLI still indicates growth may be normalizing.

Three of the six components rise on the previous month. After adjusting for seasonality and long-term trend there is a rise in the value of fish catches, merchandise imports and the MSCI World equities index. The increasing value of fish catches constitutes the single largest factor contributing to the CLI rise. The long-term trend of some important CLI components remains strong. The main risk factors continue to include some external factors mainly in relation to the geopolitical situation. Also, general elections have been announced in Iceland on October 28. A prolonged government crisis could produce a negative impact.

Turning points of the CLI tend to precede turning points in economic activity relative to trend by approximately six months. Economic activity is measured by Gross Domestic Product published by the Statistical Bureau of 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

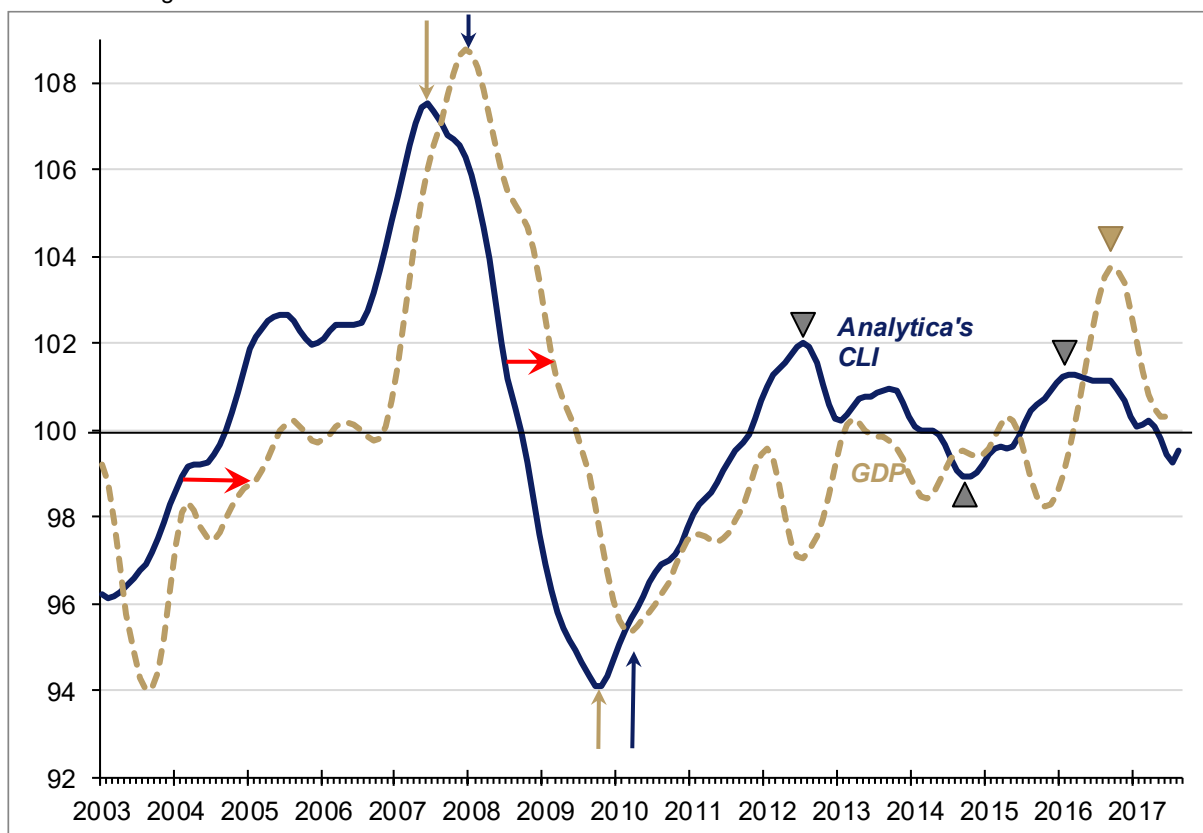


Chart 1 depicts Analytica’s CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

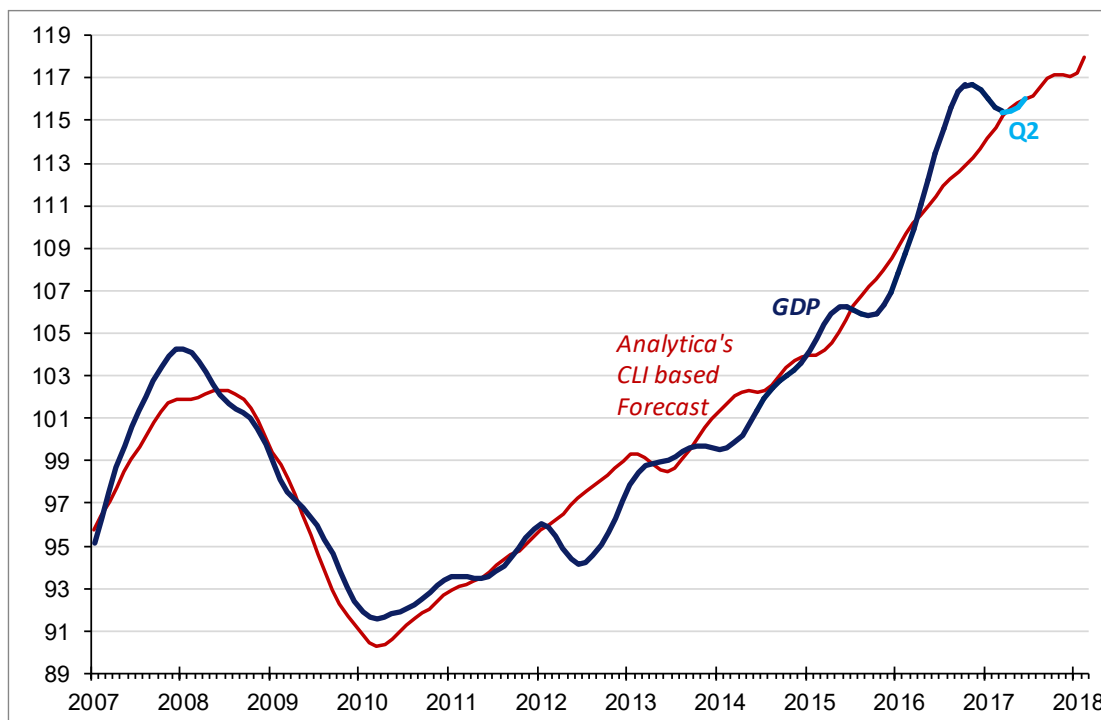
A gray triangle has been placed on Chart 1 for the month of March 2016 indicating a CLI turning point to the downside. A brown triangle has been placed on the chart eight months later, i.e. for the month of November, indicating a GDP turning point to the downside.

As seen in Chart 2 some growth is still forecast into 2018. The forecast is based on the Iceland CLI and its components after shifting forward by six months.

The purpose of Chart 2 is to put GDP in context with the leading indicator depicted on Chart 1. A turning point to the upside corresponding to the one in Chart 1 is placed in February 2015. GDP growth in Q3 and Q4 was somewhat above the CLI based projection. However, the contraction in Q1 and Q2 indicates adjustment towards long-term trend which remains strong.

Chart 2. GDP and Analytica's forecast into year 2018

ISK 000m per month - 2005 Prices



Note: GDP figures for 2015, 2016 and 2017 are preliminary estimates by the Statistical Bureau of Iceland.

The GDP figures presented in Chart 2 are based on the official quarterly estimates of the Statistical Bureau of Iceland. The quarterly GDP numbers have been distributed over individual months. The figures are seasonally adjusted and smoothed and are in amounts of thousands of million ISK at fixed 2005 prices.

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 August, two of the six underlying components rise year on year. However, three of the six components rise on the previous month. See Appendix, Charts A1 and A2.

Some revisions to the index 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 value for August drops to 99.6 or by 0.3 per cent. This value serves as an indicator to economic activity six months into the future, i.e. February 2018. A value of 100 indicates GDP in line with its long-term trend.

Table 1. Analytica's CLI 2016-2017

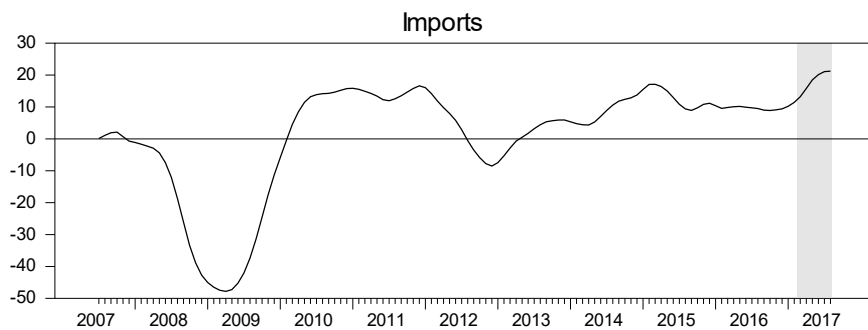
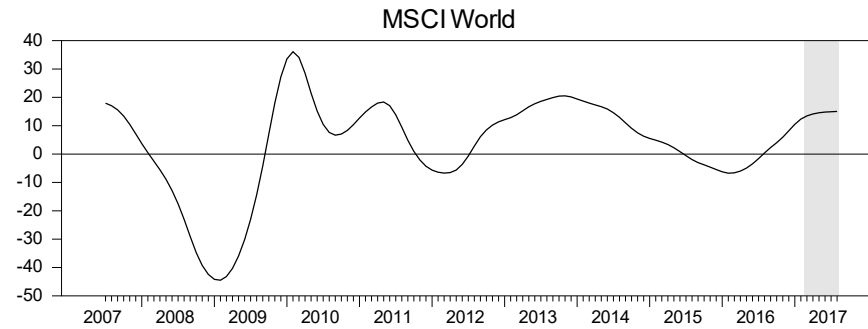
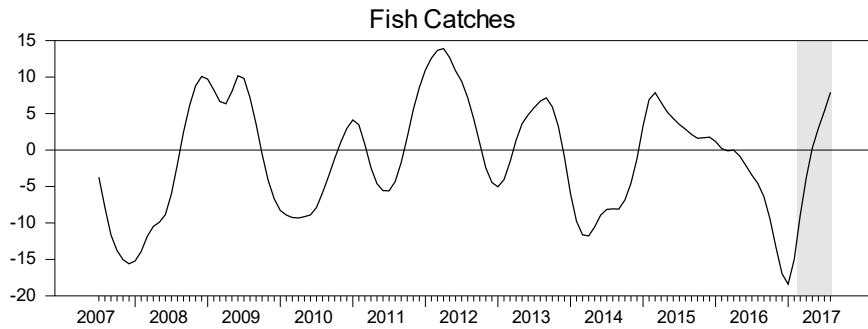
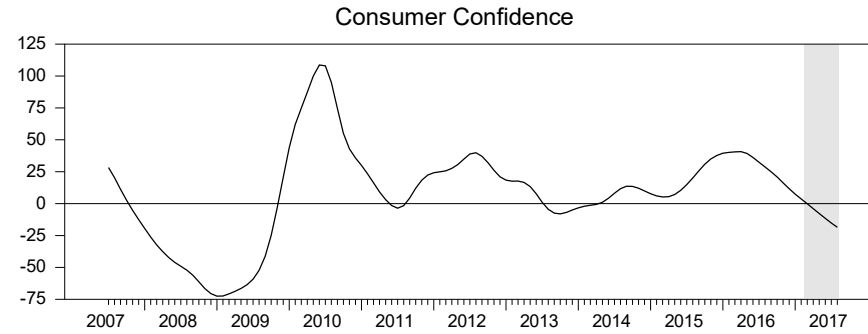
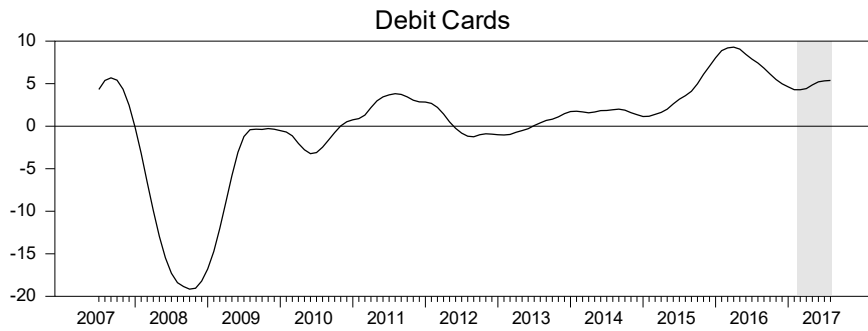
	<u>Index</u>	<u>Change in %</u>		<u>Indication for month</u>
		<u>on month</u>	<u>YOY</u>	
2016				
August	101.2	0.0%	0.7%	Feb. 2017
September	101.1	0.0%	0.5%	March
October	101.0	-0.2%	0.3%	April
November	100.7	-0.3%	-0.2%	May
December	100.3	-0.3%	-0.8%	June
2017				
January	100.1	-0.3%	-1.2%	July
February	100.1	0.0%	-1.2%	August
March	100.2	0.1%	-1.0%	Sept.
April	100.1	-0.1%	-1.1%	Oct.
May	99.8	-0.3%	-1.4%	Nov.
June	99.4	-0.4%	-1.7%	Dec.
July	99.3	-0.2%	-1.9%	Jan. 2018
August	99.6	0.3%	-1.6%	Feb.

The September Composite Leading Indicator is scheduled for release on October 18, 2017.

**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 **



* Not Trend Adjusted

Notes:

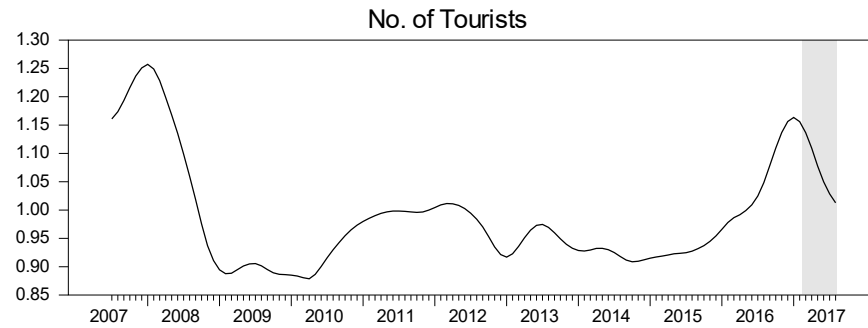
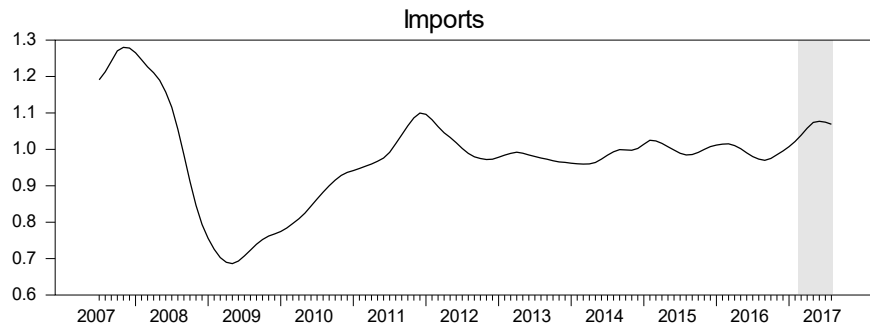
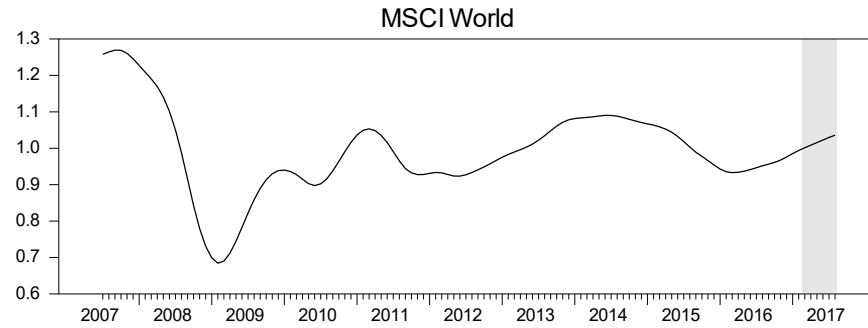
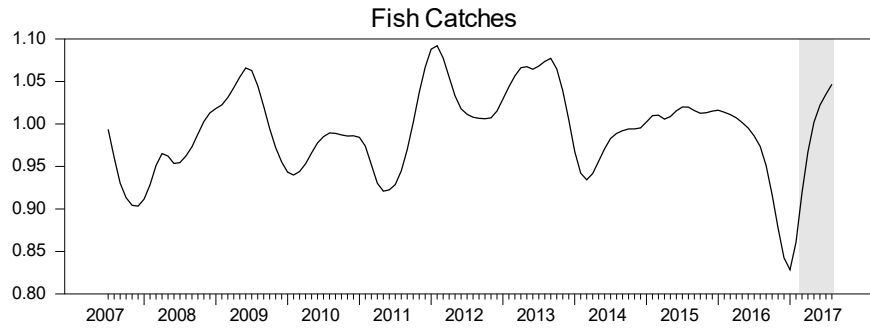
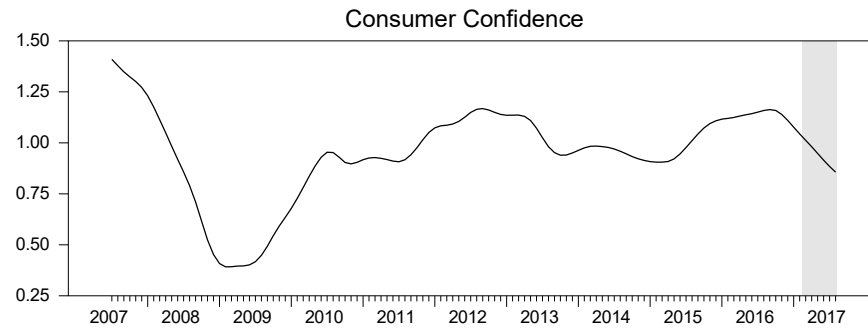
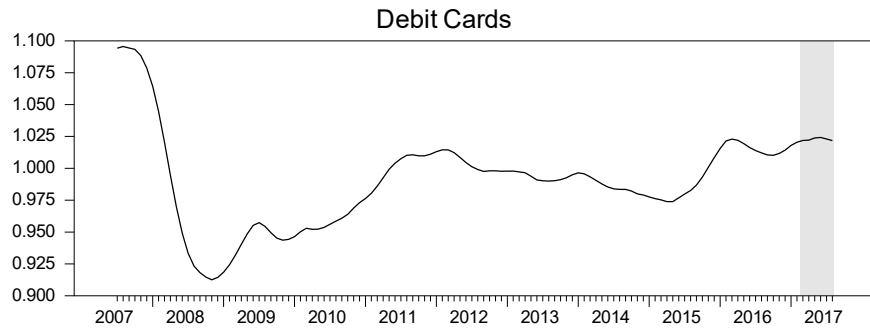
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports.
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals at Keflavik Airport.
 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, Thomson Reuters, 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 Jahnsso Foundation in Helsinki, Finland and a CMT designation by the Market Technicians 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>