



News release no. 8/2019

2019.08.20

### Iceland Leading Indicator – An end to the decline in sight?

The Iceland Composite Leading Indicator (CLI) dropped in July for the eighteenth consecutive month. The 12 months decline is the largest since 2008. There are preliminary indications that the decline is slowing. However, it is still too early to tell whether the CLI has bottomed. Therefore, a stagnation or recession into year 2020 is still likely.

Three out of six CLI components drop on the previous month. The greatest impact is due to tourist arrivals and merchandise imports. The long-term trend of some important CLI components remains strong but there remains considerable uncertainty regarding developments in the tourism industry. There are also some external risk factors mainly in relation to the geopolitical situation.

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

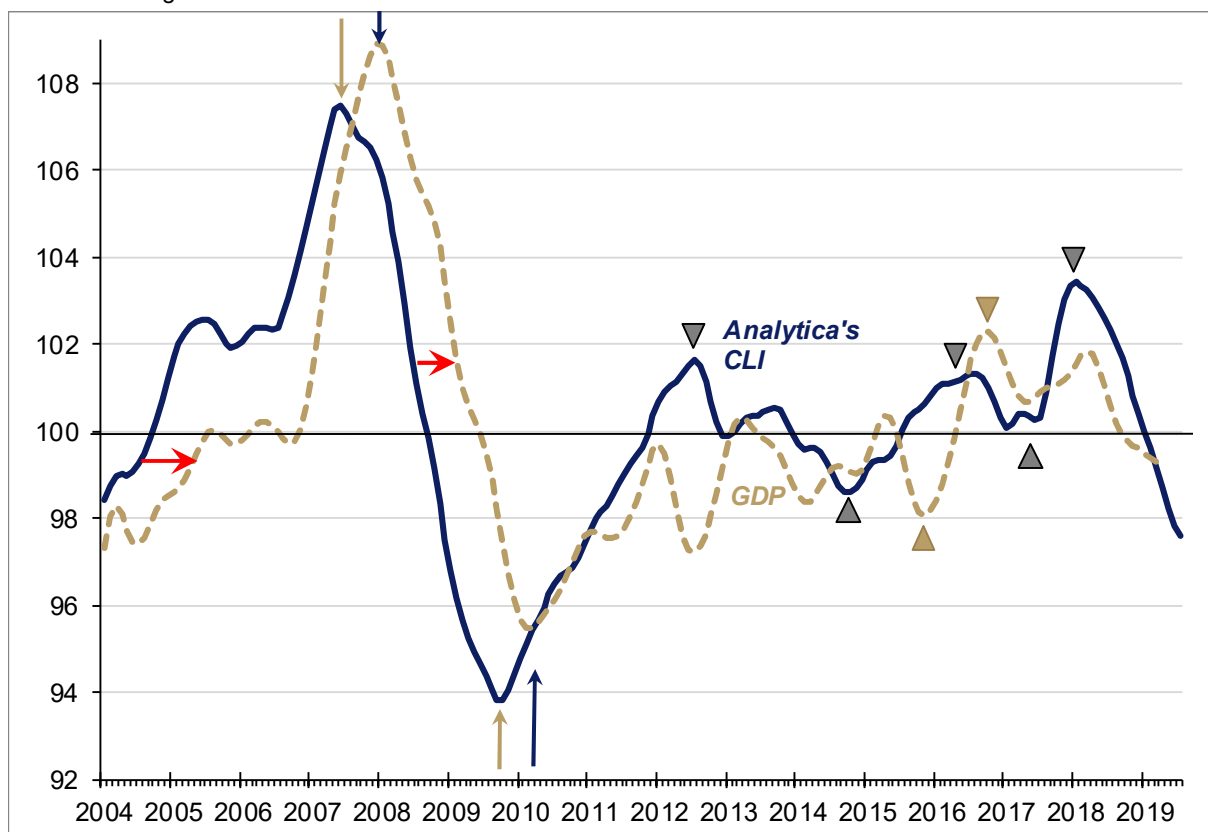


Chart 1 depicts Analytica's CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

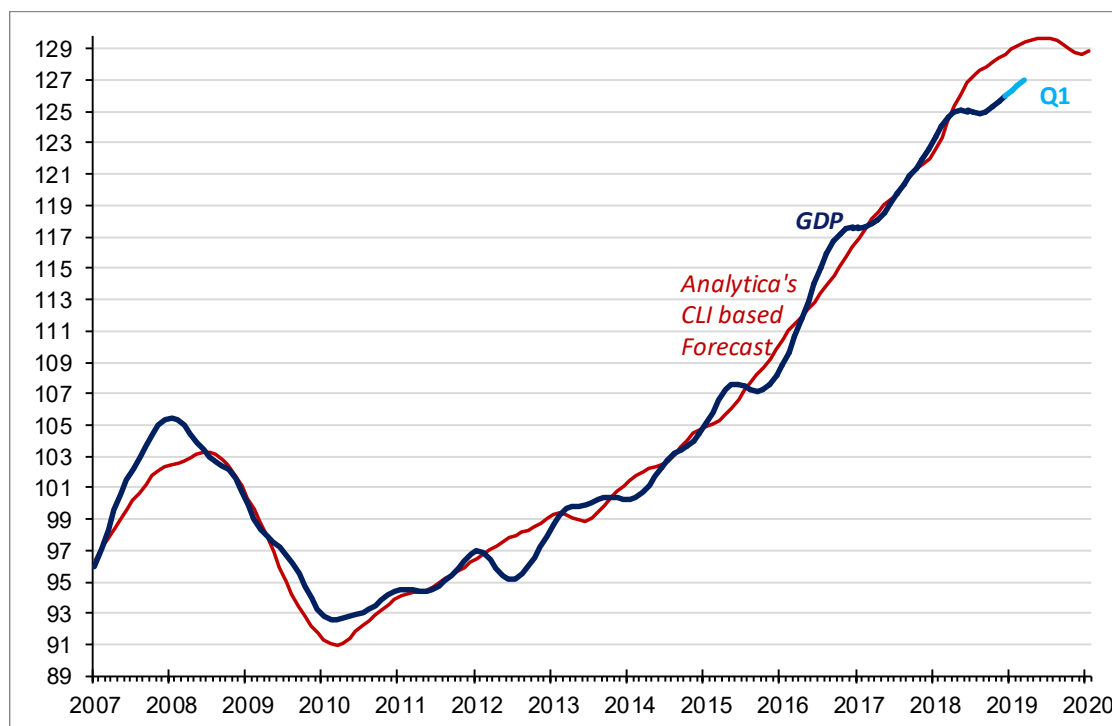
A gray triangle has been placed on Chart 1 for the month of March 2016 indicating a CLI turning point to the downside. A triangle is placed for July 2017 indicating a turning point to the upside for the trend adjusted GDP early 2018. Lastly, a gray triangle has now been placed in January/February of 2018 indicating a turning point to the downside this year.

As seen in Chart 2 decent growth had been forecast into early 2018 with slower growth in the latter half of 2018 and early 2019 and a drop in the second half of 2019. 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. As seen in Chart 2 GDP grew sharply in Q2. The underlying long-term GDP growth trend remains strong even though there is likelihood of a near term recession or slower growth.

### Chart 2. GDP and Analytica's forecast into year 2020

ISK 000m per month - 2005 Prices



Note: GDP figures for 2016, 2017 and 2018 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 by Analytica and are in amounts of thousands of million ISK at fixed 2005 prices. Analytica's seasonal adjustment provides a slightly different result than the adjustment performed by the Statistical Bureau.

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, all six underlying components drop year on year. However, three out of six components drop 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 July drops to 97.6. This value serves as an indicator to economic activity six months into the future, i.e. January 2020. A value of 100 indicates GDP in line with its long-term trend.

**Table 1. Analytica's CLI 2018-2019**

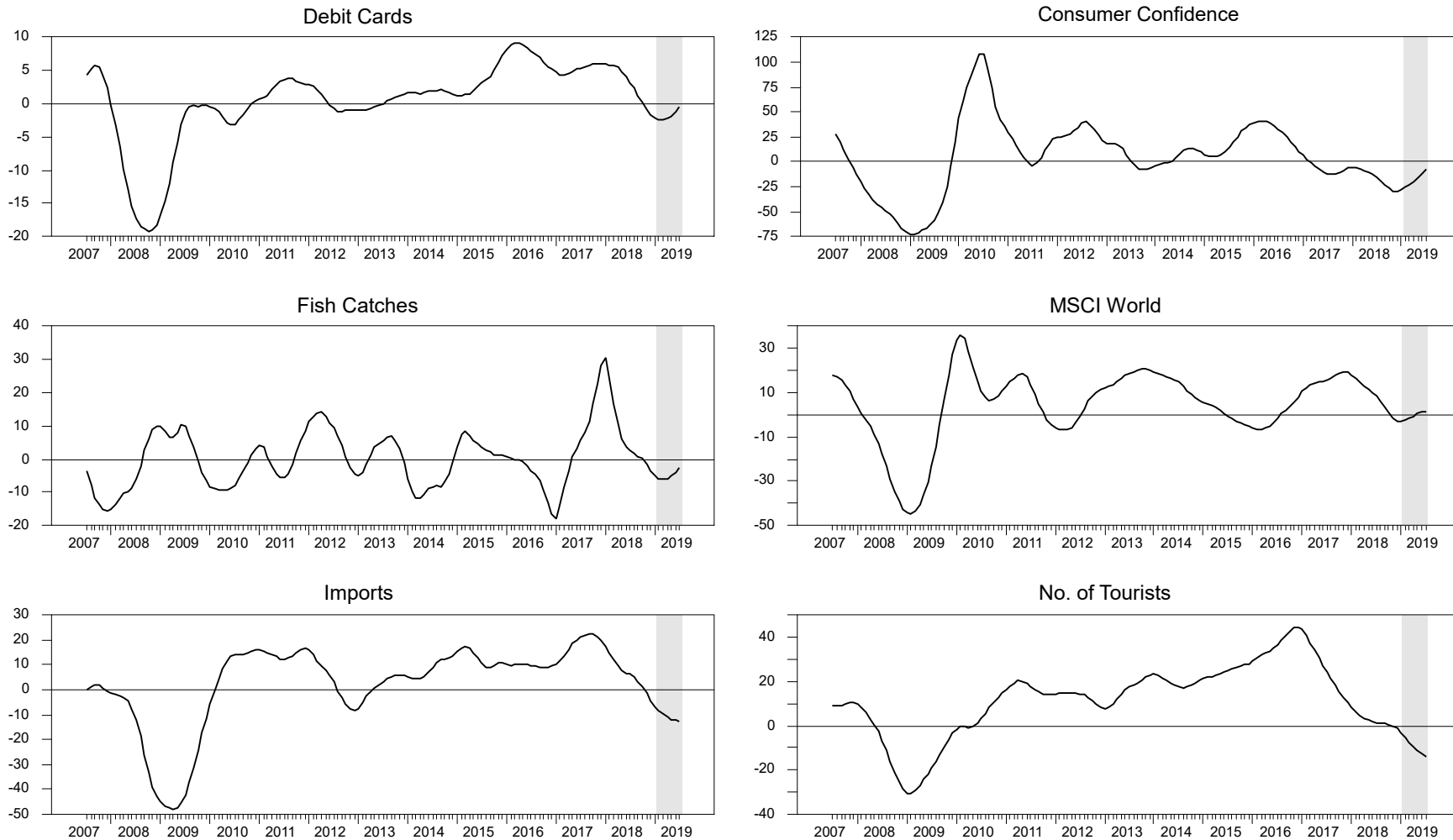
	Index	Change in %		Indication for month
		on month	YOY	
<b>2018</b>				
July	102.4	-0.3%	2.0%	Jan. 2019
August	102.0	-0.3%	1.1%	Feb.
September	101.7	-0.3%	0.0%	March
October	101.3	-0.4%	-1.1%	April
November	100.8	-0.5%	-2.1%	May
December	100.4	-0.4%	-2.9%	June
<b>2019</b>				
January	100.0	-0.4%	-3.3%	July
February	99.6	-0.4%	-3.6%	August
March	99.2	-0.4%	-3.9%	Sept.
April	98.7	-0.5%	-4.2%	Oct.
May	98.2	-0.5%	-4.5%	Nov.
June	97.8	-0.4%	-4.7%	Dec.
July	97.6	-0.2%	-4.6%	Jan. 2020

The August Composite Leading Indicator is scheduled for release on September 18, 2019.

**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:**

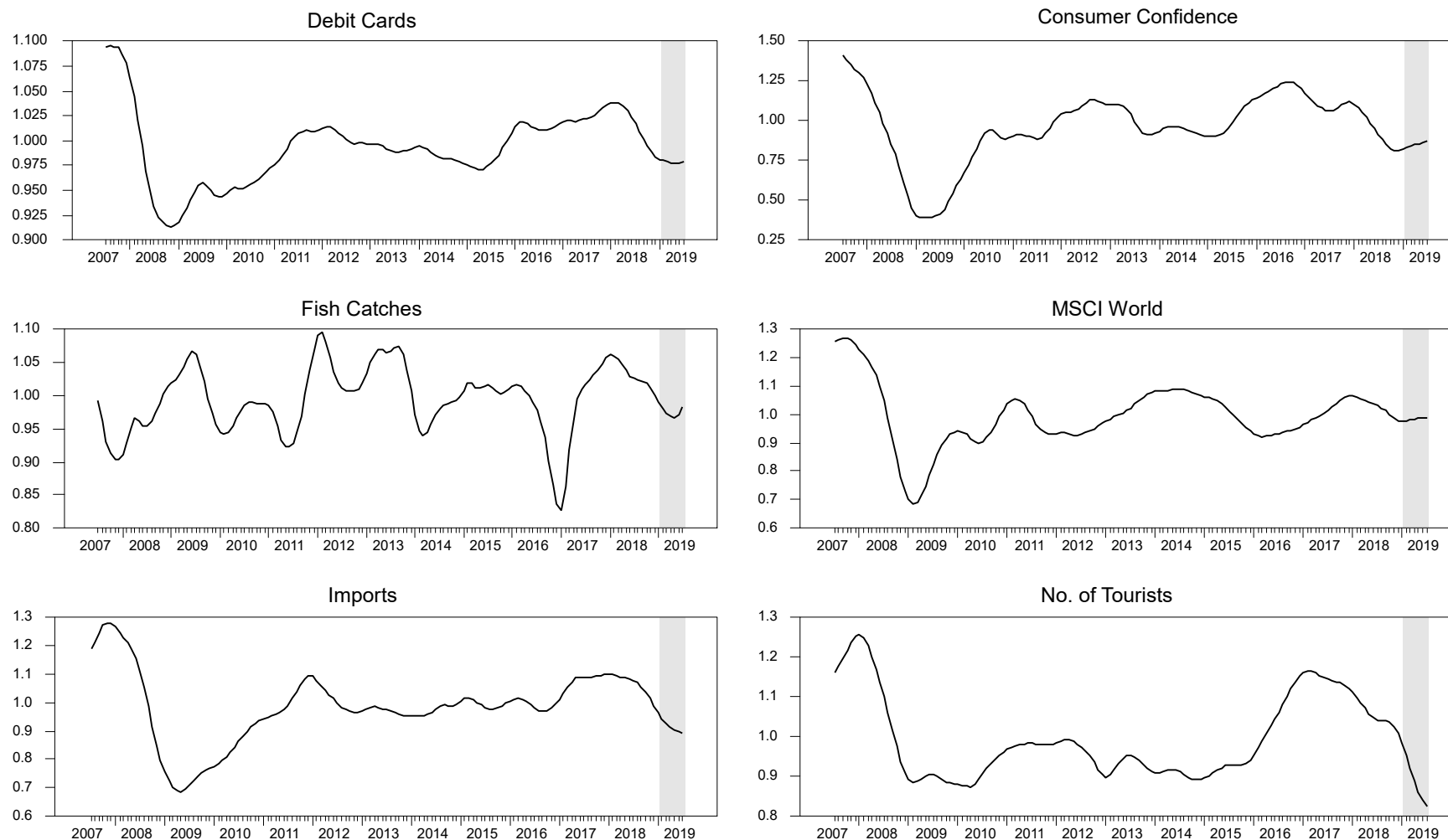
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals at Keflavik Airport. All figures are seasonally adjusted and smoothed. – Shadow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

**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.  
 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.

## **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 Jahansson 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>