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Iceland Leading Indicator – A recessionary outlook

The Iceland Composite Leading Indicator (CLI) for February declined on the month and the economic outlook has deteriorated considerably. The most recent underlying CLI components contain data for February only. Therefore, the CLI does not reflect fully information on the impact of the COVID-19 disease and the respective containment measures. However, it is our assessment that this is the worst economic shock since 2008.

Four out of six CLI components drop on the previous month with the greatest impact due to consumer expectations and fall in merchandise imports and tourism. The long-term trend of some important CLI components has remained strong but temporarily that is of less relevance. There remains considerable uncertainty regarding developments in the tourism industry and the impact of COVID-19 as well as the international political implications.

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

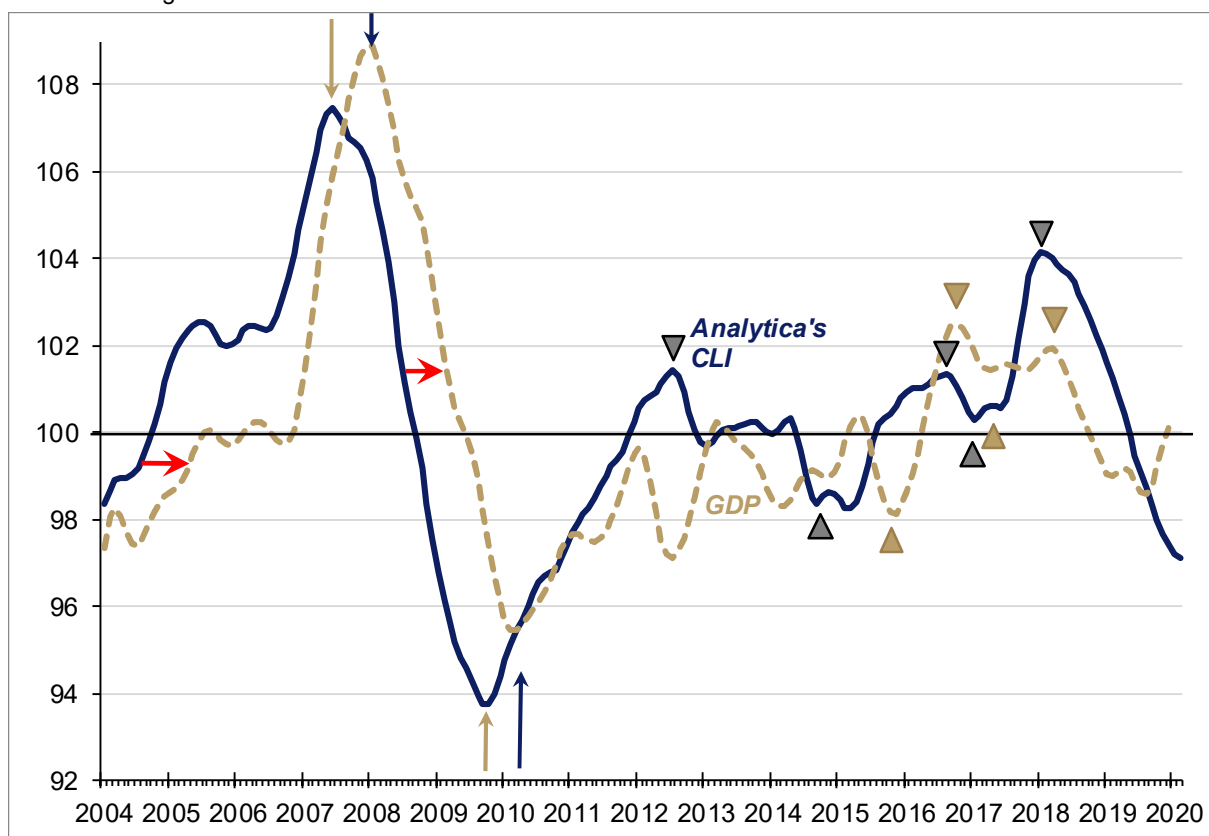


Chart 1 depicts Analytica's CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

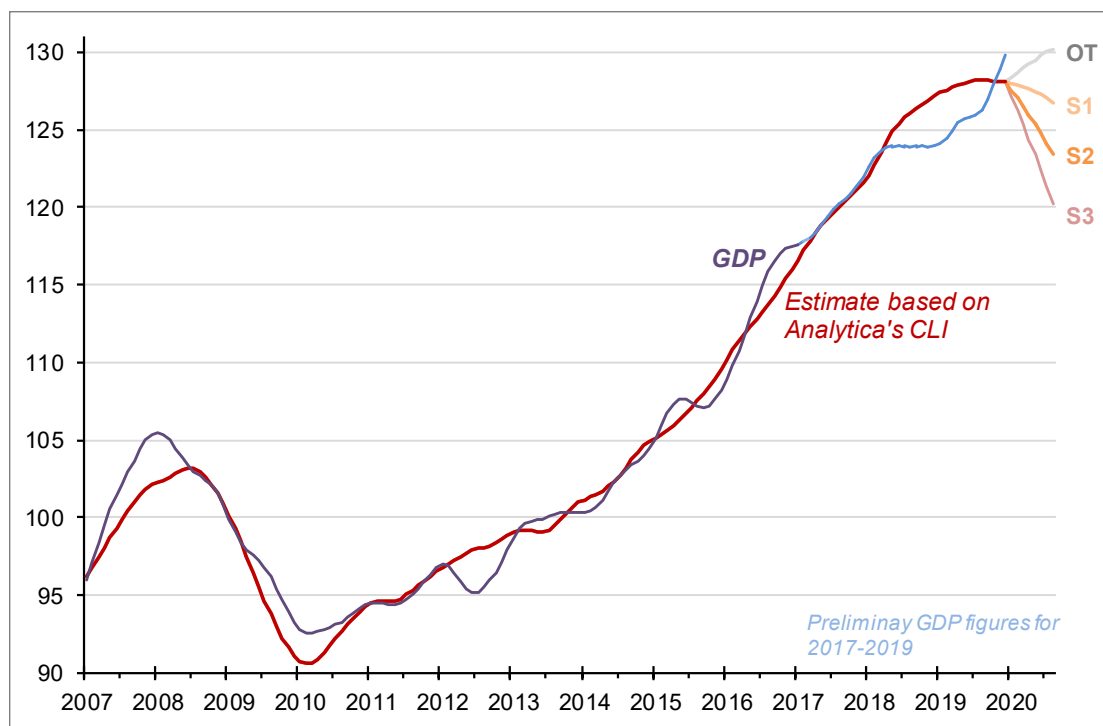
A gray triangle has been placed on Chart 1 for the month of March 2016 indicating a CLI turning point to the downside. A triangle is placed for July 2017 indicating a turning point to the upside for the trend adjusted GDP early 2018. Lastly, a gray triangle has now been placed in January/February of 2018 indicating a turning point to the downside in 2019.

Chart 2 sketches some scenarios on the development of Gross Domestic Product (GDP) 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 has remained strong but now there is likelihood of a temporary shift in that respect.

The red curve in chart 2 depicts Analytica's GDP estimate based on the CLI and its components. At the beginning of 2020 the curve splits into four scenarios. The first scenario is marked **OT** and denotes a GDP estimate based on the previous (old) long term trend. We believe this scenario is an unlikely outcome. The other three scenarios, **S1**, **S2** and **S3** are based on three different premises on a temporary shift in the long-term trend. It is Analytica's assessment that the most likely outcome is between scenarios **S1** and **S2**. This translates into a Q3 2019 on Q3 2020 GDP contraction of between 1% and 4%. There is great uncertainty and the eventual outcome is i.a. dependent on the counteracting economic measures by the government and the central bank.

Chart 2. Scenarios on Iceland GDP into year 2020

ISK 000m per month - 2005 Prices



Note: GDP figures for 2017, 2018 and 2019 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 February, five of the six underlying components drop year on year. However, four out of six components fall on the previous month. See Appendix, Charts A1 and A2.

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 February declined on the month to a value of 97.1. This serves as an indicator to economic activity six months into the future, i.e. August 2020. A value of 100 indicates GDP in line with its long-term trend.

Table 1. Analytica's CLI 2019-2020

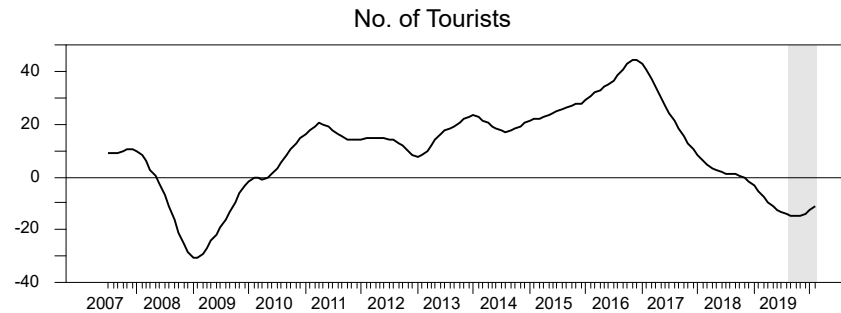
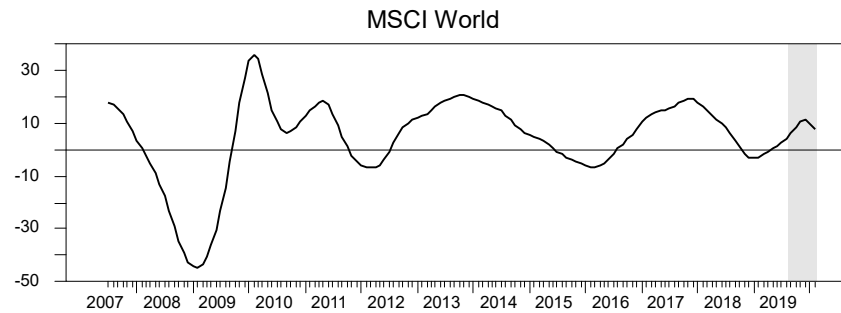
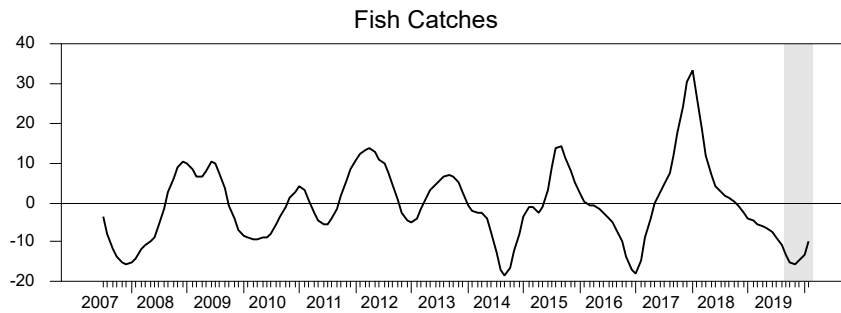
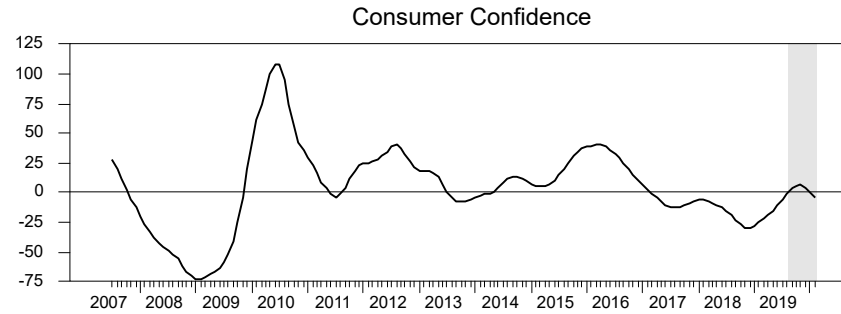
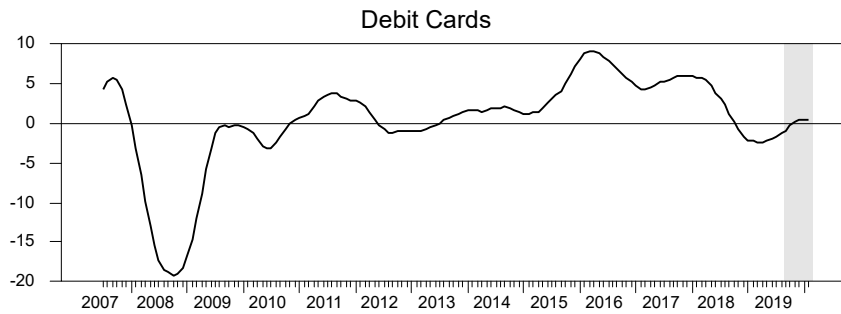
	Index	Change in %		Indication for month
		on month	YOY	
2019				
February	101.3	-0.3%	-2.7%	August
March	100.8	-0.4%	-3.0%	Sept.
April	100.4	-0.4%	-3.4%	Oct.
May	99.9	-0.5%	-3.7%	Nov.
June	99.4	-0.5%	-4.0%	Dec.
July	99.1	-0.4%	-4.2%	Jan. 2020
August	98.7	-0.4%	-4.3%	Feb.
September	98.3	-0.4%	-4.4%	March
October	98.0	-0.4%	-4.5%	April
November	97.7	-0.3%	-4.4%	May
December	97.4	-0.3%	-4.4%	June
2020				
January	97.2	-0.2%	-4.3%	July
February	97.1	-0.1%	-4.1%	August

The March Composite Leading Indicator is scheduled for release on April 21, 2020.

**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:

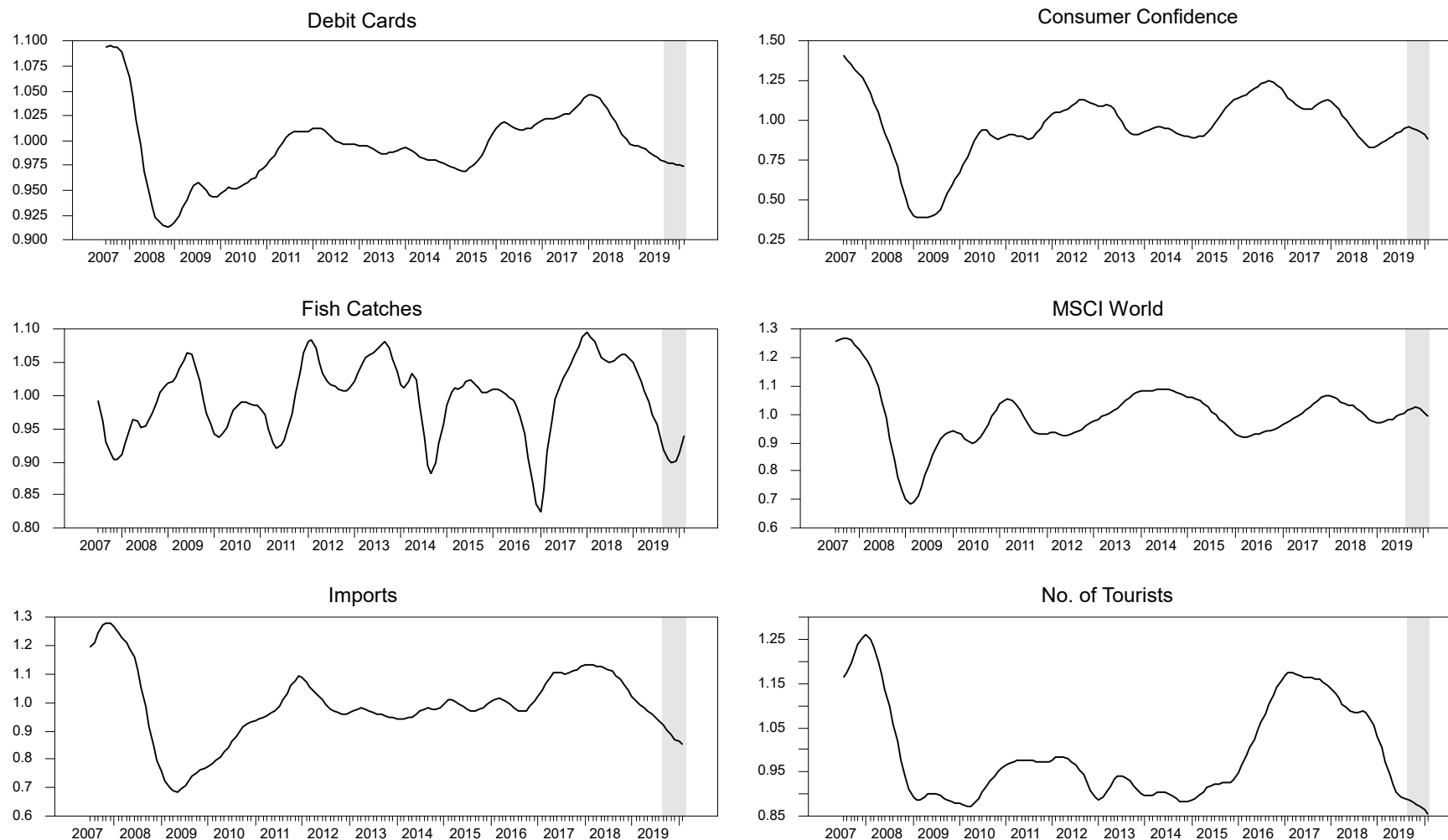
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. * Not Trend Adjusted
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals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