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### Iceland Leading Indicator – Tentative positive signs – CLI rises

The Iceland Composite Leading Indicator (CLI) rose in July for the first time in more than two years. Also, the data was revised upwards going back a couple of months. Given that turning points in the CLI precede turning points in Gross Domestic Product (GDP) by six to nine months there is now increased likelihood of a GDP turning point to the upside early 2021.

Two out of six CLI components rise on the previous month with the greatest impact due to an increased debit card turnover. The long-term trend of some important CLI components has remained strong but this is temporarily of less relevance. There remains considerable uncertainty regarding developments in the tourism industry and the impact of COVID-19 pandemic as well its 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 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

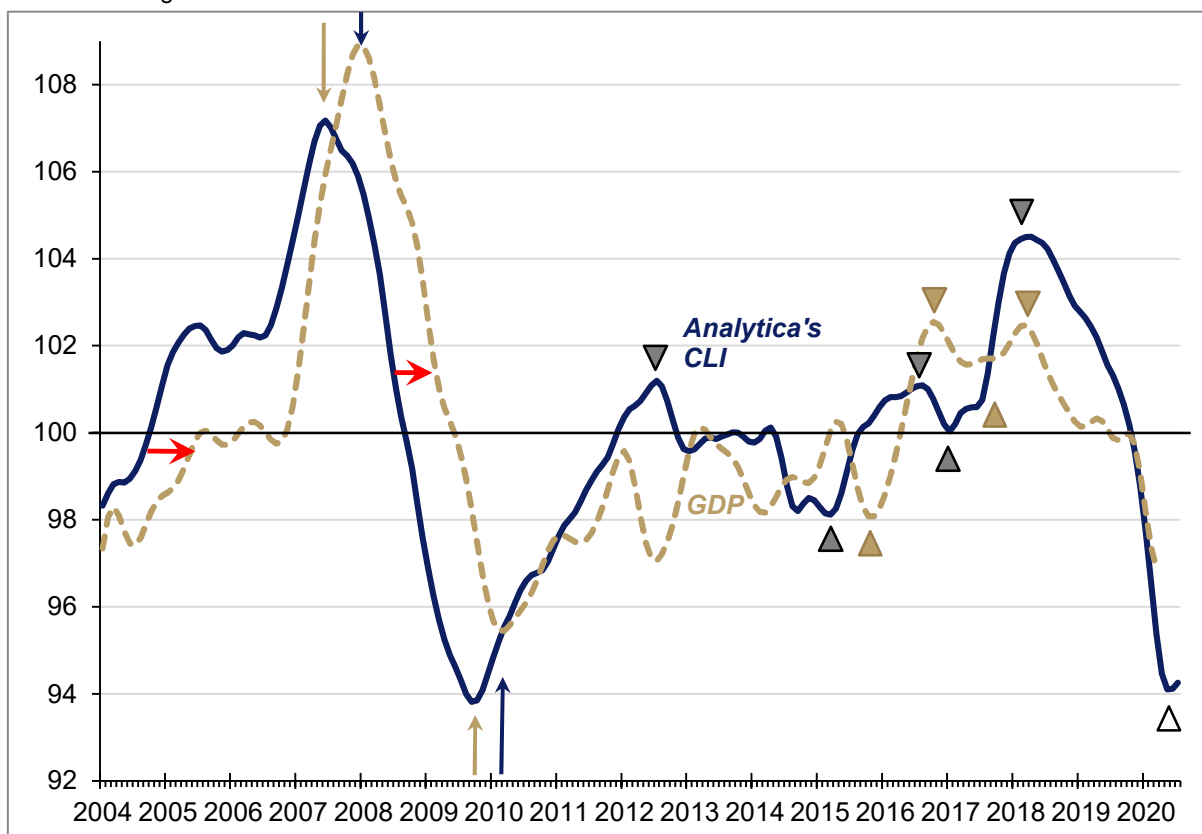


Chart 1 depicts Analytica's CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

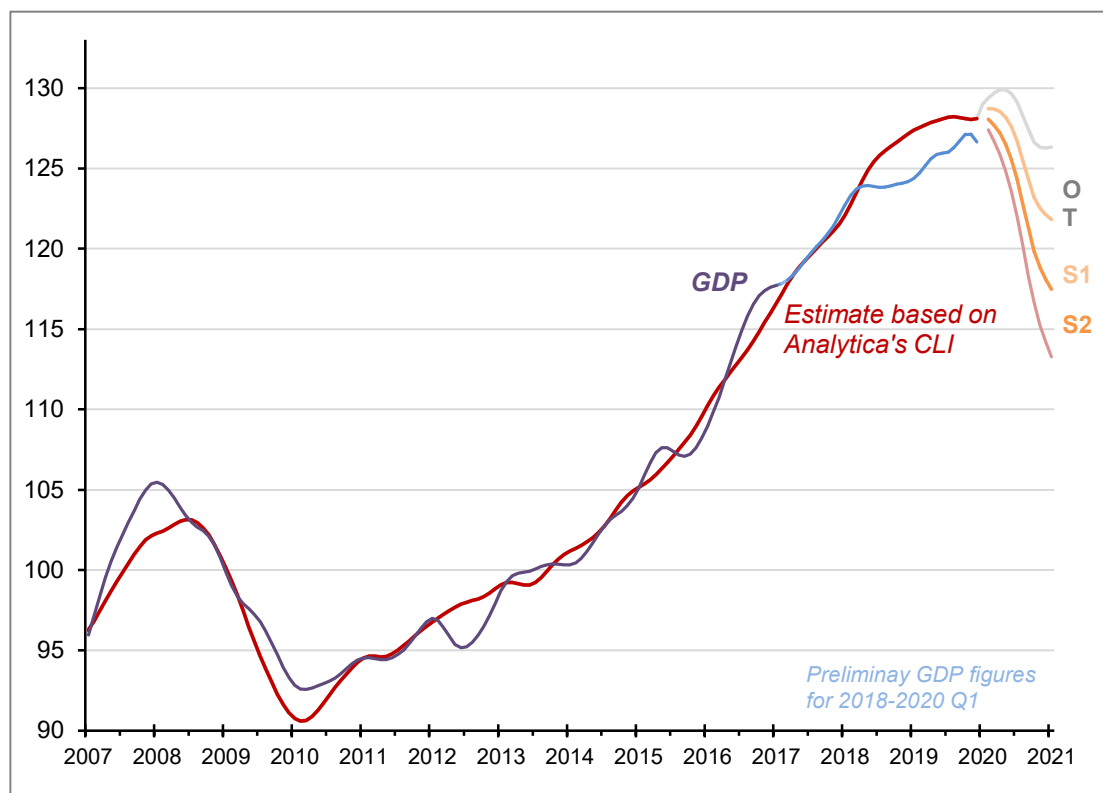
A white triangle has been placed on Chart 1 for the month of June 2020 indicating a tentative CLI turning point to the upside. This indicates a potential GDP turning point to the upside in January 2021. It is too early to tell the magnitude of such a turning point.

Chart 2 sketches some scenarios on the development of 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. 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 current assessment that the most likely outcome resembles scenario **S2**. This translates into a Q4/Q4 contraction of between 5% and 8% or somewhat less than previously forecast. However, there remains great uncertainty and the eventual outcome is i.a. dependent on the counteracting economic measures by the government and the central bank. However, there is little doubt regarding the positive impact of those measures.

### Chart 2. Scenarios on Iceland GDP for year 2020

ISK 000m per month - 2005 Prices



Note: GDP figures for 2018, 2019 and 2020 Q1 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, two of the six underlying components rise year on year. Also, two out of six components rise 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 July rose on the month to a value of 94.3. This serves as an indicator to economic activity six months into the future, i.e. January 2021. A value of 100 indicates GDP in line with its long-term trend.

**Table 1. Analytica's CLI 2019-2020**

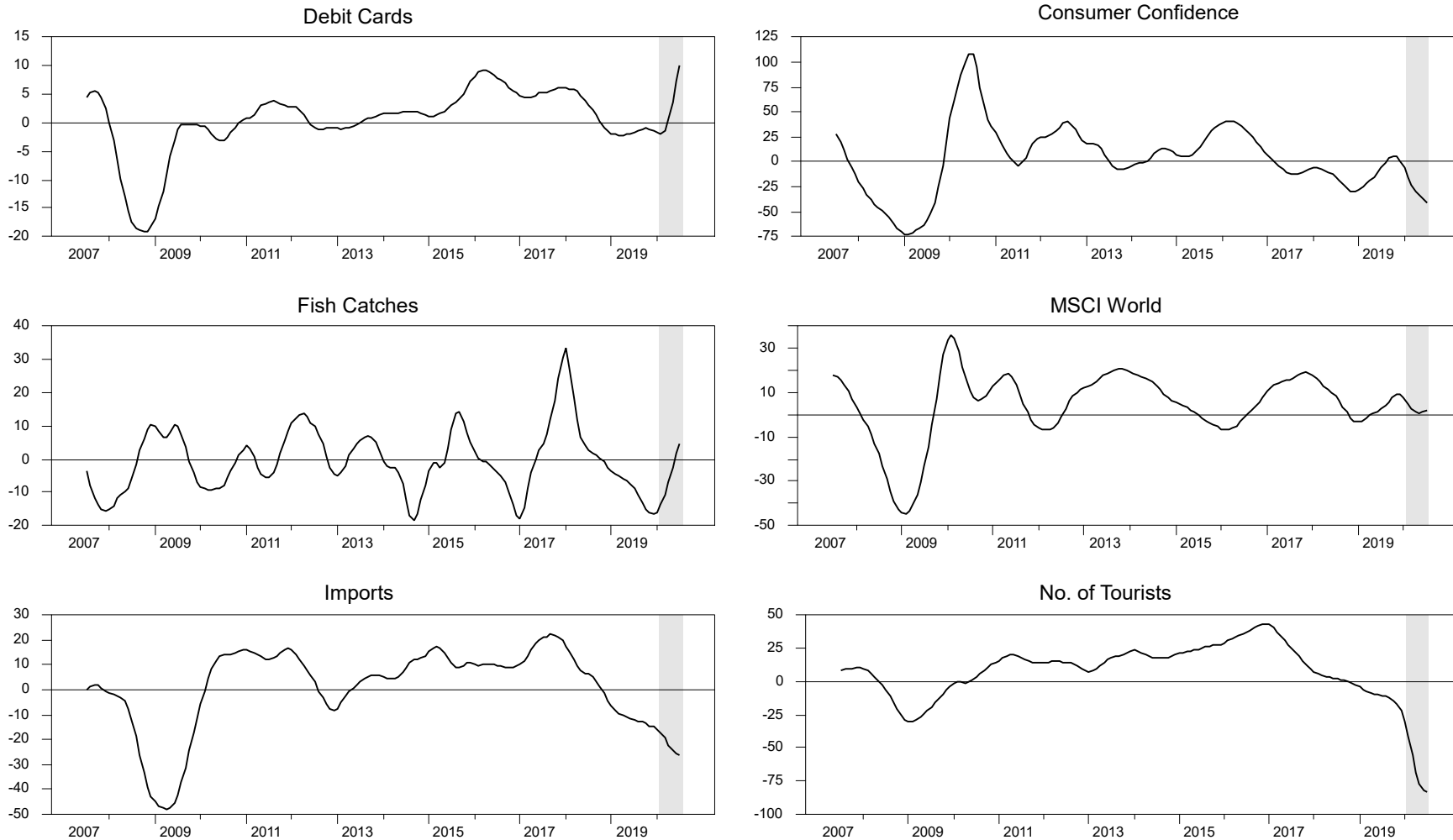
	Index	Change in %		Indication for month
		on month	YOY	
<b>2019</b>				
July	101.3	-0.2%	-2.8%	Jan. 2020
August	101.0	-0.3%	-2.8%	Feb.
September	100.7	-0.4%	-3.0%	March
October	100.2	-0.5%	-3.1%	April
November	99.6	-0.6%	-3.5%	May
December	98.8	-0.8%	-4.0%	June
<b>2020</b>				
January	97.8	-1.0%	-4.9%	July
February	96.6	-1.2%	-5.9%	August
March	95.4	-1.3%	-6.9%	Sept.
April	94.5	-1.0%	-7.6%	Oct.
May	94.1	-0.4%	-7.6%	Nov.
June	94.1	0.0%	-7.3%	Dec.
July	94.3	0.1%	-7.0%	Jan. 2021

The August Composite Leading Indicator is scheduled for release on September 17, 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:**

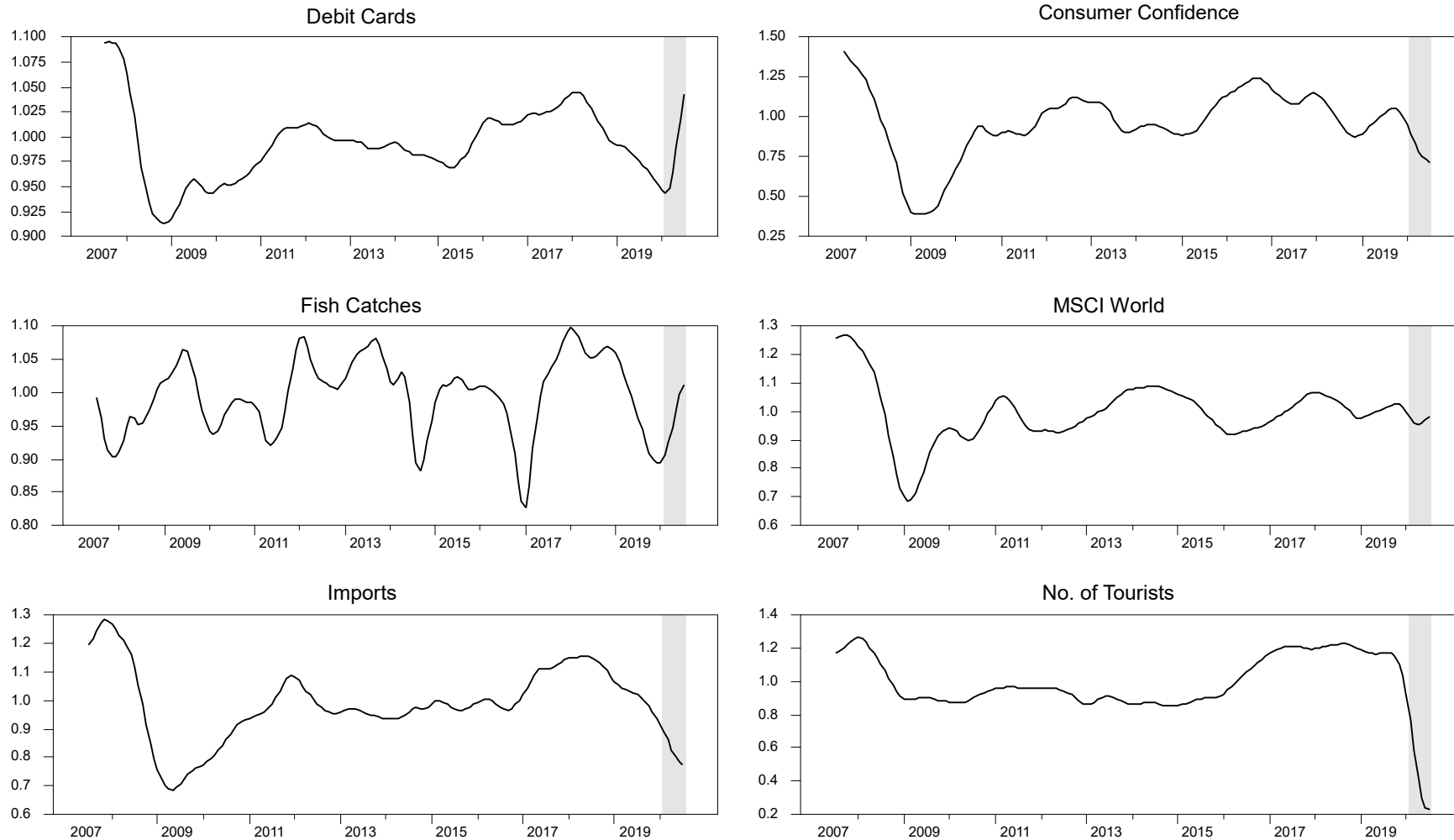
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals at Keflavik Airport. All figures are seasonally adjusted and smoothed. – Shadow 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 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>