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### Iceland Leading Indicator – Indications of slower recovery

The Iceland Composite Leading Indicator (CLI) rose in August. This is the eleventh consecutive rise and the highest reading of the indicator since start of year 2019. Recovery is underway but debit card turnover at domestic retailers indicates that the recovery may be weakening.

Four out of six CLI components rise on the previous month. The largest contributions are due to an increase in tourist arrivals and an increase in merchandise imports. There remains some uncertainty regarding developments in the tourism industry and in the international evolution of the pandemic. Also, there is some uncertainty regarding the development of the sectors that have seen the highest growth rates throughout the pandemic.

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

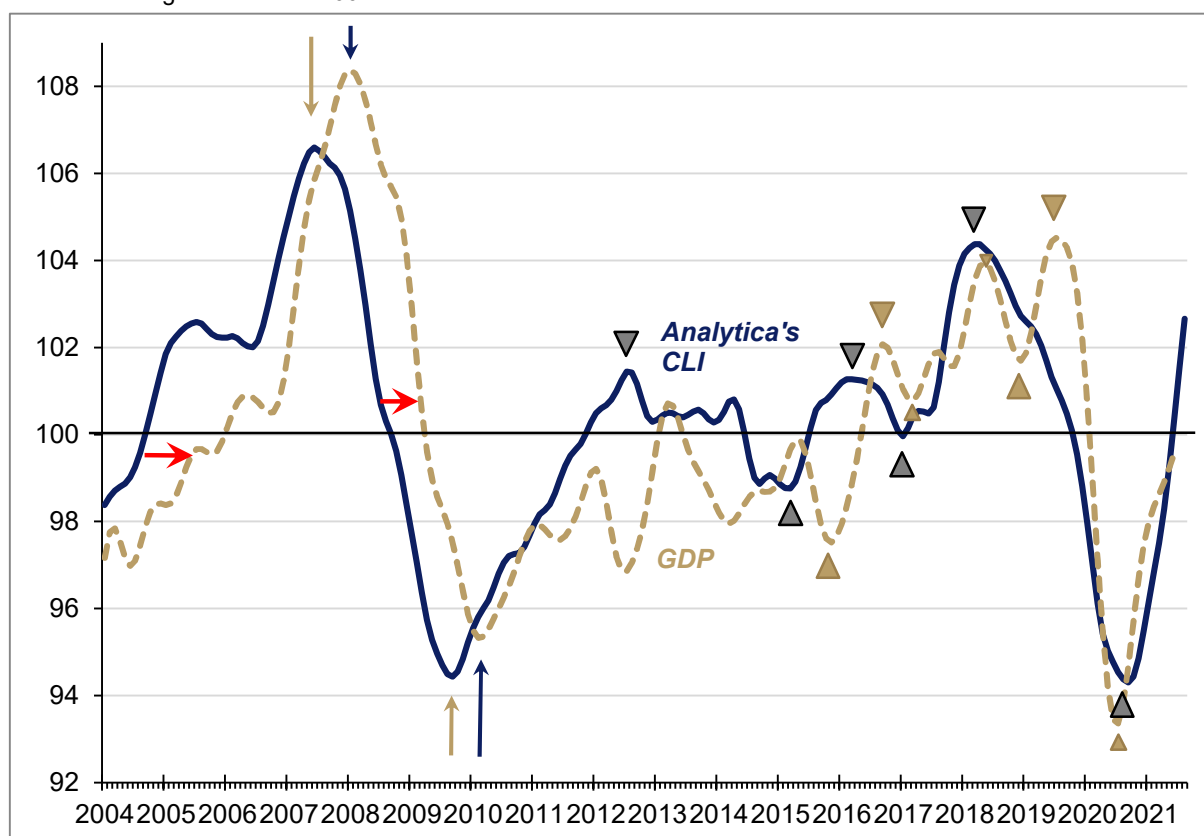
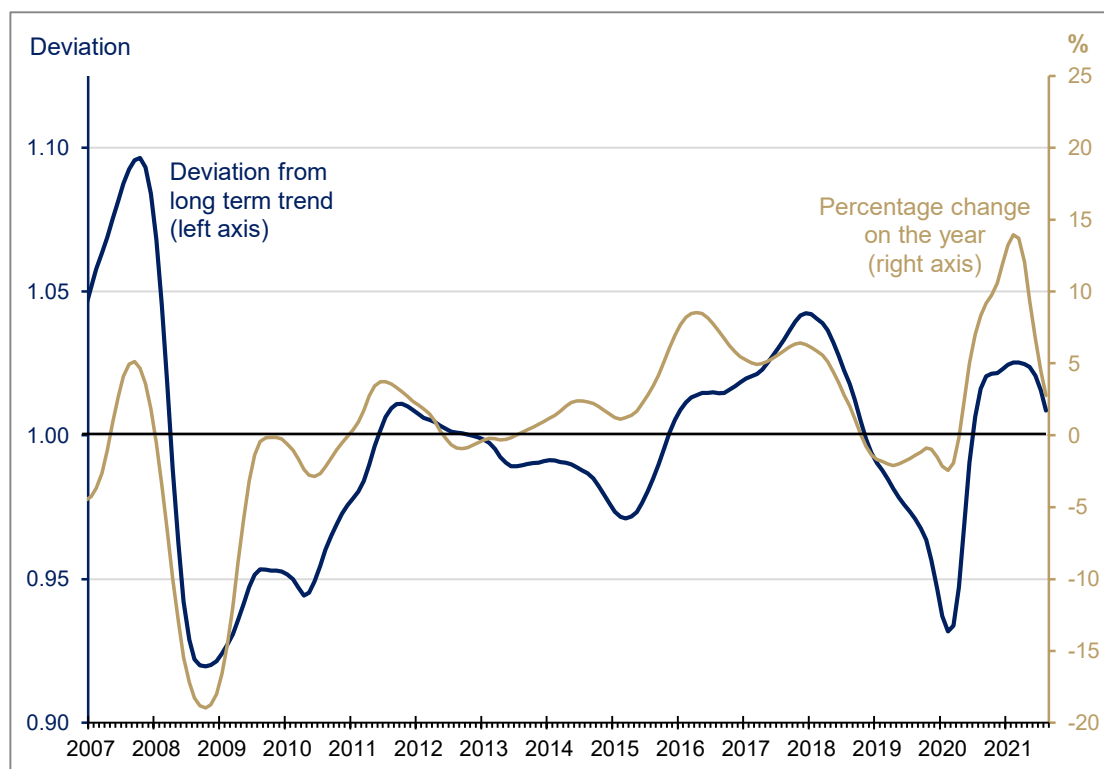


Chart 1 depicts Analytica’s CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

Chart 2 depicts the development of debit card turnover at domestic retailers for the period 2007-2021. The figures are at fixed prices and seasonally adjusted and smoothed. Debit card turnover is one of the CLI components and empirically it provides an early indication of the business cycle. This means that turning points in debit card turnover tend to appear earlier than the CLI turning points but with less reliability.

The dark blue curve in chart 2 shows the deviation of debit card turnover from the long-term trend whereas the brown curve depicts the debit card turnover year on year change. The curves indicate slower growth of debit card turnover and thereby indicate that a CLI turning point may be only some months away. One potential explanation could be that Icelanders are now more willing to travel and spend money abroad instead of domestically.

**Chart 2. Debit card turnover – Deviation from long term trend and YoY %-change**  
Seasonally adjusted and smoothed at fixed prices



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 the above-mentioned developments. It may also be noted that a turning point to the downside may be appearing in the Gallup index of Consumer Confidence.

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 August, five out of the six underlying components rise year on year. However, four 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 August rose on the month to a value of 102.7. This serves as an indicator to economic activity six months into the future, i.e. February 2022. A value of 100 indicates GDP in line with its long-term trend.

**Table 1. Analytica's CLI 2020-2021**

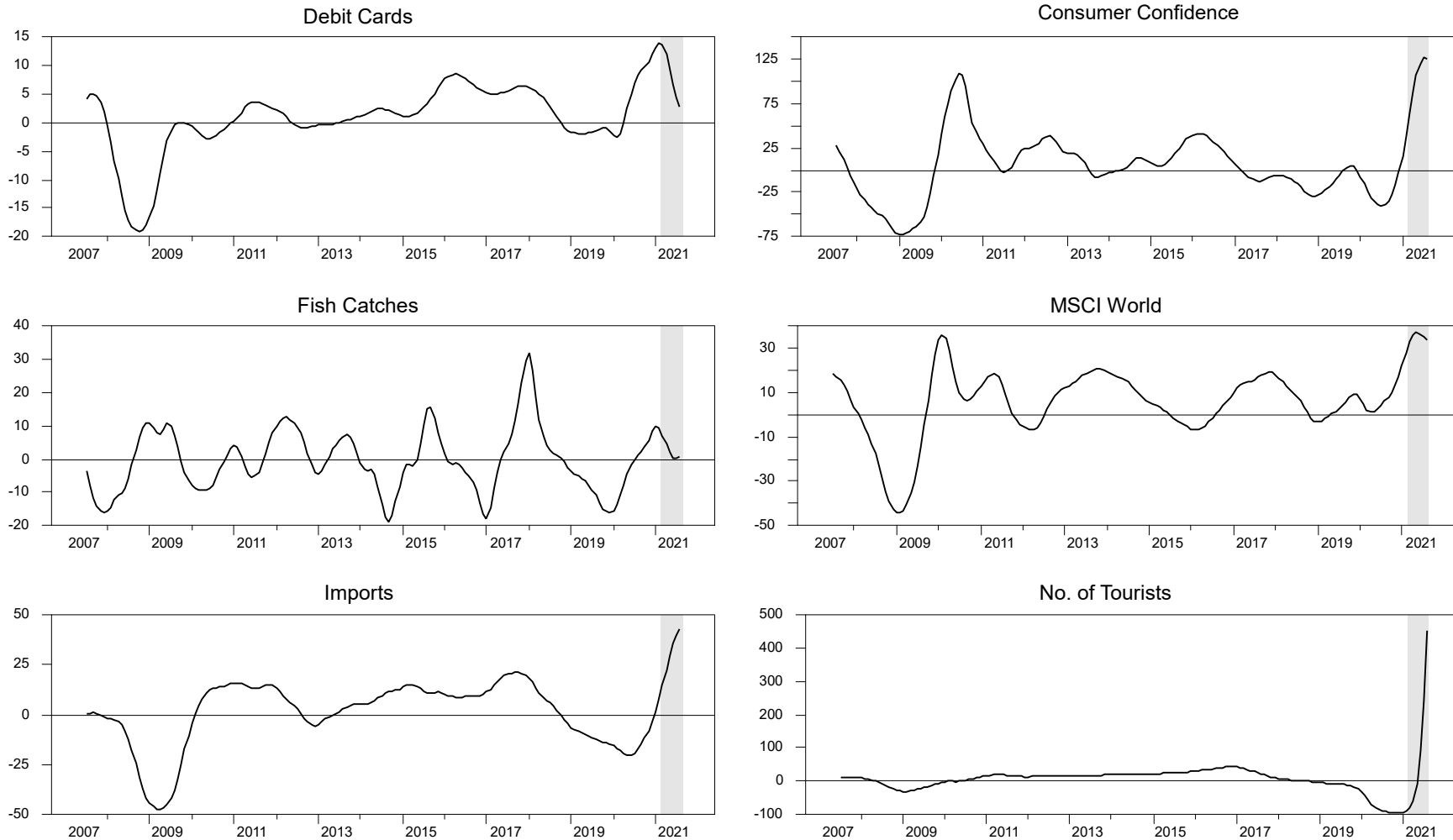
	Index	Change in %		Indication for month
		on month	YOY	
<b>2020</b>				
August	94.4	-0.2%	-6.4%	Feb. 2021
September	94.3	-0.1%	-6.1%	March
October	94.4	0.1%	-5.6%	April
November	94.9	0.4%	-4.7%	May
December	95.5	0.7%	-3.4%	June
<b>2021</b>				
January	96.2	0.7%	-1.8%	July
February	96.8	0.7%	-0.2%	August
March	97.5	0.7%	1.4%	Sept.
April	98.3	0.8%	3.0%	Oct.
May	99.3	1.0%	4.5%	Nov.
June	100.4	1.1%	5.9%	Dec.
July	101.6	1.1%	7.4%	Jan. 2022
August	102.7	1.1%	8.8%	Feb.

The September Composite Leading Indicator is scheduled for release on October 19, 2021.

**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:**

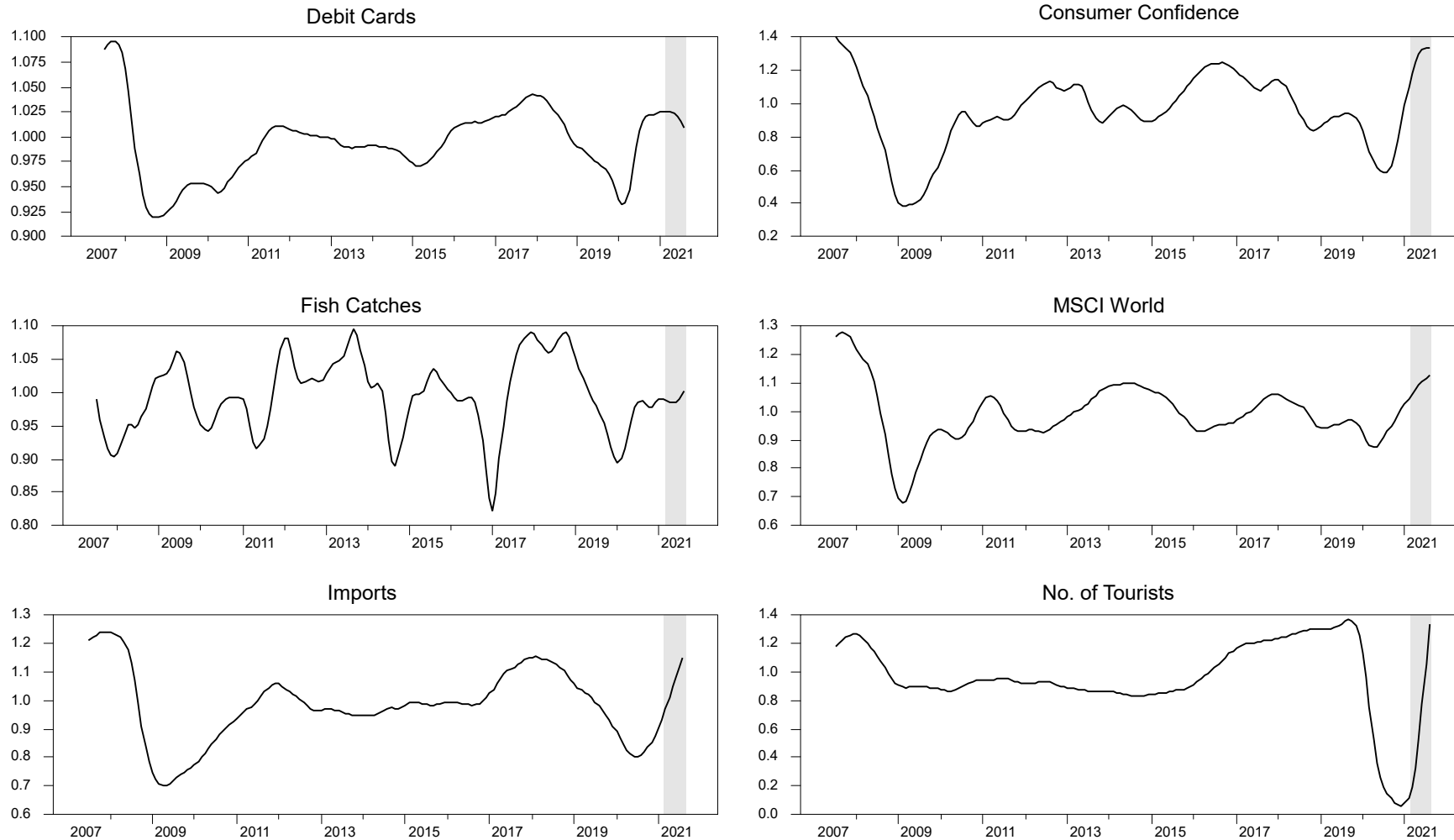
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. \* Not Trend Adjusted  
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals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

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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>