



News release no. 1/2023

2023.01.18

**Iceland Leading Indicator – Stronger indications of slower GDP growth**

The Iceland Composite Leading Indicator (CLI) declined in December. Also, the values for the past months were revised downwards. At the revised values the CLI has declined for five consecutive months. The outlook is for GDP growth to continue in line with long-term trend for the first half of 2023. However, after that there is risk of slower growth or a GDP contraction. Indications of this scenario seem to be getting stronger.

Three out of six CLI components fall on the previous month. The largest contributions are due to a fall in fish catches and the fall in stock prices. The War in Ukraine is a source of considerable uncertainty. The developments in financial markets are also a risk factor in view of rising inflation and monetary tightening of various central banks.

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

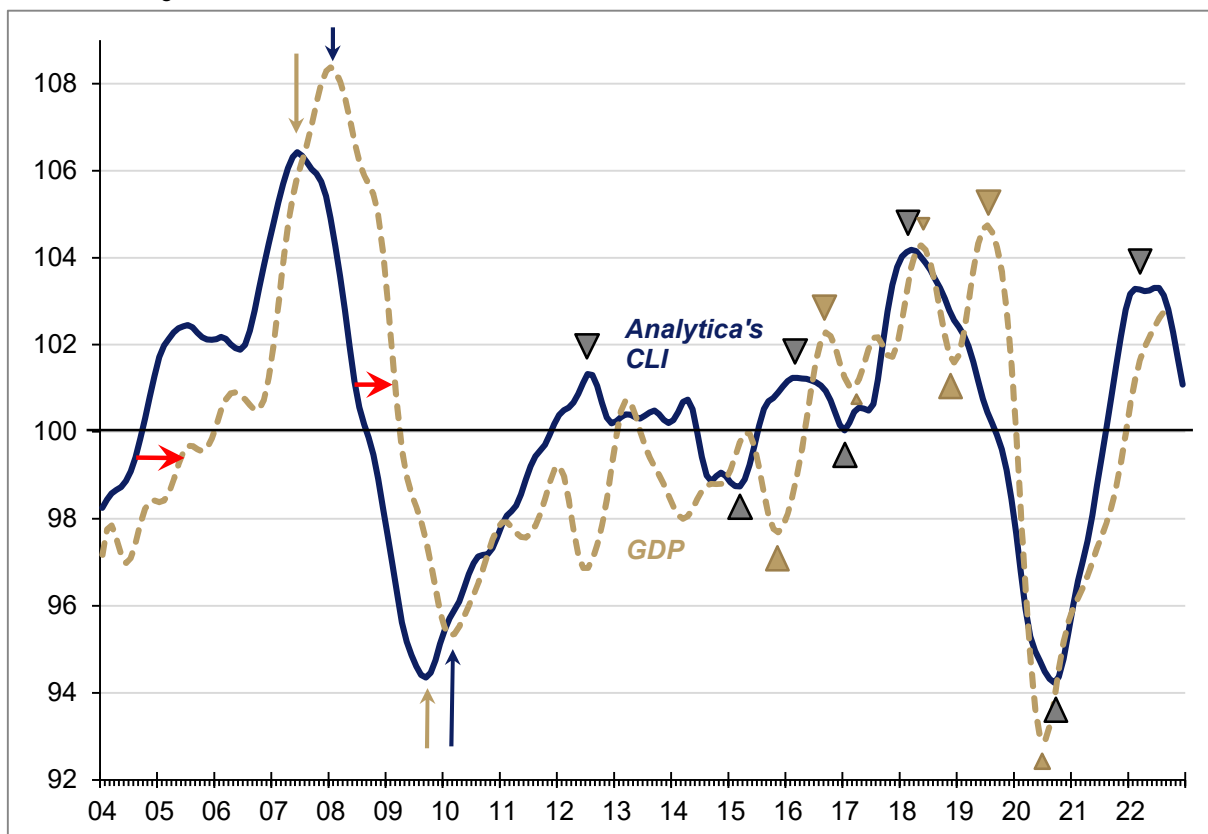
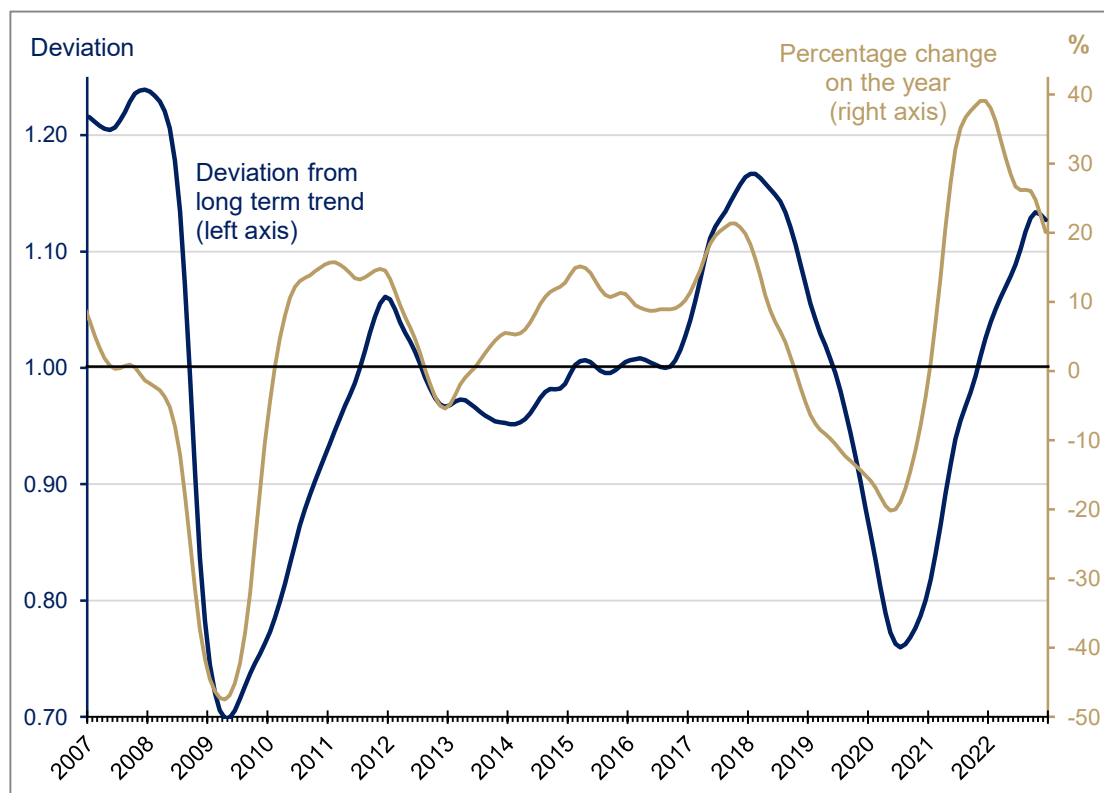


Chart 1 depicts Analytica’s CLI together with trend adjusted GDP. The chart shows that the CLI leads GDP on average by around six months.

Chart 2 depicts the developments of inflation adjusted merchandise imports for the period 2007-2022. The figures are seasonally adjusted and smoothed. This is one of the CLI components and empirically it provides an early indication of the business cycle.

The dark blue curve in chart 2 shows the deviation of merchandise imports from the long-term trend whereas the brown curve depicts the year-on-year change. It may be expected that this component will continue to lead in the next months in relation to i.a. the increased activity in the tourism sector and in the construction sector. However, it can also be expected that the impact of foreign price changes will be noted relative to the Icelandic CPI. There appear to be early signs of declining merchandise imports ahead.

**Chart 2. Merchandise imports – Deviation from long term trend and YoY %-change**  
Fixed price, basis Icelandic CPI - Seasonally adjusted and smoothed



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 developments of the index.

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 December, four out of six underlying components decline year on year. Three out of six components decline on the previous month. See Appendix, Charts A1 and A2.<sup>1</sup>

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.

<sup>1</sup> The series in chart A2 are now shown in a standardized form, i.e. all series adjusted for mean=0, standard deviation=1.

Table 1 shows the development of the CLI during the past twelve months. The index for December declines on the month and takes the value of 101.1. This serves as an indicator to economic activity six months into the future, i.e. June 2023. A value of 100 indicates GDP in line with its long-term trend.

**Table 1. Analytica's CLI 2021-2022**

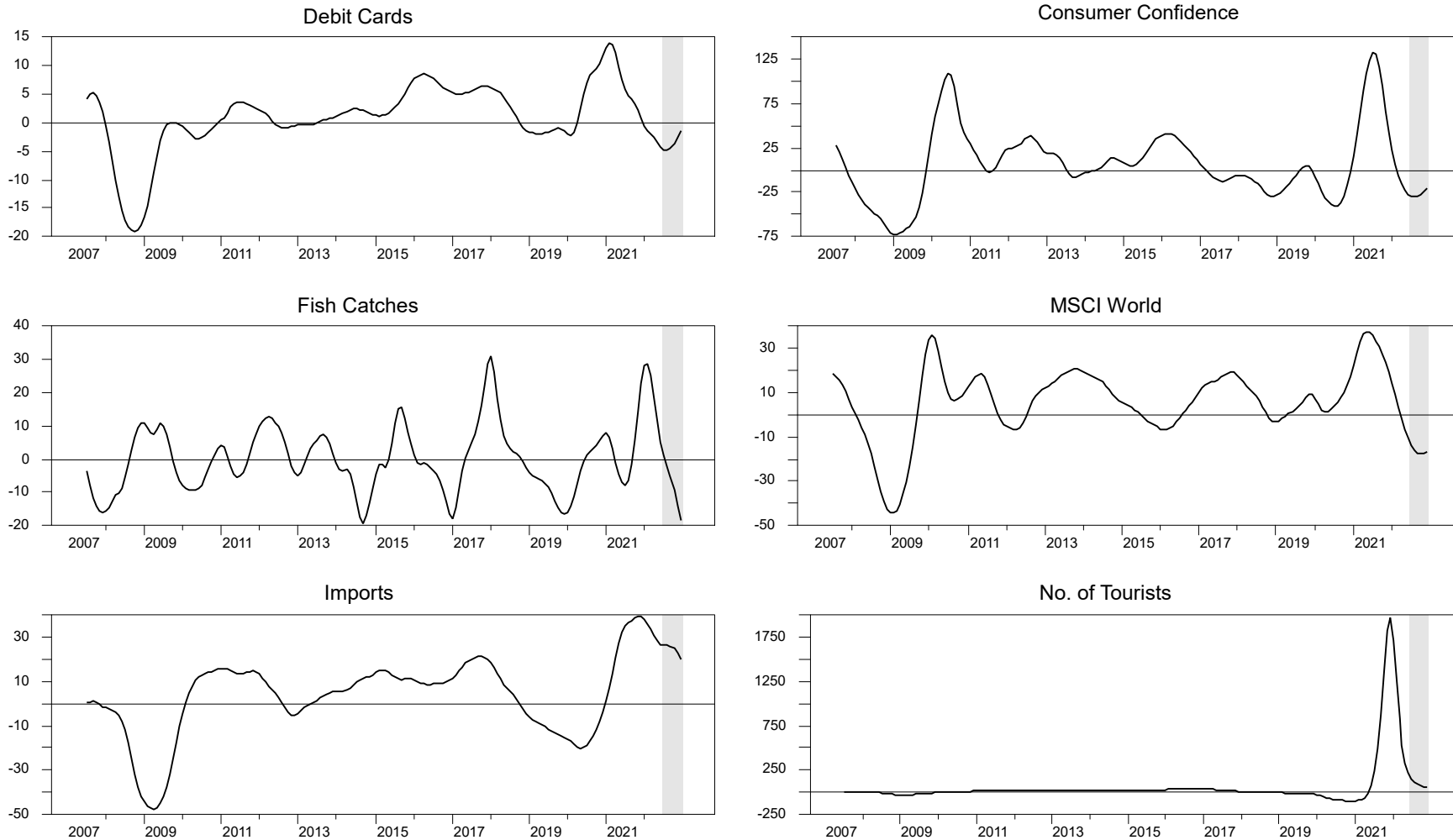
	Index	Change in %		Indication for month
		on month	YOY	
<b>2021</b>				
December	102.8	0.6%	7.8%	June 2022
<b>2022</b>				
January	103.2	0.4%	7.5%	July
February	103.3	0.1%	6.9%	August
March	103.3	0.0%	6.4%	Sept.
April	103.2	0.0%	5.9%	Oct.
May	103.2	0.0%	5.3%	Nov.
June	103.3	0.1%	4.6%	Dec.
July	103.3	0.0%	3.9%	Jan. 2023
August	103.1	-0.2%	3.0%	Feb.
September	102.8	-0.3%	2.0%	March
October	102.3	-0.5%	0.8%	April
November	101.7	-0.6%	-0.5%	May
December	101.1	-0.6%	-1.7%	June

The January Composite Leading Indicator is scheduled for release on February 21, 2023.

**Further information is provided by Analytica's CEO, Mr. Yngvi Hardarson  
Tel. +354 5278890 - email: [yngvi@analytica.is](mailto:yngvi@analytica.is)**

### Chart A1 - Analytica's Leading Indicator - Individual Components

*Per cent Change Year on Year \**



**Notes:**

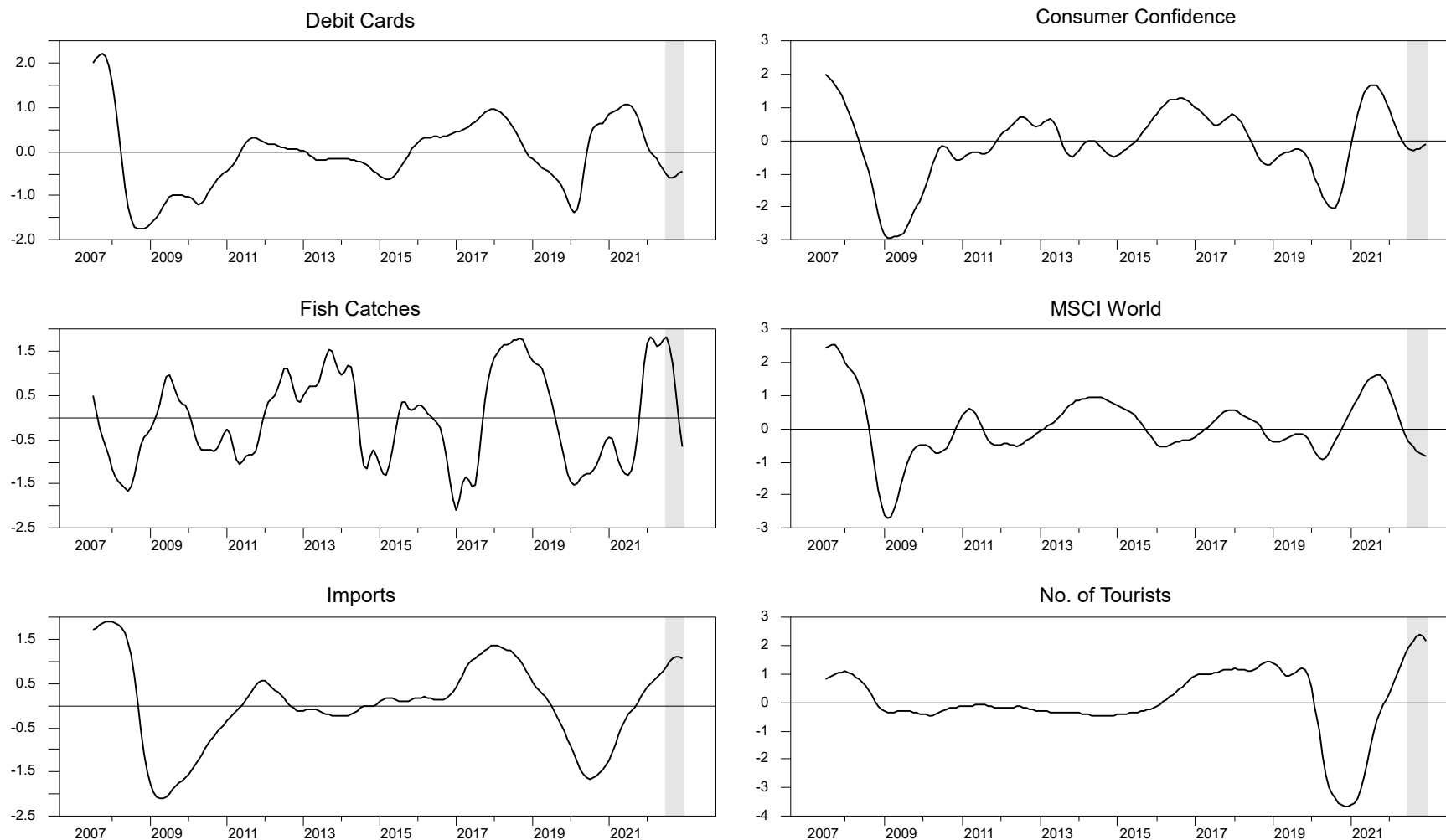
Debit Cards: Domestic debit card turnover, inflation adj. – Fish Catches: Chain linked volume index. – Imports: Inflation adjusted imports. \* Not Trend Adjusted  
 Cons. Confidence: Gallup Index of Consumer Confidence. – MSCI World: MSCI World equities index. – No. of Tourists: No. of passenger arrivals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

Gallup Iceland, Statistical Bureau of Iceland, Central Bank of Iceland, Refinitiv, 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>