

2. Economic Activity

The main question we will try to answer in this issue of QM is how high growth of GDP can we expect in 2014. Our analysis indicates that the economic activity in 2014 will most probably be in stagnation, or small recession, and that the real reason for this unfavourable movement of the economic activity is not so much the impact of the recent floods, but deeper negative economic trends that have already been present for some time in the Serbian economy. Unfavourable effects these floods could have on GDP will be relatively small - probably around 0.5 pp of GDP, and possibly even less than that. It is necessary to distinguish the two impacts of floods on the economy, which are often perceived as the same by general public: 1) damage on the properties, which is currently estimated at around one billion euros (about 3% of GDP) and 2) the impact that the floods will have on the income in 2014 (i.e. on GDP), which is considerably smaller. The effect of floods on GDP is measured through the reduction of agricultural activities, coal production and electricity, smaller imputed rents due to the damaged buildings and other. We estimate that this impact could be around 0.5 pp of GDP, but we haven't excluded the possibility that, with increased activity for the restoration of damaged facilities, the negative impact of floods on GDP in 2014 could be almost negligible. The fact that the impact of floods on GDP will be small, however, does not mean that the economy will avoid recession in 2014. The first figures for Q1 indicate that the Serbian economy was in stagnation even without the floods, and that increasing slowdown in exports in the last months, the low level of investments and the current unsustainable fiscal position of the state indicate the essential worsening of economic trends which takes place independently of the floods.

Gross domestic product

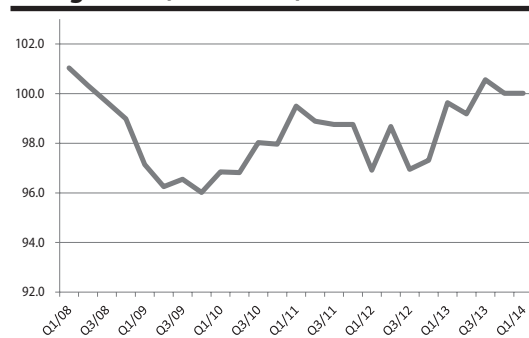
Year-on-year growth of GDP in Q1 of about 0,4%

According to the preliminary, flash, SORS estimate, the real y-o-y GDP growth in Q1 was 0.4%. This growth is significantly lower than the relatively high growth rates (2.7-3.7%) which preceded in the second part of 2013, but it is not unexpected. Namely, in 2013, when the overall GDP growth was 2.5%, agriculture had high growth of more than 20% (because it was compared to extremely dry 2012), and the company Fiat Automobiles Serbia (FAS) increased its production by several times. Without these two factors the rest of the economy would be in a decline of about 0.5%. As in 2014 high growth of agriculture was finished and FAS reached its full production capacity, decline in year-on-year growth rate from Q1 is expected and is a clear indication that the growth of the economy in 2014 (if reached at all) will be significantly lower than in 2013.

Seasonally adjusted data indicate a stagnation

Graph T2-1 shows seasonally adjusted GDP growth indices which provide better illustration of the changes in economic activity on a quarterly basis. Seasonally adjusted indices of GDP growth indicate that GDP in Q1 was in stagnation compared to Q4 2013. If the unchanged

Graph T2-1. Serbia: Seasonally adjusted GDP growth (2008=100)



Source: QM estimates based on SORS data

trend is maintained until the end of the year, GDP growth in 2014 could amount to about 0%. This is also the rate of growth of the economy in 2014 we predicted in previous editions of QM. However, we note that fully accurate and reliable assessment of GDP trend in 2014 only on the basis of the information from the first quarter is not possible. First of all: 1) Q1 is not so much representative quarter on the basis of which we could derive conclusions for the whole year, 2) preliminary SORS data on the movement of economic activity are not very reliable and are often seriously reviewed already

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with the first official estimates and 3) recent floods will have an effect on the movement of GDP, which also cannot be estimated on the basis of the data from Q1. Therefore, for reliable forecast of the possible movement of GDP in 2014 we have conducted a more detailed analysis. First we analysed what would be the economic activity in 2014 if there were no floods, and then tried to estimate what the impact of floods on GDP could be.

Economic growth is driven by net exports, and other GDP components are in decline

First we analysed the GDP structure by use. Table T2-2 shows the GDP structure by expenditure method with last available data for Q4 2013. The table clearly shows that in 2013 only net exports recorded high and positive growth while all other GDP components – private consumption, state consumption and investments – were in decline. The growth structure in 2013 is a first and relatively clear indication that the same growth rate of the economy as in 2013 will not be sustainable in 2014. For example, investments recorded the highest real decline from all other GDP components in 2013 (7.8%), and without new investments further increase of production is not possible. Maybe the best representative of this thesis is trend of exports. Namely, in 2013 exports recorded a growth rate of 26% and in the first month of 2014 y-o-y growth rate is almost halved to about 14% (in April just 5.8%). Without new investments, growth of exports, mainly based on production of companies FAS and NIS, is being exhausted and so the exports in 2014 will stop contributing to the economic growth to the extent it contributed in 2013.

Table T2-2. Serbia: GDP by expenditure method, 2009-2013

	Y-o-y indices													Share 2013
	2009	2010	2011	2012	2013	2012				2013				
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
GDP	96.5	101.0	101.6	98.5	102.5	97.4	100.0	98.2	98.3	103.0	100.5	103.8	102.7	100.0
Private consumption	97.2	99.1	98.9	98.2	98.5	100.1	99.9	98.8	94.2	98.1	98.3	97.5	100.3	74.8
State consumption	98.1	100.4	101.0	101.7	98.3	103.9	105.6	100.4	97.5	97.0	93.5	101.9	101.0	19.4
Investment	77.9	94.5	108.4	114.4	92.3	123.8	126.0	117.7	97.4	102.4	83.9	90.6	95.1	19.9
Export	92.0	115.3	103.4	101.8	116.6	95.9	105.1	102.4	103.2	110.6	111.8	126.3	116.7	43.1
Import	80.9	103.1	107.0	101.9	102.0	104.3	105.6	99.4	98.8	97.2	99.4	106.5	104.6	57.6

Source: SORS

Other GDP components won't be able to compensate, already noticed, slowdown of exports with their potential growth. State consumption in 2014 and in the following years will have to be reduced because of a high deficit and a fast growth of the public debt. Private consumption is under the influence of negative trends on the labour market (real decrease of net wage mass due to the further decrease in the number of employees and the slowdown of the growth of the average wage), but also under the influence of real decrease in pensions, so it will also continue to decrease in real terms. For now there are no signs from the market of the noticeable recovery of investments – financial results of the companies are bad, credit activity low, and the significant FDI inflow is not expected. However, investments could grow in the second half of the year due to the flood damage repairs, which will be discussed in more detail in the following pages. Taking all factors in account, GDP analysis by use suggests certain and considerably worsening of economic trends in 2014, when compared to 2013, because a slowdown in net exports is inevitable and no other GDP component will be able to compensate for this by its growth.

Drivers of the growth in 2013, agriculture and industry, won't have that role in 2014.

We can also complement GDP trend analysis in 2014 with the data, by the production method, which are presented in Table T2-3. The table shows individual sectors growth ending with the last available official data which refer to Q4 2013. Similar to the analysis of GDP trend per use, in this case we can also, based on data for 2013, get enough information based on which we could approximately predict possible economic trends in 2014. Table T2-3 reveals that a sector of agriculture has the largest increase in 2013, of over 20% and that this high growth is the result of comparison of the above-average agricultural production in 2013 with the extremely poor agricultural season from 2012. Another sector that contributes the most to the growth of the economy is the information and communication sector, which recorded a growth of 10% in 2013 and which is on the multi-year growth trend. The third sector that significantly contributed positively to GDP growth in 2013 is manufacturing, which recorded a growth of 5% in 2013. The main drivers of growth in 2013 were agriculture and industrial production, and the sector of information and communication, as a consequence of its low share in GDP and relatively stable

growth in long time period, did not contribute significantly to the acceleration of economic growth in 2013 compared to 2012.

Table T2-3. Serbia: Gross Domestic Product by Activity, 2009-2013¹

	Y-o-y indices														Share 2013
	2009	2010	2011	2012	2013	2012				2013					
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Total	96.5	101.0	101.6	98.5	102.5	97.4	100.0	98.2	98.3	103.0	100.5	103.8	102.7	100.0	
Taxes minus subsidies	98.3	100.9	101.6	98.6	102.4	96.6	100.4	98.1	98.3	103.0	99.5	104.1	102.8	17.4	
Value Added at basic prices	96.1	101.0	101.6	98.5	102.5	97.6	99.9	98.2	98.3	103.0	100.7	103.8	102.6	82.6	
Non agricultural Value Added	95.8	101.6	101.5	100.6	100.4	99.5	102.0	100.5	100.4	101.3	98.4	101.4	100.4	90.4 ²⁾	
Agriculture	100.8	99.6	100.9	82.7	120.2	81.3	82.9	83.2	82.8	123.2	124.1	117.8	117.8	9.6 ²⁾	
Manufacturing	84.2	100.9	100.6	101.1	104.8	96.3	103.3	99.2	104.9	104.4	103.2	108.7	103.2	16.4 ²⁾	
Construction	80.3	92.9	107.7	99.2	74.3	118.2	110.9	98.7	80.9	78.6	62.8	75.1	82.7	3.7 ²⁾	
Wholesale and retail trade	92.5	101.7	94.5	100.2	98.6	98.2	103.1	101.1	98.3	96.8	96.0	98.5	102.8	9.8 ²⁾	
Transport and storage	90.0	108.2	103.1	100.0	103.2	94.5	103.3	100.1	102.1	105.4	100.0	103.6	104.1	5.6 ²⁾	
Informations and communications	110.0	105.4	108.4	104.8	110.8	106.5	106.2	99.3	107.3	112.4	111.1	113.6	106.4	6.3 ²⁾	
Financial sector and insurance	105.5	107.2	101.0	104.0	98.7	99.8	104.8	106.4	104.9	101.8	99.4	96.9	96.9	3.8 ²⁾	
Other	101.6	100.8	102.0	99.9	100.5	99.1	99.4	100.7	100.5	101.3	99.6	101.5	99.9	44.7 ²⁾	

Source: SORS

1) In the previous year's prices

2) Share in GVA

Analysis based on the production method confirms that a significant slowdown of economic activity in 2014 will occur. In 2014 high growth of agriculture and industrial production as in 2013 will not be possible. We already mentioned that the extremely high growth of agriculture in 2013 was incidental because of the comparison with dry 2012, and the industrial production was under the influence of the production in FAS Company. In 2014 we could roughly estimate that agriculture, without the floods, would have almost the same level as in 2013, industrial production would reduce its positive contribution to GDP by two thirds¹, and that all other sectors would have similar growth rates as in 2013.² The calculation indicates that under these assumptions GDP growth would be around 0%. So the QM analysis of GDP by use and by production indicate that the economic activity in 2014 would, without floods, be in stagnation, and that the expected growth of 1%, predicted by the Government, would be very hard to accomplish.

In the following pages we have tried to answer the question approximately how high will be the impact of floods on the economic activity in 2014. A more detailed analysis is given in section Highlight 2 of this issue of QM, and here we present its main conclusions and key paragraphs. Please note that a reliable assessment of the impact of floods on GDP is currently not possible, because there are no precise data on all its consequences.

Different impact of floods on assets and GDP

First it is necessary to separate the damage to the property from the impact that the floods have had on income and production, because these are two different things. For example, flooded house has a great damage to property but a very small effect on income and GDP (reduction of income that reduces GDP as a consequence of a flooded residential unit counts as a lost imputed rent). A somewhat different example is the flooding of agricultural areas, which has a relatively small effect on the property, because these areas will be, for the most part, equally usable in the next agricultural season (and some can probably be used in this), but a relatively large impact on the production, because the crops on these areas are ruined for 2014.

We expect reduction of GDP due to the floods of about 0.5 p.p....

By the last available data, around 80.000 hectares of agriculture areas is flooded, which is less than 3% of total seeded areas. Livestock production is probably less affected than farming (in relation to total livestock population), and also in some parts of agricultural areas it will be possible to seed some agricultural products again in this year. As agriculture has around 10% of the share in GDP because of the impact of floods on agriculture GDP will be reduced by about 0, 2 pp of GDP. Impact on the production of electricity and in mining (due to the flooded coal pits in

¹ Based on data for the first four months of 2014 and the analyses of the individual fields of industrial production, which point to a slowdown by the end of the year. FAS has reached its full production capacity in the second half of 2013, so it will have a solid y-o-y growth in the first half of 2014.

² With the exception of construction, for which we think a decline of 25% in 2013 was incidental and was probably poorly measured. We assumed that the construction activity (without renewal after the floods) in 2014 will be approximately the same as in 2013.

Kolubara) we estimated to about 10% by the end of the year. Reduction in production of electricity and in mining could affect decrease in GDP of about 0.3 p.p. Reduction of imputed rent as a consequence of flooded residential buildings is almost insignificant, because few thousand of residential buildings were damaged by floods (of over 3 million residential units) and probably the largest part of those will be in function already in the next few months. The remaining impact of floods on GDP is even lower and less durable, and so we won't analyse them in more detail, and they refer to temporary reduction in economic activity of small and medium enterprises from the flooded areas, temporary reduction of transports, etc. taking all this into account we conclude that the negative impact of floods on GDP growth in 2014 could amount to slightly over 0.5 p.p. of GDP and by no means above 1 p.p. of GDP.

...which can be even lower due to the reconstruction by the end of the year

Reconstruction activities could on the other hand increase the production and in certain extent mitigate negative effects of floods on GDP. Here it should be taken into account whether these are completely new activities to eliminate the consequences of floods and or the resources used would not be otherwise used for some other purpose, or they are redirected from some other activities. Only in the first case there would be the indisputable increase in GDP, while in the second case we would have to look at the difference in added value of eliminating the consequences of floods in relation to the added value these resources would create if they are used for other purposes. Also, the value and the structure of assets which should be reconstructed is not big enough to trigger high growth of economic activity: 1) preliminary damage assessment of a billion euros (3% of GDP) are probably considerably overestimated, 2) all damaged buildings, equipment and infrastructure will not be renewed, and 3) some equipment and assets are mainly imported (machines in Kolubara, technical equipment, cars, etc.), and their re-purchase will not contribute to domestic production. Therefore, we believe that activities taken to fix these damages can in best scenario contribute in a way that a decline of economic activity caused by floods will be slightly smaller than the estimated 0.5 p.p. of GDP, but that they themselves cannot be the drivers of economic growth in 2014 and the coming years.

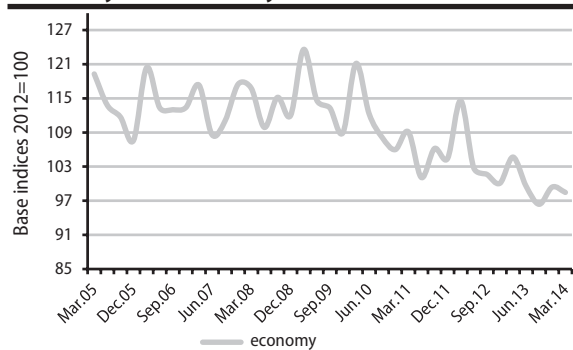
In 2014 recession possible, but because of bad economic fundamentals, not floods

Taking all said into account, we conclude that economic activity in 2014 will probably be in stagnation or in mild recession. The most important reasons for this are the dominant macroeconomic trends – unsustainable fiscal position (high and growing public debt and high deficit), fall in investments, low credit activity, reduction in exports and other – and not floods. QM analysis indicates that the floods will have very limited negative impact on the economy which, taking into account the effects of the reconstructions, should not be higher than 0.5 p.p. of GDP, and that therefore the growth rate of the economy in 2014 will most probably be between -0,5% and 0%.

Unit Labour Costs in decline

Unit Labour Costs³ (ULC), measured in dinars, significantly decreased in Q1 (Graph T2-4).

Graph T2-4. Serbia: Real Unit Labor Costs in the Economy and Industry, 2005-2014



Source: QM based on SORS and NBS data

Compared to the same period of the last year ULC decreased in Q1 by about 5%. Decrease in ULC is a consequence of a real decrease in wages of above 2% and similar decrease in the number of employed. It is especially important to say that in Q1 nominal growth of wages almost completely stopped, which has never happened since we have analysed the data from the labour market, and which can partially be explained with extremely low inflation. Wages in Q1 recorded y-o-y nominal growth of just 0.5%, which is the lowest y-o-y growth since 2001⁴. Such growth of wages decreases the share of labour costs in production.

³ Unit Labor Costs in dinars are calculated for the economy (excluding the Agriculture and Public Administration sectors) and industry.

⁴ For more details see „Employment and Wages“ in this issue of QM

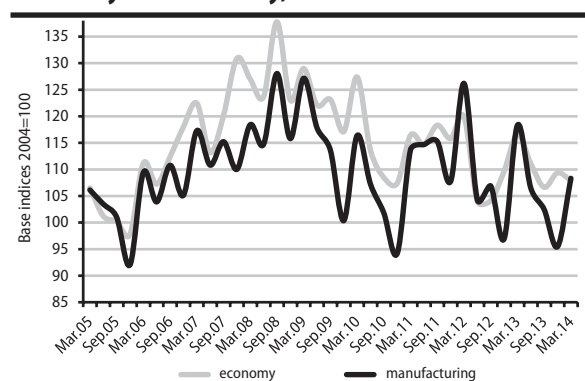
The price competitiveness of the economy improved considerably

Unit labour costs measured in euros (euro-ULC) are an indicator of the price competitiveness of the Serbian economy as they define the greatest national cost component (labour costs) in relation to the added value. We calculate euro-ULC for the manufacturing sector (which produces by far the greatest share of tradable goods), and for the economy as a whole⁵, as shown in Graph T2-5.

At first glance Graph T2-5 shows two divergent trends in the movement of the euro-ULC in Q1 in the economy and the manufacturing industry. In fact, it looks as if the euro-ULC is reducing in the economy and increasing in the manufacturing industry. This is however only an illusion, caused by the strong seasonality in the movement of ULC in the manufacturing industry in Q1, when they are seasonally higher compared to other quarters (Graph T2-5). The real measure for assessing trends of euro-ULC would therefore be their comparison with the same period last year (upper peaks of curves from the Graph), and in this way it can be seen that in the case of the manufacturing industry and in the case of the total economy, euro-ULC are reduced for 7% compared to Q1 2013. This is a consequence of a fall in dinar ULC but also of a y-o-y dinar depreciation compared to euro⁶. It is interesting to notice that in Q1 real decline in wages was the main driver of the price competitiveness of the domestic economy, and not the dinar depreciation (which in all previous episodes of improvement of price competitiveness had the main role). Decrease in ULC from the standpoint of international competitiveness is desirable, but the way it happened indicates a difficult situation in the Serbian economy – decrease of ULC is not a consequence of fast growth of the economy and slow growth of real wages but a consequence of stagnation and a decrease in real wages.

The Graph shows that the price competitiveness of the domestic economy is still somewhat lower than in 2005, indicating that a slight real depreciation of the dinar (around 5%) would be desirable from the standpoint of the price competitiveness of the domestic economy. We chose the 2005 as a benchmark year because it is a year before the beginning of strong capital inflows, the

Graph T2-5. Serbia: Real Unit Labor Costs in the Economy and Industry, 2005-2014



Source: QM based on SORS and NBS data
 Note: the growth of euro-ULC on the graph represents the decline in price competitiveness

enormous increase in wages and pensions (period 2006 - 2008), a sharp real appreciation of the dinar and the deterioration in the competitiveness of the domestic economy. All this has resulted in the huge and unsustainable deterioration in the balance of current payments, with which Serbia entered the crisis. An additional argument for controlled depreciation of the dinar is the fact that the economic growth in the coming years will crucially depend on the trend of exports, because the space for the growth of domestic demand is limited, and a growth of exports based on the increase of production in FAS company is mostly exhausted.

Industrial production

Industrial production decreases growth

Industrial production in Q1 recorded year-on-year growth of 2.1% (Table T2-6). Within the industrial production the highest growth of 3.6% was achieved by the manufacturing industry, while the mining and the supply of electricity were at the practically the same level as in the same quarter of the previous year. Year-on-year growth of industrial production has slowed down compared to 2013 and we think this is an indication for the entire 2014, in which the growth rate of industrial production is certain to be less than 5.5% from 2013 - which we announced in the previous QM issues.

⁵ Excluding the Public Administration and Agriculture sectors.

⁶ The average exchange rate in Q1 2013 was 111.7 dinars per euro, in Q1 2014 115.7 dinars per euro, the difference in the y-o-y inflation in Serbia and in the Euro zone was only 2 pp due to the slowdown in inflation in Serbia. For more details see section 5 "Prices and Exchange rate" of this issue of QM

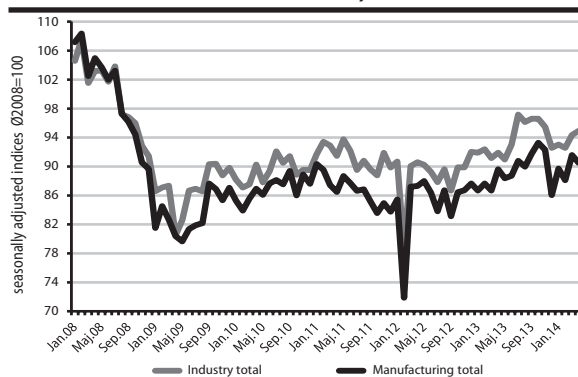
Table T2-6. Serbia: Industrial Production Indices, 2009-2014

	2009	2010	2011	2012	2013	Y-o-y indices												Share 2013
						2012				2013				2014				
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Total	87.4	102.5	102.2	97.1	105.5	94.5	97.2	96.4	99.4	105.2	103.0	110.8	103.3	102.1	100.0			
Mining and quarrying	96.2	105.8	110.4	97.8	105.3	100.2	94.2	100.1	96.3	107.8	102.2	107.6	104.1	99.7	8.5			
Manufacturing	83.9	103.9	99.6	98.2	104.8	93.3	100.2	96.2	101.5	105.4	103.2	108.8	102.2	103.6	73.9			
Electricity, gas, and water supply	100.8	95.6	109.7	92.9	108.1	96.6	85.4	95.8	93.0	103.7	103.7	120.5	106.8	99.3	17.6			

Source: SORS

Seasonally adjusted indices indicate a decline in industrial production in Q1

Graph T2-7 shows seasonally adjusted production indices of total industry and manufacturing. We can immediately notice that the seasonally adjusted data actually indicate a lower level of industrial production in Q1 compared to Q4 2013. However, the trajectory of the seasonally adjusted industrial production may be able to indicate that after the decline in industrial production at the end of 2013 (December), from January its upward trend is re-established, only from the lower basis (Graph T2-7) - which would, despite lower level of production, have positive connotation. We are however still restrained and closer to the interpretation that these are usual monthly fluctuations in industrial production, rather than establishment of a new upward trend.

Graph T2-7. Serbia: Seasonally Adjusted Industrial Production Indices, 2008-2014

Source: SORS

of seasonally adjusted indices from March and April of 2014 with the values from September and October of 2013, which, we believe, confirms the decline in industrial production in comparison to its highest level.

The growth of industrial production in 2014 probably around 1%

In the first four months of 2014 industrial production recorded a y-o-y growth of about 2%, but this growth, most probably, cannot be maintained until the end of the year.- because already in Q3 it will be compared to relatively high industrial production from 2013 (Graph T2-7). We expect that the average growth of industrial production in the second part of the year could be around 0%, and so the overall growth of industrial production in 2014 will be about 1%.

Trend analysis of individual areas of industrial production confirms the assessment of relatively low industry growth in 2014. Observed by individual areas, in the first four months of 2014 high year-on-year growth of 24% was achieved by the production of motor vehicles. This growth, though still high, represents actually a slowdown when compared to 2013 when the growth in production of motor vehicles amounted to 240%. The y-o-y growth in the first four months of 2014 is a consequence of the comparison of the current production at the FAS Company to the production from the same period last year, when the full capacities of the company were not yet been reached. As a consequence this growth will continue to decline by the end of the year. For additional lasting growth in car production FAS needs new large investments. Therefore, we believe that Serbia should enter into negotiations with FIAT about further capacity expansion in Serbia and eventual production of some other car models. We think that in the eventual negotiation process Serbia could offer certain tax breaks and subsidies, but that they would have to be for the order of magnitude lower than those granted in the past.

Another area which gave a significant contribution to the growth of industrial production in the first four months is the production of basic metals, but it is a consequence of production restart in the steel factory Železara Smederevo and its comparison with the previous year when the steel factory was not operating. Since there is a high probability that this unprofitable production will not be maintained during the whole year, we believe that the observed increase in the production of base metals is temporary. Production of food products in the first four months achieved a growth of around 5% for which we believe that is sustainable because it is based on good agricultural production in 2013, and the recent floods by all probability will not have much impact on agricultural production in 2014 (it is maybe possible for the production of food products to have a small temporary drop in May). As a consequence of the floods, it is possible that the production of electricity will record a decline in May and in the next few months.

In Q1 the growth rate of industrial production by purpose relatively even

Observed by purpose (Table T2-8), we notice that in Q1 all specific purpose groups of industrial products achieved y-o-y growth. With somewhat higher growth than others only the production of investment goods stands out – because the production of motor vehicles is classified in this category – and this growth was 7.7%. Other specific purpose groups, production of consumer goods, energy and intermediate goods have smaller y-o-y growth rates spanning from 0.2 to 3.9% (Table T2-8).

Table T2-8. Serbia: Components of Industrial Production by use, 2009-2014

	Y-o-y indices														
	2009	2010	2011	2012	2013	2012				2013				2014	
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Total	87.4	102.5	102.1	97.1	105.5	94.5	97.2	96.4	99.4	105.2	103.0	110.8	103.3	102.1	
Energy	98.8	97.7	106.2	93.6	113.2	95.8	88.3	91.4	98.7	108.6	109.7	131.6	107.7	101.1	
Investment goods	79.3	93.6	103.2	103.8	127.6	92.0	105.4	113.7	104.2	132.3	130.2	140.5	104.2	107.7	
Intermediate goods	78.4	109.2	102.2	91.2	99.0	89.4	96.3	89.1	90.0	94.7	93.1	101.9	104.8	103.9	
Consumer goods	86.8	102.1	95.4	103.2	100.7	97.8	104.5	104.6	106.1	107.0	101.5	97.4	100.0	100.2	

Source: SORS

Construction

There are some indications that the decline in construction activity is coming to a halt

Latest construction statistics made available by SORS indicate year-on-year real decline of this sector of the economy in Q1 of 5.1%. This decline, however, represents an improvement compared to the results from 2013 when the official construction statistic recorded a decrease of over 20%. We take the data for Q1 with some reserve, because the construction activity in Q1 is far lower than in Q2 and Q3 due to the seasonal factors - so for the reliable estimation of the construction activity trend we will wait for far more representative data from subsequent quarters. Additional reason why the data from Q1 are not representative for construction activity in the whole 2014 is the fact that in the second part of the year construction activity will most probably increase, as a consequence of floods damage repairs.

Because of the difficulties in monitoring the construction activity, we use cement production index⁷ as additional indicator (Table T2-9). Namely, the construction sector comprises of a large number of a small and medium-sized enterprises, whose statistical monitoring is very unreliable and often outside the sight of the official statistics. Therefore, as an additional indicator for monitoring this sector of the economy we use cement production which is easy to monitor and cement is used in almost all construction works. We believe that data obtained this way, although not sufficiently precise, are a good additional indication of an actual state and future trends in construction.

⁷ Cement consumption would be the most appropriate indicator, but data on cement consumption are not available at the quarterly level. Studies have shown that cement production approximates consumption with relative reliability

Table T2-9. Serbia: Cement Production, 2001-2014

	Y-o-y indices				Total
	Q1	Q2	Q3	Q4	
2001	89.5	103.5	126.9	148.1	114.2
2002	83.6	107.9	115.6	81.6	99.1
2003	51.1	94.4	92.7	94.4	86.6
2004	118.8	107.4	98.5	120.1	108.0
2005	66.1	105.0	105.8	107.4	101.6
2006	136.0	102.7	112.2	120.2	112.7
2007	193.8	108.9	93.1	85.0	104.4
2008	100.1	103.7	108.1	110.1	105.9
2009	34.1	81.4	86.0	75.3	74.4
2010	160.7	96.9	96.0	97.4	101.1
2011	97.7	101.3	96.2	97.7	98.3
2012	107.9	88.3	58.2	84.9	79.6
2013	83.5	78.7	127.6	93.5	94.9
2014	136.2				

Source: SORS

Cement production in Q1 was by 36% higher than in the same period of the last year, (Table T2-9) which is significantly higher than the official estimate of the construction activity trend in Q1 (decrease by 5%). However, for cement production and for the entire construction activity in Q1 we believe that it is not sufficiently reliable for the assessment of actual developments, because it is seasonally quite lower compared to all other quarters. Due to the relatively low value of cement production in Q1 it is often the case that relatively small changes in the quantity of production result in large changes of y-o-y indices which we consider to be the case in Q1 of 2014.

QM methodology is to combine both methods (official data from construction statistic and cement production data) in order to detect the actual trend in construction activity. Based on these data we conclude that it is possible that the value of construction work is finally stabilizing, after the deep fall in the previous two years, and that by the end of the year, due to the flood damage repairs, it could move to the positive growth zone.