2. Economic activity

Recession trends in economic activity continued in the first quarter of 2015. Year-on-year GDP fall amounted to 1.8%, and seasonally adjusted GDP fell by 0.4% compared to the previous quarter. Unlike the unfavourable movements in the overall economic activity, manufacturing industry recorded a solid growth. However, this growth was not spread over the entire manufacturing industry, but was recorded in only few individual sectors, and in addition, it is not yet supported with the growth of exports, which are roughly stagnant - making it questionable whether a similar increase in the manufacturing industry will be sustainable in the coming months. Published data on economic activity in Q1 are in line with our forecast from the previous issues of QM, according to which the fall in GDP in 2015 could be between 0.5 and 1% - and which we will keep for now. A significant factor of change (upward or downward) could be the agriculture, whose results will depend on the meteorological conditions, and revisions of previously published data by the SORS are always possible. However, even if the rate of GDP growth in 2015 is zero, or maybe just a little above zero, it should not be forgotten that this results will include some one-time factors, such as establishing a usual coal and electricity production after last year's floods (with possibly exceptionally good agricultural season). Long-term sustainable growth of the Serbian economy can be based on the significant growth of (net) exports and investments, and in early 2015, there is still no hint of such trends.

Gross domestic product

Real GDP drop in Q1 of 1.8%

According to the SORS estimates, real year on year drop of GDP in Q1 amounted to 1.8%. Part of this decrease is the result of a slow draining process of flooded coal mines, due to which the production of coal and electricity in Q1 still had a huge year-on-year decline of about 15%. The decline of the energetic sector of the economy in Q1 is huge, but was cut in half compared to the quarters that preceded it, which means that normal production volume of these sectors is gradually being restored. It is important, however, to point out what we repeated in several previous issues of QM, which is that both floods and inefficient reconstruction after them are not the main reason for the decline in GDP either in 2014 or in Q1 2015. In Q1 relatively strong annual decline in GDP of more than 1% would be achieved even if we exclude the production of electricity and coal. The level of activity of the largest part of the economy is still in similar, if not greater, decline in Q1 than the one from 2014.

Seasonally adjusted GDP indicates a decline in Q1 compared to Q4 2014

Adverse trends of economic activity are also confirmed by the seasonally adjusted indices of GDP growth (Graph T2-1). Seasonally adjusted GDP in Q1 decreased compared to the previous quarter by 0.4%. The chart clearly shows that there has been virtually no significant change in the declining trend of economic activity which started back in Q3 2013, and that a slight increase in the seasonally adjusted GDP, which occurred in Q4 (as we indicated in the previous issue of QM), proved to be brief.

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

Source: *QM* estimates based on SORS data

Prevailing economic trends in Q1 are even slightly less favourable than those indicated by the seasonally adjusted indices. In fact, as we have already pointed out, flooded coal mines are gradually being drained which is why from quarter to quarter production of coal and electricity is gradually recovering (Table T2-8 and Graph T2-9). Although these sectors of the economy in Q1 still have relatively high y-o-y decline, compared to the previous quarters they are rising, and

thus contributing to the growth of the seasonally adjusted GDP in Q1. Somewhat higher production of coal and electricity in Q1, compared to Q4 2014, contributed to the positive movement of seasonally adjusted GDP by about 0.2 percentage points. This means that the essential trend of economic activity is its strong quarterly decline of 0.6% (because restoring production after the floods is not an essential and long-term sustainable trend of the economy growth).

We have earlier predicted decline in GDP in 2015 between 0.5 and 1% ...

In two previous issues of QM we predicted a decline in GDP in 2015 of 0.5 to 1%, based on projected trends in private consumption, government spending, net exports and investment. In short, we expect a noticeable drop in government and private consumption due to the implementation of fiscal consolidation, reductions in pensions and salaries in the public sector, but also on the basis of labour market trends of the private sector (wages and employment) and lending activity. These two components (private and government consumption) account for by far the largest part of Serbia's GDP, thus the forecasted growth in net exports and investment according to our analysis would not be sufficient for the growth of economic activity in 2015 to be positive, but only to mitigate the GDP decline. The results achieved in Q1 are generally in line with these expectations. Minor differences are that net exports in Q1 had a decline instead of the forecasted growth, but this was compensated by the fact that the drop in private consumption was slightly lower than expected. Taking all this into account we think that the movement and structure of the fall in economic activity in Q1 approximately matched our expectations and projections of the decline for the entire 2015 of 0.5 to 1%. We can now carry out the forecast of GDP in 2015 also in another way, based on the extrapolation of the trend of seasonally adjusted GDP.

...which is for now confirmed by the current developments in economic activity

Graph T2-2. Serbia: projection of seasonally adjusted GDP by the end of the year (average 2014 = 100)
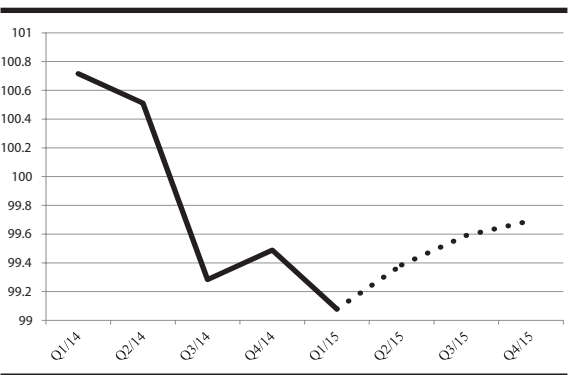
Source: *QM* estimates based on SORS data

In Graph T2-2 we presented possible trends of GDP by the end of the year. We used a somewhat optimistic assumption that the main unfavourable trend of the decline in economic activity, which currently stands at about 0.6% per quarter, will gradually reverse by the end of the year, and to this we exogenously added positive effects of establishing a "normal" level of coal and electricity production starting from May and announced gradual increase in production of Smederevo steel plant. The assumptions that we used to project changes in the seasonally adjusted GDP per quarter until the end of the year are presented in Table T2-4.

Table T2-3. Assumptions used for the projection of seasonally adjusted GDP by the end of the year (changes compared to the previous quarter, in percentage points of GDP)

	Underlying trend of seasonally adjusted GDP	Recovery of the electrical power sector after floods	Production growth of Smederevo steelwork	Total changes of seasonally adjusted GDP
Q1	-0.6	0.2	-	-0.4
Q2	-0.4	0.6	0.1	0.3
Q3	-0.2	0.3	0.1	0.2
Q4	0.0	0.0	0.1	0.1

Source: *QM* estimates based on SORS data

If these (optimistic) forecasts are materialized, GDP in 2015 will decrease by 0.6%, which is completely in line with our previous forecast. It can be visually seen from the chart that despite the optimistic assumptions (upward change of the base trend by the end of the year, a large increase in production of Smederevo steel plant) and the recovery by the end of the year, the average level of seasonally adjusted GDP from 2014 will not be reached. It is interesting to note also that in the second half of the year GDP will probably be in the positive y-o-y growth zone, but that the real reason for this is the comparison to the quarters in which the effects of floods have been most pronounced, and not so significant and sustainable growth in economic activity.

The largest part of the economy is in a recession, even if growth exceeds our forecast

Until the end of the year there is still a lot of unknown one-off factors that may affect the GDP growth in 2015. This is primarily related to agriculture which in the case of an extremely successful season could positively contribute to the annual GDP growth of more than 1 pp (or about 350 million euros). If this happens GDP growth in 2015 could be even slightly positive. However, in case that the agricultural season is poor, the effect could be opposite. What we want to emphasize is that the Serbian economy in 2015, if we exclude the effect of floods remediation, is in recession with the fall pace which (without major changes) is approximately 1.5% per year. The actual decline of GDP will be lower, because of the renewal of the energetic sector of the economy after last year's floods which will increase the growth rate of GDP in 2015 for slightly less than 1 percentage point (and reduce a total decline in GDP in 2015 from 1.5% to 0.5-1%). The establishment of normal levels of electricity and coal production therefore contributes significantly to the increase of GDP in 2015 compared to 2014 - but it is a one-off, rather than lasting, trend that will not continue in 2016.[1]

The GDP structure by expenditure method in Q1 close to our expectations

We analysed the structure of the movement of GDP in Q1 by use. Table T2-4 shows the structure of the y-o-y growth of GDP by expenditure method. Private and government consumption are in line with the expectations and recorded a real drop of 0.8% and 3.5% respectively. It is important to note that these are the two largest components, which collectively participate in GDP with over 90%. The fall in private demand was somewhat lower than we expected, taking into account that in Q1 reduction of pensions and salaries in the public sector was effectuated in the full amount. A positive indication is a real growth of investments of 4.4%, which will hopefully be sustainable in the coming quarters (doubts about the sustainability of investment growth is raised by real decrease in construction activity). Net exports was the only unpleasant surprise (foreign trade deficit), which was in decline as imports had higher real growth rate than exports[2]. For sustainable GDP growth in Serbia high, double-digit, growth in exports is necessary, with significantly lower growth of imports. In Q1, unfortunately, there are still no indication that these trends are established.

Table T2-4. Serbia: GDP by expenditure method, 2009-2015

	Y-o-y indices											
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2014**				**2015**	**Share**
							Q1	**Q2**	**Q3**	**Q4**	**Q1**	**2013**
GDP	96.9	100.6	101.4	99.0	102.6	98.2	99.9	98.8	96.0	98.2	98.2	100.0
Private consumption	99.4	99.4	100.9	98.2	99.4	98.7	98.4	99.1	98.7	98.9	99.2	75.3
State consumption	100.6	100.8	101.1	102.4	98.9	100.1	99.3	100.3	98.6	101.9	96.5	17.8
Investment	77.5	93.5	104.6	113.2	88.9	97.3	96.3	99.3	92.7	100.9	104.4	17.6
Export	93.1	115.0	105.0	100.8	121.3	103.9	118.1	108.3	93.4	100.4	109.7	41.2
Import	80.4	104.4	107.9	101.4	105.0	103.3	106.2	105.4	101.1	101.0	111.0	51.9

Source: SORS

In Q1 almost all sectors of the economy in y-o-y decline

Observed by production (Table T2-5) we can see that in Q1 almost all sectors recorded a y-o-y fall which was quite equable across different sectors. Only financial activities and insurance stood out with positive y-o-y growth, but it is possible that this growth was illusory, i.e. that it was (at least partly) a result of exchange rate differences. Among other sectors important positive change compared to the previous quarters was recorded by the industrial production, about which we will discussed in more details in a separate part of this section. At this point, we will only point out that the annual decline in industrial production decreases from quarter to quarter (Table T2-5), and that it is already certain that in Q2 it will cross into the zone of positive y-o-y

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1 Explained and minor correction of forecasts of GDP growth upward from -0.5 to 0% were released by the NBS and the IMF, and these are based on the expectation that low energy prices will have a positive impact on GDP as well as on the expectations of growth in external demand, due to the program of quantitative easing in Eurozone countries. These expectations are possible, but their effects on the Serbian economy so far are not visible in the available data, and therefore we are not including them yet in our forecasts. The change in our forecast could eventually be affected by the revision of previously published SORS data upward, which already happen in the past.

2 Published growth rates of exports and imports of 9 and 11% are very suspicious and it is possible that this is some mistake. Real growth rates of exports and imports depend on many variables, different exchange rates, export and import prices, and we have noticed that these were parts of GDP, whose quarterly growth rates SORS is mostly reviewed, even for several quarters backward. Regardless of the possible revision, undoubtedly, net exports in Q1 recorded a negative growth.

growth.[3] On the negative side, we could point out the y-o-y decline in construction activity which occurred after a relatively high growth in the previous quarter. Construction, however, is seasonally extremely low in the first quarter, so as a rule we don't use the movement in this part of the year as a reliable indication of the actual movement of construction activity.

Table T2-5. Serbia: Gross Domestic Product by Activity, 2008-2014[1]

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2014 | | | | 2015 | Share |
							Q1	Q2	Q3	Q4	Q1	2013
Total	96.9	100.6	101.4	99.0	102.6	98.2	99.9	98.8	96.0	98.2	98.2	100.0
Taxes minus subsidies	98.6	99.5	101.1	97.8	98.9	99.4	98.5	100.4	99.3	99.6	100.1	15.8
Value Added at basic prices	96.6	100.8	101.5	99.2	103.3	98.0	100.2	98.5	95.4	97.9	97.9	84.2
Non agricultural Value Added	96.7	100.2	101.5	101.1	101.6	97.6	99.7	98.2	95.1	97.6	98.2	90,6[2]
Agriculture	95.2	106.4	100.9	82.7	120.9	100.8	102.4	100.7	99.9	100.9	95.3	9,4[2]
Industry	96.8	100.8	103.2	105.6	106.0	92.9	99.9	94.8	86.8	90.6	96.0	26,6[2]
Construction	87.1	97.6	105.9	90.2	96.1	100.9	100.2	101.7	93.2	108.0	99.7	5,1[2]
Trade, transport and tourism	92.9	100.0	99.5	99.3	102.3	98.7	100.1	98.0	98.4	98.4	99.6	17,8[2]
Informations and communications	97.0	103.2	102.6	102.8	99.9	101.8	102.2	102.1	101.2	101.5	98.9	5,2[2]
Financial sector and insurance	102.6	101.9	98.4	92.0	90.5	98.4	95.5	98.9	97.2	102.0	104.8	3,1[2]
Other	99.7	99.8	100.9	101.8	100.2	99.7	99.6	99.7	99.6	100.1	99.0	32,8[2]

Source: SORS
1) In the previousyear's prices
2) Share in GVA

In the coming quarters we expect the industrial production to start achieving a positive y-o-y growth, while the service sector is likely to record a decline throughout the year. Two unknowns that could significantly affect the growth of GDP in 2015, but also the growth in the coming years, are agriculture and construction. It would certainly be good for the growth of agriculture in 2015 to be solid (in case of good agricultural season). We consider the construction trend, which largely describes the movement of investment activity of the economy (construction accounts for about half of the investment activity) as more important factor for medium-term growth of the economy. Results of construction in Q1 were not convincing, but we hope that the opening of the construction season will lead to the increase in activity of this part of the economy, starting from Q2.
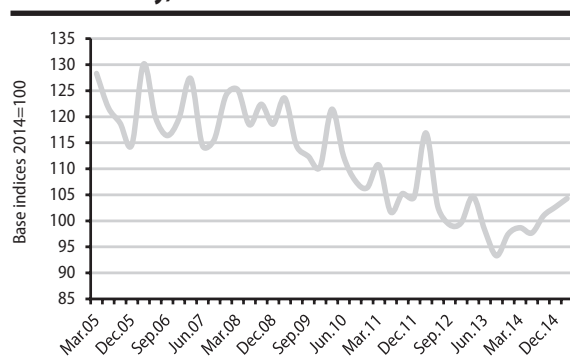
Unit labor costs growing

Unit labour costs[4] (ULC), measured in dinars, continue their growth in Q1 when compared to Q4 2014, but also when compared to the same period of the last year – y-o-y ULC increase amounted to about 6% (Graph T2-6). ULC represent the share of labour costs in the added value and we measure them for total economy from which we excluded the agriculture and public administration sectors so we could assess the real trends in the "market" part of the economy (without public administration sector), and which does not depend essentially on changes of meteorological factors (such as agriculture). We consider the increase of ULC in our sample as inadequate because it indicates that the labour costs are increasing faster than production, which decreases the competitiveness on Serbian economy on international market.

Relatively strong increase in ULC, which takes place from the middle of 2013 (Graph T2-5) however, evidently tells us more about the unreliability of the data from the employment statistics, published by the SORS, than about significantly worsening productivity of the national economy. In fact, according to the Statistical Office, the employment increases although the production decreases which is highly unlikely and in the long term certainly unsustainable trend. Taking the entire observed period from the Graph T2-6 into account, it is possible however, that accelerated reduction of ULC in the period between 2009 and 2013 was also not realistic, which can also be seen in the chart. At that time ULC decreased because employment decreased faster than production in the same period. The trend of significantly greater reduction in employment than in production, in the period 2009-2013, occurred only in Serbia, and not in other countries of Central and Eastern Europe, which is why it is questionable. Most probably, a significant

3 The reason for this is partly the fact that the mining and electricity production from Q2 will be compared with the last year's results, which were bad because of catastrophic floods, but we expect that the manufacturing industry will record y-o-y growth which is confirmed with the available April data.
4 Unit Labor Costs in dinars are calculated for the economy (excluding the Agriculture and Public Administration sectors) and industry.

Graph T2-6. Serbia: Real Unit Labor Costs in the Economy, 2005-2015

Source: *QM* based on SORS and NBS data

Euro-ULC not growing due to a dinar depreciation

Graph T2-7. Serbia: Real Euro - UnitLaborCosts in theEconomyandIndustry, 2005-2015
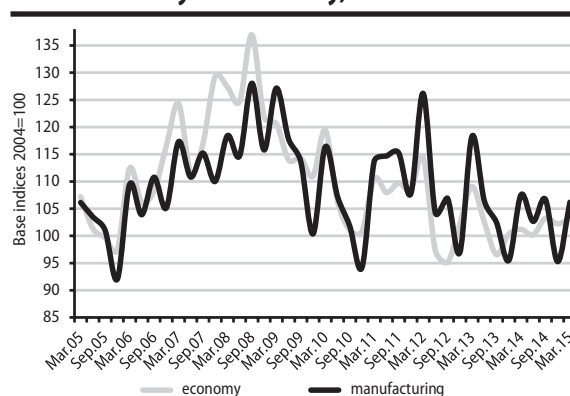
Source: *QM* based on SORS and NBS data
Note: the growth of euro-ULC on the graph represents the decline in price competitiveness

drop of ULC did not occur then as a significant increase does not occur even now, and SORS should, in the coming period, pay special attention to the information relating to the labour market, since the signals coming from this part of the statistics are for some time inconsistent with other data.

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 whole[5], as shown in Graph T2-7. Graph T2-7 shows that the euro-ULC only slightly increased in Q1, compared to the same period of the last year, besides the fact that the dinar-ULC (Graph T2-6) increased considerably. The reason for this is a significant real dinar depreciation throughout 2014 which compensated for this increase of the dinar-ULC. Based on the values of the euro-ULC (Graph T2-6) and the comparison with their historical values, it could be said that the price competitiveness of the domestic economy is currently at the satisfactory level with the dinar exchange rate above 120 dinars per euro, but a moderate real depreciation would even be more favourable.

Industrial production

Industrial production decreases y-o-y drop in Q1

Industrial production in Q1 recorded a y-o-y decline in production volume by 2% (Table T2-8). Compared with the data from the previous quarter, however, we see that the annual decline in industrial production is greatly mitigated, because in Q4 2014 it was about 10%, and in Q3 even higher. The overall y-o-y drop in industrial production in Q1 of 2% is actually the sum of the deep decline of mining and electricity production of about 15% and solid growth of manufacturing industry of over 4%. However, all three sectors of industry respectively improved their results in Q1 compared to the second half of 2014. Mining and electricity production due to the gradual elimination of the consequences of floods halved their decline from the second half of 2014, the manufacturing industry has moved into the zone of positive y-o-y growth (Table T2-8). Therefore, despite the achieved y-o-y fall in industrial production, indices actually point out to significant improvement of industry trends in Q1.

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5 Excluding the Public Administration and Agriculture sectors.

**Trends**

Table T2-8. Serbia: Industrial Production Indices, 2009-2015

| | Y-o-y indices | | | | | | 2014 | | | | 2015 | Share |
| | | | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | 2013 |
	2009	2010	2011	2012	2013	2014						
Total	87.4	102.5	102.2	97.1	105.5	93.5	102.1	95.7	85.8	90.5	98.0	100.0
Mining and quarrying	96.2	105.8	110.4	97.8	105.3	83.3	99.7	87.3	71.6	76.2	84.0	8.5
Manufacturing	83.9	103.9	99.6	98.2	104.8	98.6	104.2	98.7	94.0	97.2	104.2	73.9
Electricity, gas, and water supply	100.8	95.6	109.7	92.9	108.1	79.9	99.3	86.2	61.3	72.6	87.0	17.6

Source: SORS

Seasonally adjusted indices show strong growth of industrial production

Graph T2-9 shows the seasonally adjusted indices of total industry production and manufacturing industry with the last available data for April 2015. The graph confirms the above claim that in Q1 there was a strong recovery of industrial production. This trend of quite strong recovery in industrial production has been actually notable since September 2014 (Graph T2-9). Similar gradients of seasonally adjusted total industrial production and individually manufacturing industry, which can be seen on the graph, actually show that the recovery of the industry was almost equally "dragged" by the manufacturing industry, as well as mining and electricity production (with gradual drying of flooded coal mines).

Graph T2-9. Serbia: Seasonally Adjusted Industrial Production Indices, 2008-2015
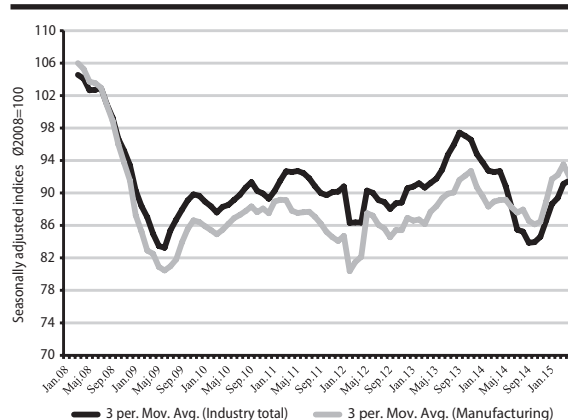
Source: SORS

While mining and electricity are expected to extend their seasonally adjusted growth in Q2 (when normal production after the floods will be finally established), forecasts of the movement of manufacturing industry are highly uncertain. Namely, the rapid growth of the manufacturing industry, which lasted from September 2014, was not supported by the same acceleration of the growth of exports or domestic consumption. It is therefore unlikely that a similar pace of growth in manufacturing industry from Q4 2014 and Q1 2015 will extend in the coming quarters. The April data showing seasonally adjusted decline in the manufacturing industry (included in Graph T2-9) are probably an announcement of a slowdown in the manufacturing industry already from Q2, or stagnation on the already achieved level of production.

In 2015 industrial production growth could be around 7%

Manufacturing in the first four months of 2015 recorded a growth compared to the same period of the last year of 3.6%. By the end of the year we expect that, with some oscillations, similar y-o-y growth will be kept, and eventually increased slightly due to somewhat higher production of base metals, if in the second half of the year second blast furnace in Smederevo steel plant is started up. Manufacturing could therefore have in all of 2015 a growth close to 5%, but probably not beyond that. On the other hand, mining and electricity production will enter the zone of high double-digit y-o-y growth from Q2, since it will be compared to the months of 2014 in which the effects of flooding on the energy system were most pronounced. At the annual level, we expect that in 2015 both electricity and mining production record an increase compared to 2014 of around 20% (where the production of electricity would slightly lead). If such predictions in movements of individual sectors of industrial production are realized, then industrial production could record a growth of between 5 and 10% in 2015. We come to similar findings by observing the seasonally adjusted industrial production indices. In the first four months of the year seasonally adjusted index of industrial production was higher by 4.5% compared to the average from 2014. However with the establishment of normal production of coal and electricity (which we expect to happen in Q2), seasonally adjusted indices of industrial production will further

increase to the level which will be 8-9% above the average from 2014. At the level of the whole year this corresponds to the growth of industrial production in 2015 of about 7%.

In Q1 high growth of production of capital goods

Observed by use (Table T2-10), we see that in Q1 three of four observed product groups recorded y-o-y decline in production, while only the production of investment goods achieved a high, double-digit, y-o-y growth. Looking in more detail, the area "production of machines and equipment not elsewhere specified" which is part of the investment production, and accounts for about 3% in total industrial production, in the first quarter had an annual increase of over 115% so it's really just due to this area a high growth of production of investment goods was achieved, and other parts of the group had even slight y-o-y decline.[6] It is interesting to note that such a large increase in production of machines and equipment actually led to the situation that manufacturing industry in Q1 achieved growth of 4.2%, and that without it y-o-y growth of the manufacturing industry would be about 0%. This is a very good indicator of how deceptive some favourable trends in industrial production in Q1 are,as they are not sufficiently widespread in all areas of production, and the question is how sustainable they will be until the end of the year.

Table T2-10. Serbia: Components of Industrial Production by use, 2009-2014

	Y-o-y indices										
	2009	2010	2011	2012	2013	2014	2014				2015
							Q1	Q2	Q3	Q4	Q1
Total	87.4	102.5	102.1	97.1	105.5	93.5	102.5	95.7	85.8	90.5	98.0
Energy	98.8	97.7	106.2	93.6	113.2	82.6	101.1	89.3	65.1	75.9	88.5
Investment goods	79.3	93.6	103.2	103.8	127.6	95.9	107.4	97.5	89.5	88.6	112.1
Intermediate goods	78.4	109.2	102.2	91.2	99.0	96.8	105.7	95.4	94.2	91.4	99.3
Consumer goods	86.8	102.1	95.4	103.2	100.7	100.7	100.2	99.6	97.5	105.6	99.4

Source: SORS

Other special purpose groups of production in decline

Other special purpose groups of industrial production in Q1 had a slightly lower production than in the same period of the last year. This is understandable for energy production, and the reasons for this have been already described several times. We will now describe the movement of the other two special purpose groups of industrial production. Production of intermediate goods in Q1 recorded a slight y-o-y decline, and this was slightly better result than in 2014. This part of the industrial production is strongly influenced by production in the Smederevo Steel plant, so we expect (if the announced increase in the production of this company is realized) that in the coming quarters the annual growth of this group will be positive. On the other hand a slight annual decline in production of consumer goods is apparently more permanent trend. This group of products is strongly influenced by the production of the food industry, which had a large short-lived (and suspicious) boom at the end of the last quarter of 2014. The y-o-y growth in the food industry in December stood at unlikely 21.2%, and we assessed it as temporary even then - which is now confirmed. If in 2015 agricultural season happens to be successful the trend of production of consumer goods could go upward at the end of the year, but for now we estimate that this part of the industry is likely to stagnate in the coming quarters.

Construction

Q1 saw a moderate decline in the construction sector

Construction recorded y-o-y decline of about 5% in Q1. This is our best estimate of trends in the construction sector, given that different indicators which describe this sector of the economy in Q1 were moving very divergently. Number of employees and the average wage in the construction sector recorded a solid y-o-y growth (over 10%), which is however, explained primarily by suppression of the grey economy, as the index value of construction works performed shows that construction in Q1 had a real annual decrease of 7.4%, and y-o-y decline of 22% was recorded in the production of cement, which is the basic building material (Table T2-11). A more detailed

6 This is the main reason why in the structure of GDP growth by expenditure investments have an annual increase of 4.4% since the construction and import of investment goods in Q1 have y-o-y fall.

analysis of the construction industry is very important to us given that the movement of construction activity is a good indication of the movement in investments (construction accounts for about 50% of total investments), and growth of investments, we believe, is critical for the sustainable economic growth of Serbia in the medium term.

Table T2-11. Serbia: Cement Production, 2001-2015

	Y-o-y indices				
	Q1	Q2	Q3	Q4	Total
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	90.3	96.2	104.7	101.5
2015	77.9	-	-	-	-

Source: SORS

Interpreting individually, one by one, (contradictory) information about the construction sector, we concluded that this part of the economy in Q1 probably had y-o-y decline, which is estimated at around 5%. The production of cement is very good indirect indicator of trends in construction activity but it is seasonally very unreliable in Q1. In this quarter, cement production has seasonally very low production levels, and so a small change leads to a large y-o-y growth (or decline) which does not have a major impact on construction activity at an annual level. Therefore, all data for Q1 (Table T2-11) have very large oscillations in Q1[7]. Unfortunately the statistics of employment and wages led by the SORS is for some time now very unreliable (see. Section 3 "Employment and Wages"), but this is (in contrast to the production of cement), it seems, more systemic than seasonal problem. It is also possible that the high wage growth in construction activity is a consequence of increased legalization of this part of the economy, which by its nature carries out a substantial part of activities in the informal economy.

Finally, as the most reliable indicator of trends in construction activity in Q1 we must single out the construction activity value index, which indicates the annual decline of construction of over 7%. However, this indicator has its weaknesses, because it monitors large state-owned enterprises better than the rest of the companies in this sector. Knowing that the State failed significantly in the execution of public investment in Q1, and that the construction activity value index is based towards public investments - it is likely that the decline in construction activity was slightly lower than 7.4%, so we estimated it at around 5%. This assessment is still not very reliable, and it does not refer yet to the full period of construction season, so we still do not give it much importance. However, we will carefully monitor the developments in this sector of the economy in the coming quarters, given its importance for the start of the recovery in overall economic activity in Serbia.

7 The best example showing the unreliability of this indicator in Q1 was high growth in Q1 2014 of over 35%, which almost had no effect on the annual growth of this part of the economy.