2. Economic activity

Economic activity in Q3 recorded a deep year-on-year fall estimated at 3.6%. Reasons for such a deep fall in economic activity in Q3 are inefficient recovery from floods (mining and production of electricity), but also negative trends in the rest of the economy for which there are no indication that will soon be reversed. We expect that the cumulative fall of GDP in 2014 will amount to around 2% while in 2015 we expect a fall of 0.5%. Slowdown of GDP fall in 20145 is a result of temporary factors while the long-term trends will further deteriorate in the next year. The decline in economic activity in 2014 of about 2% includes large temporary reduction in the production of electricity and coal inflicted by the May floods and delays in restoring production. Conversely, reduction in the rate of decline in 2015 is the result of restoring production of EPS Company to multi-annual average, which will make a positive contribution to economic activity in 2015 of more than one percentage point of GDP. Therefore, carrying trend of economic activity (with effects of floods excluded) in 2014 would be a decrease of approximately 0.8%, and in 2015 (with effects of recovery from floods excluded) of 1.7%, which means that economic trends are worsening. Among many reasons for the noticed worsening economic trends, as a key on we single out several years of strong decrease of investments. Unless significant increase of investments occur already in 2015, the decline of economic activity in 2015 may be even deeper than expected 0.5%, but, what is worse, the perspective of the Serbian economy even in the medium term would not be optimistic.

Gross domestic product

Large y-o-y GDP decline in Q3 of 3.6%

According to the SORS estimate real y-o-y GDP decline in Q3 was very deep and amounted to 3.6%. Almost half of this decline is a consequence of temporary halt in the production of electricity and coal (floods), and without the effects of floods the decline of economic activity would amount to around 1.9%. May floods therefore had significant effect on the decline of economic activity in Q3 also, but the economic activity would be in significant decline even if there were no floods. Data on movement of economic activity in the first nine months indicate that the economic activity will record a drop in 2014 compared to 2013 by about 2%, which is significantly larger drop then the one we expected in the previous issue of QM (then we estimated that the GDP will drop by about 1% in 2014). Two most important reasons for which we changed our estimate are: 1) SORS has revised downward previously announced estimates of GDP trend in Q1 and Q2 2014 and 2) delays in eliminating the negative effects of floods on EPS production.[1]

Seasonally adjusted GDP confirms large drop of the economy in Q3

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

Source: *QM* estimates based on SORS data

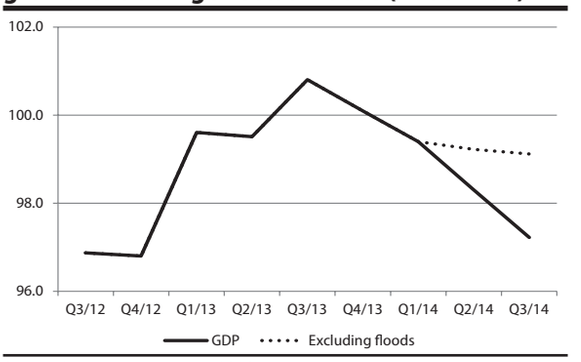
Seasonally adjusted GDP growth indices (Graph T2-1) confirm negative trends in the movement of economic activity and its extremely large drop in Q3. Graph also shows that Q3 is the fourth consecutive quarter in which seasonally adjusted GDP decreases. Pace of GDP reduction is very similar to that after the first wave of the crisis in late 2008, which is very worrying and can be clearly seen in Graph T2-1. However, in contrast to the end of 2008 and throughout 2009, when the decline in economic activity was the central theme and had great attention of professional, but also the general public, this time it seems that this is not the case.

1 In the last issue of QM we assumed that already in Q3 one part of flooded coal mines will be drained and enabled and that the production of coal and electricity will begin to gradually increase, and in Q4 production will be fully normalized. Draining the water from the largest submerged pit "Tamnava West" began, however, only in the second half of September, four months after the floods, and normalization of production by all accounts will not be possible before 2015.

Negative economic trends are somewhat marginalized, and in the public unjustified estimates of higher economic growth in the medium term or unreliable and probably poorly measured data about strong employment growth prevail (impossible in conditions of deep recession).

Even when we exclude negative effects of May floods economic activity is falling

Graph T2-2. Serbia: Seasonallyadjusted GDP growthexcludingeffectsoffloods (2008=100)



Source: *QM* estimate based on SORS data

For more detailed analysis of economic activity trends it is necessary to exclude from the result of economic activity in Q3 those areas that were most affected by the floods. In this way we can separate the bearing, durable, economic trends from the temporary impact of floods that will end in 2015. When we exclude those affected areas, we see that the decline in economic activity in 2014 would still exist, but it would be much lower (Graph T2-2). Based on this analysis (assuming that the GDP in Q4 will be at a similar level as in Q3), we can conclude that the economic activity in 2014 will decrease by approximately 2%, and that if there were no floods, this decrease would be by around 0.8% (dashed line in Graph T2-2).

Effects of reconstruction after the floods cannot be seen in the movement of GDP, which may indicate that the reconstruction is inefficient

It is interesting to notice some other interesting indications related to the reconstruction from floods indicated by the Graph T2-2. First, the negative impact of floods on the production of coal and electricity (and through that on seasonally adjusted GDP) was approximately twice as high in Q3 as in Q2. It actually directly shows that by the end of Q3 there was no significant recovery of production in the affected areas (because floods occurred in mid-May and affected only half of Q2). Second, it shows that the downward trend of seasonally adjusted economic activity without floods (dashed line) is virtually unchanged in Q3 compared to Q2 - which indicates the absence of a positive impact of reconstruction from floodson production.[2] Both of these indications suggest that the reconstruction after the May floods is quite inefficient, because of which our estimates of negative impact of floods on GDP from the previous issue of QM proved to be optimistic.[3]

The analysis separating the temporary effects of floods from the leading trends in economic activity is important for the prognosis of possible developments in economic activity in 2015. Namely, in 2015 usual coal and electricity production will be established which will increase their production for about 20% when compared to 2014. This will make a positive contribution to the growth of the economy for over one percentage point of GDP - which we will use as an exogenous component in forecasting GDP in the next year.

All components of demand falling in Q3

We have analyzed the structure of GDP trend in Q3 by use. Table T2-3 shows the structure of GDP growth by use. Table clearly shows that throughout 2013, up to Q1 2014, net exports (difference between exports and imports) had high and positive growth, while all other components of GDP - private consumption, government consumption and investment - were in decline or at best in stagnation. In Q2 and Q3 2014 bad trends of most GDP components were accompanied by net exports, which first stopped its high growth in Q2, and already in Q3 was in large decline. Slowing down, and then a fall in net exports, however, is not a big surprise and in QM we have indicated such trend of net exports a year ago.

Namely, high growth of net exports (as well as a solid growth of GDP) in 2013 was driven by the results of only several companies (FAS and NIS) and was therefore limited by production

2 Of course, this cannot be argued with complete certainty, since it is possible, for example, that the economic activity in Q3 would be even lower if there were not positive contribution of the reconstruction from floods. However deepening decline in total investment and construction in Q3 are additional indicators that suggest that the renewal is not implemented efficiently enough

3 In the June issue of QM, we estimated that the negative impact of floods (with the effects of restoration) may be around 0.5-0.6 pp of GDP, in the previous issue of QM, because of delays in restoration, we increased the negative impact floods on GDPin 2014 to around 0.8 pp of GDP, and the current trend of coal and electricity production suggests that it might be somewhat greater than 1 pp of GDP

capacities of these companies. In the meantime since 2012 investments are in deep decline[4], and without investments it is impossible to sustain such high growth of exports, and therefore GDP growth in general. We claim this because the remaining components of GDP, private and government consumption, despite a gradually decrease for several years, are still disproportionately high in relation to the possibilities of the national economy and must continue to decrease in the medium term. So, the key to sustainable economic growth in Serbia in the coming period is relatively high growth of investments and net exports, which should have a greater positive contribution to GDP growth than the inevitable reduction in private and government consumption.

Table T2-3. Serbia: GDP by expenditure method, 2009-2013

	Y-o-y indices												
	2009	2010	2011	2012	2013	2013				2014			Share
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	2013
GDP	96.9	100.6	101.4	99.0	102.6	102.4	101.1	103.4	103.3	99.8	98.7	96.4	100.0
Private consumption	99.4	99.4	100.9	98.2	99.5	98.1	100.1	100.0	100.1	98.3	98.9	98.8	75.3
State consumption	100.6	100.8	101.1	102.4	98.7	96.7	94.2	102.5	101.6	99.4	100.2	98.4	17.8
Investment	77.5	93.5	104.6	113.2	89.9	97.0	81.9	90.4	90.2	97.6	99.4	92.4	17.6
Export	93.1	115.0	105.0	100.8	120.9	113.8	115.6	131.7	122.4	114.7	109.5	94.3	41.2
Import	80.4	104.4	107.9	101.4	104.9	99.4	102.5	109.6	108.2	103.0	106.3	101.9	51.9

Source: SORS

Most worrying is deep fall of investments

Precisely because the sustainable growth of the Serbian economy can be based only on the growth of investments and net exports, the result of economic activity in Q3 is more disturbing. So relatively deep decline in overall economic activity in Q3 is not the only problem, but also that the biggest drop was recorded by two components of GDP that are most important for future growth - net exports and investments (Table T2-3).In order for unfavorable trend in economic activity to make the turning point the first component of GDP that must start to record positive results (which will precede all others) are investments, and investments in Q3 additionally deepened its decline. This result is disappointing partly because we expected that in Q3 a slight recovery of investments will occur, as a consequence of reparations from floods. So far there is no indication that in the short term a significant recovery of investments will occur - financial performances of companies are bad, lending activity is low and FDI are low despite announcements. All things considered, the analysis of GDP by use confirms and suggests the further continuation of worsening economic trends.

In 2014 industrial production recorded a largest drop

Started analysis of GDP trends may be complemented with the last available data by activity which are shown in in Table T2-4. SORS with the latest published data and the transition to the new methodology (SNA 2008 / ESA 2010), changed the way of presenting the data by sector of economic activity so that instead of publishing the data for all of the individual sectors, some of them are grouped in one category[5]. Table T2-4 shows that the largest decline in 2014 was recorded in industrial production, partly due to the May floods (mining, energy), but partly due to the permanent negative trends in the manufacturing industry, on which more will be discussed in a separate chapter devoted to industrial production. Other sectors do not have so pronounced changes in production compared to the previous year. Service industries, which now integrated trade, transport and tourism, recorded a decline of a few percent compared to the previous year, and financial activities also recorded a drop. Agricultural production is approximately at the same level as in 2013, and only, but not excessively high increase, is recorded in the sector of information and communication.

4 SORS data presented in Table T2-3 that investments in 2012 had real growth of even 13% is at least suspicious and occurred with the revision of previously published fall of investments in 2012 of 4%.

5 Manufacturing, mining and electricity production are grouped in industrial production, trade, transportation and storing, and tourism are also now presented together, etc.

Table T2-4. Serbia: Gross Domestic Product by Activity, 2013-2014

	2013				2014			Share
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	2013
Total	102.4	101.1	103.4	103.3	99.8	98.7	96.4	100.0
Taxes minus subsidies	95.9	98.4	100.2	101.0	98.6	100.1	99.6	15.8
Value Added at basic prices	103.7	101.6	104.0	103.8	100.1	98.4	95.8	84.2
Non agricultural Value Added	101.7	99.2	102.4	102.3	99.9	98.2	95.4	90,6[2)]
Agriculture	122.8	125.0	119.1	118.3	102.3	100.7	100.0	9,4[2)]
Industry	107.3	105.8	107.0	104.0	99.7	94.6	88.1	26,6[2)]
Construction	103.0	82.2	98.6	102.7	100.6	104.1	93.6	5,1[2)]
Trade, transport and tourism	101.0	99.9	102.7	105.4	99.6	97.7	98.2	17,8[2)]
Informations and communications	99.9	96.6	100.9	102.3	104.7	105.1	103.2	5,2[2)]
Financial sector and insurance	89.2	90.1	89.6	93.4	96.1	99.7	97.0	3,1[2)]

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

GDP drop by 0.5% in 2015

We presented estimate of the GDP growth in 2015 in more detail in Spotlight On 1 of this issue of QM. Here we will briefly present only the main results of the estimate. In 2015 we expect a decline in economic activity of 0.5%, but this estimate could be changed depending on a number of factors that are not yet fully known: solving the fate of the companies in the restructuring, privatization of Smederevo Steel Plant, the fate of large private concerns (Farmakom), the size of fiscal consolidation and more.

We expect deep decline in private and government consumption as well as solid growth of investments

Observed by GDP components, we expect that in 2015 private consumption will record a real decline of about 3%, and government spending by over 6%. Net exports will make a positive contribution to GDP, but not because of growth in exports (we expect exports to stagnate), but because of the decline in imports. The component of GDP which is especially interesting to us, and which we consider to be crucial for the sustainable growth of the Serbian economy is investments. Real growth of investments in 2015 is estimated at 5% due to the growth of both public and private investments.

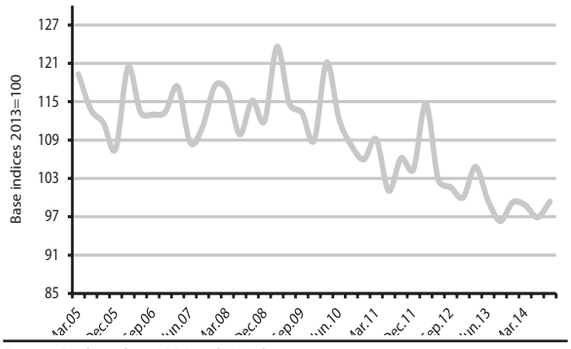
Unit Labor Costs in a temporary increase

Unit labor costs[6] (ULC), measured in dinars, in Q3 increased when compared to Q2, but also when compared to the same period of the last year (Graph T2-5). ULC actually represent the share of labor cost in the added value. This share in Q3 has been increased because of a temporary decrease of production in mining and production of electricity which was not followed by the layoffs of employees or reduction of their salaries. If we would exclude this temporary effect, ULC in Q3 would be at approximately the same level as in Q2. When a usual production in these sectors of the economy is established, the ULC will automatically return to its lower level.

In the medium term ULC in Serbia are decreasing which is generally a positive trend. We emphasize, however, that this results appeared by us using data on formal employment as information about the employment, which is in decline and in line with developments in economic activity (and our expectations) - but that the result would be totally different if we used data from the Labor force Survey (LFS). Namely, according to LFS, which includes informal employment, in Serbia there is a pronounced increase in the number of employees. If we used this data we would have a situation that the ULC trend is strongly growing, because employment is growing rapidly in conditions when economic activity is falling and slightly realistic reduced net earnings. If such large increase in ULC is really happening, it would lead the domestic economy to the enormous loss of competitiveness and a collapse (as with all the challenges that the Serbian economy is facing is not likely to happen, certainly not because of unsustainable growth in expenditure on employees). That is why we once again call on SORS to review the credibility of a strong increase in employment measured by the LFS in the past two years.

6 Unit Labor Costs in dinars are calculated for the economy (excluding the Agriculture and Public Administrationsectors) and industry.

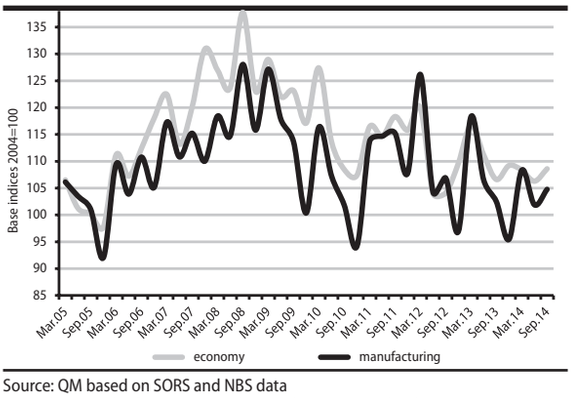
Graph T2-5. Serbia: Real UnitLaborCosts in theEconomyandIndustry, 2005-2014



Source: QM based on SORS and NBS data

Price competitiveness of the economy is improving with real depreciation of the dinar

Graph T2-6. Serbia: Real Euro - 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

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[7], as shown in Graph T2-6.

Graph T2-5 shows that the euro-ULC in Q3 were on the rise despite a mild depreciation of the dinar. As in the case of dinar-ULC this is also a result of temporary trends that will end until the beginning of 2015. With all that, in Q4, there was somewhat more significant depreciation of the dinar, and so we expect that the euro-ULCs in 2015 are likely to be somewhat lower than in 2014. Competitive dinar exchange rate at which smaller euro-ULC point out is desirable for future sustainable growth of the economy based on the growth of net exports and investment. Please note, however, that this is a necessary, but not sufficient, condition for the increase in FDI, exports and production, and that for this to happen it will be necessary to remove many other obstacles (unsustainable fiscal policy, unfavorable and unpredictable business environment, poor ranking on competitiveness lists, etc.)

Box 1. September revisions of GDP

Since September 2014 SORS introduced two changes into the GDP calculation. The first was introduction of a new methodology of national accounts SNA 2008 / ESA 2014 in line with the recommendations from the European Union, and the second was increase of GDP coverage through better incorporation of the grey economy. These changes led to the increase of nominal GDP but also the increase of real growth rates in entire series of GDP data. Nominal GDP value in 2013 was increased by about 7% and in the preceding years in average for around 6%. Real GDP growth rates in the period 2001-2013 increased in average by 0.6 p.p. We point out the fact that the increase in nominal GDP directly influenced the reduction of the relative value of all macroeconomic aggregates that are measured in relation to GDP (current account deficit, external debt, public debt, fiscal deficit, etc.), which is why there has been a change in data in almost all sections of this issue of QM.

Methodological changes in national accounts were not unexpected and already took place in previous years in all statistical institutes of EU countries. In countries in the region it led to an increase of nominal GDP for 5 - 10% (primarily due to a better incorporation of the grey economy in GDP, and less due to the implementation of the SNA 2008 / ESA 2010). Change of nominal GDP in Serbia also occurred primarily due to a better incorporation of the grey and illegal economy

7 Excluding the Public Administration and Agriculture sectors.

and its size is consistent with the changes made by other statistical institutes in the region - and it is apparently justified and probably well implemented. The specificity for Serbia is, however, that recent methodological changes have led to great changes in real growth of GDP. Real GDP growth rates have been increased from 2001 in average by 0.6 pp. per year, while fro EU28 and Eurozone changes of real growth rates with introduction of new methodology were between ±0.1 p.p per year approximately symmetrically distributed on the positive and negative side[1]. This last fact raises some questions related to the latest revision.

In order for implemented revisions to be consistent GDP deflator had to suffer serious change, which is not mentioned anywhere. Namely, nominal GDP increased by about 7% in 2013 within the revision and by about 7.7% in 2001, which implicitly means that the growth of nominal GDP in the observed period was revised slightly downward. On the other hand, growth of real GDP in the period 2001-2013 was adjusted upward and not insignificant (on average by 0.6 percentage points per year, cumulatively for 8 pp). This means that at the same time with the revision of data on GDP a serious change in the GDP deflator happened. This change, we believe, would have to be explained in detail by the SORS.

Real growth rates by individual sectors are also oddly changed within the last revision – in some areas upward and in some downward. Thus, in the 2008-2012 period the growth rate of construction sector for each year changed for an average of about 7 percentage points. The average change in the annual growth of financial sector is more than 5 percentage points, which is about the same as average revised annual growth rates in the sector of information and communication. The recorder is still accommodation and food services sector whose previously published growth rates for each year are corrected on average by almost 9 pp.

QM redaction fully supports every improvement and harmonization of local statistics with the latest international guidelines, such as the last switch to the SNA 2008 / ESA 2010 methodology and increase of GDP coverage. Well explained quality data revisions improve the quality of our analysis. However, we're constantly encountering the unusually frequent and large adjustments made by the SORS, and constant publishing of official data of suspicious quality. GDP revisions in the previous ten years (since we follow them in QM) were far more frequent and greater in Serbia than in all other countries in the region[2], and some specific adjustments it is impossible to rationally explain (for example revision of real investment growth in 2012 from a decline of 4% to a growth of 13% - for which we know did not happen). When we add to all this the lack of logic which statistical data on employment and wages, construction and other sectorial statistics often have, we conclude that in front of SORS are major challenges to improve the quality of its work and reliability of the data it publishes.

1 Source: Eurostat news release: „ESA 2010 shifts level of EU and euro area GDP upward, growth rates almost unaffected", 17. October 2014. Available data for individual countries indicate that on the national level those oscillations were higher that ±0,1 p.p. per year, but nowhere we encountered the case that in the long run they systematically increased or decreased (as in Serbia).
2 For more details, see Review: "Reliability of official data on gross domestic product in Serbia", QM24

Industrial production

Industrial production continues strong decline

Industrial production in Q3 recorded a y-o-y fall of even 414% (Table T2-7). Within the industrial production large fall of even 28% and 39% was recorded by the mining industry and production of electricity, while the manufacturing industry also recorded a fall which was somewhat lower and amounted to around 5.5%. The reason for large fall of mining and production of electricity is May floods, which flooded the most important coal mines consequently influencing large fall in production of electricity and total industrial production. This deep fall in mining industry and production of electricity is temporary.

The trend of manufacturing industry, however, is much more important for the analysis. The decline of manufacturing industry in Q3 was also partly the result of one-off factors, of which certainly the most significant was halt in production in NIS company in September due to the plant maintenance and occasional stoppages in the production in FAS company (which for now we interpret as a one-off, but it is possible that they announce a gradual decrease in demand for

cars that are being produced in this company)[8]. Taking into account the aforementioned temporary factors, analysis of QM, however, shows that even with their exclusion manufacturing industry in Q3 was on a downward path, which is very worrying trend.

Table T2-7. Serbia: Industrial Production Indices, 2009-2014

	Y-o-y indices												Share
	2009	2010	2011	2012	2013	2013				2014			2013
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Total	87.4	102.5	102.2	97.1	105.5	105.2	103.0	110.8	103.3	102.1	95.2	86.1	100.0
Mining and quarrying	96.2	105.8	110.4	97.8	105.3	107.8	102.2	107.6	104.1	99.7	87.0	71.6	8.5
Manufacturing	83.9	103.9	99.6	98.2	104.8	105.4	103.2	108.8	102.2	103.6	98.0	94.4	73.9
Electricity, gas, and water supply	100.8	95.6	109.7	92.9	108.1	103.7	103.7	120.5	106.8	99.3	86.2	61.3	17.6

Source: SORS

In 2014 drop in industrial production around 7%

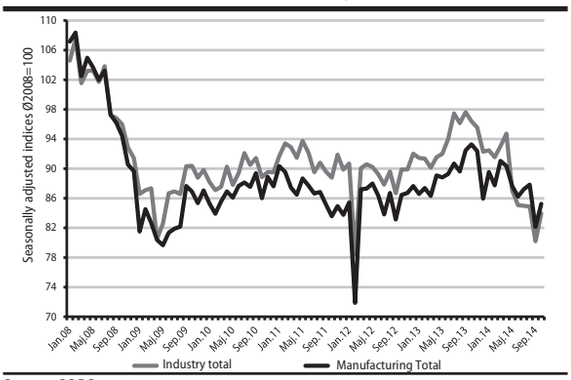
In 2014 total industrial production will undoubtedly record a significant fall which we currently estimate to about 7%. Manufacturing will also record a fall, which will be lower and around 2.5%. Perhaps even more important than the annual decrease in total and manufacturing industry are bad trends that whit which we end 2014 and enter 2015. This worsening of trends can be sensed by only observing y-o-y growth of industry by quarters (Table T2-7), which from positive y-o-y growth of 3.6% in Q1 came to a fall of 5.5 in Q3 – and it can be even more clearly seen in seasonally adjusted indices.

Seasonally adjusted indices show a reduction in industrial production

Graph T2-8 shows seasonally adjusted production indices of total industry and manufacturing. Seasonally adjusted indices of total industry (lighter line in Graph T2-8) confirms already mentioned sharp fall in production from May under the influence of floods, which there is no need to further analyze. Darker line on Graph T2-8 refers only to the manufacturing which was not under such influence of floods and which we will analyze. Manufacturing started its slowdown even before the floods and its downward trend in 2014 is undeniable besides some oscillations by months[9]. Graph T2-8 shows that the manufacturing recorded its peak in October 2013 and started to fall since then, which coincides with a slowdown in net exports and the beginning of fall of seasonally adjusted GDP. Unfortunately there is still no indication of any change in these trends.

In Q3 most special purpose groups of industry deepened their decline

Graph T2-8. Serbia: Seasonally Adjusted Industrial Production Indices, 2008-2014



Source: SORS

Observed by use (Table T2-9) we see that in Q3 all specific groups of products are in a y-o-y decline and that almost all of them are deepening their decline compared to Q2 (only the production of intermediate goods kept approximately unchanged y-o-y decline). This division of industrial production from yet another angle shows the different effects of permanent and temporary factors on production. Energy production and investments in Q3 were under the dominant influence of temporary factors (energy - the consequences of floods and maintenance in NIS company, and investment - production shut in FAS company), while the trend of

8 The lack of investment in capacity expansion in the FAS, as well as the announcements by the leaderships of FIAT, that for now theydo not plan to start production of the new car models in the FAS, pointing to an assessment that production in FAS in the coming years could be stabilized at around 100 000 cars.

9 For example last two data in Graph T2-8 refer to September and October where the seasonaly adjusted manufacturing production in October is significantly higher than the one from September. This, however, is by no means an indication of recovery but a consequence of completion of plant maintenance of NIS company started in September when the production almost completely stopped for a month. When the value of the manufacturing production in October is compared with the data for August they show that manufacturing is on a downward trend.

production of intermediate and durable consumer goods reflects more permanent trends of industrial production - which from the zone of mild growth in Q1 crossed toa decrease of a few percent in Q3 (Table T2-9).

Table T2-9. 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	Q2	Q3
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	95.2	86.1
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	89.1	65.1
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	97.0	91.1
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	94.3	94.8
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	99.6	97.5

Source: SORS

Construction

Estimated fall of about 5% in construction activity in 2014

The construction sector has been in a continuous decline for three years in a row and undoubtedly this decline continues in Q3. Latest SORS construction data indicate a year-on-year real decline of this sector of economy in Q3 of even 20.7%, but this we consider unlikely. Previous two data from the construction statistics for Q1 and Q2 showed that the cost of construction works in both these quarters had approximately the same real y-o-y fall of about 5%, and the change in Q3 consider simply too big to be possible.

As a control analysis of the construction trend we use cement production index which, because of the difficulties in monitoring the construction sector, we use as additional indicator of its movement (T2-10).Cement production in Q3 was for 3.8% lower than the one from the same period of the last year.[10] Taking into consideration the inaccuracy of this indicator, we believe that this is however a good confirmation of the previously exposed estimates that it is unlikely that the construction sector in Q3 recorded extremely deep fall – as indicated by the construction cost index. Our best current estimate is that construction activity in Q3, as in the entire 2014, recorded a real decline of about 5%.

Table T2-10. Serbia: Cement Production, 2001-2014

	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		

Source: SORS

The main reason for the fall in the construction sector in 2014 is low level of investments of a private, but also public sector about which we spoke in detail in previous issues of QM. What is specific for Q3 is that in the previous version of QM we expected that there will be a temporary increase in construction activity due to the elimination of the consequences of the May floods. Available data on cement production, and especially on the cost of performed construction works, however, do not indicate noticeable positive changes in construction activity compared to Q2 and previous quarters.