

## 3. Employment and Wages

The third quarter of 2015 was characterized by methodological changes in both Labour Force Survey (LFS) and formal employment data (administrative figures). The Statistical Office of the Republic of Serbia (SORS) published revised data for 2014. Those revised figures on the activity rate, employment and unemployment were higher in every quarter compared to non-revised figures for the same quarter while the level of informal employment is lower compared to the non-revised figures. In the third quarter of 2015 compared to the same quarter of the previous year, a drop was registered in the unemployment rate and the rate of informal employment as well as a drop in the activities rate (that is a rise in the inactivity rate). The employment rate is rising. Estimates of the number of employed by sector are not reliable according to the latest SORS statement. Since Q3 2015, the data on the number of employed has been published for three basic sectors – agriculture, industry and services – and due to the low number of small subsamples data at activity branches will no longer be published. Estimates of the overall employment show a more realistic image of the actual state on the labor market compared to the initially published data. The rate of growth of the total number of the employed in Q2 2015, compared to the same quarter of the previous year stood at 1.4% while the unrevised data stood at an impressive but very doubtful 6.6%. The SORS changed to the new methodology of monitoring the formally employed as of September 2015 using figures from the Central Register of Mandatory Social Security and the Statistical Business Register. The administrative data on employment will be more precise and will include the employed who do not have permanent contracts such as employees under contract on temporary and occasional jobs. That will allow a harmonization of the statistics of employment with the methodology of short-term statistics used by the European statistics system. This is a completely justified change but there is no justified reason why it was not introduced much earlier. The data base will be revised in January 2016. The average monthly gross wages continue to follow a downwards trend both nominally and in real terms. The biggest drop in wages was registered in the sectors of the state administration and defense, mandatory social security, education and health care. Most of those sectors registered a year on year growth of seasonally adjusted net wages in real terms. The biggest growth was registered in the construction industry of 11% which is less than the real growth rate of the Gross Value Added (GVA) of 18% in the same period.

### Employment

*Improvements of the basic indicators of the labor market continued in the third quarter of 2015. The SORS revised its data for 2014.*

*The revised data indicates that improvements do exist on the labor market but that they are significantly lower than the initial indicators showed.*

The LFS is characterized by significant changes in the methodology in 2015. In 2014, the observation period was one week in a quarter. Starting from 2015, the observation period covered all the weeks in a quarter (transfer to continued periodic research). The SORS revised its data for 2014, removing the effects of the changes in the evaluation system. On the other hand, the effects of changes in survey period and manner of gathering data could not be removed. That further implies that the changes in the evaluation of the workforce contingent cannot be viewed as reliable or precise<sup>1</sup>. It is important to note that the public statements for the first and second quarter did not mention that the figures for 2015 are not comparable to the figures for the previous year. On the contrary, the figures for the first and second quarters were compared to both the previous quarter and to the same quarters of the previous year<sup>2</sup>. Also, the last statement stresses that care should be taken about the size of the statistical error in year on year changes for the activities branches, besides the changes in period and system of evaluation. The year on year growth rate in the number of employed in Q1 and Q2 2015 stood at 1.7% and 1.4% respectively which is more realistic than the initial 6.5% and 6.6% (non-revised figures). The revision of the figures on the labor market confirm that our criticism in the previous issues of QM were

<sup>1</sup> See Statement, Labour Force Survey , revised figures for 2014, 23,10,2015.

<sup>2</sup> See Statement, Labour Force Survey , 29,05,2015 and 31,08,2015.

justified. However, we continue to believe that a revision is necessary of the figures for the labor market for the entire 2009–2014 period because of serious discrepancies in data with macroeconomic and fiscal figures while changes in certain sectors are dubious<sup>3</sup>. The publication of a series of comparable figures is important primarily because of the creating of labor market policies but also because of a restoration of credibility in the statistical institutions of Serbia. In that context introducing any political aspect into the debate on statistical figures would be very damaging.

However, as the statement said, the assessments of the number of employed by activity are not reliable which now prevents us from analyzing the dynamics of employment by activity. According to data from the LFS for Q3 2015, the number of employed was 2.6 million while the sector structure of the employed was as follows: 20%, 25% and 56% for agriculture, industry and services<sup>4</sup>, respectively. We believe that the SORS should provide figures on the number of employed by activity because that is the statistical practice of EUROSTAT. If the subsamples for certain sectors are not big enough to provide a reliable assessment, that can be resolved by aggregating those activities, that is through the collective figures for several activities. We propose that the activities branches follow the activities branches for GVA in the employment figures. We recall that the figures on employment were disaggregated for 21 activities while the GVA figures were de-aggregated for 10 activities<sup>5</sup>. The publication of figures aggregated on three sectors – agriculture, industry and construction – hides important information on trends on the labor market.

Table T3-1 shows the basic indicators on the labor market in 2014, initial figures and revised figures, as well as figures for the first three quarters of 2015.

**Table T3-1. Trends in activity rates, employment, unemployment and informal employment, Q1 2014- Q3 2015.**

	2014 – first data				2014 - revised data				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Activity rate (15+)	48.4	49.5	49.3	48.5	51.0	52.4	52.3	51.3	50.8	51.4	51.9
Unemployment rate (15+)	20.8	20.3	17.6	16.8	21.3	20.9	18.1	17.3	19.2	17.9	16.7
Employment rate (15+)	38.4	39.5	40.6	40.4	40.2	41.5	42.8	42.4	41.0	42.3	43.2
Informal employment rate (15+)	20.5	21.2	23.4	24.2	19.7	20.5	22.5	23.2	19.4	18.5	20.4

Source: SORS

The revision of the figures showed that the activity rates, rates of unemployment and employment were higher than the previous results showed while the rate of informal employment is lower. When we compare the figures for 2015 to the same quarters of the previous year (the revised figures) we see improvements in the basic indicators for the labor market (except for the activities rate trend). The unemployment rate dropped in Q3 2015 compared to the same quarter of the previous year by 1.4 percentage points, and that it dropped by 1.2 percentage points compared to the previous quarter. The rate of informal employment is lower compared to the same quarter of the previous year by 2.1 percentage points.

In 2015 (the average on the basis of the first three quarters) compared to 2014 (revised figures) we have a growth of the overall employment of 0.6% while the year on year rise in Q3 2015 stands at 0.2%. Formal employment rose by 2.8% while the number of informally employed dropped by 7.7%. If we look at the structure of the informal employment according to professional status, we see that the trend of growth in employment is continuing while the number of self-employed without employees and helping households' members as staff is dropping (Table T3-2).

<sup>3</sup> We cited only highly dubious figures on the labor market (even though there are many more examples of this) such as the high drop in employment in agriculture in 2009 and the allegedly high growth of employment in activities in which the state was dominant in 2015.

<sup>4</sup> The agriculture sector includes farming, forestry and fisheries, the industry sector includes mining, the processing industry, the supply of electricity, gas and steam, water supply and waste water management and construction, the services sector includes the wholesale and retail trade, traffic and storage, accommodation and food providing services, information and communication, financial activities and insurance activities, real estate business, expert, scientific and technical activities, administrative and secondary service activities, state administration and mandatory social security, education, health care and social security, the arts, entertainment and recreation, other service activities, the activities of households as employers, the activities of extraterritorial organizations and bodies.

<sup>5</sup> Activities: A- agriculture, forestry and fisheries, B-E – processing industry, mining and other industries, F- construction, G-I – wholesale and retail trade, traffic and storage and accommodation and food providing services, J- information and communication, K- financial activities and insurance activities, L-real estate business, M-N- expert, scientific, technical and other secondary activities, O-Q – state administration, defense, education and activities in health care and social security, R-T – other service activities

**Table T3-2. Formally employed persons and structure of informally employed persons, according to professional status, 2014-Q3 2015.**

	2014	Q1 2015	Q2 2015	Q3 2015	Index 2015/2014
Number of employed (total)	2,544,188	2,494,346	2,565,712	2,615,221	100.6
Formal employment	2,004,581	2,010,551	2,089,996	2,080,692	102.8
Informal employment	539,607	483,795	475,716	534,530	92.3
Informal employment by professional status					
Employed	101,005	108,179	127,950	145,816	126.0
Self-employed with employees	(2833)	*	*	*	
Self-employed without employees	221,462	170,853	143,452	167,546	72.5
Helping households' members	214,306	202,258	202,216	216,676	96.6

Note: \*A small number of occurrences, assessments not published, ( ) less precise assessment – use with caution, figures for 2015 are average values for first three quarters.

Source: SORS

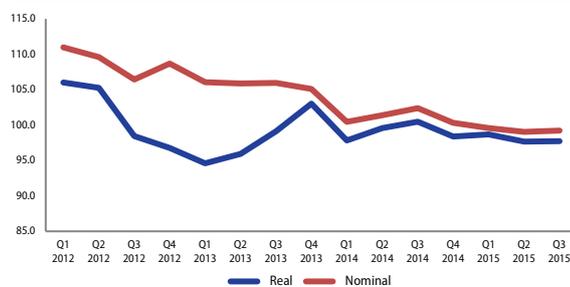
In its European Economic Forecast (published in November 2015), the European Commission gave the following predictions for the coming period using LFS data: employment in 2015/2014 will stand at 5%, growth in 2016/2015 will stand at 0%, while in 2017/2016 employment will rise by 1.9%. The unemployment rate in 2015, 2016 and 2017 is assessed to stand at: 17.7%, 17.7% and 16.6%, respectively. The untimely announcement of changes in the LFS methodology and publication of non-comparable figures<sup>6</sup>, creates a bad reputation for Serbian state institutions in international organizations which use SORS figures while at the same time causing misapprehension among state representatives. Year on year growth in employment in Q2 2015, according to initial SORS figures, stood at 6.6%. On the other hand the International Monetary Fund gave an estimate of the unemployment rate of 20.7%, 21.96% and 22.36% in 2015, 2016 and 2017. The unemployment rate will probably rise as a consequence of the rationalization of employees in the public sector.

To create adequate policies, and make fiscal projections, it is important to secure reliable figures on the labor market. Instead of a constructive, argued debate which would contribute to improving the data on the labor market, a political aspect is being introduced to the figures in the public.

## Wages

*The average monthly gross wages continued their downwards trend both nominally and in real terms.*

In the third quarter of 2015, compared to the same quarter of the previous year, the average monthly gross wages were nominally lower by 0.8% and by 2.3% in real terms. The average net salary in Q3 2015 stood at 47,719 Dinars. The year on year indexes (nominal and in real terms) stood at below 100 in the first three quarters. The downwards trend in real gross wages carried over from 2014 into 2015 (Graph T3-1).

**Graph T3-1. Average monthly gross wages, year on year indexes, 2012-2015.**

Source: SORS

*Impressive growth of wages in the construction industry continued in Q3 2015.*

The trends in wages by sector continued in the third quarter of 2015. A majority of the sectors registered a year on year growth of seasonally adjusted net wages in real terms. The sectors which dominantly belong to the state sector registered a drop in real net

<sup>6</sup> It is unusual that SORS representatives denied in public that the methodology had been changed on several occasions in the first half of 2015.

wages<sup>7</sup>. The biggest drop in wages was registered in the sectors of state administration and defense; mandatory social security and stood at 12%. A big drop in wages was registered also in education and health care and stood at 9%. The biggest rise in real net wages was registered in the construction industry sector and stood at 10.9%. That is in line with a real growth of the GVA in the same period by an impressive 18.3%. That is probably the consequence of the speeding up of the realization of capital expenses in Q3 (see section Fiscal Trends and Policy). Changes to the law, which allowed a faster and easier issuing of construction permits, contributed to the growth in the construction industry. The average prices of new housing in 2012–2015 period fall into the interval of 1100–1200<sup>8</sup> EUR/m<sup>2</sup>. In the first half of 2015, compared to the same period of 2011, average prices were 9% lower. The effective interest rate of banks for housing loans to the population and the non-financial sector stood at 4.07%<sup>9</sup> (average for 2015), which is the lowest value in the past five years. The drop in interest rates on housing loans has a great positive effect on the construction industry sector. The sector of accommodation and food providing services also achieved a significant growth in wages which stood at 8.8% while the GVA in the sector of wholesale and retail trade, traffic and storage and accommodation and food providing services saw a rise in real terms of 1.2% in the observed period. The processing industry sector registered a growth of real net wages of 4.2%. The seasonally adjusted index of industrial production in September 2015, compared to the average for 2014, showed a growth of 3.9% for the processing industry. Wages in the processing industry rose higher than those in production in Q3 2015 while the opposite happened in the previous quarter (year on year growth of wages stood at 4.2% while production rose by 7.2% in Q2 2015).

Considering that the SORS no longer publishes figures on employment by activity sector, we cannot analyze the weighted average wages in the public and private sector nor can we use the same manner as to date to monitor the relationship between wages in the public and private sectors using LFS data on the structure of employment by activity.

<sup>7</sup> Year on year drop in seasonally adjusted real net wages registered in following sectors: D – supply of electricity, gas, steam and air conditioning, E – Water supply, waste water management, controlling waste removal process and similar activities, O – State administration and defense, mandatory social security, P – Education, Q – Health Care and Social Security, R – Arts, entertainment and recreation, S – Other service activities

<sup>8</sup> SORS figure transferred into Euro according to the average daily exchange rate (NBS).

<sup>9</sup> NBS