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Emerging Markets: Where Is The Slack At The Sector Level?

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Emerging Markets (EM) are facing a challenging period as they navigate through tighter monetary policy in the U.S., the repercussions of the Russia-Ukraine conflict, and the impact of COVID-19-related lockdowns in China. Those dynamics threaten to set back the economic recovery from the pandemic downturn, which in most EMs is far from complete as those new challenges emerge.

Incomplete Recoveries From The Pandemic Threatened To Be Set Back

But how incomplete is the recovery from the pandemic, and which parts of EM economies face a higher threat of setbacks from these set of new challenges? One way of answering those questions is by taking a look at output at the sector level, rather than the aggregate GDP level. If we were to just focus on GDP, the median major EM was nearly 3% above its pre-pandemic level as of end-2021, which hides the large levels of slack many sectors of the economy still face. Recoveries in sectors with a lot of slack tend to be faster than those that are operating at higher capacity, and therefore are key in closing existing output gaps.

So Where Is The Slack?

If we look at sector-level data for 14 major EMs outside of China (Argentina, Brazil, Chile, Mexico, Colombia, India, Indonesia, Malaysia, Philippines, Thailand, Poland, Saudi Arabia, South Africa, and Turkey), the median output of the 20 worst-performing sectors is still 26.5% below pre-pandemic levels (see heatmap below). Most of those sectors depend on tourism, and the countries that appear the most in that list are Malaysia, the Philippines, and Thailand. Tourism in those three countries rely heavily on Chinese arrivals, so bad news out of China could further delay the recovery in those economies. Outbound tourism from China is already highly limited by current COVID-19 related-restrictions, but additional lockdowns and potential weakness in labor market dynamics as a result, threaten to further dampen prospects for the recovery of tourism in Asian EMs.

Tourism-Related Sectors Still Have A Long Way To Recover In Most EMs

Poland's hotel & restaurants sector is the single worst-performing within all the EM sectors in our sample, with output being 70% below its pre-pandemic level. Poland is among the EMs that is the most threatened by the fallout of the Russia-Ukraine war. This is due not only by its geographical proximity, but also due to the overall impact of the conflict on economic activity across Europe, which is the source of most tourist arrivals to Poland. Therefore, the much-needed recovery in Poland's hotel & restaurants sector is under high risk of a setback.

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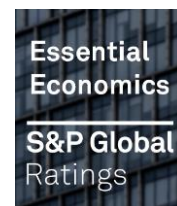
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Real Output By Sector Relative To Its Pre-Pandemic Level (Q4-19) As Of End-2021, % deviation

20 Worst Performing Sectors		20 Best Performing Sectors	
Poland Hotels & Rest.	-70.0	Malaysia Manuf.	12.5
Mexico Business Support	-69.1	Poland Manuf.	13.2
Malaysia Hotels	-42.5	Malaysia Water	13.7
Thailand Hotels & Rest.	-40.4	Malaysia Comms.	13.8
Argentina Fishing	-36.1	Colombia Information	15.1
Philippines Hotel & Rest.	-33.4	India Financial Serv.	15.8
Malaysia Real Estate	-32.6	South Africa Agri.	15.9
Philippines Recreation	-31.0	Philippiines Health	16.3
Malaysia Restaurants	-30.9	Chile Information	16.8
Thailand Business Support	-27.0	Malaysia Insurance	17.3
Argentina Hotels & Rest.	-26.0	Brazil Information	17.8
Mexico Recreation	-24.5	Indonesia Comms.	18.0
Malaysia Business Support	-24.4	Turkey Trade	18.9
Philippines Other Serv.	-24.4	Chile Trade	20.1
Malaysia Construction	-24.3	Colombia Recreation	21.9
Thailand Mining	-23.4	Turkey Financial Serv.	22.6
South Africa Construction	-21.8	Turkey Manuf.	24.4
Poland Financial Serv.	-21.8	Indonesia Health	30.8
Colombia Construction	-20.9	Colombia Hotels & Rest.	37.3
Thailand Transport	-20.1	Turkey Comms.	40.1

Degree Of Resilience of U.S. Demand As Fed Tightening Continues Will Be Key For Some EMs

Among EMs outside of Asia and Poland, Mexico stands out with having several services-related sectors with very large output gaps relative to their pre-pandemic levels (see heatmap again). Mexico is one of the EMs with the slowest recovery from the pandemic, with GDP still about 3% below its Q4-2019 level, due in part to lack of stimulus during the COVID-19 related downturn. The Mexican economy will remain highly susceptible to the evolution U.S. demand, which held up relatively well in Q1 (despite the negative GDP result, which was dragged by inventories and trade), but will be tested by rising U.S. interest rates.

The bottom line: there is still a lot of slack in sectors in EMs that were heavily hit from the pandemic, and many of those sectors are the most vulnerable to setbacks from the new set of global challenges.

Real Output By Sector Relative To Its Pre-Pandemic Level (Q4-19) As Of End-2021, % deviation

Very Negative		Negative		Neutral		Positive		Very Positive	
Poland Hotels & Rest.	-70.0	Malaysia Other Serv.	-14.3	Indonesia Construction	-2.0	Malaysia Agri.	2.1	Colombia Public Serv.	9.0
Mexico Business Support	-69.1	Malaysia Transport	-13.8	Mexico Transport	-1.9	Indonesia Utilities	2.2	Philippines Financial Serv.	9.2
Malaysia Hotels	-42.5	Colombia Mining	-13.6	Chile Mining	-1.9	Thailand Public Serv.	2.3	Argentina Manuf.	9.3
Thailand Hotels & Rest.	-40.4	Malaysia Education	-13.4	Brazil Public Serv.	-1.7	Indonesia Education	2.4	Argentina Trade	10.0
Argentina Fishing	-36.1	Argentina Social Serv.	-13.4	Indonesia Other Serv.	-1.7	Chile Construction	2.4	Poland Transport	10.3
Philippines Hotel & Rest.	-33.4	Philippines Real Estate	-12.1	Brazil Mining	-1.7	Mexico Real Estate	2.4	Colombia Trade	10.3
Malaysia Real Estate	-32.6	Malayisa Mining	-11.0	Poland Construction	-1.5	Mexico Prof. Serv.	2.4	Chile Financial Serv.	10.4
Philippines Recreation	-31.0	Philippines Mining	-10.9	Brazil Utilities	-1.5	Poland Comms.	2.5	Malaysia Public Serv.	10.6
Malaysia Restaurants	-30.9	Thailand Prof. Serv.	-10.7	Brazil Other Serv.	-1.4	Thailand Real Estate	2.6	Philippines Comms.	10.8
Thailand Business Support	-27.0	Mexico Other Serv.	-10.6	Malaysia Retail	-1.4	Thailand Manuf.	2.6	Colombia Manuf.	10.8
Argentina Hotels & Rest.	-26.0	Thailand Electricity	-10.2	Mexico Public Serv.	-1.3	India Mining	2.6	India Public Serv.	11.0
Mexico Recreation	-24.5	Thailand Other Serv.	-8.7	Philippines Public Serv.	-1.3	Malaysia Electricity	2.6	Thailand Health	11.3
Malaysia Business Support	-24.4	Mexico Construction	-8.5	Thailand Trade	-0.9	Mexico Retail	2.6	Thailand Financial Serv.	11.3
Philippines Other Serv.	-24.4	Mexico Financial Serv.	-8.3	Malaysia Wholesale	-0.9	Saudi Arabia Agri.	2.7	Saudi Arabia Financial Serv	11.4
Malaysia Construction	-24.3	Philippines Education	-7.9	Saudi Arabia Transport	-0.9	Thailand Education	2.9	Turkey Public Serv.	11.4
Thailand Mining	-23.4	South Africa Transport	-7.7	Mexico Mining	-0.5	Argentina Public Serv.	3.0	Turkey Prof. Serv.	11.7
South Africa Construction	-21.8	Mexico Utilities	-7.5	Indonesia Financial Serv.	-0.4	Saudi Arabia Construction	3.2	Turkey Other Serv.	12.1
Poland Financial Serv.	-21.8	Argentina Transport	-7.2	Chile Utilities	-0.4	Philippines Trade	3.3	Malaysia Manuf.	12.5
Colombia Construction	-20.9	Indonesia Trasnport	-6.6	Thailand Construction	-0.2	Chile Transport	3.4	Poland Manuf.	13.2
Thailand Transport	-20.1	Indonesia Prof. Serv.	-6.2	Brazil Trade	-0.1	Colombia Agri.	3.4	Malaysia Water	13.7
Thailand Recreation	-17.5	South Africa Trade	-5.8	Indonesia Public Serv.	-0.1	India Construction	3.4	Malaysia Comms.	13.8
Chile Fishing	-17.4	India Trade	-4.7	Saudi Arabia Mining	-0.1	Brazil Financial Serv.	3.7	Colombia Information	15.1
Mexico Hotels & Rest,	-16.4	Philippines Prof. Serv.	-4.6	Philippines Manuf.	-0.1	Indonesia Mining	3.7	India Financial Serv.	15.8
Philippines Construction	-15.5	Philippines Trasnport	-4.4	Philippines Agri.	0.0	South Africa Public Serv.	3.7	South Africa Agri.	15.9
Turkey Construction	-15.4	Indonesia Hotels & Rest	-4.1	Colombia Transport	0.2	Turkey Agri.	3.8	Philippiines Health	16.3
Argentina Domestic Serv.	-15.3	South Africa Mining	-4.1	Argentina Health Serv.	0.4	Mexico Wholesale	3.9	Chile Information	16.8
		South Africa Utilities	-4.1	Mexico Information Serv.	0.6	Argentina Agri.	4.0	Malaysia Insurance	17.3
		Mexico Education	-3.7	Saudi Arabia Utilities	0.8	Brazil Real Estate	4.0	Brazil Information	17.8
		Chile Hotels & Rest.	-3.5	Thailand Agri.	1.0	Chile Manuf.	4.0	Indonesia Comms.	18.0
		Brazil Manuf.	-2.8	Argentina Utilities	1.1	Colombia Utilities	4.2	Turkey Trade	18.9
				Poland Business Support	1.1	Malaysia Health	4.2	Chile Trade	20.1
				Brazil Agri.	1.1	Colombia Real Estate	4.3	Colombia Recreation	21.9
				Mexico Manuf.	1.3	Philippines Utilities	4.5	Turkey Financial Serv.	22.6
				Saudi Arabia Trade	1.4	Thailand Domestic Serv.	4.5	Turkey Manuf.	24.4
				Indonesia Manuf.	1.5	Indonesia Agri.	4.7	Indonesia Health	30.8
				Saudi Arabia Personal Serv.	1.5	Argentina Financial Serv.	4.8	Colombia Hotels & Rest.	37.3
				Indonesia Trade	1.6	Argentina Real Estate	5.1	Turkey Comms.	40.1
				South Africa Financial Serv.	1.8	Argentina Mining	5.1		
				Argentina Education	1.8	Indonesia Real Estate	5.2		
				Poland Trade	1.9	Colombia Prof. Serv	5.2		
						Thailand Water	5.2		
						Chile Agri.	5.2		
						India Utilities	5.6		
						Brazil Transport	5.6		
						Poland Public Serv.	5.6		
						Mexico Health	5.9		
						Chile Public Serv.	5.9		
						Mexico Agri	6.0		
						Chile Pers. Serv.	6.5		
						Chile Real Estate	6.7		
						Turkey Real Estate	6.8		
						India Agri	6.8		
						Colombia Financial Serv.	6.9		
						Saudi Arabia Manuf.	7.1		
						Thailand Comms.	7.1		
						Malaysia Motor Vehicles	7.1		
						Poland Real Estate	7.2		
						Malaysia Financial Serv.	7.8		
						India Manuf.	7.8		
						Argentina Construction	7.9		
						Brazil Construction	8.4		

Note: we used K-Means to categorize sectorial performance, based on their distance to their pre-pandemic level. Source: Haver Analytics, S&P Global Ratings

This product does not constitute a rating action.

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