

FUNDAMENTALS

GHANA'S FEBRUARY INFLATION: DECLINING IN DRIBS AND DRABS

**Head, Insights**

Courage Kingsley Martey

+233 240 970 832

Courage.martey@ic.africa

IN BRIEF

- Annual inflation declined for the second consecutive month to 52.8% in February 2023, albeit in dribs and drabs over the past two months.
- The decline in the year-on-year inflation was aided by moderation in price pressures for food items, although this was partly offset by an uptick in transport inflation in the month under review.
- We view the stable Cedi in recent weeks as favourable for lower energy prices with a potential to cap the upside scope for transport inflation and trigger a downturn in non-food inflation in the near-term.
- We also expect the benefit of a higher base effect to kickstart in March 2023 and intensify over the next 6-months. Consequently, we perceive scope for a faster decline in headline inflation over the next few months, potentially dropping below 50% in March 2023 and towards the high-30% area by mid-year.

Transport inflation dulls the impact of easing food price pressures

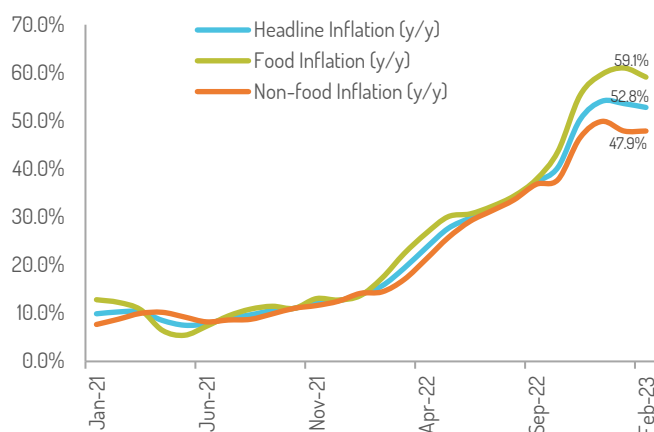
Annual inflation declined for the second consecutive month, in February 2023, albeit in dribs and drabs over the past two months. Headline inflation ticked lower by 80bps to 52.8% y/y in February 2023, slightly above the market consensus forecast of 52.2%. The decline in the year-on-year inflation was aided by moderation in price pressures for food items, although this was partly offset by an uptick in transport inflation in the month under review.

Food inflation slowed by 190bps to 59.1% y/y in February 2023, weighed down by declines in inflation for heavily-weighted items such as fish & other seafoods (61.1% \downarrow -620bps), vegetables & tubbers (33.8% \downarrow -70bps) and ready-made food (63.3% \downarrow -40bps). Non-food inflation was unchanged at 47.9% y/y in February 2023 as a 150bps increase in transport inflation (70.3%) was offset by a similar decline in inflation for utilities to 69.6%.

On a month-on-month basis, inflation inched up 20bps to 1.9% in February 2023 as transport inflation quickened to 2.4% m/m to sharply reverse the negative print in January 2023.

We believe the rise in both year-on-year and month-on-month transport inflation was occasioned by the hike in petrol price in the February 2023 CPI data window. During the CPI data window, the price of petrol increased by 17.3% to GHS 15.25/litre (+98.4% y/y), elevating commercial and private transport costs over the period.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

The recent FX stability bodes well for sustained decline in inflation

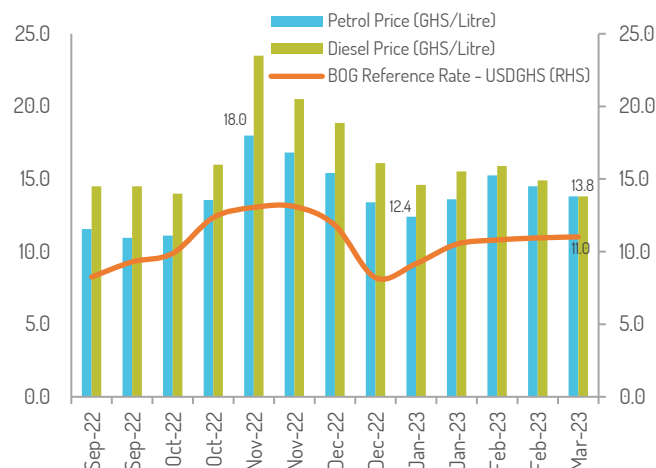
The Ghanaian Cedi has enjoyed consistent improvements in its performance against the US Dollar in recent weeks, following the

20.6% depreciation endured in January 2023. In February 2023, the Cedi weakened modestly by 1.9% on the BOG reference rate and 6.0% on the retail FX rate. The Cedi's performance markedly improved in the first 2-weeks of March 2023, remaining flat on the BOG reference rate and appreciating by 4.3% month-to-date on the retail rate.

Overall, the Ghanaian Cedi appears more stable in recent weeks, moving within a tight band and capping price expectations of investors, businesses and consumers. As a result, we observed a marginal decline in inflation for both imported items (62.3% \downarrow -20bps) and locally produced goods (49.0% \downarrow -100bps) in February 2023. We expect continued stability of the Ghanaian Cedi to sustain the downward pressure on inflation for imported items, which currently stands at 1.3x inflation for locally produced goods.

Furthermore, we view the stable Cedi as favourable for lower energy prices with a potential to cap the upside scope for transport inflation and trigger a downturn in non-food inflation. After declining by 200bps in January 2023 on the back of lower transport inflation, non-food inflation remained unchanged at 47.9% in February 2023 as transport inflation ticked higher. So far, we observed a 7.3% decline in ex-pump price of petrol to GHS 13.8/litre on the back of favourable global prices and a better FX outturn. This should deepen the downward pressure on non-food and headline inflation rates, albeit mindful of the upside risk from the utility tariff hikes implemented in early February 2023.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



SOURCES: GHANA OIL COMPANY LIMITED, BANK OF GHANA, IC INSIGHTS

A favourable base effect should kickstart in the near-term

After a year of Russia's invasion of Ukraine and the initial price shocks, we believe the spill over effects have completely decayed and we are set to observe the impact of a higher base effect from last year. We expect the benefit of a higher base effect to kickstart

with the inflation print for March 2023 and intensify over the next 6-months.

Consequently, we perceive scope for a faster decline in headline inflation over the next few months, potentially dropping below 50% in March 2023 and towards the high-30% area by mid-year.

On a cautious note, the expected passage of the Growth and sustainability Levy Bill will broaden the scope of taxpaying entities and pose a modest upside risk to inflation. Additionally, we believe the consideration by Ghanaian authorities to re-introduce road toll fees with a possible average increase of 88% could elevate the upside risk to transport and non-food inflation. However, we remain confident that the downward pressure from a favourable base effect in 2Q2023 will be too strong for any policy-induced upward pressure in the near-term.

Consequently, we expect a sharper decline in headline inflation to 49.7% in March 2023 as lower energy prices and food inflation offsets any lagged upward pressure from the utility tariff hike in February 2023.



For more information contact your IC representative

Business development & client relations

Derrick Mensah

Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

Dora Youri

Head, Wealth Management
+233 23 355 5366
dora.youri@ic.africa

Kelvin Quarley

Analyst, Business Development
+233 57 604 2802
kelvin.quarley@ic.africa

Corporate Access

Joanita Hotor

Corporate access
+233 50 137 6100
Joanita.hotor@ic.africa

Insights

Courage Kingsley Martey

Head, Insights
+233 240 970 832
courage.martey@ic.africa

Churchill Ogutu

Economist
+254 711 796 739
churchill.ogutu@ic.africa

Lydia Adzobu

Senior Analyst, Financial sector
+233 24 656 8669
Lydia.adzobu@ic.africa

Investing

Isaac Adomako Boamah

Chief Investment Officer
030 225 2623
isaac.boamah@ic.africa

Obed Odenteh

Portfolio Manager, Fixed Income
+233 54 707 3464
obed.odenteh@ic.africa

Timothy Schandorf

Portfolio Manager, Risk Assets
+233 24 292 2154
Timothy.schandorf@ic.africa

Herbert Dankyi

Analyst, Rates
+233 55 710 6971
herbert.dankyi@ic.africa

Clevert Boateng

Analyst, Consumer, Technology,
Media & Telecommunication
+233 24 789 0452
clevert.boateng@ic.africa

Operations

Nana Amoa Ofori

Chief Operating Officer
+233 24 220 6265
nanaamoa.ofori@ic.africa

Emmanuel Amoah

Fund Administrator
+233 20 847 2245
emmanuel.amoah@ic.africa

Kelly Addai

Fund Accountant
+233 20 812 0994
kelly.addai@ic.africa

Trading

Randy Ackah-Mensah

Head, Global Markets
+233 24 332 6661
randy.amensah@ic.africa

Allen Anang

Equities, Trader
+233 54 084 8441
allen.anang@ic.africa

Isaac Avedzidah

Trader, Fixed Income
+233 24 507 7382
isaac.avedzidah@ic.africa

Terms of use - disclaimer - disclosure

This communication is from the Insights desk of IC Asset Managers (Ghana) Limited, a member of IC Group (IC). The message is for information purposes only and it is subject to change as it is only indicative and not binding. It is not a recommendation, advice, offer or solicitation to buy or sell a product or service nor an official confirmation of any transaction. It is directed at both professionals and retail clients. This message is subject to the terms and conditions of IC Group. IC is not responsible for the use made of this communication other than the purpose for which it is intended, except to the extent this would be prohibited by law or regulation. All opinions and estimates are given as of the date hereof and are subject to change. IC is not obliged to inform investors of any change to such opinions or estimates. The views are not a personal recommendation and do not consider whether any product or transaction is suitable for any particular type of investor.