

## FUNDAMENTALS

# GHANA'S APRIL 2023 INFLATION: CUT THE MUSTARD

**Head, Insights**

Courage Kingsley Martey

+233 240 970 832

Courage.martey@ic.africa

## IN BRIEF

- The downshift in Ghana's headline inflation continued in line with our expectations for the April 2023 outturn, falling 380bps to 41.2% y/y in the month under review (IC Insights: 41.3% | Market Consensus: 39.8%).
- Similar to the previous month, the fall in headline inflation for April 2023 was supported by declines in both food and non-food inflation rates. Despite the decline in food inflation, we observed a relative flattening of the food inflation curve compared to the previous three months as inflation for other food items ticked higher
- We believe the lower fuel prices in April 2023 reflected the lagged impact of the Cedi's appreciation in March 2023 and provided a slippery slope for non-food inflation over the past 2-months.
- Our outlook on inflation remains unchanged with the ongoing disinflation expected to persist until year-end (FY2023: 23.7%  $\pm$  100bps). Taken together, we believe the favourable exchange rate outlook and the subdued energy prices on the global market will combine to sustain the disinflation until FY2023.
- However, the near-term outlook appears slightly dampened by the elevated price expectations from the new taxes and the seasonality in prices of some food items. The food price seasonality and new taxes could slow the pace of disinflation over the next 3-months.

## A downshift as expected

The downshift in Ghana's headline inflation continued in line with our expectations for the April 2023 outturn. Headline inflation for April 2023 came in at 41.2% y/y, falling 380bps below the March 2023 level (IC Insights: 41.3% | Market Consensus: 39.8%).

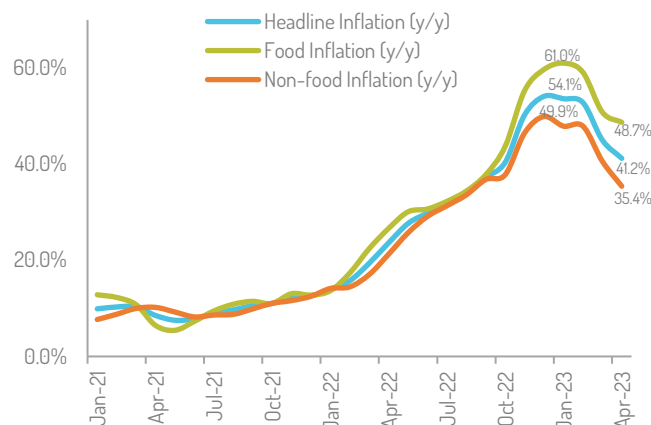
The latest outturn marks the fourth successive month of an ongoing slowdown in year-on-year price increases and the second straight month of a sharp decline in Ghana's annual inflation rate. In our view, the 4<sup>th</sup> successive decline supports the perception that Ghana is firmly on the path of disinflation while the 2<sup>nd</sup> straight month of a sharp deceleration underscores the drag from a favourable base drift effect.

Similar to the previous month, the fall in headline inflation for April 2023 was supported by declines in both food and non-food inflation rates. Food inflation dropped to 48.7% y/y (-210bps), suppressed by moderations in inflation for key items such as Ready-made food (45.2% | -990bps), Cereals (62.9% | -590bps), Oil & fats (53.2% | -320bps), and Milk & eggs (61.8% | -1,140bps).

Despite the decline in food inflation, we observed a relative flattening of the food inflation curve compared to the previous three months as inflation for other food items ticked higher. Notably, we observed an uptick in inflation for vegetables & tubers (31.1% | +530bps) as well as fish & other seafoods (58.3% | +310bps). In our view, the price pressures for these agrarian outputs reflect the prevailing lean fishing and planting seasons in Ghana, with the next harvest season expected between July – September 2023. We thus view this seasonality as a potential force which could slow the pace of disinflation over the next 3-months.

On a month-on-month basis, the surprise deflation witnessed in March 2023 was reversed to a m/m price increase of 2.4%. This was largely due to food price inflation of 4.3% m/m, driven by the inflation for vegetables & tuber (7.3% m/m).

### DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

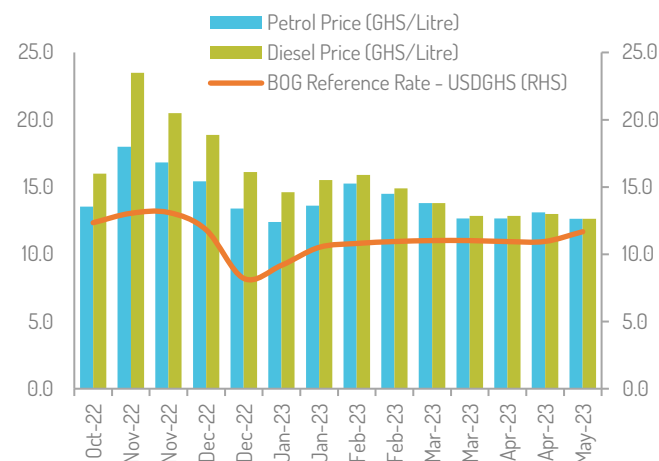
## Non-food inflation slides on slippery oil prices

While the decline in headline inflation was helped by easing price pressures for both food and non-food items, a 2<sup>nd</sup> consecutive month of sharp moderation in non-food inflation exerted a greater drag on the headline rate.

Non-food inflation plunged by 520bps to 35.4% y/y, on the back of a 950bps slump in Transport inflation to 42.5% y/y as well as a 570bps drop in the inflation for Utilities, gas & other fuel to 59.0%.

Our review of domestic fuel price developments showed an 8.3% decline in the ex-pump price of petrol while the price of diesel fell by 7.0% during the April 2023 CPI data window. We believe the lower fuel prices in April 2023 reflected the lagged impact of the Cedi's appreciation in March 2023 and provided a slippery slope for non-food inflation over the past 2-months. This further translated into a month-on-month deflation for transport fares (-1.1% m/m), ostensibly reflecting lower transport charges by the non-unionized segment of commercial transport operators and the transport expense of businesses in April 2023.

### EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



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

## Disinflation will continue, but at a modest pace over the next 3-months

Our outlook on inflation remains unchanged with the ongoing disinflation expected to persist until year-end (FY2023: 23.7% ± 100bps).

The tailwind for our downside view includes continued stability of the Ghanaian Cedi, which could strengthen marginally, driven by positive news when Ghana's IMF programme request is approved by end 2Q2023. Additionally, Brent crude oil has lost ≈13.0% in the past 1-month, currently trading at ≈USD 76pb as markets price-in weaker demand from a potential US recession. Taken together, we believe the favourable exchange rate outlook and the subdued energy prices on the global market will combine to sustain the disinflation until FY2023. By late 3Q2023 and mid-

4Q2023, we anticipate food harvest and a favourable base effect to respectively provide further support for the disinflation.

However, the near-term outlook appears slightly dampened by the elevated price expectations from the new taxes and the seasonality in prices of some food items such as vegetables & tubers as well as fish and other seafoods. Our gauge of producers' sentiments around the increased excise duty on sweetened beverages, spirits, and wines indicates a potential cascading price effect of between 20.0% – 30.0%.

With the extension of the Growth and Sustainability Levy (GSL) to include previously non-covered entities (2.5% of profit-before-tax), we expect the higher excise duty and the amended GSL to elevate price expectations in the near-term. While the authorities could begin implementing the new taxes by June 2023, we believe some producers probably started a gradual adjustment to prices from May 2023 in anticipation of the new taxes. In our view, these sequential price pressures could slow down the pace of disinflation over the next 3-months. Consequently, we expect a modest decline in headline inflation to 40.1% in May 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 Quartey

Analyst, Business Development  
+233 57 604 2802  
kelvin.quartey@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

#### Obad Odenteh

Portfolio Manager, Fixed Income  
+233 54 707 3464  
obad.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

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