GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S MAY 2023 INFLATION: SURPRISED BUT NOT SHOCKED

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IN BRIEF

- Headline inflation surprised to the upside with a 100bps uptick to 42.2% year-on-year in May 2023, against the average market expectation of 37.0% (IC Insights: 40.1%).

- The rise in headline inflation was driven by a 310bps surge in food inflation to 51.8% y/y, accounting for more than half of the headline rate in the month under review. Non-food inflation however inched down by 80bps to 34.6% y/y.

- While the 100bps increase in headline inflation was unexpected, we were not shocked by the outturn as our April 2023 inflation update – Cut the Mustard – already flagged the elevated near-term risk. Specifically, we flagged the price effects of the new taxes and the unfavourable seasonality in agrarian output at this time of the year as upside risk which we expected to slow the disinflation rather than reverse the downturn.

- We took a closer look at the non-food inflation dynamics and observed that the 80bps decline in the non-food inflation rate may have concealed the rise in inflation for some services. Discounting the downshift in inflation rate for utilities, housing, gas & other fuels suggests that core inflation, which reflects underlying price pressures, probably went up in line with headline inflation for May 2023.

- With lagged impact of the higher taxes, recent hike in utility tariffs, and the elevated services and food price pressures, we do not rule out a marginal uptick in headline inflation in June 2023. However, we remain confident that the softening demand conditions and the relatively stable GHS around the high 11.0/USD amidst the downward pressure on global oil prices will cap the domestic price pressures.

An upside surprise in May 2023

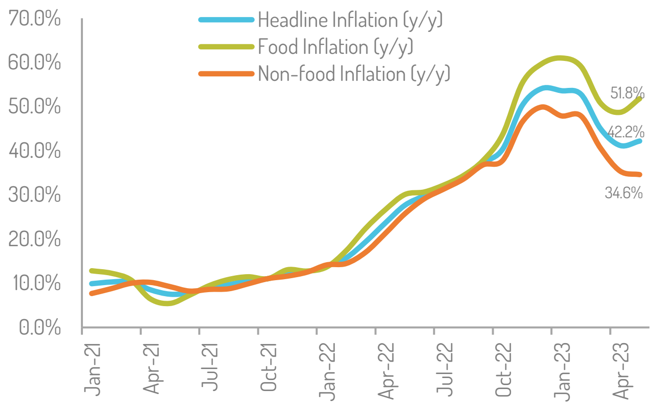
Ghana's disinflation momentum suffered a setback in May 2023 after four consecutive months of declines in headline inflation raised market expectations of sustained cooling of price pressure. Headline inflation surprised to the upside with a 100bps uptick to 42.2% y/y in May 2023, against the average market expectation of 37.0% (IC Insights: 40.1%).

The rise in headline inflation was driven by a 310bps surge in food inflation to 51.8% y/y, accounting for more than half of the headline rate in the month under review. Notably, we observed increases in inflation for Fish & other seafoods (62.9% I +4.6pp), Vegetables & tubers (35.9% I +4.8pp), Sugar, confectionery & desserts (58.8% I +2.1pp), as well as Tea & related products (114.8% I +32.5pp).

Non-food inflation expectedly inched down by 80bps to 34.6% as declines in inflation for the heavily-weighted Transport (36.9% I -5.6pp) and Utilities, housing, gas & other fuels (54.0% I -5.0pp) outweighed upticks in inflation for some services.

On a month-on-month basis, inflation doubled in May 2023 to hit 4.8% m/m (vs 2.4% in April 2023), indicating renewed upward pressure on general price levels.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Unexpected but not shocked

While the 100bps increase in headline inflation was unexpected, we were not shocked by the outturn as our April 2023 inflation update – Cut the Mustard – already flagged the elevated near-term risk. This higher risk perception, albeit underestimated, underpinned our more conservative forecast decline of 110bps (vs the average market expected decline of 420bps).

Specifically, we flagged the price effects of the new taxes and the unfavourable seasonality in agrarian output as upside risk which we expected to slow the disinflation rather than reverse the downturn. Unsurprisingly, the upsurge in food inflation reflected the combined impact of the new taxes on both sweetened and unsweetened beverages as well as the lean supply of agrarian products.

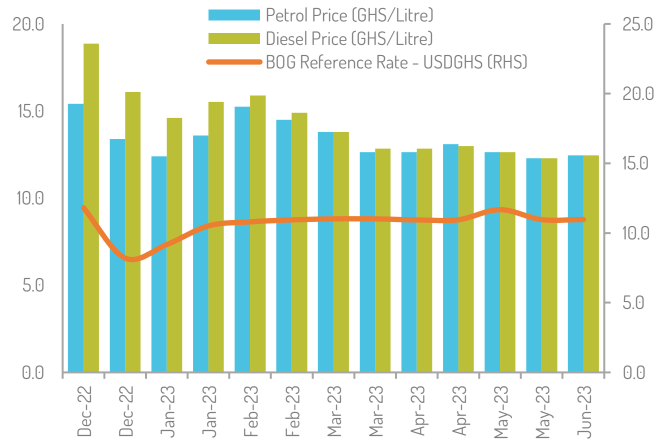
The doubling of the month-on-month inflation in May 2023 emphasizes the unfavourable price effect of the new taxes amidst the seasonality in agricultural supply. In our view, this pressure could linger over the next 2-months mainly due to our expectation that producers and distributors would stagger the price adjustment amidst the softening demand conditions.

Looking under the hood for core inflation

We took a closer look at the non-food inflation dynamics and observed that the 80bps decline in the non-food inflation rate may have concealed the rise in inflation for some services. Notably, we observed higher inflation for Education services (10.5% I +3.4pp), Health (33.6% I +4.9pp), Personal care (53.4% I +4.9pp), Recreation (29.2% I +2.1pp), as well as Information & communication (16.1% I +2.1pp).

Our analysis revealed that these services items account for more than one-third of the 56.3% weight assigned to the non-food inflation group. Discounting the downshift in inflation rate for utilities, housing, gas & other fuels suggests that core inflation, which reflects underlying price pressures, probably went up in line with headline inflation for May 2023.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



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

We do not rule out another uptick in June

Consistent with our view that the near-term outlook is clouded by elevated price expectations from the IMF-supported price-sensitive measures, we foresee a spillover of price pressures into June 2023. We believe producers and distributors are in the process of gradual price adjustments to reflect the impact of the new taxes which took effect on 01 May 2023. Furthermore, the Public Utilities Regulatory Commission (PURC) hiked tariffs for electricity (18.4%) and water (9.0% – 15.0% across residential and non-residential consumers) with effect from 01 June 2023.

With lagged impact of the higher taxes, recent hike in utility tariffs, and the elevated services and food price pressures, we do not rule out a marginal uptick in headline inflation in June 2023. However, we remain confident that the softening demand conditions and the relatively stable GHS around the high 11.0/USD amidst the downward pressure on global oil prices will cap the domestic price pressures. In view of the slightly higher upside risk, we forecast a 50bps uptick in year-on-year inflation to 42.7% while the month-on-month inflation slows to 3.4% in June 2023.

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