GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S JUNE 2023 INFLATION: FEELING THE PAIN POINTS

13 JULY 2023

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IN BRIEF

- Headline inflation came in close to our expectation with a 30bps uptick in the annual rate to 42.5% y/y in June 2023 (IC Insights: 42.7% I average market expectation: 40.8%). The month-on-month inflation softened to 3.2% in June 2023 (IC insights: 3.4%) compared to 4.8% m/m in May 2023.

- The stronger annual inflation was due to a second consecutive month of upsurge in food inflation, which accelerated by 240bps to 54.2% y/y, despite a 120bps decline in non-food inflation to 33.4% y/y.

- We disaggregated the headline inflation trend and found comfort in the soothing effect of a declining non-food inflation over the past 6-months. However, we observed that food inflation has started to diverge from the non-food inflation group. The consecutive rise in food inflation over the past 2-months resulted in increases in the annual headline inflation rate over the same period.

- As the harvest season looms in 3Q2023 amidst the diminishing impact of the new taxes, we expect improved agrarian supplies to soothe the pain points in food inflation in the months ahead. Our expected return to the path of disinflation in 3Q2023 hinges on less disruptive increases in global and domestic energy prices as well as less aggressive tax hikes during the upcoming mid-year budget review later in July 2023.

- For the July 2023 inflation outlook, we expect headline inflation to moderate both at the year-on-year and the month-on-month levels due to favourable trailing energy prices and moderating pace of increase in food inflation. Against this backdrop, we expect a decline in year-on-year inflation to 41.7% while the month-on-month inflation cools further to 2.5% in July 2023.

Stronger annually......Softer monthly

Headline inflation came in close to our expectation with a 30bps uptick in the annual rate to 42.5% y/y in June 2023 (IC Insights: 42.7% I average market expectation: 40.8%). The month-on-month inflation softened to 3.2% in June 2023 (IC insights: 3.4%) compared to 4.8% m/m in May 2023.

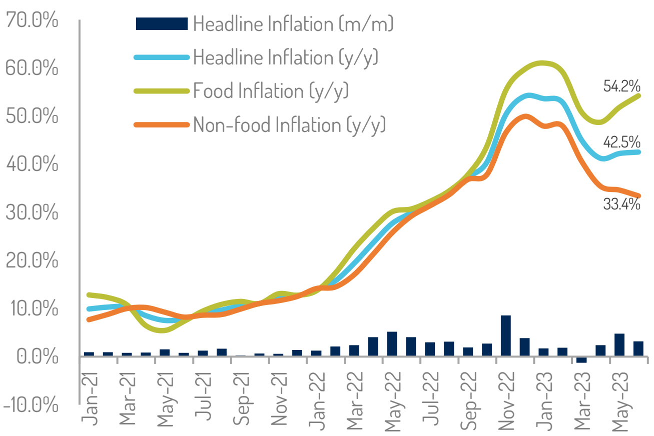
The stronger annual inflation was due to a second consecutive month of upsurge in food inflation, which accelerated by 240bps to 54.2% y/y, despite a decline in non-food inflation.

In line with the generally stable FX and domestic petroleum prices with a downside bias over the past 4-months, non-food inflation declined by 120bps to 33.4% y/y. The main downside drivers of non-food inflation were heavy-weights such as Housing, utilities, & fuel (49.2% y/y I -480bps), Transport (32.3% y/y I -460bps), Clothing & footwear (33.9% y/y I -10bps), and Restaurant & accommodation services (4.7% y/y I -120bps).

Although the 2nd quarter hike in utility tariffs took effect on 1st June 2023 with upside risk, we believe the downward pressure from energy prices during the CPI data window influenced the downshift in inflation for Housing, utilities, & fuel. We also believe the effective date for the new tariff accounted for only one week within the June 2023 CPI data, which muted the upside effect of the tariff hike.

Notwithstanding the cooling inflation for the heavily-weighted items, we observed upticks in some moderate- to low-weight non-food items such as Education services (14.3% y/y I +380bps), and Alcoholic beverages, tobacco, & narcotics (43.9% y/y I +180bps). We believe the rise in inflation for Alcoholic beverages, tobacco, & narcotics reflect the lagged impact of the excise tax on health-harming commodities, which took effect in May 2023.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Food inflation remains the pain point

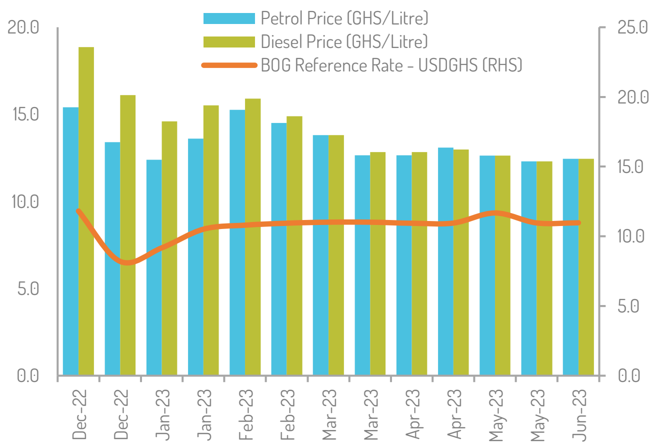
We disaggregated the headline inflation trend and found comfort in the soothing effect of a declining non-food inflation over the past 6-months. However, we observed that food inflation has started to diverge from the non-food inflation group. While remaining above non-food inflation but moving in a similar trend since February 2022, food inflation assumed an upturn in the past two consecutive prints. This upturn widened the divergence from the non-food rate by 20.8pp in June 2023 (vs 2.9pp in Feb-2022).

The consecutive rise in food inflation over the past 2-months resulted in increases in the annual headline inflation rate over the same period. As indicated in our previous inflation updates, we believe the upward pressure on food inflation emanates from the lean supply of agricultural produce as Ghanaian farmers await the start of crop harvest in 3Q2023. Specifically, we observed uptick in inflation for heavy-weights such as Vegetables & tubers (40.8% y/y I +490bps), Ready-made food (45.2% y/y I +140bps), as well as Cereal & cereal products (62.4% y/y I +40bps).

We foresee a harvest-induced relief ahead

As the harvest season looms in 3Q2023 amidst the diminishing impact of the new taxes, we expect improved agrarian supplies to soothe the pain points in food inflation in the months ahead. We anticipate the harvest for yam, maize, millet, and rice to start in July/August 2023 with positive spillovers for poultry and dairy products. Given the significant weights of these items in food consumption expenditure, we foresee a moderation in food inflation in 3Q2023. The start of the annual closed season for artisanal and industrial fishing from 1st July – 31st August 2023 could pose upside risk to inflation for fish & other seafood. However, we expect the impact to be modest as artisanal fishing will resume by end-July 2023 with expected supply support to cap the upward pressure from August 2023.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



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

.... Subject to well-contained energy prices

Our expected return to the path of disinflation in 3Q2023 hinges on less disruptive increases in global and domestic energy prices as well as less aggressive tax hikes during the upcoming mid-year budget review later in July 2023.

Following the extension of voluntary cut in oil output by Saudi Arabia and Russia amidst unexpected drawdown in US crude oil inventories in the past 2-weeks, Brent oil price surged near USD 80pb as of 12th July 2023. While this level remains below its mid-April 2023 peak of USD 87pb, unanticipated shocks to global energy supply with a stronger-than-expected Chinese demand could test the April peak and pose upside risk to domestic non-food inflation.

For the July 2023 inflation outlook, we expect headline inflation to moderate both at the year-on-year and the month-on-month levels. The relatively stable ex-pump prices of petrol and diesel with a marginal decline during the July 2023 CPI data window should offset any lagged upside risk from the higher utility tariff. Although food prices remain a source of upside risk to headline inflation, we foresee a more modest increase in the food price index potentially tipping food inflation lower in July 2023. Against this backdrop, we expect a decline in year-on-year inflation to 41.7% while the month-on-month inflation cools further to 2.5% in July 2023.

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