GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S JULY 2023 INFLATION: TRAPPED IN A TWILIGHT ZONE

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IN BRIEF

- Headline inflation came in at 43.1% y/y (+60bps) in July 2023, above our expectation of 41.7% and the average market consensus of 41.4%. Adjusting for the favourable base effect in March and April 2023, we opine that Ghana is yet to turn the corner on inflation as price pressures remain elevated and the recent upticks revive sentiments of near-term uncertainty.

- The rise in annual inflation was occasioned by an 80bps upsurge in food inflation to 55.0% y/y, and further amplified by a 40bps rise in non-food inflation to 33.8% y/y.

- We believe the rising inflation for alcoholic beverages, tobacco, and narcotics reflects the steady pass-through of the May 2023 hike in excise tax on health-harming products. Furthermore, we observe a renewed upturn in inflation for services items since May 2023, implying that the four successive months of decline in non-food inflation was underpinned by the lower energy prices. Deductively, we opine that core inflation has also been on the upward trend in lockstep with headline inflation in the past three months.

- The renewed increase in energy prices will combine with upward pressure on other components to pose an upside risk to non-food and annual headline inflation in August 2023. While the diminishing impact of earlier taxes could cap the upside, we think the relatively higher weights of utilities & energy and transport inflation would be too strong to tame, in the August 2023 inflation print.

- Our updated forecast shows a 150bps decline in the m/m headline inflation to 2.1% in August 2023. However, the recent upturn in energy prices will sustain the rise in the annual inflation rate in August 2023 with a potential to hit 43.3% y/y (+20bps). For the remainder of 2023, we maintain our expectation for a favourable base effect in 4Q2023 to pull down y/y inflation to the low-30% handle (vs high-20% levels previously forecasted).

Renewed price uncertainty

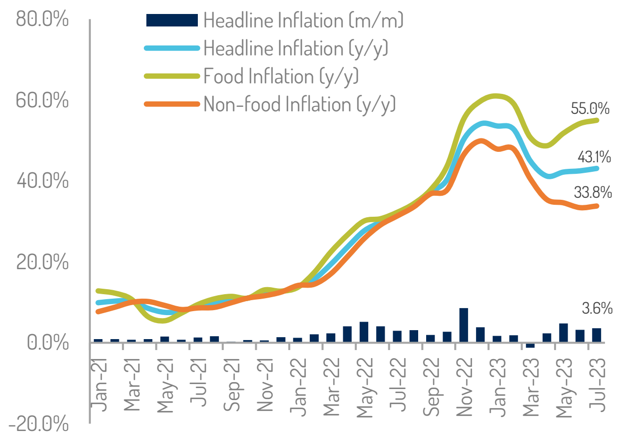
Ghana's consumer price inflation appears trapped in ambiguity around its near-term path as renewed pressure on non-food prices in July 2023 has amplified the lingering food price pressures. Headline inflation came in at 43.1% y/y (+60bps) in July 2023, above our expectation and the market consensus (IC Insights: 41.7% | Average market expectation: 41.4%). The latest increase represents the third consecutive month of increases in annual CPI inflation, following the sharp drop witnessed in March and April 2023. Adjusting for the favourable base effect in March and April 2023, we opine that Ghana is yet to turn the corner on inflation as price pressures remain elevated while the recent upticks revive sentiments of near-term uncertainty.

On a month-on-month basis, headline inflation edged up 40bps to 3.6%, on the back of a surge in non-food inflation to 3.4% m/m (vs 2.6% in June 2023). However, food inflation showed a ray of hope for the near-term with a 10bps downtick to 3.8% m/m.

The rise in annual inflation was occasioned by an 80bps upsurge in food inflation to 55.0% y/y, which was amplified by a 40bps rise in non-food inflation to 33.8% y/y.

As observed in recent CPI data, the year-on-year food inflation was driven by sustained pressures on prices of heavily-weighted agrarian products and imported food items. Inflation for vegetables and tubers rose to 41.5% (+70bps), cereal and cereal products surged 180bps to 64.2% y/y while oil & fats (59.5%) as well as milk & other dairy products (58.3%) increased by 440bps and 180bps, respectively. In our view, this y/y price pressure reflects the lingering impact of lean agrarian supplies ahead of the crop harvest season, supply chain issues, and El Nino-induced shocks to global food prices, which pushed up both domestically-produced and imported food prices.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Upturn in non-food inflation is an upside risk

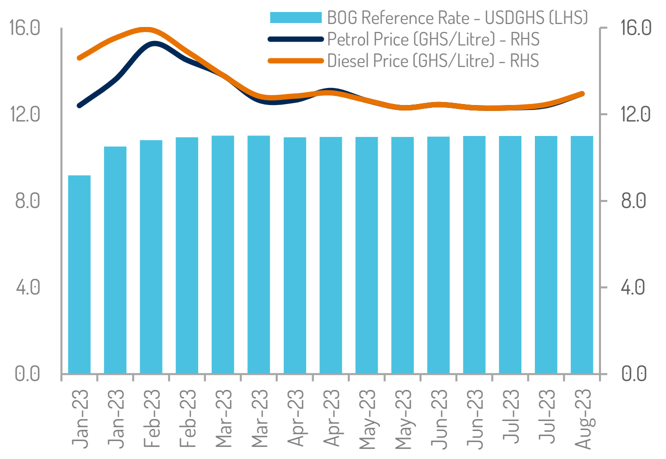
After four consecutive months of decline, non-food inflation expectedly ticked higher in July 2023 despite the relative stability in domestic fuel prices during the CPI data window. We observed moderating impact from inflation for transport (28.5% y/y) as well as utilities & energy (47.4%), which declined by 380bps and 180bps, respectively. However, non-food inflation was propelled by a surge in inflation for alcoholic beverages, tobacco and narcotics (48.7% y/y | +480bps), education services (17.0% y/y | +270bps), clothing and footwear (36.2% y/y | +230bps), and information and communication (22.6% y/y | +100bps).

We believe the rising inflation for alcoholic beverages, tobacco, and narcotics reflects the steady pass-through of the May 2023 hike in excise tax on health-harming products. Furthermore, we observe a renewed upturn in inflation for services items since May 2023, implying that the four successive months of decline in non-food inflation was underpinned by the lower energy prices. Deductively, we opine that core inflation has also been on the upward trend in lockstep with headline inflation in the past three months.

We see further risk from higher energy prices

In the four months to June 2023, we observed that the decline in non-food inflation was mainly anchored on lower energy prices on the global and domestic markets. However, we see emerging upside risk to non-food inflation in the near-term as Brent crude oil jumped above USD 87 per barrel to a four month high as of 9th August 2023. In line with this, domestic ex-pump prices climbed 5.3% during the August 2023 CPI data window with both petrol and diesel priced at GHS 12.95/litre. These higher energy prices will combine with upward pressure on other components to pose an upside risk to non-food and headline inflation in August 2023. While the diminishing impact of earlier taxes could cap the upside, we think the relatively higher weights of utilities & energy, and transport inflation would be too strong to tame in the next print.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



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

A glimmer of hope for food inflation

The marginal decline of 10bps in the m/m food inflation to 3.8% in July 2023 ostensibly reflects the start of crop harvest as m/m inflation for vegetables and tubers declined to 4.8% (-90bps). As the crop harvest deepens into 3Q2023, we expect a dampening in the price pressures, with the m/m inflation potentially easing further in August 2023 before dragging down the y/y rate in late 3Q2023.

Consequently, our updated forecast shows a 150bps decline in the m/m headline inflation to 2.1% in August 2023. However, the recent upturn in energy prices will sustain the rise in the annual inflation rate in August 2023 with a potential to hit 43.3% y/y (+20bps).

For the remainder of 2023, we maintain our expectation for a favourable base effect in 4Q2023 to pull down y/y inflation to the low-30% handle (vs high-20% levels previously forecasted). This should however be preceded by the benefit of food harvest with its stronger impact potentially weighing down annual inflation in September 2023 ahead of the favourable base effect in 4Q2023.

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