GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S AUGUST 2023 INFLATION:
COMING IN FROM THE COLD

14 SEPTEMBER 2023

Head, Insights
Courage Kingsley Martey
+233 240 970 832
Courage.martey@ic.africa

IN BRIEF

- Following three consecutive months of upsurge, annual headline inflation came in lower and refreshing in August 2023, boosting our optimism for cooling price pressures in the months ahead. Headline inflation unexpectedly declined by 300bps to 40.1% y/y in August 2023, dragged down by a slide in food and non-food inflation rates.

- Food price inflation provided the major source of cheer, declining by 310bps to 51.9% y/y while Non-food inflation added further downward momentum with a 290bps unexpected decline to 30.9% y/y in August 2023

- As anticipated in our inflation note for June 2023 – Feeling the Pain Points – we believe the resumption of artisanal fishing supported the supply of fish stock in August 2023 after the closed season ended on 31 July 2023. We also believe the soothing effects of an improved exchange rate combined with the onset of crops and fish harvest as well as the diminishing impact of recent taxes dragged down inflation in August 2023.

- Global energy prices have endured renewed upward pressure in the past couple of months, seemingly closing the door on a quick return to disinflation from this quarter. However, we believe the ongoing harvest amidst a stable FX has opened another door to disinflation from this point onwards, barring unanticipated price shocks.

- We believe the positive FX sentiments will limit the potential upside risk induced by higher energy prices and utility tariff hike in the September window amidst continued decline in food inflation. Consequently, we forecast annual headline inflation at 38.4% y/y in September 2023 and the month-on-month inflation at 2.1%. In 4Q2023, we expect the return of favourable base effect on the back of a stable FX to quicken the pace of disinflation in the annual headline inflation rate, potentially closing between 29.7% and 31.7% by FY2023.

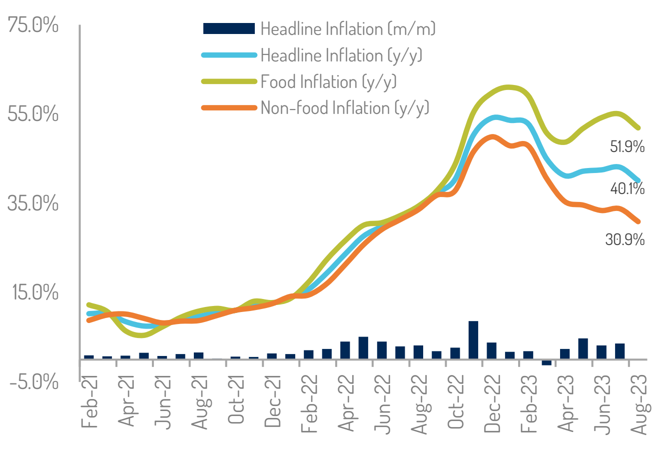
Down and refreshing

Following three consecutive months of upsurge, consumer price inflation came in lower and refreshing in August 2023, boosting our optimism for cooling price pressures in the months ahead. Headline inflation unexpectedly declined by 300bps to 40.1% y/y in August 2023, dragged down by a slide in food and non-food inflation rates. The latest inflation rate marks the lowest level in ten months, after enjoying a favourable base effect in March and April 2023, and represents a 14.0pp decline year-to-date.

Food price inflation provided the major source of cheer, declining by 310bps to 51.9% y/y and reversing half of the cumulative rise in the previous three months. The main food inflation coolants were heavy-weight sub-groups such as Cereal (58.9% y/y | -530bps), Fish & other seafood (52.0% y/y | -570bps), Live and slaughtered parts of land animals (52.9% y/y | -230bps), and Oil & fats (51.6% y/y | -790bps). As anticipated in our inflation note for June 2023 – [Feeling the Pain Points] – we believe the resumption of artisanal fishing supported the supply of fish stock in August 2023 after the closed season ended on 31 July 2023. We also expected the onset of crop harvest to tame the food price pressures, which was more visible in the month-on-month CPI data than the year-on-year price information.

Non-food inflation added further downward momentum with a 290bps unexpected decline to 30.9% y/y in August 2023. We expected the 5.3% rise in ex-pump petroleum prices during the August CPI data window to culminate in a second successive uptick in non-food inflation via higher transport, and Gas & other fuel inflation. However, we observed a 210bps drop in transport inflation (26.4% y/y) and a 550bps decline in inflation for Utilities, gas & other fuels (42.2% y/y). Reassuringly, we also observed lower inflation for other key sub-groups of non-food inflation.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

The calming effects of a stable FX

In our view, the decline in both food and non-food inflation rates also reflects the calming effects of an improved exchange rate observed during the August 2023 CPI data window. Our analysis of the FX dynamics revealed a gain of 1.3% for the Ghanaian Cedi against the US Dollar during the August price data window (vs a 7.3% depreciation in the same period last year). Unsurprisingly, inflation for imported items (36.2% y/y) came in below inflation for locally produced items (42.4% y/y), for the first time since March 2022.

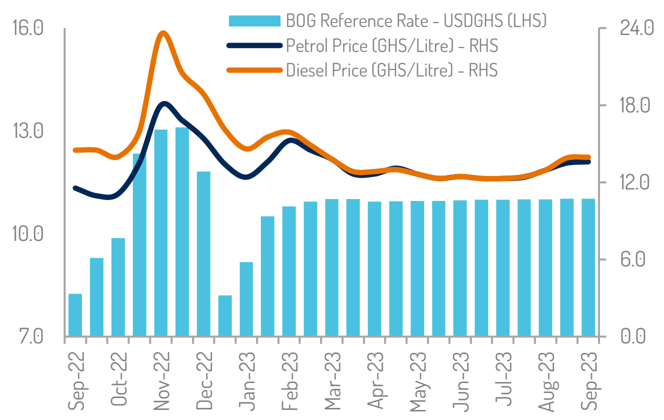
On a month-on-month basis, the Ghanaian Cedi was also stronger in the August CPI window. We believe the soothing effects of an improved exchange rate combined with the onset of crops and fish harvest as well as the diminishing impact of recent tax hikes to churn out a deflation of 0.2% m/m in August 2023.

When one door is closed, another is open

Global energy prices have endured renewed upward pressure in the past couple of months, seemingly closing the door on a quick return to disinflation from this quarter. Brent crude price jumped above USD 92pb as of 13 September 2023 (+27.9% since late June 2023) as tightening supply conditions tip the oil market into deficit. The renewed increase in global and domestic energy prices will pose an upside risk to headline inflation via transport, and utilities inflation.

However, we believe many more doors are opening the path to disinflation from this point onwards, barring unanticipated price shocks. For the September 2023 CPI data, we expect the ongoing crops and fish harvest to sustain the decline in food inflation. The closed season for industrial fishing expired on 31 August 2023 and we expect its re-opening to combine with the supply from artisanal fishing to sustain the lower food inflation. We also expect the ongoing harvest of vegetables and tubers to pull down the year-on-year inflation for this sub-group in September 2023 as observed for the month-on-month outturn in August 2023.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



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

The Cedi's stability remained generally intact during the CPI data monitoring window for September 2023. We believe the positive FX sentiments will limit the potential upside risk induced by the energy prices and utility tariff hike in the September window. Consequently, we forecast annual headline inflation at 38.4% y/y in September 2023 and the month-on-month inflation at 2.1%.

In 4Q2023, we expect the return of favourable base effect on the back of a stable FX to quicken the pace of disinflation in the annual headline inflation rate, potentially closing between 29.7% and 31.7% by FY2023.

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

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