

FUNDAMENTALS

GHANA'S DECEMBER 2023 INFLATION: RACING WITH GRAVITY

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IN BRIEF

- Ghana's annual consumer price inflation appears in a race downhill with gravity as headline inflation nosedived 320bps to 23.2% y/y in December 2023 on the back of sharp deceleration in food (28.7%) and non-food inflation (18.7%).
- The end-2023 annual inflation outturn roundly outperformed expectations, beating both the market consensus and our in-house forecast of 24.2% as well as the 25.4% outer band of the lower limit in the IMF programme target.
- On a month-on-month basis, headline inflation came in at 1.2% (vs 1.5% m/m in November 2023) as a 120bps drop in non-food inflation outweighed a 50bps increase in food inflation. We believe the uptick in the month-on-month food inflation for December 2023 reflects the impact of seasonal demand for the year-end festivities as Ready-made food and soft drinks witnessed the steepest m/m price increases. We compared the behaviour of m/m inflation in 1H2023 with that of 2H2023 and observed milder swings in 2H2023, reflecting cooling pressures.
- Fundamentally, we believe that the year-on-year downward correction in energy prices in late 2023 favourably impacted non-food inflation via Transport, and gas & other fuels. Additionally, we opine that the utility tariff adjustment which became effective on 01st December 2023 had a net positive impact on the CPI for utilities. Excluding the CPI for energy and utilities, we believe core inflation likely remained above the headline inflation rate by about 100bps, albeit witnessing a sizable decline in similar step with the headline rate.
- Our forecast shows a modest decline in the annual inflation rate to 22.4% y/y in January 2024 as the improved FX outturn in late December 2023 into early January 2024 sustains the lid on price pressures. We also anticipate the lagged impact of the lower electricity tariff implemented last month to sustain the disinflation in January 2024. However, the authorities have signalled the introduction of VAT on residential use of electricity above lifeline consumers (>30kWh) with effect from 01st January 2024. This, together with the new taxes in the 2024 budget, will weaken the pace of disinflation in early 2024 and keep the Bank of Ghana cautious on the timing of anticipated start to cuts in the policy rate.

Beating expectations

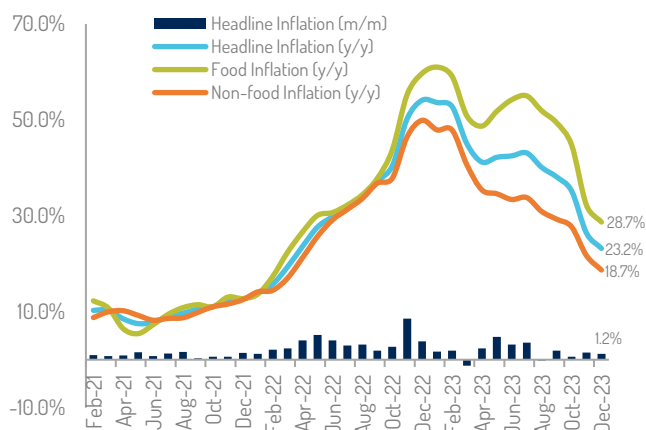
Ghana's annual consumer price inflation appears in a race downhill with gravity as headline inflation nosedived 320bps to 23.2% y/y in December 2023. The end-2023 annual inflation outturn roundly outperformed expectations, beating both the market consensus and our in-house forecast of 24.2% as well as the 25.4% outer band of the lower limit in the IMF programme target. Having peaked at 54.1% in December 2022, the latest annual inflation print of 23.2% in December 2023 translates into a cumulative decline of 30.9pp within a 12-month cycle and clouds the early-2023 stickiness.

On a month-on-month basis, headline inflation came in at 1.2% (vs 1.5% m/m in November 2023) as a 120bps drop in non-food inflation outweighed a 50bps increase in food inflation. We believe the uptick in the month-on-month food inflation for December 2023 reflects the impact of seasonal demand for the year-end festivities as Ready-made food and Soft drinks witnessed the steepest m/m price increases. We compared the behaviour of m/m inflation in 1H2023 with that of 2H2023 and observed milder swings in 2H2023, reflecting cooling pressures.

Against this backdrop of sharp and continued decline in annual inflation, we expect the Bank of Ghana to firmly re-anchor inflation expectations in 2024 despite potential upside risks in the outlook.

The deceleration in headline inflation largely mirrored the sharp drops in food and non-food inflation in December 2023. Food inflation plummeted by 350bps to 28.7% y/y, dragged down by disinflation across 14 out of the 15 food sub-class. The drop in inflation for heavily-weighted Cereals & cereal products (24.3% | -740bps), Fish & other seafood (32.5% | -300bps), Vegetables & tubers (33.8% | -210bps) as well as Ready-made food (27.8% | -40bps) was the catalyst for the sharp decline in y/y food inflation. In our view, this partly reflects the lagged impact of crop harvest as well as improved currency performance in the review period compared to the previous year.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Core inflation likely remained above headline

Non-food inflation also came in 300bps lower at 18.7% y/y, helped by disinflation in 12 out of the 13 non-food divisions. This emphasizes the broad-based moderation in price pressures. Impressively, the heavily-weighted inflation for Transport (4.4% y/y | -710bps) and Utilities, gas & other fuels (19.5% y/y | -200bps) witnessed sharp declines to pull down non-food inflation. Fundamentally, we believe that the year-on-year downward correction in energy prices in late 2023 favourably impacted non-food inflation via Transport, and gas & other fuels.

Additionally, we recall that the Public Utilities and Regulatory Commission (PURC) implemented a 1.5% reduction in electricity tariff and a 0.3% increase in water tariff with effect from 01st December 2023. We opine that this tariff adjustment had a net positive impact on the CPI for utilities in December 2023.

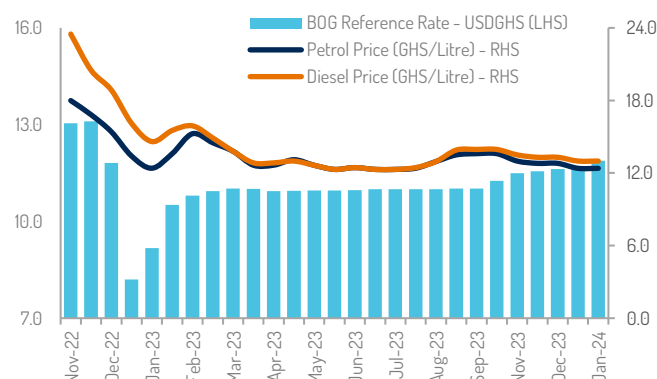
Excluding the CPI for energy and utilities, we believe core inflation likely remained above the headline inflation rate by about 100bps, albeit witnessing a sizable decline in similar step with the headline rate.

The inflation outlook remains to the downside, but with enormous caution

Our forecast shows a modest decline in the annual inflation rate to 22.4% y/y in January 2024 as the improved FX outturn in late December 2023 into early January 2024 sustains the lid on price pressures. Additionally, domestic energy prices remained stable with downward bias during the January 2024 CPI window relative to the same period in 2023, potentially taming price pressures.

We also anticipate the lagged impact of the lower electricity tariff implemented last month to sustain the disinflation in January 2024. However, the authorities have signalled the introduction of VAT on residential use of electricity above lifeline consumers (>30kWh) with effect from 01st January 2024. This, together with the new taxes in the 2024 budget, will weaken the pace of disinflation in early 2024 and keep the Bank of Ghana cautious on the timing of anticipated start to cuts in the policy rate.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



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



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